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Standard Life

Growth, value, responsibility
Annual report and accounts 2015

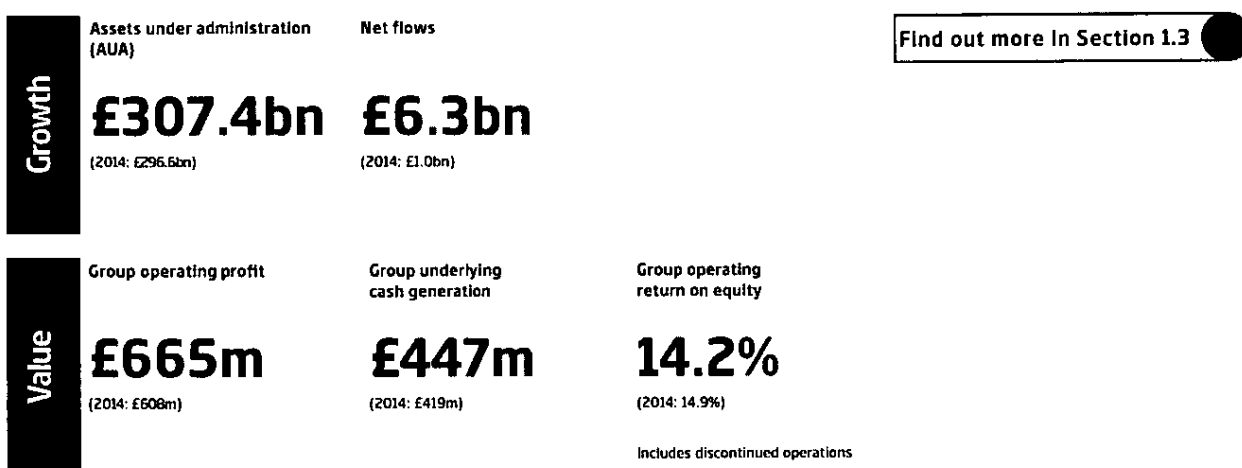


At a glance

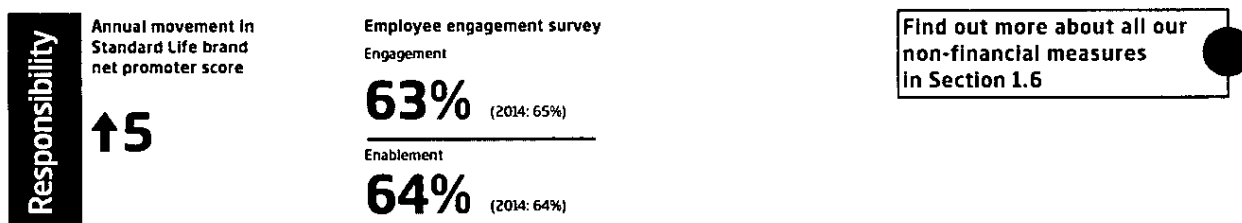
Key performance indicators

Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively.


Financial (continuing operations)



Non-financial



We include measures here which have not been determined to be KPIs but we believe are integral to the Group's performance.

Find out more in Section 1.3 

IFRS profit after tax attributable to equity holders (continuing operations)

£276m

(2014: £376m)

IFRS profit after tax attributable to equity holders

£1,423m

(2014: £503m)

Full year dividend per share

18.36p

(2014: 17.03p)

Return of value following sale of our businesses in Canada

£1.75bn

or 73p per share returned to shareholders

Contents

Chairman's statement	2
Strategic report	4
1.1 Chief Executive's overview	6
1.2 Our business	8
1.3 Chief Financial Officer's overview	14
1.4 Business performance	19
1.4.1 Standard Life Investments	20
1.4.2 UK and Europe	24
1.4.3 India and China	28
1.4.4 Discontinued operations	30
1.5 Risk management	31
1.6 Sustainability	37
1.7 Basis of preparation	43
Governance	44
2. Board of Directors	46
3. Directors' report	50
4. Corporate governance statement	56
5. Directors' remuneration report	75
6. Directors' responsibilities	99
Financial information	100
7. Independent auditors' report – Group financial statements	102
8. Group financial statements	109
9. Independent auditors' report – Company financial statements	237
10. Company financial statements	239
11. Supplementary information	261
Other information	266
12. Reports from the Committees of Standard Life Assurance Limited	268
13. Glossary	272
14. Shareholder information	276

The Annual report and accounts 2015 is published on the Group's website at www.standardlife.com/annualreport

Access to the website is available outside the UK, where comparable information may be different.

Our Annual report and accounts is also available on our Investor App for the iPad.



Chairman's statement

Delivering value in a responsible way

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'Sustainable growth comes from knowing how to adapt to change in a way that's responsible and creates the best potential to deliver value for customers, clients and shareholders.'

Sir Gerry Grimstone Chairman

We are a far simpler company than the one I became Chairman of in 2007, and I'm pleased that we've been able to stick to a consistent strategy that has stood the test of time. We made good progress in 2015. The completion of the sale of our Canadian business changed our shape, replacing David Nish with Keith Skeoch changed our leadership, the bedding in of the Ignis acquisition and the continued success of our asset management business changed our scale, and the new pension freedoms in the UK changed radically the market landscape. Our governance culture, founded on our strong sense of responsibility, persisted throughout all this and is a large factor in our continued success.

Despite challenging market conditions, thanks to the support of our customers and clients, our hard work has yielded another set of good financial results. The assets that we look after grew by 4 per cent and our unit costs continued to decrease which helped us increase our Group operating profit by 9 per cent to £665 million. Our performance also means another year of increased dividends, with our final dividend of 12.34 pence per share (up 8.0 per cent on 2014) giving a total dividend for 2015 of 18.36 pence per share (up 7.8 per cent on 2014). If approved at our AGM in May this year, this is due to be paid to shareholders on 24 May 2016.

The Solvency II regime, which was introduced on 1 January 2016, gives a more rational way of measuring the capital strength of insurance companies and we remain well capitalised under these new rules with a Group solvency capital surplus of £2.1 billion representing a Group solvency cover of 162 per cent. Standard Life Assurance Limited (SLAL), our principal insurance company, is strongly capitalised and is able to withstand market and other volatility to a considerable extent. To ensure this is maintained, we plan to strengthen further the governance of SLAL by incorporating a strong independent element onto its board with a particular responsibility to oversee prudential and conduct matters backed up by our very effective With Profits Committee and Independent Governance Committee. Members of our With Profits funds and our workplace pension schemes should rest assured knowing that their interests are being well looked after. We want our governance to be amongst the best in the market. This strengthening of the SLAL board and the greater delegation to it will further allow the plc Board to spend appropriate time on all aspects of our business as we continue to evolve.

We're focused on meeting the needs of our customers and clients. In this evolving market, insurance is increasingly a complement to our investment activities; however, it still makes an important contribution, both in terms of our propositions in this market and to our finances. To be excellent in the pensions and savings market, you need to be a well-capitalised name that people trust; to provide high standards of service; and, very importantly, to have market insights and skills that allow you to generate superior investment performance. Our positioning across this whole value chain is the key source of our long-term shareholder value.

We are pushing on with regulatory approvals to increase our stake in HDFC Life in India to 35 per cent. We see this as a precursor to the business having a successful IPO which should be one of the largest-ever Indian equity capital market transactions. In China, together with our partner TEDA, we are working on how to bring our Hong Kong and China businesses into much closer

alignment and also how best to enter the China pensions market. We hope our strategic partnerships in India and China will add disproportionately to shareholder value in the years to come.

Our Board and Management

Our management and Board have had to evolve as the shape and nature of our company has changed. In August, Keith Skeoch became our new Chief Executive, succeeding David Nish. David did a great job repositioning Standard Life, both making us fit for purpose and also overseeing the sale of our Canadian businesses and the acquisition of Ignis. In appointing Keith as Chief Executive, the Board felt very strongly that he was the right person to take Standard Life forward in its new configuration. He has a deep understanding of the world's investment markets and built Standard Life Investments into the powerhouse it is today. The task set for him by the Board is to replicate that success throughout our businesses, not least through close co-operation and collaboration across the different parts of the business to create 'one company, one culture, one vision'.

We made three new appointments to the Board in November 2015. I'm pleased to welcome Melanie Gee, Paul Matthews and Colin Clark to the team. Melanie joins as a non-Executive Director and brings a wealth of experience both from her time at Lazard and from serving on other major boards. Paul and Colin strengthen the executive component on the Board which is much in line with our stewardship philosophy. Through their roles as Chief Executive, UK and Europe and Global Client Director of Standard Life Investments respectively, they bring the voice of our customers and clients directly into the boardroom. I'm very pleased that having four women out of thirteen Board members continues our journey of becoming a thoroughly diverse Board.

Crawford Gillies, our Senior Independent Director, steps down in May. Crawford has been with us for nine years serving with distinction throughout that time not least as Chairman of the Remuneration Committee, Chairman of the Standard Life Charitable Trust, and our Senior

Independent Director. I'm very grateful to him.

Thinking and acting responsibly

For those of us who have spent much of their working lives in and around financial services, it's been a source of great regret how financial service companies have lost the trust of society in recent years. Pontificating about this doesn't achieve anything, as it requires deep work within companies and constant attention to detail to rebuild trust and confidence. It has to be constantly at the forefront of boards', managements' and everyone in financial services minds. Calling out wrong behaviour whenever and wherever it occurs is a powerful starting point.

We do try to do the right thing but, even so, we don't always succeed. For example, the introduction of pension freedoms in the UK and the need to spend time for regulatory and other reasons to explain this properly to those of our customers who contacted us, put unprecedented strain on our systems and I've had many letters from people who were kept waiting on the phone or for an appointment longer than they should have been. I'm very sorry about that and I'm pleased that things are now returning to normal. We're always happy to hear from customers when things don't go smoothly and to try and put things right.

For all businesses, it's more important than ever to be a good corporate citizen as governments and people around the world rightly more closely scrutinise how companies carry out their business affairs. In today's digital world, there is nowhere to hide. Businesses must be open and transparent on their strategy, decision making and how they operate if they are to succeed for the long term. We have redesigned our reporting this year with this in mind.

Across the globe, we employ 6,500 people and another 17,000 through our partnerships in India and China. There are also a further 69,000 Financial Consultants who work with these partnerships, marketing products and services to clients. We want to provide inclusive employment with no barriers to entry other than competency. We champion social mobility and diversity backed up by paying sustainable, meaningful wages. I'm pleased with the public recognition that we have had for this work.

Our charitable activities, both directly and indirectly through the Standard Life Charitable Trust, have made a real difference to people's lives and wellbeing in 2015 and our Sustainability Report gives full details of these. When we demutualised in 2006, unclaimed shares were put into a special trust. We have made, and continue to make, every effort to trace those entitled to these shares and we continue to do so ten years on. This special trust will come to an end in 2016 and we intend to use the assets to strengthen considerably our charitable activities. It's very important therefore that people who haven't done so come forward and claim their shares before it is too late.

Using our voice

There are other things that I believe are central to our continued success including a strong reputation for thought leadership. It's important to use our voice to drive improvements within our industry, including improving transparency on how companies like ours make money, pay taxes and mitigate their impact on the environment, particularly when governments and regulators are contemplating changes in laws and regulations that might affect us, our clients and customers. We try to be clear, forthright and constructive.

Unusually, we have also spoken out on two matters of constitutional importance within the UK. Following the historic referendum on independence for Scotland – where we were very clear about the potential impact on Standard Life and how we would respond – the passing of a new Scotland Bill into law includes areas that may affect our customers, employees and some aspects of our business. Chiefly this will be around taxation, which will become a devolved power for the Scottish Government. We are monitoring this closely to help ensure that we don't suffer any competitive disadvantage.

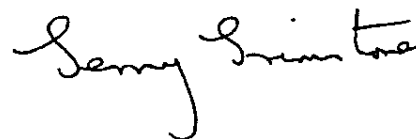
The debate on whether or not the United Kingdom should stay part of the European Union (EU) is reaching its climax and coming closer to the time when the UK public will have their say. We are conducting a thorough study of the impact of this on our business. We stay clear of the politics but, as you would expect, we are closely following developments and assessing the implications for our businesses as they emerge. As we have stated before, we believe that access to the EU Single Market is in the best interests of our customers and clients. The principle behind the Single Market – to encourage

the free movement of goods and services – has created an environment that gives individuals and businesses the confidence to invest for the long term and it would be potentially damaging to the UK economy and therefore to companies such as Standard Life if the UK were to leave it.

Looking forward

So much has changed in our company but much still remains to be done as we carry on the journey of seeking to reach our full potential as a world-class investment company. As asset managers, we employ some of the most talented people in the business worldwide. Our UK business has a very strong position in the pensions and long-term savings market. We have important savings businesses in Ireland and Germany. And our positions in India and China offer great future potential. Not a bad place to be in!

Global financial markets have started 2016 in poor shape but, because of our investment expertise and the innovative solutions that we provide, this gives us opportunities to serve our clients as well. All of our achievements in 2015 were made possible thanks to our talented people and their dedication to keep trying to do the right thing and, of course, the support of our shareholders. My thanks go to everyone once again for their continued support.



Sir Gerry Grimstone
Chairman
19 February 2016

Strategic report

Contents

1.1 Chief Executive's overview	6
1.2 Our business	8
1.3 Chief Financial Officer's overview	14
1.4 Business performance	19
1.4.1 Standard Life Investments	20
1.4.2 UK and Europe	24
1.4.3 India and China	28
1.4.4 Discontinued operations	30
1.5 Risk management	31
1.6 Sustainability	37
1.7 Basis of preparation	43


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1.1 Chief Executive's overview

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'We have simplified our business, generating sustainable growth through a well-diversified client base.'



Keith Skeoch
Chief Executive

Introduction

It is both an honour and a privilege to be asked to lead Standard Life, and our talented people, through the next phase of its strategic development to create a world-class investment company. We made considerable progress in 2015 despite volatile global financial markets, a shifting savings and investment landscape in the UK and the transition to the new Solvency II regulatory regime. We saw strong growth in the assets we manage or administer for clients to £307.4bn, which, together with the careful management of costs, helped to drive an increase of 9% in our operating profit to £665m.

Successes in 2015

Standard Life became a much simpler business in 2015 when we completed the sale of our Canadian business. In line with both our long-term strategy and our simple and consistent business model, over 90% of our total income came from the fees clients and customers pay us to look after their assets.

Almost two thirds of the assets we look after relate to our growth channels and have been attracted to Standard Life by our investment performance as well as our innovative products and the quality of our platforms and propositions. Our 'mature books' are valuable and well capitalised under Solvency II and provide capital that can act as a 'shock absorber' during periods of market turmoil, reinforcing our financial strength. We increasingly see ourselves as an investment company because investment is not only at the heart of what we do, it's also at the heart of what our customers and clients need. Our progress in 2015 was also marked by the fact that our global asset manager, Standard Life Investments, became the largest fee-generating part of the business.

While we have simplified our business, we also believe that the growth we have generated is sustainable because its sources are well diversified by geography, customer and client, as well as by asset class. We now have clients and customers in 46 countries around the world.

Subject to receiving regulatory approval we intend to increase our stake in HDFC Life to 35% and we currently have a 40%

holding in HDFC Asset Management, India's largest mutual fund company.

I was also very pleased to see our sustainability credentials validated once more in the annual independent surveys from Dow Jones (Dow Jones Sustainability Indices World and Europe) and FTSE4Good.

We continued to invest in our brand to ensure that our name and strengths are increasingly recognised around the world. Sponsorship is bringing our brands to a wider global audience. We have been careful to select partners where we share common ground on teamwork and a commitment to excellence.

Investment performance and innovation

Standard Life Investments continued to build strong strategic positions as a manager of institutional and wholesale assets, through its delivery of excellent investment performance and innovative investment solutions. Our historic strength was built on the management of large-scale institutional assets, and the integration of Ignis is helping improve our offering to insurance companies. 2015 also saw our presence in wholesale markets continue to increase both at home and abroad. We are now the third largest manager of UK mutual funds, up from eighteenth in 2010, and continue to see increased penetration in overseas markets through our strategic partners.

Our 'Focus on Change' investment philosophy – followed by all our investment teams – helped generate excellent investment performance. It also helped drive innovation; providing solutions for changing client needs. Thirteen new investment solutions were launched during 2015. Over the last five years, more than ten new fund launches have been seeded by current clients.

Evolving in our markets

Our UK pensions and savings business continued to enhance the strength of its strategic positions in our domestic market with employers, intermediaries and retail customers. Assets under administration rose to £131.6bn and revenue associated with fee based assets increased to £631m.

We continued to attract retail assets to Standard Life – through our market leading Wrap platform, and growing regular workplace contributions from auto enrolment into company pension schemes. The contribution to our profits from these products was significantly more than that from traditional insurance products, like annuities, where as expected sales fell during the year. This means that 82% of the revenue for our UK business relates directly to our fee based business.

The UK business also faced some very challenging situations as a result of the radical pension changes that came into force in April 2015. However, our teams worked very hard to help customers understand the options available to them. I am pleased to report that 90% of those customers that had the opportunity to withdraw their entire pension have remained invested with Standard Life.

Leading through collaboration

Co-operation and collaboration across the business bore fruit in 2015. MyFolio, our leading multi-manager fund run by Standard Life Investments, saw its assets under management rise to £8.1bn with approximately 85% sourced from the UK businesses' distribution channels. This is a great demonstration of an enhanced level of co-operation and collaboration between our asset management and our UK pensions and savings businesses and a reflection of the demand from clients looking to invest in a multi-asset offering.

2015 saw volatility return to global financial markets, but also demonstrated that Standard Life has strengths across the broad range of institutional, wholesale, employer and retail channels. Throughout, we have sought to use our influence in capital markets to act in the best long-term interests of our clients and customers and, importantly, promote greater responsibility by asset managers and owners.

Increased co-operation and collaboration, including the efficient allocation of resources, is critical if we are to build a successful and sustainable investment company. With this in mind I have created a new Strategic Executive team to help me lead Standard Life. This will help ensure that we maintain momentum behind our growth businesses and continue to improve the efficiency of our valuable mature books.

This focus will help us deliver value for our shareholders and opportunity for our people, who I would like to thank, once again, for their support and dedication to our business.

Outlook

The start of 2016 has seen difficult conditions in global financial markets which have negatively impacted asset values as well as investor and consumer sentiment. While these conditions may persist for some time and regulatory and political changes may impact the markets we operate in, Standard Life remains well positioned to meet the needs of clients and customers around the world.

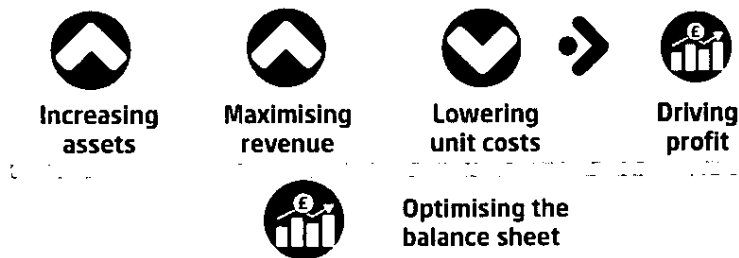
The breadth of our investment propositions underpinned by strong investment performance and innovation, combined with our strength in pensions and savings and the power of a trusted brand, means that we have a well-diversified and resilient business that will remain strategically focused on driving growth and returns to shareholders.

1.2 Our business

Our simple business model

Standard Life has a simple and consistent business model that we have successfully operated to deliver value for shareholders. It has served us well during demutualisation, during the transformation of our business and we believe it continues to be fit for purpose as we build a world-class investment company. The way we seek to generate value is equally simple, coming from two main avenues. We aim to drive increased assets and revenue from growth channels across our business. These areas are growing strongly and include Standard Life Investments Institutional and Wholesale, and Workplace and Retail in the UK pensions and savings business. At the same time, our established 'mature' books of business – eg older retail business – provide us with a strong foundation and make an important contribution to our revenue.

We aim to build scalable platforms and propositions, with a focus on lowering our unit costs. In doing these things, we aim to drive profits, deliver investment growth to our clients, dividends to our shareholders and wider value to our people and other key stakeholders.



Investment at the heart of our business

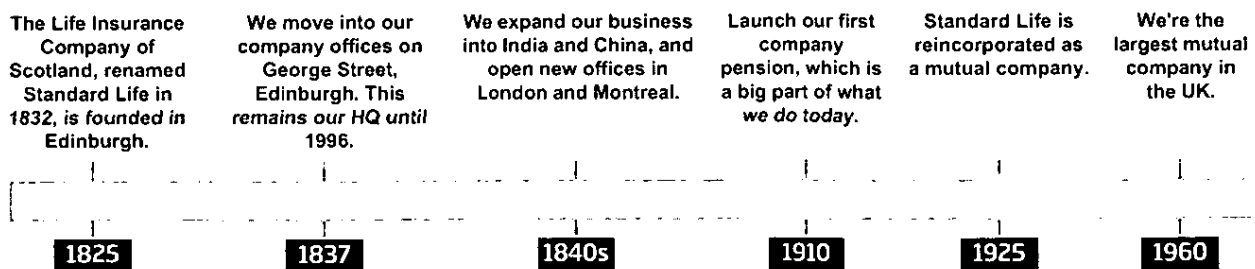
Investment is at the heart of what we do because it's at the heart of what our customers and clients need. They are looking for a good return on the investments they make with their savings to:

- ▶ Build their wealth
- ▶ Deliver income in retirement
- ▶ Achieve a combination of both these things

Our goal is to deliver good outcomes for our customers and clients, for example, investing for growth, income, or some protection against market volatility. Depending on where they are in their lives, our customers and clients may want one or a combination of these outcomes for life events like getting married, starting a family or planning their retirement.

We increasingly see ourselves as an investment company, focusing on managing assets and investing on behalf of our customers and clients. We don't use our capital to attract new assets, which was the traditional model for insurance companies.

This focus allows us to operate in markets that insurers have traditionally found difficult to penetrate: asset and wealth management. It's the ability to diversify our business model in this way that makes it sustainable, as we have the potential to attract assets from a variety of sources, customer and client channels, asset classes and geographies. Financial strength also plays an important part in what our brand is and means, not just with customers and clients, but with shareholders and other key stakeholders too.



Our customer and client channels

We operate a variety of businesses positioned across the value chain. These are designed to meet a range of client and customer investment needs.

Standard Life Investments

Standard Life Investments, which includes Ignis Asset Management, looks after the assets of clients in 46 countries around the world.

We offer our solutions and expertise to:

- ▶ **Institutional clients**, including corporations, pension schemes and sovereign wealth funds. We sell direct or via financial intermediaries.
- ▶ **Wholesale clients**, including fund supermarkets, global financial institutions and private banks

Standard Life Wealth provides a discretionary fund management service with a range of specialist investment solutions. They work with private clients, charities, financial advisers and other professional intermediaries.

Our associate business, HDFC Asset Management, is the largest private sector asset manager in India.

UK and Europe Pensions and Savings

In our UK and Europe businesses, our main aim is to help our customers and clients invest their money.

We offer our products and services via two broad channels:

- ▶ **Workplace**: pensions, savings and flexible benefits to employees through their employers
- ▶ **Retail**: our relationship is either directly with the client, or with their financial adviser

We also own businesses that specialise in financial advice, employee benefits, and risk and compliance services.

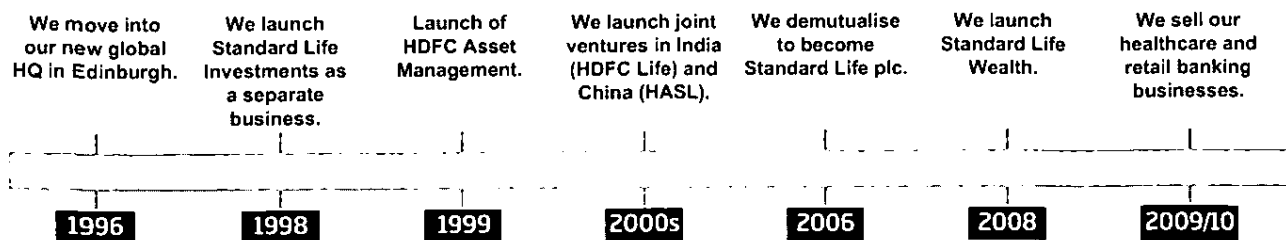
There is continued momentum in both our Ireland domestic and international bond businesses as well as growing demand for unit-linked products in Germany.

India and China

We also have associate and joint venture businesses offering insurance and savings products to customers in India and China. HDFC Life is one of the leading life insurance companies in India. They offer a range of individual and group insurance products, for example protection, pensions, and savings. They have over 20 million client accounts serviced across a network of 414 offices and over 8,000 partner branches covering 980 towns across India.

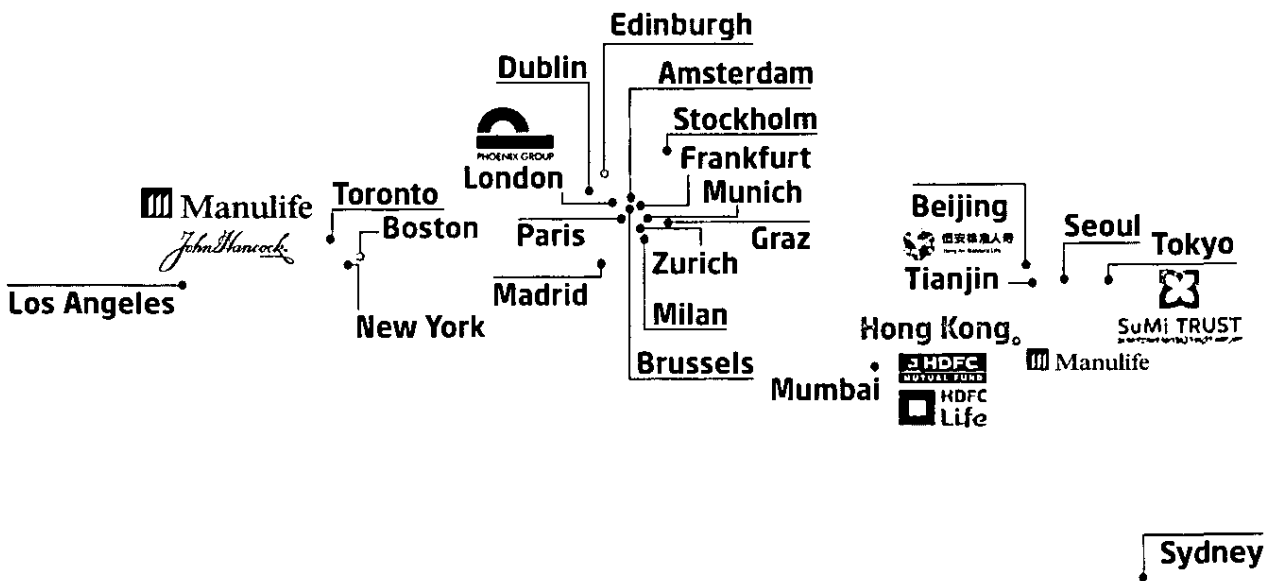
In China, Heng An Standard Life has around five million customers and operates 74 sales offices across 53 cities in 8 provinces.

In Hong Kong, we offer insurance and savings products and services under the Standard Life brand.



Where we operate

In building a world-class investment company we aim to reach more clients in markets around the globe. We do this through a combination of regional hubs, where we have a large physical presence, offices in key financial centres, and partnerships with other companies that have well established operations in parts of the world that are strategically important to us.



- Regional Hub
- Office

Associates and joint ventures:

HDFC Life and HDFC Asset Management in Mumbai and Heng An Standard Life in Tianjin

Strategic partners:

Sumitomo Mitsui, Phoenix Group, Manulife and John Hancock

We secure a place in one of the world's leading sustainability indices: DJSI World.

2011

We buy the private clients arm of Newton Management Limited and merge it with Standard Life Wealth.

We announce Standard Life Investments as Worldwide Partner of golf's Ryder Cup tournaments in 2014 and 2016.

2013

We buy Ignis Asset Management and integrate it into Standard Life Investments.

Standard Life sponsors tennis ace Andy Murray.

2014

We sell our businesses in Canada to Manulife for CAN\$4bn.

We launch 1825, a new financial advice business, in the UK.

2015

Managing our risks effectively

The nature of a large part of what we do – investing in world markets – means we need to be sure that we are managing our risks effectively. Effective and pre-emptive risk management, over both the short and long term, is essential for the continued success of our strategic development to create a world-class investment company. We operate a robust risk management framework, underpinned by a set of processes that helps us manage our short and long term risks. Good governance goes hand-in-hand with risk management, so that it's easy to see what informs our business decisions. Effective governance helps us be more transparent and accountable to our stakeholders.

Read more about how we manage risk in Section 1.5, and governance in Section 4

A sustainable business model

Our simple business model takes advantage of four major long term trends/factors that are shaping the savings and investment landscape around the world.

Democratisation of financial risk: As employers aim to reduce costs of funding retirement benefits and governments around the world look to reduce their citizens' reliance on the state, individuals are increasingly having to take responsibility for their financial future. This responsibility also increases both the options available and the complexity of decisions for customers and is driving a growing need for guidance and advice.

Rebuilding trust in financial services: The recent financial crisis has resulted in increased scrutiny of financial services companies from customers, politicians and regulators. This has created opportunities for trusted brands and providers that allow their clients to look through to the clients' underlying assets without having to rely on the strength of providers' balance sheets.

Innovation, technology and digitalisation: Technology continues to enable scalability and drive efficiency, helping to reduce the cost of guidance and advice. This improves access to assets for clients and also increases the importance of client relationships, product innovation as well as service and brand in creating a sustainable competitive advantage.

Slow growth, low inflation, compressed return environment: As the world economy continues to struggle to deliver growth, active investment management offers opportunities to deliver superior returns. Low inflation and interest rates in developed economies have made guaranteed products unattractive to customers and clients, who are instead turning to simple, transparent and outcome-oriented solutions.

A positive impact on wider society

- ▶ Our total tax contribution in 2015 was £1,059m, of which £944m related to the UK. You can read more about this on page 18.
- ▶ Promoting employability and social mobility: using our people's knowledge and expertise to encourage other organisations to create jobs
- ▶ Using our influence as an investor to encourage ethical thinking and practices in other organisations

Read more about how we help to make a positive impact on wider society in Section 1.6

Strategic objectives



Increasing assets

- ▶ Focus on sustaining strong investment performance
- ▶ Grow our regional hubs in Europe, North America and Asia to help expand our global reach
- ▶ Develop our investment funds, solutions and propositions to suit evolving client needs, for example liability aware and multi-asset funds
- ▶ Leverage best in class distribution in the UK



Maximising revenue

- ▶ Focus on increased collaboration across our business
- ▶ Leverage our strong strategic positions in the UK
- ▶ Build on our global distribution capability
- ▶ Increase our stake in HDFC Life



Lowering units costs

- ▶ Invest in scalable platforms
- ▶ Continue to realise operational benefits from our simple and scalable business model



Optimising our balance sheet

- ▶ Continued focus on risk management
- ▶ Further optimisation of our Solvency II balance sheet
- ▶ Focus on growing 'capital-lite' fee based business
- ▶ Be seen as financially strong by our stakeholders

Sponsoring world-class excellence

Sponsorship helps us bring our brands to a wider audience. When selecting who to partner with, we look for common ground and shared values, with teamwork and a commitment to excellence front of mind. Our current sponsorships with The Ryder Cup, Andy Murray and our recently-announced British & Irish Lions partnership all embody those shared values.

ALIGNED TO PERFORM

PRINCIPAL PARTNER OF THE BRITISH & IRISH LIONS

In January 2016, we announced Standard Life Investments as a Principal Partner of The British & Irish Lions rugby team, which included becoming their jersey sponsor for their 2017 tour to New Zealand.

Aligning our brand with partners who share our values and ambition will help us to further strengthen and build our business around the world. We have found such a partner in The British & Irish Lions who represent the best of the best in English, Irish, Scottish and Welsh rugby.

Teamwork - Our success is built on the strength and unity of our people. Our team-based approach encourages us to share ideas across asset classes, business areas and worldwide locations.

Commitment to excellence - Our financial strength and professional reputation give us the ability to consistently strive to deliver excellence for our clients around the world.

Client focus - We aspire to being an essential partner to every client and, supported by a growing range of innovative investment capabilities, we will always act in their best long-term interests.

Forward thinking - We place significant emphasis on rigorous research. We constantly think ahead and strive to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

Power & performance - The performance of our business is driven by a powerful breadth and depth of global investment capabilities.

A commitment to excellence and a talented team are needed to ensure potential and success is delivered in New Zealand in 2017. It is testament to the breadth of our talent and the scale of our potential that The Lions have decided to partner with Standard Life Investments.

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Supporting The Ryder Cup

Our partnership with The Ryder Cup, the biennial golf competition between Europe and the USA, complements our reputation as a leading global asset manager with strong performance and a distinctive team culture. Uniting our distinct talents through teamwork is what really creates the unique advantage for our clients. Our shared commitment drives us to deliver excellent performance and outstanding service.

The sponsorship has become an integral part of our long-term brand building strategy and is a perfect match in terms of our heritage, client base and strong team ethos.

Visit

www.standardlifeinvestments.com/rydercup to find out more.



**WORLDWIDE
PARTNER**

We're #withAndy

Tennis champion Andy Murray has goals beyond simply winning. As a sportsman, his commitment is to excellence and his focus is on improvement and innovation. As an entrepreneur, he is focused on building businesses and investing for the future. And as a person, he knows the importance of giving something back by contributing to his community, to charity and to helping inspire the next generation.

Like us, Andy believes in advancing ambition. We believe in giving our people the tools, support and environment best suited to realising their potential.

You can visit withandy.com to read more about how we're working together.

On Twitter? Follow the latest on our partnership [#withAndy](https://twitter.com/withandy)

1.3 Chief Financial Officer's overview

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'We have continued to deliver strong growth with operating profit up 9% and AUA up 4% against a backdrop of volatile markets. Shareholder value was also delivered by the return of £1.75bn to shareholders.'



Luke Savage
Chief Financial Officer

Key financial performance indicators, including comparatives, exclude discontinued operations¹ unless otherwise stated. The acquisition of Ignis completed in July 2014 and therefore our 2015 results include a full 12 months compared to 6 months for 2014.

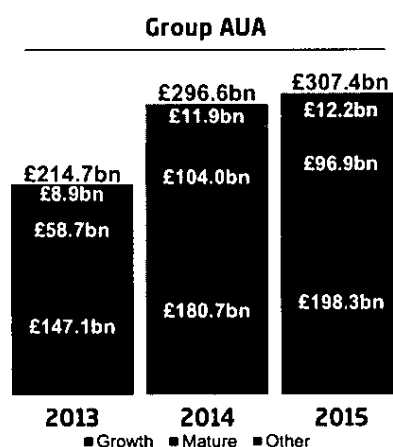
¹ Discontinued operations for segmental reporting comprises the Canadian business which was sold on 30 January 2015 and the Dubai and Singapore businesses, the closures of which were announced in November 2014 and June 2015 respectively. Further details are included in Section 1.4.4.

² The mandate to manage the Phoenix Group assets was included as part of the acquisition of Ignis and was therefore not part of net flows and fee based revenue prior to the acquisition in July 2014.

Increasing assets

Group assets under administration and net flows

Group AUA increased by 4% to £307.4bn driven by strong net flows in our fee business and favourable market movements. Fee based AUA account for over 90% of total Group AUA.



Total Group gross inflows increased to £43.0bn (2014: £34.0bn) and Group net inflows increased to £6.3bn (2014: £1.0bn) driven by strong demand in our growth channels. This included Standard Life Investments third party growth net inflows which increased to £10.3bn (2014: £1.7bn) with continued strong demand for our multi-asset and MyFolio funds. UK & Europe growth business net inflows of £6.7bn (2014: £5.8bn) were driven by record flows into our Wrap platform.

This was offset by net outflows in our mature books. This was largely due to net outflows of £4.8bn (2014: £1.6bn) from the assets managed on behalf of Phoenix Group², which included a £1.4bn one-off outflow.

	2015 £bn	2014 £bn
Group net flows		
Standard Life Investments third party	10.3	1.7
UK & Europe growth business	6.7	5.8
Eliminations and other growth	(2.1)	(1.4)
Total growth	14.9	6.1
Standard Life Investments third party strategic partner life business	(4.8)	(1.6)
UK & Europe mature business	(3.1)	(2.8)
UK & Europe spread / risk	(0.9)	(0.9)
Total mature	(8.8)	(5.3)
Associate and joint venture life businesses	0.2	0.2
Group total	6.3	1.0

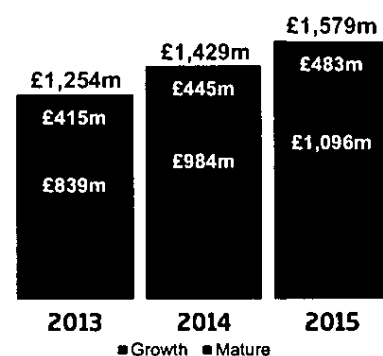
Maximising revenue

Fee based revenue

Fee based revenue increased by 10% to £1,579m driven by strong performance in our UK pensions and savings business and Standard Life Investments third party growth channels. The contribution from Ignis increased by £33m (2015: £106m, 2014: £73m) due to the inclusion of a full year's result.

Fee based revenue for our mature book of business benefited from the inclusion of a full year of revenue from Phoenix Group².

Group fee based revenue



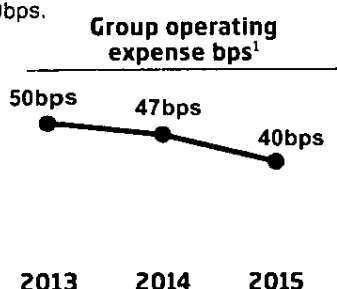
Spread/risk margin

Spread/risk margin, which mainly relates to the margin earned on UK annuities, decreased by 21% to £145m. The benefit of asset and liability management actions which focus on ensuring an efficient use of capital was lower than 2014, in line with our guidance, due to fewer opportunities in the low yield environment. Spread/risk margin was also impacted by reduced annuity sales following the 2014 Budget changes.

Further information on AUA and net flows is included in Supplementary information in Section 11

Lowering unit costs

Operating expenses increased by 8% to £1,124m (2014: £1,045m) reflecting further investment in expanding the global reach of Standard Life Investments, including a full year of expenses in relation to Ignis (2015: £60m, 2014: £37m), acquired in 2014. Whilst we invest to enhance our propositions and capabilities, we have also demonstrated our scalability with operating expenses expressed as a proportion of average AUA decreasing to 40bps.



¹ Operating expenses as a proportion of average AUA.

Driving Profit

Group operating profit before tax

Group operating profit before tax continues to be a key measure which provides an indication of our ability to deliver returns for our shareholders.

Group operating profit before tax increased by 9% to £665m (2014: £608m), driven mainly by strong fee revenue performance in our growth channels. This was tempered by a combination of expected challenging conditions impacting spread/risk margin in the UK business due to the current low yield environment, and the 2014 Budget changes to annuities.

Our share of profit from associates and JVs also contributed to the growth in operating profit. This includes continued strong performance by HDFC Life and HDFC Asset Management in India and continued progress from Heng An Standard Life in China.

Group underlying performance

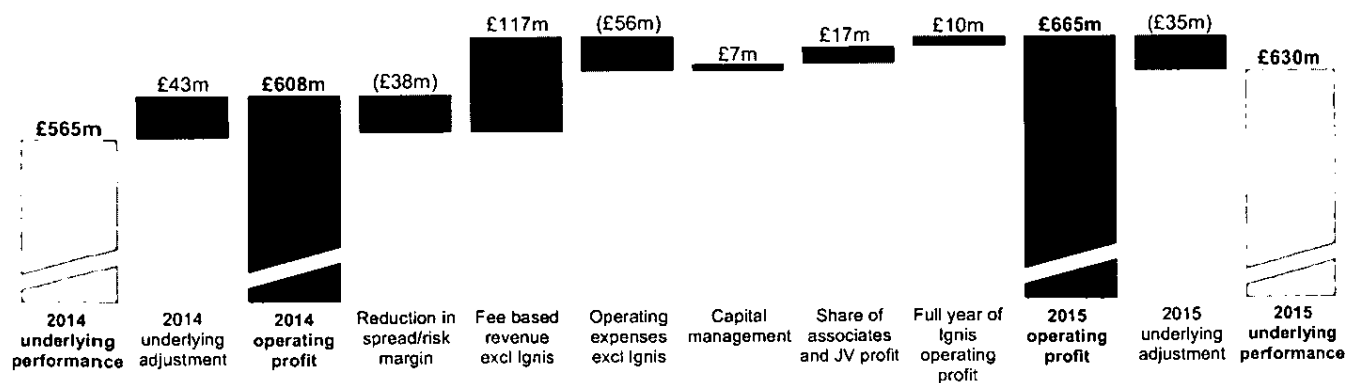
Group underlying performance increased by 12% to £630m. This excludes the benefit of operating assumption and actuarial reserving changes of £44m (2014: £43m) and an expense relating to shareholder support provided to the German With Profits Fund (GWPF) of £9m (2014: £nil).

IFRS profit after tax

IFRS profit after tax from continuing operations decreased to £276m (2014: £376m) mainly due to higher non-operating losses including short-term fluctuations in investment return and economic assumption changes which generated a loss of £63m (2014: gain £17m) and a £46m charge in Hong Kong following regulatory change. Further information is included on page 17.

Analysis of Group operating profit is included in Section 1.4

Movement in Group underlying performance and operating profit from continuing operations



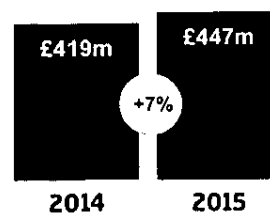
Group underlying cash generation

Group underlying cash generation aligns closely with how the business is managed and demonstrates our ability to generate cash that supports further investment in the business and the payment of dividends to our shareholders.

Group underlying cash generation increased to £447m due to higher Group underlying performance. The change in mix of profits towards our growth channels contributes to higher current tax on underlying performance.

Reconciliation of Group underlying cash generation	2015 £m	2014 £m
Group underlying performance from continuing operations	630	565
Exclude share of associates and JVs' profit before tax	(56)	(39)
Less current tax on underlying performance	(114)	(73)
DAC/DIR adjustment	5	(14)
Fixed and intangible asset adjustment	(18)	(20)
Group underlying cash generation	447	419

Group underlying cash generation



Visit www.standardlife.com/investor for more information on underlying cash generation

Optimising the balance sheet

Group operating return on equity

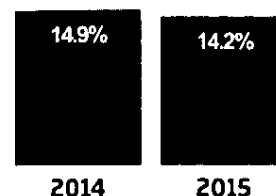
Return on equity measures our success in generating profit relative to our shareholder capital. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

Group operating return on equity, which includes discontinued operations, decreased to 14.2%¹ (2014: 14.9%) as a result of a higher tax charge and the impact of the low interest rate environment on the returns earned on the net retained proceeds from the disposal of the Canadian business. We intend to invest c£175m of the net retained proceeds to increase our stake in HDFC Life.

Our key growth channels including Standard Life Investments third party and UK workplace and retail are capital-

lite – this means that they do not require significant amounts of additional capital as they continue to grow.

Group operating return on equity



Group capital surplus

Up to 31 December 2015 the Group capital surplus was measured in accordance with the Insurance Group Directive (IGD).

On 1 January 2016, the Solvency II regulatory regime came into force for insurers across Europe. Under Solvency II, every insurer is required to identify its key risks – e.g. that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. The capital required to withstand these outcomes is the Solvency II 'Solvency capital requirement', or SCR. The SCR is calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensures that capital is sufficient to withstand broadly a '1 in 200 year event'. The capital resources available to meet the requirements are called 'Own funds'. Own funds differ materially from IFRS equity for a number of reasons, including the different treatment of certain items, such as pension scheme surpluses and most intangibles, and a different approach for calculating actuarial liabilities.

Insurance Group Directive

Group IGD capital surplus over regulatory requirements decreased to £2.7bn² (2014: £2.9bn) primarily due to a net £0.2bn reduction resulting from the sale of our Canadian business comprising of:

- ▶ The removal of its contribution to Group surplus of £0.6bn at FY 2014
- ▶ The return of value to shareholders in April 2015 of £1.75bn
- ▶ Partially offset by the disposal proceeds of £2.2bn received in January 2015

Capital generated by the business was offset by the payment of the 2014 final dividend of £224m in May 2015 and the 2015 interim dividend of £119m in October 2015.

Solvency II

The Group is well capitalised under these new rules with Group Solvency II capital surplus of £2.1bn representing a Group solvency cover of 162%.

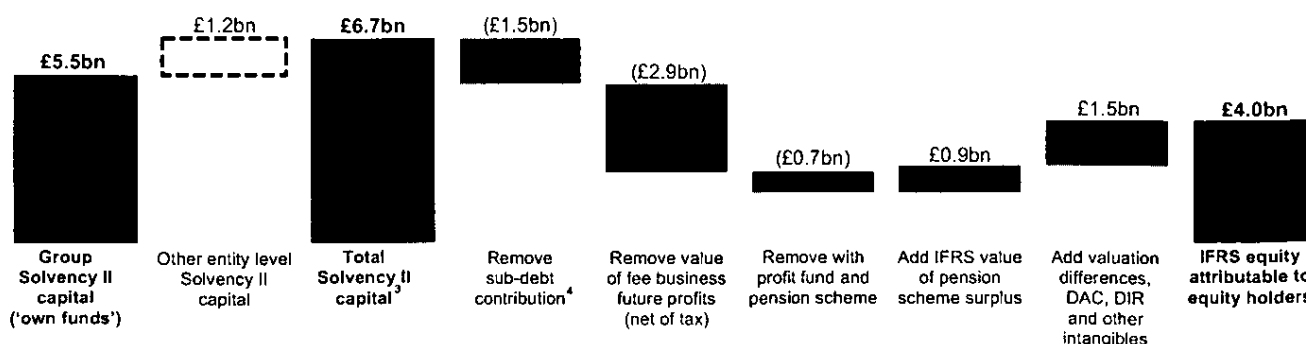
These Group figures do not take account of £1.2bn of capital in subsidiaries that is not deemed to be freely transferrable around the Group. This additional capital helps absorb market and other volatility, resulting in a resilient Group Solvency II capital surplus.

For example the Group Solvency II capital surplus of £2.1bn would change by £0.1bn or less following a:

- ▶ 20% fall in equities, or
- ▶ 100bps rise or fall in fixed interest yields, or
- ▶ 50bps rise or fall in credit spreads

Solvency II capital position ³	1 Jan 2016
Group own funds	£5.5bn
Group solvency capital requirement (SCR)	(£3.4bn)
Group Solvency II capital surplus	£2.1bn
Group solvency cover	162%

Reconciliation of Solvency II own funds² to IFRS equity



¹ Receipt of sale proceeds of £2.2bn and £1.75bn return of value both assumed to have taken place on date of disposal of the Canadian business (30 January 2015) for calculation of the Group operating return on equity. This assumption increased Group operating return on equity from 13.2% to 14.2%.

² Based on draft regulatory returns.

³ Aggregate entity level Solvency II own funds.

⁴ Providing that subordinated debt meets certain conditions it can be counted as capital that is available to cover Solvency II capital requirements.

Liquidity management

Standard Life plc, the Group holding company, holds substantial cash and liquid resources. At 31 December 2015, Standard Life plc held £571m (2014: £300m) of cash and short-term debt securities, £290m (2014: £357m) of bonds and £200m (2014: £nil) of holdings in pooled investment funds managed by Standard Life Investments.

Standard Life plc cash and liquid resources were boosted by the net retained proceeds from the disposal of the Canadian business, consisting of the proceeds received from the disposal less the return of value to shareholders of £1.75bn.

The Group continues to maintain a strong liquidity position and this was again shown in the stress testing undertaken during 2015.

In May 2015, we reduced our syndicated revolving credit facility which we hold as part of our contingency funding plans, to £400m (2014: £500m) in line with our lower risk profile following the sale of the Canadian business. The maturity date for this facility was extended until 2020 and is currently undrawn.

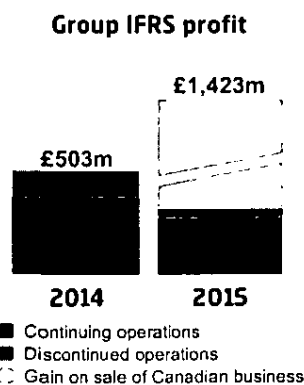
Subject to regulatory approval, we intend to increase our stake in HDFC Life in India by 9% to 35% (at a cost of approximately £175m). This would be paid from existing Standard Life plc cash and liquid resources.

Standard Life plc cash and liquid resources	2015 £m	2014 £m
Opening 1 January	657	907
Canada net retained proceeds	460	-
Dividends received from subsidiaries	355	613
Cash dividends paid to shareholders	(343)	(386)
Cash investments in subsidiaries	(44)	(431)
Cash investments in associates and JVs	(3)	(14)
Other	(21)	(32)
Closing 31 December¹	1,061	657

¹ Liquid resources include uncashed cheque payments relating to dividends and return of value of £49m (2014: £27m).

Further financial highlights

This section covers further financial highlights which help to explain the Group financial performance.



Reconciliation of Group operating profit to IFRS profit for the year is included in the Group financial statements section of this report.

IFRS profit²

Total IFRS profit, including discontinued operations, increased to £1,423m (2014: £503m) and included the £1,102m gain on sale of the Canadian business.

IFRS profit from continuing operations decreased to £276m (2014: £376m) due to an increased non-operating loss of £257m (2014: £157m). The non-operating loss consists of:

- ▶ Short-term fluctuations in investment return and economic assumption changes which generated a loss of £63m (2014: gain £17m) mainly due to adverse UK economic variances driven by market movements on assets backing subordinated liabilities
- ▶ Restructuring and corporate transaction expenses of £115m (2014: £109m), which included £35m for staff pension scheme restructuring, £27m for the integration of Ignis, and other business unit restructuring programmes
- ▶ Other non-operating loss of £79m (2014: £65m), which includes a £46m loss in Hong Kong mainly due to an impairment of deferred acquisition costs following regulatory change and £20m (2014: £15m) amortisation of acquired intangibles primarily relating to the acquisition of Ignis. There was also a further £5m (2014: £43m) impairment charge on the Ignis intangible assets acquired following outflows from the Absolute Return Government Bond Fund.

The total tax expense attributable to equity holder's profit from continuing operations was £77m (2014: £42m). Further details are included on the next page.

Other³ profit from continuing operations comprises the share of associates and JV tax of £13m (2014: £5m) and Dubai and Singapore IFRS loss before tax of £42m (2014: loss £28m) which mainly relates to expenses for the closure of the Singapore business.

	2015 £m	2014 £m
Continuing operations:		
Group operating profit before tax	665	608
Non operating loss before tax	(257)	(157)
Total tax expense	(77)	(42)
Other ³	(55)	(33)
IFRS profit from continuing operations	276	376
IFRS profit from discontinued operations	1,147	127
Total IFRS profit	1,423	503

IFRS profit from discontinued operations is discussed in Section 1.4.4

² After tax attributable to equity holders of Standard Life plc.

³ Dubai and Singapore are presented as discontinued operations in the Strategic report and in the Group operating profit by segment in line with internal management presentation. However, under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included in continuing operations in the consolidated income statement. Therefore, a reclassification of these results between discontinued and continuing operations is required. For further information see Note 2 in the Group financial statements section.

Group tax expense from continuing operations

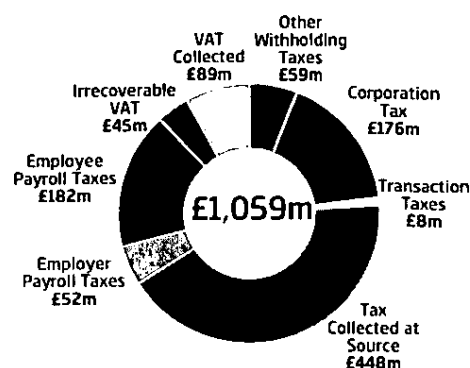
The tax expense attributable to equity holders' profit in 2015 was £77m (2014: £42m) of which £114m (2014: £82m) related to operating items and a £37m credit (2014: credit £40m) to non-operating items. The increase in the total tax expense reflects prior year adjustments and deferred tax not recognised (such as from losses on the closure of our Singapore business) due to the uncertainty of the availability of tax relief in the future.

The effective tax rate increased from 10% in 2014 to 19% in 2015, due to the above factors. There are a number of one-off items affecting both years but over time we would expect the effective tax rate on profit attributable to equity holders (excluding one-off items in any given year) to remain broadly in line with the UK corporation tax rate.

In 2015, our total tax contribution from continuing operations to tax authorities in all the jurisdictions in which we operated was £1,059m (2014: £791m). Of the total, £332m (2014: £331m) was taxes borne by the Group whilst £727m (2014: £460m) represents tax collected by us on behalf of tax authorities. Taxes borne and tax collected are higher than 2014 mainly due to increased taxes collected at source (e.g. tax deducted from pension payments), increased VAT collected and increased employment taxes. The increase was primarily related to the UK, where the total tax contribution was £944m (2014: £565m), out of the total £1,059m.

Of the taxes collected items the largest are PAYE deducted from both pension payments made to customers and from employee payroll payments.

Total tax contribution from continuing operations



Tax policy

Within the Group's enterprise risk management framework, the Group has a tax policy which supports the delivery of the Group's business objectives. The Group pro-actively manages tax risks and employs an experienced in-house tax team to oversee the tax affairs of the Group who report the Group's tax position and material tax issues to the Audit Committee.

In addition, the Group participates in the development of tax policy and legislation through engagement with tax authorities on tax consultations and involvement with representative bodies such as the Association of British Insurers and the Investment Association. This is done in line with our business strategy and to promote a stable environment for long term savings and investments.

Visit www.standardlife.com/annualreport for details of the key principles underlying our tax policy

Dividends

Dividend policy

Standard Life plc has a progressive dividend policy. The objective of the policy is to grow the annual dividend from the prior year pence per share payment. Our intention is to grow the dividend at a rate that is sustainable over the long-term.

How the dividend is funded

External dividends are funded from the cumulative dividend income that Standard Life plc receives from its subsidiaries. To provide some protection against fluctuations in subsidiary dividends, Standard Life plc holds a buffer of distributable cash and liquid resources. This buffer is dynamic and takes into account expected future subsidiary dividend flows and the risks to those dividends. Further information on the principal risks and uncertainties that may affect the business and therefore dividends is provided in Section 1.5.

Proposed dividend

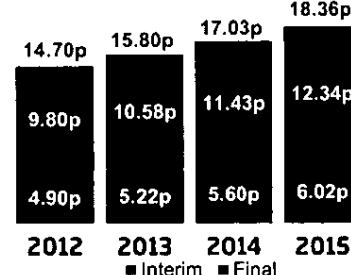
The Board is recommending a final dividend for 2015 of 12.34p per ordinary share – an increase of 8.0% on last year's final dividend. This will be paid on 24 May 2016 to shareholders on the register at close of business on 15 April 2016.

The 2014 final dividend and 2015 interim dividends were paid on the lower adjusted number of ordinary shares following the share consolidation. The 2015 final dividend and future dividends will also be paid on this basis.

The total payment for the final dividend is expected to be £243m. This is strongly supported by the £1.1bn of cash and liquid resources which are backed by £1.1bn of Standard Life plc distributable reserves as at 31 December 2015.

The final dividend, combined with the 2015 interim dividend of 6.02p which was paid in October 2015, will bring the total dividend for the year to 18.36p – an increase of 7.8% on the 2014 full year dividend.

Dividend per share



Return of value

We also returned an additional £1.75bn or 73p per share to shareholders in 2015 following the completion of the sale of the Canadian business.

1.4 Business performance

The Group's reportable segments have been identified in accordance with the way the Group is structured and managed.

Continuing operations

The performance of the Group's continuing operations are set out in Sections 1.4.1 to 1.4.3. The table below presents analysis of operating profit from continuing operations.

Analysis of operating profit¹ from continuing operations

	Standard Life Investments		UK and Europe		India and China ²		Other ³		Eliminations ⁴		Total continuing operations	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Fee based revenue	843	686	808	802	38	49	-	-	(110)	(108)	1,579	1,429
Spread/risk margin	-	-	145	183	-	-	-	-	-	-	145	183
Total income	843	686	953	985	38	49	-	-	(110)	(108)	1,724	1,612
Total operating expenses	(532)	(450)	(610)	(605)	(36)	(44)	(56)	(54)	110	108	(1,124)	(1,045)
Capital management	-	-	14	10	-	-	(5)	(8)	-	-	9	2
Share of associates' and JVs' PBT	31	21	-	-	25	18	-	-	-	-	56	39
Group operating profit before tax	342	257	357	390	27	23	(61)	(62)	-	-	665	608
Underlying adjustments ⁵	-	-	(35)	(43)	-	-	-	-	-	-	(35)	(43)
Group underlying performance	342	257	322	347	27	23	(61)	(62)	-	-	630	565

¹ 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, impairment of intangible assets, amortisation of intangible assets acquired in business combinations, gain or loss on the sale of a subsidiary, associate or joint venture and other significant one-off items outside the control of management and not indicative of the long-term operating performance of the Group. The impact of the restructuring of the UK staff pension scheme has been adjusted so that 2015 operating profit is based on the expected long-term pension expense, which results in a £35m increase to 2015 operating profit before tax (2014: £15m) and a corresponding increase to 2015 non-operating restructuring and corporate transaction expenses – Refer to Note 10 in the Group financial statements section for further information.

² India and China segment was formerly known as Asia and Emerging Markets. Dubai and Singapore are included in discontinued operations in Section 1.4.4.

³ Other primarily relates to corporate centre costs and head office related activities.

⁴ Eliminations primarily relate to revenue and expenses included in the UK and Europe segment and Standard Life Investments. Therefore, at a Group level an elimination adjustment is required to remove intra Group impacts.

⁵ Relates to operating assumption changes of £44m (2014: £43m), included in spread/risk margin and principally in respect of mortality assumption changes, and to shareholder support provided to the German with profits business of £9m (2014: £nil), included in operating expenses.

Discontinued operations

Following changes in the Group structure and operations in 2014/15, continuing operations for segmental reporting purposes excludes our Canadian business which was sold on 30 January 2015 and our Dubai and Singapore businesses, the closures of which were announced in November 2014 and June 2015 respectively. Further information on discontinued operations can be found in Section 1.4.4.

1.4.1 Standard Life Investments

Overview

Standard Life Investments is a leading active asset manager with total AUM of £253.2bn (2014: £245.9bn), representing over 80% of Group AUA.

We offer market-leading investment funds and solutions to our third party clients through two main distribution channels:

- ▶ **Institutional:** selling to institutions either directly or through intermediaries
- ▶ **Wholesale:** selling funds and solutions to retail investors through wholesale distributors and platforms

We have developed our investment capabilities across a range of asset classes, including equities, fixed income, real estate and private equity. We also provide innovative investment solutions, such as high quality multi-asset and liability aware investments, including our absolute return strategies, and our wealth proposition available through Standard Life Wealth.

We remain focused on meeting the needs of our institutional and wholesale clients globally and securing new business backed by consistently strong investment performance and exceptional levels of client service.

Our associate business, HDFC Asset Management, remains the largest private sector asset manager in India with AUM of £17.4bn².

Our global reach continues to expand and we now have presence in 27 cities worldwide including our Head Office in Edinburgh and regional hubs in Boston and Hong Kong. As well as our own distribution, we also benefit from leveraging our strategic partner relationships in the US, Canada, India, Asia, Japan and with the wider Standard Life Group.

Our distinctive 'Focus on Change' investment philosophy lies at the heart of our wide range of investment funds and solutions. As active managers, we place significant emphasis on rigorous research and a strong team ethos. This, combined with disciplined risk management and shared commitment to a culture of investment excellence, is fundamental to helping our clients look forward to their future with confidence.

Sustainable global growth

A multi-speed world remains in place at the start of 2016, with recessions and slower growth in some areas, especially emerging markets, offset by continued strength in others, especially in the US and Europe. Good cost control and lower commodity prices have allowed many companies to maintain profit levels, but weak financial markets at the start of the year reflect worries about earnings downgrades ahead. In this environment, selective allocation to risk markets and yield opportunities remains an appropriate strategy. In the UK, regulatory change impacting pensions presents ongoing opportunities for us to provide solutions to meet client needs, particularly for our multi-asset suite of products and MyFolio risk based funds.

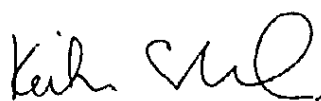
We continue to invest to drive performance to both raise our profile and enhance our infrastructure to support our growth ambitions. We are strengthening the range of investment solutions we offer, including new innovative propositions across the range of asset classes.

We recognise that corporate governance along with responsible stewardship of a business' capital, employees, customers and environment has a fundamental impact on long-term investment returns. Our commitment to socially responsible investing was reflected in Standard Life Investments being voted as the leading UK asset management firm in this area at the Extel 2015 Awards.

We remain well positioned to deliver profitable growth. We have a strong pipeline of new investment funds and solutions which positions us well to continue to meet the changing demands of our clients through new and innovative investment solutions. Despite net outflows again in 2015, Ignis remains of strategic importance and value to us. The integration of the business is on track and we expect to achieve £50m of annual cost savings by 2017.

Our focus on delivering consistently strong investment performance and strengthening relationships with our strategic partners continues.

'Increased profitability has been driven by strong revenue growth and ongoing management of costs. We are also continuing to see the benefits of our expanding distribution capabilities with £8.4bn of net inflows¹ from outside the UK.'



Keith Skeoch
Chief Executive,
Standard Life Investments

¹ Excluding strategic partner life business.
² As at 31 December 2015, based on 100% shareholding.

Increasing assets

We are one of the five largest asset managers in the UK and one of the largest active managers in institutional and wholesale markets. We are also ranked as one of the 50¹ largest asset managers globally by AUM.

Strong investment performance

Growth in AUM to £253.2bn (2014: £245.9bn) was underpinned by excellent money weighted average investment performance. 90% of third party² funds were ahead of benchmark over five years, with 95% ahead over three years and 88% over one year (2014: five years 88%, three years 98%, one year 69%).

Our equity funds performed strongly with 94% of funds ahead of benchmark at three years (one year 89%, five years 78%). Fixed income funds also continued to perform strongly with 84% of funds ahead of benchmark at three years (one year 63%, five years 91%). 100% of our suite of multi-asset funds has outperformed their cash benchmark over three and five years (one year 99%).

Growth in third party net flows

Strong third party net inflows of £10.3bn (2014: £1.7bn), largely in our growth business channels of institutional and wholesale, were impacted by the disinvestment of a £1.7bn low revenue margin mandate within Ignis third party². Excluding Ignis, net inflows for third party² increased 113% to £12.8bn (2014: £6.0bn). This result reflects the diverse nature of our product offering, our expanding global distribution capability and the increasingly international nature of our client base.

Strategic partner life business

In our mature business channels, overall strategic partner life business net outflows increased to £6.8bn (2014: £4.0bn). This was largely due to net outflows of £4.8bn from the assets managed on behalf of Phoenix Group, which included a £1.4bn one-off outflow. Net outflows from Standard Life Group reduced slightly to £2.0bn (2014: £2.4bn).

¹ Source: P&I Research Centre data for 2014 Closing AUM.

² Excluding strategic partner life business.

Further information on AUA and net flows is included in Supplementary information in Section 11

Maximising revenue

Our track record of superior investment performance attracts customers towards our higher margin products.

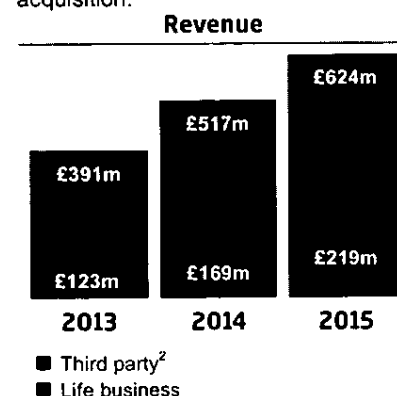
Increased fee based revenue

Fee based revenue increased by 23% (£157m) due to increased AUM, a continued shift in mix towards our higher margin third party products and benefiting £33m from a full year's revenue from Ignis (2015: £106m, 2014: £73m). Our revenue yield on third party² AUM remained strong at 52bps (2014: 53bps) reflecting the inclusion of Ignis, which is lower average margin, for the full year. The revenue yield for strategic partner life business increased 1bp to 17bps.

Driving Profit

Operating profit before tax increased 33% to £342m (2014: £257m). Key drivers included strong fee revenue growth, contribution of £46m (2014: £36m) from Ignis which was acquired on 1 July 2014 and increased share of profit before tax for HDFC AMC, our associate business in India, due to increased AUM in 2015.

Operating return on equity reduced to 36.3% (2014: 36.7%) reflecting that although profitability increased there was also increased equity following the Ignis acquisition.



Lowering unit costs

We are controlling our cost base as our business grows, capitalising on economies of scale across Standard Life Investments and the wider Group.

Controlled operating expense growth

We have maintained our operating expenses at 22bps (2014: 22bps) and the integration of Ignis remains on track to deliver £50m of annual cost synergies by 2017.

Total operating expenses increased by 18% (£82m) reflecting the increased scale of our business, including an increase of £23m from a full year of operating expenses in Ignis (2015: £60m, 2014: £37m). We continue to see a larger increase in revenue relative to expenses showing our ability to be a scalable business through investment in expanding distribution and geographic reach.

EBITDA increased to £352m (2014: £266m) including £50m (2014: £37m) contribution from Ignis. Our EBITDA margin of 42% (2014: 39%) remains strong, and we are on track to achieve our target margin of 45% by 2017.

A further impairment charge of £5m (2014: £43m) has been made on the acquired Ignis intangible assets due to continued third party outflows. Ongoing management of costs, combined with improved revenue margins, has resulted in an 18% compound annual growth in EBITDA over the last 10 years.

	2015	2014
	£m	£m
Fee based revenue	843	686
Operating expenses	(532)	(450)
Share of associates		
profit before tax	31	21
Operating profit before tax	342	257
Interest, depreciation, amortisation, FX movements	10	9
EBITDA	352	266

Increased global presence

We continue to expand our global reach and now have a presence in 27 cities worldwide with clients in 46 countries around the globe.

Our Head Office is in Edinburgh supported by regional hubs in Boston and Hong Kong. These regional hubs provide a variety of shared resources and services to support sales and client servicing.

We reach retail customers either through Standard Life's wholesale, workplace or direct distribution in the UK or through strategic partnerships with Sumitomo Mitsui in Japan, HDFC in India, John Hancock in the US and Manulife in Canada and Asia.

Awards and recognition

Our dedication to meeting clients' financial needs resulted in us winning a number of industry awards, including:

- ▶ Four Lipper Awards for Best Equity House for Austria, Switzerland, Netherlands and Hong Kong
- ▶ UK Equity Income Unconstrained Fund won the UK Core Equity category at the Institutional Investor Awards and the UK Equity Income category at the Investment Adviser 100 Club Awards
- ▶ Diversified Growth Fund Manager of the year – Financial Times PIPA Awards 2015
- ▶ DC Investment Manager of the Year – Professional Pension Awards 2015
- ▶ Best Targeted Absolute Return Fund Provider – Investment Life & Pensions Moneyfacts Awards
- ▶ Best Fixed Income Manager – Annual Chief Investment Officer Innovation Awards 2015
- ▶ Global Equity Income Fund won the Best Smaller Global Equity Income Fund category at the Money Observer awards

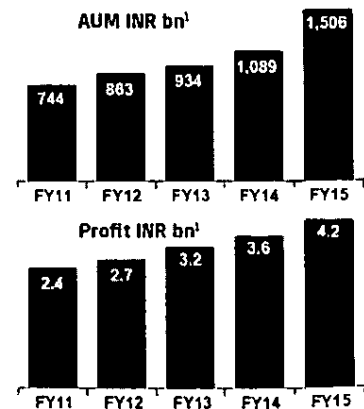
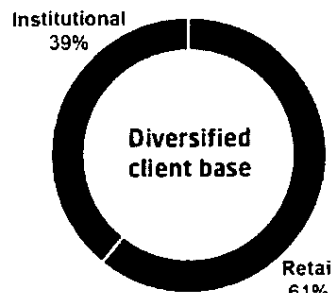


HDFC Asset Management Company

Established in 1999, HDFC AMC is the largest mutual funds company in India with a market share of 13.6% at 31 December 2015. We have a 40% stake in this business.

The company has 5 million client accounts and manages £17.4bn as at 31 December 2015 across 55 funds covering fixed income, equities, cash and gold exchange traded funds.

Leading distribution capabilities through banks, national brokerages, IFAs and direct to consumer has driven strong growth in both AUM and profit.



¹ AUM and profit figures are based on 100% shareholding and relate to HDFC AMC's financial year which runs to 31 March. For reference exchange rate at 31 December 2015 was £1 = 97.5 INR

AUM and net flows detailed analysis

Total AUM increased 3% to £253.2bn (2014: £245.9bn) largely as a result of strong investment performance and good net inflows. AUM comprised third party¹ AUM of £130.5bn (2014: £117.5bn) and strategic partner life business AUM of £122.7bn (2014: £128.4bn). Third party¹ AUM increased to 52% of total AUM (2014: 48%). Strong third party¹ net inflows of £10.3bn (2014: £1.7bn) represent 9% of opening assets under management. Institutional and wholesale net inflows more than doubled to £12.6bn (2014: £6.0bn).

Total net inflows increased to £3.5bn (2014: £2.3bn outflows) reflecting our expanding distribution footprint.

Third party¹

By channel:

Institutional – increasingly global

Our increasingly global institutional business saw net inflows of £3.3bn (2014: £0.8bn). Our pipeline of institutional business continues to see fixed income, real estate and multi-asset propositions attract interest.

Wholesale – new record

We continued to perform well with record net inflows of £9.3bn (2014: £5.2bn). Net inflows into MyFolio, equities, fixed income and multi-asset strategies remain particularly strong.

Our position in the wholesale market in the UK strengthened with share of gross sales of 5.4% (2014: 4.5%). We are now the third largest manager of UK mutual funds, up from eighteenth in 2010. UK mutual funds AUM increased by 22% to £26.7bn and represents 20% of third party assets.

Wealth

Standard Life Wealth continues to develop and as we improve the operational scalability of the business, we expect it will start to gain momentum in the market. AUM increased to £6.5bn (2014: £6.1bn) due to £0.2bn of net inflows (2014: £nil) and positive market movements.

Ignis

Ignis, which is mostly institutional in nature, saw net outflows of £2.5bn, following the disinvestment of £1.7bn from one large low revenue margin mandate. The Absolute Return Government Bond Fund net outflows have reduced to £0.5bn in 2015 following the £2.6bn net outflow in 2014.

By asset class²:

Multi-asset continued to have strong net inflows, contributing £9.5bn (2014: £5.1bn) as AUM increased to £50.3bn (2014: £38.6bn). MyFolio saw net inflows of £1.9bn (2014: £1.6bn) as AUM increased to £8.1bn (2014: £5.9bn).

Net flows were also improved in fixed income of £0.3bn (2014: £1.0bn outflows), and equities £nil (2014: £1.3bn outflows). Real estate net inflows were £0.3bn (2014: £0.7bn).

By geography²:

Continued strong net inflows in North America of £3.0bn (2014: £1.5bn) contributed to AUM reaching £11.7bn (2014: £8.1bn). European net inflows increased by 162% to £3.4bn (2014: £1.3bn). We began to see increasing success in Asia Pacific, with net inflows of £1.2bn (2014: £0.4bn). In India, our share of HDFC AMC net inflows were good at £0.8bn (2014: £0.9bn). Our domestic UK business also performed strongly with net inflows of £4.4bn (2014: £1.9bn).

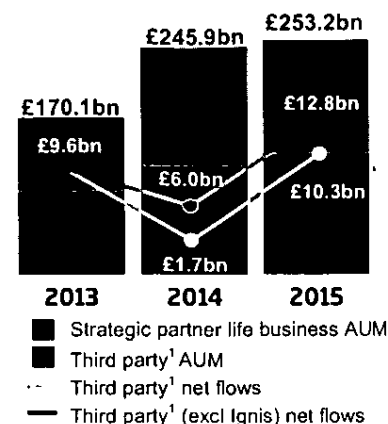
AUM and net flows by channel

	Net flows		AUM	
	2015 £bn	2014 £bn	2015 £bn	2014 £bn
Institutional	3.3	0.8	67.0	61.4
Wholesale	9.3	5.2	45.9	35.5
Wealth	0.2	-	6.5	6.1
Ignis	(2.5)	(4.3)	11.1	14.5
Total third party¹	10.3	1.7	130.5	117.5
Standard Life Group	(2.0)	(2.4)	83.1	84.6
Phoenix Group	(4.8)	(1.6)	39.6	43.8
Total strategic partner life business	(6.8)	(4.0)	122.7	128.4
Total	3.5	(2.3)	253.2	245.9

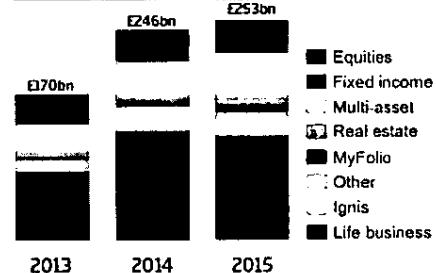
¹ Excluding strategic partner life business.

² 'By asset class' and 'By geography' commentary excludes Ignis which is reported separately. Full information on AUM and flows can be found in the Supplementary information in Section 11.

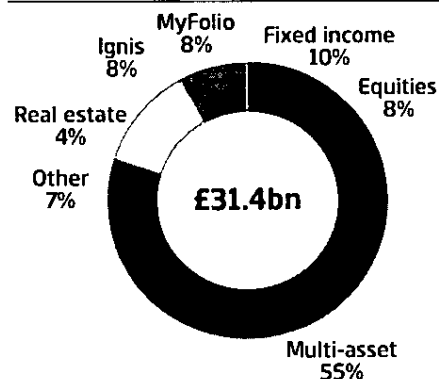
AUM and net flows



AUM by asset class



Third party gross flows by asset class



1.4.2 UK and Europe Pensions and Savings

'We remain focused on meeting the needs of our customers in an evolving regulatory and economic environment. With market-leading solutions, great people and the effective use of technology we offer individual customers, advisers, employee benefit consultants and employers the choices and support necessary to meet their long-term savings objectives.'



Paul Matthews
Chief Executive,
UK and Europe

Overview

Our UK and Europe business is a leading provider of long-term pensions, savings and investment propositions to workplace and retail customers. We remain focused on being customers' first choice for their life savings and aim to achieve this by providing engaging, digital-led solutions which can adapt to customers' needs over their lifetimes.

AUA for our UK and Europe business has grown to £150.2bn (2014: £145.9bn). Within this, our market-leading workplace pensions now look after 1.7m customers with AUA of £33.0bn (2014: £32.0bn).

Our close collaboration with Standard Life Investments allows us to engage with customers across the value chain, providing benefit to our customers, our business and Standard Life as a whole. Over 85% of the MyFolio funds relate to assets distributed and administered by our UK and Europe business.

A period of change and opportunity

2015 saw the implementation of significant new regulations within the UK. The pension freedoms, effective from 6 April 2015, have provided customers with increased flexibility when accessing income in retirement. This resulted in operational challenges across the industry, with unprecedented levels of customer contact as our customers sought to understand their options. Call volumes have now dropped but relative to 2014 we experienced a 50% increase in calls where customers were looking for guidance and support with their retirement decisions. The increased complexity of options means call times have lengthened considerably. Feedback from customers shows that they really value the thorough approach we take but one consequence is that customers have had to wait longer to speak to our experts than we would have liked. We are sorry about this. We have recruited additional customer support staff, trained our people and improved processes to respond and help deliver this valuable service more quickly and efficiently. In the first nine months of the pension freedoms, 10% of our eligible customers made use of the new regulations.

Our drawdown propositions and our award-winning Wrap platform support advisers and provide customers with the quality and choice to make the most of their retirement. Whilst the new

regulations give customers greater control and flexibility, with increased choice comes complexity. We anticipate a significant increase in demand for financial advice and in response to this are building our own financial advice business under the brand 1825 – the year Standard Life was founded.

In a market influenced by regulatory change, our workplace business continues to build scale. Since auto enrolment began in 2012, we have helped over 5,100 employers set up Qualifying Workplace Pension Schemes (QWPS) with over 820,000 members enrolled into these. In April 2015, we upgraded pension schemes to ensure that all schemes used for auto enrolment complied with new regulations capping charges for QWPS. It also means that the vast majority of new members are now joining one of our two flagship workplace pension solutions.

In January 2016, the Government announced that the Financial Conduct Authority would have the power to cap excessive exit charges for those eligible for pension freedoms. Less than 7% of our customers have a potential exit charge, with the average exit charge less than 1% of their fund value.

In the July 2015 UK Budget, the Chancellor announced a Green Paper consultation on pension tax relief. We have engaged constructively in the debate to help ensure that any changes to tax relief balances the short-term fiscal savings with the long-term need to ensure that UK citizens are incentivised to save for retirement.

The challenges arising from a prolonged low interest rate environment have been felt in a number of European jurisdictions. In Germany, we believe the level of guarantees typically provided by insurers have become unsustainable. Our German with profits business closed to new business in the year with the focus firmly on unit linked business where we have seen net inflows double in 2015.

The Solvency II regime came into force in January 2016 bringing consistency to the way EU insurers manage capital and risk. We have enhanced our controls, risk models, technology and processes. Our internal model application has been approved by the Prudential Regulation Authority which means the capital we hold will be directly related to the risks we are exposed to and will take account of the benefits of the risk management tools we have in place.

Increasing assets

UK and Europe AUA increased by 3% to £150.2bn (2014: £145.9bn). Fee based AUA which accounts for 85% of total AUA increased by 5% to £127.6bn (2014: £122.1bn), benefiting from a combination of net inflows and favourable market movements.

Workplace

AUA in our UK workplace growth channel increased 3% to £33.0bn benefiting from net inflows of £1.9bn (2014: £2.2bn). Whilst we have seen reduced net inflows from large scheme transfers as employers adapt to new pension regulations, we are benefiting from growing contributions into our existing schemes which provide a steady long term source of growth.

Our success in attracting new flows through auto enrolment has resulted in a 9% increase in regular premiums to £2.9bn. Regular premiums now account for over 70% of workplace inflows. In addition, our workplace business provided £2.1bn of assets into our retail business in 2015. 73% of our workplace AUA is managed by Standard Life Investments.

UK retail

Net inflows of £3.9bn (2014: £2.9bn) into our UK retail growth channel were driven by a 27% increase in gross inflows to £7.5bn (2014: £5.9bn).

Our Wrap¹ platform continues to lead the UK advised platform market² with AUA increasing 22% to £25.5bn (2014: £20.9bn). In 2015 we have added 123 new firms and now have 1,463 firms using our Wrap platform.

SIPP AUA rose to £29.7bn (2014: £26.2bn) with £13.6bn (2014: £11.5bn)

of assets invested in our market-leading drawdown proposition. Our Active Money Personal Pension (AMPP) product grew 70% to £1.3bn. This provides customers with a simple means of accessing their income in retirement. Over 60% of funds in AMPP are invested in the Standard Life Active Retirement fund, which has been our fastest selling insured fund to date.

UK mature retail

Our UK mature retail book of business saw a 9% increase in net outflows to £2.4bn with customers taking advantage of pension freedoms. We look to engage with our customers who are approaching retirement or have maturing policies to help ensure they are equipped to make informed decisions. This is valued by our customers with many choosing to continue to save with us. We continue to benefit from ongoing increments, customers transferring to our UK retail propositions from our workplace business and positive market movements.

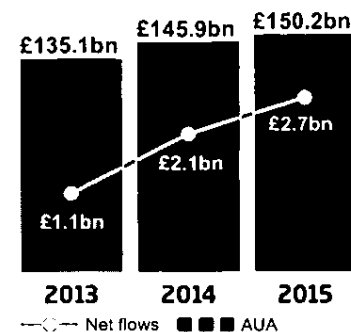
Spread/risk

UK and Europe spread/risk AUA decreased to £14.9bn (2014: £16.1bn), with net outflows of £0.9bn (2014: £0.9bn) as annuity sales were impacted by pension freedoms.

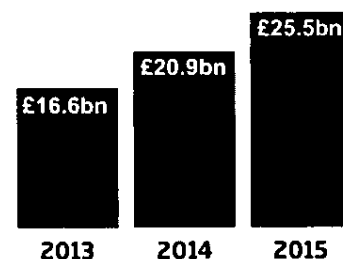
Europe

In our Europe business, AUA in our growth channels of £9.6bn is up 10% on 2014 with net inflows of £0.9bn (2014: net outflow £0.7bn) offset partly by adverse foreign exchange movements. Within this, net inflows in Germany from unit linked business doubled in 2015. In Ireland net inflows increased 8% to £0.7bn with growth in both our domestic and international bond businesses.

UK and Europe AUA and net flows



Wrap AUA



	Net flows		AUA	
	2015 £bn	2014 £bn	2015 £bn	2014 £bn
Workplace ³	1.9	2.2	33.0	32.0
UK retail ¹	3.9	2.9	42.6	37.3
Europe growth fee ¹	0.9	0.7	9.6	8.7
Total growth business	6.7	5.8	85.2	78.0
UK mature retail	(2.4)	(2.2)	32.7	33.5
Spread/risk	(0.9)	(0.9)	14.9	16.1
Europe mature fee ⁴	0.2	0.4	8.4	8.5
Conventional with profits	(0.9)	(1.0)	1.3	2.1
Total mature business	(4.0)	(3.7)	57.3	60.2
Assets not backing products	-	-	7.7	7.7
Total UK and Europe	2.7	2.1	150.2	145.9

Further information on AUA and net flows is included in Section 11

¹ Wrap AUA reported predominantly within UK retail fee business (2015: £23.4bn, 2014: £19.2bn), offshore bond is reported within Europe growth fee (2015: £2.1bn, 2014: £1.7bn).

² Highest net sales in Q3 YTD 2015, source Fundscape.

³ In 2015 UK corporate assets have been renamed as workplace.

⁴ Europe mature fee includes German with profits business which closed to new business during 2015.

Maximising revenue

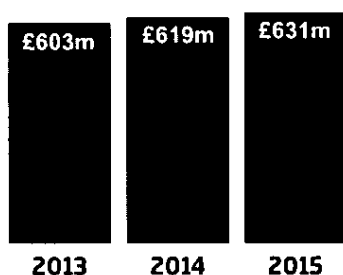
Fee based revenue

UK fee based revenue increased £12m to £631m benefiting from higher AUA as a result of favourable market movements and workplace and retail net inflows. Average fee revenue yield reduced to 59bps (2014: 62bps) reflecting the impact of changes in business mix including a growing proportion of newer style propositions, the impact of the price cap on qualifying workplace pension schemes and an £11m reduction in revenue earned on client cash balances.

Spread/risk margin

UK spread/risk margin which mainly relates to our annuity business decreased by £33m to £143m. This included the expected reduction in the benefit from asset and liability management to £30m, as fewer opportunities for more effective management of our assets existed in the current low yield environment. This was accompanied by a reduction in the new business margin of £14m to £6m, caused by a 68% reduction in annuity sales as a result of the 2014 Budget changes.

UK fee based revenue



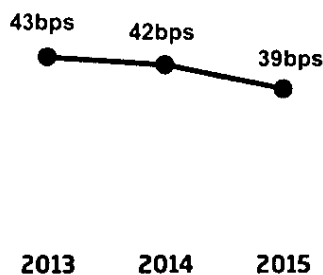
Lowering unit costs

UK operating expenses decreased £1m to £455m. Expressed as a proportion of average AUA, operating expenses decreased to 39bps (2014: 42bps) as we continue to benefit from the scalability of our business model and cost discipline.

Our investment in technology has allowed further process automation and customer self service which has helped to lower unit costs. Examples of our progress include:

- ▶ Our online retirement journey allows customers to access their savings on a fully self-serve basis. Since April 2015, 70% of direct customers moving to AMPP drawdown used this journey and 90% of customers would recommend us to a friend
- ▶ Our online Good to Go proposition meets the needs of smaller employers efficiently: processing schemes on the same day as application and has secured nearly 4,000 schemes to date
- ▶ The introduction of greater automation to our SIPP drawdown process which will reduce the set-up time by up to 80% and facilitate tax efficient income withdrawals

UK operating expense bps



Driving Profit

UK and Europe operating profit before tax reduced by 8% to £357m, with underlying performance decreasing by 7% to £322m.

UK

UK operating profit reduced by £16m to £334m, as robust performance in fee business was more than offset by the £33m reduction in spread/risk margin which included a lower contribution from asset and liability management as expected.

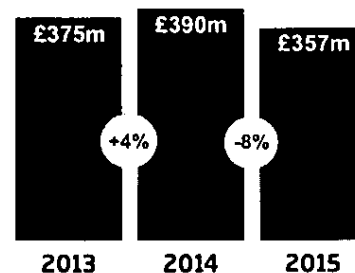
Europe

Europe operating profit reduced by £17m to £23m and includes the previously disclosed H1 2015 £9m shareholder support provided to the German with profits business. This is a one-off contribution as we no longer write new with profits business in Germany. Europe underlying performance was £8m lower at £31m with the impact of a reduced benefit from asset and liability management and adverse foreign exchange movements offsetting fee revenue growth in our German and Ireland business.

Return on equity

Operating return on equity decreased to 15.2% (2014: 21.8%) reflecting the decrease in operating profit after tax to £303m (2014: £347m) and higher opening shareholder net assets.

UK and Europe operating profit before tax



Profitability

	UK		Europe		UK and Europe	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Fee based revenue	631	619	177	183	808	802
Spread/risk margin	143	176	2	7	145	183
Total income	774	795	179	190	953	985
Operating expenses	(455)	(456)	(155)	(149)	(610)	(605)
Capital management	15	11	(1)	(1)	14	10
Operating profit before tax	334	350	23	40	357	390
Underlying adjustments ¹	(43)	(42)	8	(1)	(35)	(43)
Underlying performance	291	308	31	39	322	347

¹ Relates to operating assumption changes of £44m (2014: £43m), included in spread/risk margin and principally in respect of mortality assumption changes, and to shareholder support provided to the German with profits business of £9m (2014: £nil), included in operating expenses.



Customer feedback

As the marketplace changes, so do the needs of our customers and clients. Their feedback plays a critical role in shaping the products and services we offer.

Our award winning Customer Operations and Guidance teams managed unprecedented levels of online and phone enquiries in 2015 as pension reform was implemented in the UK. Pension freedoms provided customers with more options at retirement, including greater personal control which resulted in our calls becoming more complex and lasting longer in order to ensure our customers had all the information they required. Unfortunately for some of our customers the wait time was longer than they would have liked resulting in some frustration and we have worked hard to reduce the wait times throughout the year. Reassuringly our Net Promoter Score metrics remained very strong at +48 for the year. Here's what some of our customers had to say:

Standard Life Direct customer: "I spoke to Mike about my pension and he was really helpful and made it very simple, very easily understood. I was very impressed because it's one of those things that everybody kind of hates doing, phoning and talking about their pensions. But he made it very clear and easy."

Workplace customer: "Wendy was very helpful in guiding me through some of the online systems and how I could get certain information regarding funds and illustration, thank you."

More and more people are using our online services, accessing information in a way and at a time that suits them. Our continued investment will further improve this in 2016 and will continue to be well supported by our customer focused teams.

Awards and recognition

The Aberdeen UK Platform Awards 2015:

- ▶ Wrap awarded Platform of the year
- ▶ Best Platform with assets over £12.5bn as voted for by advisers
- ▶ Best Platform for Adviser Service as voted for by advisers
- ▶ Best use of Platform Technology alongside FNZ

Other awards:

- ▶ Best Use of Technology – UK Financial Services Experience Awards 2015
- ▶ Best New Product – UK Financial Services Experience Awards 2015
- ▶ Income Drawdown Provider of the Year – Financial Adviser Life & Pensions Awards 2015
- ▶ Best New Product for our new customer led online retirement journey – UK Customer Experience Awards 2015

1.4.3 India and China

We are extremely well positioned in India to deliver on our future growth aspirations and we announced our intention to increase our stake in HDFC Life from 26% to 35%¹

Overview

Our India and China segment consists of our life associate in India, our life joint venture in China and our wholly owned business in Hong Kong.

We continue to strengthen our operations in India and China. We are well positioned for future growth in the region.

Strengthening position in India

HDFC Life is one of India's leading life insurance companies with a 15% market share in the private sector. Its comprehensive product portfolio provides over 20 million customers with innovative needs-based insurance and savings solutions.

India remains a highly attractive market with a number of positive growth factors. The International Monetary Fund has estimated that the country's GDP will grow by 8% per annum over 2015-2020. Life insurance penetration rates in India are currently low compared to developed economies, and the introduction of new welfare schemes by the Indian Government should help to emphasise the importance of insurance coverage among the large uninsured population.

Also, the long awaited increase in foreign investment limits in insurance companies should provide an additional source of capital to help fund the growth prospects for the industry.

In August 2015, we announced that terms had been agreed with HDFC, our partner in India, to seek regulatory approval for us to take an increased stake in HDFC Life for a consideration of Rs 1,706 crore (£175m based on INR exchange rate as at 31 December 2015). This proposed investment demonstrates our belief in the strength of HDFC Life and the long-term growth prospects of the business and the Indian insurance market.

The regulatory landscape in India continues to evolve as the insurance market matures. The impact of these regulatory developments on HDFC Life and the industry is still uncertain. HDFC Life retains close, co-operative relationships with regulators and will continue to proactively manage and respond to regulatory change.

Continued development in China and Hong Kong

In China, our joint venture, Heng An Standard Life, continues to build a sustainable and profitable business by offering a range of insurance and savings products to a growing customer base.

In 2015, Heng An Standard Life has seen continued growth in sales and profitability. We will continue to develop our future business strategy in Mainland China and Hong Kong by exploring opportunities which could be beneficial to both Heng An Standard Life and to our Hong Kong business.

In Hong Kong, a changing regulatory and market environment has made growing AUA and flows challenging. However, we are continuing to evolve our propositions to meet the needs of the growing affluent and wealth segments both in Hong Kong and from mainland Chinese visitors.

A new regulatory environment came into effect on 1 January 2015 in Hong Kong, which banned advance payment of commission on all investment-linked products and has impacted the market significantly. We are supportive of these changes in creating a more professional advisory marketplace but it will take time for the market to adjust. We are adapting our propositions in light of these changes and launched two new single premium products in 2015.

We announced the closure of our insurance businesses in Dubai in November 2014 and Singapore in June 2015. The Singapore business formally closed in November 2015 following finalisation of regulatory approvals. Further details are included in our discontinued operations segment in Section 1.4.4.

¹ Subject to regulatory approval.

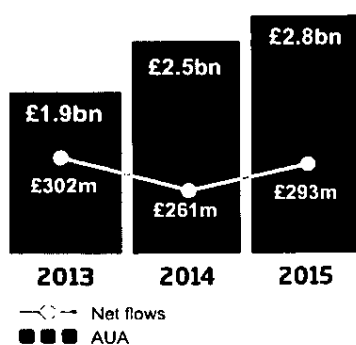
Increasing assets

Total AUA increased to £2.8bn, due to a 10% increase for our associate and joint venture businesses' AUA to £2.3bn (2014: £2.1bn). Hong Kong's AUA increased to £0.5bn (2014: £0.4bn).

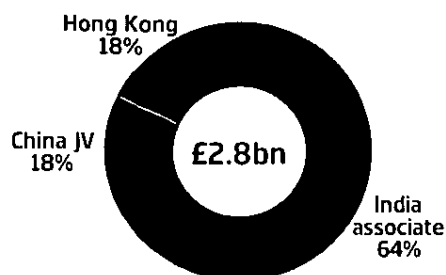
The growth in AUA was driven by continued positive net inflows in our associate and joint venture businesses of £230m (2014: £193m) with HDFC Life maintaining its market-leading position within the Indian private market. Heng An Standard Life's AUA has grown by around 30% over the last 2 years and the business now services over 5 million customers.

In Hong Kong, net inflows decreased to £63m (2014: £68m). New single premium propositions are under development to drive asset growth in the new market landscape.

AUA and net flows



AUA split by business



Further information on AUA and net flows is included in Supplementary information in Section 11

Maximising revenue

HDFC Life's investment in digital and e-commerce platforms has established it as a leader in this fast growing online space.

Heng An Standard Life has delivered a 19% growth in sales with an increased new business profit margin.

Lowering unit costs

HDFC Life continues to maintain one of the lowest operating expense ratios among its peer group while continuing to invest in technology, training and product innovation.

Our Hong Kong business continued to manage costs whilst investing in new propositions in response to changes in regulation. 2015 saw falls in both expenses and revenue as the business product mix is adjusted.

Driving Profit

Operating profit before tax increased to £27m (2014: £23m) mainly driven by an increase in our associate and joint venture businesses' profit to £25m (2014: £18m) as they benefit from continued growth in premium income.

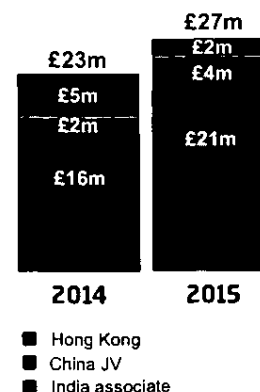
Hong Kong operating profit decreased to £2m (2014: £5m) due to lower sales volume and a different new business product mix as we re-position the business and develop new customer propositions.

Operating return on equity for the India and China segment decreased to 9.9% (2014: 11.8%) reflecting higher opening shareholder net assets and an increased tax charge.

Following the regulatory changes in Hong Kong, a review of expense and reserving assumptions was undertaken which resulted in a £46m non-operating loss being recognised, primarily relating to impairment of deferred acquisition costs.

	2015 £m	2014 £m
Fee based revenue	38	49
Operating expenses	(36)	(44)
Share of associates' and joint ventures' profit before tax	25	18
Operating profit before tax	27	23
Share of associates' and joint ventures' tax expense	(2)	2
Non operating loss including impairment of DAC and related reserving changes in Hong Kong	(47)	-
IFRS (loss) / profit before tax	(22)	25

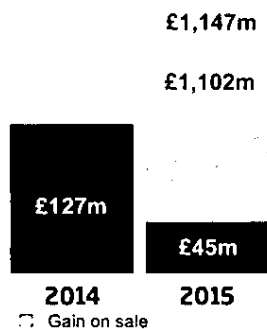
Operating profit before tax



Note: Results are presented on the basis of Standard Life ownership percentages during 2015 and do not include the 40% share in HDFC AMC which is included in the results for Standard Life Investments. Hong Kong ownership is 100%, HDFC Life is 26% and Heng An Standard Life is 50%.

1.4.4 Discontinued operations

Canada IFRS profit after tax



£1,147m

£1,102m

Sale of the Canadian business

On 30 January 2015, we successfully concluded the sale of the Canadian business to Manulife for a fixed consideration of C\$4.0bn (£2.2bn including related hedging derivative contracts). We recognised a gain on disposal of £1,102m.

The sale of our Canadian business was significant for the Group, and reaffirms our continued focus on growing fee based business, whilst reducing our exposure to spread/risk business. In addition, the expanded relationship with Manulife deepens Standard Life Investments' ongoing access to Canadian and wider global distribution.

IFRS profit after tax for the Canadian business, which in 2015 included the results for the month of January, was £45m (2014: £127m) excluding the gain on sale. The result mainly benefited from favourable short-term fluctuations on investment return of £63m due to large yield movements in the month, offset by a £20m tax expense.

Find out more about the gain on sale in Note 1 in the Group financial statements section

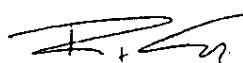
Dubai and Singapore

The regulatory landscapes in the markets in which we operate in Asia changed significantly in 2014 / 2015 and we responded by reviewing our strategy. Our increasing focus in Asia is building on our relationships with our partners in India and China, expanding our asset management presence through Standard Life Investments and growing our wholly owned business in Hong Kong. As a result, we announced the closure of the Dubai business in November 2014 and Singapore in June 2015. Our Singapore business closed on 18 November 2015.

For segmental reporting the discontinued operations segment includes results for Dubai and Singapore. Singapore made an operating loss before tax of £2m (2014: loss £4m) and a £40m non-operating loss (2014: £2m) relating to closure costs. The Dubai business closed at the start of 2015 and therefore made an operating loss before tax of £nil (2014: loss £5m). Non operating losses for Dubai were £nil (2014: loss £17m).

1.5 Risk management

'At Standard Life, our risk culture is at the core of how we operate and run our business. Risk is at the forefront of decisions we take as an organisation and drives important discussions in the boardroom and throughout the business.'



Raj Singh
Chief Risk Officer

Our approach to risk management

Effective and pre-emptive risk management, over both the short and long term, is essential for the continued success of our strategic development to create a world-class investment company.

We have a strong governance culture and our approach to risk management is a fundamental part of this, supporting the development of long-term value by ensuring that:

- ▶ Well informed risk-reward decisions are taken in pursuit of the Group's business plan objectives
- ▶ Capital is delivered to areas where most value can be created from the risks taken

The consistent application of risk management processes has underpinned our further successful delivery over 2015 as we completed the sale of our Canadian operations further simplifying our business, integrated Ignis into our investment business and responded to changes in the external environment, for example the new pensions freedoms in our UK market.

In May 2015 we were very pleased that the strength of our approach to risk management was externally recognised when Standard & Poor's upgraded their assessment of our Enterprise Risk Management (ERM) framework to 'strong'.

Our principal risks and uncertainties

The broad categories of risk that are faced by the Group, which include Strategic, Operational, Conduct and Financial have not changed over the year and we expect these to stay broadly consistent over time.

From within these broad categories we have identified a number of specific principal risks and uncertainties. This list should not be considered to be exhaustive but rather those which we currently believe have the greatest potential to affect our business model, future performance, solvency or liquidity. These principal risks were subject to a robust assessment by the Board during 2015. As our strategic development continues, and we respond to changes in our external environment, it is to be expected that both the risks themselves and the relative importance of these may change. We have provided our assessment of the forward trend for these risks.

In 2015 the sale of our Canadian businesses and the changes in the UK pensions market mean spread business and the inherent risks involved are becoming less significant. In turn, the acquisition of Ignis and the continued strong growth of our fee business mean that our exposure to market risk on fee revenue is becoming more important.

The broader risk environment remains challenging and in particular the current level of political and regulatory engagement with our industry remains very high. There are a number of policy areas which have the potential to lead to a material impact on our business, for example in the areas of pension tax relief, the full implementation of MiFID II, as well as ongoing industry reviews such as the FCA's Asset Management Market Study and the Financial Advice Market Review.

The FCA commenced in 2015 a sample-based review of non-advised annuity sales from a selection of firms across the industry in which Standard Life has been participating. We have carried out analysis including an initial sampling of historical sales and work is ongoing to understand the implications for relevant components of the Standard Life annuity population. The outcome and consequences are uncertain but could include requirements to compensate customers and could have an adverse effect on the Group's profits and/or financial position. See Note 45 of the Group financial statements.

Viability statement

The Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years. The Directors' assessment takes into account the Group's current position (in particular the Capital and Liquidity position as described in Section 1.3) and the principal risks as described in this section.

The key processes used by the Board to assess the prospects of the Group are:

The business and strategic planning processes: Strategic planning is a continuous process which underpins business planning. Business planning is an annual process which projects the performance, regulatory capital and liquidity of the Group over a three year period, and considers base, downside and severe downside economic scenarios. Our projected capital positions are a measure of the capital we need in the business to cover our risks, including financial and operational risks, under stress scenarios.

Quantitative stress and scenario testing which consider liquidity and capital positions under single and combined financial scenarios.

Reverse stress testing which gives a qualitative understanding of plausible but severe risk scenarios which could threaten the viability of the Group, and informs related management actions. The scenarios assessed are based on the principal risks and include a cyber-attack, a critical infrastructure breakdown, major regulatory changes and a major shock to financial markets.

Oversight of risk within the business delivered through the Own Risk and Solvency Assessment (ORSA) processes which are described within this section.

We consider that three years is an appropriate period for this viability assessment, which is in line with our core business planning process. It is the period over which major strategic actions, such as the launch of new investment propositions, are typically delivered. It also takes into account the uncertain economic environment and changing political and regulatory environment, and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. We consider that the severe scenarios assessed as part of our reverse stress testing are appropriate over this three year period.

Risk governance

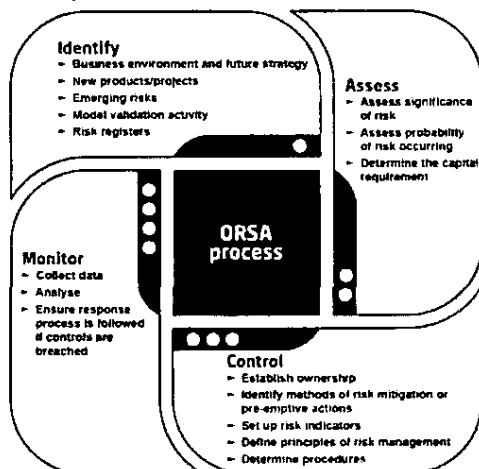
Enterprise risk management framework

The Group's Enterprise Risk Management (ERM) framework enables a risk based approach to managing our business. It integrates concepts of strategic planning, operational management and internal control. Our framework has been developed and embedded in the business over several years.



- ▶ **Risk culture:** The way we think and act as individuals and as a Group. It encompasses our attitudes, capabilities and behaviours.
- ▶ **Risk control processes:** The practices by which we manage financial and non-financial risks within the Group. They are used to identify, assess, control and monitor risk throughout the business.
- ▶ **Strategic risk management:** Forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. It supports the development of long-term value by ensuring that well informed risk-reward decisions are taken in pursuit of the Group's business plan.
- ▶ **Risk and capital models:** The models that we use to measure our risk exposures and capital position and the work that we do to test and understand the sensitivity of these positions
- ▶ **Emerging risks:** The aim of emerging risk management is to identify risks before they materialise. This gives us time to engage with the risk, understand it and respond accordingly. We use our emerging risk process to inform reverse stress testing and capital adequacy requirements across the Group. Our pro-active screening process which looks across broad sources of risk including geopolitical, technological, environmental and societal, helps us to anticipate future threats.

ORSA process

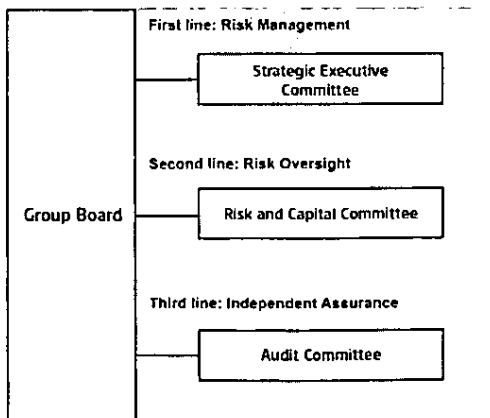


The ORSA is the set of processes that underpin our ERM framework. The purpose of the ORSA is to inform and develop:

- ▶ Our understanding of the current and potential risks to the business over the product lifecycles. This includes both financial and non-financial risks including environmental, social and governance (ESG) risks and their potential to affect both the long and short term value of the business.
- ▶ Our appetite for these risks and how we manage them
- ▶ Our own assessment of current solvency and capital requirements with respect to the risks
- ▶ A forward-looking assessment of the risk and solvency needs of the company over a multi-year time horizon in light of the business plans

The ORSA plays a key role in supporting decision making and strategy development at our boards and risk committees.

Three lines of defence



We operate a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for boards, 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, such as the Group Enterprise Risk Management Committee. These management committees are supported by the specialist risk management and compliance functions across the Group.
- ▶ **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Group internal audit function. This is subject to supervision and challenge from the Audit Committee.

Our principal risks and uncertainties

STRATEGIC RISK

Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances. The Group recognises that core strategic activity brings with it exposure to strategic risk. However, the Group seeks to proactively manage and control these exposures.

Principal Risk	Trend	The risk to our business	How we manage the risk
Political Change	Increasing	<p>Decisions taken by the UK, Scottish and other governments could impact demand for our propositions or significantly change the business environment. The impact could be felt in one of our businesses or more broadly across the organisation.</p> <p>These decisions could be specific to our industry, such as the recent consultation on pension tax relief or broader initiatives such as the planned referendum on the UK's membership of the EU and the devolution and application of tax and spending powers within the UK.</p>	<ul style="list-style-type: none"> ▶ We constructively engage with key decision makers on political change which could impact our company in the best interests of our stakeholders, for example by contributing to consultations ▶ Political risks are considered as part of our stress and scenario testing programme (which includes both quantitative and reverse stress testing) and emerging risk process ▶ We maintain appropriate business continuity and contingency plans which are regularly reviewed
Regulatory Change	Increasing	<p>Our industry is subject to high levels of regulation which regularly change. As we expand our investment business into new countries, this in turn increases the breadth of regulations with which we must comply.</p> <p>2015 was a year of significant regulatory change in the UK, in particular with the implementation of pension freedoms which had a significant impact on our insurance business. We also participated in a number of industry wide thematic reviews. Regulatory change is expected to be a continuing theme in the coming years, for example with MiFID II expected to be a significant development for our investment business in particular.</p> <p>New or changing regulations can create opportunities for our business but can also increase risk. Complying with new or changing regulations can increase our compliance costs, impact the profitability and demand for our propositions, or tie up resources which may restrict other developments that we have planned to support our business plan.</p>	<ul style="list-style-type: none"> ▶ Ongoing regulatory compliance is governed via our Group Policy Framework ▶ We maintain strong and open relationships with our regulators and engage early with areas of potential regulatory change ▶ Regulatory changes are considered as part of our stress and scenario testing programme and emerging risk process
Customer and Client Preferences and Demand	Increasing	<p>Delivering our business plan requires us to attract and retain customers and clients across all our key channels in both our insurance and investment businesses. We are therefore exposed to the risk that our propositions do not keep pace with emerging customer preferences or fail to meet the needs and expectations of customers.</p> <p>During 2015 we continued to invest to develop our propositions. Examples include the launch of our new advice business 1825 and the enhancements to our propositions to enable customers to take full advantage of pension freedoms.</p>	<ul style="list-style-type: none"> ▶ New proposition developments start from the customer or client need ▶ We invest in initiatives to build trust and long-term relationships with customers. In our sustainability section (1.6) we explain how we use insight to inform and develop our products and services as well as the methods we use to engage and educate our customers ▶ Standard Life Investments aims to deliver consistently strong investment performance with its commitment to excellence in active management ▶ We regularly seek customer feedback on our performance and use focus groups to help develop new propositions

CONDUCT RISK

The risk that through our behaviours, strategies, decisions and actions the firm, or individuals within the firm, do not do the right thing and/or do not behave in a manner which:

- ▶ Pays due regard to treating our customers and clients fairly
- ▶ Is consistent with our disclosures and setting of customer and client expectations
- ▶ Supports the integrity of financial markets

The Group recognises that its core strategic activity brings with it exposure to conduct risk which must be understood and managed. However, there is no appetite for purposeful or deliberate actions (behaviours/decisions) which result in conduct risk.

Principal Risk	Trend	The risk in our business	How we manage the risk
Customer and Client Outcomes	Increasing	<p>We are exposed to the risk of unfair customer and client outcomes as a result of our business not acting in the right way. This arises from a number of sources including failed or poorly designed processes, badly designed or performing propositions, poor customer communications or conduct by colleagues.</p> <p>The standards that we aspire to internally, as well as those expected of us by regulators and third parties are consistently being raised. However higher standards and the regulatory focus on conduct means that the risk of failing to meet these is higher which leads to our assessment that this risk is increasing.</p> <p>Poor business conduct can lead to material financial losses, through fines or remediation activity and can cause significant reputational damage.</p>	<ul style="list-style-type: none"> ▶ Our Group Code of Conduct sets out the standards required by colleagues. This was revised and re-launched in early 2015. ▶ Our Conduct Risk Policy helps to ensure that the standards and outcomes we set are implemented consistently across the business ▶ Strong oversight and challenge is provided within our business by our Conduct and Compliance risk centre ▶ We maintain a strong and open relationship with the Financial Conduct Authority and other regulators

OPERATIONAL RISK

Risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events. The Group has limited appetite for large operational losses due to the related reputational damage and opportunity costs. The Group will seek to manage existing operational risk exposures and proactively control new exposures.

Principal Risk	Trend	The risk in our business	How we manage the risk
IT Failure & Security, including cyber risk	Increasing	<p>Our business relies on a wide range of IT systems to function and our strategy requires greater use of online functionality to meet customer preferences, improve efficiency and manage costs.</p> <p>This exposes us to the risk of failure of key systems, and security risks such as fraud and cyber-attacks. As our global profile increases, for example via the investment business's sponsorship of the Ryder Cup and British & Irish Lions, we may become a higher profile target.</p> <p>The crystallisation of these risks could mean that we are unable to operate core processes and serve our customers which could lead to reputational damage and to remedial costs.</p>	<ul style="list-style-type: none"> ▶ We are continuously investing in and modernising our IT infrastructure via our EvolveIT programme ▶ Cyber risk is a constantly evolving threat. We work with specialist third parties to identify new risks and develop our response to them. ▶ IT failure and security is considered as part of our stress and scenario testing programme and emerging risk process ▶ We maintain appropriate business continuity and contingency plans which are regularly reviewed

OPERATIONAL RISK *continued*

Principal Risk	Trend	The risk in our business	How we manage the risk
Outsourcing Relationship Management	Stable	<p>We use a number of outsourcing partners to operate and deliver core systems, capabilities and processes. Key relationships include Citigroup's with our investment business and FNZ's role in the delivery of our platform functionality for our insurance business.</p> <p>These types of partnerships allow us to access specialist services and skills, and enable our business to run more efficiently and cost effectively.</p> <p>The failure of a material outsourcing partner could lead to significant costs and disruption to our operations until we recover the situation or put alternative solutions in place.</p>	<ul style="list-style-type: none"> ▶ Our Group Outsourcing Policy sets out standards that must be complied with ▶ We maintain strong relationships with partners to ensure that the risks arising are well understood ▶ Outsourcing risks form part of our stress and scenario testing programme which help us to understand the impact of their failure and how we would continue to operate under such circumstances ▶ We maintain appropriate business continuity and contingency plans which are regularly reviewed
Change Management	Stable	<p>The Group runs a significant change programme. This exposes us to the risk that change takes longer or costs more than expected or that the change does not meet its intended objective.</p> <p>Key changes in 2015 included the integration of Ignis within our investment business, the development of 1825 our new UK advice business and the changes we put in place to respond to pension freedoms in our insurance business. Additionally, across the organisation we continue to develop, enhance and upgrade our operational processes.</p>	<ul style="list-style-type: none"> ▶ Change management forms part of our operational risk management framework which provides a robust and established framework under which change is managed, reported and implemented ▶ In recent years, our business has built up significant experience of successfully responding to change, whilst continuing to develop market-leading propositions for customers
Talent Management	Stable	<p>It is essential that we are able to attract and retain people with the skills and capabilities that we need to deliver our business plans across all of our businesses.</p> <p>We are exposed to the risk that we are not able to do this, that it can only be achieved at a higher cost than expected or that key individuals leave the business unexpectedly.</p>	<ul style="list-style-type: none"> ▶ We regularly benchmark our terms and conditions against the market ▶ Our sustainability section (1.6) explains the range of initiatives that we use to support employee wellbeing and engagement ▶ We maintain succession plans for key individuals which are regularly reviewed ▶ Our Emerging Leaders Development Support and Accelerated Development Support programmes help to build our talent pipeline

FINANCIAL MARKET AND CREDIT RISKS

Risk of losses due to risks inherent in financial markets. The Group has appetite for market risk exposures where exposures arise as a consequence of core strategic activity. We have an appetite for credit risk to the extent that acceptance of this risk optimises the group risk adjusted return.

Principal Risk	Trend	The risk in our business	How we manage the risk
Market Exposure	Increasing	<p>Our business is exposed to market risk from the direct investment of shareholder assets, indirectly from UK and German with profits funds in our insurance business and as a result of fluctuations in fees that we earn which are linked to the value of underlying assets in both our insurance and investment businesses.</p> <p>As we continue our strategic development to create a world-class investment company this risk becomes more important as the contribution of spread business reduces and we become more focused on fee based revenue.</p>	<ul style="list-style-type: none"> ▶ We set limits for market risk exposures ▶ We use our stress and scenario testing programme to understand our sensitivities to markets and identify mitigating actions ▶ We use hedging to manage market risks in our with profits funds
Counterparty Failure	Stable	<p>Across the Group in both our insurance and investment businesses we use a number of credit and reinsurance counterparties to implement our business strategy.</p> <p>This exposes our business to losses should one of our counterparties fail to perform its financial obligations to us, including failure to perform these obligations in a timely manner.</p>	<ul style="list-style-type: none"> ▶ Our credit risk management policy sets out the standards that are required ▶ Limits for individual counterparties are overseen by the Group Credit Risk Committee ▶ Where appropriate, counterparties are collateralised and internal credit assessments are used ▶ Exposures are pro-actively monitored with mitigation action taken where necessary

DEMOGRAPHIC AND EXPENSE RISK

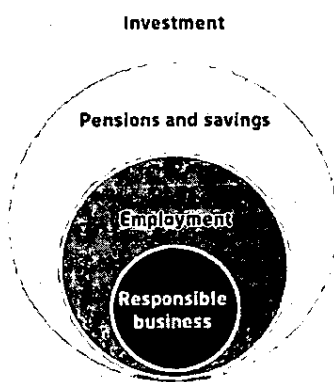
Risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected, which for the purpose of risk management includes liabilities of insurance and investment contracts. The Group has an appetite for such risks since we expect acceptance of the risk to be value additive.

Principal Risk	Trend	The risk in our business	How we manage the risk
Longevity	Decreasing	<p>This risk arises from the annuity policies that we have sold in our insurance business.</p> <p>We are exposed to the risk that policyholders live longer than expected and this causes a loss.</p> <p>As a direct result of the pension freedoms changes that were introduced in 2015 we now expect this risk to decrease over time as we do not expect volumes of new annuity sales to offset existing business running off.</p>	<ul style="list-style-type: none"> ▶ We set limits for longevity risk exposure ▶ We have a robust governance process for setting our longevity assumptions using the latest data sources ▶ We have a reinsurance arrangement with Canada Life which transfers a material part of our longevity exposure ▶ We monitor opportunities to implement further reinsurance or capital market transactions to reduce our exposure

1.6 Sustainability

We are here to help people save and invest for their future.

Our sustainability strategy helps us to identify opportunities and manage risks, inside and outside of our business. Our aim is to make a meaningful contribution to the futures of our people, clients and wider society.



You can read our 2015 sustainability report and find out more about our materiality review at www.standardlife.com/sustainability

Our strategy and approach

During 2015, we reassessed our sustainability strategy and completed a materiality review. The review helps make sure our sustainability goals are meaningful, challenging and relevant to our commercial aims, as well as what our stakeholders expect of us. We examined long-term environmental, social and governance (ESG) risks and opportunities and worked with a wide range of sources and inputs, including:

- ▶ Investors in our Company
- ▶ Our people and subject matter experts
- ▶ Leaders and opinion formers within our industry
- ▶ Recognised initiatives like the United Nations Sustainable Development Goals

As a result of the review, our sustainability strategy covers four priorities:

1. Responsible business
2. Employment
3. Pensions and savings
4. Investment

Doing the right thing

Our first priority is to operate ethically, as a responsible business. This covers many aspects of our business, from our Code of Conduct to managing our environmental impact. Operating this way helps build trust with our stakeholders.

The other priorities build on that responsibility. They relate to the nature of our business and areas where we can make a positive impact.

We provide jobs – both directly as an employer and indirectly through our charitable programmes. For us, work must provide more than just fair pay. Areas like skills, training and career progression make work more meaningful and sustainable. Sustainable work can also enable more savings behaviour.

Through our products and services, we help people manage their money so they can support their lives and future ambitions.

As an investor, we have a dual responsibility to meet clients' investment aims and, at the same time, consider the impact our investments have on the environment and wider society.

Sustainability at Board level

As part of the Chairman's regular update to the Board, internal and external ESG issues are highlighted. Non-financial measures, which monitor progress against our sustainability strategy, are also discussed on at least a quarterly basis.

During the year, the Board considered long-term trends in our sector and wider society that may affect our business. Young people from our school leaver programme and the UK charity Tomorrow's People, who focus on youth employment, attended a Board session to share their experiences of working life and what they want as clients themselves.

We received our best ever DJSI and FTSE4Good index scores

Getting independent, objective validation of how well we're working towards our sustainability targets is very important. We take part in the Dow Jones Sustainability Index (DJSI) and FTSE4Good surveys because they are widely known and respected independent surveys.

In 2015, we were listed for the fifth year running in the DJSI World and Europe indices, which include the top 10% and 20% respectively of sustainable companies in our sector who take part.

MEMBER OF
**Dow Jones
Sustainability Indices**
in Collaboration with RobecoSAM AG



FTSE4Good

Overview of our four sustainability priorities

1. Responsible business

This includes our business ethics, managing our environmental impact and contributing to local communities.

A new Code of Conduct

We revised and re-launched our Code of Conduct in 2015. We also published it on our website to reinforce our belief in transparency. Our culture is based on doing the right thing and we want our people to understand our Code – applying it to everything they do, every day.

Human rights statement

We updated and published our human rights statement in 2015. It covers our approach to our people, our customers, how we invest and the influence we have in wider society.

UK Modern Slavery Act

We welcome the legislation to protect those at risk of what's known as modern-day slavery, for example forced labour and human trafficking. We are working to make sure we are ready for the new Act and its objectives.

You can read our new Code of Conduct and Human Rights statement at www.standardlife.com/sustainability

Volunteering

Encouraging our people to volunteer in their community has been part of our culture and heritage for many years. During 2015 we launched our new volunteering policy to raise awareness of the increase in paid leave available for volunteering – this increased from two to three days. Our people donated 661 days for volunteering work in 2015 (2014: 331 days).

Environment (continuing operations)

		2015	2014	2013	Actual change ⁵	2015 target ⁵
Greenhouse gas emissions (CO2e)	Scope1 ¹	2,706	2,368	2,134	26.8%	(4%)
	Scope2 ²	12,283	13,638	12,034	2.1%	(4%)
	Scope3 ³	10,710	10,374	12,070	(11.3%)	(12%)
	Total	25,699	26,380	26,238	(2.1%)	(8%)
FTE / Tonnes CO2e ratio ⁴	Total	3.39	3.55	3.75	(9.6%)	(4%)
Paper used (tonnes)	Total	485	494	603	(19.6%)	(10%)
	Landfill	7	54	276	(97.5%)	N/A
Waste (tonnes)	Divert from landfill	718	869	608	18.1%	N/A
	Total	725	923	884	(18.0%)	(4%)

¹ Scope 1 emissions include gas (and F gas from 2014).

² Scope 2 emissions include electricity.

³ Scope 3 emissions include business travel and transmission and distribution losses for electricity.

⁴ Based on a full-time equivalent (FTE) employee figure which includes contingent FTE.

⁵ vs 2013 baseline.

Managing our environmental impact

When it comes to minimising our impact on the environment, our main areas of focus are on the most material aspects for our business: energy use in our buildings and business travel (air and rail). We use 100% renewable electricity in our UK-owned and operated offices.

We're a global business, so international travel to meet clients and partners is a necessary part of our operations. We're currently reviewing ways that we can continue to reduce these types of emissions.

To promote our aims in these areas, in 2015 we continued to run our programme of awareness-raising activity amongst our people, including an environment champions network, promoting 'green' travel and collaborative technology, and ongoing energy reduction and recycling initiatives.

In 2013, we set a target for 20% reduction in greenhouse gas (GHG) emissions by 2020. To date, we have achieved a 2.1% reduction. In 2016, we plan to review our environmental strategy and targets.

You can read details of our GHG emissions for our own business operations below. This doesn't include GHG emissions for our global real estate investment portfolio.

You can read our global real estate investment portfolio GHG emissions at www.standardlifeinvestments.com/CO_Sustainable_RE_Investment_Report/getLatest.pdf

We report our most material GHG emissions, but we also measure our emissions in more detail too.

2. Employment

We want to provide inclusive employment. We help to remove barriers to employment, encouraging meaningful jobs paid at a living wage. We aim to develop our people to reach their full potential and create an environment that supports healthy bodies and minds.

Gender	31 Dec 2015		31 Dec 2014	
	Number	%	Number	%
Board	Male	9	69	77
	Female	4	31	23
Senior mgt	Male	65	80	81
	Female	16	20	19
Talent pipeline ¹	Male	150	60	67
	Female	102	40	33
Employees	Male	3,140	51	50
	Female	2,989	49	50

¹ Note: Talent pipeline includes graduates and members of the Emerging Leaders Development Support (ELDS) and Accelerated Development Support (ADS) programmes. 2014 figures exclude graduates.

Our people and diversity

Diversity and inclusion have been a key focus of our activities in 2015.

We were named as one of UK newspaper The Times Top 50

Employers for

Women, based on

the support and development opportunities we offer to everyone and recognising the work of our Women's Development Network.

We believe that people networks are a great way to support our people and provide development opportunities. We continued to run and support our Women's Development, Armed Forces, and Lesbian, Gay, Bisexual and Transgender (LGBT) networks. In 2015 we formed the LGBT allies group. Allies are people who actively advocate for equality at Standard Life. We also launched two new networks: the Young Persons' Development network and the Carers' network.



You can get a complete breakdown of our emissions and read our methodology at www.standardlife.com/sustainability



Helping working carers

We have been accredited as a 'Carer Positive' employer at the Engaged level in recognition of our working environment where carers are valued and supported.

Linda works full time in our Customer Operations department. Four years ago, Linda and her husband began caring for both sets of parents, looking after them through painful and, in some cases, terminal illnesses.

"Paid carer's leave is something I really appreciate having. The last few years have been very difficult for my husband and me. We've had to deal with working full time and caring for our parents; supporting them and each other through painful, heart-breaking illnesses, the passing of my mum and dad and his mum, and adapting our lives to care for his dad.

Before the carer's leave policy was introduced, I used my holidays and flexitime (our flexible hours system) to help care for our parents. My manager and colleagues were always there to support me, but using up flexitime and holidays did mean having less time for myself, which can really impact on the balance between work and home life. Having dedicated paid leave for carers like myself is a huge help in restoring that balance, relieves some of the pressure of being a carer and allows me to plan ahead better.

The Carer's Network at Standard Life is run by fantastic people and shows what a caring business Standard Life is. It's a great network because it brings together all the stories, help and resources for people who balance work with home life and being a carer too. I really value the support Standard Life offers to its employees".

Although we've made good progress during the year on diversity, we know there are areas that we need to improve on. For example, the gender mix of our senior management population is 20% female and 80% male.

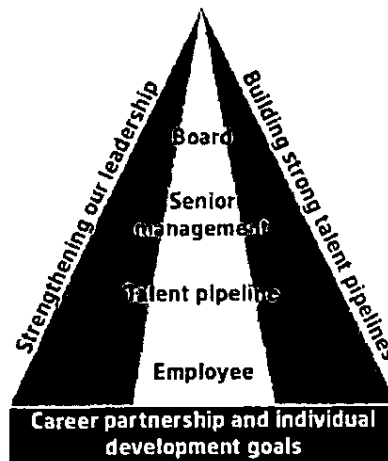
Detail about diversity and our Board is included in Section 4

We welcome the proposed UK legislation for gender transparency on pay and are working to make sure we're ready for the changes.

Talent pipeline

As a globally expanding business, we need to invest in a strong talent pipeline. This helps ensure our future leaders and senior managers can grow to fill future roles.

We launched a non-executive Development Curriculum in 2015 to encourage and develop our people to gain external board-level experience in preparation for Executive Team and increasingly complex Board appointments. The curriculum is available to senior leaders and those participating on development programmes.



Our people strategy is consistent with both the United Nations and International Labour Organisation's standards

Wellbeing and employee engagement

We want to engage our people and support them both in and outside of work.

To help support working families, we introduced enhanced maternity, adoption and parental leave policies in 2015.

We took part in the global corporate challenge healthy living initiative for the fourth year in a row, ranking in their global top 20 (out of 1,200 companies that took part). We have also promoted positive mental health through signing up to the Time for Change pledge. As part of this we have provided mental health manager training, raised awareness and organised events.

In 2015, 79% of our employees completed our group engagement survey – InterAction. The survey measures two dimensions – how engaged our people are and the extent to which they feel they are enabled to do their job. The responses gave us a clear update on how our people feel about a range of topics. The results pointed to some areas where we are strong: clarity on our strategy, doing the right thing for customers, and our ability to influence and raise standards in our industry.

The survey also highlighted areas where we can do better: building an emotional connection with our strategy and future, helping ensure our people feel valued in their roles and enhancing collaboration across teams.

To address the feedback, a number of actions have been taken including ensuring all teams have the opportunity to consider local actions for local issues, investing in management training to enhance career conversations and the implementation of SharePoint to make it easier to collaborate across the Company.

Our InterAction scores were 63% for engagement and 64% for enablement, slightly below the global financial services average scores of 66% and 67% respectively.

Our people



Part time
16% of
our people



Full time
84% of
our people



Turnover
11.4% of
our people



Training
42 hours
per person

Working communities

One of the foundations for healthy communities is job creation.

Providing the right environment, with access to skills and on-the-job experience, can turn jobs into careers. We have reinforced our commitment to the UK Living Wage by becoming the first private-sector company to become a UK Living Wage Friendly Funder. Living Wage Friendly Funders help charities they have funding relationships with to pay the Living Wage for any grant-funded posts. In Ireland we also pay our people at least the Irish Living Wage.



We have continued our work with the Edinburgh Guarantee – a partnership between Edinburgh City Council and Edinburgh's business community. In 2015, 18 young people joined us for paid six-month work experiences in Edinburgh, and we provided a similar scheme for two young people in London. 98% of those who have been through these work placement programmes have moved on to full time employment or further education. Across our employment programmes we have provided 35 direct jobs in total.

We have increased the percentage of our people 25 and under from 0.4% in 2010 to 6.1% in 2015.

Helping people get career ready

We partner with Career Ready, a charity that supports young people in their last two years of school to fulfil their potential. Our people offer mentoring over a two year period, including a four week work placement at one of our offices, paid at the UK Living Wage.

We were awarded Corporate Responsibility Award of the Year at the HR Network Awards in recognition of our employability work.

Our charity partners

We work with charities voted for by our employees with a focus on employability.

- ▶ Scope and Capability Scotland in the UK
- ▶ Barnardos Ireland in Ireland
- ▶ Let's Get Ready in the USA
- ▶ Hong Kong Society for the Protection of Children in Hong Kong



Supporting skills development

The Trust provided over £1 million in 2015 to support employment programmes

Through the Standard Life Charitable Trust, an independent charity we set up in 2006, we provided over £1 million in 2015 to fund support programmes focused on developing skills and providing work experience through Tomorrow's People, SkillForce, The Prince's Trust and The Royal British Legion.

In 2015, the Trust partnered with SkillForce a charity that draws upon the skills of ex-Forces personnel to inspire young people. The Trust funded a new award scheme that aims to help 9 - 11 year olds build the skills they need to succeed in the future. The SkillForce Junior Prince's Award is being rolled out across the UK and is backed by the Duke of Cambridge. It is aimed at primary schoolchildren and those in their first year at secondary school, where sometimes the change from one school to another can be challenging. The initiative helps children develop their personal character, resilience, confidence, teamwork and problem-solving skills. It does this through activities like teamwork challenges and community projects.

Through the Trust, we have also continued our partnership with UK-based charity Tomorrow's People. To date, we've worked with 228 young people with specific needs, living in some of the country's most deprived areas. The Trust funds the 'Working It Out' programme in London, Bristol and Glasgow. The programme aims to help these young people develop their life-management skills and gain practical work experience through a series of community challenges and relevant qualifications. The goal is to help them get ready to start their working lives.

3. Pensions and savings

We want to help people manage their money and save for their future. By understanding their needs, we use our skills and knowledge to educate, inform and, importantly, develop the right products and services.

Client insight

We use insight from a variety of research to help us understand the emerging asset management trends and resulting impact on investor needs in order to better shape products and services.

Each year, we carry out a client survey across all markets and distribution channels. In 2015, around 800 of our worldwide clients helped us to understand how they felt about our brand reputation and the products and services we provide. The insights are used to ensure we have the right capabilities, solutions and services to meet client needs around the world.

More saving in the workplace

Around 5.2 million more people in the UK are now saving into a pension through their employer, since the UK government introduced the automatic enrolment initiative in October 2012.

We support the need to encourage more people to start saving into a pension as early as they can in their working lives. Of the 5.2 million more people saving, around 822,000 are saving into our pension schemes.

Around 2,000 new pension schemes set up with us in 2015 were from small to medium sized businesses. Our Good to Go service has helped these businesses to set up their scheme in as little as six minutes.

Pension freedoms in the UK

Major changes to how and when people could access their pension savings came into effect in April 2015. We offered the full flexibility to people from the first day the new rules came into effect.

We carried out research in 2015 that showed, on average, UK adults have only an eight year horizon as far as their financial plans are concerned. So when the changes came into effect we wanted to make sure that people were fully informed so that they made good decisions.

In the first nine months of pension freedoms, 10% of our eligible customers made use of the new regulations, 90% have not accessed their pension. For the

10% who did access their pension, we helped them to understand the impact of their decisions and the risks involved. We received a record number of calls at the time the freedoms came into effect. The length of these conversations is much longer than normal, but we feel that it is the right thing to be thorough to help ensure our customers make informed decisions.

We received 7,516 complaints in 2015 compared to 6,156 in 2014; this represents 18 complaints per 10,000 active customer policies. The increase was largely driven by this significant spike in customer demand. Root cause analysis from these complaints has led to a number of enhancements to the customer retirement journey.

Award-winning customer experience

We also created a new online retirement journey to allow customers to access their savings. Through better content and user experience design, it's now easier for customers to compare, contrast and select their chosen options as well as transact online. This proposition won the 2015 Customer Experience Award for Best New Product / Product Improvement.

A new advice business – 1825

The new freedoms available to people with pensions savings highlighted the importance of professional financial advice in the UK. We felt that there was a significant opportunity to create a new advice business to support our clients to understand better their financial situation and help them achieve their goals. In acquiring Pearson Jones – an existing UK financial advice firm – we created a new business called 1825 (this is the year that Standard Life was originally established).

Engagement and education

Wherever we operate, we want to engage and educate our customers to help them manage their money.

Our MoneyPlus blogs have continued to prove successful in engaging with people on financial issues. We focused much of the content on the pension freedoms, covering topics like pension scams and how to avoid them, as well as alternative ways to save and manage money.

Heng An Standard Life – our joint venture business in China – runs a free knowledge sharing service aimed at current and potential new customers. It's called Cultural Forum, and during 2015 they held lectures from experts on various subjects such as health, education and investment, which were well attended. They're looking to run

more interactive sessions including free health checks and information about different products in 2016, all with the aim of helping to meet the needs of society.

In Ireland, we ran two public events inviting people to come together and talk about the challenges that people thinking about retirement might face. This included financial planning as well as topics like health and wellbeing.

We use brand Net Promoter Score (NPS) as a key performance indicator of customer experience and brand advocacy. The score indicates how likely a customer is to recommend Standard Life to family and friends. In the last year our brand NPS, measured by an independent survey, has increased by 5.

We again ranked in the KPMG Nunwood survey of top 100 brands in the UK.

Vulnerable consumers

The FCA has placed a recent focus on how financial services companies interact with vulnerable consumers. We recognise there are challenges for our industry in ensuring products and services meet all consumer needs. We have plans in place for 2016 to make our products and services more inclusive.

4. Investment

By considering environmental, social and governance (ESG) issues we contribute to a better financial future for our clients and a sustainable world.

Standard Life Investments was one of the sponsors of Good Money Week – a UK campaign that raises awareness of sustainable, responsible and ethical finance.

Stewardship and responsible investment

As stewards of our clients' investments we act responsibly in our investment activities. Standard Life Investments is a signatory and strong supporter of the principles of good stewardship that are set out in the UK Stewardship Code. We believe that corporate stewardship and the ways in which companies manage ESG issues are significant components of investment risk and have a fundamental impact on the achievement of sustainable long-term investment returns. We therefore have dedicated teams who work collaboratively across Standard Life Investments to integrate ESG factors into our investment process

and into mandates which have tailored responsible investment or ethical criteria.

Our Governance and Stewardship team focuses on governance and oversight of our investee companies. We actively use our influence through engagement and voting in order to hold boards to account and promote high standards of governance. When voting, the team implements considered policies which are based on our Governance and Stewardship Guidelines and we seek to vote our clients' shares in a manner consistent with their best interests. We publish regular reports detailing our voting and engagement activities. We also exercise influence in matters of public policy and regulation where these relate to governance and stewardship and the interests of our clients.

We voted at 1,732 shareholder meetings of investee companies

Our Responsible Investment team carries out research, analysis and engagement work on social and environmental issues affecting our clients' investments. We believe that companies concerned about the long-term interests of their shareholders should manage relationships with employees, suppliers and customers, and consider the long-term impact of their actions on the environment and society as a whole.

659 ESG engagements with companies

Research and insight

During the year, we published reports on current responsible investment topics, including the UK Living Wage, Modern Slavery Act and the Rise of the Millennials. The aim of these is to highlight possible risks and areas of concern amongst companies, as well as promote discussion on these topics.

Real estate investment

We are committed to environmental management in all phases of a property's life cycle – from acquisition through demolition, redevelopment and operational management to selling it on. We focus on energy conservation, limiting GHG emissions, maximising waste recycling and water conservation.

In 2015, Standard Life Investments collected Global Real Estate Sustainability Benchmark (GRESB) 'Green Stars' for 16 of our real estate funds. The GRESB 'Green Star' is the top ranking for sustainability management, policy, implementation and measurement.

Green investment

In 2015, we invested in Transport for London's £400m green bond. The bond raises capital to invest in projects that will help Transport for London address a wide range of infrastructure and environmental issues like energy and climate resilience, air quality and pollution prevention.

Our measurement and assurance

We have reviewed our annual non-financial measures to make sure they are relevant to our four priority areas: responsible business, employment, pensions and savings, and investment.

This is an ongoing process for us, so that we can create the right set of indicators that accurately reflect and track progress on these four areas.

Our performance measures are independently assured each year by PricewaterhouseCoopers (PwC):

- ▶ Total employee days volunteered
- ▶ Carbon footprint
- ▶ Total people directly employed through employability programmes
- ▶ InterAction employee survey results
- ▶ Gender diversity of the talent pipeline
- ▶ Gender diversity of senior management
- ▶ Total customer complaints
- ▶ Annual movement in the Brand Net Promoter Score
- ▶ Voting at shareholder meetings of investee companies
- ▶ Environment, social and governance engagements with companies

You can find out more about our measures and definitions in our 2015 sustainability report at www.standardlife.com/sustainability



Governance and stewardship

Our Governance and Stewardship Team at Standard Life Investments actively engage with the boards of companies, regulators and other stakeholders to address a wide range of issues that directly or indirectly affect the long-term sustainable value of our customers' savings. Key topics we engaged with companies on in 2015 included executive pay, auditor independence and the changing role of business in society.

For example, we discussed the governance of tax policies with a number of companies to help ensure that their policies are subject to scrutiny by their boards and don't expose the company to unacceptable risks. In addition, effective accountability in respect of values and business practices is of critical importance to delivering sustainable value and during the year we engaged the boards of HSBC, Thomas Cook and Volkswagen to seek to hold them to account for questionable practices that were inconsistent with Standard Life Investments' Governance & Stewardship Guidelines.

1.7 Basis of preparation

Overview

Our Strategic report for the year to 31 December 2015 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. Under section 414 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business and a description of the principal risks and uncertainties facing the Group. Principal risks and uncertainties are detailed in Section 1.5 and Note 41 in the Group financial statements section. 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) in 2006 and Guidance on the Strategic report issued by the Financial Reporting Council in 2014.

The Group's International Financial Reporting Standards (IFRS) consolidated financial statements have been prepared in accordance with IFRS, as endorsed by the European Union (EU). However, our Board believes that non-Generally Accepted Accounting Principles (non-GAAP) measures, which have been used in the Strategic report, 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 Strategic report include operating profit, assets under administration and Group underlying cash generation.

Definitions of these measures are included in the Glossary

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in this Strategic report. This includes details on our liquidity and capital management in Section 1.3 and our key risks in Section 1.5. In addition, the Group financial statements section includes notes on the Group's subordinated liabilities (Note 36) management of its risks including market, credit and liquidity risk (Note 41), 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 has a revolving credit facility of £400 million as part of our contingency funding plans and this is due to mature in 2020. 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.

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 consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements and have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

IFRS reporting

The financial results are prepared on an IFRS basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. The IFRS financial results in the Strategic report and in the Group financial statements have been prepared on the basis of the IFRS accounting policies as disclosed in the Group financial statements section of this report.

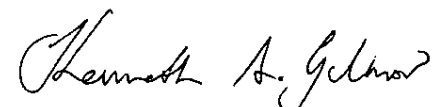
Group operating profit

The 2015 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 111 of this report, presents profit before tax expense attributable to equity holders adjusted for non-operating items. Further details on the calculation of Group operating profit is presented in Note 14. 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. Group operating profit has not been audited by our independent auditors.

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.

The Strategic report has been approved by the Board and signed on its behalf by



Kenneth A Gilmour

Group Company Secretary
Standard Life plc (SC286832)
19 February 2016

Governance

Contents

2 Board of Directors	46
3 Directors' report	50
4 Corporate governance statement	56
5 Directors' remuneration report	75
6 Directors' responsibilities	99

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Board of Directors as at 19 February 2016

Our business is managed by our Board of Directors. Biographical details of the Directors as at 19 February 2016 are listed below.

Sir Gerry Grimstone
Chairman

Keith Skeoch
Chief Executive

Luke Savage
Chief Financial Officer

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Image removed

Image removed

Nationality

British

British

British

Age

66

59

54

Tenure

Sir Gerry was appointed Chairman in May 2007, having been deputy Chairman since March 2006. He has been a Director for 10 years. He became a Director of The Standard Life Assurance Company in July 2003.

Keith was appointed Chief Executive on 5 August 2015, having been a Director since May 2006. He has been a Director for 9.5 years.

Luke was appointed Director and Chief Financial Officer in August 2014. He has been a Director for 1.5 years.

Background

Sir Gerry is senior independent director and deputy chairman of Barclays PLC. He has continued in his role as an independent, public interest, non-executive board member of Deloitte LLP and as the lead non-executive at the Ministry of Defence. He is an adviser to the board of the Abu Dhabi Commercial Bank. He is a member of the advisory councils of both the UK-India Business Council and the China-Britain Business Council. Previously, he held senior positions within the Department of Health and Social Security and HM Treasury and with Schroders plc in London, Hong Kong and New York. He was vice chairman of Schroders' worldwide investment banking activities from 1998 to 1999.

He holds an MA and MSc from the University of Oxford

Keith has been Chief Executive of Standard Life Investments Limited since 2004, having joined in 1999 as Chief Investment Officer. Previously he spent nearly 20 years at James Capel & Company Limited in a number of roles, including chief economist and managing director international equities. He is a non-executive director of the Financial Reporting Council, where he is a member of the codes and standards committee. He has been awarded honorary doctorates from the University of Sussex and Teesside University for services to the financial services industry.

He holds a BA from the University of Sussex and an MA from the University of Warwick. He is a Fellow of the Chartered Institute for Securities and Investment and a Fellow of the Society of Business Economists.

Luke was previously director of finance and operations at Lloyd's of London. In addition, he held senior finance roles at Deutsche Bank (UK), Morgan Stanley & Company (UK) and Lloyds Bank plc. He is a member of the governing body of Queen Mary University of London.

He holds an Electrical and Electronic Engineering degree (BEng), from the University of London. He is a Member of the Institute of Chartered Accountants in England and Wales.

Committee memberships

- ▶ Nomination and Governance, Chairman (c)

Colin Clark
Executive Director

Paul Matthews
Executive Director

Crawford Gillies
Senior Independent Director

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Image removed

Image removed

Nationality

British

British

British

Age

56

55

59

Tenure

Colin was appointed Director on 1 November 2015.

Paul was appointed Director on 1 November 2015.

Crawford was appointed Director in January 2007. He has been a Director for 9 years.

Background

Colin was appointed to the Board of Standard Life Investments in 2004 as a non-executive Director. In 2010, he assumed executive responsibility for global client relationship activity, including client management, product development, distribution management and also brand management. Previously he spent twenty years with Mercury Asset Management (MAM)/Merrill Lynch Investment Managers (MLIM), becoming head of global marketing at MLIM in 1999.

He holds a B.A. (Hons.) Philosophy, Politics, and Economics degree from the University of Oxford.

Paul joined Standard Life in 1989, working in a variety of roles before becoming UK Chief Executive in June 2011 and gaining responsibility for Europe in 2012. His senior management roles have included UK Take to Market Director, Managing Director of UK Distribution, and Head of IFA Sales.

Paul started work straight from school, initially balancing his work with a rugby career, captaining the England U19's before a serious injury ended his sporting ambitions. Before joining Standard Life, Paul held a variety of sales and investments roles with National Mutual Life from 1979 to 1989.

He is a board member of the Association of British Insurers.

Crawford is a non-executive director of Barclays PLC where he chairs its remuneration committee and is a member of the audit and nominations committees. He is also the senior independent director of SSE plc. In addition, he is chairman of Control Risks Group Holdings Ltd and a member of the advisory board for the School for CEOs. Crawford spent 22 years with Bain & Company Inc., where he was managing director Europe.

He holds a Law degree from the University of Edinburgh and an MBA from Harvard Business School. He is a Member of the Institute of Chartered Accountants in England and Wales.

Committee memberships

- ▶ Risk and Capital
- ▶ Nomination and Governance

Pierre Danon
Non-executive Director

Melanie Gee
Non-executive Director

Noel Harwerth
Non-executive Director

Image removed

Image removed

Image removed

Nationality

French

British

British and American

Age

59

54

68

Tenure

Pierre was appointed Director in October 2011. He has been a Director for 4.5 years.

Melanie was appointed Director on 1 November 2015.

Noel was appointed Director in July 2012. She has been a Director for 3.5 years.

Background

Pierre is vice chairman of TDC, executive chairman of Volia, independent director of CIEL Investment Limited and vice chairman of AgroGeneration. From 2000 to 2005, Pierre was chief executive officer of BT Retail and, subsequently, chief operating officer of Capgemini Group and chairman of Eircom. Until June 2012, he served as chief executive officer and then non-executive chairman of Numericable Completel in Paris.

He holds a degree in Civil Engineering, Ecole Nationale des Ponts et Chaussées, Paris, a Law degree from the Faculté de droit, Paris, together with an MBA from HEC Paris.

Melanie is also a non-executive director of The Weir Group PLC where she chairs the remuneration committee and is a member of the audit and nomination committees. She is a non-executive director of Drax Group plc, where she serves as a member of the audit, nominations and remuneration committees. Melanie was appointed a managing director of Lazard and Co. Limited in 2008 and became a senior adviser in 2012. Previously, she held various roles with UBS, having been appointed a managing director in 1999 and served as a senior relationship director from 2006 to 2008.

She holds an MA, Mathematics from the University of Oxford.

Noel is chairman of GE Capital Bank Limited. She also holds non-executive director appointments with the London Metal Exchange, the British Horseracing Authority and Sirius Minerals Plc. Noel was previously with Citicorp for 15 years, latterly as the chief operating officer of Citibank International. Her previous non-executive directorships include Alent plc, Logica PLC, RSA Insurance Group plc and Sumitomo Mitsui Bank.

She holds a Law degree from the University of Texas.

Committee memberships

- ▶ Remuneration
- ▶ Risk and Capital
- ▶ Nomination and Governance

- ▶ Remuneration

- ▶ Audit
- ▶ Risk and Capital
- ▶ Nomination and Governance

Isabel Hudson
Non-executive Director

Kevin Parry
Non-executive Director

Lynne Peacock
Non-executive Director

Martin Pike
Non-executive Director

Image removed

Image removed

Image removed

Image removed

Nationality

British

British

British

British

Age

56

54

62

54

Tenure

Isabel was appointed Director in October 2014. She has been a Director for 1.5 years.

Kevin was appointed Director in October 2014. He has been a Director for 1.5 years.

Lynne was appointed Director in April 2012. She has been a Director for 4 years.

Martin was appointed Director in September 2013. He has been a Director for 2.5 years.

Background

Isabel is a non-executive director of BT Group plc, where she chairs the pensions committee and the BT Equality of Access board and sits on the nominating and governance committee. She also chairs the National House Building Council and is a non-executive director of Phoenix Group Holdings, where she is a member of the remuneration and audit committees. She was previously executive director at Prudential UK and chief financial officer of Eureko BV.

Isabel's previous non-executive directorships include QBE Insurance Group Ltd and the Pensions Regulator and she was also a member of the With Profits Committee of Standard Life Assurance Limited.

She holds an MA from the University of Oxford.

Kevin is a non-executive director of Intermediate Capital Group plc (ICG) and Daily Mail and General Trust plc. At both companies he chairs the audit committee and is a member of the risk committee. At ICG he is the senior independent director and has been announced as the chairman designate. He is chairman of the Homes and Communities Agency and deputy chairman of the Royal National Children's Foundation.

He was formerly a director and the CFO of Schroders plc; chief executive of Management Consulting Group PLC; and a managing partner at KPMG.

He holds an MA (Hons) in Management Studies from the University of Cambridge. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Lynne is a non-executive director of Scottish Water, where she chairs its audit committee. She is a non-executive director of Nationwide Building Society and chairs its remuneration committee. She is also a member of its audit, risk and nomination committees. Lynne joined National Australia Bank Limited in 2003 and, from 2004 to 2011, she was chief executive officer, UK (Clydesdale Bank plc and Yorkshire Bank). Previously, Lynne was with Woolwich plc from 1983 to 2003, finishing her career there as chief executive officer.

She holds a BA from North East London Polytechnic.

Martin is also a non-executive director of esure Group plc, where he chairs the remuneration committee and is a member of the risk committee. He is a non-executive director of Faraday Underwriting Limited which manages a syndicate at Lloyds.

Martin spent nearly thirty years as a strategic risk consultant carrying out a wide range of strategic consulting projects and M&A assignments. His senior roles included managing director, risk consulting & software, EMEA at Towers Watson.

He holds an MA, Mathematics from the University of Oxford. He is a Fellow of the Institute and Faculty of Actuaries.

Committee memberships

- ▶ Audit
- ▶ Risk and Capital

- ▶ Audit (c)
- ▶ Risk and Capital

- ▶ Remuneration (c)
- ▶ Audit

- ▶ Risk and Capital (c)
- ▶ Remuneration
- ▶ Audit

3. Directors' report

The Directors present their annual report on the affairs of the Standard Life group of companies (the Group), together with the audited International Financial Reporting Standards (IFRS) consolidated financial statements for the Group, financial information for the Group and financial statements for Standard Life plc (the Company) for the year ended 31 December 2015.

Reporting for the year ended 31 December 2015

The Company is the holding company of the Group. You can find out about the relevant activities of the Company's principal subsidiary undertakings and their overseas branches in the Chief Financial Officer's overview and Business performance sections of the Strategic report. During 2015, the Company's principal undertakings operated branches in Bermuda, Canada, Dubai, Germany, Hong Kong, India, Ireland and Singapore.

The main trends and factors likely to affect the future development, performance and position of the Group are outlined in the Chief Executive's overview section of the Strategic report. Reviews of the operating and financial performance of the Group for the year ended 31 December 2015 are given in the Strategic report.

The Chairman's statement, the Directors' responsibility statement and the Corporate governance statement form part of the Directors' report. The Corporate governance statement is submitted by the Board.

Using the IFRS basis, the results of the Group are presented in the Group financial statements. A detailed description of the basis of preparation of the IFRS results (including operating profit) is set out in the Group financial statements section. More information about the Group's use of financial instruments and related financial risk management matters can be found in Note 23 and Note 41 to the Group financial statements.

This report was prepared by the Company's executive team together with the Board and forms part of the management report.

Dividends

The Board recommends paying a final dividend for 2015 of 12.34p per ordinary share. This will be paid on 24 May 2016 to shareholders whose names are on the

register of members (the Register) at the close of business on 15 April 2016.

The total payment is estimated at £243m for the final dividend and together with the interim dividend of 6.02p per share totalling £119m paid on 20 October 2015, the total dividend for 2015 will be 18.36p per share (2014: 17.03p) totalling £362m (2014: £358m). The 2014 final dividend and 2015 interim dividends were paid on the lower adjusted number of ordinary shares following the share consolidation. The 2015 final dividend and future dividends will also be paid on this basis.

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 28 to the Group financial statements. You can also find an analysis of registered shareholdings by size, as at 31 December 2015, in the Shareholder information section.

On 13 March 2015, shareholders voted at a general meeting to approve a return of value of 73p per share (approximately £1.75bn in total) via a B/C Share Scheme, along with an associated share capital consolidation. The number of ordinary shares in issue was reduced by broadly the same ratio as the ratio of the return of value of 73 pence to the ordinary share price. Shareholders received 9 new ordinary shares for every 11 existing ordinary shares held. The total number of shares in issue at 6pm on Friday 13 March 2015 was 2,395,185,122 ordinary shares of 10 pence each. The total number of shares in issue at the open of markets on Monday 16 March 2015 was 1,959,696,918 (new) ordinary shares of 12²/₉p each. Based on shareholders' elections (or deemed elections), 668,370,013 B Shares of 73 pence each and 1,726,815,109 C Shares of 0.0000001 pence each were allotted and issued on 19 March 2015. No application was made to the UK Listing Authority or to the London Stock Exchange, respectively, for any of the B Shares or C Shares to be admitted to the Official List or to trading on the London Stock Exchange's main market for listed securities, nor were the B Shares or C Shares listed or admitted to trading on any other recognised investment exchange.

A dividend of 73 pence was declared on each C Share issued and became payable on 20 March 2015. The relevant C Shares were automatically reclassified as Deferred Shares (having negligible value and carrying extremely limited rights) and the Company executed (on behalf of all holders of such Deferred Shares) a transfer of all such shares to the Company for the aggregate consideration of one penny. In view of the negligible amount of the aggregate consideration for the Deferred Shares, shareholders were not entitled to have any part of the aggregate consideration paid to them.

The B Shares were redeemed on 20 March 2015 for 73 pence per B Share. All B Shares were redeemed and cancelled.

As at 31 December 2015, there were 1,969,937,375 ordinary shares in issue held by 104,670 registered members. The Standard Life Share Account (the Company-sponsored nominee) held 746,258,569 of those shares on behalf of 1,074,753 participants. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

During the year, and until the date this report was signed, the Company received the following notifications in respect of major shareholdings and major proportions of voting rights in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA).

On 26 November 2015 as a result of the implementation of changes to the Transparency Directive, a baseline notification was made by BlackRock, Inc. As a result BlackRock, Inc. has 102,052,974 voting rights, totalling 5.18% of total voting rights. On 27 November 2015, following a disposal of voting rights, The Capital Group Companies, Inc. recorded 97,655,470 voting rights, which is 4.96% of total voting rights.

In 2015, in accordance with the terms of the Standard Life Employee Trust Deed, the Trustees of the Standard Life Employee Trust 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. Details of the Company's employee share plan can be found in Note 47 to the Group financial statements.

Restrictions on the transfer of shares and securities

Except where listed 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 (the Articles) and current legislation and regulation. You can read the Articles on our website

www.standardlife.com/annualreport

You can also obtain a copy from Companies House or by writing to the Group Company Secretary at our registered address (details of which can be found in the Contact details section). The Articles may only be amended by a special resolution passed by 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 a sole transferee or no more than four joint transferees
- ▶ An uncertificated share, in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and, in the case of a transfer to joint holders, where the transfer is in favour of no more than four joint transferees
- ▶ A certificated share by a person with a 0.25 per cent interest (as defined in the Articles) in the Company, if that person has been served with a restriction notice under the Articles, after failing to provide the Company with information about interests in those shares as set out in the Companies Act 2006 (unless the transfer is shown to the Board to be pursuant to an arm's length sale under the Articles)

These restrictions are in line with the standards set out in the FCA'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, any resolution passed by the Company under the Companies Act 2006 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, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Every member and 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 for every share they hold. For joint shareholders, the vote of the senior joint shareholder who tenders a vote, in person or by proxy, will be accepted and will exclude the votes of the other joint shareholders. For this purpose, seniority is determined by the order that the names appear on the Register for joint shareholders.

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) after failing to provide the Company with information about interests in those shares required to be provided under the Companies Act 2006.

The Company may, by ordinary resolution, declare dividends up to the amount recommended by the Board. Subject to the Companies Act 2006, 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

that arise from paying interim or fixed dividends on other shares.

The Board may withhold payment of all or part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent interest (as defined in the Articles) if that person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information about interests in those shares, which is required under the Companies Act 2006.

Subject to the Companies Act 2006, 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 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.

Power to purchase the Company's own shares

At the 2015 Annual General Meeting (AGM), shareholders granted the Directors limited powers to:

- ▶ Allot ordinary shares in the Company up to a maximum aggregate amount of £79,839,504
- ▶ Disapply, up to a maximum total nominal amount of £11,975,925 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 195,969,691 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 2015, and has not done so since then and up to the date of this report.

Significant agreements

There are a number of agreements to which the Company or one of its subsidiaries is party that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. These agreements are noted in the paragraphs below.

Credit Facility – Under a £400m revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lender) dated 22 May 2015 (the Facility), in the event that (i) any persons or group of persons acting in concert, gain 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.

India – Under a shareholders' agreement dated 15 January 2002 (as amended) which is now between Housing Development Finance Corporation Limited (HDFC) and Standard Life (Mauritius Holdings) 2006 Limited (SLMH06), being the relevant Group company which holds the interest in HDFC Standard Life Insurance Company Limited (HDFC Standard Life), upon a change of control of the Company which results in a change of control of SLMH06 (as described in the shareholders' agreement), HDFC potentially has the right to terminate the joint venture and to purchase, or nominate a third party to purchase, SLMH06's shares in HDFC Standard Life for a price determined in accordance with the agreement.

India – Under a shareholders' agreement dated 10 June 2003 (as amended) between Standard Life Investments Limited (SLI) and HDFC, pursuant to which the relevant Group company holds its interest in HDFC Asset Management Company Limited (HDFC AMC), upon a change in the ownership structure of SLI that results in the acquisition by a third party, either directly or indirectly, of more than 20% of the issued, subscribed and paid-up capital of SLI, HDFC will have 90 days from the date upon which SLI notifies it in writing of the occurrence of such a change to purchase the relevant Group company's shares in HDFC AMC at a mutually agreed price.

China – Under a joint venture agreement dated 12 October 2009 (as amended) between the Company and Tianjin TEDA International Holding (Group) Co. Limited (TEDA), pursuant to which the Company 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 Company'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 throughout the year were:

- ▶ Sir Gerry Grimstone (Chairman)
- ▶ Colin Clark (appointed 1 November 2015)
- ▶ Pierre Danon
- ▶ Crawford Gillies
- ▶ Melanie Gee (appointed 1 November 2015)
- ▶ David Grigson (retired 12 May 2015)
- ▶ Noel Harwerth
- ▶ Isabel Hudson
- ▶ Paul Matthews (appointed 1 November 2015)
- ▶ David Nish (Chief Executive resigned 5 August 2015)
- ▶ Kevin Parry
- ▶ John Paynter (resigned 28 April 2015)
- ▶ Lynne Peacock
- ▶ Martin Pike
- ▶ Luke Savage
- ▶ Keith Skeoch

Biographies of the Directors can be found on pages 46 to 49.

Details of the Directors' interests in the Company's ordinary shares, the Standard Life (Employee) Share Plan, the Standard Life 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.

No Director has any interest in the Company's listed debt securities or in any shares, debentures or loan stock of the Company's subsidiaries. No Director has 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 Articles)
- ▶ Service contracts between each executive Director and subsidiary undertakings (Standard Life Employee Services Limited and Standard Life Investments Limited)

Copies of the following documents can be viewed at the Company's registered office (details of which can be found in the Contact details section) during normal business hours (9am to 5pm Monday to Friday) and will be available for inspection at the Company's AGM on 17 May 2016:

- ▶ 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 Articles
- ▶ The rules of the Standard Life plc Executive Long Term Incentive Plan
- ▶ The Company's Articles

Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code and related legislation.

The UK Corporate Governance Code recommends that directors of FTSE 350 companies should stand for election every year. In line with this, all our Directors will retire at the AGM on 17 May 2016. Colin Clark, Melanie Gee and Paul Matthews will stand for election and all remaining Directors who wish to continue in office will stand for re-election. As announced, Crawford Gillies will retire from the Board at the conclusion of the 2016 AGM and, therefore, will not stand for re-election.

The powers of the Directors can also be found in the Articles.

Directors' liability insurance

During 2015, the Company maintained directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them. The Company also maintained a pension trustee liability indemnity policy (which includes third party indemnity) for the boards of trustees of the UK and Irish staff pension schemes. The trustees include individuals who are directors of subsidiaries within the Group.

Our people

Our people have always been central to delivering our strategy, and we remain focused on bringing out the best in them, shown in Section 1.6 of the Strategic report.

Standard Life takes pride in the high achieving, diverse and healthy working environment it has created, where all employees are valued, empowered and treated as individuals. We treat those with disabilities fairly in relation to job applications, training, promotion and career development. Adjustments are made to train and enable employees who become disabled whilst working at Standard Life to allow them to continue and progress in their role. In recent years we have seen considerable progress in our gender balance within our talent pipeline particularly in our graduate, emerging leaders and senior high potentials. However we recognise that work remains to be done to improve our gender balance in our senior management. We're committed as a business to achieving gender balance and being inclusive for all. We've launched a curriculum to encourage female talent to develop executive team and board experience and are working with our female employees to focus career conversations on development. In 2015 we established two new employee networks – the Carers' Network and The Young Persons' Development Network – and launched the LGBT Allies Group. In addition, we continue to run our LGBT, Armed Forces and Women's Development Networks. In addition, we're working with executive search partners who have signed up to providing an equal balance of men and women on shortlists provided. We've also strengthened our talent pipeline by ensuring we hire employees from a range of ages. Our recruitment campaigns advertise our flexible approach to working patterns, capturing

individuals in the middle years of their careers, and our veteran and "returnship" programmes also support mid and later careers. Through initiatives like the Edinburgh Guarantee Scheme and by offering traineeships and apprenticeships, Standard Life demonstrates it is committed to youth employment. People with multiple years' service sit side by side with people at the start of their careers.

As part of our performance culture, employees and their managers have regular conversations together where they agree performance goals and how to develop and address the employee's aspirations, strengths and development areas. We believe great performance should be rewarded, and we think the process we follow to do that should be clear to everyone. Our approach continues to support our reward principles and links pay to performance. This ensures our remuneration remains competitive in the market.

Having positive employee relations is key to engaging our people and realising our business goals. By informing the business of the views and insights of our people, constructive staff representation will help Standard Life as it seeks to achieve a single strategic direction. There are separate employee representation arrangements across the organisation. 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 agreement with Unite, and a works council was established in Germany in 2008.

Changes to the UK employee pension were confirmed in 2014 and will be implemented from 16 April 2016, when pension scheme members will build up future pension in the scheme on a defined contribution basis rather than a career average defined benefit basis.

We believe that we provide a consistent and competitive level of support for our employees in their retirement savings provision, and that this is sustainable going forward to ensure that we remain competitive.

We are in the process of launching our new intranet, which is already live in Ireland and which will be rolled out to all employees by the middle of March 2016. The site connects employees through one system, helping them to do their job more quickly and easily as well as

enhancing collaboration and communication across the whole business. By linking search functionality with Lync and SharePoint, Standard Life employees can now find people and share skills and knowledge across the whole business with ease. This helps to improve employee engagement with what's happening inside the business and also to increase awareness of any financial, economic, social or environmental factors which may affect the performance of the Group.

As at 31 December 2015, approximately 75% of the Group's employees were shareholders through participation in the Standard Life (Employee) Share Plan (the Plan). The 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 ordinary shares up to a maximum total value of £25 per month, or an equivalent sum in the relevant currency. As at 31 December 2015, 3,796 of eligible employees in the UK were making a monthly average contribution of £45. A similar tax approved plan is used in Ireland and has a 47% take-up. Even though the Plan cannot be structured on a tax favourable basis in Germany or Austria, at the end of the year, more than 126 employees in these countries were buying shares on a monthly basis.

The Group also encourages share ownership in the Company in the UK and Ireland through the Standard Life Sharesave Plan which was launched in August 2011. In September 2015, we launched a fifth invitation to UK employees and at the same time made a fourth invitation to employees in the Republic of Ireland. On 1 November 2015, the second of the Sharesave invitations matured and participating employees have the opportunity, until 1 May 2016, to buy Standard Life plc shares at a price of £2.21 per share with their accumulated savings.

There are now over 3,500 employees in the UK and Ireland participating in Sharesave plans. The exercise price is £2.21 (€2.81) under the 2012 invitations; £2.72 (€3.22) under the 2013 invitations; £2.96 (€3.70) under the 2014 invitations and £3.28 (€4.48) under the 2015 invitations.

Sustainability

The commercial aims of our business are linked to our environmental, social and governance responsibilities. You can find out more about how we run our business sustainably in the Strategic report, under Section 1.5 and Section 1.6.

Details of our greenhouse gas emissions can be found in Section 1.6 of the Strategic report.

Political Donations

We did not make any political donations in the year ended 31 December 2015. The Company has limited authorisation from shareholders to make political donations and incur political expenditure (Resolution 13, 2015 AGM). We request this as a precaution against any inadvertent breach of political donations legislation. While Standard Life has regular interaction with government and elected politicians in the UK and other jurisdictions in which we operate, we are strictly apolitical. We have a long-standing policy of not making political donations and we have no plans to do so.

Auditors

The Audit Committee is responsible for considering the Group's external audit arrangements. Resolutions proposing the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company and giving authority to the Audit Committee to determine their remuneration will be submitted at the AGM to be held on 17 May 2016.

Disclosure of information to the auditors

Each Director confirms that he or she has taken all reasonable steps necessary, in his or her role as a Director, to be made aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is made aware of that information.

As far as each Director is aware, there is no relevant audit information that PricewaterhouseCoopers LLP is not aware of as at the date this report was approved.

Annual General Meeting

Details of the meeting content can be found in our AGM guide 2016 which will be available online at www.standardlife.com from 17 March 2016. This is the first time that the AGM is being held in London. The intention is that the AGM will be held in Edinburgh and London in alternate years.

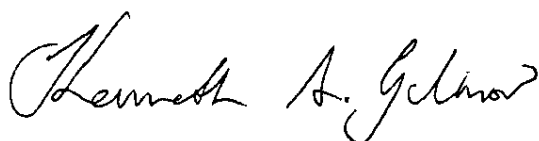
AGM	Overview
Tuesday 17 May 2016 at 2pm (UK time) 200 Aldersgate London EC1A 4HD England	<ul style="list-style-type: none">▶ Introduction – the Chairman will introduce the Directors and outline the business of the AGM▶ Presentations and question and answer session – the Chairman and the Chief Executive will review the business and provide an overview of Standard Life's plans for 2016. After this, there will be an opportunity to ask questions▶ Voting – shareholders will be asked to consider and vote on a number of resolutions

Other information

Under Listing Rule 9.8.4.CR, a listed company must include all information required by LR 9.8.4R in a single identifiable location or cross-reference table. For the purposes of LR 9.8.4CR, the information required to be disclosed can be found in the following locations. All the relevant information cross-referenced below is hereby incorporated by reference into this Directors' report.

Topic	Location		
	Directors' report	Directors' remuneration report	Not applicable
Interest capitalised			✓
Publication of unaudited financial information in a class 1 circular or in a prospectus, other than in accordance with Annexes 1 and 2 of the FCA's Prospectus Rules			✓
Details of long-term incentive schemes		✓	
Waiver of emoluments by a director			✓
Waiver of future emoluments by a director			✓
Non pre-emptive issues of equity for cash			✓
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings			✓
Parent participation in a placing by a listed subsidiary			✓
Contracts of significance			✓
Provision of services by a controlling shareholder			✓
Shareholder waivers of dividends	✓		
Shareholder waivers of future dividends	✓		
Agreements with controlling shareholders			✓

The Directors' report was approved by the Board and signed on its behalf by



Kenneth A Gilmour
Group Company Secretary
19 February 2016

4. Corporate governance statement

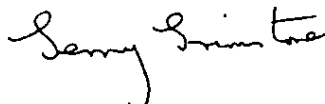
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4.1 Nomination and Governance Committee report

The Nomination and Governance Committee oversees the governance framework so the report on its activities is presented both in summary on this page and integrated in more detail into the relevant parts of the corporate governance statement.

Dear Shareholder

It is my pleasure to introduce the 2015 Corporate governance statement and Nomination and Governance Committee report, in line with my responsibility to help ensure effective corporate governance throughout the Group. Your Board adheres to the highest standards of corporate governance and ethical behaviour in directing the Group's affairs and in its accountability to you as shareholders. As Directors, we believe these commitments are key to understanding and managing our business effectively, providing engaged leadership, and delivering shareholder value over the longer term. Your Board takes the quality of its performance seriously and strives to improve performance through annual reviews and continuing self-assessment. One of our key governance activities during 2015 was Chief Executive succession, and you can read more about the process to appoint Keith Skeoch to succeed David Nish later in this statement.



Sir Gerry Grimstone
Chairman, Nomination and Governance Committee

Membership

The members of the Committee are the Chairman and independent non-executive directors.

Member	Attendance
Sir Gerry Grimstone, Chairman	6/6
Pierre Danon	4/4
Crawford Gillies	6/6
Noel Harwerth	4/4
Former member	
David Grigson	2/2
John Paynter	2/2

David Nish and then Keith Skeoch, as Chief Executives during the year, were invited to Committee meetings to discuss relevant topics, such as talent development and management succession.

The Committee supports the composition and effectiveness of the Board, oversees the development and implementation of the Group's governance framework and oversees the Group's activities to strengthen its talent pipeline at all levels.

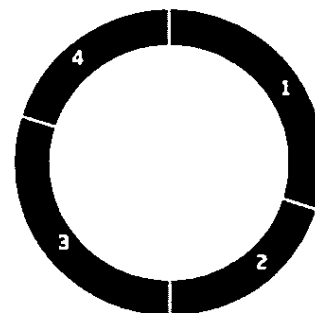
In this statement you can read about the Committee's role in:

- ▶ Identifying and recommending Directors to be appointed to the Board, in particular overseeing the process to appoint the new Chief Executive
- ▶ Reviewing Board diversity, skills and experience
- ▶ Supporting the review of the Board's effectiveness
- ▶ Overseeing succession planning, leadership and talent development and diversity levels throughout the Group

Ultimate responsibility for these important topics rests with the Board and the Committee reports regularly to the Board so that all Directors can be involved as appropriate.

The Committee's work in 2015

An indicative breakdown as to how the Committee spent its time is shown below:



1. Board/ Committee composition
2. Talent and development programmes
3. Succession planning
4. Governance framework

Committee effectiveness

The Committee reviews its remit and effectiveness each year. The 2015 review was carried out via an internal self-assessment questionnaire. The review concluded that the Committee:

- ▶ Continued to focus Director recruitment on the skills and experience required by the Board
- ▶ Saw progress in the succession, talent and development, diversity and leadership programmes across the Group including agreeing principles for managing and developing succession
- ▶ Had worked well with the Appointments Committee to oversee Chief Executive succession

The roles and responsibilities of the Board, Chairman and Chief Executive are outlined below:

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, all relevant laws, regulations, corporate governance and stewardship standards. The Board's role and responsibilities, collectively and for individual Directors, are set out in the Board Charter. The Board Charter also identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- ▶ The development and implementation of strategy, objectives and business plans
- ▶ Capital and management structures, including the return of value and share consolidation which took place in 2015
- ▶ Dividend policy
- ▶ Financial reporting which, during 2015 included the approval of the internal model application and preparation for the introduction of Solvency II
- ▶ How risks are managed, including the Enterprise Risk Management (ERM) framework, risk strategy, risk appetite limits and internal controls
- ▶ Significant corporate and other transactions, which during 2015, focused on concluding the sale of the Canadian business, increasing our stake in HDFC Life (subject to regulatory approval) and closing our operations in Singapore
- ▶ Remuneration policy
- ▶ Succession planning which, during 2015, focused on Chief Executive succession
- ▶ The sustainability of the Group's business, our ethical standards and behaviours and our corporate responsibilities
- ▶ Significant external communications
- ▶ Terms of reference of Board Committees
- ▶ Appointments to the Board and to Board Committees
- ▶ The matters to be escalated from subsidiary boards to the Board for approval

The Board regularly reviews reports from the Chief Executive and from the Chief Financial Officer on progress against approved strategies, plans and budgets, as well as updates on stock market and global economic conditions. There are also regular presentations from key business units and corporate centre functions including from the Chief Risk Officer. The Chairman reports at each Board meeting on the activities he has undertaken on behalf of the Board and the Group since the previous meeting.

Roles and Responsibilities

The Chairman

The Chairman:

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

The Chief Executive

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 support the Group's objectives
- ▶ Makes and implements operational decisions
- ▶ Develops strategic plans and structures for presentation to the Board
- ▶ Reports to the Board with relevant and timely information
- ▶ Together with the Chairman, represents the Group to external stakeholders, including shareholders, customers, suppliers, regulatory and governmental authorities, and the local and wider communities.

Code Compliance

As well as covering the formal disclosure requirements of the UK Corporate Governance Code (the Code), this statement describes how the Board meets its governance responsibilities.

Throughout 2015, the Company complied with all of the provisions set out in the Code issued by the Financial Reporting Council (FRC) in September 2014. This is available at www.frc.org.uk

With regard to Code provision C.3.7, which requires external audit contracts to be put out to tender at least every ten years, and which was introduced with transitional provisions allowing the period for tender to extend to the end of the current engagement partner's term of appointment, the Company, through the Audit Committee, has commenced a tender process for the appointment of its external auditor. This will be completed by mid-2016, with the chosen firm to be appointed for the financial year 2017 at the earliest. You can read about the tender process in the Audit Committee report in Section 4.2.

Together with the Directors' remuneration report, this statement explains how our governance framework supports the way we apply the Code's principles of good governance.

Governance framework

The Group's governance framework is approved by the Board and documented in the Board Charter.

You can read the Board Charter on our website at www.standardlife.com/annual-report

The Group's Code of Conduct complements the Board Charter. It sets out our standards of conduct and governing principles for operational excellence, compliance responsibilities, customer service, our people, and other stakeholders.

The Board expects the Group to be a leader in corporate governance activities through its own actions and through its stewardship activities. The Nomination and Governance Committee regularly reviews the Group's corporate governance framework against relevant generally accepted standards, guidance and best practice, and, as appropriate, recommends to the Board changes to the Board Charter.

During 2015, the Committee oversaw the development of the governance map, a key element of the new Senior Insurance Managers Regime (SIMR). The map

documents our governance structure and the key functions and function holders within it.

The governance framework sets out the Board's relationship with the boards of the principal subsidiaries in the Group. In particular, it specifies the matters which these subsidiaries are required to refer to the Board or to a Committee of the Board for approval. It also ensures that all decisions which require or would benefit from it, receive the independent input of the non-executive Directors.

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

The heads of each business unit and the corporate centre functions manage their teams within authorities set out in the Board Charter and within an approved scheme of delegation. This includes reporting to the Chief Executive on how they are complying with Group policies and performing against approved plans and budgets.

The Company Secretary is responsible for advising the Board on governance matters.

Board composition, balance and diversity

The Board's policy is to appoint and retain non-executive Directors who bring relevant expertise as well as a wide perspective to the Group and its decision-making framework. The Directors believe that at least half of the Board should be made up of independent non-executive Directors. As at 19 February 2016, the Board comprises the Chairman, eight independent non-executive Directors and four executive Directors. The Board is made up of nine men (69%) and four women (31%) (2014: men 77%, women 23%). The Board continues to support its Diversity statement which states that it:

- ▶ 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 commitment to achieve and maintain a diverse workforce, both throughout the Group, and within his executive team

You can read more about our Directors in their biographies on pages 46 to 49.

The Nomination and Governance Committee receives updates on progress towards achieving and maintaining diversity throughout the Group. This includes reviewing statistics on age, gender and full/part time working at all levels. The Group also promotes initiatives and programmes to raise awareness of why diversity matters. You can read more about our diversity activities in Section 1.6 of the Strategic report.

Board changes during the period

Appointments

Paul Matthews and Colin Clark joined the Board on 1 November 2015 as Executive Directors. Paul joined Standard Life in 1989 and, since 2012, has been the Chief Executive UK and Europe. Colin joined Standard Life Investments as a non-executive Director in 2004 and since 2012, has been Standard Life Investments' Global Client Director. As noted earlier in the report, Keith Skeoch was appointed Chief Executive on 5 August 2015.

Melanie Gee joined the Board on 1 November 2015 as a non-executive Director. She became a member of the Remuneration Committee at the same time. Melanie currently holds other non-executive directorships at the Weir Group plc and DRAX plc. She is also a senior adviser to Lazards. Her appointment reflects her strong knowledge of the financial services market and director experience.

Retirements

John Paynter retired from the Board as a result of ill health on 28 April 2015 after three years' service as Senior Independent Director and Chairman of Standard Life Investments (Holdings) Limited. David Grigson retired on 12 May 2015 after five years' service. As announced, Crawford Gillies will retire at the conclusion of the 2016 AGM having served for nine years.

David Nish retired from the Board on 5 August 2015 after nearly nine years' service as Chief Financial Officer and then Chief Executive.

Board appointment process, terms of service and role

Taking account of the Group's strategy, as well as industry and regulatory developments, the Nomination and Governance Committee evaluates the Board's balance of skills, diversity, knowledge and experience, in the context of the time served by non-executive Directors. The Committee uses the results of its analysis to direct its recruitment activities and appointment recommendations and reviews all recommendations to appoint independent non-executive Directors to the boards of subsidiary companies.

During 2015, the Committee supported changes to the composition of the board of SLAL, in particular that a non-executive Chairman and a number of independent non-executive Directors should be appointed to the SLAL Board.

Having identified the capabilities needed for Board roles, and the succession timeframe, the Committee considers the related role profile submitted to external search consultants along with the request to prepare a list of suitable candidates. The Group has used the services of JCA Group, Egon Zehnder and Odgers Berndtson to support its recent recruitment searches and Egon Zehnder has also provided executive development assessment support. These consultants have no other connection with the Group.

The Nomination and Governance Committee considers the potential suitable candidates and agrees a shortlist. Following interviews with potential candidates, the Committee then makes recommendations to the Board on any proposed appointment, subject always to the satisfactory completion of all background checks and regulatory approvals. The other Board members are also offered the opportunity to meet the recommended candidates. The

Committee considers the external commitments of candidates to assess their ability to meet the necessary time commitment and whether there are any conflict of interest matters to address.

Each non-executive Director is appointed for a three-year fixed term and shareholders then vote on whether to re-elect him or her at every AGM. Once a three year term has ended, a non-executive Director can continue for further terms if the Board is satisfied with the non-executive Director's performance, independence and ongoing time commitment. There is no specified limit to the number of terms that a non-executive Director can serve, although the Board recognises the Code provisions regarding length of service when considering whether or not their appointment should be continued. The current average length of service of the non-executive Directors (excluding the Chairman) is just over three years. The Nomination and Governance Committee oversees the process to recommend continued appointments, but members of the Committee do not take part in discussions when their own performance – or continued appointment – is being considered. During 2015, the Committee recommended to the Board that the appointments of Lynne Peacock and Noel Harwerth should be continued for a second term.

The role of our non-executive Directors is to participate fully in the Board's decision-making work – advising, supporting and challenging management as appropriate.

You can see our standard letter of appointment on our website at www.standardlife.com/annual-report or by writing to the Company Secretary

The letter of appointment confirms that the amount of time we expect each non-executive Director to commit to each year, once they have met all of the approval and induction requirements, is 30 to 35 days. Non-executive Directors are required to confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively. You can read more about the induction and development programme later in this section.

Director election and re-election

Since 2011, shareholders have voted annually on whether to re-elect each Director. At the 2016 AGM, all of the current Directors except Crawford Gillies, Melanie Gee, Paul Matthews and Colin Clark will retire and stand for re-election. Melanie, Paul and Colin, having been appointed since the previous AGM, will retire and stand for election. Crawford will retire from the Board following the conclusion of the AGM.

You can read more background information about the Directors including the reasons why the Chairman believes you should support their election or re-election, in our AGM guide 2016, which will be published online at www.standardlife.com from 17 March 2016, and in Section 2 – Board of Directors.

Director independence, external activities and conflicts of interest

The Board carries out a formal review of the independence of non-executive Directors annually. The review considers relevant issues including the number and nature of their other appointments, any other positions they hold within the Group, any potential conflicts of interest they have identified and their length of service. Their individual circumstances are also assessed against independence criteria, including those in the Code. Following this review, the Board has concluded that all the non-executive Directors are independent.

Sir Gerry Grimstone was Chairman of the Board throughout the year. He retired from his role as chairman of TheCityUK in September 2015. He has retained his non-executive positions with Deloitte LLP, the UK Government's Ministry of Defence and his membership of the shareholder executive board of the Department for Business, Innovation and Skills. He is also senior adviser to the board of the Abu Dhabi Commercial Bank. In January 2016, Sir Gerry was appointed to the board of Barclays PLC as deputy chairman and senior independent director. Prior to this, the Board convened a meeting of the Standing Committee where this proposed appointment was fully discussed in terms of any potential or actual conflicts this might give rise to, and how they would be managed should they arise, as well as the potential impact on the Chairman's time availability. Sir Gerry and Crawford Gillies, as a non-executive director of Barclays PLC, did not take part in this meeting.

The Standing Committee concluded that it would support this appointment.

John Paynter served as the Senior Independent Director (SID) until his retirement on 28 April 2015, and Crawford Gillies was appointed as SID on that date. In this role, Crawford supports the Chairman, and often meets with him one-to-one. He is also available to talk with our shareholders about any concerns that they may not have been able to resolve through the channels of Chairman, Chief Executive or Chief Financial Officer, or where a shareholder considers these channels are inappropriate.

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 of association. 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. All appointments are approved in accordance with the Group's Outside Appointments and Conflicts of Interest policies.

In January 2016, the Board reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons, and concluded that the authorisations should remain in place until January 2018. 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. The Board and relevant Committees follow this process when appropriate. For example, during 2015, there were instances when Isabel Hudson did not receive information and excused herself from discussions, recognising her role as both a Director of the Company and a Director of Phoenix Group Holdings.

The Board's policy encourages executive Directors to take up one external non-executive director role. Keith Skeoch continued as a non-executive director of the Financial Reporting Council. You can read more about the Directors' outside appointments in their biographies on pages 46 to 49.

Advice

Directors may sometimes need external professional advice to carry out their responsibilities. The Board's policy is to allow them to seek this where appropriate and at the Group's expense. Directors also have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board. No Directors sought external advice in 2015.

Board effectiveness

Review process

The Board has, with the help of the Nomination and Governance Committee, developed a formal review process to assess how well the Board, its Committees, the Chairman and the Directors are performing collectively and individually and how performance could be improved.

As well as planning the 2015 review, the Nomination and Governance Committee also considered how the themes from the 2014 review, which was facilitated externally, have been taken forward. Risk reporting was developed to introduce the "Views on Risk" from the Chief Risk Officer. In respect of engagement, the Board hosted a talent dinner where the Directors met and heard from participants in the leadership programmes, and non-executive Directors took part in a programme to support employees who take up board appointments outside the Group as part of their development. Executive Directors held regular interactive sessions open to all employees.

The 2015 review was facilitated internally. It comprised an online self-assessment questionnaire, followed up by individual meetings between each Director and the Company Secretary. Directors completed questionnaires about the Board, each Committee they sit on, the Chairman's performance and their own individual performance. They were encouraged to provide open and honest feedback, explain the ratings they gave and suggest how the Board or Committee could improve.

Outcome

Following the review process, the Company Secretary analysed the self-assessment responses and prepared a summary report which also included the findings from his interviews and a series of related points for possible action. The report was considered in detail by the Nomination and Governance Committee at its October meeting before being

formally presented to the Board in December.

The Committee and the Board discussed the report and agreed recommendations to take forward. These included:

- ▶ Refreshing the Board's strategy-setting process to ensure it remained fit for purpose
- ▶ Reviewing the Group's organisation and reporting structures following on from the new Chief Executive appointment
- ▶ Continuing to review the format and content of Board information to meet the needs of the Directors
- ▶ Continuing to discuss succession planning and talent development needs in light of the progressive re-shaping of the Group

Progress to implement the recommendations is monitored by the Company Secretary and reported to the Nomination and Governance Committee. Each Board Committee followed a similar questionnaire, reporting and discussion process and reviewed its own results and recommendations in detail.

Chairman

The review of the Chairman's performance was led by the SID, Crawford Gillies. It was based on feedback given in the confidential online questionnaires. The questions covered:

1. The Chairman's role to lead the Board and encourage effective participation and consensus decision-making
2. How he informs the Board of stakeholders' views
3. His relationship with both executive and non-executive Directors

The feedback was summarised into a report which was reviewed by the SID and distributed to all Board members, except the Chairman. The Directors, led by the SID and without the Chairman being present, met to consider the report. They concluded that the Chairman had performed his role effectively, showed strong leadership of the Board, continued to devote significant time to the Group and continues to have sufficient time to carry out his duties. The SID was responsible for meeting with the Chairman to pass feedback from the review directly to him.

Directors

The Chairman led the performance review of the Directors. He held one-to-one meetings to assess their individual performance and contribution against

duties set out in the Board Charter and in their appointment letters.

Before these meetings, the Directors assessed their own performance by completing a confidential online questionnaire. Individual development and engagement schedules were prepared to support each meeting. These built on the responses to particular questions and areas of interest and training needs identified by each Director. The meetings were designed to review whether each Director was contributing effectively to the Board and to the Board Committees, and whether they continued to have sufficient time to commit to the role. The meetings also considered individual training, development and engagement opportunities for each Director. The schedules also summarised the internal and external continuing development the non-executive Directors had undertaken during the year and considered the extent to which each non-executive Director had implemented the points raised in the previous year's review. Each Director takes forward the resulting actions, supported by the Chairman and the Company, using either internal or external resources.

Director induction and development

The Chairman, supported by the Company Secretary, is responsible for arranging a comprehensive preparation and induction programme for all new Directors. The programme is tailored to their individual requirements and takes their background knowledge and experience into account. All Directors are required to complete the Financial Conduct Authority's (FCA) and Prudential Regulation Authority's (PRA) Approved Persons approval programme before they are appointed and to self-certify annually that they remain competent to carry out this aspect of their role. These processes are being adapted to ensure the requirements of the Senior Insurance Managers Regime will be met.

The formal preparation and induction programme includes:

- ▶ Meetings with the executive Directors, key members of senior management, the heads of the operating businesses and our corporate centre functions
- ▶ Focused technical meetings with internal and external experts on specific areas including Solvency II, conduct risk, risk and capital management, and financial reporting
- ▶ Visits to business units

- ▶ Meetings with the external auditors and the FCA/PRA supervisory teams
- ▶ Meetings with the Company Secretary on the Group's corporate governance framework and the role of the Board and its Committees, with the Chief Risk Officer on the risk management framework as well as meetings on their individual responsibilities both as Directors and as holders of a Controlled Function/SIMR role.

Background information is also provided including:

- ▶ Key Board materials and information, including financial and non-financial measures, shareholder communications 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

The induction 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 further. As mentioned above, during 2015, Paul Matthews, Colin Clark and Melanie Gee were all appointed to the Board. Given the strength of each of their careers in the financial services industry or with Standard Life, their induction programmes were tailored to complement this.

When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training on the Committee's role and duties.

When Directors are appointed to the Board, they make a commitment to broaden their understanding of the Group's business. Our corporate centre monitors relevant external governance and financial and regulatory developments and keeps the ongoing Board training and information programme up to date. During 2015, specific Board sessions took place on Pensions Freedoms, Solvency II and the IMAP process, and with profits matters. Similarly, the relevant Board Committees received updates on developments in financial reporting, remuneration and corporate governance. Non-executive Directors are actively invited to all parts of the Group's business in order to familiarise themselves with how our

business is conducted and to meet with our people.

Succession planning and talent management

Chief Executive succession

As a result of the ongoing strategy to transform Standard Life, key parts of which included the sale of the Canadian Business and the purchase of Ignis, the Nomination and Governance Committee recognised the need for change and that the next stage of our evolution put a focus on our global investment capabilities. Together with David Nish, the Committee spent time considering the executive leadership and succession planning needed to continue the delivery of this next phase of our strategy. In light of this, the Board and David agreed that the time was right to hand over to his successor and therefore the Nomination and Governance Committee oversaw the process to recruit a new Chief Executive to succeed him. As a first step, the Committee agreed that the skills required of a new Chief Executive included:

- ▶ A leader who put the well-being of clients and customers at the heart of what we do and appreciated the criticality of organisational culture in developing the business
- ▶ An influential strategic visionary leader who would be viewed as highly credible, particularly with the City and regulators
- ▶ A strong asset management and markets background
- ▶ A proven global track record including expansion across Asia and North America
- ▶ Someone ideally experienced in developing strong relationships with institutional and wholesale clients
- ▶ A proven track record of delivering strong returns for shareholders

To allow all the non-executive Directors to be involved directly in the selection process the Nomination and Governance Committee established an Appointments Committee, comprising all of the non-executive Directors. The Appointments Committee began by considering whether there were internal candidates on the executive succession plan who fitted the above profile. Keith Skeoch was identified as a very strong internal candidate with the relevant skill set having a great understanding and appreciation of the Group's history, journey and strategic direction, and as a key contributor to the current strategy who had delivered high performance in the investments business.

The selection process then had the following stages:

- ▶ Keith was invited to present to the Appointments Committee, sharing his vision for Standard Life and his proposals to deliver his vision
- ▶ This was followed by a detailed question and answer session based on Keith's presentation against the elements of the agreed skills profile
- ▶ To understand how he would benchmark against other potential external candidates, Keith then completed an in-depth assessment and interview with a leading external executive search firm focused on core behavioural leadership competencies and experience
- ▶ Regulatory approval for Keith's candidacy was sought from the PRA and the FCA

The Appointments Committee met three times during the process, reviewed the output from each of the above stages, and agreed to recommend to the Board that Keith should be appointed to succeed David Nish as Chief Executive. Regulatory approval was also given, and Keith's appointment was announced on 19 June 2015.

Succession and talent management activities

The Nomination and Governance Committee regularly reviews the results of succession planning activities, including key person and retention risk, and talent development programmes at all levels across the Group.

At its meetings, the Committee discussed the future leadership and talent needs of the Group and how the current programmes would be revised to take account of the skills and expertise required by the Board and senior management. The programmes recognise the changing shape of the Group, and also identify both the talent available within the Group and the need for external recruitment. The programmes are led by the Chief People Officer, with input from the Chief Executive and supported by the Group Talent and Organisation Development team. You can read about them in Section 1.6 of the Strategic report.

During the year, the Nomination and Governance Committee also received updates on how the programmes at graduate and emerging leader levels, as well as the accelerated programme for senior leaders, and overseas placements, have operated to deliver a more diverse leadership pipeline. In addition, they received updates on the

specific individual development programmes in place for executive team members and their potential successors.

The results of the Committee's discussions are presented at least annually to the Board. During 2015, the non-executive Directors held specific discussions on Board and executive succession, the results of which fed into the overall plan

The Board members are keen to interact with the members of the development schemes and have met with, and had presentations from, key talent across the Group.

Annual review of internal control

The Directors have overall responsibility for the Group's System of Governance (SoG), which includes the Enterprise Risk Management (ERM) framework and System of Internal Control, and for the ongoing review of their effectiveness. The SoG is designed to manage, rather than eliminate risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The SoG covers all of the Group's risks as set out in the ERM Framework section in the Strategic report. Internal Audit regularly audits the effectiveness of internal controls, which will include elements of the SoG. Internal Audit reports its findings to the Audit Committee and the Risk and Capital Committee.

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 sets formal requirements for financial reporting, defines the process and detailed controls for the IFRS consolidation, reviews and challenges business unit submissions and receives formal sign-off on financial reporting from business unit finance directors. In addition, Group Finance runs the technical review committee and the financial reporting executive review group which review external technical developments and detailed reporting disclosure and accounting policy issues.

In line with the Code and associated guidance, the Board has conducted ongoing monitoring and review of the SoG through the Risk and Capital Committee and the business unit Enterprise Risk Management Committees (ERMCS). On behalf of the Board, the Risk function has also carried out an annual review of the effectiveness

of the SoG. The SoG was in place throughout 2015 and up to the date of approval of the Annual report and accounts 2015.

In preparation for Solvency II requirements, the review included all elements of the SoG as follows:

- ▶ General requirements – governance structure, board decision making documentation, allocation of responsibilities, policy framework, contingency plans, internal review of system of governance, organisational and operational structure
- ▶ Remuneration
- ▶ Fit and proper requirements
- ▶ Risk management including ORSA
- ▶ Prudent person principle
- ▶ Own fund requirements
- ▶ Internal controls (covering strategic, financial, operational and compliance)
- ▶ Internal audit function
- ▶ Actuarial function plus opinion on technical provisions
- ▶ Valuation of assets and liabilities other than technical provisions
- ▶ Outsourcing
- ▶ Group governance specific requirements

In carrying out the annual effectiveness review of the SoG, the risk function liaised with Subject Matter Experts (SMEs) around the business and reviewed and challenged all elements of the SoG to ensure they were fit for purpose and had operated effectively during 2015. Risk also produced a report detailing the assurance activity which had been conducted throughout the year in relation to the System of Internal Control and a summary of the key risk items discussed at business unit risk committees on an ongoing basis throughout the year.

Summaries of the evidence of the effectiveness review, assurance report and the key risk items were then presented for certification to the business unit Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Group function executive. Completed certifications and supporting documentation were also presented to the business unit ERMCS.

The certification exercise asked the Chief Executive Officers, Chief Financial Officers, Chief Risk Officers and Group function executives to confirm the following:

- ▶ An effectiveness review over each component of the SoG had been conducted
- ▶ Where the effectiveness review of the processes related to the SoG has

found material issues, recommendations have been made to restore process effectiveness

- ▶ Significant control breakdowns identified through the risk management and internal control systems were reported during the year and necessary actions have been or are being taken to remedy these
- ▶ Steps have been taken to identify any relevant audit information that the external auditors should be made aware of

The risk function prepared a report combining the output from the business units and Group function executives. This was presented to the Chief Executive, Chief Financial Officer and Chief Risk Officer and they also completed the certification exercise. The results of the output from the effectiveness review of the SoG, which concluded that there had been no significant failings or weaknesses, were presented to the Audit Committee which subsequently reported this conclusion to the Board.

Communicating with investors

The Company continues to develop a dialogue with its shareholders. As part of this, our investor relations and Group secretariat teams support communication with investors. During 2015, the Group continued its programme of domestic and international presentations and meetings between Directors and institutional investors, fund managers and analysts. The wide range of relevant issues discussed, in a regulatory compliant way, at investor presentations and meetings includes business strategy, financial performance, operational activities and corporate governance. The Chairman has his own investor contact programme and brings relevant issues to the attention of the Board. The Remuneration Committee also consulted with major institutional investors regarding executive remuneration plans during the year. More information on this consultation can be found in the Directors' remuneration report.

The Board is equally committed to the interests of the Company's 1.2 million individual shareholders who hold approximately 52% of the Company's issued shares. Given this large shareholder base, it is impractical to communicate with all shareholders using the same direct engagement model we follow for our institutional investors. The Company has continued to gather and

respond to shareholders' views on the services and means of communication available to them, mainly via the Shareholder Questions mailbox and surveys conducted with shareholders contacting the shareholder helpline. We believe that communicating electronically with our shareholders supports our sustainability strategy, and around 430,000 shareholders receive all communications electronically. We encourage shareholders to use our share portal to access information relating to their personal shareholding and dividend history and around 300,000 have signed up to this service. Share portal participants can also change their details and dividend mandates online and receive tax information electronically. We also encourage our individual shareholders to hold their shares in the Standard Life Share Account where shares are held electronically in a secure environment and 86% of individual shareholders hold their shares in this way.

To give all shareholders 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. We have continued to host formal presentations to support the release of both the full year and half year financial results together with conference calls for our two Quarterly AUA and flows updates. These results-related events are also made available live on the Group's website, with the facility for all listeners to ask questions, as well as having a permanent replay facility.

We publish company profiles to provide a high level introduction to the Group and its divisions. We also distribute a quarterly newsletter featuring articles designed to give investors deeper insight into particular areas of our business. Copies of our Company profiles and newsletters are available on the Investors section of the Group's website.

The Chairman's statement and the Strategic report in the Annual report and accounts 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 2016 AGM. 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 our website at www.standardlife.com after the meeting. These will include the number of votes withheld.

The 2015 AGM was held at the Edinburgh International Conference Centre on 12 May 2015 when Directors were available to answer shareholders' questions. In accordance with best practice, all resolutions were considered on a poll which was conducted by our registrars and monitored by independent scrutineers. The results, along with proxy votes lodged prior to the meeting, were made available on our website the same day. 45% of the shares in issue were voted and all resolutions were passed.

In addition, a General Meeting was held on 13 March 2015 at which shareholders were asked to consider the resolution, recommended by the Board, to approve the return of 73 pence per share, the implementation of the B/C share scheme, and the share consolidation. 45% of the shares in issue were voted and the resolution was passed.

Our 2016 AGM will be held in London for the first time. To give more shareholders the opportunity to attend, we plan to hold the AGM in Edinburgh and London in alternate years.

Our role as an institutional investor

Standard Life Investments, the Group's principal asset management company, is a signatory to and a supporter of the UK Stewardship Code. It understands and promotes the importance of good governance and stewardship, 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. As a major investor, it monitors and analyses the governance of the companies it invests in holding regular meetings with their senior management representatives. Standard Life Investments maintains principles and policy guidelines on corporate governance, stewardship and voting. These guidelines are applicable on a global basis. The guidelines support Standard Life Investments' approach to engaging and to voting at shareholder meetings. Standard Life Investments also makes voting reports available to clients and publishes summary information on its website. The policy guidelines are applied pragmatically, after all relevant information has been carefully considered. When assessing the Company's compliance with the principles and provisions of the UK Corporate Governance Code, the Nomination and Governance Committee also reviewed the Company's compliance with these principles and policy guidelines. The Committee concluded that the Company complied with the guidelines during the year.

Standard Life Investments has made public its processes to comply with the Stewardship Code's seven best practice principles. In line with Principle 7 of the Stewardship Code, Standard Life Investments obtains appropriate independent assurance over the policies and procedures which underpin its stewardship policy statements.

You can read more about this and its governance and stewardship annual review at www.standardlifeinvestments.com

Other information

You can find details of the following, as required by Disclosure and Transparency Rule 7.2.6, in the Directors' report and in 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 Articles 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

Board meetings and meeting attendance

The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are usually held in Edinburgh or London and, on occasion, at the offices of one of our international businesses. During the year, the Board held specific sessions to consider the Group's strategy and business planning. The Chairman and the non-executive Directors also met on three occasions during the year, formally and informally, without the executive Directors present. At these meetings, matters including executive performance and succession and Board effectiveness were discussed.

The Board has established the Standing Committee as a formal procedure for holding unscheduled meetings. The Committee meets when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently. During 2015 the Standing Committee met three times including in relation to the Chief Executive's appointment and the Chairman's appointment to the board of Barclays PLC. 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. Board and Committee papers are generally distributed before meetings. The Board sometimes needs to call or rearrange meetings at short notice and it may be difficult for all Directors to attend these 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 to the Company Secretary. If necessary, they can follow up with the Chairman of the meeting.

The Chairman is not a member of the Audit, Risk and Capital, and Remuneration Committees. He does, however, attend the meetings of all Committees, by invitation, in order to keep abreast of their discussions.

Directors' attendance at the 2015 Board meetings is shown in the table below. The Board met eight times during the year.

Number of meetings	Board
Chairman	
Sir Gerry Grimstone	8/8
Executive Directors	
Keith Skeoch	8/8
Luke Savage	8/8
Paul Matthews	1/1
Colin Clark	1/1
Non-executive Directors	
Pierre Danon	8/8
Melanie Gee	0/1
Crawford Gillies	8/8
Noel Harwerth	8/8
Isabel Hudson	7/8
Kevin Parry	8/8
Lynne Peacock	8/8
Martin Pike	8/8
Former members	
David Nish	6/6
David Grigson	4/4
John Paynter	2/2

Standard Life plc Board

Audit Committee

Remuneration
Committee

Nomination and
Governance Committee

Risk and Capital
committee

Board Committees

The Board has established Committees that oversee, consider and make recommendations to the Board on important issues of policy and governance. At each Board meeting, the Committee Chairmen provide 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 of reference are published within the Board Charter on our website at www.standardlife.com/annualreport

All Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary.

The Chairman of each Committee and of the Nomination and Governance Committee review Committee membership at regular intervals. The Nomination and Governance Committee considers all proposed appointments before they are recommended to the Board.

This statement includes reports from each Committee Chairman other than the report on the responsibilities and activities of the Remuneration Committee which can be found in the Directors' remuneration report following this statement. The Committee Chairmen are happy to engage with you on their reports. Please contact them via questions@standardlifeshares.com

In the interests of transparency we have included the reports from the Chairmen of the key Committees of Standard Life Assurance Limited – the With Profits Committee and the Independent Governance Committee. You can read more in Section 12.

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4.2 Audit Committee report

The Audit Committee assists the Board in discharging its responsibilities for financial reporting, internal control and the relationship with the External Auditors

Dear Shareholder

During 2015, the activities of the Audit Committee significantly increased. We:

- ▶ Prepared for Solvency II, the new prudential regime that took effect from 1 January 2016
- ▶ Spent more time discussing the work of Internal Audit
- ▶ Enhanced our assessment of the quality of the external audit
- ▶ Agreed the process by which we tender our audit

The Committee has worked with executive management to improve the financial reporting and considered carefully new disclosures on viability.

Our report to you is structured in four parts:

- ▶ Governance
- ▶ Report on the year
- ▶ Internal audit
- ▶ External audit

I took over the chairmanship of the Committee at the 2015 AGM and should like to thank my predecessor, David Grigson, for guiding the Committee through its work over the previous three years.

I look forward to engaging with you on the work of the committee.



Kevin Parry
Chairman, Audit Committee

Governance

Membership

All members of the Audit Committee are independent non-executive Directors. Their attendance at Committee meetings was:

Member	Attendance
Kevin Parry, Chairman*	8/8
Noel Harwerth	8/8
Isabel Hudson	7/8
Lynne Peacock	8/8
Martin Pike	5/5
Former member	
David Grigson, Chairman*	3/3
John Paynter	2/3

*the Chairmanship changed on 12 May 2015

The Board believes members have the necessary range of financial, risk, control and commercial expertise required to provide effective challenge to management. Kevin Parry is a former senior KPMG audit partner, was chief financial officer of Schroders plc and is an experienced audit committee chairman. For the business of the Committee, he is considered by the Board to have competence in accounting and auditing as well as recent and relevant financial experience.

The Committee schedules six meetings per annum, four of which are co-ordinated with external reporting timetables. This year there were two extra meetings focused on Solvency I and II.

Invitations to attend Committee meetings are extended on a regular basis to the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Executive Standard Life Investments, the Chief Executive UK and Europe, the Group Financial Controller and Treasurer, the Chief Internal Auditor and the Group Chief Risk Officer.

The Audit Committee meets privately for part of its meetings and also has regular private meetings separately with the External Auditors, Chief Internal Auditor and Chief Financial Officer. These meetings address the level of co-operation and information exchange and provide an opportunity for participants to raise any concerns directly with the Committee.

Key responsibilities

The Audit Committee's responsibilities are to oversee and report to the Board on:

- ▶ The appropriateness of the Group's accounting and its accounting policies, including the going concern presumption and viability
- ▶ The findings of its reviews of the financial information in the Group's annual and half year financial reports
- ▶ The clarity of the disclosures relating to accounting judgements and estimates
- ▶ Its view of the 'fair, balanced and understandable' reporting obligation
- ▶ The findings of its review of key prudential returns and disclosures
- ▶ Internal controls over financial reporting and procedures to prevent money laundering, financial crime, bribery and corruption
- ▶ Outcomes of investigations resulting from whistleblowing
- ▶ The appointment or dismissal of the Chief Internal Auditor, the approved internal audit work programme, key audit findings and the quality of internal audit work
- ▶ The independence of the External Auditors, the appropriateness of the skills of the audit team, the approved audit plan, the quality of the firm's execution of the audit, and the agreed audit and non-audit fees
- ▶ Any external audit tender process and the outcome of the tender

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 external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2015 review was carried out using an internal self-assessment questionnaire. The review concluded that the Committee had:

- ▶ Performed effectively during the year and should continue its close liaison with the Risk and Capital Committee to embrace efficiency and enhance coverage
- ▶ Fulfilled its duties under its terms of reference, and kept its terms of reference up-to-date, recognising that in 2016 its regulatory reporting duties will be expanded to cover Solvency II

- ▶ Received sufficient, reliable and timely information from management and the External Auditors to enable it to fulfil its responsibilities, recognising a desire to provide focused information in the face of increasing obligations

The Board's review similarly confirmed its satisfaction with the performance of the Committee.

Additionally the incoming Committee Chairman met individually with each member of the audit committee and discussed the performance of the committee.

The review supported:

- ▶ A deeper assessment of the work undertaken by Internal and External Auditors in the light of evolving best practice
- ▶ Greater scrutiny of non-GAAP measures, such as assets under administration and operating profit
- ▶ An annual review of the Group's policy towards taxation
- ▶ An evolution of work to reflect the changing profile of the Group
- ▶ Better presented papers

Report on the year

Audit agenda

The Audit Committee has a rolling agenda comprising recurring business, seasonal business and other business.

As recurring business, at every meeting the Committee reviews and discusses:

- ▶ Updates from Group Finance on significant financial accounting, reporting and disclosure matters
- ▶ Findings from Internal Audit reports and how high priority findings are being followed up by management
- ▶ Updates to the Internal Audit rolling plan
- ▶ Results of the monitoring of financial crime, fraud risk assessments and calls to our dedicated Speak Up helpline
- ▶ Reports from the chairmen of the subsidiary Audit Committees
- ▶ Updates on work completed by the External Auditors
- ▶ Details of non-audit services requested of the External Auditors by business units

Other agenda items

Other agenda items are aligned to the annual financial cycle as set out below.

January to March

- ▶ Annual report and accounts 2014
- ▶ 2014 Strategic report and financial highlights
- ▶ External review of the effectiveness of Internal Audit (GIA)

April to June

- ▶ Q1 AUA and flows update
- ▶ Completion of the 2014 external audit for all audited entities
- ▶ 2014 external audit fee and the proposed 2015 fee for all audited entities
- ▶ Solvency II preparatory reporting

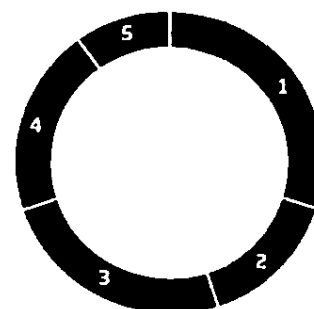
July to September

- ▶ Half year results 2015
- ▶ External Auditors' review of Half year results
- ▶ External audit plan for 2015 for all audited entities
- ▶ 2015 external audit engagement letter for all audited entities
- ▶ Solvency II reporting and asset valuations

October to December

- ▶ Q3 AUA and flows update
- ▶ Initial findings from the Financial Year 2015 year end work
- ▶ The GIA global charter and the GIA plan
- ▶ Effectiveness of the External Auditors and their proposed re-appointment at the 2016 AGM
- ▶ Group Non-audit services provided by External Auditors
- ▶ Effectiveness of the Committee
- ▶ Preparedness for Solvency II reporting and assurance provisions
- ▶ Liaison with the Remuneration Committee on targets and measures
- ▶ External Financial Reporting Policy

The indicative proportion of time spent on the business of the Committee is illustrated below:



1. Financial reporting
2. Regulatory reporting
3. Internal audit
4. External audit
5. Other controls

Detail of work

The focus of work in respect of 2015 is described below.

Financial reporting (including viability statement)

The Committee supported the recommendation that International Financial Reporting Standards provide a clearer view of the performance and condition of the Group compared to other accounting conventions such as embedded value. We no longer include embedded value reporting because the Group is not solely an insurance company and, in the opinion of the Committee, more than one accounting convention detracts from the clarity of reporting.

The Committee believes that some non-GAAP measures can add insight to the IFRS reporting and provide a more useful indication of the long-term operating performance of the Group (see 'fair, balanced and understandable' below).

The Committee reviewed the Group accounting policies and confirmed they were appropriate to be used for the 2015 Group financial statements. There are no important changes this year. The Committee confirmed that it considered the Canadian business to be a discontinued business. The Committee also considered the accounting for the Singapore business which was closed during the year and concurred with the adopted presentation.

The Committee reviewed the basis of accounting and in particular the appropriateness of adopting the going

concern basis of preparation of the financial statements. In doing so, it considered the Group's cash flows resulting from its business activities and factors likely to affect its future development, performance and position together with related risks, as set out in more detail in the Strategic report. The Committee recommended the going concern statement to the Board (see Section 1.7).

In addition to the going concern statement the Committee considered the form of the viability statement. In particular there was a debate over the period of time that it was appropriate to consider. The debate centred on the long-term nature of the life business and our obligations to policyholders in the context of the risks that could emerge. The Committee decided that it was appropriate to limit our statement to three years reflecting both our internal planning cycle and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. In formulating the statement, the Committee used the same information as it uses when considering the risks that are taken into account to determine regulatory capital. The Committee recommended the viability statement to the Board (see page 31, in Section 1.5).

The Committee reviewed the two quarterly AUA and flows updates, the Half year results and the Annual report and accounts. For the half year it received written and/or oral reports from the Chief Financial Officer, subsidiary audit committee chairmen or boards, the Company Secretary, the Chief Internal Auditor and the External Auditor. In addition for the year end it received a report from the Head of Group Actuarial. The Committee uses these reports to aid its understanding of the composition of the financial statements, to confirm verification and compliance with reporting standards and to justify accounting judgements and estimates. The Committee then seeks clarifications and any further information required to support the appropriateness of the numbers reported. Following its reviews, the Committee was able to recommend the approval of each of the reports to the Board. In particular, the Committee was satisfied that the annual and half year financial statements complied with laws and regulations and had been appropriately compiled.

Accounting estimates and judgements

The Committee focused on the disclosure of key accounting estimates and judgements.

In compiling a set of Group financial statements, it is necessary to make judgements and estimates about outcomes that are typically dependent on future events. This is particularly relevant to a life assurance business where profitability is inherently dependent on economic and health related outcomes. Further, we have a substantial defined benefit pension plan which will close to all contributions on 15 April 2016. Its liabilities are also dependent on economic and health related outcomes. Estimates are not however limited to liabilities. Our business and pension funds invest in some hard to value investments, such as over-the-counter derivatives, private equity, real estate and commercial mortgages. The value of those assets cannot be readily determined without estimations.

The Audit Committee considered all estimates and judgements that Directors believed could be material to the financial statements. In particular, actuarial valuations were considered in the context of our experience over the short and medium term against base assumptions and future assessed improvements. We compared our actuaries' views with estimates made by other companies and pension funds drawing on available benchmark data and looked at the changes in outcomes attributable to a change in estimates (known as sensitivity analysis). We determined that annuitant mortality was the most material estimate (see Note 33 of the Group financial statements for more detail).

The Committee also discussed changes to persistency and expense assumptions in Hong Kong which resulted in a write-down of deferred acquisition costs.

We enquired about revenue recognition. In particular, we discussed performance fees associated with the Ignis business. We were satisfied that revenue was appropriately recognised.

We considered key assumptions determining the pension fund surplus: inflation (including the gap between RPI and CPI), mortality and the discount rate. The assumptions were compared with market data and expert opinions. We additionally considered the relevance of proposed new guidance on recognising a pension surplus on the consolidated statement of financial position. Interpretation remains uncertain and so

the Committee supported additional disclosures. Further details are set out in Note 37 of the Group financial statements.

We considered the carrying value of intangible assets, notably those relating to the acquisition of Ignis and agreed with management that it was necessary to write them down by £5m (2014: £43m) resulting from the loss of clients and the resultant revenue decline. See Note 16 of the Group financial statements for further detail.

We considered conduct issues, particularly in respect of the sale of non-advised annuities, taking account of an FCA review of practice across a selection of firms in the industry. After careful consideration of known facts and uncertainties, we recommended to the Board the disclosure of a contingent liability. See Note 45 of the Group financial statements.

We carried out a detailed review of the processes and controls for valuing hard to value assets and were satisfied that we could rely on the procedures for determining valuations. See Note 43 of the Group financial statements.

Principal risks are disclosed in the Strategic report and recommended to the Board by the Risk and Capital Committee. The Committee was satisfied that the estimates and quantified risk disclosures in the financial statements were consistent with the Strategic report. The Committee concluded that appropriate judgements had been applied in determining the estimates and that sufficient disclosure had been made to allow readers to understand the uncertainties surrounding outcomes.

Fair, balanced and understandable

The Committee supported the financial reporting team's thorough review of the Annual report and accounts. This has resulted in some significant changes in presentation which are designed to assist readers. Notably, accounting policies, estimates and judgements are co-located with relevant notes to the accounts, the accounts have been decluttered by the removal of trivial information and there is greater use of newly designed graphics.

The Committee formed the view that tax reporting could be clearer. Consequently, it discussed the opportunities for improvement with the Tax Director resulting in presentational clarifications.

We compared our Annual report and accounts with those of other major UK life insurers and asset managers and asked our auditors for improvement recommendations.

The Committee reviewed the non-GAAP measures which complement the statutory IFRS numbers in order to give a more complete view of the performance of the business. In particular we ensured that the allocation of items to operating profit were in line with our established accounting policies and were consistent with previous practice. The Committee was satisfied with the consistency and reasonableness of the measures. The Committee discussed a future change to the definition of operating profit (see Note 14 of the Group financial statements), noting that the Remuneration Committee would continue to give appropriate consideration to items excluded from operating profit. Additionally, the Committee relied on the verification process for other non-GAAP measures notably assets under administration.

Three drafts of the Annual report and accounts were reviewed by the Audit Committee at three meetings. The Committee complemented its knowledge with that of executive management and the Internal and External Auditors. An interactive process allowed each draft to embrace contributions.

We agreed to recommend to the Board that the Annual report and accounts 2015, taken as a whole, is fair, balanced and can be understood by an experienced reader of the accounts.

We are interested in feedback from stakeholders and will carefully consider any feedback received.

Prudential reporting

The Committee reviewed capital reporting for the Group under the existing Solvency I regime, and discussed the presentation of these results in this Annual report and accounts.

Solvency II reporting applies with effect from 1 January 2016. During 2015, the Group submitted preparatory phased reporting to the PRA as at the end of 2014 and as at the end of Q3 2015. The Committee established procedures that would allow it to adopt a compliance approach to future returns drawing on work undertaken by financial management, Group Risk, Internal Audit and External Audit. The procedures are designed to give the Audit Committee a

high degree of comfort that returns have been properly prepared.

The Committee considered actuarial assumptions used for year end 2015 for Solvency II reporting, including mortality, persistency and expense assumptions. Similar work was undertaken as for financial reporting (see above). The Committee reviewed disclosures relating to Solvency II results included in the Strategic report section of this Annual report and accounts, and related assurance reports and was satisfied with the disclosures.

Internal controls

As noted earlier, the Directors have overall responsibility for the Group's internal controls and for ensuring their ongoing effectiveness. Together with the Risk and Capital Committee, the Committee provides comfort to the Board of their ongoing effectiveness.

Internal audit regularly reviews the effectiveness of internal controls and reports to the Committee and the Risk and Capital Committee.

Group Finance sets formal requirements for financial reporting, defines the processes and detailed controls for the consolidation process and reviews and challenges reporting segment submissions. Further, Group Finance runs a technical review committee and is responsible for monitoring external technical developments.

During 2015 the UK business implemented a new general ledger to transform business processes. Given the significant impact on finance processes, the Committee discussed the ledger implementation at a number of meetings. The Committee's discussions focused on:

- ▶ Controls over data migration and related opening balance reconciliations
- ▶ The impact of the transformation on ledger reconciliation processes and control
- ▶ Systems access controls and change requests post go-live

There were a number of bedding-in issues associated with the implementation of the new accounting system. The Committee was satisfied that reconciliation controls were completed satisfactorily and by the additional substantive external audit work undertaken to address identified issues.

The control environment around financial reporting will continue to be monitored closely.

Financial crime and whistleblowing

Staff are trained to detect and report the signs of possible fraudulent or improper activity and how to report concerns. The Committee receives regular updates from the Group Head of Financial Crime who reports on compliance with the Group's Anti-Financial Crime and Anti-Bribery policy, and any other activities associated with financial crime, including fraud risk.

The Committee reviews the arrangements for Group employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters.

The Committee oversees the findings of investigations and required follow-up action. If there is any allegation against the Risk or Internal Audit functions, the Committee directs the investigation. The Committee is currently satisfied that the Group's procedures are operating effectively.

Internal audit

The Group has an internal audit function comprising 40 people. In addition, there is a co-sourcing agreement with KPMG LLP and this is used to support specific technical reviews. KPMG will take part in the tender for the external audit and if they are selected, they will not undertake any internal audit work after 31 December 2016. The Chief Internal Auditor reports to the Committee Chairman.

Internal Audit operates in accordance with a global charter which is reviewed by the Committee every year. Their work plan is drawn from all businesses in the Group after holding risk based discussions with management, regulators, the External Auditor and the Committee. Identified areas of focus are mapped to the key risks within the Own Risk and Solvency Assessment (ORSA), which is a dynamic forward looking tool for decision making and strategic analysis at the heart of the Solvency II prudential regime. Consistent with that methodology, our regulators request specific reviews as part of the Risk Mitigation Plan. The Committee approves the determined scope and content of the annual internal audit plan, which is updated on a rolling basis to allow Internal Audit to address any emerging issues and reflect changes in the Group's organisation.

The Committee receives regular reports from the Chief Internal Auditor on:

- ▶ The implementation of the approved plan and proposed changes to it
- ▶ Key findings from completed reviews, including the impact on financial reporting processes and related applications
- ▶ The status of management's implementation of agreed improvement actions, including where and why dates have been rescheduled
- ▶ The assessment of the internal control environment at each business unit

During 2015, approximately 85 internal audits were completed. The Committee considered the reports on data governance, end user applications and Solvency II assurance were particularly insightful and contributed to the strengthening of the control environment.

The Committee considers Internal Audit's effectiveness annually, monitoring its independence, objectivity and resourcing in the context of the Institute of Internal Auditors' professional standards. To assist the Committee, EY LLP was engaged to review the effectiveness of the GIA function and reported the results to the Committee. The team earned the Institute of Internal Auditors' highest rating. GIA also carried out its own quality assurance processes and reported the satisfactory results back to the Committee.

During the year, Committee members significantly increased the amount of time spent with senior team members, meeting them before each formal meeting to discuss emerging topics and to advise on the scope of work they would like undertaken. This enhanced the regular dialogue that takes place at least monthly between the Committee chairman and the Chief Internal Auditor.

During the year there was a process of succession for the Chief Internal Auditor led by the Committee chairman and with the full Committee approving the recommended candidate. An external appointment has been made to broaden the experience of the senior team.

Based on its review, the Committee concluded that the function continued to be highly effective.

In accordance with the relevant independence standards, the External Auditors do not place reliance on the work of Internal Audit.

External audit

The appointment

The Committee has responsibility for making recommendations to the Board on the reappointment of the External Auditors, for determining their independence from the Group and its management and for agreeing the scope and fee for the audit.

Following its review of the quality and independence of the 2014 audit, the Committee recommended to the Board that PricewaterhouseCoopers (PwC) should be recommended to shareholders as the auditors for 2015. The shareholders voted in favour of the re-appointment.

PwC has been the Group's auditors since 1994 and the audit was last tendered in 2003.

The Committee complies with the UK Corporate Governance Code, the FRC Guidance on Audit Committees with regard to the external audit tendering timetable and the provisions of the EU Regulation on Audit Reform and the Competition and Markets Authority Statutory Audit Services Order with regard to mandatory auditor rotation and tendering. In compliance with those regulations, the Committee has determined that it should tender the audit for the year ending 31 December 2017 to coincide with the rotation off the engagement of the lead partner, Stephanie Bruce (who has led the Standard Life audit team for four years).

Auditor independence

The Board has an established policy setting out what non-audit services can be purchased from the firm appointed as External Auditors. 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 and to comply with the ethical standards set out by the UK Audit Practices Board. It does this by prohibiting the auditors from carrying out certain types of non-audit services to ensure that the audit services provided are not impaired. It also ensures that where fees for approved non-audit services are significant, they are subject to the Committee's prior 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 co-sourcing
- ▶ Actuarial calculations
- ▶ Management functions
- ▶ Legal services
- ▶ 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
- ▶ Certain tax services including those related to Base Erosion and Profit Shifting (BEPS)

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:

- ▶ Accounting consultations and audits in connection with acquisitions and sales of businesses
- ▶ 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

PwC has reviewed its own independence in line with these criteria and its own ethical guideline standards. PwC has confirmed to the Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements and that its objectivity is not impaired.

Having considered compliance with our policy and the fees paid to PwC, the Committee is satisfied that PwC has remained independent.

Audit and non-audit fees

The Group audit fee payable to PwC in respect of 2015 was £3.7m (2014: £4.7m). The reduction in the audit fee reflects the disposal of the Canadian business. In addition £2.3m (2014: £1.5m) was incurred on audit related services. The increase largely relates to Solvency II related assurance services. The Committee is satisfied that the audit

fee is commensurate with permitting PwC to provide a quality audit.

Non-audit fees amounted to £1.3m (2014: £2.5 million). The fees primarily relate to services connected with controls assurance reports and tax compliance. Non-audit work can only be undertaken if the fees have been approved in advance in accordance with the Board's policy for non-audit fees. Depending on the level of the proposed fee, the approval of the Chairman or members of the Committee and/or the whole Committee is required. The External Auditors were considered the most suitable supplier for these services taking into account the alignment of these services to the work undertaken by external audit and the firm's skill sets.

Further details of the fees paid to the External Auditors for audit and non-audit work carried out during the year in are set out in Note 9 of the Group financial statements.

The ratio of non-audit fees to audit and audit related assurance fees is 22% (2014: 40%).

The Committee is satisfied that the non-audit fees do not impair PwC's independence.

Audit quality and materiality

The Committee places great importance on the quality and effectiveness of the external audit. The Committee looks to the audit team's objectivity, professional scepticism, continuing professional education and its relationship with management, all in the context of regulatory requirements and professional standards. Specifically:

- ▶ The Committee discusses the scope of the audit prior to its commencement
- ▶ The Committee reviewed the annual findings of the Audit Quality Review team of the Financial Reporting Council in respect of PwC's audits. We requested a formal report from PwC of the applicability of the findings to Standard Life both in respect of the generally identified failings and failings specific to individual audits. We were satisfied insofar as the issues might be applicable to Standard Life's audit, that PwC had proper and adequate procedures in place for our audit.
- ▶ The Committee enters into a formal engagement with the auditor and agrees its audit fee
- ▶ The Committee Chairman has at least monthly meetings with the lead audit partner to discuss Group developments

- ▶ The Committee receives at nearly every meeting an update of PwC's work, compliance with independence and its findings
- ▶ There was a detailed interview by the Committee Chairman with the audit partners of the work undertaken to support their opinion on the financial statements and the consistency of the remainder of the report and accounts with their work
- ▶ The Committee reviewed and discussed the audit findings including audit differences prior to the approval of the financial statements. See materiality below for more detail.
- ▶ This year additional work was undertaken on Solvency II reporting. The Committee considered that it should exercise similar governance procedures over such disclosures as over other financial information because surplus capital is important information to equity and credit investors.

We have discussed the accuracy of financial reporting (known as materiality) with PwC both as regards accounting errors that will be brought to the Committee's attention and as regards amounts that would need to be adjusted so that the financial statements give a true and fair view. Differences can arise for many reasons ranging from deliberate errors (fraud etc.) to good estimates that were made at a point in time that, with the benefit of more time, could have been more accurately measured. Overall audit materiality has been set at £31 million (2014: £37 million). This equates to approximately 5% of continuing pre-tax operating profit. This is within the range in which audit opinions are conventionally thought to be reliable. To manage the risk that aggregate uncorrected differences become material, we supported that audit testing would be performed to a lower materiality threshold for individual reporting units. Further, PwC agreed to draw the Committee's attention to all identified uncorrected misstatements greater than £2 million (2014: £2 million). There were no such items noted by PwC that impacted pre-tax profit. The gross differences were attributable to various individual components of the income statement. No audit difference was material to any line item in either the income statement or the balance sheet. Accordingly, the Committee did not require any adjustment to be made to the financial statements as a result of the audit differences reported by the External Auditors.

PwC has confirmed to us that the audit complies with their independent review procedures. Last year's audit was not subject to either an independent quality assurance process undertaken internally by PwC or externally by the FRC. If this year's audit is selected by either process, we will seek assurances that recommendations for improvements are embraced by the audit team.

Taking account of all our work, the Committee was satisfied with the quality of audit and, in accordance with its appointment procedures, the Committee recommended that the current auditors be proposed for reappointment at the 2016 AGM until the conclusion of the 2017 AGM. The Committee's recommendation is not restricted by any contractual obligations.

Audit tender

We have commenced the formal audit tender process. A pre-requisite of participation in the tender is that the firm can demonstrate its ability to meet ethical standards and be independent. We are at an advanced stage of concluding our work on independence.

The procedure being followed is as follows:

- ▶ Briefing of pre-selected firms by Committee Chairman and Chief Financial Officer
- ▶ Mutual agreement on the ability to be independent for 1 January 2017
- ▶ Meetings with selected members of management
- ▶ Mock audit tests based on data analysis
- ▶ Interviews of partners led by the Committee Chairman and Chief Financial Officer respectively
- ▶ Presentation to the Committee
- ▶ Recommendation to the Board by the Committee subject to final agreement of engagement
- ▶ Recommendation of Auditor to the 2017 AGM

PwC is not being invited to tender as the maximum time under the new regulations that they could serve as our auditor is three years. The business would be too disrupted by another audit tender in quick succession. We will use the 2016 audit as a year of transition and look forward to working with PwC and the successful firm to ensure efficient transition.

The Committee will continue to follow the annual appointment process but does not currently anticipate re-tendering the audit before 2026.

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4.3 Risk and Capital Committee report

The Risk and Capital Committee supports the Board in the effective oversight and challenge of risk management and the use of capital across the Group.

Dear Shareholder

The Risk and Capital Committee has continued to support the Board in the effective oversight and independent challenge of risk management and the use of capital across the Group. Changes in the external landscape over the past year, including an increased regulatory focus on conduct risk and the finalisation of requirements related to Solvency II, have been notable drivers of the Committee's activity in 2015. The Committee has also focused on the new risks that have arisen over the year as a result of the proposition launched in response to the pension flexibility and choice regime introduced by the UK government and the decision to enter into the UK advice business.

I took over as Chairman of the Committee during the year and would like to thank my predecessor, Noel Harwerth, for her Chairmanship over recent years.

Martin Pike
Chairman, Risk and Capital Committee

Membership

All members of the Risk and Capital Committee are independent non-executive Directors. Their attendance at Committee meetings was:

Member	Attendance
Martin Pike, Chairman*	8/8
Noel Harwerth*	8/8
Pierre Danon	7/8
Crawford Gillies	8/8
Isabel Hudson	8/8
Kevin Parry	8/8
Former member	
David Grigson	3/4

*the Chairmanship changed on 12 May 2015

The Committee meetings are attended by the Group Chief Risk Officer and Deputy Group Chief Risk Officer with those invited to attend on a regular basis including the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Executive Standard Life Investments, the Chief Executive UK and Europe, the Company Secretary and the Chief Internal Auditor as well as the External Auditors.

The Group's strategy of being a global investment business with a leading presence in investment management and in the UK long-term savings and investments market is subject to risks and uncertainties. The Group's risk function seeks to understand and actively manage the sources and scale of these risks and uncertainties and provides reporting to the Committee on these matters accordingly. This includes providing each meeting of the Committee with a "Group Views on Risk" presentation which contains a holistic view of the key risks and uncertainties across all of the Group's businesses and the actions being taken to manage these.

The Committee's role is to provide oversight, advice and challenge regarding:

- ▶ The Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital
- ▶ The structure and implementation of the Group's Enterprise Risk Management (ERM) framework and its suitability to react to forward-looking issues and the changing nature of risks
- ▶ Regulatory compliance across the Group

- ▶ Material risk and capital matters affecting the Heritage With Profits Fund

In our meetings the Committee reviews and discusses:

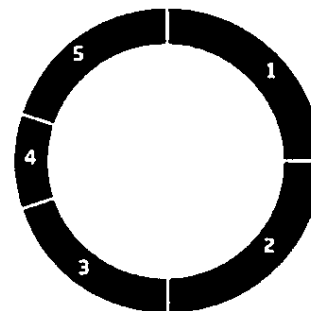
- ▶ Matters escalated from the Group Enterprise Risk Management Committee
- ▶ Group Views on Risk
- ▶ Material with profits risk and capital matters
- ▶ Thematic developments of relevance to the business
- ▶ Own risk and solvency assessment (ORSA)

In addition to these standing agenda items, the Committee also receives periodic reports from the Business Risk Review team. This team was created in the risk function in 2014 to focus on reviewing specific business issues and provide independent assessments and reports that assist management to manage and mitigate risk.

After each meeting, the Chairman reports to the Board, summarising the key points from the Committee's discussions.

The Committee's work in 2015

An indicative breakdown as to how the Committee spent its time is shown below:



1. Risk exposures
2. ERM framework
3. Regulatory compliance
4. Material with profits matters
5. Thematic items and risk reviews

Risk exposures and risk strategy

The completion of the sale of the Canadian business in January has resulted in a notable shift in the Group's overall risk profile. This reduced the Group's exposure to credit and longevity risk in absolute terms whilst increasing the relative exposure to agency and technology risks arising from investment management activity.

During the year the Committee received regular risk reporting from the Group Chief Risk Officer in the form of the Group Views on Risk presentation. This contains standardised reporting on the customer, economic, regulatory, conduct and policy agenda environments providing an overview of the impact of the risk strategy on the Group's key risk exposures and capital profile. A significant portion of each meeting is spent considering this reporting with the information being used to review and challenge the Group's risk strategy, material risk exposures and capital position. During the year this prompted discussions including:

- ▶ Low interest rates and the impact on the provision of guaranteed products in Germany – a discussion which led to the decision to withdraw from the marketing of these products
- ▶ Regulatory developments regarding Markets in Financial Instruments Directive II including the implications for investment management
- ▶ Progress regarding key items on the Group's change programme, such as the integration of Ignis Asset Management
- ▶ The use of cloud services and wider consideration of cyber risks
- ▶ The level and cause of customer and client complaints around the Group

A key aspect of the Committee's activities this year has been monitoring the Group's progress towards implementing Solvency II, the EU Directive focused on providing a harmonised insurance regulatory regime aimed at promoting policyholder protection and creating a safer, more resilient sector. As part of monitoring this progress, the Committee received regular updates on:

- ▶ The development of methodology
- ▶ The resolution of outstanding areas of uncertainty with the regulator
- ▶ The steps being taken to meet the challenge associated with Solvency II reporting timescales

The Committee formally considered the Internal Model application submission to the regulator and provided advice concerning this to the Board and the boards of the insurance subsidiaries affected by this.

The Committee also discussed the implications of Standard Life Investments changing its outsourced provider of transfer agency services (including the maintenance of client investment records and certificates) given the potential impact of this on the business's operational risk.

The decision to acquire Pearson Jones during the year as part of the process to build a UK-advice business was also subject to scrutiny by the Committee. This included reviewing the business case and risk assessment relating to the proposed acquisition and considering the transaction in the context of the Group's risk strategy, material risk exposures and allocation of capital. A key focus for the Committee centred on customer considerations, including conduct and compliance risks within the business being acquired and how these were proposed to be mitigated.

On 6 April the UK and Europe business launched its response to the pension flexibility and choice regime introduced by the UK government. This gave customers the ability through either an online or phone-based service to access their pension money as:

- ▶ Full cash withdrawal
- ▶ Flexible drawdown
- ▶ A guaranteed income option

Prior to the launch of the proposition the Committee carried out an extensive review of the business's proposals and provided challenge regarding the potential conduct risks introduced by the proposition, the operational readiness of the business and risks relating to fraud and security. The Committee has continued to monitor these risks following launch through regular updates provided in the Views on Risk reporting.

The Committee also received regular updates on the Group's own risk and solvency assessment (ORSA). This comprised:

- ▶ Periodic summary ORSA reports
- ▶ Updates via Group Views on Risk reporting
- ▶ Results of stress and scenario testing
- ▶ Ad-hoc papers including specific reviews performed by the risk function

Stress and scenario testing is a forward-looking exercise that assists in assessing resilience to significant adverse events affecting key risk exposures. The stress and scenario tests performed by the businesses this year covered a range of scenarios and, in light of market conditions at the time, included a negative yield stress (where longer term yields were assumed to be less than 0%).

The results of the stress and scenario testing performed indicated that the Group's solvency continued to be well-immunised against stress due to the risk mitigation in place in the form of hedging, reinsurance and cash flow matching strategies.

Having reviewed the reporting presented, the Committee determined that developments in the ORSA environment were well understood and there was no need for the full ORSA report to be updated outside of the routine annual cycle.

In December the business went live with the "Living ORSA", an internally-developed online application that allows users to readily access and navigate the latest Group risk information, further embedding the ORSA process.

Enterprise Risk Management framework

The Committee monitors the structure and implementation of the Group's ERM framework primarily through the material contained in the Group Views on Risk and ORSA reporting. Material reviewed by the Committee during the year included:

- ▶ The status of policy compliance and the results of control self-assessment
- ▶ Dashboard summaries of key risks
- ▶ The Chief Internal Auditor's assessment of the internal control environment related to the management of risk and capital
- ▶ Analysis of emerging risks

A key component of the Group's ERM framework is the risk appetite framework. During the year the Committee received proposals regarding changes to the Group's risk appetite framework and risk limits. This included receiving proposals regarding the quantitative risk limits to be used to manage the business during 2016 accompanied by risk assessments of the business plan for 2016. Specific items discussed by the Committee in respect of the risk limit proposals included the impact of changes in interest rates on the measurement of longevity risk and the approach used in

allocating capital across different types of risk.

In addition to receiving information on liquidity risk through the dashboard reporting, the Committee received the results of the Group's quantitative assessment of liquidity risk, setting out the estimated realisable value of assets in a distressed market relative to requirements following significant adverse shifts in customer demand. This allowed the Committee to understand the extent of liquidity risk in the context of the appetite approved under the risk appetite framework. The results indicated that, for the scenarios considered, all entities were able to meet customer demands.

In line with the Committee's duties, the Committee reviewed the key assumptions and bases underlying the Individual Capital Assessment for Standard Life Assurance Limited and the Committee also reviewed the Internal Capital Adequacy Assessment Process for Standard Life Savings Limited and Standard Life Investments (Holdings) Limited with the latter representing the first report covering the integrated Ignis business and Standard Life Wealth.

Having reviewed and challenged the material presented in these regulatory returns, the Committee recommended that the respective Boards submit the returns.

Recognising the importance of risk culture and good risk governance within the ERM Framework, the Committee received an overview of risk governance within the investment business. The Committee noted the governance arrangements in place within the business and the interaction of the governance committees across the Group.

Scrutiny of with profits risk and capital matters

The Committee is advised of relevant updates on with profits risk and capital matters through content in the Group Chief Risk Officer's regular risk reporting. In addition, mechanisms exist for the Chairman of the SLAL With Profits Committee to highlight specific matters to the Committee. None were highlighted during the year.

In carrying out their duties, the Committee reviewed the annual report from the With Profits Committee on the management of SLAL's with profits business. Having had due regard to the material presented, the Committee

agreed there were no items that required escalation to the Board.

During the year the Committee received an overview of hedging activity which included a focus on hedging performed within SLAL's with profits business. This supported the Committee in scrutinising material risk and capital matters within SLAL's with profits business and provided the Committee with information on:

- ▶ The exposure being hedged and the rationale for the hedge
- ▶ The instruments used for hedging
- ▶ How the hedges are calibrated
- ▶ The process for rebalancing the hedge
- ▶ Conditions where the hedge may be ineffective

Regulatory compliance

During the year the Committee reviewed and assessed the 2015 regulatory compliance plans detailing the planned assurance activities to be performed across the Group. The Committee also received various updates on thematic reviews being undertaken by the Group's regulators.

Reporting on regulatory compliance was covered in Group Views on Risk reporting and included:

- ▶ Updates on activities detailed in the regulatory compliance plans
- ▶ Significant regulatory developments, such as those relating to the Markets in Financial Instruments Directive's impact on investment management and the Group's planned response to those regulatory developments

Thematic items and Business Risk Review reporting

During the year the Committee received a number of presentations supporting a wider understanding of risks and risk management activity across the Group.

In light of the growth in assets under management as a result of organic growth and the acquisition of Ignis, the Committee received a presentation on the processes and procedures in place to monitor and manage any investment capacity or liquidity issues within the investment business. This provided the Committee with assurance regarding the range of activities in place to support the investment business in meeting client expectations in the face of reduced trading capacity at many banks and the increase in "crowded trades" where many market participants were following the same strategy.

The Committee also received a thematic presentation regarding implications of the UK government's plan to hold a referendum on the UK remaining a member of the EU. This highlighted potential risks including the ability of UK entities to continue providing regulated services to European entities in the event of the UK exiting the EU ('Brexit'). In addition to monitoring external developments, the Committee agreed a number of further actions to be taken by the business at this time to ensure the business is well-prepared for the possibility of a Brexit.

A number of Business Risk Review reports were presented to the Committee during the year which provided the Committee with independent assessments from the risk function on various matters.

Business Risk Review reports presented to the Committee included reviews covering the development of the Standard Life Wealth and 1825 businesses. These were considered to be timely reviews in assessing and challenging the ambitions of Standard Life Wealth following the acquisition and integration of Newton Private Client Management in 2013 and the commercial and operational plans of the recently launched 1825 business.

The presentations allowed informed discussion to take place regarding the progress of these businesses and made a number of recommendations which the Committee endorsed aimed at supporting the businesses in meeting their respective objectives.

Committee effectiveness

The Committee reviews its remit and effectiveness annually and in 2015 this review was completed via an internal self-assessment questionnaire.

The review concluded that the Committee continued to operate effectively and recognised positive developments through the introduction of Business Risk Review reports and the enhancements that had been made to Views on Risk reporting. For 2016, the review also highlighted expectations that the Committee's work would continue to evolve reflecting a number of factors including the changing risk profile of the Group as well as the increased regulatory focus on matters such as conduct risk.

5. Directors' remuneration report

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5.1 Remuneration Committee Chairman's statement

This report sets how we will pay the Directors of Standard Life plc in the future and what we paid them in 2015. Where tables and charts in this report have been audited by PricewaterhouseCoopers LLP we have marked them as 'audited' for clarity.

Dear Shareholder

I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year ended 31 December 2015. As we are not changing our policy for 2016, unlike the two previous years, we do not have a policy report to present to you but have provided a summary of the policy in operation this year. Whilst there have been a number of management changes with the resultant consideration of new remuneration packages, all of the decisions reached were within the policy agreed at the 2015 Annual general meeting (AGM).

During 2015 we have continued our journey to be a world-class investment company. As part of this journey Keith Skeoch was promoted to the role of Chief Executive on 5 August 2015 succeeding David Nish. As a consequence, we have appointed two new executive Directors to strengthen the executive component of the Board and increase the voice of our customers and clients.

In this year of change, the business has delivered an excellent set of results, with increased assets under administration, increased net flows and higher Group operating profit and underlying cash generation while maintaining our financial strength in challenging market conditions.

The assets that we looked after increased by 4% and our unit costs

continued to decrease which helped us increase our operating profit by 9% to £665m. This excellent performance also means another year of increased dividends, with our recommended final dividend of 12.34 pence per share (up 8.0 per cent on 2014) giving a total dividend for 2015 of 18.36 pence per share, up 7.8 per cent on 2014.

Standard Life Investments have increased operating profit before tax by 33% to £342 million, and earnings before interest, tax, depreciation and amortisation (EBITDA) to £352 million from £266 million in 2014.

Our continued strong performance together with the executive Director changes noted above have shaped the remuneration decisions we have made during the year.

Change of Chief Executive

Keith Skeoch was appointed Chief Executive on 5 August 2015.

Given his promotion to a group-wide role, the Remuneration Committee considered it both appropriate and necessary to move Keith to a remuneration package commensurate with his group-wide responsibilities.

The structure of pay and quantum is consistent with our move towards becoming a global investment business and when determining this structure we considered the remuneration arrangements for similar roles in asset management peer group companies as well as the more traditional insurers.

His remuneration package comprises:

- ▶ Base salary of £700,000. Although this represents an increase of £200,000 from his previous base salary as Chief Executive, Standard Life Investments, it reflects his promotion and has been positioned at a level below the median position for companies of our market capitalisation and other FTSE 50 chief executives. It is also circa 16% lower than that paid to his predecessor.
- ▶ A pension opportunity of 27.5% of salary or an alternative cash allowance of 25% of salary, unchanged on promotion
- ▶ A maximum short term bonus opportunity set at 175% of salary. This is a significant reduction on the maximum opportunity in his previous role of 365% of salary as we

increased the importance of variable remuneration now delivered over the long term.

- ▶ A maximum opportunity under the Standard Life Executive Long-term Incentive Plan (Executive LTIP) of 500% of salary based solely on stretching group-wide performance measures and vesting over five years. The performance targets are measured over three years with awards vesting after five years. In his previous role as Chief Executive, Standard Life Investments, Keith had a long term maximum opportunity of 400% of salary of which half vested over three years (based solely on Standard Life Investments' performance) and the remainder over five years. As a result of the changes highlighted above a higher proportion of the variable remuneration is based on the long term performance of the Group and subject to malus and clawback over the long-term. It also aligns Keith's remuneration to the longer term shareholder experience for an investment company such as ours. The 500% maximum award limit under the Executive LTIP was approved as part of our policy vote at the 2015 AGM.
- ▶ A shareholding requirement of 500% of salary (increased from 300% of salary). Keith Skeoch must maintain this value in the form of Standard Life plc shares during employment and for a period of one year following his departure from the Group.

As we had previously agreed to consult if increases were made to award levels for executive Directors, following the announcement of Keith Skeoch's appointment we wrote to 29 of our largest institutional investors, representing 35.74% of our shares. We had an open and transparent dialogue with a number of our largest shareholders and received a range of views and opinions on the remuneration package, the most common feedback being that we needed to demonstrate that the targets set for long term incentives going forward were sufficiently stretching in order to justify the increase in the maximum level of opportunity.

At the time we consulted with our largest investors we were unable to share the threshold and maximum performance targets for the 2016 Executive LTIP awards. These have

been calibrated to be stretching against both our business plan and market expectations. I am now pleased to present these in comparison with the targets set for the 2015 awards.

The 2015 award is based on cumulative targets for the three years ended 31 December 2017. The 2016 award is based on cumulative targets for the three years ended 31 December 2018.

Executive LTIP targets

	2016 award	2015 award	Increase
Cumulative Group operating profit - threshold	£2,130m	£1,670m	27.5%
Cumulative Group net flows - threshold	£30.8bn	£16.6bn	85.5%
Cumulative Group operating profit - maximum	£2,595m	£2,040m	27.2%
Cumulative Group net flows - maximum	£51.0bn	£27.6bn	84.8%

The weighting remains unchanged year on year with 70% of the award vesting based on cumulative Group operating profit and 30% based on cumulative Group net flows.

The Remuneration Committee considers that the increase in long term incentive opportunity is justified by Keith's larger role and that the proposed targets are sufficiently stretching to ensure that the maximum opportunity will only be earned for outstanding performance and that the targets balance financial performance and risk.

The Remuneration Committee considered all the views expressed and, having reviewed all the elements of the package in their totality and the calibre of the individual appointed to the role, concluded that a remuneration package significantly weighted towards long-term pay at risk, rewarding performance against stretching Group level targets, and with an increased shareholding requirement, was the most appropriate structure to incentivise sustained performance over the long-term.

The Chief Executive succession allowed us to build on David Nish's strong performance in repositioning Standard Life for the future. The Remuneration Committee considered this sustained

high level of performance, his role in repositioning the Company, including the overseeing of the sale of our Canadian business and the acquisition of Ignis, and his support of the successful Chief Executive transition and determined that he would be treated as a good leaver under the plan rules for the purposes of Group annual bonus awards and all outstanding long term-incentive awards. David's 12 month notice period commenced on 1 July 2015 and he is now on garden leave until 31 March 2016, at which point his employment terminates.

Since stepping down, and while on garden leave, David will, in line with the terms of his executive service agreement continue to receive his base salary of £835,000 per annum, his allowances and all benefits. During this time restrictions are in place on his ability to take up further employment and he remains available for consultation to the Group. In line with our normal practice, David will continue to be eligible to receive bonus under the rules of the Group annual bonus plan during this period (pro-rated for time).

From 1 April 2016 to 30 June 2016 David will be entitled, under the terms of his Executive Service Agreement, to payment in lieu of notice paid in instalments and subject to mitigation.

Further Board Appointments

On 29 October 2015, the Board announced the appointments of Paul Matthews, Chief Executive, UK and Europe and Colin Clark, Director of the Global Client Group, to the Board with effect from 1 November 2015. This is a clear signal that the Company continues to put clients and customers at the heart of its business and ensures that the full Board has direct access to those individuals most closely aligned to the delivery of our strategy and our global ambitions. Paul and Colin represent the main points of contact with our retail, workplace and intermediary customers and our global institutional and wholesale clients. This move is in line with best practice recommended by the Standard Life Investments stewardship team that executive representation on a board should be deeper than the Chief Executive and Chief Financial Officer.

Paul Matthews was appointed with a salary of £630,000 and Colin Clark with a salary of £600,000. Their short and long term variable pay opportunities are in line with our policies and are set out in detail in the implementation report on pages 82 to 94.

Colin's appointment to the Board from his role in Standard Life Investments results in his remuneration becoming capped in line with our executive Directors' remuneration policy and there will be a substantial increase in the deferral period for his awards.

Although it is not usual for roles similar to Colin's to be held by board members, and for the role holder therefore to be subject to executive directors' remuneration policies, we believed it was important to make this appointment in order to create a board composition which reflects our business strategy and is best placed to deliver to the needs of our customers and shareholders.

Given Colin's skills, the value his appointment will bring to the Group and the impact stepping up to the Board has had on both quantum and time horizons of his remuneration, the Remuneration Committee considered it appropriate, before his appointment, to grant him a one-off award, to the value of £700,000, over Standard Life plc shares. The award will vest in 2017 subject to Colin maintaining a personal performance level above a pre-determined threshold and is forfeited in the event he resigns from the Company before vesting.

2015 Performance outcome

Having considered the strong financial performance, as detailed earlier, and non-financial performance in 2015, the Remuneration Committee approved a score of 4.6 out of 5 for the Group element of the annual bonus plan. All bonus payments are set out on pages 85 to 86.

The Remuneration Committee also approved the vesting level of the 2013 Group Long-term Incentive Plan as 40.77% and awards granted under the Standard Life Investments Long-term Incentive Plan will vest at 84.2%.

2016 Implementation

The Chief Financial Officer has been awarded a salary increase of 2.5% which is in line with salary increases awarded across the Group. As the new Board appointments took place in the latter half of 2015 no other salary increases are proposed.

Our current remuneration policy sets out a two year deferral in relation to our Group annual bonus for executive Directors. Having considered our bonus deferral levels in the light of regulatory direction and best practice we have decided to increase the deferral period

to three years which will apply for bonuses in respect of 2016 onwards.

This deferral level is in line with regulatory direction and conforms to best practice.

In line with the spirit of increased transparency we will now also disclose the financial target, in addition to threshold and maximum targets for annual bonus awards at the point of disclosure. The threshold, target and maximum which were used in determining the bonuses arising under the Group annual bonus plan for the 2014 performance period are presented alongside the outcome on page 86.

Under the recently amended European Banking Authority guidance on remuneration requirements under the EU Capital Requirements Directive (CRD IV), it is anticipated we may no

longer be able to apply proportionality to dis-apply the remuneration regulations for material risk takers of companies subject to CRD IV. As at the end of 2015 we have two entities that are subject to the remuneration requirements under CRD IV which are Standard Life Savings Limited and Pearson Jones plc. In anticipation of this, we have drafted an AGM resolution requesting shareholders' agreement to give us the flexibility to pay variable remuneration to the impacted employees of these entities up to a maximum of 200% of their fixed remuneration. As the size and nature of the activities that are subject to this requirement have a very limited impact on the overall risk profile of the firm we have only 20 employees impacted by this requirement. None of the Directors of Standard Life plc are impacted by this requirement. This resolution and an

explanation of it and can be found in the AGM guide 2016 which will be available online at www.standardlife.com from 17 March 2016.

Agenda for 2016

As we continue the next phase in our evolution in becoming a world-class investment company during 2016 we will continue to review our remuneration arrangements for our executive Directors and strategic executive committee. We will consult the Company's major institutional investors as part of that review as appropriate.

Approval

The Directors' remuneration report was approved by the Board and signed on its behalf by



Lynne Peacock,
Chairman, Remuneration Committee
19 February 2016

5.2 Overview of the remuneration policy

The following sets out a summary of the current remuneration policy as it applies to the Company's executive Directors. This summary does not override the Company's Directors' Remuneration Policy which was approved by shareholders at the 2015 AGM. That policy came into effect on 12 May 2015 and can be found on our website at <http://www.standardlife.com/annualreport> and in the Annual report and accounts 2014.

Base salary	
Purpose and link to strategy	To provide a core reward for undertaking the role, positioned at a level needed to recruit and retain the talent required to develop and deliver the business strategy.
Operation	The Remuneration Committee sets base salaries taking into account a range of factors including: <ul style="list-style-type: none"> ▶ The individual's skills, performance and experience ▶ Internal relativities and wider workforce salary levels ▶ External benchmark data ▶ The size and responsibility of the role ▶ The complexity of the business and geographical scope ▶ Economic indicators
Maximum opportunity	No maximum level set. Increases will normally be in line with the typical level of increases awarded to other employees at Standard Life and will be a reflection of the individual's performance. The Remuneration Committee may award increases above this level in certain circumstances.

Benefits	
Purpose and link to strategy	To provide market competitive monetary and non-monetary benefits, in a cost effective manner, to assist employees in carrying out their duties efficiently.
Operation	Executive Directors are provided with a package of core benefits and are invited to participate, in line with other employees, in the voluntary benefits programme which they fund themselves through salary sacrifice. Core benefits include health screening, private healthcare, death in service protection, disability benefit and reimbursement of membership fees of professional bodies.
Maximum opportunity	Car allowance up to a maximum of £16,585 per annum. There is no maximum value of the core benefit package as this is dependent on the cost to the employing company and the individual's circumstances.

All-employee share plans	
Purpose and link to strategy	To promote share ownership by all employees to drive performance aligned to the Company's shareholders' interests.
Operation	Executive Directors can participate in the all-employee share plans operated by Standard Life on the same basis as all other employees. The two current all-employee share plans are: <ul style="list-style-type: none"> ▶ The Standard Life (Employee) Share Plan ▶ The Standard Life Sharesave Plan
Maximum opportunity	The maximum opportunity is in line with all other employees and is as determined by the prevailing HMRC rules on maximum employee payment limits.

Pension	
Purpose and link to strategy	To provide a competitive, flexible retirement benefit in a way that does not create an unacceptable level of financial risk or cost to the Group.
Operation	Executive Directors are auto enrolled into a defined contribution pension plan and are offered the alternative of a cash allowance. Legacy arrangements will continue to be honoured.
Maximum opportunity	Employer contribution into the Group's defined contribution pension plan of up to 32% of salary. Alternatively, a cash allowance of up to 30% of salary.

Group annual bonus	
Purpose and link to strategy	To support the delivery of the Group's annual business plan. The focus is on the delivery of the annual financial, strategic, customer and people objectives.
Operation	Performance targets are set annually by the Remuneration Committee. The Remuneration Committee exercises its judgement to determine awards at the end of the year to ensure that the outcome is fair in the context of overall Group performance and against personal goals. To date, 50% of any bonus above 25% of salary has been deferred into shares which vest two years from the date of award. Having considered our bonus deferral levels in the light of regulatory direction the deferral period which will apply for bonuses in respect of 2016 onwards will be three years. Deferred bonus shares are subject to malus between grant and vest and cash awards are subject to clawback for two years from the date of awards.
Maximum opportunity	The maximum award opportunity in respect of any financial year is based on role and is up to 175% of salary.
Performance metrics	Performance is measured against a range of key financial metrics, strategic, customer and people indicators and personal performance. The performance scorecard is weighted with at least 50% of bonus based on financial performance and no less than 30% based on non-financial performance. A portion of the award may be based on individual performance objectives. This will be no more than 20% of the overall award. Performance is measured over 12 months.

The Standard Life plc Executive Long Term Incentive Plan (Executive LTIP)	
Purpose and link to strategy	To reward participants for the delivery of the Group's goals of driving shareholder value through customer experience including measures such as cumulative Group operating profit and cumulative Group net flows.
Operation	Award of shares subject to performance measured over a three-year period with a subsequent two-year holding period. Awards may only be exercised after the combined five-year period. Performance targets are set annually for each three-year cycle by the Remuneration Committee. Awards are subject to review by the Remuneration Committee and the Risk and Capital Committee at the end of the three-year performance period to confirm that vesting of the award is appropriate. Unvested awards are subject to malus. Dividend equivalents, or equivalents for other forms of awards, accrue over the five-year period on a re-invested basis.
Maximum opportunity	The maximum award opportunity is based on role. The maximum award possible under the plan rules is 500% salary.
Performance metrics	Vesting of the award is based on the following Group performance measures: <ul style="list-style-type: none"> ▶ Cumulative Group operating profit performance before tax weighted at up to 100% of the award ▶ Cumulative Group net flows weighted at no more than 50% of the award <p>The split between these measures, for each grant, is set annually by the Remuneration Committee.</p>

Legacy arrangements

There is currently no intention to make further awards under the following plans to executive Directors:

- ▶ Standard Life Investments personal and company bonus plans – last operated (for an executive Director) for the Chief Executive Standard Life Investments, before his appointment to his new role
- ▶ Standard Life Investments' Long-term Incentive plan – last award (to an executive Director) made in March 2015 to the Chief Executive, Standard Life Investments before his appointment to his new role
- ▶ Group Long-term Incentive Plan – was replaced by the Executive LTIP at the 2014 Annual General Meeting and the last awards under this plan were made in March 2013

Further details on these plans are set out in the Annual report and accounts 2014.

Remuneration policy for new executive appointments

Principles

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Remuneration Committee applies the following principles:

- ▶ The Remuneration Committee takes into consideration all relevant factors, including the calibre of the individual, local market practice and existing arrangements for other executive Directors, adhering to the underlying principle that any arrangements should reflect the best interests of the Group and its shareholders
- ▶ Remuneration arrangements for new appointments will typically align with the remuneration policy approved by shareholders
- ▶ In the case of internal promotions, the Remuneration Committee will honour existing commitments entered into before promotion
- ▶ The Remuneration Committee will explain to shareholders the rationale for the relevant arrangements in the following year's Directors' remuneration report; and the maximum level of bonus and long-term incentive awards which may be awarded to a new executive Director (excluding the Chief Executive, Standard Life Investments) at or shortly following recruitment shall be limited to 475% of salary. The maximum level for the Chief Executive, Standard Life Investments will be 865% of salary. These limits exclude buyout awards and are in line with the policy table approved by shareholders.

Components and approach

The remuneration package offered to new appointments may include any element of remuneration included in the remuneration policy, or any other element which the Remuneration Committee considers is appropriate given the particular circumstances but not exceeding the maximum level of bonus and long-term incentive awards detailed above. In considering which elements to include, and in determining the approach for all relevant elements, the Remuneration Committee will take into account a number of different factors, including (but not limited to) typical market practice, existing arrangements for other executive Directors and internal relativities, and market positioning.

Buyouts

To facilitate recruitment, the Remuneration Committee may make an award to buy out remuneration terms forfeited on leaving a previous employer. In doing so, the Remuneration Committee will adhere to the FCA guidance in relation to the practice of buyout awards to new recruits and, in particular, the requirements for Code Staff (as defined by the Group's regulators). In considering buyout levels and conditions, the Remuneration Committee will take into account such factors as the type of award and performance measures and the likelihood of performance conditions being met. The buyout award will reflect the foregone award in amount and terms (including any deferral or retention period and performance conditions) as closely as possible but within the structures and timing of equivalent Group plans. Where appropriate, the Remuneration Committee retains the discretion to utilise Listing Rule 9.4.2 (a rule, set by the United Kingdom Listing Authority, which permits an arrangement to be made without shareholder approval, specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual) for the purpose of making an award to 'buy out' remuneration terms forfeited on leaving a previous employer or to utilise any other incentive plan operated by the Group.

Service contracts

The executive Directors' terms and conditions of employment are detailed in their respective executive service 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 the contracts comply with best practice, legislation and the agreed remuneration principles. Contracts are not for a fixed term, but set out notice periods in line with the executive Director's role.

The terms and provisions that relate to remuneration in each of the executive Directors' contracts (that are not set out elsewhere in this report) are set out below. It is intended that the terms for any new appointment would be in line with these:

Provision	Policy										
Notice periods	Six months by the executive Director to the Company. Up to 12 months by the Company to the executive Director. A payment in lieu of notice can be made.										
Remuneration	Salary, pension contributions and core benefits are specified in the contracts and are treated as described above. There is no contractual entitlement to participate in the annual bonus plan or receive long-term incentive awards. Individuals are notified of these discretionary schemes at the beginning of each year.										
Non-compete clauses	Applies during the contract and, at the Company's choice, for up to six months after leaving.										
Contract dates	<table><thead><tr><th>Director</th><th>Date of current contract</th></tr></thead><tbody><tr><td>Keith Skeoch</td><td>5 October 2015</td></tr><tr><td>Luke Savage</td><td>24 April 2014</td></tr><tr><td>Paul Matthews</td><td>29 October 2015</td></tr><tr><td>Colin Clark</td><td>1 November 2015</td></tr></tbody></table>	Director	Date of current contract	Keith Skeoch	5 October 2015	Luke Savage	24 April 2014	Paul Matthews	29 October 2015	Colin Clark	1 November 2015
Director	Date of current contract										
Keith Skeoch	5 October 2015										
Luke Savage	24 April 2014										
Paul Matthews	29 October 2015										
Colin Clark	1 November 2015										

Keith Skeoch signed a new contract in October 2015, reflecting his appointment to Chief Executive from 5 August 2015, his previous contract was signed on 3 April 2006. Luke Savage's contract was effective from 18 August 2014. Paul Matthews' and Colin Clark's contracts were effective from 1 November 2015.

The service agreements for executive Directors are available for shareholders to view on request from the Group Company Secretary at the Company's registered address (details of which can be found in Section 14) and at the 2016 AGM.

Loss of office remuneration

The Remuneration Committee will consider the following factors when considering remuneration for loss of office:

- ▶ The individual's service contract and the rules of the relevant incentive plans
- ▶ Circumstances of the loss of office
- ▶ Performance during office
- ▶ The commercial justification for any payments

The remuneration policy for loss of office for executive Directors is as follows:

Provision	Policy
Pay in lieu of notice	<p>Any payment in lieu of notice will be up to 12 months' salary, pension contributions and the value of other contractual benefits.</p> <p>A duty to mitigate applies.</p> <p>The payment may be made in phased instalments and the policy is to do this for notice periods of over six months.</p>
All-employee share plans	<p>Rights to awards are governed by the rules of the respective plans.</p> <p>Awards under all-employee share plans vest in accordance with their terms, under which good leavers are entitled to shares on or shortly after cessation. Other leavers would usually forfeit awards.</p>
Bonus awards and long-term incentive awards	<p>Rights to awards are governed by the rules of the respective plans.</p> <p>Typically, for good leavers, rights to annual bonus and long-term incentive awards will be pro-rated for time in service to termination as a proportion of the performance period and will, subject to performance, be paid at the usual time (which in the case of the Executive LTIP will normally include the holding period). Outstanding deferred share awards typically vest in full at the date of termination.</p> <p>In certain circumstances, such as the individual's death, the Remuneration Committee retains the discretion to accelerate payments if it is considered appropriate.</p> <p>In all plans, the Remuneration Committee retains the discretion to dis-apply time pro-rating for good leavers (see below) and, in the case of the Group LTIP and Executive LTIP, performance pro-rating.</p> <p>Typically, for other leavers, rights to annual bonus and outstanding long-term incentive awards will be forfeited.</p> <p>In the rules of the annual bonus plans and long-term incentives plans distinction is made between good leavers and other leavers. A good leaver is someone whose employment comes to an end because of death, ill health, injury, disability, redundancy or retirement as determined by their employing company, sale of the employing company or business or any other circumstance at the discretion of the Remuneration Committee. For the purposes of the Standard Life Investments Long-Term Incentive Plan, a good leaver may also include an individual who is transferred out of Standard Life Investments to another company in the Group. In determining whether an individual is a good leaver, the Remuneration Committee will exercise its judgement in a manner which seeks to be in the Group's interests taking into account all relevant factors in relation to the departure. Where judgement has been exercised, the Remuneration Committee would provide an explanation in the following year's Directors' remuneration report.</p>
Other payments	<p>Other payments such as legal fees or outplacement costs may be paid if considered commercially appropriate.</p>

In the event of a change of control, executive Directors may receive a cash bonus in respect of the year in which the change of control occurs which, unless the Remuneration Committee determines otherwise, will be time pro-rated by reference to the bonus year. Outstanding deferred share awards will typically vest in full. Long-term incentives will normally vest early, taking into account the extent to which any relevant performance conditions have been met and, unless the Remuneration Committee determines otherwise, the time that has elapsed from the beginning of the relevant performance period. If the Company undergoes a winding up or is subject to a demerger, delisting, special dividend or other event which in the opinion of the Remuneration Committee may affect the current or future share price, the Remuneration Committee may allow awards to vest on the same basis as for a change of control.

The treatment of other awards in the event of a change of control will be in line with the relevant plan rules as approved by shareholders.

There is no provision for compensation payments for loss of office for non-executive Directors.

The annual remuneration report is set out in section 5.3 and section 5.4 and is subject to an advisory vote of shareholders at the AGM.

5.3 Annual remuneration report - what we did in 2015 for executive Directors

Single total figure of remuneration - executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the executive Directors who served as a Director at any time during the financial year ending 31 December 2015. Where a Director has been appointed or stepped down during the year the remuneration included in the table is that paid for the period for which they were an executive Director.

Executive Directors		Basic salary for year £000s	Taxable benefits in year ¹ £000s	Annual bonus earned for year £000s	Long-term incentives with performance period ending during the year ^{2,3} £000s	Other payments ⁴ £000s	Pension allowance paid in year £000s	Total remuneration for the year £000s
Keith Skeoch ⁵	2015	574	36	1,489	1,400	-	143	3,642
	2014	447	-	1,630	3,697	-	112	5,886
Luke Savage ⁵	2015	600	27	767	-	-	150	1,544
	2014	226	40	301	-	681	57	1,305
Paul Matthews	2015	107	3	139	16	-	27	292
	2014	-	-	-	-	-	-	-
Colin Clark	2015	98	-	159	70	-	25	352
	2014	-	-	-	-	-	-	-
David Nish ⁵	2015	493	10	779	713	-	148	2,143
	2014	806	17	1,345	3,673	-	242	6,083

¹ This includes the taxable value of all benefits paid in respect of the year ended 31 December 2015. This includes car allowances of £15,867 for Luke Savage, £2,337 for Paul Matthews and £9,896 for David Nish. Luke Savage also received a travel allowance payable at a rate of £7,500 per month for a maximum period of six months from his appointment with the final payment made 15 February 2015. The amount payable in respect of the period 1 January 2015 to 15 February 2015 was £11,087. Keith Skeoch received reimbursement for personal expenses incurred as a result of business requirements. Also included for all executive Directors is private health cover at a cost to the Group of £375 per employee.

² The figure reported for long-term incentives with a performance period ending 31 December 2015 is the market value of the Group LTIP and Standard Life Investments LTIP awards that will vest in March 2016. The share price at the date of vesting was not known at the date of publication of this report and therefore the number of Standard Life plc shares that will vest has been multiplied by the average share price over the quarter ending 31 December 2015 (£4.0448). The number of shares vesting includes additional Standard Life plc shares received in respect of accrued dividends from grant through to 31 December 2015. Where a Director has been appointed or ceased to hold the position in the year the amount has been pro-rated accordingly.

³ The figure reported for long-term incentives in 2014 has been restated. The market values at the date of vesting of the Group LTIP and Standard Life Investments LTIP, estimated in the Annual report and accounts 2014, are now known. The estimates provided in last year's report were: Keith Skeoch £3,083k, David Nish £3,063k.

⁴ The other payments for 2014 comprise a cash award of £540,000 made to Luke Savage in recognition of long-term awards and £141,165 in respect of short-term awards awarded by his previous employer which were forfeited on joining Standard Life. Of the amount of £540,000, £270,000 was paid in 2014, £135,000 in 2015 and £135,000 will be paid in 2016 subject to ongoing employment requirements. The amount of £141,165 relating to the short-term award was paid in March 2015.

⁵ Luke Savage and David Nish participate in the Standard Life Sharesave Plan – their options are not yet exercisable. Both Keith Skeoch and David Nish participate in the Standard Life (Employee) Share Plan – the maximum annual award of matching shares is currently £300.

Base salary

	Annual base salary as at 1 Jan 2015	Annual base salary from 16 March 2015	Annual base salary from 5 August 2015 or date of appointment if later	Total base salary paid in 2015
Keith Skeoch	£450,000	£500,000	£700,000	£573,704
Luke Savage	£600,000	£600,000	£600,000	£600,000
Paul Matthews ¹	-	-	£630,000	£107,392
Colin Clark ¹	-	-	£600,000	£98,443
David Nish ²	£810,000	£835,000	-	£492,855

¹ Paul Matthews and Colin Clark were appointed with effect from 1 November 2015 and the salary shown is that paid from 1 November to 31 December 2015.

² David Nish ceased to be a Director on 5 August 2015 and the salary shown is that paid from 1 January 2015 to 5 August 2015.

Pension (audited)

Executive Directors received a cash allowance in lieu of pension as follows:

	Cash allowances in lieu of pension contribution as a % of salary	Paid in 2015
Keith Skeoch	25%	£142,827
Luke Savage	25%	£150,401
Paul Matthews ¹	25%	£26,519
Colin Clark ¹	25%	£24,920
David Nish ²	30%	£147,921

¹ Paul Matthews and Colin Clark were appointed with effect from 1 November 2015 and the pension allowance shown is that paid from 1 November 2015 to 31 December 2015.

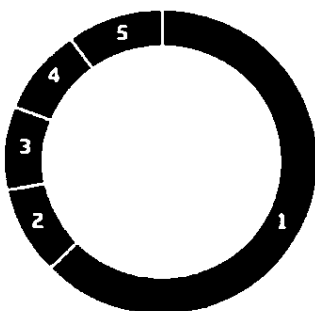
² David Nish ceased to be a Director on 5 August 2015 and the pension allowance shown is that paid from 1 January 2015 to 5 August 2015.

In addition to the cash allowance shown above Paul Matthews is a member of the Standard Life Staff Pension Scheme. Under the pension scheme rules his normal retirement date is at age 60. At 31 December 2015 he was aged 55 and his accrued defined benefit pension was £136,616 per annum. There is no additional value paid on early retirement.

Group annual bonus outcome

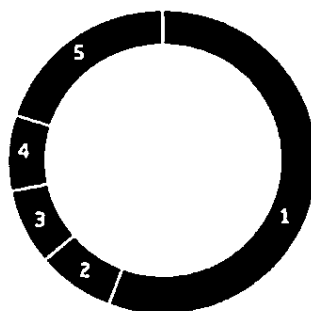
The actual financial performance targets and the detailed non-financial measures used for the determination of the annual bonus plans for 2015 have not been disclosed in this Directors' remuneration report as the Board deems that, given the annual bonus rewards achievement of the Group's business plan, the disclosure of these could seriously prejudice the Group's business. The financial targets will be disclosed, at the earliest, in the Directors' remuneration report published for the financial year following the year for which the bonus is paid.

2015 Group annual bonus



Chief Executive

1. Financial	63%
2. Strategic/delivery/process	9%
3. Customer and external leadership	9%
4. People	9%
5. Personal	10%



All other Executive Directors

1. Financial	56%
2. Strategic/delivery/process	8%
3. Customer and external leadership	8%
4. People	8%
5. Personal	20%

Annual bonus plans

Group annual bonus opportunity

The target and maximum bonus award opportunities (expressed as a percentage of base salary at 31 December 2015) that could be earned in respect of 2015 Group performance were:

	Target	Maximum opportunity
Keith Skeoch ¹	30%	60%
Keith Skeoch ²	75%	175%
Luke Savage	65%	150%
Paul Matthews ³	65%	150%
Colin Clark ³	75%	175%
David Nish	75%	175%

¹ For period 1 January 2015 to 4 August 2015 and based on salary at 4 August 2015.

² For period 5 August 2015 to 31 December 2015.

³ Paul Matthews and Colin Clark were appointed with effect from 1 November 2015 and the bonus opportunity shown is effective from that date.

The bonus award is based on Group performance and personal performance. The relative weightings are 90% based on Group performance and 10% on personal performance for Keith Skeoch and David Nish and 80% based on Group performance and 20% on personal performance in respect of the other executive Directors.

The scorecard is based on a scale of 1 to 5 with 5 reflecting maximum, 3 on target and 1 unsatisfactory performance.

More information on the Group's financial key performance indicators can be found in Section 1.3 of the Strategic report.

Before approving the level of performance in 2015, the Remuneration Committee sought the views of the Group Chief Risk Officer and the Risk and Capital Committee on the management of risk within the business.

The key achievements, scores for each element and overall score for the 2015 scorecard are shown in the following tables:

Element	Financial
Performance measures	Group operating profit before tax ¹ Operating return on equity (RoE) ¹
Key achievements	Strong financial performance including: <ul style="list-style-type: none"> ▶ Group operating profit before tax of £663m – above maximum ▶ Operating return on equity of 14.5% – above maximum
Score (out of 5)	5

¹ Operating profit and RoE Group targets were set based on the continuing business at 1 January 2015. Therefore the reported outcomes exclude Canada but include Singapore (although its inclusion does not change the vesting outcome).

Element	Strategic/delivery/process
Performance measures	Management of the Group's strategy and its deployment in each business unit including the annual investment programme, any corporate actions and the efficiency of the Group's balance sheet.
Key achievements	Continuation of progress toward becoming a world-class investment company including: <ul style="list-style-type: none"> ▶ Completion of the sale of the Canadian business ▶ Return of value to shareholders ▶ Integration of Ignis Asset Management into Standard Life Investments ▶ Launch of 1825, 56* and Standard Life Savings brands ▶ Bank of England approval of Solvency II internal capital model ▶ Plc revolving credit facility reduced and extended for a further five years
Score (out of 5)	3.5

Element	Customer and external leadership
Performance measures	Drive customer focus within the organisation and build advocacy for the Standard Life brand. Protect and enhance Standard Life's corporate reputation.
Key achievements	<ul style="list-style-type: none"> ▶ Responded strongly to unprecedented customer demand arising from the new pension freedoms, helping customers make the most of the opportunities available to them ▶ Retained our position on our key sustainability indices – Dow Jones Sustainability Indices World and Europe, FTSE 4 Good and the Climate Disclosure Project ▶ Generated global brand exposure through our Andy Murray partnership, promoted our Ryder Cup sponsorship and concluded preparatory work for the January 2016 launch of our British & Irish Lions partnership
Score (out of 5)	3.75

Element	People
Performance measures	Develop our organisational capability by building the environment, the resources, capabilities and developing the behaviours we will need. This will include: <ul style="list-style-type: none"> ▶ Ensuring the environment we work in creates a culture of continuous improvement ▶ Developing powerful and consistent leadership, identifying and growing tomorrow's leaders ▶ Embedding our remuneration and performance management strategy to encourage high performance and the delivery of our business objectives
Key achievements	<ul style="list-style-type: none"> ▶ Continued commitment to youth employment. Awarded gold status by Investors in People. ▶ Continued strong engagement, measured by our interaction survey, during a year of change ▶ First corporate employer to become a Living Wage Friendly Funder ▶ Diversity and inclusion focus has continued with an increase in female participants in our emerging leaders programme to 56% and inclusion in The Times Top 50 Employers for Women
Score (out of 5)	4

Based on performance against each of the four Group performance elements and considering the performance of the Group as a whole, the Remuneration Committee approved a rating of 4.6 out of 5 for performance against the Group scorecard during 2015.

In addition, performance for each executive Director is measured against personal scorecards and objectives and against our leadership model to determine their bonus in relation to the personal bonus element.

As a result of the approved ratings, the Group annual bonus outcome as approved by the Remuneration Committee for 2015 is:

		Bonus opportunity based on Group performance as a % of total bonus	Bonus opportunity based on Personal performance as a % of total bonus	Total bonus payable as a % of bonus maximum	Total bonus payable as a % of base salary	Total
Keith Skeoch ¹	Maximum	90%	10%	100%	117%	
	Actual	80%	7%	87%	101%	£586,524
Luke Savage ²	Maximum	80%	20%	100%	150%	
	Actual	71%	14%	85%	128%	£767,400
Paul Matthews ^{2,3}	Maximum	80%	20%	100%	150%	
	Actual	71%	17%	88%	132%	£139,118
Colin Clark ^{2,3}	Maximum	80%	20%	100%	175%	
	Actual	71%	20%	91%	159%	£159,413
David Nish ^{2,4}	Maximum	90%	10%	100%	175%	
	Actual	80%	10%	90%	157%	£779,387

¹ Keith Skeoch's combined Group annual bonus is shown. This comprises the Group annual bonus earned as Chief Executive, Standard Life Investment for the period 1 January 2015 to 4 August 2015 based on his salary at 4 August 2015 of £500,000 and the bonus earned as Chief Executive for the period 5 August 2015 to 31 December 2015 based on the salary at 31 December 2015 of £700,000.

² Total bonus payable calculated on salary at 31 December 2015.

³ For the period from 1 November 2015.

⁴ Total bonus shown is for the period 1 January 2015 to 5 August 2015.

If the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for two years into an award over Standard Life plc shares. The deferral is not made if the amount to be deferred is less than 10% of salary.

There will be no deferral in respect of David Nish's bonus as the timing of the grant of deferred shares will coincide with the termination of his employment and as he is a good leaver the award would immediately vest.

2015 Standard Life Investments bonus outcome

Keith Skeoch participated in the Standard Life Investments' personal and company bonus plans until 4 August 2015, in addition to the Group annual bonus. These plans reward participants based on Standard Life Investments' corporate and investment performance. Consistent with fund management practice, the amount of the bonus pool is determined by reference to Standard Life Investments' financial performance, having regard to the total remuneration spend.

- ▶ Personal bonus plan – rewards participants for personal performance in the year. Keith Skeoch's opportunity for 2015 was 105% of salary
- ▶ Company bonus plan – Keith Skeoch's company bonus opportunity for 2015 was equal to 200% of salary

The determination of annual bonuses at Standard Life Investments is subject to two levels of control. First, the board of Standard Life Investments (Holdings) Limited reviews its financial results, and, after taking into account the level of overall performance and risk, its remuneration committee proposes the level of bonus payments. The second level of control is when this is referred to the Remuneration Committee which reviews these recommendations and determines the bonuses to be paid to the most senior employees within Standard Life Investments.

In 2015, Standard Life Investments continued to expand globally and had another very successful year. The key achievements during the year in which the bonus outcome was determined were:

- ▶ Very strong EBITDA performance up 32% to £352m (2014: £266m) with EBITDA margin up to 42% (2014: 39%)
- ▶ Strong investment performance with third party AUM (excluding strategic life partner businesses) above benchmark: one year 88%; three years 95%; and five years 90%
- ▶ Revenue yield on third party AUM from our growth channels remained strong
- ▶ Strong third party net inflows from our growth channels of £10.3bn (2014: £1.7bn)
- ▶ 67% or £8.4bn (2014: £4.1bn) of Institutional and Wholesale third party net inflows from outside the UK with strong net inflows across all geographies including Asia Pacific with net inflows of £1.2bn (2014: £0.4bn)
- ▶ High levels of client service and an increasingly global client base

Based on Keith Skeoch's and Standard Life Investments' performance in 2015, the Remuneration Committee approved a personal bonus award of 105% of salary and a company bonus award of 200% of salary. These were based on his salary at 4 August 2015 and were pro-rated.

		Company bonus plan	Personal bonus plan	Total bonus payable as a % of bonus maximum	Total bonus payable as a % of base salary	Total bonus
Keith Skeoch	Maximum	200%	105%	100%	305%	
	Actual	200%	105%	100%	305%	£902,495

If the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for two years into an award over Standard Life plc shares. The deferral is not made if the amount to be deferred is less than 10% of salary.

Summary of bonus outcomes (audited)

The following table shows the total bonus awards made in respect of 2015. Annual bonus payments are not pensionable.

	Group cash bonus	Group deferred bonus	Standard Life Investments' cash bonus	Standard Life Investments' deferred bonus	Total
Keith Skeoch	£365,967	£220,557	£488,235	£414,260	£1,498,019
Luke Savage	£458,700	£308,700	-	-	£767,400
Paul Matthews	£82,718	£56,400	-	-	£139,118
Colin Clark	£92,239	£67,174	-	-	£159,413
David Nish	£779,387	-	-	-	£779,387

2014 Group annual bonus – disclosure of financial targets

The financial targets used in the determination of the 2014 Group annual bonuses paid in March 2015 and not previously disclosed are shown below. As disclosed in the Directors' remuneration report in the Annual report and accounts 2014 the targets for 2014 performance were restated to remove the Canadian business sold in January 2015 and include Ignis, acquired in July 2014. The restated targets for the 2014 performance year were as follows:

Performance measure	Threshold	Target	Maximum	Outcome
Group operating profit before tax ¹	£505m	£540m	£580m	£581m
European Embedded Value operating profit after tax ¹	£453m	£525m	£588m	£627m
Operating return on equity ¹	14.5%	15.5%	16.7%	17.6%

¹ Excluding Life joint ventures which referred in 2014 to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited.

Long-term incentives

Standard Life Long-Term Incentive Plan (Group LTIP)

The plan under which awards were made in 2013 is the Group LTIP. The Executive LTIP has been used to grant awards since May 2014.

The awards granted in 2013 under the Group LTIP have a performance condition based on Group operating profit before tax. The awards are also subject to two underpins when assessing the Group performance. The first requires the Risk and Capital Committee to be satisfied that performance obtained has been achieved within acceptable defined risk parameters. The second requires the Remuneration Committee to be satisfied that Group operating profit performance reflects overall Group performance.

2013 Group LTIP awards vesting in respect of performance ending in 2015 (audited)

Awards were made in March 2013 of 200% of salary to David Nish and Keith Skeoch. The original targets for the 2013 Group LTIP award were adjusted to reflect the impact of certain corporate actions. Further details of the adjustments made are provided in the Annual report and accounts 2014.

	Threshold	Target	Maximum
2015 Group operating profit before tax	£610m	£675m	£740m
Actual performance	£663m ¹		

¹ The targets and actual performance include Singapore which has had an adverse impact on the vesting outcome. Canada is excluded from the targets and actual performance following the restatements in the Annual report and accounts 2014.

In line with the above results, the Remuneration Committee determined that 40.77% of awards granted to David Nish and Keith Skeoch in 2013 should vest in 2016.

Standard Life Investments Long-Term Incentive Plan (Standard Life Investments LTIP)

In 2013, in addition to the Group LTIP, Keith Skeoch participated in the Standard Life Investments LTIP. Under the Standard Life Investments LTIP, awards will only begin to vest if Standard Life Investments' investment performance (three-year money-weighted average) 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.

The level of vesting is then subject to consolidated cumulative third party EBITDA performance as shown in the following table. The actual EBITDA targets are not disclosed as the Board deems that this is commercially sensitive information and, if disclosed, could seriously prejudice the Group's business.

Performance	Consolidated cumulative three-year third party EBITDA	% 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 cumulative three-year third party EBITDA and 140% of target cumulative three-year third party EBITDA.

2013 Standard Life Investments LTIP awards vesting in respect of performance ending in 2015 (audited)

In line with the above, Keith Skeoch received an award under this plan in March 2013 equivalent to 200% of salary (at maximum vesting). No other executive Director in post in 2013 received an award under this plan.

The following table sets out performance against targets for the 2013 award.

Performance level	Below threshold	Threshold	Target	Maximum
Consolidated cumulative three-year third party EBITDA	<60% of target	60% of target	100% of target	140% of target
Actual performance				127.3% of target

As performance was 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 and the consolidated cumulative three-year third party EBITDA was 127.3% of target, the Remuneration Committee determined that 168.4% of the target award (84.2% of the maximum award) granted to Keith Skeoch in 2013 would vest in 2016.

Before an award can vest, the Risk and Capital Committee is required to verify to the Remuneration Committee that the level of vesting was not as a result of behaviour that has exposed the Group to undue risk. If the 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.

Awards granted in 2015

Awards to executive Directors were made in 2015 under the Executive LTIP and the Standard Life Investments LTIP. The table below summarises the key details of the awards made in 2015 (audited):

Award	Type of interest	Basis of award (% of salary and face value at grant)	Performance criteria	% of award vesting at threshold	% of award vesting at maximum
2015 Executive LTIP award, vests on 27 March 2020	Nil-cost option	Keith Skeoch Value: 200% Face value: £1,000,000 Luke Savage Value: 125% Face value: £750,000 David Nish Value: 200% Face value: £1,670,000	Cumulative Group operating profit before tax (70%) and cumulative Group net flows for the three-year period ended 31 December 2017	Vesting: 0% Cumulative Group operating profit before tax Threshold: £1,670m Cumulative Group net flows Threshold: £16.6bn	Vesting: 100% Cumulative Group operating profit before tax Maximum: £2,040m Cumulative Group net flows Maximum: £27.6bn
2015 Standard Life Investments LTIP award, vests on 30 March 2018	Nil-cost option	Keith Skeoch Value: 200% Face value: £1,000,000	Consolidated cumulative three-year third party Standard Life Investments (Holdings) Limited EBITDA to 31 December 2017; subject to an investment gateway	Vesting: 0% Threshold: 60% of EBITDA target	Vesting: 100% Maximum: 140% of EBITDA target

All of the above awards are subject to an additional personal performance underpin whereby, if an executive Director 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.

As explained in the Remuneration Chairman's statement, Colin Clark was granted an award under the Standard Life Restricted Stock Plan before his appointment.

Award	Type of interest	Basis of award and face value at grant	Performance criteria	% of award vesting at threshold	% of award vesting at maximum
Standard Life Restricted Stock Plan, vests on 31 March 2017 ¹	Nil-cost option	Colin Clark Face value £700,000	Maintaining a personal performance level above a pre-determined threshold	Vesting: 0%	Vesting: 100%

¹ The Standard Life Restricted Stock Plan is a plan under which the Company can make share-based awards (options and conditional awards) to all employees other than executive Directors.

Share ownership

A shareholding requirement was implemented in 2014 and we continue to require executive Directors and senior management to maintain a material long-term investment in Standard Life plc shares.

Keith Skeoch is required to hold 500% (increased from 300% at the time of his appointment to Chief Executive) of the value of his base salary in the form of Standard Life plc shares. Luke Savage, Paul Matthews and Colin Clark are required to acquire and hold Standard Life plc shares to the value of 200% of their base salary from awards granted under the Executive LTIP and deferred annual bonus plan following their appointment to the Board.

The shares which the executive Directors are required to hold to reach their respective shareholding requirement are based on the net vested shares arising from the exercise of an award. Net vested shares are those shares which the executive Director would retain after selling sufficient shares to cover the costs of the income tax and employee national insurance payable when the award is exercised. Executive Directors will be required to hold shares arising from the following awards:

- ▶ 100% of the net vested shares that could be acquired from the exercise of awards granted from 2014 onwards or the date of their appointment if later (this includes the awards arising from the deferral of annual bonus and awards granted under the Executive LTIP and the Standard Life Investments LTIP)
- ▶ 50% of the net vested shares that could be acquired from the exercise of awards granted prior to the introduction of the new requirement (this includes awards arising from the deferral of annual bonus and awards granted under the Group LTIP and the Standard Life Investments LTIP)
- ▶ Shares currently held which were obtained from the exercise of awards and which contributed to satisfying the previous shareholding guidelines

Paul Matthews was subject to previous shareholding guidelines and from 2014, when the requirement was introduced, to a shareholding requirement. As Colin Clark was not subject to the previous shareholding guidelines, under the requirement he is only required to hold shares from awards granted in 2016 onwards. Executive Directors will be required to retain shares held in respect of the requirement for a period of one year following their departure from the Group. The Remuneration Committee reviews progress against the requirement annually and retains discretion to require executive Directors to purchase shares to meet the requirement.

Directors' interests in shares (audited)

The following table shows the total number of Standard Life plc shares held by the executive Directors and their connected persons.

	Total number of shares owned at 1 January 2015	Shares acquired/ (sold) by the Director during the period 1 January 2015 to 13 March 2015	Total number of shares owned at 13 March 2015	Total number of shares owned at 16 March 2015 or date of appointment if later	Shares acquired/ (sold) by the Director during the period 16 March 2015 to 31 December 2015	Total number of shares owned at 31 December 2015 or date of cessation if earlier	Total value ⁴ of shares owned at 31 December 2015 as a % of salary at 31 December 2015	Shares acquired/ (sold) by the Director during the period 31 December 2015 to 18 February 2016
Pre share consolidation on 13 March 2015¹				Post share consolidation on 13 March 2015				
Keith Skeoch	1,908,881	71	1,908,952	1,561,868	492,340	2,054,208	1143%	40
Luke Savage	-	-	-	-	129	129	0%	47
Paul Matthews ²	-	-	-	175,186	101	175,287	108%	53
Colin Clark ²	-	-	-	666,197	-	666,197	433%	-
David Nish ³	2,262,333	71	2,262,404	1,851,055	548,237	2,399,292	1120%	-

¹ The date on which the Company's shares were consolidated on a 9 for 11 basis.

² Paul Matthews and Colin Clark were appointed with effect from 1 November 2015 and share ownership is shown from the date of their appointment.

³ David Nish ceased to be a Director on 5 August 2015 and the closing number of shares is stated as at that date and the value based on his salary at that date.

⁴ The closing share price at 31 December 2015 used to determine total value was 389.7p.

As is shown from the table, Keith Skeoch met the share ownership requirement in 2015. Luke Savage was appointed in August 2014 and no share awards have vested and as such he does not meet the shareholding requirement. Paul Matthews holds 108% from share awards that were subject to the previous guidelines which count towards the requirement. Colin Clark holds 433% from previous awards. David Nish met the shareholding requirement at the point he ceased to be a Director and is required to continue to comply with his shareholding requirement for a period of one year from the date his employment ceases.

This table shows, in relation to each executive Director, the total number of share options with and without performance conditions held at 31 December 2015:

	Options with performance measures ¹	Options without performance measures ²	Vested but unexercised	Exercised during the year ³
Keith Skeoch	1,358,997	32,328	-	789,794
Luke Savage	340,182	35,192	-	-
Paul Matthews	465,316	88,805	-	-
Colin Clark	1,269,339	-	-	-
David Nish	1,190,729	271,723	-	935,064

¹ This comprises awards made under the Group LTIP in 2013, Executive LTIP awards in 2014 and 2015 and awards under the Standard Life Investments LTIP in 2013, 2014 and 2015 excluding shares to be awarded in lieu of dividend equivalents. In the case of Colin Clark this also includes awards made under the Standard Life Restricted Stock plan. All awards granted to Paul Matthews and Colin Clark were granted before their appointments as executive Directors on 1 November 2015. David Nish's awards will be pro-rated on a time basis when his employment ceases.

² This comprises deferred bonus awards made in 2014 and 2015 and options granted under the Standard Life Sharesave Plan excluding shares to be awarded in lieu of dividend equivalents. All awards granted to Paul Matthews were granted before his appointment as executive Director on 1 November 2015.

³ This comprises exercises of awards made under the 2012 Group and Standard Life Investments LTIPs and deferred share awards from the 2012 Group bonus plan including dividend equivalents. This excludes awards exercised by Paul Matthews and Colin Clark which were granted before their appointments as executive Directors on 1 November 2015.

The closing market price of Standard Life plc shares at 31 December 2015 was 389.7p and the range for the year was 365.9p to 499.9p.

Directors' interests in the Company's shares through the medium of the Group's share plans, granted after appointment to executive Director are shown below.

Group, Executive 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. All awards lapse six months after the expected first date of exercise and carry the right to receive rolled-up dividends, but only to the extent awards vest. All awards were granted under the Executive LTIP unless otherwise noted.

Award dates		Number of shares					Value of shares				
Original award	Expected first date of exercise	Original award	2015 awards	Shares in lieu of rolled-up dividends from date of grant to end of year	Exercised during year	Lapsed during year	At end of year	Share price at award date ²	Share price on exercise date	Actual date of exercise	Total value on exercise date
Keith Skeoch											
29/03/12 ³	29/03/15	365,088	-	53,723	418,811	-	-	£2.3282	£4.8080	30/03/2015	£2,013,643
29/03/12 ⁴	29/03/15	365,088	-	53,723	349,914	68,897	-	£2.3282	£4.8080	30/03/2015	£1,682,387
25/03/13 ³	25/03/16	236,634	-	40,365	-	-	276,999	£3.6998	-	-	-
25/03/13 ⁴	25/03/16	236,634	-	40,365	-	-	276,999	£3.6998	-	-	-
28/03/14 ⁴	28/03/17	237,818	-	19,409	-	-	257,227	£3.7844	-	-	-
20/05/14	20/05/19	231,469	-	18,890	-	-	250,359	£3.8882	-	-	-
27/03/15	27/03/20	-	207,805	7,962	-	-	215,767	£4.8122	-	-	-
30/03/15 ⁴	30/03/18	-	208,637	7,993	-	-	216,630	£4.7930	-	-	-
		1,672,731	416,442	242,430	768,725	68,897	1,493,981				
Luke Savage											
10/09/14	10/09/19	184,329	-	9,818	-	-	194,147	£4.0688	-	-	-
27/03/15	27/03/20	-	155,853	5,971	-	-	161,824	£4.8122	-	-	-
		184,329	155,853	15,789	-	-	355,971				
David Nish⁵											
29/03/12 ³	29/03/15	665,750	-	97,969	763,719	-	-	£2.3282	£4.7589	31/03/2015	£3,634,462
25/03/13 ³	25/03/16	427,050	-	72,849	-	-	499,899	£3.6998	-	-	-
20/05/14	20/05/19	416,645	-	34,005	-	-	450,650	£3.8882	-	-	-
27/03/15	27/03/20	-	347,034	13,297	-	-	360,331	£4.8122	-	-	-
		1,509,445	347,034	218,120	763,719	-	1,310,880				

¹ The 2012 Group LTIP vested at 100% and the Standard Life Investments LTIP vested at 83.6%.

² Based on the average share price for the five dealing days immediately before the awards were granted.

³ Awards granted under the Group LTIP.

⁴ Awards granted under the Standard Life Investments LTIP.

⁵ The awards granted in 2014 and 2015 will be pro-rated on a time basis on the date employment ends (31 March 2016).

Bonus awards – deferred shares

These awards are the deferred share elements of the 2012, 2013 and 2014 bonus awards. The value of the bonus deferred into share awards is reported within the annual bonus figures shown in the Directors' remuneration for the year for which the bonus is payable. All awards lapse six months after the expected first date of exercise and carry the right to receive rolled-up dividends, but only to the extent awards vest.

Award dates		Number of shares					Value of shares				
Original award	Expected first date of exercise	Original award	2015 awards	Shares in lieu of rolled-up dividends from grant to end of year	Exercised during year	Lapsed during year	At end of year	Share price at award date ¹	Share price on exercise date	Actual date of exercise	Total value on exercise date
Keith Skeoch											
28/03/13	28/03/15	18,907	-	2,162	21,069	-	-	£3.3260	£4.8080	30/03/2015	£101,300
28/03/14	28/03/16	14,503	-	1,194	-	-	15,697	£3.4480	-	-	-
27/03/15	27/03/17	-	17,825	695	-	-	18,520	£4.0710	-	-	-
		33,410	17,825	4,051	21,069	-	34,217				
Luke Savage											
27/03/15	27/03/17	-	30,076	1,173	-	-	31,249	£4.0710	-	-	-
		-	30,076	1,173	-	-	31,249				
David Nish ²											
28/03/13	28/03/15	153,751	-	17,594	171,345	-	-	£3.3260	£4.7589	31/03/2015	£815,414
28/03/14	28/03/16	121,991	-	10,062	-	-	132,053	£3.4480	-	-	-
27/03/15	27/03/17	-	140,063	5,464	-	-	145,527	£4.0710	-	-	-
		275,742	140,063	33,120	171,345	-	277,580				

¹ Based on the average share price for the month of December preceding the date the awards were granted.

² All unvested awards will vest in full on the date employment ends (31 March 2016).

The Standard Life Restricted Stock Plan

As detailed in the Chairman's statement the Remuneration Committee granted Colin Clark an award under this plan, before his appointment on 1 November 2015.

Original award	Expected first date of exercise	2015 awards	Shares in lieu of rolled-up dividends from grant to end of year	At end of year
8/10/15	31/03/17	173,181	-	173,181

The Standard Life Sharesave Plan

David Nish was granted options over 9,669 Standard Life plc shares exercisable from 1 November 2016 under the Sharesave Plan on 15 September 2011. The exercise price for these options is £1.5746. Under the rules of the plan he will be permitted to exercise the option within 6 months of the date his employment ceases. Luke Savage was granted options over 5,116 Standard Life plc shares exercisable from 1 November 2019 under the Sharesave Plan on 12 September 2014. The exercise price for these options is £2.961.

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. Significant executive Director appointments held during the year are shown below:

Executive Director	Role and organisation	2015 Fees
Keith Skeoch	Director of the Investment Association (until 9 September 2015) Non-executive Director of the Financial Reporting Council	£nil
Luke Savage	Member of Council, Queen Mary University of London	£nil
Paul Matthews	Member of the board of the Association of British Insurers Member of the Financial Services Advisory Board Member of the Advisory Council of TheCityUK Deputy Chairman of the Association of British Insurers	£nil
David Nish ¹	Non-Executive Director of the UK Green Investment Bank	£17,836

¹ Appointments held at 5 August 2015 and fees earned to that date.

Loss of office payments (audited)

The Board announced on 19 June 2015 that David Nish was stepping down as Chief Executive on 5 August 2015 with his notice period commencing on 1 July 2015. The Company's policy for payment for loss of office is set out on page 81.

All payments made to David Nish in respect of the period in 2015 in which he was a Director are reported in the single figure of remuneration and following sections in Section 5.3. The following payments have been made in respect of the period 6 August 2015 to 31 December 2015:

- ▶ Base salary: £339,216
- ▶ Benefits: £6,886
- ▶ Pension: £101,701
- ▶ Annual bonus: £531,563 (in line with our normal practice as David Nish is prevented from taking up alternative employment whilst on garden leave he remained eligible for a bonus for this period)
- ▶ Long-term incentive awards: £111,420 (which reflects the proportion of the 2013 Group LTIP award relating to the period 6 August 2015 to 31 December 2015). This vests in 2016 and is performance tested in line with the rest of the award as described on page 87. In line with the approach taken in the single figure table in section 5.3, the value of this award is based on the average Standard Life plc share price for the quarter 1 October 2015 to 31 December 2015. The award will vest on 25 March 2016.

As disclosed when his departure was announced on 19 June 2015, David Nish will be on garden leave until 31 March 2016 at which point he will cease to be an employee. Until this point he will continue to receive his base salary of £835,000 per annum, his allowances and all benefits in line with the terms of his executive service agreement. When his employment ceases on 31 March 2016 he will be entitled to payment in lieu of notice in respect of the remainder of his notice period (three months) which will be paid in instalments and is subject to mitigation. The payment in lieu of notice will include his salary, car allowance and pension allowance. In line with our normal practice, David Nish will remain eligible to receive a bonus in respect of the period to 31 March 2016. He will also receive a payment of £105,981 in respect of untaken holidays, and £560 in respect of private medical cover.

Treatment of outstanding incentive awards

On cessation of employment, David's unvested deferred share award will vest in full in line with the plan rules.

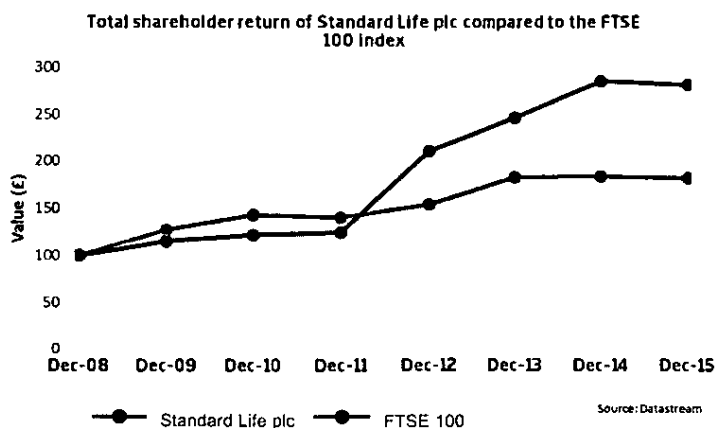
Unvested long-term incentive plan awards made in 2014 and 2015 will be pro-rated to the end of the period of garden leave, and will vest subject to performance.

- ▶ 2014 Executive LTIP – pro-rated between 1 January 2014 and 31 March 2016 and will vest on 20 May 2019. The maximum number of shares anticipated to vest subject to performance (excluding future dividend-equivalents) is 337,576
- ▶ 2015 Executive LTIP – pro-rated between 1 January 2015 and 31 March 2016 and will vest on 27 March 2020. The maximum number of shares anticipated to vest subject to performance (excluding future dividend-equivalents) is 149,918.

Payments to former directors (audited)

Payments made to former directors during the year (if not reported elsewhere) will in future be reported here if they are in excess of £20,000. No such payments were made in 2015.

Pay compared to performance



Performance graph: the graph shows the difference in value at 31 December 2015 between having invested £100 on 1 January 2009, respectively, in Standard Life plc and in the FTSE 100. It is assumed dividends are reinvested. The FTSE 100 has been chosen as the comparator index because Standard Life plc is a member of this FTSE grouping.

The following table shows the single figure of total remuneration for the Director (and in the case of 2015 the Directors) in the role of Chief Executive (CE) for the same seven financial years as shown in the graph opposite. Also shown are the annual bonus awards and LTIP awards which vested based on performance in those years.

Year ended 31 December	Chief Executive	CE single figure of total remuneration (£000s)	Annual bonus award rates against maximum opportunity (%) ¹	Long-term incentive plan vesting rates against maximum opportunity (%)
2015	Keith Skeoch ²	1,487	87	40.77
2015	David Nish ³	2,143	90	40.77
2014	David Nish	6,083	95	100
2013	David Nish	4,206	75	64
2012	David Nish ⁴	5,564	88	100
2011	David Nish	2,601	77	63.5
2010	David Nish	1,971	83	-
2009	Sir Sandy Crombie	2,175	67	49.67

¹ The annual bonus award rates against maximum opportunity are in respect of the Group annual bonus plan for Keith Skeoch, David Nish and Sir Sandy Crombie.

² The single figure of remuneration shown is the remuneration shown in the single figure table, time apportioned for the period 5 August 2015 to 31 December 2015. Annual bonus award rates against maximum opportunity and the long-term incentive plan vesting rate relates to the Group annual bonus and Group LTIP.

³ David Nish ceased to be CE with effect from 5 August 2015 and the figure reported is that relating to the period 1 January 2015 to 5 August 2015.

⁴ The increase in the CE single figure for 2012 reflects David Nish's promotion to CE in 2010 and the correspondingly higher Group LTIP award granted, and also the impact of the increase in the Standard Life plc share price which moved from £1.86 at the award date to £3.46 on the first possible date of exercise and which drives the value outcome of the Group LTIP plan. All unvested awards will vest in full on date employment ends (31 March 2016).

Relative importance of spend on pay

The following table compares what the Group spent on employee remuneration to what is paid in the form of dividends to the Company's shareholders. Also shown is the Group's operating profit before tax from continuing operations which is provided for context as it is one of our key performance measures:

	Remuneration payable to all Group employees (£m)	Dividends paid in respect of financial year (£m)	Group operating profit before tax (£m)
2015	635	362	665
2014 ¹	577	358	608

¹ The group operating profit comparative for the year ended 31 December 2014 has been restated to exclude Singapore which is a discontinued operation.

Percentage change in remuneration of the director in the position of Chief Executive

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2014 and the year ended 31 December 2015 for the Chief Executive compared to the average UK based Group employee:

	% change in base salary	% change in bonus	% change in benefits
CE ¹	(13.6%)	(8%)	(5%)
UK based employees of the Group	3%	1%	0%

¹ Due to the change in Chief Executive during the year, the movement in salary reflects the difference between David Nish's salary at 31 December 2014 and Keith Skeoch's salary at 31 December 2015. The movement in bonus compares the total bonus payable as a percentage of maximum bonus opportunity under the Group annual bonus plan for Keith Skeoch in 2015 and David Nish in 2014 and excludes the bonus under the Standard Life Investments personal and company bonus plans.

Implementation of policy in 2016

Base salary

The Remuneration Committee considered it appropriate to award increases as follows:

	Increase to base pay	Base pay effective from 16 March 2016
Keith Skeoch	-	£700,000
Luke Savage	£15,000	£615,000
Paul Matthews	-	£630,000
Colin Clark	-	£600,000

Bonus

The executive Directors will participate in the Group annual bonus plan. Target and maximum award opportunities are:

	Target	Maximum opportunity
Keith Skeoch	75%	175%
Luke Savage	65%	150%
Paul Matthews	65%	150%
Colin Clark	75%	175%

For Keith Skeoch, 90% of the award will be based on Group performance and 10% on personal performance. For the other executive Directors, 80% of the award will be based on Group performance and 20% on personal performance.

In evaluating the non-financial metrics, the Remuneration Committee will reference, where possible, objective data and will exercise judgement in determining achievement of objectives when assessing performance. Disclosure on performance and how performance has been evaluated by the Remuneration Committee will be provided in the Directors' remuneration report at the end of the performance period. The financial targets will be disclosed, at the earliest, in the Directors' remuneration report published for the financial year following the year for which the bonus is paid. This will allow shareholders to assess whether awards are appropriate in the context of the performance and progress made at the end of the year.

Pension

Cash allowances of 25% of salary are paid in lieu of pension contributions to all executive Directors.

Long-term incentive arrangements

The Remuneration Committee proposes to grant awards set out in the table, in the form of nil-cost options under the Executive LTIP. Vesting of these awards, in 2021, is based on the following performance measures measured over the period to 31 December 2018:

- ▶ Cumulative Group operating profit before tax performance weighted at 70% of the award
- ▶ Cumulative Group net flows weighted at 30% of the award

Award	2016 Executive LTIP award, to vest in March 2021
Type of interest	Nil-cost option
Basis of award (% of salary and face value at grant)	Keith Skeoch-500%-£3,500,000 Luke Savage-125%-£768,750 Paul Matthews-120%-£756,000 Colin Clark-300%-£1,800,000
Performance criteria	Cumulative Group operating profit before tax (70%) and cumulative Group net flows (30%) for the three-year period ending 31 December 2018
Threshold (% of award vesting at threshold)	Vesting: 0% Cumulative Group operating profit Threshold: £2,130m Cumulative Group net flows Threshold: £30.8bn
Maximum (% of award vesting at maximum)	Vesting: 100% Cumulative Group operating profit Maximum: £2,595m Cumulative Group net flows Maximum: £51.0bn

5.4 Annual remuneration report - what we did in 2015 for non-executive Directors

Single total figure of remuneration – non-executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the non-executive Directors who served as a Director at any time during the financial year ending 31 December 2015. Non-executive Directors do not participate in bonus or long-term incentive plans and do not receive pension funding.

Non-executive Directors		Fees for year ended 31 December £000s	Taxable benefits in year ended 31 December ¹ £000s	Total remuneration for the year ended 31 December £000s
Sir Gerry Grimstone	2015	370	21	391
	2014	350	16	366
Pierre Danon	2015	72	17	89
	2014	71	14	85
Melanie Gee ²	2015	9	-	9
	2014	-	-	-
Crawford Gillies	2015	84	3	87
	2014	81	5	86
David Grigson ³	2015	38	4	42
	2014	97	5	102
Noel Harwerth	2015	83	4	87
	2014	97	9	106
Isabel Hudson	2015	72	7	79
	2014	15	2	17
Kevin Parry	2015	90	16	106
	2014	13	1	14
John Paynter ⁴	2015	41	3	44
	2014	127	10	137
Lynne Peacock	2015	101	9	110
	2014	87	9	96
Martin Pike	2015	90	8	98
	2014	71	9	80

¹ Sir Gerry Grimstone received an allowance of £15,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fees. Other amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits, they are included as being a payment which is subject to tax.

² Appointed with effect from 1 November 2015.

³ Stepped down from the Board following the conclusion of the AGM on 12 May 2015.

⁴ Stepped down from the Board with effect 28 April 2015.

Letters of appointment

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 is subject to re-election by shareholders in line with 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 Director)	Chairman – six months. For other non-executive Directors – no notice period.																								
Remuneration	Fees (as set out on the following page). Reimbursement of travel and other reasonable expenses incurred in the performance of their duties. No pension, annual bonus or other incentive payment permitted.																								
Date of letters of appointment	<table border="1"> <thead> <tr> <th>Director</th> <th>Current letter of appointment</th> </tr> </thead> <tbody> <tr> <td>Sir Gerry Grimstone¹</td> <td>6 June 2003 as Director and 28 February 2007 as Chairman (continuation 27 May 2010 and 28 May 2013)</td> </tr> <tr> <td>Pierre Danon</td> <td>28 November 2011 (continuation 6 October 2014)</td> </tr> <tr> <td>Melanie Gee²</td> <td>26 October 2015</td> </tr> <tr> <td>Crawford Gillies³</td> <td>7 December 2006 (continuation 11 January 2010 and 3 December 2012)³</td> </tr> <tr> <td>David Grigson⁴</td> <td>26 October 2009 (continuation 30 October 2012)</td> </tr> <tr> <td>Noel Harwerth</td> <td>18 July 2012 (continuation 29 June 2015)</td> </tr> <tr> <td>Isabel Hudson</td> <td>15 October 2014</td> </tr> <tr> <td>Kevin Parry</td> <td>27 October 2014</td> </tr> <tr> <td>John Paynter⁵</td> <td>21 December 2011 (continuation 1 January 2015)</td> </tr> <tr> <td>Lynne Peacock</td> <td>13 March 2012 (continuation 13 March 2015)</td> </tr> <tr> <td>Martin Pike</td> <td>27 September 2013</td> </tr> </tbody> </table>	Director	Current letter of appointment	Sir Gerry Grimstone ¹	6 June 2003 as Director and 28 February 2007 as Chairman (continuation 27 May 2010 and 28 May 2013)	Pierre Danon	28 November 2011 (continuation 6 October 2014)	Melanie Gee ²	26 October 2015	Crawford Gillies ³	7 December 2006 (continuation 11 January 2010 and 3 December 2012) ³	David Grigson ⁴	26 October 2009 (continuation 30 October 2012)	Noel Harwerth	18 July 2012 (continuation 29 June 2015)	Isabel Hudson	15 October 2014	Kevin Parry	27 October 2014	John Paynter ⁵	21 December 2011 (continuation 1 January 2015)	Lynne Peacock	13 March 2012 (continuation 13 March 2015)	Martin Pike	27 September 2013
Director	Current letter of appointment																								
Sir Gerry Grimstone ¹	6 June 2003 as Director and 28 February 2007 as Chairman (continuation 27 May 2010 and 28 May 2013)																								
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Lynne Peacock	13 March 2012 (continuation 13 March 2015)																								
Martin Pike	27 September 2013																								

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

² Appointed with effect from 1 November 2015.

³ Appointed Senior Independent Director with effect from 28 April 2015. Crawford Gillies will serve as Senior Independent Director until the 2016 Annual General Meeting when he will retire from the Board, having concluded nine years' service.

⁴ Stepped down from the Board following the conclusion of the AGM on 12 May 2015.

⁵ Stepped down from the Board with effect 28 April 2015.

The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Group Company Secretary at the Company's registered address (details of which can be found in Section 14) and at the 2016 AGM.

Non-executive Directors' interests in shares (audited)

The following table shows the total number of Standard Life plc shares held by each of the non-executive Directors and their connected persons:

	Total number of shares owned at the earlier of 1 January 2015 or date of appointment if later	Shares acquired/(sold) by the Directors during the period 1 January 2015 to 13 March 2015	Total number of shares owned ¹ at 13 March 2015	Total number of shares owned at 16 March 2015 or date of appointment if later	Shares acquired/(sold) by the Directors during the period 16 March 2015 to 31 December 2015	Total number of shares owned at 31 December 2015 or date of cessation if earlier	Shares acquired/(sold) by the Directors during the period 31 December 2015 to 18 February 2016
	Pre share consolidation on 13 March 2015 ¹			Post share consolidation on 13 March 2015			
Sir Gerry Grimstone	252,544	-	252,544	206,626	-	206,626	-
Pierre Danon	55,408	-	55,408	45,333	1,701	47,034	-
Melanie Gee ²	-	-	-	-	-	-	-
Crawford Gillies	50,170	-	50,170	41,046	-	41,046	-
David Grigson ³	15,000	-	15,000	12,272	-	12,272	-
Noel Harwerth	10,000	-	10,000	8,181	1,893	10,074	-
Isabel Hudson	-	3,763	3,763	3,078	1,989	5,067	-
Kevin Parry	44,397	-	44,397	36,324	-	36,324	-
John Paynter ⁴	50,000	-	50,000	40,909	-	40,909	-
Lynne Peacock	15,345	-	15,345	12,554	-	12,554	-
Martin Pike	40,000	-	40,000	32,727	-	32,727	-

¹ The date on which the Company's shares were consolidated on a 9 for 11 basis.

² Appointed 1 November 2015.

³ Stepped down from the Board following the conclusion of the AGM on 12 May 2015.

⁴ Stepped down from the Board with effect 28 April 2015.

The Chairman continues to be subject to a guideline holding of 100% of the value of his annual fee in Standard Life plc shares within four years of appointment. Sir Gerry Grimstone, as Chairman, fully met this requirement in 2015 with the value of his shares at the end of the year being 218% of his fees.

Implementation of policy for non-executive Directors in 2016

Following a review of non-executive Director fees, the Board (and the Remuneration Committee in respect of the Chairman) considered it appropriate to increase the Chairman's fees by £10,000 (2.7%) and the non-executive fee by £2,100 (2.9%). In addition the fee paid to the Senior Independent Director is increased by £500 (2.9%) with effect from 1 January 2016.

Role	2016 fees ¹	2015 fees
Chairman's fees ²	£380,000	£370,000
Non-executive fees ³	£73,500	£71,400
Additional fees:		
Senior Independent Director	£18,000	£17,500
Chairman of the Audit Committee	£30,000	£30,000
Chairman of the Risk and Capital Committee	£30,000	£30,000
Chairman of the Remuneration Committee	£30,000	£30,000
Chairman of Standard Life Investments (Holdings) Limited ⁴	-	£38,250
Chairman of Standard Life Assurance Limited	£50,000	-

¹ The core fee of £73,500 paid to each non-executive Director (including the Chairman) is expected to total £661,500 for 2016 (2015: £714,000). This is within the maximum £1,000,000 permitted under Article 87 of Standard Life plc's articles of association. Total fees including additional duties are expected to amount to £1,108,000 for 2016 (2015: £1,041,000).

² The Chairman's fee is inclusive of the non-executive Directors core fee and no additional fees are paid to the Chairman where he chairs, or is a member of, other committees/boards. In 2016 the Chairman will also receive £15,000 (2015: £15,000) as an allowance towards his business related accommodation costs in Edinburgh.

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

⁴ This role is not currently held by a non-executive Director.

The Remuneration Committee

Membership

During 2015 the Remuneration Committee was made up of independent non-executive Directors: Lynne Peacock (Chairman), Pierre Danon, Melanie Gee (from 7 December 2015), John Paynter (until 28 April 2015) and Martin Pike.

Member	Attendance
Lynne Peacock, Chairman	9/9
Pierre Danon	8/9
Melanie Gee	2/2
Martin Pike	9/9
Former member	
John Paynter	3/3

Our role

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

- ▶ Rewards for the executive Directors, senior employees and the Chairman
- ▶ The design and targets for any employee share plan
- ▶ The design and targets for annual cash bonus plans throughout the Group
- ▶ Changes to employee benefit structures (including pensions) throughout the Group

Find the Remuneration Committee's terms of reference in the Board Charter at www.standardlife.com/annualreport or request a copy from the Group Company Secretary

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2015 review was carried out via an internal self-assessment questionnaire. The review concluded that the Committee had:

- ▶ Remained effective and fulfilled its remit during the year and liaised appropriately with the Risk and Capital Committee
- ▶ Fulfilled its duties under its terms of reference, and amended its terms of reference as appropriate
- ▶ Received sufficient, reliable and timely information from management and its advisers to enable it to fulfil its responsibilities

External advisers

The Remuneration Committee received information on comparative pay data from Towers Watson. Pinsent Masons LLP provided legal interpretation of remuneration related regulations to the Remuneration Committee.

During the year, the Remuneration Committee also took advice from Deloitte LLP (a member of the Remuneration Consultants Group), who were appointed as external advisers to the Remuneration Committee from October 2011.

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. Outside of the meetings, the Remuneration Committee's Chairman seeks advice on remuneration matters on an ongoing basis. As well as advising the Remuneration Committee, Deloitte LLP also provided tax, risk, data and real estate advice to the Group during the year. Deloitte Total Rewards and Benefits is an investment adviser to the trustees of the Standard Life Staff Pension Scheme. In addition, Standard Life is the current appointed provider for the Defined Contribution Master Plan that Deloitte LLP provides for its employees and Deloitte LLP is one of the employee benefit consultants through which Standard Life has been appointed to provide defined contribution arrangements for Deloitte's clients through competitive tender. Fees paid to Deloitte LLP during 2015 for professional advice to the Committee were £111,250.

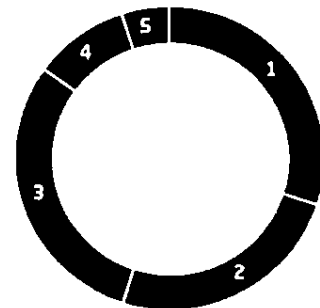
Where appropriate, the Remuneration Committee receives input from the Chairman, Chief Executive, Chief Financial Officer, Chief People Officer, Group Reward and Employment Policy Director, Group Chief Risk Officer and the Head of Corporate Governance at Standard Life Investments. This input never relates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

As noted in Section 2, Sir Gerry Grimstone is an independent non-executive of Deloitte LLP. He was appointed to this role to represent the public interest following a recommendation by the Financial Reporting Council that all major audit firms should have such representation. His remuneration for that role is a fixed sum and has no relationship to Deloitte's business activities. Both the Chairman and the Remuneration Committee recognised the need to ensure there is no conflict of interest arising from the appointment process. We were satisfied at the date of the appointment that the nature of the Chairman's appointment to Deloitte LLP did not create a conflict of interest. The

Remuneration Committee continue to monitor this position and are satisfied that the continuing appointment does not give rise to a conflict of interest. Deloitte LLP operates appropriate safeguards to maintain the independence of its advice, for example, the team responsible for providing advice to the Remuneration Committee are not rewarded for cross-selling non-related services to Standard Life and work is contracted for independently from work performed by the rest of the firm. Whilst Sir Gerry Grimstone has access to the Remuneration Committee adviser to the extent that he is invited to attend Remuneration Committee meetings, he does not meet with the Remuneration Committee advisor, other than in those meetings, to discuss matters relating to Standard Life. Communication between Deloitte LLP and the Remuneration Committee is on instruction from the Remuneration Committee Chairman.

The Committee's work in 2015

An indicative breakdown as to how the Remuneration Committee spent its time is shown below:



1. 2014 remuneration outcomes
2. 2015 remuneration arrangements
3. External regulation
4. CE succession
5. Other

The Remuneration Committee met nine times during 2015. The key issues discussed/approved were:

January to March	April to June
<ul style="list-style-type: none"> ▶ 2014 Directors' remuneration report ▶ Approving 2014 bonus payments and 2012 LTIP outcome ▶ Setting 2015 annual bonus and LTIP targets ▶ Agreeing 2015 salaries and LTIP awards ▶ Regulatory update 	<ul style="list-style-type: none"> ▶ Code Staff – review of population ▶ Review of external regulation and its impact on Standard Life ▶ Review of sales remuneration principles and governance
July to September	October to December
<ul style="list-style-type: none"> ▶ Executive Director appointments – remuneration ▶ Mid-year review of annual bonus and LTIP performance conditions against target ▶ Regulatory update 	<ul style="list-style-type: none"> ▶ Planning 2016 remuneration ▶ 2015 Directors' remuneration report ▶ Sales incentive governance ▶ Regulatory update

Shareholder voting

We remain committed to on going shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, we seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The following table sets out actual voting on the remuneration policy and 2014 Directors remuneration report presented at the 2015 AGM on 12 May 2015.

	For	Against	Withheld
Policy (% of total votes)	96.6%	3.4%	
Policy (No. of votes cast)	852,195,858	29,881,743	4,276,901
	For	Against	Withheld
2014 Directors remuneration report (% of total votes)	96.9%	3.1%	
2014 Directors remuneration report (No. of votes cast)	832,166,681	26,794,607	27,414,399

Promoting all-employee share ownership

We believe that share ownership by our employees helps them to understand the interests of the Company's shareholders. On 31 December 2015, 75% of our employees were Standard Life plc shareholders through participation in the Standard Life (Employee) Share Plan. We promote employee share ownership with a range of initiatives:

- ▶ The Standard Life (Employee) Share Plan which allows employees to buy Standard Life plc shares directly from their earnings. At 31 December 2015, 3,796 employees were making a monthly average contribution of £45. A similar tax-approved plan is used in Ireland and has a 47% take-up. Even though the plan cannot be structured on a tax-favourable basis in Germany and Austria, more than 126 employees in these countries are buying shares each month.
- ▶ The Standard Life 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. Sharesave invitations have been made annually since 2011 to UK employees and, as at 31 December 2015, over 3,400 employees in the UK were saving towards one or more of the Sharesave offers.

- ▶ The Standard Life Ireland Sharesave Plan which launched in August 2012. Invitations have been made annually from August 2012. As at 31 December 2015, over 100 employees were saving towards one or more of the Sharesave Ireland offers.

Share dilution limits

The Executive LTIP, the Group LTIP, the Standard Life Investments LTIP, the Standard Life (Employee) Share Plan, the Standard Life Sharesave Plan and the Standard Life Ireland Sharesave Plan contain dilution limits that comply with the guidelines produced by The Investment Association (IA). On 31 December 2015, the Company's standing against these dilution limits was:

- ▶ 3.87% where the guideline is no more than 5% in any 10 years under all discretionary share plans in which the executive Directors participate (Executive LTIP, Group LTIP and Standard Life Investments LTIP)
- ▶ 4.86% where the guideline is no more than 10% in any 10 years under all share plans (Executive LTIP, Group LTIP, Standard Life LTIP, Standard Life (Employee) Share Plan, the Sharesave Plan and Sharesave Ireland Plan)

As is normal practice, there are employee trusts that operate in conjunction with the Executive LTIP, Group LTIP and Standard Life Investments LTIP and the Standard Life (Employee) Share Plan. On 31 December 2015, the number of unallocated shares held within these trusts was 6,854 in respect of the Standard Life (Employee) Share Plan. In addition, the trusts held 1,637,419 shares acquired to satisfy deferred bonus awards, Executive LTIP, Group LTIP and Standard Life Investments LTIP awards and other share plan awards. Of these shares 7,447 are committed to satisfying vested but unexercised awards. The percentage of share capital held by the employee trusts is significantly less than the 5% best practice limit endorsed by the IA.

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 2015, the Directors contributed £3,283,620 (2014: £599,203) to products sold by the Group.

6. Directors' responsibilities

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 between the responsibilities of the Directors and those of the auditors in relation to the financial statements for 2015.

The Directors are responsible for preparing the Annual report and accounts 2015. It is also their responsibility to state that they consider that the Annual report and accounts 2015, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Under the Companies Act 2006, the Directors are required to prepare and approve financial statements for each financial year. The Directors must only approve the financial statements when they are satisfied that they give a true and fair view of how the Group and the Company have performed at the end of the financial year, and that they give a true and fair view of the profit of the Group and the Company for that year. The financial statements of the Group and, where relevant, the Company have been prepared in accordance with:

- ▶ International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
- ▶ The Companies Act 2006
- ▶ The Disclosure and Transparency Rules (DTR) issued by the Financial Conduct Authority (FCA)
- ▶ 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 IFRS 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 basis that the Group is a going concern, 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. The Directors should also make sure 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
- ▶ Preparing a Strategic report, Directors' report, Annual remuneration report and Corporate governance statement which comply with applicable law and regulations

- ▶ The maintenance and integrity of the corporate and financial information included on the Company'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 and the Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company and taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy
2. The Strategic report includes the information required by DTR 4.1.8 and DTR 4.1.9 – 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



Sir Gerry Grimstone
Chairman
19 February 2016



Luke Savage
Chief Financial Officer
19 February 2016

Financial information

Contents

7 Independent auditors' report – Group financial statements	102
8 Group financial statements	109
9 Independent auditors' report – Company financial statements	237
10 Company financial statements	239
11 Supplementary information	261

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Group financial statements

Group primary statements	109	Note 26. Assets and liabilities held for sale	157
Presentation of consolidated financial statements	116	Note 27. Cash and cash equivalents	158
Note 1. Group structure	120	Note 28. Issued share capital and share premium	159
Note 2. Segmental analysis	122	Note 29. Shares held by trusts	159
Note 3. Business written in the Group's insurance entities	128	Note 30. Retained earnings	160
Note 4. Investment return	134	Note 31. Movements in other reserves	160
Note 5. Fee income	135	Note 32. Non-controlling interests and third party interest in consolidated funds	163
Note 6. Expenses under arrangements with reinsurers	135	Note 33. Insurance contracts, investment contracts and reinsurance contracts	164
Note 7. Other administrative expenses	135	Note 34. Non-participating investments contracts	172
Note 8. Staff costs and other employee-related costs	136	Note 35. Financial liabilities	172
Note 9. Auditors' remuneration	136	Note 36. Subordinated liabilities	173
Note 10. Restructuring and corporate transaction expenses	137	Note 37. Pension and other post-retirement benefit provisions	174
Note 11. Taxation	137	Note 38. Deferred income	180
Note 12. Discontinued operations	141	Note 39. Other financial liabilities	180
Note 13. Earnings per share	143	Note 40. Other liabilities	181
Note 14. Operating profit and non-operating items	144	Note 41. Risk management	182
Note 15. Dividends and return of value	145	Note 42. Structured entities	205
Note 16. Intangible assets	146	Note 43. Fair value of assets and liabilities	206
Note 17. Deferred acquisition costs	148	Note 44. Statement of cash flows	214
Note 18. Investments in associates and joint ventures	149	Note 45. Contingent liabilities and contingent assets	215
Note 19. Investment property	151	Note 46. Commitments	216
Note 20. Property, plant and equipment	152	Note 47. Employee share-based payments	217
Note 21. Financial investments	153	Note 48. Related party transactions	220
Note 22. Loans	154	Note 49. Capital statement	221
Note 23. Derivative financial instruments	154	Note 50. Related undertakings	227
Note 24. Receivables and other financial assets	156		
Note 25. Other assets	156		

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7. Independent auditors' report to the members of Standard Life plc

Report on the Group financial statements

Our opinion

In our opinion, Standard Life plc's Group financial statements (the "financial statements"):

- ▶ Give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended
- ▶ Have been properly prepared in accordance with International Financial Reporting Standards ("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 International Accounting Standards ("IAS") Regulation

What we have audited

The financial statements, included within the Annual report and accounts, comprise:

- ▶ The consolidated statement of financial position as at 31 December 2015
- ▶ The consolidated income statement and consolidated statement of comprehensive income for the year then ended
- ▶ The consolidated statement of cash flows for the year then ended
- ▶ The consolidated statement of changes in equity for the year then ended
- ▶ The accounting policies
- ▶ The notes to the financial statements, which include other explanatory information

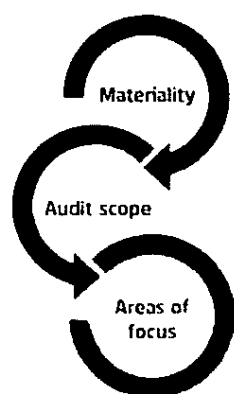
We have not audited the pro forma reconciliation of consolidated operating profit for the year ended 31 December 2015 set out on page 111 which was prepared by Standard Life plc.

Certain required disclosures have been presented elsewhere in the Annual report and accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview



- ▶ Overall Group materiality of £31m represents 5% of operating profit before tax.
- ▶ We selected 25 reporting units (as explained on page 106) on whose financial information we conducted audit procedures
- ▶ We identified 7 of these reporting units which, in our view, required an audit of the complete financial information, either due to their size and/or their risk characteristics. These focused on the material reporting units within the Standard Life Investments and UK and Europe segments.
- ▶ For the remaining 18 reporting units across all segments, specific audit procedures were performed on certain account balances and transactions
- ▶ Procedures were also performed at the Group level over the Group consolidation processes.

Our areas of focus included:

- ▶ Determination of actuarial assumptions for valuation of assets and liabilities
- ▶ Valuation of complex financial instruments and investment property
- ▶ New UK general ledger implementation
- ▶ Valuation of intangible assets arising from the acquisition of Ignis

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls and the risk of fraud in revenue recognition, including evaluating

whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified and considered by our audit.

Area of focus	How our audit addressed the area of focus
<p>Determination of actuarial assumptions for valuation of assets and liabilities</p>	
<p><i>Refer to page 68 (Audit Committee report), page 117 (Critical accounting estimates and judgements), pages 164 to 171 (Accounting policies and notes).</i></p>	
<p>The Directors' determination of assumptions for the valuation of life insurance contract liabilities involves complex judgements about future events, both internal and external to the business. Changes in assumptions can result in material impacts to the valuation of the liabilities. The methodology used can also have a material impact on the valuation of the insurance contract liabilities.</p> <p>As part of our consideration of assumptions, we gave specific focus to the annuitant mortality assumptions used in valuing life insurance contract liabilities, given the sensitivity of the Group's profit to changes in these assumptions and the level of judgement involved in setting these assumptions.</p> <p>Annuitant mortality assumptions are those related to the life expectancy of annuitants and the rate at which expectancy is likely to increase. These assumptions are driven by past experience and assumptions about future changes which are based on the Group's experience, together with industry standard data tables.</p>	<p>Our audit work in respect of actuarial assumptions in respect of life insurance contract liabilities included:</p> <ul style="list-style-type: none"> ▶ Assessing the key changes in the assumptions against regulatory and reporting requirements and industry standards ▶ Obtaining audit evidence in respect of the key controls over the key actuarial models, data collection and analysis and the assumptions setting processes used by management, evaluating their design and implementation and testing their operating effectiveness ▶ Benchmarking management's assumptions in the UK against over 25 of the largest life insurers in the UK which were included in PwC's independent benchmarking survey. This allowed us to compare the assumptions used relative to those used by the Group's industry peers. <p>Specifically for annuitant mortality assumptions:</p> <ul style="list-style-type: none"> ▶ Evaluating the choice of the industry standard Continuous Mortality Investigation ('CMI') model against the outputs of management's internal cause of death model, wider market data from benchmarking and regulatory feedback <p>Our audit work in respect of methodologies used in the valuation of life insurance contract liabilities included:</p> <ul style="list-style-type: none"> ▶ Challenging management's methodology, focusing on changes to methodology in the year, by applying our industry knowledge and experience to compare whether the methodology and / or changes are in compliance with recognised actuarial practices and regulatory and reporting requirements
<p>Due to the magnitude of the balance and the estimates involved in the valuation, we also considered the assumptions used in valuing pension scheme liabilities. This included assumptions over mortality, discount and inflation rates.</p>	<p>Our audit work in respect of actuarial assumptions in respect of pension scheme liabilities included:</p> <ul style="list-style-type: none"> ▶ Testing management's discount rate by creating an independent discount rate expectation based on our knowledge of the Standard Life pension scheme and other schemes of a similar nature ▶ Benchmarking management's key assumptions (pensioner and non-pensioner mortality, spread between RPI and CPI and inflation rate premium) against over 50 companies which were included in PwC's independent benchmarking survey. This allowed us to compare the assumptions used relative to those used by other companies. <p><i>We determined based on our audit work that the assumptions used are in line with financial reporting requirements and industry accepted practice and reflect the nature of the value of the Group's pension scheme.</i></p>
<p>Due to a regulatory change in Hong Kong, which had a material impact on the valuation of the deferred acquisition costs of Standard Life's Hong Kong insurance business, we focused on the assumptions used in this valuation.</p>	<p>Our audit work in respect of the valuation of the deferred acquisition costs of Standard Life's Hong Kong insurance business included:</p> <ul style="list-style-type: none"> ▶ Challenging management's assumptions by applying our industry knowledge and experience to compare whether the assumptions are in line with industry accepted practice and relevant regulatory and reporting requirements <p><i>We determined that the assumptions used in the valuation appropriately reflected the change in circumstances.</i></p>

Area of focus	How our audit addressed the area of focus
<p><i>We determined that the impairment charge recognised in the financial statements for the year appropriately reflected the changes in assumptions.</i></p>	
<p>Valuation of complex financial instruments and investment property</p>	
<p><i>Refer to page 68 (Audit Committee report), page 117 (Critical accounting estimates and judgements), pages 151 to 156 (Accounting policies and notes).</i></p>	
<p>We focused on this area as valuation, specifically in respect of derivatives, commercial mortgages and investment property, is an area which requires the use of judgement by the Directors and/or the involvement of valuation experts.</p> <p>Derivative and commercial mortgage valuations require judgements because, for some instruments, quoted prices are not readily available. As such, management use models to estimate their fair value.</p> <p>The key judgement for derivative valuations is whether there are any changes required to the methodology of these models as a result of market practice, accounting or regulatory updates.</p> <p>Commercial mortgage valuations require the use of judgement over the discount rates applied to the future contractual cash flows, particularly in respect of the credit risk of the borrowers.</p> <p>Investment property valuations are complex as they require the selection of assumptions, such as future rental income to determine expected yields. Management engage property experts to assist in selecting these assumptions.</p>	<p>Our audit work in respect of the valuation of derivative assets and liabilities included:</p> <ul style="list-style-type: none"> ▶ Evaluating the design and testing the operational effectiveness of key controls over derivative valuations, such as controls to reperform valuations calculated by outsourced operations using independent source data ▶ Understanding and assessing the models and methodology used for a sample of derivative investments across the investment portfolio, which management value using models. This included recalculating the sample of valuations using independent models and sourcing our own input data from recognised independent market data and investigating any differences found that were greater than predefined thresholds. <p>Our audit work in respect of the valuation of commercial mortgages included:</p> <ul style="list-style-type: none"> ▶ Evaluating the assumptions over the credit risk of the borrowers used in formulating the discount rate for the future cash flows against our own expectations for similar borrowers <p>Our audit work in respect of the valuation of investment properties included:</p> <ul style="list-style-type: none"> ▶ Evaluating the assumptions used in a sample of investment property valuations by comparing a sample of the property yields used by management's property experts against published market benchmarks in order to identify any assumptions or valuations which fell outside our expected range ▶ Meeting with management's property experts to establish whether the valuation approach was in accordance with our expectations based on our own experience of the investment property industry <p><i>We determined that the assumptions used, and the resultant valuations of the complex financial instruments and investment property were within ranges that we consider to be acceptable.</i></p>
<p>New UK general ledger implementation</p>	
<p><i>Refer to page 69 (Audit Committee report)</i></p>	
<p>During the year, the UK business implemented a new general ledger. The implementation involved migrating historic financial information from the old ledger to the new ledger and designing a new mapping of the policy and claims administration systems to the new general ledger and to existing reconciliation tools.</p> <p>We focused on this system change due to the risk of material misstatement of the financial statements arising from errors during the migration process that may remain undetected.</p> <p>Accordingly, we allocated a significant proportion of our resources across the year to perform audit procedures over the implementation, including the completeness and accuracy of the data migration.</p>	<p>Our audit work over the completeness and accuracy of the data migration included:</p> <ul style="list-style-type: none"> ▶ Performing independent reconciliations between the old general ledger and the new general ledger for account balances within the UK business' reporting units as at the migration date ▶ Testing management's reconciliations at the year end between the new ledger and underlying source systems <p><i>We determined that data had been completely and accurately migrated to the new general ledger.</i></p> <p>We also evaluated the design and tested the operational effectiveness of the post-migration IT and financial reporting control environment to establish the extent of detailed substantive testing that would be required to support our audit. To assess whether the new IT and financial reporting controls were designed and operating effectively our audit work included:</p> <ul style="list-style-type: none"> ▶ Testing the key controls over the transaction flows from the policy and claims administration systems to the new general ledger, for example, by testing that key automated controls functioned as designed ▶ Observing the operation of system-enforced segregation of duty controls within the new general ledger ▶ Obtaining details of manual journals being processed after migration and obtaining supporting evidence to assess the validity of the journal and the accuracy of the financial reporting impact ▶ Performing detailed testing of key reconciliations and investigating reconciling differences

Area of focus	How our audit addressed the area of focus
	<ul style="list-style-type: none"> ▶ Obtaining the log of changes made to the system post-migration and testing the implementation of the changes along with manual intervention into the system <p><i>During the implementation period management amended their approach to authorisation controls over reconciliations. As a result, we changed our audit approach and performed additional detailed testing of key reconciliations at year end.</i></p> <p><i>Based on the work performed we determined that the transactions and balances were mapped appropriately for financial reporting.</i></p>

Valuation of identifiable intangible assets arising from the acquisition of Ignis

Refer to page 68 (Audit Committee report), page 117 (Critical accounting estimates and judgements), pages 146 to 147 (Accounting policies and notes).

The Directors' valuation of intangible assets arising from business combinations involves complex judgements about forecast fund flows, discount rates and operating margins, as changes to which can have a material impact on the valuations adopted in the financial statements.

We gave specific focus to the changes in assumptions used in the revaluation of the remaining customer contract intangible asset arising from the acquisition of Ignis Asset Management Limited ('Ignis') in 2014 as changes to these assumptions could lead to a material change in the valuation and result in a material impairment charge within the consolidated income statement for the year.

Our audit work in respect of the valuation of the intangible asset arising through the acquisition of Ignis included:

- ▶ Evaluating and challenging assumptions used in forecasting fund flows. We checked that the forecasts used had been through management's internal challenge and approval process and considered the sensitivity of forecasts relative to the historical accuracy of management's forecasting.
- ▶ Challenging the discount rate used through a comparison of the range of discount rates used in the industry, as well as company specific metrics such as the weighted average cost of capital and our assessment of the risk associated with forecast cash flows
- ▶ Evaluating the forecast operating margins used against those experienced by the acquired business, as well as the ongoing business into which it is being integrated and our own expectation of the range of experience in the industry
- ▶ Performing stress testing and reverse stress testing on key assumptions in the valuation model to challenge the appropriateness of management's assumptions

We determined that the assumptions used in the valuation of the remaining customer contract intangible asset were appropriate to the circumstances and plans of the Group, and were within a reasonable range.

We determined that the impairment charge recognised in the financial statements for the year appropriately reflected the changes in assumptions.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of four segments: Standard Life Investments, UK and Europe, India and China and Other. These segments are disaggregated into reporting units. The financial statements are a consolidation of these reporting units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors either within PricewaterhouseCoopers LLP or from other PricewaterhouseCoopers network firms operating under our instruction.

We identified 7 of the Group's reporting units which, in our view, required an audit of their complete financial information ("full scope" reporting units). These focused on the material reporting units within the Standard Life Investments and UK and Europe segments.

In addition, specific audit procedures on certain account balances and transactions were performed at a further 18 reporting units within the Group across all segments ("limited scope" reporting units).

We performed testing over the controls in place at the Group level over the Group consolidation process including the consolidation of share capital and reserves and the elimination of intercompany transactions.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work performed at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements. As a result, the Group engagement team attended management's oversight and governance meetings within Standard Life Investments as the largest of the Group's components, and visited the Germany operations as the largest reporting unit of the UK and Europe segment outside of the UK.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£31m (2014: £37m).
How we determined it	5% of operating profit before tax.
Rationale for benchmark applied	In determining our materiality, we have considered financial metrics which we believe to be relevant and concluded that operating profit before tax was a relevant benchmark as it is the key performance measure reported by management and used by other stakeholders to reflect the underlying performance of the business in both its internal and external reporting to stakeholders, including shareholders and analysts.

To allocate materiality to full scope reporting units, we considered the specific risks and balances within the reporting units, as well as considering the level of materiality that would impact the individual entity's statutory financial statements as this is a focus for management when preparing their financial information. This resulted in materiality being allocated of between £25m and £10m to each of the full scope reporting units.

Having considered the coverage from the full scope reporting units, we assessed the risk of material misstatement within the limited scope reporting units and allocated materiality across in scope account balances and transactions. This resulted in allocation of between £30m and £7m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2m (2014: £2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 99, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to which to draw attention.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- ▶ The information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements
- ▶ The information given in the Corporate governance statement set out on pages 56 to 74 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual report and accounts is:

- | | |
|---|----------------------------------|
| ▶ Materially inconsistent with the information in the audited financial statements | We have no exceptions to report. |
| ▶ Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit | |
| ▶ Otherwise misleading | |
| ▶ The statement given by the Directors on page 99, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual report and accounts taken as a whole to be fair, balanced and understandable and provide the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit | We have no exceptions to report. |
| ▶ The section of the Annual report and accounts on pages 66 to 71, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee | We have no exceptions to report. |

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland), we are required to report to you if we have anything material to add or to draw attention to in relation to:

- | | |
|--|--|
| ▶ The Directors' confirmation on page 31 of the Annual report and accounts, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity | We have nothing material to add or to draw attention to. |
| ▶ The disclosures in the Annual report and accounts that describe those risks and explain how they are being managed or mitigated | We have nothing material to add or to draw attention to. |
| ▶ The Directors' explanation on page 31 of the Annual report and accounts, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | We have nothing material to add or to draw attention to. |

Under the Listing Rules, we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006, we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006, we are required to report to you if, in our opinion, a Corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibility statement set out on page 99, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

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
- ▶ The overall presentation of the financial statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of Standard Life plc for the year ended 31 December 2015 and on the information in the Directors' remuneration report that is described as having been audited.



Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
19 February 2016

- (a) The maintenance and integrity of the Standard Life plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

8. Group financial statements

Consolidated income statement

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Revenue			
Gross earned premium		2,276	2,404
Premium ceded to reinsurers		(48)	(61)
Net earned premium		2,228	2,343
Investment return	4	5,460	13,179
Fee income	5	1,120	985
Other income		84	81
Total revenue		8,892	16,588
Expenses			
Claims and benefits paid		4,543	4,389
Claim recoveries from reinsurers		(514)	(533)
Net insurance benefits and claims		4,029	3,856
Change in reinsurance assets and liabilities	33	520	(60)
Change in insurance and participating contract liabilities	33	(1,693)	3,834
Change in unallocated divisible surplus	33	(117)	(71)
Change in non-participating investment contract liabilities	34	3,363	5,362
Expenses under arrangements with reinsurers	6	42	639
Administrative expenses			
Restructuring and corporate transaction expenses	10	88	106
Other administrative expenses	7	1,540	1,430
Total administrative expenses		1,628	1,536
Change in liability for third party interest in consolidated funds	32	531	758
Finance costs		83	98
Total expenses		8,386	15,952
Share of profit from associates and joint ventures		43	36
Profit before tax		549	672
Tax expense attributable to policyholders' returns	11	134	250
Profit before tax expense attributable to equity holders' profits		415	422
Total tax expense	11	211	292
Less: Tax attributable to policyholders' returns		(134)	(250)
Tax expense attributable to equity holders' profits	11	77	42
Profit for the year from continuing operations		338	380
Profit for the year from discontinued operations	12	1,147	127
Profit for the year		1,485	507
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		276	376
From discontinued operations		1,147	127
Equity holders of Standard Life plc		1,423	503
Non-controlling interests	32	62	4
		1,485	507
Earnings per share from continuing operations			
Basic (pence per share)	13	13.5	15.8
Diluted (pence per share)	13	13.4	15.7
Earnings per share			
Basic (pence per share)	13	69.4	21.1
Diluted (pence per share)	13	69.1	21.0

The Notes on pages 116 to 236 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		1,485	507
Less: Profit for the year from discontinued operations	12	(1,147)	(127)
Profit for the year from continuing operations		338	380
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gains on defined benefit pension plans	37	167	292
Revaluation of owner occupied property	20	4	5
Equity movements transferred to unallocated divisible surplus	31	(4)	(4)
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	11	-	-
Total items that will not be reclassified subsequently to profit or loss		167	293
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on cash flow hedges		(1)	1
Net investment hedge		(1)	(1)
Fair value (losses)/gains on available-for-sale financial assets		(8)	27
Exchange differences on translating foreign operations		(6)	(13)
Equity movements transferred to unallocated divisible surplus	31	1	6
Share of other comprehensive income of joint ventures	30	2	4
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	11	2	(6)
Total items that may be reclassified subsequently to profit or loss		(11)	18
Other comprehensive income for the year from continuing operations		156	311
Other comprehensive income for the year from discontinued operations		(187)	(18)
Total other comprehensive income for the year		(31)	293
Profit for the year from discontinued operations	12	1,147	127
Total comprehensive income for the year		1,454	800
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		432	687
From discontinued operations		960	109
Non-controlling interests			
From continuing operations		62	4
		1,454	800

The Notes on pages 116 to 236 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 2015

	Notes	Continuing operations £m	2015 Discontinued operations £m	Total £m	Continuing operations £m	2014 Discontinued operations £m	Total £m
Operating profit before tax							
Standard Life Investments		342	-	342	257	4	261
UK and Europe		357	-	357	390	-	390
Canada		-	5	5	-	132	132
India and China ¹		27	(2)	25	23	(9)	14
Other		(61)	-	(61)	(62)	-	(62)
Operating profit before tax	2	665	3	668	608	127	735
Adjusted for the following items							
Short-term fluctuations in investment return and economic assumption changes	14	(63)	63	-	17	71	88
Restructuring and corporate transaction expenses	10	(115)	(10)	(125)	(109)	(31)	(140)
Impairment of intangible assets	16	(7)	(2)	(9)	(43)	(4)	(47)
Gain on sale of Canadian business	1	-	1,102	1,102	-	-	-
Other ²		(72)	(31)	(103)	(22)	(3)	(25)
Non-operating (loss)/profit before tax	2	(257)	1,122	865	(157)	33	(124)
Dubai included in discontinued operations segment ¹	2	-	-	-	(22)	22	-
Singapore included in discontinued operations segment ¹	2	(42)	42	-	(6)	6	-
Share of associates' and joint ventures' tax expense	2	(13)	-	(13)	(5)	-	(5)
Profit attributable to non-controlling interests	2	62	-	62	4	-	4
Profit before tax expense attributable to equity holders' profits		415	1,167	1,582	422	188	610
Tax (expense)/credit attributable to							
Operating profit	2	(114)	-	(114)	(82)	(42)	(124)
Non-operating items	2	37	(20)	17	40	(19)	21
Dubai included in discontinued operations segment ¹	2	-	-	-	-	-	-
Singapore included in discontinued operations segment ¹	2	-	-	-	-	-	-
Total tax expense attributable to equity holders' profits		(77)	(20)	(97)	(42)	(61)	(103)
Profit for the year		338	1,147	1,485	380	127	507

¹ Dubai and Singapore businesses, the closure of which were announced in November 2014 and June 2015 respectively, are included as discontinued operations for segmental reporting purposes under IFRS 8 as this is reflective of the presentation of information provided to the Chief Operating Decision Maker. These were previously included in the Asia and Emerging Markets segment which has been renamed India and China. Under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included under continuing operations in the consolidated income statement. Therefore the pro forma reconciliation above includes the reclassification of Dubai and Singapore results between discontinued and continuing operations. Comparatives have been restated.

² Following regulatory change in Hong Kong a review of expense and reserving assumptions was undertaken which resulted in a £46m non-operating loss being recognised, primarily relating to an impairment of deferred acquisition costs. This is included in Other non-operating items from continuing operations for the year ended 31 December 2015. Other non-operating items from discontinued operations for the year ended 31 December 2015 includes £31m in respect of impairment of deferred acquisition costs and plan enhancements relating to the closure of the Singapore business. See Note 14 for further details.

The Group's chosen supplementary measure of performance is operating profit. The Directors believe that operating profit provides a more useful 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. Refer to Note 14 for further details.

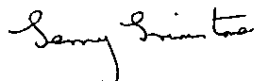
The Notes on pages 116 to 236 are an integral part of these consolidated financial statements.

Consolidated statement of financial position As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Intangible assets	16	566	565
Deferred acquisition costs	17	646	771
Investments in associates and joint ventures	18	5,719	4,508
Investment property	19	9,991	9,041
Property, plant and equipment	20	91	186
Pension and other post-retirement benefit assets	37	897	760
Deferred tax assets	11	35	33
Reinsurance assets	33	5,515	6,036
Loans	21	811	400
Derivative financial assets	21	2,444	4,021
Equity securities and interests in pooled investment funds	21	71,679	71,327
Debt securities	21	66,657	64,441
Receivables and other financial assets	21	1,447	1,248
Current tax recoverable	11	168	191
Other assets	25	89	116
Assets held for sale	26	327	29,338
Cash and cash equivalents	21	9,640	10,617
Total assets		176,722	203,599
Equity			
Share capital	28	241	239
Shares held by trusts	29	(6)	1
Share premium reserve	28	628	1,115
Retained earnings	30	2,162	1,816
Other reserves	31	977	1,501
Equity attributable to equity holders of Standard Life plc		4,002	4,672
Non-controlling interests	32	347	278
Total equity		4,349	4,950
Liabilities			
Non-participating insurance contract liabilities	33	21,206	21,841
Non-participating investment contract liabilities	34	92,894	88,207
Participating contract liabilities	33	29,654	31,276
Deposits received from reinsurers	35	5,134	5,642
Third party interest in consolidated funds	32	17,196	15,805
Subordinated liabilities	35	1,318	1,612
Pension and other post-retirement benefit provisions	37	33	44
Deferred income	38	236	276
Deferred tax liabilities	11	205	214
Current tax liabilities	11	113	172
Derivative financial liabilities	23	1,254	1,693
Other financial liabilities	35	2,900	3,734
Other liabilities	40	147	100
Liabilities of operations held for sale	26	83	28,033
Total liabilities		172,373	198,649
Total equity and liabilities		176,722	203,599

The Notes on pages 116 to 236 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 109 to 236 were approved by the Board and signed on its behalf by the following Directors:



Sir Gerry Grimstone
Chairman
19 February 2016



Luke Savage
Chief Financial Officer
19 February 2016

Consolidated statement of changes in equity For the year ended 31 December 2015

2015	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		239	1	1,115	1,816	1,501	4,672	278	4,950
Profit for the year from continuing operations		-	-	-	276	-	276	62	338
Profit for the year from discontinued operations	12	-	-	-	1,147	-	1,147	-	1,147
Other comprehensive income for the year from continuing operations		-	-	-	169	(13)	156	-	156
Other comprehensive income/(expense) for the year from discontinued operations		-	-	-	(14)	(173)	(187)	-	(187)
Total comprehensive income for the year		-	-	-	1,578	(186)	1,392	62	1,454
Dividends paid on ordinary shares	15	-	-	-	(343)	-	(343)	-	(343)
Issue of share capital	28	2	-	1	-	-	3	-	3
Issue of 'B' shares	28	488	-	(488)	-	-	-	-	-
Issue of 'C' shares	28	-	-	-	-	-	-	-	-
Redemption of 'B' shares	28	(488)	-	-	(488)	488	(488)	-	(488)
Dividends paid on 'C' shares	28	-	-	-	(1,261)	-	(1,261)	-	(1,261)
Purchase of 'C' shares	28	-	-	-	-	-	-	-	-
Dividends due on unclaimed shares not held in the Unclaimed Asset Trust		-	-	-	(2)	-	(2)	-	(2)
Reserves credit for employee share-based payment schemes	31	-	-	-	-	34	34	-	34
Transfer to retained earnings for vested employee share-based payment schemes	30, 31	-	-	-	32	(32)	-	-	-
Transfer between reserves on disposal of subsidiaries	1	-	-	-	827	(827)	-	-	-
Shares acquired by employee trusts		-	(9)	-	-	-	(9)	-	(9)
Shares distributed or sold by employee and other trusts	30	-	2	-	(2)	-	-	-	-
Other movements in non-controlling interests in the period		-	-	-	-	-	-	7	7
Aggregate tax effect of items recognised directly in equity	11	-	-	-	5	(1)	4	-	4
31 December		241	(6)	628	2,162	977	4,002	347	4,349

2014	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		238	(6)	1,110	1,391	1,494	4,227	333	4,560
Profit for the year from continuing operations		-	-	-	376	-	376	4	380
Profit for the year from discontinued operations		-	-	-	127	-	127	-	127
Other comprehensive income for the year from continuing operations		-	-	-	296	15	311	-	311
Other comprehensive income for the year from discontinued operations		-	-	-	(15)	(3)	(18)	-	(18)
Total comprehensive income for the year		-	-	-	784	12	796	4	800
Dividends paid on ordinary shares	15	-	-	-	(386)	-	(386)	-	(386)
Issue of share capital	28	1	-	5	-	-	6	-	6
Reserves credit for employee share-based payment schemes	31	-	-	-	-	27	27	-	27
Transfer to retained earnings for vested employee share-based payment schemes	30, 31	-	-	-	27	(27)	-	-	-
Transfer to retained earnings of sale of owner occupied property		-	-	-	4	(4)	-	-	-
Shares acquired by employee trusts		-	(3)	-	-	-	(3)	-	(3)
Shares distributed or sold by employee and other trusts	30	-	10	-	(10)	-	-	-	-
Other movements in non-controlling interests in the year		-	-	-	-	-	-	(59)	(59)
Aggregate tax effect of items recognised directly in equity	11	-	-	-	6	(1)	5	-	5
31 December		239	1	1,115	1,816	1,501	4,672	278	4,950

The Notes on pages 116 to 236 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax from continuing operations		549	672
Profit before tax from discontinued operations	12	1,167	188
		1,716	860
Change in operating assets	44	(6,607)	(13,455)
Change in operating liabilities	44	4,042	11,700
Adjustment for non-cash movements in investment income		(20)	(242)
Change in unallocated divisible surplus		(117)	(71)
Non-cash items relating to investing and financing activities	44	(1,017)	189
Taxation paid		(261)	(242)
Net cash flows from operating activities		(2,264)	(1,261)
Cash flows from investing activities			
Purchase of property, plant and equipment		(8)	(21)
Proceeds from sale of property, plant and equipment		98	13
Acquisition of subsidiaries and unincorporated businesses net of cash acquired		(6)	(297)
Disposal of subsidiaries net of cash disposed of	44	1,600	-
Proceeds from settlement of hedging derivatives contracts		100	-
Acquisition of investments in associates and joint ventures		(9)	(14)
Purchase of intangible assets not acquired through business combinations		(61)	(54)
Net cash flows from investing activities		1,714	(373)
Cash flows from financing activities			
Repayment of other borrowings		(3)	(4)
Repayment of subordinated liabilities		(282)	-
Capital flows from third party interest in consolidated funds and non-controlling interests		1,575	3,434
Distributions paid to third party interest in consolidated funds and non-controlling interests		(110)	(172)
Shares acquired by trusts		(9)	(1)
Proceeds from exercise of share options		-	5
Interest paid		(89)	(112)
Return of cash to shareholders under 'B/C' share scheme	15	(1,749)	-
Ordinary dividends paid	15	(343)	(386)
Net cash flows from financing activities		(1,010)	2,764
Net (decrease)/increase in cash and cash equivalents		(1,560)	1,130
Cash and cash equivalents at the beginning of the year		11,243	10,253
Effects of exchange rate changes on cash and cash equivalents		(92)	(140)
Cash and cash equivalents at the end of the year	27	9,591	11,243
Supplemental disclosures on cash flows from operating activities			
Interest paid		7	13
Interest received		1,979	2,317
Dividends received		1,923	2,364
Rental income received on investment property		490	597

The Notes on pages 116 to 236 are an integral part of these consolidated financial statements.

Presentation of consolidated financial statements

The Group's significant accounting policies are included at the beginning of the relevant notes to the consolidated financial statements. This section sets out the basis of preparation, a summary of the Group's critical accounting estimates and judgements in applying accounting policies, and other significant accounting policies which have been applied to the financial statements as a whole.

(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 (IFRICs), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment property, owner occupied property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements.

(a)(i) New interpretations and amendments to existing standards that have been adopted by the Group

The Group has adopted and early adopted the following new interpretations and amendments to existing standards which have been endorsed by the EU.

Interpretation or amendment	Effective Date ¹	Detail
IFRIC 21 <i>Levies</i>	17 June 2014	The interpretation clarifies that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs.
Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	1 February 2015	The amendments clarify the requirements for attributing employee and third party contributions to periods of service and recognising employee and third party contributions in certain situations.
Annual improvements 2010-2012 cycle and Annual improvements 2011-2013 cycle	1 February 2015 and 1 July 2014 respectively	These annual improvements make 11 minor amendments to existing standards.

¹ For annual periods beginning on or after.

The Group's accounting policies have been updated to reflect these. The implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group's financial statements.

(a)(ii) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's annual accounting periods beginning after 1 January 2015. The Group has not early adopted the standards, amendments and interpretations described below:

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 will replace IAS 18 *Revenue* and related interpretations. IFRS 15 provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. Extensive new disclosure requirements including estimate and judgement thresholds will also be introduced.

The Group's revenue generated from the following contracts are exempt from this standard:

- Lease contracts within scope of IAS 17 *Leases*
- Insurance contracts within scope of IFRS 4 *Insurance Contracts*
- Financial instruments within scope of IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*
- Investments in associates and joint ventures within scope of IAS 28 *Investments in Associates and Joint Ventures*

During 2015 the IASB has issued an exposure draft with clarifications to the standard and delayed the mandatory adoption date until 1 January 2018. The Group does not intend to early adopt the standard which has not yet been endorsed by the EU.

A detailed impact assessment was commenced in 2015, reviewing contracts and analysing the revenue recognised by the Group. From the work completed to date, no material impact on profit or net assets has been identified. Further analysis of the revenues generated within the Group's investment management business and by investment contract within the Group's insurance businesses will be completed in 2016.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative 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 classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI.

Additionally IFRS 9 amends the current requirements for assessing hedge effectiveness in IAS 39 and also amends what qualifies as a hedged item and some of the restrictions on what qualifies as a hedging instrument. The accounting and presentation requirements for designated hedging relationships remain largely unchanged.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements. The standard has not yet been endorsed by the EU.

An Exposure Draft was issued by the IASB in December 2015 proposing amendments to IFRS 4 *Insurance Contracts*. The amendments are intended to address the consequences of the different effective dates of IFRS 9 and the new insurance contracts standard by permitting insurers to either defer implementation of IFRS 9 to align with the implementation of the new insurance standard, if they satisfy criteria regarding the predominance of their insurance activities, or apply an overlay approach to remove incremental volatility from the income statement.

An initial high level assessment has been undertaken of the impact of implementing IFRS 9. It is not expected that the implementation will have a significant impact on the classification of financial assets and financial liabilities, with the Group continuing to classify the majority of these instruments as FVTPL in line with the current accounting policy. It is possible that based on the business model being applied on the adoption date of IFRS 9 certain portfolios of debt securities in the shareholder business risk segment may be classified as either FVTPL or FVOCI (at 31 December 2015 these portfolios have a fair value of £2bn compared to total financial assets of £158bn). The implementation of the new impairment model and the revised requirements for the application of hedge accounting are not expected to have a significant impact.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The IASB issued the new standard on leases in January 2016. Management are currently reviewing the new requirements and the impact on the Group's financial statements will be assessed in due course. The standard has not yet been endorsed by the EU.

Other

There are no other new standards, interpretations and amendments to existing standards that have been published that are expected to have a significant impact on the consolidated financial statements of the Group.

(a)(iii) Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires management to exercise judgements in applying the accounting policies and make estimates and assumptions 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. Judgements and sources of estimation uncertainty 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 consolidated financial statements are as follows:

Financial statement area	Critical judgements in applying accounting policies	Related note
Classification of insurance, reinsurance and investment contracts	Assessment of the significance of insurance risk transferred, and treatment of contracts which have insurance, non-participating investment and participating investment elements.	Note 33
Defined benefit pension plans	Assessment of whether the Group has an unconditional right to a refund of the surplus	Note 37
Consolidation assessment for structured entities	Assessment of control Assessment of significant influence	Basis of consolidation and Note 18
Contingent liabilities	Assessment of whether the Group has a contingent liability in relation to conduct matters	Note 45

Presentation of consolidated financial statements *continued*

(a) Basis of preparation *continued*

(a)(iii) Critical accounting estimates and judgements in applying accounting policies *continued*

Financial statement area	Critical accounting estimates and assumptions	Related note
Participating contracts, non-participating insurance contracts and reinsurance contracts	Determination of the valuation interest rates, and investment returns Determination of longevity and mortality assumptions Determination of expense assumptions	Note 33
Financial instruments at fair value through profit or loss	Determination of the fair value of private equity investments, debt securities categorised as level 3 in the fair value hierarchy and over-the-counter derivatives	Notes 21 and 43
Investment property	Determination of the fair value of investment property	Notes 19 and 43
Defined benefit pension plans	Determination of UK pension plan assumptions for mortality, discount rate and inflation	Note 37
Intangible assets	Identification and valuation of identifiable intangible assets arising from business combinations Determination of useful lives of intangible assets Determination of the recoverable amount	Note 16

Further detail on critical accounting estimates and assumptions is provided in the relevant note.

(a)(iv) Foreign currency translation

The consolidated financial statements are presented in millions pounds Sterling.

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 other comprehensive income and the foreign currency translation reserve in equity.

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 consolidated 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 consolidated income statement. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line in the consolidated income statement.

The income statements and cash flows, and statements of financial position of Group entities that have a different functional currency from the Group's presentation currency have been translated using the following principal exchange rates:

	2015	2015	2014	2014
	Income statement and cash flows (average rate)	Statement of financial position (closing rate)	Income statement (average rate)	Statement of financial position (closing rate)
Euro	1.375	1.357	1.244	1.289
US Dollar	1.528	1.474	1.647	1.559
Canadian Dollar	1.956	2.047	1.818	1.806
Indian Rupee	98.116	97.504	100.735	98.425
Chinese Renminbi	9.599	9.571	10.151	9.674
Hong Kong Dollar	11.844	11.423	12.775	12.092

The sale of Standard Life Financial Inc. and Standard Life Investments Inc. completed on 30 January 2015 as discussed in Note 1. The average Canadian dollar rate used to translate the income statements and cash flows of these entities for the period ended 30 January 2015 was 1.855 and the rate used to translate the statement of financial position of these entities at 30 January 2015 was 1.904. The average Canadian dollar rate in the table above for the year to 31 December 2015 was used to translate the income statement and cash flows of Standard Life Assurance Limited (SLAL) Canada branch, the assets and liabilities of which were transferred on 31 December 2015 as part of the sale of the Canadian business.

(b) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings.

Subsidiaries are all entities (including investment vehicles) over which the Group has control. Control arises when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. For operating entities this generally accompanies a shareholding of 50% or more in the entity. For investment vehicles, including structured entities, the control assessment also considers the removal rights of other investors and whether the Group acts as principal or agent in assessing the link between power and variable returns. In determining whether the Group acts as principal, and therefore controls the entity, the scope of the Group's decision-making authority and the magnitude of the variability associated with the returns are also taken into account. As a result, the Group often is considered to control investment vehicles in which its shareholding is less than 50%.

Where the Group is considered to control an investment vehicle, such as an open-ended investment company, a unit trust or a limited partnership, and it is therefore consolidated, the interests of parties other than the Group are assessed to determine whether they should be classified as liabilities or as non-controlling interests. The liabilities 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 financial liability is designated at fair value through profit or loss (FVTPL) as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets. The interests of parties other than the Group in all other types of entities are recorded as non-controlling interests.

All intra-group transactions, balances, income and expenses are eliminated in full.

The Group uses the acquisition method to account for acquisitions of businesses. At the acquisition date the assets and liabilities of the business acquired are identified and initially measured at fair value on the consolidated statement of financial position.

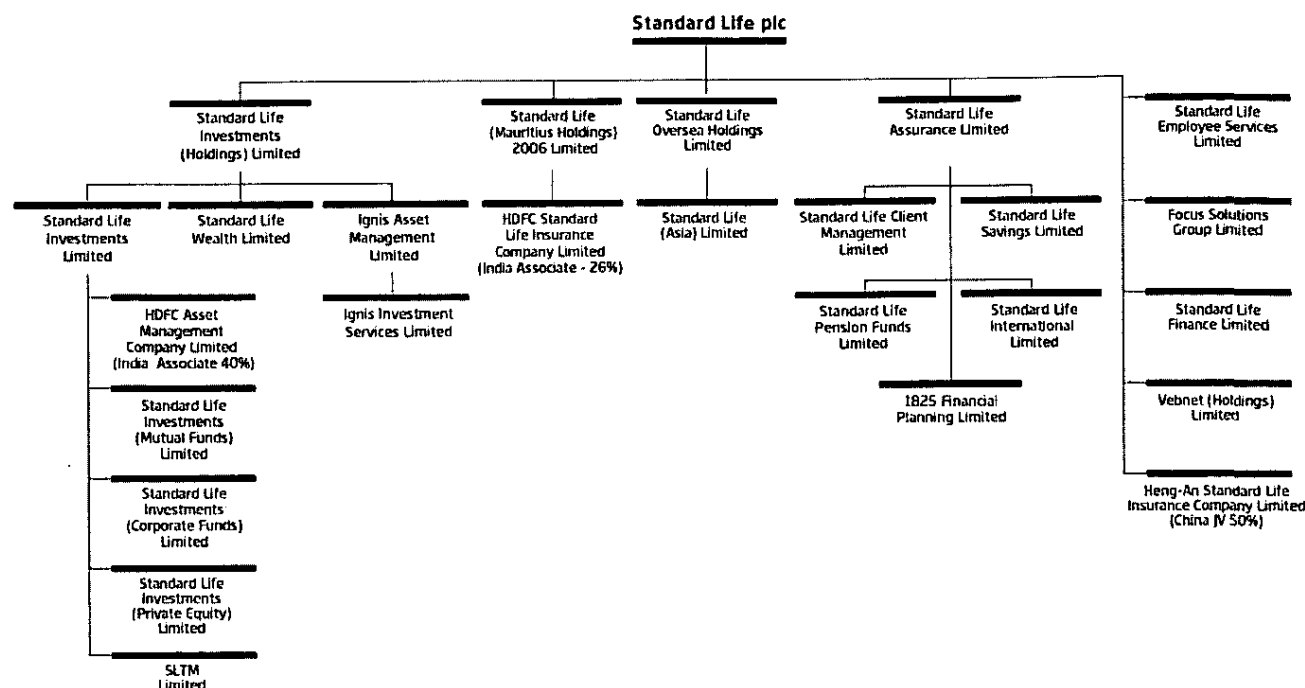
When the Group acquires or disposes of a subsidiary, the profits and losses of the subsidiary are included from the date on which control was transferred to the Group until the date on which it ceases, with consistent accounting policies applied across all entities throughout.

Notes to the Group financial statements

1. Group structure

(a) Composition

The following diagram is an extract of the Group structure at 31 December 2015 and gives an overview of the composition of the Group.



A full list of the Company's subsidiaries is provided in Note 50.

(b) Acquisitions

On 6 February 2015, the Group announced the launch of its wholly owned, UK-wide financial advice business, 1825. At the same time, the Company agreed to purchase the entire share capital of Pearson Jones plc from Skipton Group Holdings Limited. Pearson Jones is an established advice firm with assets under advice of £1.1bn at the acquisition date. The acquisition completed on 11 May 2015 and is not material to the Group.

Prior year acquisition

On 1 July 2014, Standard Life Investments (Holdings) Limited, a wholly owned subsidiary of the Company acquired the entire share capital of Ignis Asset Management Limited (Ignis). The consideration transferred included a contingent consideration asset which was measured at fair value at £20m at the acquisition date. The contingent consideration relates to withdrawals of certain AUM acquired through the business combination. If AUM is withdrawn under certain circumstances, and outwith the expected run-off profile of the assets, then the seller will repay part of the purchase consideration for a period of up to 10 years from the acquisition date. The fair value of the asset at 31 December 2015 is £15m (2014: £20m). The movement in fair value of the contingent consideration asset has been recognised in other income in the consolidated income statement.

(c) Disposals

On 3 September 2014 the Group announced its intention to sell its Canadian business to The Manufacturers Life Insurance Company (MLC), a subsidiary of Manulife Financial Corporation (Manulife). The sale of the Group's Canadian long-term savings and retirement, individual and group insurance business (Standard Life Financial Inc.) and Canadian investment management business (Standard Life Investments Inc.) completed on 30 January 2015. The assets and liabilities of the Canadian branch of Standard Life Assurance Limited (SLAL Canada branch) were transferred on 31 December 2015 following the fulfilment of certain conditions to completion, including regulatory approval. The consideration, which was received on 30 January 2015, was CA\$4.0bn (£2.1bn) and a further £0.1bn was received from the settlement of related hedging derivative contracts. The Group recognised a gain on disposal in respect of the sale which is included in profit from discontinued operations in the consolidated income statement for the year ended 31 December 2015.

The gain on sale was calculated as follows:

	£m
Total assets of operations disposed of	(28,553)
Total liabilities of operations disposed of	27,352
Net assets of operations disposed of	(1,201)
Consideration less transaction costs and provision recognised on disposal	2,066
Release of available-for-sale financial assets reserve	17
Release of cash flow hedges reserve	60
Release of net investment hedge reserve	110
Release of foreign currency translation reserve	50
Gain on sale	1,102

The gain on sale was exempt from tax under UK and Canadian tax legislation.

The following additional reserve releases were made as a result of the sale. These releases were taken directly to retained earnings.

	£m
Reserve arising on Group reconstruction	(221)
Merger reserve	1,028
Revaluation of owner occupied property reserve	20
	827

2. Segmental analysis

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed. IFRS 8 *Operating Segments* requires that the information presented in the financial statements is based on information provided to the 'Chief Operating Decision Maker'. The Chief Operating Decision Maker for the Group is the strategic executive committee.

(a) Basis of segmentation

The Group's reportable segments are as follows:

Continuing operations:

Standard Life Investments

Standard Life Investments provides a range of investment products for individuals and institutional customers through a number of different investment vehicles. Investment management services are also provided by Standard Life Investments to the Group's other reportable segments. This segment includes the Group's share of the results of HDFC Asset Management Company Limited.

UK and Europe

UK and Europe provide a broad range of long-term savings and investment products to individual and corporate customers in the UK, Germany, Austria and Ireland.

India and China (formerly Asia and Emerging Markets)

The businesses included in India and China offer a range of insurance and savings products and comprise our life insurance associate in India, our life insurance joint venture in China, and wholly owned operations in Hong Kong.

Other

This primarily includes the corporate centre and related activities.

Discontinued operations:

Canada

The operations in Canada provided long-term savings, investment and insurance solutions to individuals, and group benefit and retirement plan members. The Canadian business was sold on 30 January 2015.

Dubai

The business in Dubai provided a range of savings and investment products. The closure of this business was announced in November 2014. This business was previously included in the Asia and Emerging Markets segment. The results of this business were included as discontinued operations for segmental reporting purposes as at 31 December 2014 as this was reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 5, Dubai did not constitute a discontinued operation and was included under continuing operations in the IFRS consolidated income statement. Therefore the segmental analysis disclosures include the reclassification of Dubai results between discontinued and continuing operations.

Singapore

The business in Singapore provided a range of savings and insurance products. The closure of this business was announced in June 2015. This business was previously included in the Asia and Emerging Markets segment.

(b) Reportable segments - Group operating profit, revenue and asset information

The key performance metrics of the Group include operating profit before tax and assets under administration (AUA), which are analysed below by reportable segment. The following change was made to the financial information provided to the strategic executive committee in the year to 31 December 2015:

- On 25 June 2015, the Group announced the closure of the Singapore business. The results of this business are included as discontinued operations for segmental reporting purposes as this is reflective of the presentation of information provided to the Chief Operating Decision Maker. Singapore was previously included in the Asia and Emerging Markets segment (now India and China). Under IFRS 5, Singapore does not constitute a discontinued operation and is included under continuing operations in the IFRS consolidated income statement. Therefore the segmental analysis disclosures include the reclassification of Singapore results between discontinued and continuing operations.

Comparative amounts for the year ended 31 December 2014 have been prepared on the same basis as 31 December 2015 to allow more meaningful comparison.

(b)(i) Analysis of Group operating profit by segment

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 performance of the Group. Operating profit is the key measure utilised by the Group's management in their evaluation of segmental performance and is therefore also presented by reportable segment.

31 December 2015	Notes	Standard Life Investments £m	UK and Europe £m	India and China £m	Other £m	Eliminations £m	Total continuing operations £m	Discontinued operations ¹ £m	Total £m
Fee based revenue		843	808	38	-	(110)	1,579	21	1,600
Spread/risk margin		-	145	-	-	-	145	9	154
Total income		843	953	38	-	(110)	1,724	30	1,754
Total operating expenses		(532)	(610)	(36)	(56)	110	(1,124)	(29)	(1,153)
Capital management		-	14	-	(5)	-	9	2	11
Share of associates' and joint ventures' profit before tax ²		31	-	25	-	-	56	-	56
Operating profit/(loss) before tax		342	357	27	(61)	-	665	3	668
Tax on operating profit		(64)	(54)	-	4	-	(114)	-	(114)
Share of associates' and joint ventures' tax expense	11	(11)	-	(2)	-	-	(13)	-	(13)
Operating profit/(loss) after tax		267	303	25	(57)	-	538	3	541
Adjusted for the following items:									
Short-term fluctuations in investment return and economic assumption changes	14	-	(54)	-	(9)	-	(63)	63	-
Restructuring and corporate transaction expenses	10	(23)	(75)	-	(17)	-	(115)	(10)	(125)
Impairment of intangible assets	16	(5)	(2)	-	-	-	(7)	(2)	(9)
Gain on sale of Canadian business	1	-	-	-	-	-	-	1,102	1,102
Other		(25)	-	(47)	-	-	(72)	(31)	(103)
Total non-operating items		(53)	(131)	(47)	(26)	-	(257)	1,122	865
Tax on non-operating items		11	16	5	5	-	37	(20)	17
Singapore included in discontinued operations segment ¹		-	-	(42)	-	-	(42)	42	-
Profit for the year attributable to equity holders of Standard Life plc		225	188	(59)	(78)	-	276	1,147	1,423
Profit attributable to non-controlling interests							62	-	62
Profit for the year							338	1,147	1,485

¹ Under IFRS 5, Singapore does not constitute a discontinued operation and is included under continuing operations in the consolidated income statement. Therefore the analysis of Group operating profit by segment above includes the reclassification of Singapore results between discontinued and continuing operations.

² Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

Each operating segment reports total income as its measure of revenue in its analysis of operating profit. Fee based revenue consists of income generated primarily from asset management charges, premium based charges and transactional charges. Spread/risk margin reflects the margin earned on spread/risk business and includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and actuarial reserving changes.

The Group has a widely diversified policyholder base and is therefore not reliant on any individual customers.

2. Segmental analysis *continued*

(b) Reportable segments - Group operating profit, revenue and asset information *continued*

(b)(i) Analysis of Group operating profit by segment *continued*

31 December 2014	Notes	Standard Life Investments £m	UK and Europe £m	India and China £m	Other £m	Eliminations £m	Total continuing operations £m	Discontinued operations ¹ £m	Total £m
Fee based revenue		686	802	49	-	(108)	1,429	223	1,652
Spread/risk margin		-	183	-	-	-	183	191	374
Total income		686	985	49	-	(108)	1,612	414	2,026
Total operating expenses		(450)	(605)	(44)	(54)	108	(1,045)	(302)	(1,347)
Capital management		-	10	-	(8)	-	2	15	17
Share of associates' and joint ventures' profit before tax ²		21	-	18	-	-	39	-	39
Operating profit/(loss) before tax		257	390	23	(62)	-	608	127	735
Tax on operating profit		(51)	(43)	(1)	13	-	(82)	(42)	(124)
Share of associates' and joint ventures' tax expense	11	(7)	-	2	-	-	(5)	-	(5)
Operating profit/(loss) after tax		199	347	24	(49)	-	521	85	606
Adjusted for the following items									
Short-term fluctuations in investment return and economic assumption changes	14	1	29	-	(13)	-	17	71	88
Restructuring and corporate transaction expenses	10	(51)	(51)	-	(7)	-	(109)	(31)	(140)
Impairment of intangible assets	16	(43)	-	-	-	-	(43)	(4)	(47)
Other		(9)	(11)	-	(2)	-	(22)	(3)	(25)
Total non-operating items		(102)	(33)	-	(22)	-	(157)	33	(124)
Tax on non-operating items		17	18	-	5	-	40	(19)	21
Dubai included in discontinued operations segment ¹		-	-	(22)	-	-	(22)	22	-
Singapore included in discontinued operations segment ¹		-	-	(6)	-	-	(6)	6	-
Profit/(loss) for the year attributable to equity holders of Standard Life plc		114	332	(4)	(66)	-	376	127	503
Profit attributable to non-controlling interests							4	-	4
Profit for the year							380	127	507

¹ Under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included under continuing operations in the consolidated income statement. Therefore the analysis of Group operating profit by segment above includes the reclassification of Dubai and Singapore results between discontinued and continuing operations.

² Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

(b)(ii) Total income and expenses

The following table provides a reconciliation of total income and total operating expenses from continuing operations, as presented in the analysis of Group operating profit by segment, to total revenue and total expenses respectively, as presented in the consolidated income statement:

	2015		2014	
	Income £m	Expenses £m	Income £m	Expenses £m
Total income or operating expenses from continuing operations as presented in the analysis of Group operating profit by segment	1,724	(1,124)	1,612	(1,045)
Net insurance benefits and claims	4,029	(4,029)	3,856	(3,856)
Change in reinsurance assets and liabilities	520	(520)	(60)	60
Change in insurance and participating contract liabilities	(1,693)	1,693	3,834	(3,834)
Change in unallocated divisible surplus	(117)	117	(71)	71
Change in non-participating investment contract liabilities	3,363	(3,363)	5,362	(5,362)
Expenses under arrangements with reinsurers	42	(42)	639	(639)
Change in liability for third party interest in consolidated funds	531	(531)	758	(758)
Other presentation differences	305	(305)	396	(396)
Tax movement attributable to policyholder returns	134	-	250	-
Non-operating items	(23)	(234)	1	(158)
Non-controlling interests and capital management	71	-	4	-
Dubai included in discontinued operations segment ¹	-	-	4	(26)
Singapore included in discontinued operations segment ¹	6	(48)	3	(9)
Total revenue or expenses from continuing operations as presented on the consolidated income statement	8,892	(8,386)	16,588	(15,952)

¹ Under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included under continuing operations in the consolidated income statement. Therefore the reconciliation includes the reclassification of Dubai and Singapore results between discontinued and continuing operations.

This reconciliation includes a number of reconciling items which arise due to presentation differences between IFRS reporting requirements and the determination of operating income and expenses. Operating income and expenses exclude items which have an equal and opposite effect on IFRS revenue and IFRS expenses in the consolidated income statement, such as investment returns which are for the account of policyholders. Other presentation differences in the above reconciliation generally relates to items included in administrative expenses which are borne by policyholders, for example investment property management expenses, or are directly related to fee income.

2. Segmental analysis *continued*

(b) Reportable segments - Group operating profit, revenue and asset information *continued*

(b)(iii) Analysis of assets under administration by segment

Group AUA presents a measure of the total assets of the Group including those administered on behalf of customers and institutional clients. AUA represents the IFRS gross assets of the Group adjusted to include third party AUA, which is not included on the consolidated statement of financial position. In addition, certain assets on the consolidated statement of financial position are excluded from the definition, including reinsurance assets, deferred acquisition costs and intangible assets.

As a long-term savings and investments business, AUA is a key driver of shareholder value and is consequently one of the key measures utilised by the strategic executive committee in their evaluation of segmental performance. AUA is therefore presented by reportable segment (in billions).

31 December 2015	Standard Life Investments £bn	UK and Europe £bn	India and China £bn	Other £bn	Eliminations ¹ £bn	Total continuing operations £bn	Discontinued operations £bn	Total £bn
Assets under administration								
Fee based	170	127	1	-	(18)	280	-	280
Spread/risk	-	15	-	-	-	15	-	15
Assets not backing products in long-term savings business	-	8	-	-	-	8	-	8
Associate and joint venture businesses	-	-	2	-	-	2	-	2
Other corporate assets	1	-	-	1	-	2	-	2
Total assets under administration	171	150	3	1	(18)	307	-	307
Third party AUA								(155)
Reinsurance assets								6
Deferred acquisition costs								1
Assets attributable to third party interest in consolidated funds and non-controlling interests								18
Other								-
Total assets per consolidated statement of financial position								177

¹ In order to be consistent with the presentation of new business information, certain products are included in both Standard Life Investments AUA and other segments. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

The third party AUA adjustment mainly relates to the investment products element of third party funds under administration and non-insured self invested personal pension (SIPP) AUA which are not included on the consolidated statement of financial position. Assets attributable to third party interest in consolidated funds and non-controlling interests are included on the consolidated statement of financial position but are excluded from the Group's AUA.

31 December 2014	Standard Life Investments £bn	UK and Europe £bn	India and China £bn	Other £bn	Eliminations ¹ £bn	Total continuing operations £bn	Discontinued operations £bn	Total £bn
Assets under administration								
Fee based	162	122	-	-	(15)	269	21	290
Spread/risk	-	16	-	-	-	16	9	25
Assets not backing products in long-term savings business	-	8	-	-	-	8	2	10
Associate and joint venture businesses	-	-	2	-	-	2	-	2
Other corporate assets	1	-	-	1	-	2	-	2
Total assets under administration	163	146	2	1	(15)	297	32	329
Third party AUA								(149)
Reinsurance assets								6
Deferred acquisition costs								1
Assets attributable to third party interest in consolidated funds and non-controlling interests								16
Other								1
Total assets per consolidated statement of financial position								204

¹ In order to be consistent with the presentation of new business information, certain products are included in both Standard Life Investments AUA and other segments. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

(c) Total revenue by geographical location

Total revenue from continuing operations as presented in the consolidated income statement split by geographical location in which it was earned is as follows:

	2015 £m	2014 £m
UK	6,628	12,740
Rest of the world	2,264	3,848
Total	8,892	16,588

The revenue of the operating businesses is allocated based on customer location. The return on investment funds is allocated based on where funds are registered.

(d) Non-current non-financial assets by geographical location

	2015 £m	2014 £m
UK	9,954	8,345
Rest of the world	694	1,447
Total	10,648	9,792

Non-current non-financial assets for this purpose consist of investment property, property, plant and equipment and intangible assets (excluding deferred acquisition costs).

3. Business written in the Group's insurance entities

(a) How the business is held in the Group's insurance entities

The Group's insurance and investment contracts are held by the regulated entities within each reportable segment. Each regulated entity operates various funds and how the business is held within these funds is outlined below by reportable segment.

(a)(i) UK and Europe

Standard Life Assurance Limited

The main entity in the UK and Europe reportable segment that issues insurance and investment contracts is Standard Life Assurance Limited (SLAL). SLAL operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company on 10 July 2006, under which its recognised assets and liabilities are allocated to one of the following funds:

- Shareholder Fund (SHF)
- Proprietary Business Fund (PBF) – includes UK, German and Irish branches
- Heritage With Profits Fund (HWPF) – includes UK, German and Irish branches
- German With Profits Fund (GWPF)
- German Smoothed Managed With Profits Fund (GSMWPF)
- UK Smoothed Managed With Profits Fund (UKSMWPF)

SLAL – Insurance and investment contracts issued since demutualisation

The liabilities and associated supporting assets for contracts issued since demutualisation are held in the PBF except for the element of any contract where the customer has chosen to invest in a with profits (i.e. participating) fund. The assets and associated liabilities, including liabilities for financial guarantees, for such with profits investment elements are held in the GWPF, GSMWPF or UKSMWPF. The PBF is sub-divided into internal linked funds (unit linked funds) and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and corresponding liabilities for such unit linked investment elements are held in the unit linked funds. Asset management charges are transferred from the unit linked funds to the non-unit linked sub-fund of the PBF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element are held in the non-unit linked sub-fund of the PBF. Any liabilities for insurance features contained within a contract that has a with profits element are held in the non-unit linked sub-fund of the PBF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are held in the non-unit linked sub-fund of the PBF.

SLAL – Insurance and investment contracts issued before demutualisation

The liabilities and associated supporting assets for contracts, both participating and non-participating, issued prior to demutualisation are mostly held in the HWPF except for (i) the assets and corresponding liabilities for unit linked investment elements of such contracts, and (ii) the supporting assets and associated liabilities for longevity risk and investment risk on certain annuity contracts. The assets and associated liabilities for these two contract components are held in the PBF. Asset management charges arising on unit linked investment elements are transferred from the PBF to HWPF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element or a with profits investment element are held in the HWPF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are also held in the HWPF.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of SLAL is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. The Scheme provides that certain defined cash flows (recourse cash flows (RCF)) 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 SHF, and thus accrue to the ultimate benefit of equity holders of the Company. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business. Under these mechanisms, profits, on an RCF basis, on non-participating business excluding investment spread profits on annuities and profits, on an RCF basis or German additional expenses basis, on unitised with profits contracts, are transferred to the SHF. All investment return on HWPF investments is retained in the HWPF for the ultimate benefit of participating policyholders. Under the Scheme, transfers to the SHF are subject to certain constraints in order to protect policyholders.

Standard Life International Limited

The UK and Europe reportable segment also contains the International Bond issued by Standard Life International Limited (SLIL) to UK residents. SLIL operates using a shareholder fund and a long-term business fund which is sub-divided into unit linked funds and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds. Any liabilities for insurance features contained within a contract that has a unit linked investment element are held in the non-unit linked fund. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element are held in the non-unit linked fund.

(a)(ii) India and China

The entity in the India and China reportable segment that issues insurance and investment contracts, other than associates and joint ventures, is Standard Life (Asia) Limited (SLA) which is a Hong Kong entity. SLA operates using a shareholder fund and a long-term business fund which is sub-divided into unit linked funds and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds. Any liabilities for insurance features contained within a contract that has a unit linked investment element are held in the non-unit

linked fund. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element are held in the non-unit linked fund.

(a)(iii) Canada

The Canadian business was included as discontinued operations following the announcement on 3 September 2014. The main entity in the Canada reportable segment that issued insurance and investment contracts was The Standard Life Assurance Company of Canada (SLCC) which has been renamed SCDA (2015) Inc. since its disposal. SLCC operated a fund structure under which certain recognised assets and associated liabilities were allocated to either segregated funds or a participating fund. Its remaining recognised assets were managed together to support other contract liabilities and to contribute to equity holders surplus. Where a customer chose to invest on a segregated fund basis, the assets and associated liabilities for such segregated fund investment elements were held in the segregated funds. SLCC's segregated funds operated on a similar basis to SLAL's unit linked funds. Any liabilities for insurance features or financial guarantees contained within a contract that had a segregated fund investment element were held outside the segregated funds. Deferred income and deferred acquisition costs arising on contracts that had a segregated fund investment element were also held outside the segregated funds.

Until 31 December 2015 SLAL operated a Canada branch. A separate sub-fund of the PBF was maintained for this branch. All contracts issued from SLAL's Canadian PBF were wholly reinsured to SLCC.

(b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued by the Group, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below. The accounting policy for the classification of contracts is set out in Note 33.

(b)(i) UK and Europe - Insurance and investment contracts issued since demutualisation

UK annuity-in-payment contracts (spread/risk business)

This class of business consists of single premium contracts that provide guaranteed annuity payments. 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 based on the movement in UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2015 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £373m (2014: £373m) and this represents approximately 9% (2014: 9%) of the total liability for UK annuity in payment contracts held within the PBF. 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. If the market moves in line with the adverse scenarios as shown in the market risk sensitivity analysis in Note 41(b), then the impact on shareholder equity from these RPI linked annuities and corresponding assets is not significant.

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2015 is £348m (2014: £343m) and this represents approximately 9% (2014: 8%) of the total liability for UK annuity in payment contracts held in the PBF. If the market moves in line with the adverse market conditions as shown in the market risk sensitivity analysis, the impact on shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

UK and Irish unit linked pension contracts (fee 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 unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts.

Contracts are categorised as retail (e.g. UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pension, UK Stakeholder, Irish Synergy Personal Pension), corporate (e.g. UK Group SIPP, UK Group Flexible Retirement Plan, UK Group Stakeholder) and institutional (Trustee Investment Plan). These contracts do not contain a with profits investment option except for UK Group Stakeholder and UK Stakeholder, under which customers may invest in the UKSMWPF.

The costs of contracts invested in unit linked funds are recovered by deduction of an asset management charge from the unit linked funds. Under Stakeholder contracts, this asset management charge has a specified maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

Under UK SIPP contracts, as well as investing in unit linked funds offered by SLAL, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the Group's consolidated statement of financial position.

UK unit linked investment bonds (fee business)

Unit linked investment bonds issued by SLAL (e.g. Capital Investment Bond) are single premium whole of life contracts under which a percentage of the premium is used to allocate units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

3. Business written in the Group's insurance entities *continued*

(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

(b)(i) UK and Europe - Insurance and investment contracts issued since demutualisation *continued*

The International Bond is issued by SLIL to UK residents. It is a single premium whole of life investment bond. The customer has the option to invest in unit linked funds offered by SLIL and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the last life assured an additional benefit of 0.1% of the surrender value is paid unless the death is accidental when an additional benefit of 10% of the surrender value is paid subject to a £1m cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

German unitised with profits deferred annuity contracts (fee business)

German unitised with profits deferred annuity contracts were written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. These contracts were closed to new business in 2015. 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. These contracts are classified as participating insurance contracts.

The maturity value of contracts invested in the GWPF is subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors and certain unit prices in the GWPF are guaranteed not to decrease.

The GWPF is operated such that all investment return on assets held in the fund will be distributed to participating policyholders over time subject to deductions of asset management charges and deductions for guarantees.

(b)(ii) UK and Europe - Insurance and investment contracts issued before demutualisation and related reinsurance contracts

HWPF participating contract allocations of regular and final bonuses

This section firstly describes the method used by the Group to determine the regular and final bonuses allocated to participating contracts held in the HWPF. It then describes the significant types of insurance and investment contracts held in that fund, the nature of any guarantees provided and significant reinsurance contracts.

As shown in the market risk sensitivity analysis in Note 41(b), there is no impact on shareholder equity arising from contracts in the HWPF for either of the market movements scenarios. As explained in the limitations of the sensitivity analysis, this is because although shareholders are potentially exposed to the full cost if the assets of the HWPF are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

Regular bonuses are declared at the discretion of the Group in accordance with the Principles and Practices of Financial Management (PPFM) of the HWPF for UK business and similar principles for European business 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 where 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.

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.

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 most circumstances, will reflect the costs in payouts and in some circumstances 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. The Group takes 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.

Eligible policies covered by the Mortgage Endowment Promise may receive 'top up' amounts, in accordance with the Scheme.

UK conventional with profits contracts (no impact on equity holder profits in the absence of burnthrough)

Conventional (i.e. non-unitised) with profits contracts consist of single or regular premium endowment, whole life and pension contracts held in the HWPF.

Under endowment and whole life contracts, guaranteed benefits are payable on death. 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.

Under pension contracts, a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example under 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. 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.

All conventional with profits contracts are classified as participating insurance contracts.

UK and Irish unitised with profits pension contracts (fee business via RCF)

This class of business comprises single or regular premium contracts held in the HWPF under which a percentage of the premium is used to allocate units on a participating basis. Such contracts include hybrid contracts (see Note 33) resulting in the unitised with profits investment elements being classified as participating investment contracts, although there are some contracts that are classified as participating insurance contracts, for example those with guaranteed minimum pensions. The major unitised with profits pension contracts include Individual Personal Pension Plans (retail), Group Personal Pension Plans, Executive Pensions and Stakeholder (corporate) and Trustee Investment Plans (institutional).

The significant options and guarantees under these contracts are the following:

- 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 Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no unit price adjustment (UPA) when units are encashed

UK and Irish unitised with profits life contracts (fee business via RCF)

Unitised with profits life business comprises single or regular premium endowment and whole life contracts held in the HWPF under which a percentage of the premium is used to allocate units on a participating basis. 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. These contracts, principally Homeplan, With Profits Bonds and Versatile Investment Plans, are classified as participating insurance contracts.

The significant options and guarantees under these contracts are the following:

- 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 bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits

Under contracts effected in connection with house purchase, the death benefit is guaranteed. Under other regular premium contracts, at any time after the first 10 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

German unitised with profits contracts (fee business via German additional expenses basis)

Unitised with profits German contracts held in the HWPF mainly consist of endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units on a participating basis. 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. These contracts are classified as participating insurance contracts.

3. Business written in the Group's insurance entities *continued*

(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

(b)(ii) UK and Europe - Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued*

The maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts. For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors. In addition certain unit prices in the HWPF are guaranteed not to decrease.

UK and Irish unit linked pension contracts (fee business via RCF)

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 unit linked funds held in the PBF. Such contracts include hybrid contracts (see Note 33) resulting in the unit linked investment elements being classified as non-participating investment contracts. The major unit linked pension contracts include Individual Personal Pension Plans (retail), Group Personal Pension Plans, Executive Pensions and Stakeholder (corporate) and Trustee Investment Plans (institutional).

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF. Under Stakeholder contracts, this asset management charge has a maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

UK and Irish unit linked life contracts (fee business via RCF)

This class of business comprises principally unit linked investment bonds (e.g. Capital Investment Bonds), classified as non-participating investment contracts and the unit linked investment element of Homeplan contracts, classified as non-participating insurance contracts. No significant guarantees, other than the guaranteed death benefit on Homeplan contracts, are provided under these contracts.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF.

UK and Irish annuity-in-payment contracts (spread/risk business in relation to longevity risk transferred to PBF otherwise no impact on shareholder profits in absence of burnthrough)

This class of business consists of the same type of contracts described in (b)(i) and also includes the With Profit Pension Annuity (WPPA), 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. These contracts are classified as non-participating insurance contracts, except for the WPPA which is classified as a participating insurance contract.

SLAL has reinsured both the longevity and market risk arising on a portfolio of annuity-in-payment 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 within the HWPF. See Note 41(c) on credit exposure and Note 6 for further details of the deposit back. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

The longevity risk on certain non-participating annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk on certain annuities has been transferred to the PBF.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2015 is £2,869m (2014: £3,127m) and this represents approximately 33% (2014: 33%) of the total liability for UK annuity in payments contracts held within the HWPF.

The total liability at 31 December 2015 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,811m (2014: £1,972m) and this represents approximately 21% (2014: 21%) of the total liability for UK annuity contracts held within the HWPF. 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.

UK other non-participating contracts (spread/risk business via RCF)

This class of business consists primarily of deferred annuities that provide guaranteed annuity payments from the retirement age associated with the relevant pension plan. The payments depend on the survival of a life or lives with or without a guarantee period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in UK RPI. These contracts are classified as non-participating insurance contracts.

(b)(iii) India and China - Insurance and investment contracts

Unit linked life contracts (fee business)

The main contract issued by SLA is the Harvest 101 product. This contract was closed to new business in 2015. It is a regular premium savings product with a term ranging from five to 25 years. The customer has the option to invest in unit linked funds offered by SLA and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the life insured, a benefit of 101% of the fund value is paid. If the death is accidental then an additional benefit of 10% of the

initial account value is paid subject to a USD10,000 cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

(b)(iv) Canada - Insurance, investment and reinsurance contracts

The Canadian business is included as discontinued operations.

Annuity-in-payment contracts (spread/risk business)

This class of business consisted of single premium contracts that provided guaranteed annuity payments based on the survival of a life or lives or for a specified period. The majority of the portfolio was life contingent annuities and were classified as non-participating insurance contracts. However, there were some term certain annuities classified as investment contracts.

Universal Life contracts (fee business and spread/risk business)

The main Universal Life contract, Perspecta, was a non-participating whole life assurance contract. Perspecta was closed to new business in 2012. Premiums could have been invested in term investment funds, segregated funds or mutual funds. Premiums invested in term investment funds were placed on deposit at rates of interest guaranteed for periods from one day to 20 years. The rate offered was determined with reference to the financial conditions at the time of premium payment. The contract provided life cover and, in addition, on death the value of the segregated funds was guaranteed never to be less than 75% of premiums deposited into those funds, adjusted for expense charges and any withdrawals.

Registered and non-registered savings plans (fee business and spread/risk business)

This category comprised individual and group non-participating savings contracts. These contracts permitted investment into term funds or segregated funds.

Premiums invested in term funds were placed on deposit at rates of interest guaranteed for a selected term. The rate offered depended on financial conditions at the time of deposit. Proceeds at the end of a guarantee period could be reinvested at the then current rates. The components of contracts invested in term funds were classified as non-participating investment contracts, for all contracts sold prior to May 2014. Individual Ideal Savings term funds issued after 1 May 2014 had an accidental death benefit in the contract, and were therefore classified as non-participating insurance contracts.

Where premiums on individual contracts were invested in segregated funds a death benefit guarantee applied being the greater of the segregated fund value and 100% of the net deposits. In addition provided that the monies had been invested for a minimum of 10 years, the maturity benefit was the greater of the segregated fund value at the maturity date and 75% or 100% of premiums invested, depending on the guarantee option selected, less any cash values previously paid out. Otherwise the maturity benefit was the fund value. The components of individual contracts invested in segregated funds were classified as non-participating insurance contracts.

Where premiums on group contracts were invested in segregated funds, no guarantees on death or maturity were given. The components of group contracts invested in segregated funds were classified as non-participating investment contracts.

Registered retirement income plans (fee business and spread/risk business)

Registered retirement income plans were non-participating single premium contracts. These contracts permitted investment into term funds or segregated funds on a similar basis to the individual savings plans described above. Regular withdrawals were made from the account to provide an income during retirement. The policyholder may have varied the amounts withdrawn subject to the regulatory minimum. The components of contracts invested in term funds were classified as non-participating investment contracts. The components of individual contracts invested in segregated funds were classified as non-participating insurance contracts.

Participating individual life contracts (no impact on equity holder profits in the absence of burnthrough)

Participating whole life and endowment assurance contracts contained scales of minimum guaranteed surrender values and paid-up policy amounts. Participating whole life contracts issued prior to 1985 included a guaranteed annuity rate option where the lump sum death benefit could be converted into an annuity on guaranteed terms or retained by SLCC whereupon the value accumulated at an annual interest rate of at least 2.5%.

Non-participating life contracts (spread/risk business)

This category comprised whole life and term assurance contracts where the guaranteed benefit was payable on death and was closed to new business. These contracts were classified as non-participating insurance contracts.

4. Investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified at fair value through profit or loss are recognised in the consolidated income statement in the period in which they occur. The gains and losses include investment income received such as interest payments but exclude dividend income. Dividend income is separately recognised in the consolidated income statement when the right to receive payment is established.

Interest income on financial instruments classified as available-for-sale or loans and receivables is separately recognised in the consolidated income statement using the effective interest rate method. The effective interest rate method allocates interest and other finance costs at a constant rate over the expected life of the financial instrument, or where appropriate a shorter period, by using as the interest rate the rate that exactly discounts the future cash receipts over the expected life to the net carrying value of the instrument.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

	Notes	2015 £m	2014 £m
Interest and similar income			
Cash and cash equivalents and available-for-sale debt securities		109	80
Loans		4	7
		113	87
Dividend income		1,902	1,840
Gains/(losses) on financial instruments at fair value through profit or loss			
Associates (other than dividend income)		204	100
Equity securities (other than dividend income)		1,131	1,522
Debt securities		(27)	6,086
Derivative financial instruments		1,179	2,243
		2,487	9,951
Foreign exchange gains on instruments other than those at fair value through profit or loss		19	26
Income from investment property			
Rental income	19	487	450
Net fair value gains on investment property	19	452	825
		939	1,275
Investment return from continuing operations		5,460	13,179

5. Fee income

Fee income from investment contracts, fund platforms and third party funds under management relates to the provision of investment management and administration services, and is recognised as services are provided and it is almost certain that the fee income will be received. Where fee income is received in advance (front-end fees), this income is deferred and recognised as a deferred income liability until the services have been provided (see Note 38).

	Notes	2015 £m	2014 £m
Fee income from investment contracts and fund platforms		622	619
Fee income from third party funds under management		438	305
Fee income deferred during the year	38	(25)	(35)
Amortisation of deferred income	38	63	66
Release of deferred income	38	-	5
Other fee income		22	25
Total fee income from continuing operations		1,120	985

6. Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the consolidated income statement as expenses under arrangements with reinsurers.

		2015 £m	2014 £m
Interest payable on deposits from reinsurers		34	32
Premium Adjustments		8	607
Expenses under arrangements with reinsurers from continuing operations		42	639

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group. Interest is payable on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the value of the ring fenced assets and the deposit amount, which has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer.

7. Other administrative expenses

	Notes	2015 £m	2014 £m
Interest expense		12	11
Commission expenses		170	234
Staff costs and other employee-related costs	8	635	577
Operating lease rentals		21	30
Auditors' remuneration	9	7	7
Depreciation of property, plant and equipment	20	16	14
Impairment losses on property, plant and equipment	20	4	-
Impairment losses reversed on property, plant and equipment	20	(5)	(4)
Amortisation of intangible assets	16	51	41
Impairment losses on intangible assets	16	9	47
Other		506	457
		1,426	1,414
Acquisition costs deferred during the year	17	(83)	(143)
Impairment of deferred acquisition costs	17	73	9
Amortisation of deferred acquisition costs	17	124	150
Total other administrative expenses from continuing operations		1,540	1,430

In addition to interest expense from continuing operations of £12m (2014: £11m), interest expense of £83m (2014: £98m) was incurred in respect of subordinated liabilities and £34m (2014: £32m) in respect of deposits from reinsurers. For the year ended 31 December 2015, total interest expense from continuing operations is £129m (2014: £141m).

8. Staff costs and other employee-related costs

	Notes	Continuing operations £m	2015 Discontinued operations £m	Total £m	Continuing operations £m	2014 Discontinued operations £m	Total £m
The aggregate remuneration payable in respect of employees:							
Wages and salaries		491	12	503	456	114	570
Social security costs		57	1	58	55	9	64
Pension costs	37						
Defined benefit plans		25	2	27	24	15	39
Defined contribution plans		27	-	27	15	3	18
Employee share-based payments	47	35	1	36	27	2	29
Total staff costs and other employee-related costs		635	16	651	577	143	720

	2015	2014
The average number of staff employed by the Group during the year:		
Standard Life Investments ¹	1,496	1,322
UK and Europe	4,003	3,986
India and China	249	263
Other ²	518	773
Canada ¹	165	1,991
Total average number of staff employed	6,431	8,335

¹ Includes all staff employed by the Canadian business including Standard Life Investments Inc. until its sale on 30 January 2015.

² Includes staff in group corporate centre and group information technology.

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 75 to 98.

9. Auditors' remuneration

	Continuing operations £m	2015 Discontinued operations £m	Total £m	Continuing operations £m	2014 Discontinued operations £m	Total £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	0.3	-	0.3	0.3	-	0.3
Fees payable to the Company's auditors for other services						
The audit of the Company's consolidated subsidiaries pursuant to legislation	3.4	-	3.4	3.3	1.1	4.4
The audit of funds not consolidated in the Group's financial statements	0.7	-	0.7	0.6	0.3	0.9
Audit related assurance services	1.6	-	1.6	0.6	-	0.6
Total audit related assurance fees	6.0	-	6.0	4.8	1.4	6.2
Other assurance services	0.5	-	0.5	1.3	0.7	2.0
Tax compliance services	0.4	-	0.4	0.1	-	0.1
Tax advisory services	0.1	-	0.1	0.3	-	0.3
Other non-audit fee services	0.3	-	0.3	0.1	-	0.1
Total non-audit fees	1.3	-	1.3	1.8	0.7	2.5
Total auditors' remuneration	7.3	-	7.3	6.6	2.1	8.7

Audit related assurance services in 2015 include fees relating to Solvency II assurance services. For more information on non-audit services, refer to the Report from the Chairman of the Audit Committee in Section 4 – Corporate governance statement.

During the year, the Group incurred audit fees in respect of the UK staff defined benefit plan of £52,500 (2014: £48,500).

10. Restructuring and corporate transaction expenses

Total restructuring and corporate transaction expenses incurred from continuing operations during the year were £88m (2014: £106m). The expenses relate to Ignis integration, UK and Europe restructuring programmes, Solvency II and the closure of the Dubai and Singapore businesses. Deal costs relating to acquisitions included in restructuring and corporate transaction expenses for the year ended 31 December 2015 were £nil (2014: £11m).

In December 2014 the Group announced that the UK staff defined benefit pension plan would be closed to future accrual effective April 2016. All employees in the closing plan will be transferred to the UK defined contribution plan for future service and employer contributions into the defined contribution plan will be amended. Following this restructuring of the pension plans, operating profit from continuing operations for the year ended 31 December 2015 has been increased by £35m (2014: £15m) so that operating profit reflects the expected long-term pension expense for the period and is therefore more indicative of the long-term operating performance of the Group. As a result £35m (2014: £15m) of pension costs that are included in staff costs in the consolidated income statement for the year ended 31 December 2015, are included in restructuring and corporate transaction expenses in determining operating profit from continuing operations.

The table below reconciles restructuring and corporate transaction expenses incurred from continuing operations with restructuring and corporate transaction expenses used to determine operating profit from continuing operations.

	2015 £m	2014 £m
Restructuring and corporate transaction expenses from continuing operations	88	106
Pension plan restructuring	35	15
Expenses incurred by the Heritage With Profit Fund	(1)	(2)
Closure of Dubai ¹	-	(10)
Closure of Singapore ¹	(7)	-
Restructuring and corporate transaction expenses used to determine operating profit from continuing operations	115	109

¹ Dubai and Singapore businesses, the closure of which were announced in November 2014 and June 2015 respectively, are included as discontinued operations for segmental reporting purposes under IFRS 8 as this is reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included under continuing operations in the consolidated income statement.

Restructuring and corporate transaction expenses of £10m (2014: £31m) are used to determine operating profit before tax from discontinuing operations. These expenses relate to the sale of the Canadian business and the closure of the Dubai and Singapore businesses.

11. Taxation

The Group's tax expense comprises both current tax and deferred tax expense.

Current tax is payable on taxable profit, as adjusted for items that are not taxable or tax deductible.

A deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit or investment return to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences arising from investments in subsidiaries and associates only when it is expected that the temporary difference will reverse in the foreseeable future and the timing of the reversal is not in our control.

Current tax and deferred tax is recognised in the consolidated income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly to equity respectively.

The Group provides additional disclosure in relation to the total tax expense. Certain products are subject to tax on policyholders' investment returns. This tax, 'policyholder tax', is accounted for as an element of income tax. To make the tax expense disclosure more meaningful, we disclose policyholder tax and tax payable on equity holders' profits separately. The policyholder tax expense is the amount payable in the year plus the movement of amounts expected to be payable in future years by policyholders on their investment return. The remainder of the tax expense is attributed to equity holders as tax payable on equity holders' profit.

11. Taxation *continued*

(a) Tax charge in the consolidated income statement

(a)(i) Current year tax expense

	2015 £m	2014 £m
Current tax:		
UK	197	268
Double tax relief	(2)	-
Overseas	15	14
Adjustment to tax expense in respect of prior years	12	(7)
Total current tax attributable to continuing operations	222	275
Deferred tax:		
Deferred tax expense arising from the current year	(11)	17
Total deferred tax attributable to continuing operations	(11)	17
Total tax expense attributable to continuing operations	211	292
Attributable to policyholders' investment return	134	250
Attributable to equity holders' profits	77	42
Total tax expense attributable to continuing operations	211	292

The share of associates' and joint ventures' tax expense from continuing operations is £13m (2014: £5m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

In 2015 unrecognised tax losses from previous years of £1m (2014: £nil) were used to reduce the current tax expense. Unrecognised losses and timing differences of £nil were used to reduce the deferred tax expense (2014: £10m).

Current tax recoverable and current tax liabilities at 31 December 2015 were £168m (2014: £191m) and £113m (2014: £172m) respectively. Current tax assets and liabilities at 31 December 2015 and 31 December 2014 are expected to be recoverable or payable in less than 12 months.

(a)(ii) Reconciliation of tax expense

	2015 £m	2014 £m
Profit before tax from continuing operations	549	672
Tax at 20.25% (2014: 21.5%)	111	144
Policyholder tax (net of tax at UK standard rate)	107	196
Permanent differences	(4)	8
Temporary differences	-	(3)
Tax effect of accounting for share of profit from associates and joint ventures	(9)	(8)
Different tax rates	(19)	(28)
Adjustment to current tax expense in respect of prior years	12	(7)
Recognition of previously unrecognised tax credit	(2)	(10)
Deferred tax not recognised	18	(1)
Adjustment to deferred tax expense in respect of prior years	(4)	(6)
Write-down of deferred tax asset	5	3
Other	(4)	4
Total tax expense from continuing operations for the year	211	292

The standard rate of UK corporation tax changed from 21% to 20% with effect from 1 April 2015. Accordingly, the effective tax rate for the accounting period is 20.25% (2014: 21.5%). The UK tax rate will reduce to 19% from 1 April 2017 and 18% from 1 April 2020. These future rate changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2015.

(b) Tax relating to components of other comprehensive income

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

	2015 £m	2014 £m
Current tax on net change in financial assets designated as available-for-sale	(2)	6
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	(2)	6
Tax relating to each component of other comprehensive income from continuing operations	(2)	6

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

(c) Tax relating to items taken directly to equity

	2015 £m	2014 £m
Tax credit on reserves for employee share-based payments	(4)	(5)
Tax relating to items taken directly to equity	(4)	(5)

(d) Deferred tax assets and liabilities**(d)(i) Movements in net deferred tax liabilities**

	2015 £m	2014 £m
At 1 January	(181)	(57)
Reclassified as held for sale	-	(74)
Acquired through business combinations	-	(34)
Amounts charged to the consolidated income statement	11	(17)
Amounts credited directly to equity in respect of employee share-based payment schemes	4	5
Transfer to current tax for vested employee share-based payment schemes	(5)	(6)
Foreign exchange adjustment	1	1
Other	-	1
Net deferred tax liability at 31 December	(170)	(181)

11. Taxation *continued*

(d) Deferred tax assets and liabilities *continued*

(d)(ii) Analysis of recognised deferred tax

	2015 £m	2014 £m
Deferred tax assets comprise:		
Actuarial liabilities	5	5
Losses carried forward	9	9
Realised losses on investments	-	1
Depreciable assets	38	40
Deferred income	20	30
Employee benefits	25	23
Provisions and other temporary timing differences	13	-
Insurance related items	12	13
Other	5	-
Gross deferred tax assets	127	121
Less: Offset against deferred tax liabilities	(92)	(88)
Deferred tax assets	35	33
Deferred tax liabilities comprise:		
Insurance related items	6	2
Unrealised gains on investments	148	141
Intangible assets acquired through business combinations	25	30
Deferred acquisition costs	111	121
Temporary timing differences	3	4
Other	4	4
Gross deferred tax liabilities	297	302
Less: Offset against deferred tax assets	(92)	(88)
Deferred tax liabilities	205	214
Net deferred tax liability at 31 December	(170)	(181)

A deferred tax asset of £9m (2014: £10m) 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 the reversal of deferred tax liabilities and anticipated taxable profits and gains based on business plans. The losses do not have an expiry date.

Deferred tax assets and liabilities are expected to be recovered or settled after more than 12 months.

(e) 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 £215m (2014: £126m)
- Tax reserves of the German branch of Standard Life Assurance Limited of £26m (2014: £37m)
- Unrealised investment losses of £20m (2014: £17m)

12. Discontinued operations

The Group classifies as discontinued operations areas of business which have been disposed of or are classified as held for sale at the year end and which either, represent a separate major line of business or geographical area, or are part of a plan to dispose of one. The results of discontinued operations are shown separately on the face of the consolidated income statement from the results of the remaining (continuing) parts of the Group's business.

Discontinued operations for the years ended 31 December 2015 and 31 December 2014 relate solely to the Group's Canadian business. As discussed in Note 1, the sale of Standard Life Financial Inc. and Standard Life Investments Inc. completed on 30 January 2015 and the results of these operations until that date and the gain on their disposal are included in discontinued operations. The results of the SLAL Canada Branch, the assets and liabilities of which were transferred on 31 December 2015 are also included until that date.

The consolidated income statement, other comprehensive income and cash flows from discontinued operations are shown below.

Consolidated income statement	Notes	2015 £m	2014 £m
Revenue			
Gross earned premium		138	1,720
Premium ceded to reinsurers		(43)	(36)
Net earned premium		95	1,684
Investment return		1,166	2,914
Fee income		11	124
Gain on sale of subsidiaries	1	1,102	-
Other income		1	17
Total revenue from discontinued operations		2,375	4,739
Expenses			
Claims and benefits paid		123	1,121
Claim recoveries from reinsurers		(63)	(29)
Net insurance benefits and claims		60	1,092
Change in reinsurance assets and liabilities		45	(36)
Change in insurance and participating contract liabilities		507	1,548
Change in non-participating investment contract liabilities		525	1,403
Administrative expenses			
Restructuring and corporate transaction expenses		3	21
Other administrative expenses		37	430
Total administrative expenses		40	451
Change in liability for third party interest in consolidated funds		30	80
Finance costs		1	9
Total expenses from discontinued operations		1,208	4,547
Share of loss from associates and joint ventures		-	(4)
Profit before tax from discontinued operations		1,167	188
Tax expense attributable to policyholders' returns		-	-
Profit before tax expense attributable to equity holders' profits		1,167	188
Total tax expense		20	61
Less: Tax attributable to policyholders' returns		-	-
Tax expense attributable to equity holders' profits		20	61
Profit for the year from discontinued operations		1,147	127
Attributable to:			
Equity holders of Standard Life plc		1,147	127
Non-controlling interests		-	-
		1,147	127

12. Discontinued operations *continued*

	2015 £m	2014 £m
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement losses on defined benefit pension plans	(19)	(20)
Revaluation of owner occupied property	-	(2)
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	5	5
Total items that will not be reclassified subsequently to profit or loss	(14)	(17)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on cash flow hedges	58	2
Net investment hedge	57	16
Fair value gains on available-for-sale financial assets	15	22
Exchange differences on translating foreign operations	(62)	(36)
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	(4)	(5)
Total items that may be reclassified subsequently to profit or loss	64	(1)
Items that were transferred to profit or loss on disposal of subsidiaries:		
Release of available-for-sale financial assets reserve	(17)	-
Release of cash flow hedges reserve	(60)	-
Release of net investment hedge reserve	(110)	-
Release of foreign currency translation reserve	(50)	-
Total items that were transferred to profit or loss on disposal of subsidiaries	(237)	-
Other comprehensive income/(expense) for the year from discontinued operations	(187)	(18)
	2015	2014
Cash flows	£m	£m
Net cash flows from operating activities	(132)	117
Net cash flows from financing activities	(7)	(1)
Net cash flows from investing activities	(500)	(65)
Total net cash flows	(639)	51

The net cash flows from investing activities for year ended 31 December 2015 represents the cash and cash equivalents of the operations disposed of at the date of disposal and do not include cash consideration received of £2,100m.

13. 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 excluding shares owned by the employee trusts that have not vested unconditionally to 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.

Alternative earnings per share is calculated on operating profit after tax. The Directors believe that earnings per share based on operating profit provides a more useful indication of the long-term operating performance of the Group.

Basic earnings per share was 69.4p (2014: 21.1p) and diluted earnings per share was 69.1p (2014: 21.0p) for the year ended 31 December 2015. The following table shows the split between continuing and discontinued operations, and details of alternative earnings per share.

	2015		2014	
	Continuing operations £m	Discontinued operations £m	Continuing operations £m	Discontinued operations £m
Operating profit before tax	665	3	608	127
Tax on operating profit	(114)	-	(82)	(42)
Share of associates' and joint ventures' tax expense	(13)	-	(5)	-
Operating profit after tax	538	3	521	85
Adjusted for the following items				
Short-term fluctuations in investment return and economic assumption changes	(63)	63	.17	71
Restructuring and corporate transaction expenses	(115)	(10)	(109)	(31)
Impairment of intangible assets	(7)	(2)	(43)	(4)
Gain on sale of Canadian business	-	1,102	-	-
Other	(72)	(31)	(22)	(3)
Total non-operating items	(257)	1,122	(157)	33
Tax on non-operating items	37	(20)	40	(19)
Dubai included in discontinued operations segment ¹	-	-	(22)	22
Singapore included in discontinued operations segment ¹	(42)	42	(6)	6
Profit attributable to equity holders of Standard Life plc	276	1,147	376	127
	Millions	Millions	Millions	Millions
Weighted average number of ordinary shares outstanding	2,051	2,051	2,384	2,384
Dilutive effect of share options and awards	9	9	12	12
Weighted average number of diluted ordinary shares outstanding	2,060	2,060	2,396	2,396
	Pence	Pence	Pence	Pence
Basic earnings per share	13.5	55.9	15.8	5.3
Diluted earnings per share	13.4	55.7	15.7	5.3
Alternative earnings per share (post tax)	26.2	0.1	21.9	3.6
Diluted alternative earnings per share (post tax)	26.1	0.1	21.7	3.5

¹ Dubai and Singapore businesses, the closure of which was announced in November 2014 and June 2015 respectively, are included as discontinued operations for segmental reporting purposes under IFRS 8 as this is reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 5, Dubai and Singapore do not constitute discontinued operations and are included under continuing operations in the consolidated income statement. Therefore the analysis of Group operating profit above includes the reclassification of Dubai and Singapore results between discontinued and continuing operations.

Details of share options and awards which have a dilutive effect are provided in Note 47.

As discussed in Note 28 the Company undertook a share consolidation during the year followed by a return of value to shareholders. In accordance with IAS 33, earnings per share have not been restated following the share consolidation as there was an overall corresponding change in resources. As a result of the share consolidation earnings per share from continuing operations for the year ended 31 December 2015 is not directly comparable with the prior year.

14. Operating profit and non-operating items

Operating profit is the Group's chosen supplementary measure of performance. 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. Restructuring includes the impact of major regulatory change.
- 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 and fair value movements in contingent consideration
- 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

From 2016 onwards we intend to make a change to the operating profit accounting policy so that items which, due to their size or nature, are not indicative of the long-term operating performance of the Group are excluded from operating profit (even if they are within the control of management). The objective of the change is to make operating profit a more useful indication of the long-term performance of the Group.

(a) Short-term fluctuations in investment return and economic assumptions changes

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.

The expected rates of return for debt securities, equity securities and property are determined separately for each of the Group's operations. 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 for the 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 included in discontinued operations were determined by the Appointed Actuary in Canada until the sale of the Canadian business on 30 January 2015.

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:

	2015		2014	
	UK %	Canada %	UK %	Canada %
Equity securities	4.86	8.60	6.01	8.60
Property	3.86	8.60	5.01	8.60

In respect of debt securities at fair value through profit or loss, 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 was determined by the Appointed Actuary in Canada. For debt securities classified as available-for-sale that support liabilities measured at amortised cost, the expected rate of return is the effective interest rate adjusted for an allowance, established at initial recognition, for expected defaults. If debt securities classified as available-for-sale are sold, any gain or loss is amortised within the expected return over the period to the earlier of the maturity date of the sold debt security, or the redemption date of the supported liability.

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 2015, short-term fluctuations in investment return and economic assumption changes resulted in losses of £63m (2014: £17m gains) from continuing operations and gains of £63m (2014: £71m gains) from discontinued operations. Short-term fluctuations in investment return from continuing operations relate principally to investment volatility in UK annuities, and in respect of the Group's subordinated liabilities and assets backing those liabilities. Short-term fluctuations in investment return from discontinued operations relate principally to investment volatility in Canada non-segregated funds.

(b) Other

In the pro forma reconciliation of consolidated operating profit to profit for the year other non-operating includes:

- The impact of restructuring on deferred acquisition costs, claims, and change in investment and insurance contract liabilities
- Amortisation of intangibles acquired in business combinations and fair value movements in contingent consideration

Other non-operating items from continuing operations for the year ended 31 December 2015 includes £20m (2014: £15m) in relation to amortisation of intangible assets acquired through business combinations and £46m (2014: £nil) relating to a review of expense and reserving assumptions in Hong Kong following regulatory change. This Hong Kong non-operating restructuring loss primarily relates to an impairment of deferred acquisition costs.

Other non-operating items from discontinued operations includes £31m (2014: £nil) in respect of impairment of deferred acquisition costs and plan enhancements relating to the closure of the Singapore business.

15. Dividends and return of value

Dividends are distributions of profit to holders of Standard Life plc's share capital and as a result are recognised as a deduction in equity. Final dividends are announced with the Annual report and accounts and are recognised when they have been approved by shareholders. Interim dividends are announced with the Half year results and are recognised when they are paid.

	2015		2014	
	Pence per share	£m	Pence per share	£m
Prior year's final dividend paid	11.43	224	10.58	252
Interim dividend paid	6.02	119	5.60	134
Total dividends paid on ordinary shares		343		386
Current year final recommended dividend	12.34	243		

The final dividend for the year ended 31 December 2014 and subsequent dividends have been paid on the lower adjusted number of ordinary shares following the share consolidation.

The final recommended dividend will be paid on 24 May 2016 to shareholders on the Company's register as at 15 April 2016, subject to approval at the Annual General Meeting on 17 May 2016. After the current year final recommended dividend, the total dividend in respect of the year ended 31 December 2015 is 18.36p (2014: 17.03p).

In addition to the dividend distribution on ordinary shares, the Group returned 73 pence per ordinary share (£1,749m) to shareholders through a 'B/C' share scheme as discussed in Note 28.

16. Intangible assets

Intangible assets are created when the Group acquires a business and the amount paid exceeds the value of the net tangible assets acquired. These assets are reflective of the additional value that the Group determines to be attached to the acquired business. Intangible assets acquired by the Group through business combinations consist mainly of investment management contracts and technology in place in acquired businesses. Any remaining value that cannot be identified as a separate intangible asset on acquisition is recognised as goodwill.

The Group has also recognised as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing our business. Costs to develop software internally are capitalised after the research phase and when it has been established that the project is technically feasible and the Group has both the intention and ability to use the completed asset.

Intangible assets are recognised at cost and charged to the income statement on a straight-line basis over the length of time the Group expects to derive benefits from the asset.

Goodwill is not charged to the income statement unless it becomes impaired.

	Notes	Acquired through business combinations					Total £m
		Goodwill £m	Investment management and customer contracts £m	Technology £m	Internally developed software £m	Purchased software £m	
Gross amount							
At 1 January 2014		111	29	30	202	57	429
Reclassified to held for sale during the year		-	-	-	-	(4)	(4)
Additions		105	208	-	33	10	356
Other		-	-	-	(1)	-	(1)
At 31 December 2014		216	237	30	234	63	780
Additions		3	3	-	55	3	64
Disposals and adjustments		-	-	-	(1)	-	(1)
Other		-	-	-	(1)	-	(1)
At 31 December 2015		219	240	30	287	66	842
Accumulated amortisation							
At 1 January 2014		-	-	(18)	(93)	(18)	(129)
Reclassified to held for sale during the year		-	-	-	-	2	2
Amortisation charge for the year		-	(11)	(4)	(21)	(5)	(41)
Impairment losses recognised		-	(43)	-	(4)	-	(47)
At 31 December 2014		-	(54)	(22)	(118)	(21)	(215)
Amortisation charge for the year	7	-	(16)	(4)	(23)	(8)	(51)
Impairment losses recognised	7	-	(5)	-	(4)	-	(9)
Disposals and adjustments		-	-	-	1	-	1
Other		-	-	-	-	(2)	(2)
At 31 December 2015		-	(75)	(26)	(144)	(31)	(276)
Carrying amount							
At 1 January 2014		111	29	12	109	39	300
At 31 December 2014		216	183	8	116	42	565
At 31 December 2015		219	165	4	143	35	566

The Group's goodwill has been acquired through a series of business combinations, most recently the acquisition of Pearson Jones plc in 2015 and Ignis in 2014. Of the Group's goodwill of £219m (2014: £216m) at 31 December 2015, £145m (2014: £145m) is attributed to the Standard Life Investments cash-generating unit. The remaining goodwill of £74m (2014: £71m) is attributable to a number of smaller cash-generating units in the UK and Europe segment.

Additions to investment management contracts acquired through business combinations during the year to 31 December 2014 related to the acquisition of Ignis and comprised life company contracts of £80m, institutional client contracts of £90m and retail client contracts of £38m. Each of these categories formed a cash-generating unit. The recoverable amount of the institutional client contracts cash-generating unit at 31 December 2015 was £36m (2014: £44m) which was its value in use. The impairment loss of £5m (2014: £43m) recognised during the year to 31 December 2015 relates to this decrease in recoverable amount.

Estimates and assumptions

The key estimates and assumptions in relation to intangible assets are:

- Identification and valuation of intangible assets arising from business combinations
- Determination of useful life
- Determination of the recoverable amount in relation to impairment assessments

The identification of intangible assets arising from business combinations is considered as part of the acquisition and based on contractual relationships, technologies and brands in place in the acquired business. Measuring the fair value of these assets requires assumptions and judgements around expected future revenues, appropriate discount rates and the appropriate duration over which benefits are expected to be derived.

The determination of useful life requires judgement in respect of the length of time that the Group expects to derive benefits from the asset and considers for example expected duration of contractual relationships for investment management contracts acquired in business combinations and when technology is expected to become obsolete for technology based assets. The amortisation period for each of the Group's intangible asset categories is as follows:

- Investment management and customer contracts acquired through business combinations - between 10 and 17 years
- Technology acquired through business combinations - 6 years
- Internally developed software - between 2 and 10 years. Amortisation commences once the asset is fully developed.
- Purchased software - between 2 and 6 years

Intangible assets including goodwill are assessed for impairment at each reporting date. If the carrying value of an intangible asset exceeds its recoverable amount then the carrying value is written down to the recoverable amount.

The recoverable amount for intangible assets excluding goodwill is currently its value in use. In assessing value in use, expected future cash flows are discounted to their present value using a pre-tax discount rate. Judgement is required in assessing both expected cash flows and an appropriate discount rate which is based on current market assessments of the time value of money and the risks associated with the asset.

The most significant judgements used in determining the recoverable amount for investment management contracts acquired in business combinations are estimated net flow projections and forecasted operating profit margins. Net flow projections are based on forecast information for the next five years and thereafter assumed no further net flows. The useful economic life of the intangible assets is between 10 and 15 years and therefore the projected cash flows used to determine value in use cover a period of longer than five years.

During 2014, subsequent to the acquisition of Ignis, there was a significant change in the management structure of the Absolute Return Government Bond Fund, which made up the majority of the institutional client contracts cash-generating unit carrying value. This resulted in outflows of assets under management and reduced projections of inflows and revenue, a consequential fall in the recoverable amount of this cash-generating unit, and an impairment loss of £43m in the year to 31 December 2014. During 2015, there were further outflows resulting in a further fall in recoverable amount and an impairment charge of £5m. The recoverable amount at 31 December 2015 has been calculated using a discount rate of 14% and an operating margin of 40%. The discount rate reflects the level of risk for these contracts and the operating margin is based on current experience.

Following the impairment the remaining carrying value of the institutional client contracts at 31 December 2015 is £36m (2014: £44m). Increasing the discount rate by 2% or decreasing the operating margin by 5% would result in an additional impairment loss of £3m or £5m respectively. Further if it was assumed that there would be no future inflows into the Absolute Return Government Bond Fund this would result in an additional impairment loss of £8m.

The carrying value of the retail client contracts at 31 December 2015 is £34m (2014: £36m). The recoverable amount of the retail contracts has been calculated using a discount rate of 11% and an operating margin of 40%. Increasing the discount rate by 2% or decreasing the operating margin by 5% would result in an impairment loss of £3m or £5m respectively.

The carrying value of the life client contracts at 31 December 2015 is £66m (2014: £77m). Increasing the discount rate by 2% or decreasing the operating margin by 5% would not result in an impairment loss and therefore would have no impact on profit after tax. The remaining amortisation period of the life contracts is 9 years.

Goodwill allocated to the Standard Life Investments cash-generating unit is significant in comparison with the total value of goodwill. The recoverable amount of this cash-generating unit is based on fair value less costs of disposal. The key assumption used to measure fair value is a price/earnings ratio which is derived from market price/earnings ratios of similar businesses to Standard Life Investments. This fair value measurement would be categorised as level 3 in the fair value hierarchy. A reasonably possible change in the price/earnings ratio would not result in an impairment.

17. Deferred acquisition costs

The Group incurs costs to obtain and process new business. These are accounted for as follows:

UK and Europe - insurance and participating investment contracts

Acquisition costs incurred in issuing insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that was subject to the Prudential Regulation Authority (PRA) realistic capital regime. For other participating investment contracts, incremental costs directly attributable to the issue of the contracts are deferred. For other insurance contracts 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.

India and China - insurance contracts

The Group's policy for acquisition costs incurred on insurance contracts issued by overseas subsidiaries is to apply the policy used in the issuing entity's local statutory or regulatory reporting or, where local reporting did not explicitly or implicitly defer acquisition costs at the time the overseas subsidiary was first consolidated, to adjust those policies to apply a policy similar to that described above for non-participating insurance contracts.

Non-participating investment contracts and asset management contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services either sold with unit linked investment contracts or in other asset management services contracts, are deferred. Where such costs are borne by a with profits fund that was subject to the PRA's realistic capital regime, deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

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.

	Notes	2015 £m	2014 £m
At 1 January		771	905
Reclassified as held for sale during the year		-	(106)
Additions during the year	7	83	143
Amortisation charge	7	(124)	(150)
Impairment charge	7	(73)	(9)
Foreign exchange adjustment		(11)	(12)
At 31 December		646	771

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £558m (2014: £676m).

Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £411m (2014: £460m).

Included within the impairment charge of £73m (2014: £9m) is £59m (2014: £nil) in relation to an impairment of deferred acquisition costs in Hong Kong primarily as a result of a review of expense and reserving assumptions following regulatory change. The key non-economic assumptions used in the impairment testing of Hong Kong deferred acquisition costs were those relating to future persistency and expenses. The remaining impairment charge of £14m relates to impairment of deferred acquisition costs in Singapore (2014: £nil) resulting from the closure of the business.

18. Investments in associates and joint ventures

Associates are entities where the Group can significantly influence decisions made relating to the financial and operating policies of the entity but does not control the entity. For entities where voting rights exist, significant influence is presumed where the Group holds between 20% and 50% of the voting rights.

The Group also considers itself to have significant influence over investment vehicles where, through its role as investment manager, it has power over the investment decisions of the vehicle. As a result the Group classifies all Group managed investment vehicles which are not subsidiaries and in which the Group holds an investment, as associates even though it may hold less than 20% of the voting rights of the investment vehicle. Where the Group has an investment in an associate, a portion of which is held by, or is held indirectly through, a mutual fund, unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at fair value through profit or loss.

Joint ventures are strategic investments where the Group has agreed to share control of an entity's financial and operating policies through a shareholders' agreement and decisions can only be taken with unanimous consent.

Associates, other than those accounted for at fair value through profit or loss, and joint ventures are accounted for using the equity method from the date that significant influence or shared control, respectively, commences until the date this ceases with consistent accounting policies applied throughout.

Under the equity method, investments in associates and joint ventures are initially recognised at cost and include any goodwill identified on acquisition. The carrying value is adjusted for the Group's share of post-acquisition profit or loss and other comprehensive income of the associate or joint venture, which are recognised in the consolidated income statement and other comprehensive income respectively. The carrying value would also be adjusted for any impairment losses.

	Notes	2015 £m	2014 £m
Investments in associates and joint ventures accounted for using the equity method		292	242
Investments in associates measured at FVTPL	21	5,425	4,264
Loans to associates and joint ventures	21	2	2
Total investments in associates and joint ventures		5,719	4,508

The level of future dividend payments and other transfers of funds to the Group from associates and joint ventures accounted for using the equity method could be restricted by the regulatory solvency and capital requirements of the associate or joint venture, and certain local foreign currency transaction restrictions.

(a) Investments in associates

The following are particulars of the Group's principal associates, which are both unlisted:

Country of incorporation and registration	HDFC Standard Life Insurance Company Limited		HDFC Asset Management Company Limited	
	India		India	
31 December	2015 £m	2014 £m	2015 £m	2014 £m
Summarised financial information of associate:				
Revenue	1,961	2,371	127	94
Profit after tax	72	70	46	39
Other comprehensive income	-	2	-	-
Total assets	7,529	6,610	267	215
Total liabilities	7,228	6,366	131	105
Net assets	301	244	136	110
Interest held	26%	26%	40%	40%
Share of net assets	78	63	54	44
Carrying value of associate	115	86	87	73
Dividends received	5	4	7	3

HDFC Standard Life Insurance Company Limited was previously a joint venture of the Group. During the year ended 31 December 2015 changes were made to the shareholders' agreement so that the Group no longer has joint control of this entity. As a result, this entity is now classified as an associate of the Group.

The Group's interest in the HDFC Standard Life Insurance Company Limited has been built up over time to its current level of 26% (2014: 26%). The difference between the carrying value of this associate and the Group's current share of net assets is due to additional investments being made at fair value rather than book value.

In August 2015, the Group entered into a share and purchase agreement to purchase an additional 9% of the issued share capital of HDFC Standard Life Insurance Company Limited for a consideration of Rs 1,706 crore (£175m based on INR exchange rate as at 31 December 2015), increasing the Group's interest to 35%. The transaction is subject to satisfactory regulatory approvals.

18. Investments in associates and joint ventures *continued*

(a) Investments in associates *continued*

HDFC Asset Management Company Limited manages a range of mutual funds and provides portfolio management and advisory services. The Group's share of post-acquisition movements in reserves of HDFC Asset Management Company Limited which have been recognised directly in equity, have not been reflected in the carrying value of the associate. As a result there is a difference between the carrying value of the associate and the Group's share of net assets.

The reporting date for HDFC Asset Management Company Limited and HDFC Standard Life Insurance Company Limited is 31 March as this is their year end date. This is different from the Group's year end date of 31 December.

The Group also has investments in associates measured at FVTPL of £5,425m (2014: £4,264m), none of which are considered individually material to the Group as the investments are primarily held by unit linked and segregated funds. These associates have no significant contingent liabilities to which the Group is exposed and there are no restrictions that would prevent the transfer of funds to the Group (2014: none).

(b) Investments in joint ventures

The following are particulars of the Group's principal joint venture which is unlisted:

Country of incorporation and registration	Heng An Standard Life Insurance Company	
	China	
	2015	2014
	£m	£m
Summarised financial information of joint venture:		
Revenue	194	158
Profit after tax	8	3
Other comprehensive income	3	6
Total assets	963	857
Total liabilities	807	712
Net assets	156	145
Interest held	50%	50%
Current share of net assets	78	73
Carrying value of joint venture	78	73
Dividends received	-	-

19. 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 and subsequently measured at fair value. Gains or losses arising from changes in fair value are recognised in the consolidated income statement.

	Notes	2015 £m	2014 £m
At 1 January		9,041	8,606
Reclassified as held for sale during the year		(87)	(1,297)
Additions – acquisitions		595	823
Additions – subsequent expenditure		267	210
Net fair value gains	4	452	825
Disposals		(290)	(128)
Foreign exchange adjustment		(8)	(14)
Other		21	16
At 31 December		9,991	9,041

The fair value of investment property can be analysed as:

Freehold	7,137	6,421
Long leasehold	2,788	2,558
Short leasehold	66	62
	9,991	9,041

The rental income arising from investment property during the year from continuing operations amounted to £487m (2014: £450m). Direct operating expenses (included within other administrative expenses) from continuing operations arising in respect of such rented property during the year amounted to £70m (2014: £73m).

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. 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.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2015 £m	2014 £m
Not later than one year	478	485
Later than one year and no later than five years	1,563	1,344
Later than five years	4,105	3,481
Total operating lease receivables	6,146	5,310

Estimates and assumptions

Determination of the fair value of investment property is a key estimate. The methods and assumptions used to determine fair value of investment property are discussed in Note 43.

20. Property, plant and equipment

Property, plant and equipment consists primarily of property owned and occupied by the Group and the computer equipment used to carry out the Group's business and is initially recognised at cost.

Owner occupied property is revalued at each reporting date to the fair value as provided by the most recent independent valuation less any subsequent accumulated depreciation. The useful life of owner occupied property is considered as between 30 and 50 years. These properties are depreciated down to their estimated residual values over their useful life and therefore depreciation is only charged if the residual value expected at the end of the property's useful life is lower than the fair value.

Equipment is subsequently measured at cost less depreciation. Depreciation is charged to the income statement over 2 to 15 years depending on the length of time the Group expects to derive benefit from the asset.

	Notes	Owner occupied property £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2014		172	121	293
Reclassified as held for sale during the year		(43)	(9)	(52)
Additions		-	19	19
Disposals and adjustments ¹		-	(1)	(1)
Revaluations		5	-	5
Impairment losses reversed ²	7	4	-	4
At 31 December 2014		138	130	268
Additions		-	8	8
Disposals and adjustments ¹		(92)	-	(92)
Revaluations		4	-	4
Impairment losses reversed ²	7	5	-	5
At 31 December 2015		55	138	193
Accumulated depreciation				
At 1 January 2014		-	(74)	(74)
Reclassified as held for sale during the year		-	5	5
Depreciation charge for the year	7	-	(14)	(14)
Disposals and adjustments ¹		-	1	1
At 31 December 2014		-	(82)	(82)
Depreciation charge for the year	7	-	(16)	(16)
Impairment losses recognised	7	-	(4)	(4)
At 31 December 2015		-	(102)	(102)
Carrying amount				
At 1 January 2014		172	47	219
At 31 December 2014		138	48	186
At 31 December 2015		55	36	91

¹ For the year ended 31 December 2015 £nil (2014: £1m) of disposals and adjustments relates to equipment with net book value of £nil which is no longer in use.

² The impairment losses reversed in respect of owner occupied property arose due to changes in the market value of a number of properties relative to their original deemed cost.

If owner occupied property was measured using the cost model, the historical cost before impairment would be £76m (2014: £155m). As the expected residual value of owner occupied property is in line with the current fair value, no depreciation is currently charged.

21. Financial investments

Management determines the classification of financial investments at initial recognition. Financial investments which are not derivatives and are not designated at fair value through profit or loss (FVTPL) are classified as either available-for-sale (AFS) or loans and receivables. The classification of derivatives is set out in Note 23.

The majority of the Group's debt securities and all equity securities and interests in pooled investment funds are designated at FVTPL as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis. These investments are recognised at fair value with changes in fair value recognised in investment return in the consolidated income statement. Commercial real estate loans are included within debt securities designated at fair value.

All other debt securities are classified as AFS and are recognised at fair value with changes in fair value recognised in other comprehensive income. Interest is credited to the consolidated income statement using the effective interest rate method. On disposal of an AFS security any gains or losses previously recognised in other comprehensive income are recognised in the consolidated income statement (recycling).

The accounting policies for other financial investments are detailed in the separate related notes indicated below.

2015	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Net investment hedge £m	Cash flow hedge £m	Total £m
Investments in associates and joint ventures	18	5,425	-	-	2	-	-	5,427
Loans	22	-	-	-	811	-	-	811
Derivative financial assets	23	-	2,444	-	-	-	-	2,444
Equity securities and interests in pooled investment funds	41	71,679	-	-	-	-	-	71,679
Debt securities	41	65,914	-	743	-	-	-	66,657
Receivables and other financial assets	24	15	-	-	1,432	-	-	1,447
Cash and cash equivalents	27	-	-	-	9,640	-	-	9,640
Total		143,033	2,444	743	11,885	-	-	158,105

2014	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Net investment hedge £m	Cash flow hedge £m	Total £m
Investments in associates and joint ventures	18	4,264	-	-	2	-	-	4,266
Loans	22	-	-	-	400	-	-	400
Derivative financial assets	23	-	4,012	-	-	8	1	4,021
Equity securities and interests in pooled investment funds	41	71,327	-	-	-	-	-	71,327
Debt securities	41	64,085	-	356	-	-	-	64,441
Receivables and other financial assets	24	20	-	-	1,228	-	-	1,248
Cash and cash equivalents	27	-	-	-	10,617	-	-	10,617
Total		139,696	4,012	356	12,247	8	1	156,320

The amount of debt securities expected to be recovered or settled after more than 12 months is £46,814m (2014: £49,896m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

Estimates and assumptions

Determination of the fair value of private equity investments and those debt securities categorised as level 3 in the fair value hierarchy is a key estimate. The methods and assumptions used to determine fair value of private equity investments and those debt securities categorised as level 3 in the fair value hierarchy are discussed in Note 43.

22. Loans

Loans are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any impairment losses.

	Notes	2015 £m	2014 £m
Loans secured by mortgages	43(e)	87	107
Loans and advances to banks with greater than three months to maturity from acquisition date		721	289
Loans secured on policies		3	4
Total loans	41	811	400

Loans with variable rates and fixed interest rates are £67m and £744m respectively (2014: £84m and £316m respectively). Loans that are expected to be recovered after more than 12 months are £138m (2014: £169m).

23. Derivative financial instruments

A derivative is a financial instrument that is typically used to manage risk and whose value moves in response to an underlying variable such as interest or foreign exchange rates. 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. Certain consolidated investment vehicles also use derivatives to take and alter market exposure, with the objective of enhancing performance and controlling risk.

Management determines the classification of derivatives at initial recognition. All derivative instruments are classified as held for trading except those designated as part of a hedging relationship. Held for trading derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

Using derivatives to manage a particular exposure is referred to as hedging. For a derivative to be considered as part of a hedging relationship its purpose must be formally documented at inception. In addition, the effectiveness of the hedge must be initially high and be able to be reliably measured on a regular basis. Derivatives used to hedge variability in future cash flows such as revenue receivable in a foreign currency are designated as cash flow hedges while derivatives used to hedge currency risk on investments in foreign operations are designated as net investment hedges.

Where a derivative qualifies as a cash flow or net investment hedge, hedge accounting is applied. The effective part of any gain or loss resulting from the change in fair value is recognised in other comprehensive income, and in the cash flow or net investment hedge reserve in equity, while any ineffective part is recognised immediately in the consolidated income statement. If a derivative ceases to meet the relevant hedging criteria, hedge accounting is discontinued.

For cash flow hedges, the amount recognised in the cash flow hedge reserve is transferred to the consolidated income statement (recycled) in the same period or periods during which the hedged item affects profit or loss and is transferred immediately if the cash flow is no longer expected to occur. For net investment hedges, the amount recognised in the net investment hedge reserve is transferred to the consolidated income statement on disposal of the investment.

Notes	2015			2014		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	10	-	-	1,135	1	-
Net investment hedges	5	-	-	1,107	8	12
Held for trading	35	153,277	2,444	1,254	119,963	4,012
Derivative financial instruments	41	153,292	2,444	1,254	122,205	4,021

Derivative assets of £2,098m (2014: £2,708m) are expected to be recovered after more than 12 months. Derivative liabilities of £475m (2014: £738m) are expected to be settled after more than 12 months.

(a) Cash flow hedges

Forward foreign exchange contracts with an aggregate notional principal amount of £10m (2014: £1,135m) and a net fair value asset position of less than £1m (2014: £1m) were designated as hedges of future cash flows arising from revenue receivable in foreign currency. The cash flows from these instruments are expected to be reported in the consolidated income statement for the following year. In 2015 and 2014, the ineffectiveness recognised in the consolidated income statement that arises from these cash flow hedges was less than £1m.

(b) Net investment hedges

Forward foreign exchange contracts with a notional principal amount of £5m (2014: £1,107m) and a net liability position of less than £1m (2014: £4m net liability) were designated as net investment hedges and gave rise to losses for the year of £1m (2014: £15m gains), 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 2015, the losses recognised in the consolidated income statement were less than £1m (2014: £6m). During 2015 £110m was

transferred to retained earnings through the consolidated income statement due to the disposal of the Canadian business on 30 January 2015 (2014: £nil).

(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	2015 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2014 Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Futures	12,684	18	129	16,420	73	337
Variance swaps	28	25	20	59	53	64
Options	4,752	661	3	8,867	922	187
Total return swaps	3,652	18	50	193	-	2
Bond derivatives:						
Futures	8,908	13	52	8,257	88	23
Interest rate derivatives:						
Swaps	81,160	748	458	41,244	1,255	692
Futures	63	11	-	-	-	-
Options	-	-	-	68	13	-
Swaptions	7,139	704	5	7,458	851	3
Foreign exchange derivatives:						
Forwards	30,860	203	497	32,704	643	293
Futures	-	-	-	-	-	-
Options	1,276	-	11	2,116	42	46
Other derivatives:						
Inflation rate swaps	1,108	5	26	2,022	52	30
Credit default swaps	1,647	38	3	555	20	4
Derivative financial instruments held for trading	153,277	2,444	1,254	119,963	4,012	1,681

(d) Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

2015	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
Cash Inflows							
Derivative financial assets	9,288	453	469	86	96	503	10,895
Derivative financial liabilities	20,003	10	3	-	-	2	20,018
Total	29,291	463	472	86	96	505	30,913
Cash outflows							
Derivative financial assets	(8,831)	(3)	(15)	(32)	(490)	-	(9,371)
Derivative financial liabilities	(20,695)	(107)	(44)	(24)	(33)	(494)	(21,397)
Total	(29,526)	(110)	(59)	(56)	(523)	(494)	(30,768)
Net derivative financial instruments cash (outflows)/inflows	(235)	353	413	30	(427)	11	145

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

23. Derivative financial instruments *continued*

(d) Maturity profile *continued*

2014	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
Cash inflows							
Derivative financial assets	23,548	812	411	159	113	508	25,551
Derivative financial liabilities	11,802	32	-	-	7	-	11,841
Total	35,350	844	411	159	120	508	37,392
Cash outflows							
Derivative financial assets	(22,250)	(42)	(1)	(13)	(595)	-	(22,901)
Derivative financial liabilities	(12,496)	(259)	(123)	(41)	(9)	(487)	(13,415)
Total	(34,746)	(301)	(124)	(54)	(604)	(487)	(36,316)
Net derivative financial instruments cash inflows/(outflows)	604	543	287	105	(484)	21	1,076

Estimates and assumptions

Determination of the fair value of over-the-counter derivative financial instruments is a key estimate. The methods and assumptions used to determine fair value of over-the-counter derivative financial instruments are discussed in Note 43.

24. Receivables and other financial assets

	Notes	2015 £m	2014 £m
Amounts receivable on direct insurance business		83	98
Amounts receivable on reinsurance contracts		1	1
Outstanding sales of investment securities		58	182
Accrued income		224	205
Cancellations of units awaiting settlement		265	256
Collateral pledged in respect of derivative contracts	41	448	202
Property related assets		169	136
Contingent consideration asset	43	15	20
Other		184	148
Receivables and other financial assets		1,447	1,248

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of receivables and other financial assets expected to be recovered after more than 12 months is £69m (2014: £56m).

25. Other assets

	2015 £m	2014 £m
Prepayments	36	36
Other	53	80
Other assets	89	116

The amount of other assets expected to be recovered after more than 12 months is £26m (2014: £37m).

Current tax recoverable was previously included within other assets but has now been presented separately on the face of the consolidated statement of financial position. The balance at 31 December 2015 was £168m (2014: £191m). The opening balance at 1 January 2014 was £138m.

26. Assets and liabilities held for sale

Assets and liabilities held for sale are presented separately in the consolidated statement of financial position and consist of operations and individual non-current assets whose carrying amount will be recovered principally through a sale transaction and not through continuing use.

Operations held for sale, being disposal groups, are measured at the lower of their carrying amount and their fair value less disposal costs. No depreciation or amortisation is charged on assets in a disposal group once it has been classified as held for sale.

Operations held for sale include certain investment vehicle subsidiaries acquired in the year where it is highly probable that the Group will lose control within 12 months. For these subsidiaries their assets are measured collectively as the total of the fair value of the subsidiary and the value of its liabilities. Operations held for sale also include newly established investment vehicles which the Group has seeded but is actively seeking to divest from. For these investment funds, which do not have significant liabilities or non-financial assets, financial assets continue to be measured based on the accounting policies that applied before they were classified as held for sale.

Certain amounts seeded into funds are classified as investments in associates at FVTPL. Investment property held for sale relates to property for which contracts have been exchanged but the sale had not completed during the current financial year. Investments in associates at FVTPL and investment property held for sale continue to be measured based on the accounting policies that applied before they were classified as held for sale.

	2015 £m	2014 £m
Assets of operations held for sale		
Canadian business	-	29,254
Investment vehicles	207	63
Investments in associates at FVTPL	33	11
Investment property	87	10
Assets held for sale	327	29,338
Liabilities of operations held for sale	83	28,033

The assets and liabilities of operations held for sale at 31 December 2015 primarily relate to the assets and liabilities of a consolidated infrastructure fund and its subsidiaries. The fund is actively seeking additional external investment and it is highly probable that the Group will no longer have control of this fund within the next 12 months. The assets and liabilities are held in the UK and Europe segment.

The assets and liabilities of operations held for sale at 31 December 2014 primarily related to the Group's Canadian business which was sold on 30 January 2015 and included the SLAL Canada Branch, the assets and liabilities of which were transferred on 31 December 2015. Refer to Note 1 for further details. The breakdown of these assets and liabilities at 31 December 2014 was as follows:

31 December 2014	Notes	Financial instruments				Other	
		Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Other £m	Total £m
Assets of operations held for sale							
Intangible assets		-	-	-	-	13	13
Deferred acquisition costs		-	-	-	-	115	115
Investments in associates and joint ventures		33	-	-	-	70	103
Investment property		-	-	-	-	1,417	1,417
Property, plant and equipment		-	-	-	-	31	31
Deferred tax assets		-	-	-	-	54	54
Reinsurance assets		-	-	-	-	187	187
Loans		-	-	-	2,313	-	2,313
Derivative financial assets		-	44	-	-	-	44
Equity securities and interests in pooled investment funds		12,961	-	-	-	-	12,961
Debt securities		10,694	-	365	-	-	11,059
Receivables and other financial assets		-	-	-	214	-	214
Other assets		-	-	-	-	34	34
Assets held for sale		-	-	-	-	-	-
Cash and cash equivalents	27	-	-	-	709	-	709
Total assets of operations held for sale		23,688	44	365	3,236	1,921	29,254

26. Assets and liabilities held for sale *continued*

31 December 2014	Notes	Financial instruments				Other	Total £m
		Designated as at fair value through profit or loss £m	Held for trading £m	Amortised cost £m	Insurance contracts £m	Other £m	
Liabilities of operations held for sale							
Non-participating insurance contract liabilities	33	-	-	-	9,425	-	9,425
Non-participating investment contract liabilities		13,734	-	2,118	-	-	15,852
Participating contract liabilities	33	-	-	-	702	2	704
Reinsurance liabilities		-	-	-	273	-	273
Deposits received from reinsurers		-	-	-	-	-	-
Third party interest in consolidated funds		953	-	-	-	-	953
Subordinated liabilities	36	-	-	223	-	-	223
Pension and other post-retirement benefit provisions		-	-	-	-	101	101
Deferred income		-	-	-	-	1	1
Deferred tax liabilities		-	-	-	-	13	13
Current tax liabilities		-	-	-	-	3	3
Derivative financial liabilities		-	26	-	-	-	26
Other financial liabilities		-	-	427	-	-	427
Other liabilities		-	-	-	-	32	32
Total liabilities of operations held for sale		14,687	26	2,768	10,400	152	28,033

27. Cash and cash equivalents

Cash and cash equivalents include cash at bank, money at call and short notice with banks, and any highly liquid investments with less than three months to maturity from the date of acquisition, and are 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 other financial liabilities on the consolidated statement of financial position.

	2015 £m	2014 £m
Cash at bank and in hand	824	750
Money at call and short notice	1,840	2,201
Demand, term deposits and debt instruments with less than three months to maturity from acquisition	6,976	7,666
Cash and cash equivalents	9,640	10,617

	Notes	2015 £m	2014 £m
Cash and cash equivalents		9,640	10,617
Cash and cash equivalents classified as held for sale	26	-	709
Bank overdrafts	39	(49)	(33)
Bank overdrafts classified as held for sale		-	(50)
Total cash and cash equivalents for consolidated statement of cash flows		9,591	11,243

Cash in hand is non-interest bearing. Cash at bank, money at call and short notice and deposits are subject to variable interest rates.

28. Issued share capital and share premium

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 Company's share capital consists of the number of ordinary shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

(a) Issued share capital

The movement in the issued ordinary share capital of the Company was:

	2015 10p each	2015 12 2/9p each	2015 £m	2014 10p each	2014 £m
Issued shares fully paid					
At 1 January	2,394,373,744	-	239	2,376,616,730	238
Shares issued in respect of share incentive plans	169,283	194,329	-	287,120	-
Shares issued in respect of share options	642,089	10,046,128	2	17,469,894	1
New shares issued immediately prior to share consolidation	6	-	-	-	-
Share consolidation	(2,395,185,122)	1,959,696,918	-	-	-
At 31 December	-	1,969,937,375	241	2,394,373,744	239

On 13 March 2015, the Company undertook a share consolidation of the Company's share capital. Nine new ordinary shares of 12 2/9 pence each were issued for each holding of 11 existing ordinary shares of 10 pence each. As a result, the number of shares in issue reduced from 2,395,185,122 to 1,959,696,918. All ordinary shares in issue in the Company rank pari passu and carry the same voting rights to receive dividends and other distributions declared or paid by the Company.

The Company can issue shares to satisfy awards granted under employee incentive plans which have been approved by shareholders. Details of the Group's employee plans are provided in Note 47.

(b) Return of value

668,370,013 'B' shares were issued for nil consideration with a nominal value of 73 pence each on 19 March 2015, resulting in a total of £488m being credited to the 'B' share capital account. At the same time £488m was deducted from the share premium account. On 20 March 2015 the 'B' shares were redeemed at 73 pence each. An amount of £488m was deducted from the 'B' share capital account and £488m was transferred from retained earnings to the capital redemption reserve.

1,726,815,109 'C' shares were issued for nil consideration with a nominal value of 0.0000001 pence each on 19 March 2015. An amount of £1.73 was credited to the 'C' share capital account. On 20 March 2015 a dividend of 73 pence per share became payable at a total cost of £1,261m and this amount has been recorded as a deduction from retained earnings. On the same date, the 'C' shares were automatically reclassified as deferred shares. The Company subsequently purchased the deferred shares for an aggregate consideration of one pence.

(c) Share premium

	2015 £m	2014 £m
1 January	1,115	1,110
Issue of 'B' shares	(488)	-
Shares issued in respect of share options	1	5
31 December	628	1,115

As noted above, 668,370,013 'B' shares were issued at 73 pence each on 19 March 2015, resulting in a deduction of £488m from the share premium account.

29. Shares held by trusts

Shares held by trusts relates to shares in Standard Life plc that are held by the Employee Share Trust (EST) and the Unclaimed Asset Trust (UAT).

The EST purchases shares in the Company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them. Where new shares are issued to the EST the price paid is the nominal value of the shares. When shares are distributed from the trust their corresponding value is released to retained earnings.

In July 2006 Standard Life demutualised and former members of the mutual company were given shares in the new listed Company. Some former members have yet to claim their shares and the UAT holds these on their behalf. The Company has an off-setting obligation to deliver these shares which is also recognised in the shares held by trust reserve. The shares and the off-setting obligation are both measured at £nil.

29. Shares held by trusts *continued*

The number of shares held in trust at 31 December 2015 was as follows:

	2015	2014
Number of shares held in trust		
Employee Share Trust	1,637,419	1,081,758
Unclaimed Asset Trust	14,709,934	21,143,650

30. Retained earnings

The following table shows movements in retained earnings during the year. The movements are aggregated for both continuing and discontinued operations.

	Notes	2015 £m	2014 £m
At 1 January		1,816	1,391
Recognised in comprehensive income			
Recognised in profit for the year attributable to equity holders		1,423	503
Recognised in other comprehensive income			
Remeasurement gains on defined benefit pension plans		148	272
Share of other comprehensive income of joint ventures		2	4
Aggregate tax items recognised in other comprehensive income		5	5
Total items recognised in comprehensive income		1,578	784
Recognised directly in equity			
Dividends paid on ordinary shares		(343)	(386)
Redemption of 'B' shares	28	(488)	-
Dividends paid on 'C' shares	28	(1,261)	-
Dividends due on unclaimed shares not held in the Unclaimed Asset Trust		(2)	-
Transfer from equity compensation reserve for vested employee share-based payments	31	32	27
Transfer from revaluation of owner occupied property reserve on sale of owner occupied property		-	4
Transfer from other reserves on disposal of a subsidiary	1	827	-
Shares distributed by employee and other trusts		(2)	(10)
Aggregate tax items recognised in equity		5	6
Total items recognised directly in equity		(1,232)	(359)
At 31 December		2,162	1,816

31. Movements in other reserves

In July 2006 Standard Life demutualised and during this process the merger reserve, the reserve arising on Group reconstruction and the special reserve were created.

Merger Reserve: At demutualisation in July 2006 the Company issued shares to former members of the mutual company. The difference between the nominal value of these shares and their issue value was recognised in the merger reserve. The reserve comprises components attaching to each subsidiary that was transferred to the Company at demutualisation based on their fair value at that date. On disposal or impairment of such a subsidiary the related component of the merger reserve is released to retained earnings.

Reserve arising on Group reconstruction: The value of the shares issued at demutualisation was equal to the fair value of the business at that date. The business's assets and liabilities were recognised at their book value at the time of demutualisation. The difference between the book value of the business's net assets and its fair value was recognised in the reserve arising on Group reconstruction. The reserve comprises components attaching to each subsidiary that was transferred to the Company at demutualisation. On disposal of such a subsidiary the related component of the reserve arising on Group reconstruction is released to retained earnings.

Special reserve: Immediately following demutualisation and the related initial public offering, the Company reduced its share premium reserve by court order giving rise to the special reserve. Dividends can be paid out of this reserve.

The following table shows the movements in other reserves during the year. The movements are aggregated for both continuing and discontinued operations.

2015	Notes	Revaluation of owner occupied property £m	Cash flow hedges £m	Foreign currency translation £m	Net investment hedge £m	Available-for-sale financial assets £m	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Capital redemption reserve £m	Total £m
At 1 January		20	3	110	54	13	3,108	52	241	(2,100)	-	1,501
Recognised in other comprehensive income												
Fair value gains on cash flow hedges		-	57	-	-	-	-	-	-	-	-	57
Net investment hedge		-	-	-	56	-	-	-	-	-	-	56
Fair value gains on available-for-sale financial assets		-	-	-	-	7	-	-	-	-	-	7
Revaluation of owner occupied property		4	-	-	-	-	-	-	-	-	-	4
Exchange differences on translating foreign operations		-	-	(68)	-	-	-	-	-	-	-	(68)
With profits funds: Associated UDS movement recognised in other comprehensive income		(4)	-	1	-	-	-	-	-	-	-	(3)
Aggregate tax effect of items recognised in other comprehensive income		-	-	-	-	(2)	-	-	-	-	-	(2)
Items transferred to profit or loss on disposal of subsidiaries	1	-	(60)	(50)	(110)	(17)	-	-	-	-	-	(237)
Total items recognised in other comprehensive income		-	(3)	(117)	(54)	(12)	-	-	-	-	-	(186)
Recognised directly in equity												
Redemption of 'B' shares	28	-	-	-	-	-	-	-	-	-	488	488
Reserves credit for employee share-based payment schemes		-	-	-	-	-	-	34	-	-	-	34
Transfer to retained earnings for vested employee share-based payments		-	-	-	-	-	-	(32)	-	-	-	(32)
Transfer to UDS on sale of owner occupied property		(14)	-	-	-	-	-	-	-	-	-	(14)
With profits funds: Associated UDS movement recognised in equity		14	-	-	-	-	-	-	-	-	-	14
Transfer between reserves on disposal of subsidiaries	1	(20)	-	-	-	-	(1,028)	-	-	221	-	(827)
Aggregate tax effect of items recognised directly in equity		-	-	-	-	-	-	(1)	-	-	-	(1)
Total items recognised directly within equity		(20)	-	-	-	-	(1,028)	1	-	221	488	(338)
At 31 December		-	-	(7)	-	1	2,080	53	241	(1,879)	488	977
Balance at 31 December 2015 comprises:												
Total reserve before with profits fund adjustment		36	-	206	-	1	2,080	53	241	(1,879)	488	1,226
Total with profits fund adjustment		(36)	-	(213)	-	-	-	-	-	-	-	(249)
At 31 December		-	-	(7)	-	1	2,080	53	241	(1,879)	488	977

The with profits 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.

31. Movements in other reserves *continued*

2014	Revaluation of owner occupied property £m	Cash flow hedges £m	Foreign currency translation £m	Net investment hedge £m	Available- for-sale financial assets £m	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Total £m
At 1 January	25	-	153	39	(25)	3,108	53	241	(2,100)	1,494
Recognised in other comprehensive income										
Fair value gains on cash flow hedges	-	3	-	-	-	-	-	-	-	3
Net investment hedge	-	-	-	15	-	-	-	-	-	15
Fair value gains on available- for-sale financial assets	-	-	-	-	49	-	-	-	-	49
Revaluation of owner occupied property	3	-	-	-	-	-	-	-	-	3
Exchange differences on translating foreign operations	-	-	(49)	-	-	-	-	-	-	(49)
With profits funds: Associated UDS movement recognised in other comprehensive income	(4)	-	6	-	-	-	-	-	-	2
Aggregate tax effect of items recognised in other comprehensive income	-	-	-	-	(11)	-	-	-	-	(11)
Total items recognised in other comprehensive income	(1)	3	(43)	15	38	-	-	-	-	12
Recognised directly in equity										
Reserves credit for employee share-based payment schemes	-	-	-	-	-	-	27	-	-	27
Transfer to retained earnings on sale of owner occupied property	(4)	-	-	-	-	-	-	-	-	(4)
Transfer to retained earnings for vested employee share- based payments	-	-	-	-	-	-	(27)	-	-	(27)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	-	-
Aggregate tax effect of items recognised directly in equity	-	-	-	-	-	-	(1)	-	-	(1)
Total items recognised directly within equity	(4)	-	-	-	-	-	(1)	-	-	(5)
At 31 December	20	3	110	54	13	3,108	52	241	(2,100)	1,501
Balance at 31 December 2014 comprises:										
Total reserve before with profits fund adjustment	66	3	324	54	13	3,108	52	241	(2,100)	1,761
Total with profits fund adjustment	(46)	-	(214)	-	-	-	-	-	-	(260)
At 31 December	20	3	110	54	13	3,108	52	241	(2,100)	1,501

32. Non-controlling interests and third party interest in consolidated funds

(a) Non-controlling interests

The movement in non-controlling interests during the year was:

	2015 £m	2014 £m
At 1 January	278	333
Foreign exchange differences on translating foreign operations	(2)	(4)
Profit in the year attributable to non-controlling interests	62	4
Net contributions	44	(15)
Distributions	(35)	(40)
At 31 December	347	278

Included in non-controlling interests of £347m (2014: £278m) is £210m (2014: £190m) of non-controlling interests of Standard Life European Private Equity Trust plc (SLEPET) which is considered material to the Group. Non-controlling interests own 46% (2014: 46%) of the voting rights of SLEPET. The profit allocated to non-controlling interests of SLEPET for the year ended 31 December 2015 is £31m (2014: £2m). Dividends paid to non-controlling interests of SLEPET during the year ended 31 December 2015 were £5m (2014: £4m).

Summarised financial information for SLEPET prior to intercompany eliminations is provided in the following table. The summarised financial information is for the years ended 30 September 2015 and 2014 which is SLEPET's financial reporting date and is considered indicative of the interest that non-controlling interests of SLEPET have in the Group's activities and cash flows. The financial statements of SLEPET for the years ended 30 September 2015 and 2014 have been adjusted for market movements and any other significant events or transactions for the three months to 31 December for the purposes of consolidation into the Group's consolidated financial statements for the years ended 31 December 2015 and 2014 respectively.

	2015 £m	2014 £m
SLEPET 30 September		
Statement of financial position:		
Total assets	439	410
Total liabilities	-	1
Income statement:		
Revenue	53	33
Profit after tax	47	28
Total comprehensive income	47	28
Cash flows:		
Cash flows from operating activities	8	8
Cash flows from investing activities	22	(6)
Cash flows from financing activities	(20)	(21)
Net increase/(decrease) in cash equivalents	10	(19)

There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

(b) Third party interest in consolidated funds

The movement in third party interest in consolidated funds during the year was:

	2015 £m	2014 £m
At 1 January	15,805	16,058
Reclassified as held for sale during the year	-	(965)
Foreign exchange differences on translating foreign operations	(39)	(137)
Change in liability for third party interest in consolidated funds	531	758
Net contributions and movements between classifications of investments	1,166	328
Distributions	(267)	(237)
At 31 December	17,196	15,805

33. Insurance contracts, investment contracts and reinsurance contracts

(i) Classification of insurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts.

Insurance contracts

A contract is classified as an insurance contract 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.

Investment contracts

Life and pensions business contracts that are not classified as insurance contracts are classified as investment contracts.

Participating 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 insurance contracts if they contain a feature that transfers significant insurance risk and otherwise as participating investment contracts.

Hybrid 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.

Embedded derivatives

Where a contract contains a feature that meets the definition of both an insurance contract and a derivative, the contract is classified in its entirety as an insurance contract.

The following table summarises the classification of the Group's significant types of life and pensions business contracts as described in Note 3.

Reportable segment	Participating insurance contracts	Non-participating insurance contracts	Participating investment contracts	Non-participating investment contracts
UK and Europe	German unitised with profits deferred annuity contracts UK & Irish unitised with profits life contracts	UK & Irish annuity-in-payment contracts Certain UK & Irish unit linked investment bonds UK deferred annuity contracts	UK & Irish unitised with profits pension contracts	UK & Irish unit linked pension contracts Certain UK & Irish unit linked investment bonds
India and China		Hong Kong unit linked life contracts		

Details of the accounting policies for non-participating investment contracts are given in Note 34.

(ii) Income statement presentation - insurance and participating investment contracts

For insurance contracts and participating investment contracts, IFRS 4 *Insurance Contracts* permits the continued application, for income statement presentation purposes, of accounting policies that were being used at the date of transition to IFRS, 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. Therefore the Group applies accounting policies determined in accordance with the Association of British Insurers Statement of Recommended Practice issued in 2005 (ABI SORP) as described below.

Premiums received on insurance contracts and participating investment contracts are recognised as revenue in the consolidated income statement 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.

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the consolidated 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.

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.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

The change in insurance and participating investment contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the consolidated income statement. This also includes the movement in unallocated divisible surplus (UDS) in the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the consolidated income statement as it is also recognised in other comprehensive income.

(iii) Measurement - insurance and participating investment contract liabilities

For insurance contracts and participating investment contracts, IFRS 4 *Insurance Contracts* permits the continued application, for measurement purposes, of accounting policies that were being used at the date of transition to IFRS, 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. Therefore the Group applies accounting policies determined in accordance with the ABI SORP as described below. As was permitted under the ABI SORP, 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.

(iv) Measurement - participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities
- Participating investment contract liabilities
- Present value of future profits on non-participating contracts, which is treated as a deduction from gross participating contract liabilities
- Unallocated divisible surplus

The policy for measuring each component is noted below.

UK and Europe

Participating contract liabilities arising under contracts issued by a with profits fund falling within the scope of the Prudential Regulation Authority (PRA) realistic capital regime are measured on the PRA 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 PRA realistic basis, plus
- Future policy related liabilities (FPRL) for the fund as determined under the PRA 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

The WPBR is primarily based on the retrospective calculation of accumulated assets shares. The aggregate value of individual policy asset shares reflects 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 for expenses attributed to the asset share is, as far as practical, the appropriate share of the actual expenses incurred or charged to the fund. For those on a charges basis, the allowance is consistent with the charges for an equivalent unit linked policy. The FPRL comprises other components such as a 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). The participating contracts held in the HWPF were issued by a with profits fund falling within the scope of the PRA realistic capital regime. 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 PRA 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 (SHF) 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 PRA realistic basis, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in 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.

33. Insurance contracts, investment contracts and reinsurance contracts *continued*

(iv) Measurement - participating contract liabilities *continued*

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.

Some participating contracts are issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within SLAL falling within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. Any liability for insurance features retained in the non-participating fund is measured using the gross premium method applicable to non-participating contracts (see policy (v)).

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 PRA'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 of this value directly or indirectly. 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 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 UDS.

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.

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.

Canada

The Group's policy for measuring liabilities for participating contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for participating contracts issued by The Standard Life Assurance Company of Canada (SLCC), the Canadian regulatory valuation technique was applied, under which for most participating business the value of participating policy liabilities was set equal to the value of the assets set aside in a separate fund for this business, unless this was insufficient to cover guaranteed benefits, in which case a higher liability was recognised.

(v) Measurement - non-participating insurance contract liabilities

UK and Europe

The liability for annuity in payment contracts is measured 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.

Other non-participating insurance contracts are measured 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 Prudential Regulation Authority (PRA) requirements.

Canada and India and China

The Group's policy for measuring liabilities for non-participating insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting.

For non-participating insurance contracts issued by SLCC, the Canadian regulatory valuation technique was applied. Under Canadian regulations, liabilities were determined according to the Canadian Asset Liability Method (CALM). Assets and liabilities were projected under a number of different economic scenarios. These scenarios included 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 were the value of assets which would achieve zero surplus at the end of the projection period. In this valuation allowance was made for income taxes arising from differences between tax and accounting bases that were policy related. Under CALM the deferred taxes recognised under IAS 12 relating directly to policy related items included in the computation of liabilities are eliminated in the liabilities and discounted deferred taxes were added. The liability was set equal to the greatest value of the required assets.

(vi) Measurement - 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 consolidated income statement.

(vii) Reinsurance contracts

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 reinsurance contracts.

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 unless a right of offset exists, in which case the net amount is reported on the consolidated statement of financial position.

(a) Insurance contracts and participating investment contracts

	Notes	2015 £m	2014 £m
Non-participating insurance contract liabilities		21,206	31,266
Less: Non-participating insurance contract liabilities classified as held for sale	26	-	(9,425)
	33(b)	21,206	21,841
	Notes	2015 £m	2014 £m
Participating insurance contract liabilities		14,283	16,099
Less: Participating insurance contract liabilities classified as held for sale		-	(702)
	33(b)	14,283	15,397
Participating investment contract liabilities		14,716	15,193
Less: Participating investment contract liabilities classified as held for sale		-	(2)
	33(b)	14,716	15,191
Unallocated divisible surplus		655	688
Less: Unallocated divisible surplus classified as held for sale		-	-
	33(d)	655	688
Participating contract liabilities		29,654	31,980
Less: Participating contract liabilities classified as held for sale	26	-	(704)
		29,654	31,276

33. Insurance contracts, investment contracts and reinsurance contracts *continued*

(b) Change in liabilities and reinsurance contracts

The movement in insurance contract liabilities, participating investment contract liabilities and reinsurance contracts during the year was as follows:

	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
2015						
At 1 January	15,397	21,841	15,191	52,429	(6,036)	46,393
Expected change	(1,042)	(808)	(902)	(2,752)	388	(2,364)
Methodology/modelling changes	17	19	(22)	14	(3)	11
Effect of changes in						
Economic assumptions	148	(491)	(17)	(360)	101	(259)
Non-economic assumptions	(225)	(47)	182	(90)	8	(82)
Effect of						
Economic experience	315	129	152	596	11	607
Non-economic experience	107	(378)	142	(129)	15	(114)
New business	37	964	27	1,028	-	1,028
Total change in contract liabilities	(643)	(612)	(438)	(1,693)	520	(1,173)
Foreign exchange adjustment	(471)	(23)	(37)	(531)	1	(530)
At 31 December	14,283	21,206	14,716	50,205	(5,515)	44,690

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 decrease net of reinsurance of £82m includes a decrease of £43m in respect of participating business which is primarily in respect of changes in the best estimate non-economic assumptions used in calculating the value of future transfers to equity holders in respect of participating business in the HWPF. Non-economic assumptions also includes a decrease of £39m (net of reinsurance) in respect of non-participating business, which primarily relates to changes in mortality assumptions.

Economic assumptions reflects changes in fixed income yields, leading to higher valuation interest rates on non-participating business, and other market movements.

Following demutualisation, it is necessary to recognise the residual estate in the HWPF as a liability within participating contract 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 of Demutualisation (the Scheme). The movement for the year therefore includes the movement in the residual estate.

	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
2014						
At 1 January	15,060	28,312	14,707	58,079	(5,857)	52,222
Reclassified as held for sale during the year	(667)	(8,135)	(3)	(8,805)	(123)	(8,928)
	14,393	20,177	14,704	49,274	(5,980)	43,294
Expected change	(1,014)	(717)	(701)	(2,432)	350	(2,082)
Methodology/modelling changes	(3)	(81)	44	(40)	-	(40)
Effect of changes in						
Economic assumptions	356	1,625	(344)	1,637	(410)	1,227
Non-economic assumptions	37	(65)	(52)	(80)	7	(73)
Effect of						
Economic experience	2,092	207	1,319	3,618	6	3,624
Non-economic experience	79	(264)	252	67	(1)	66
New business	42	1,000	22	1,064	(12)	1,052
Total change in contract liabilities	1,589	1,705	540	3,834	(60)	3,774
Foreign exchange adjustment	(585)	(41)	(53)	(679)	4	(675)
At 31 December	15,397	21,841	15,191	52,429	(6,036)	46,393

(c) Present value of future profits on non-participating contracts in the Heritage With Profits Fund

The HWPF was established as part of the demutualisation transaction on 10 July 2006. Under 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:

	2015 £m	2014 £m
Participating contract liabilities before apportionment	28,890	31,216
Apportionment of non-participating PVFP	109	76
	28,999	31,292
Participating insurance contracts	14,283	16,099
Participating investment contracts	14,716	15,193
Participating contract liabilities after apportionment	28,999	31,292
Unallocated divisible surplus before apportionment	1,639	1,712
Apportionment of non-participating PVFP	(984)	(1,024)
Unallocated divisible surplus after apportionment	655	688

(d) Movement in components of unallocated divisible surplus (UDS)

The movement in UDS was as follows:

	2015 £m	2014 £m
At 1 January	688	680
Change in UDS recognised in the consolidated income statement	(117)	(71)
Change in UDS recognised in other comprehensive income	3	(2)
Foreign exchange adjustment	81	81
At 31 December	655	688

(e) Expected settlement and recovery

An indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities is given in Note 41. 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.

Estimates and assumptions

The determination of the valuation interest rates and investment returns, longevity and mortality assumptions, and expense assumptions are all key accounting estimates.

The principal assumptions are shown in the tables below:

(i) Non-participating insurance contracts

UK and Europe

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Prudential Regulation 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 except for UK and Irish annuity business and German non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used.

33. Insurance contracts, investment contracts and reinsurance contracts *continued*

Estimates and assumptions *continued*

(i) Non-participating insurance contracts *continued*

The valuation interest rates used are:

Non-participating	2015	2014
1. Business held within the PBF		
Annuities: Individual and group		
Life	3.05%	2.69%
Pensions	3.05%	2.69%
Linked to RPI	(0.47%)	(0.72%)
2. Business held within the HWPF		
Annuities: Individual and group		
Non-linked		
Life	2.30%	2.20%
Pensions: reinsured externally	2.35%	2.15%
Pensions: not reinsured externally	2.80%	2.55%
Deferred annuities	2.80%	2.55%
Linked to RPI		
Reinsured externally	(0.60%)	(0.80%)
Not reinsured externally	(0.45%)	(0.90%)
Deferred annuities	(1.00%)	(1.95%)

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	2015	2014
Annuities		
Individual and group in deferment	Males: 67.0% AMCOO Females: 65.2% AFCOO	Males: 71.5% AMCOO Females: 70.8% AFCOO
Individual after vesting (business written after 10 July 2006)	Males: 92.6% RMC00 Females: 100.3% RFC00	Males: 92.2% RMC00 Females: 99.5% RFC00
Individual after vesting (business written prior to 10 July 2006)	Males: 97.1% RMC00 Females: 104.0% RFC00	Males: 96.7% RMC00 Females: 103.7% RFC00
Group after vesting (business written after 10 July 2006)	Males: 112.1% RMV00 Females: 119.9% WA00	Males: 111.1% RMV00 Females: 115.0% WA00
Group after vesting (business written prior to 10 July 2006)	Males: 111.6% RMV00 Females: 120.8% WA00	Males: 110.7% RMV00 Females: 115.8% WA00

In the valuation of the liabilities in respect of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. This is based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2013 model with long-term improvement rates of 1.8% for males and 1.5% for females in 2015 (1.8% for males and 1.5% for females in 2014). The Continuous Mortality Investigation Bureau (CMI) is a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2013 is a model that was published towards the end of 2013.

The SLAL parameterisation of the CMI_2013 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)

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 contingent spouses' benefits an assumption is also made with regard to the proportions married, based on SLAL'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 3.12% (2014: 3.61%) 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, 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.

Withdrawals

For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

Ireland

The assumptions for business in Ireland are derived in a similar manner to those above.

(ii) Assumptions used in the calculation of the present value of future profits on non-participating insurance and investment contracts in the HWPF were as follows:

Economic assumptions

	2015	2014
Risk discount rate	3.91% - 4.12%	3.06% - 3.27%
Investment returns		
Equity securities	2.01%	1.86%
Property	2.01%	1.86%
Fixed interest - annuity/protection	2.22%	2.07%
Fixed interest - other business	2.01%	1.86%
Expense inflation	3.12%	3.61%

The table above shows the changes in the basis between 2014 and 2015. 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.

Non-economic assumptions

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.

(iii) Sensitivity analysis

Refer to Note 41 for sensitivity analysis for the shareholder business.

34. Non-participating investment contracts

Unit linked non-participating investment contracts are separated into two components being an investment management services component and a financial liability. All fees and related administrative expenses are deemed to be associated with the investment management services component (refer to Note 5, Note 17 and Note 38). The financial liability component is designated at FVTPL as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the consolidated income statement.

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 consolidated income statement.

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the consolidated income statement as changes in investment contract liabilities.

The change in non-participating investment contract liabilities was as follows:

	Notes	2015 £m	2014 £m
At 1 January		88,207	97,659
Reclassified as held for sale during the year		-	(15,097)
Contributions		12,561	11,261
Initial charges and reduced allocations		-	(3)
Account balances paid on surrender and other terminations in the year		(10,564)	(10,230)
Change in non-participating investment contract liabilities recognised in the consolidated income statement		3,363	5,362
Foreign exchange adjustment		(223)	(306)
Recurring management charges		(450)	(439)
At 31 December	35	92,894	88,207

35. Financial liabilities

Management determines the classification of financial liabilities at initial recognition. The majority of the Group's financial liabilities are designated as fair value through profit or loss (FVTPL). The methods and assumptions used to determine fair value of financial liabilities designated at FVTPL are discussed in Note 43. Financial liabilities which are not derivatives and not FVTPL are financial liabilities measured at amortised cost.

2015	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Net investment hedge £m	Financial liabilities measured at amortised cost £m	Total £m
Non-participating investment contract liabilities	41	92,890	-	-	4	92,894
Deposits received from reinsurers	41	-	-	-	5,134	5,134
Third party interest in consolidated funds	41	17,196	-	-	-	17,196
Subordinated liabilities	36	-	-	-	1,318	1,318
Derivative financial liabilities	23	-	1,254	-	-	1,254
Other financial liabilities	39	-	-	-	2,900	2,900
Total		110,086	1,254	-	9,356	120,696

2014	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Net investment hedge £m	Financial liabilities measured at amortised cost £m	Total £m
Non-participating investment contract liabilities	41	88,203	-	-	4	88,207
Deposits received from reinsurers	41	-	-	-	5,642	5,642
Third party interest in consolidated funds	41	15,805	-	-	-	15,805
Subordinated liabilities	36	-	-	-	1,612	1,612
Derivative financial liabilities	23	-	1,681	12	-	1,693
Other financial liabilities	39	3	-	-	3,731	3,734
Total		104,011	1,681	12	10,989	116,693

36. Subordinated liabilities

Subordinated liabilities are debt instruments issued by the Company which rank below its other obligations in the event of liquidation but above the share capital. All of the Group's subordinated liabilities are classified as liabilities on the consolidated statement of financial position as discussed further below. Subordinated liabilities are initially recognised at the value of proceeds received after deduction of issue expenses. Subsequent measurement is at amortised cost using the effective interest rate method.

Notes	2015		2014	
	Principal amount	Carrying value	Principal amount	Carrying Value
		£m		£m
Subordinated notes				
5.5% Sterling fixed rate due 4 December 2042	£500,000,000	499	£500,000,000	499
3.938% Canadian dollar fixed/floating rate due 21 September 2022	-	-	CA\$400,000,000	223
Subordinated guaranteed bonds				
6.75% Sterling fixed rate perpetual	£500,000,000	502	£500,000,000	502
Mutual Assurance Capital Securities				
6.546% Sterling fixed rate perpetual	£300,000,000	317	£300,000,000	317
5.314% Euro fixed/floating rate perpetual	-	-	€360,000,000	294
Subordinated liabilities		1,318		1,835
Less: Subordinated liabilities classified as held for sale				
3.938% Canadian dollar fixed/floating rate due 21 September 2022	26	-	CA\$400,000,000	(223)
Total subordinated liabilities	41	1,318		1,612

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 43.

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. On 6 January 2015 the Company redeemed in full the 5.314% Euro fixed/floating rate perpetual Mutual Assurance Capital Securities at their outstanding principal amount of €360,000,000. Accrued interest of £15m relating to these securities was also settled. The principal amount of all other subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on the remaining subordinated liabilities, excluding those classified as held for sale, of £37m (2014: £37m) is expected to be settled within 12 months.

Amounts due under the subordinated guaranteed bonds and Mutual Assurance Capital Securities are classified as liabilities. This classification 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 in the internal subordinated loan note section below.

Subordinated notes

The Sterling subordinated notes were issued by the Company on 4 December 2012 pursuant to its EUR3,000,000,000 Euro Medium Term Note Programme dated 10 May 2012. The maturity date of the notes is 4 December 2042. Interest is payable each six months in arrears. The Company has the option to redeem the notes at par on 4 December 2022 and on every interest payment date thereafter until maturity. If the notes are not redeemed the interest rate payable will be reset on 4 December 2022 and on each fifth anniversary thereafter to 4.85% over the five year gilt rate. The notes are direct, unsecured obligations of the Company that rank subordinate to all senior creditors of the Company.

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 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 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 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 equally ranked securities or securities that rank junior to the bonds; 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 bonds; the date of any redemption or purchase of bonds; or the commencement of winding up of the Company or SLAL.

36. Subordinated liabilities *continued*

Mutual Assurance Capital Securities (MACS)

The MACS were issued on 4 November 2004. The payment of principal and interest in respect of the MACS is irrevocably and unconditionally guaranteed by SLAL. The claims of the holders of the MACS to payment under the guarantee will rank below the claims of all senior creditors of SLAL including policyholders. The MACS are perpetual securities and as such have no fixed redemption date. The Sterling denominated MACS started accruing interest from 4 November 2004 and bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January each year, commencing on 6 January 2006. The Euro denominated MACS started accruing interest from 4 November 2004 at a rate of 5.314% per annum and were redeemed in full on 6 January 2015.

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.

37. Pension and other post-retirement benefit provisions

The Group operates two types of pension plans for staff employed by the Group:

- Defined benefit plans where the scheme is obligated to provide pension payments upon retirement to members as defined by the scheme rules
- Defined contribution plans where the Group has agreed to contribute to a member's pension plan but has no further payment obligations once the contributions have been paid

The Group's liabilities in relation to its principal defined benefit plans are determined by annual actuarial calculations. The Group has funded these liabilities in relation to its principal defined benefit plans by ring-fencing assets in an independent trustee-administered fund. The Group has further smaller defined benefit plans which are unfunded.

The statement of financial position must reflect assets or liabilities relating to each defined benefit pension plan. The liability recognised is the present value of the defined benefit obligation (estimated future cash flows are discounted using the yields on high quality corporate bonds) less the fair value of plan assets, if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if the Group considers that it has an unconditional right to a refund. The amount of surplus recognised will be limited by tax and expenses. Our judgement is that, in the UK, an authorised surplus tax charge is not an income tax. Consequently, the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

For the UK defined benefit plan, the Group considers that it has an unconditional right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan trustees can purchase annuities to insure member benefits and can, for the majority of benefits, transfer these annuities to members. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

Net interest income (if the plan is in surplus) or interest expense (if the plan is in deficit) is calculated using yields on high quality corporate bonds and recognised in the consolidated income statement. A current service cost is also recognised which represents the expected present value of the defined benefit pension entitlement earned by members in the period.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the limit on the plan surplus and returns on plan assets (other than amounts included in net interest) are recognised in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

For defined contribution plans, the Group pays contributions to separately administered pension insurance plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in current service cost in the consolidated income statement as staff costs and other employee-related costs when they are due.

	Defined benefit	Defined contribution
UK	<p>The Group's largest defined benefit plan is for employees based in the UK. It closed to new entrants in November 2004 and changed from a final salary basis to a revalued career average salary basis in 2008. In December 2014, following a staff consultation, the Group announced that the UK defined benefit plan would be closed to future accrual effective April 2016.</p> <p>The plan is governed by a trustee board which comprises both employer and employee nominated trustees and an independent trustee. The plan is subject to the statutory funding objective requirements of the Pensions Act 2004. The objective requires that the plan is funded to at least the level of its technical provisions (an actuarial estimate of the assets needed to provide for benefits already built-up under the plan). The Trustees perform regular valuations to check that the statutory funding objective continues to be met.</p> <p>The Trustees, after consulting with the employer, prepare statements of funding and investment principles and, based on the funding valuation, set out future contributions in a schedule of contributions including a recovery plan, if needed, to restore funding to the level of the technical provisions. No recovery plan is currently required. The Trustees of the UK defined benefit plan set the investment strategy to protect the funding ratio of the Trustees' funding position.</p> <p>At the 31 December 2013 triennial actuarial valuation the plan was 112% funded on the Trustees' technical provisions basis.</p> <p>The administrative expenses of this plan for the year ended 31 December 2015 were met by the plan. The administrative expenses of this plan for the year ended 31 December 2014 were met by the Group.</p>	<p>The Group currently contributes 9% of pensionable salary to each employee's plan.</p> <p>In December 2014 the Group announced that the contribution rate will be increased in April 2016 to 12% plus a further employer contribution (matching employee contributions) of up to 4%. Separate arrangements exist for some employees e.g. those in the executive job family.</p> <p>All UK based employees will be offered membership of the plan from April 2016 – including those currently in the defined benefit plan.</p>
	Defined benefit	Defined contribution
Other	<p>The defined benefit plan for employees based in Ireland has been closed to new entrants from 31 December 2009, with future accrual from that point on a career average revalued earnings (CARE) basis.</p> <p>At the last actuarial valuation effective 1 January 2013 the plan was 99% funded on an ongoing basis. The effective date of the next valuation is 1 January 2016.</p> <p>The Group also operates a small unfunded defined benefit plan for employees in Germany.</p>	<p>The Group contributes 9% of members' pensionable salaries to a group flexible retirement plan.</p>

Canada

All assets and liabilities relating to the defined benefit plan were included in the sale of the Canadian business which completed on 30 January 2015, and the net liability was classified as held for sale at 31 December 2014.

Plan regulations

The plans are administered according to local regulations in each country. Responsibility for the governance of the plans rests with the relevant trustee boards (or equivalent). Trustee boards comprise a mixture of company nominated, member nominated and independent representatives.

Contributions to defined benefit plans

	2015 £m	2014 £m
UK	3	37
Other	1	1
Canada	1	9

Expected contributions to the defined benefit plans in 2016 are as follows:

	2016 £m
UK	-
Other	1

37. Pension and other post-retirement benefit provisions *continued*

(a) Analysis of amounts recognised in the consolidated income statement

The amounts recognised in the consolidated income statement for defined contribution and defined benefit plans are as follows:

	Notes	2015 £m	2014 £m
Current service cost		(80)	(60)
Interest income		30	21
Administrative expenses		(2)	-
Expense recognised in the consolidated income statement	8	(52)	(39)

Contributions made to defined contribution plans are included within current service cost, with the balance attributed to the Group's defined benefit plans.

During 2015 the terms of a plan amendment to the UK defined benefit plan were agreed which resulted in closure to future accrual from April 2016. This plan amendment did not generate a past service cost. An additional pension contribution of 6% of pensionable salary into the defined contribution plan for eligible members of the defined benefit plan on 16 March 2015 was made on 16 April 2015. A further additional contribution of 6% will be made on 16 April 2016. These contributions have been accrued over the vesting period and are included in current service cost and in the cost of defined contribution plans in Note 8.

(b) Analysis of amounts recognised in the consolidated statement of financial position

	2015			2014			Canada ¹ £m
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m	
Present value of funded obligation	(2,525)	(85)	(2,610)	(2,816)	(98)	(2,914)	(242)
Present value of unfunded obligation	-	(8)	(8)	-	(8)	(8)	(73)
Fair value of plan assets	3,936	60	3,996	3,990	62	4,052	214
Effect of limit on plan surplus	(514)	-	(514)	(414)	-	(414)	-
Net asset/(liability)	897	(33)	864	760	(44)	716	(101)

¹ The net liability for the Canada plan was classified as held for sale at 31 December 2014.

The UK plan surplus is considered to be recoverable as a right to a refund exists. The surplus has been reduced to reflect an authorised surplus payments charge that would arise on a refund.

(c) Movement in the net defined benefit asset

	Present value of obligation £m	Fair value of plan assets £m	Total £m	Effect of limit on plan surpluses £m	Total £m
2015					
At 1 January	(2,922)	4,052	1,130	(414)	716
Total expense					
Current service cost	(53)	-	(53)	-	(53)
Interest (expense)/income	(101)	131	30	-	30
Administrative expenses	(2)	-	(2)	-	(2)
Total expense recognised in consolidated income statement	(156)	131	(25)	-	(25)
Remeasurements					
Return on plan assets, excluding amounts included in interest income	-	(73)	(73)	-	(73)
Gain from change in demographic assumptions	-	-	-	-	-
Gain from change in financial assumptions	225	-	225	-	225
Experience gains	115	-	115	-	115
Change in effect of limit on plan surplus	-	-	-	(100)	(100)
Remeasurement gains/(losses) recognised in other comprehensive income	340	(73)	267	(100)	167
Exchange differences	5	(3)	2	-	2
Employer contributions	-	4	4	-	4
Benefit payments	115	(115)	-	-	-
At 31 December	(2,618)	3,996	1,378	(514)	864

2014	Present value of obligation £m	Fair value of plan assets £m	Total £m	Effect of limit on plan surpluses £m	Total £m
At 1 January	(2,683)	3,244	561	(233)	328
Reclassified as held for sale	273	(192)	81	-	81
Total expense					
Current service cost	(45)	-	(45)	-	(45)
Interest (expense)/income	(108)	129	21	-	21
Total expense recognised in consolidated income statement	(153)	129	(24)	-	(24)
Remeasurements					
Return on plan assets, excluding amounts included in interest income	-	896	896	-	896
Loss from change in demographic assumptions	(56)	-	(56)	-	(56)
Loss from change in financial assumptions	(375)	-	(375)	-	(375)
Experience gains	8	-	8	-	8
Change in effect of limit on plan surplus	-	-	-	(181)	(181)
Remeasurement (losses)/gains recognised in other comprehensive income	(423)	896	473	(181)	292
Exchange differences	5	(4)	1	-	1
Employer contributions	-	38	38	-	38
Benefit payments	59	(59)	-	-	-
At 31 December	(2,922)	4,052	1,130	(414)	716

(d) Plan assets

Investment strategy is directed by the relevant trustee boards who pursue different strategies according to the characteristics and maturity profile of each plan's liabilities. To provide more information on the approach used to determine and measure the fair value of the plan assets, the fair value hierarchy has been used as defined in Note 43. Those assets which cannot be classified as level 1 have been presented together as level 2 or 3.

The distribution of the fair value of the assets of the Group's funded plans at 31 December 2015 is as follows:

	UK		Other		Canada		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Assets measured at fair value based on level 1 inputs								
Derivatives	7	38	-	-	-	-	7	38
Equity securities and interests in pooled investment funds	850	1,220	48	49	-	146	898	1,415
Debt securities	2,029	1,239	-	-	-	-	2,029	1,239
Total assets measured at fair value based on level 1 inputs	2,886	2,497	48	49	-	146	2,934	2,692
Assets measured at fair value based on level 2 or 3 inputs								
Derivatives	(9)	827	(3)	13	-	-	(12)	840
Equity securities and interests in pooled investment funds	185	92	-	-	-	-	185	92
Debt securities	589	325	-	-	-	59	589	384
Qualifying insurance policies	4	4	-	-	-	-	4	4
Total assets measured at fair value based on level 2 or 3 inputs	769	1,248	(3)	13	-	59	766	1,320
Cash and cash equivalents	281	245	15	-	-	9	296	254
Total	3,936	3,990	60	62	-	214	3,996	4,266

Derivative financial instruments are used to modify the profile of the assets of the plans to better match the plans' liabilities and to execute specific strategies as defined within the plans' investment guidelines. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

Defined benefit plans also use pooled investment vehicles to access a variety of asset classes in an efficient way. The underlying assets of the pooled investment vehicles include, but are not limited to, equity securities, property, debt securities and absolute return portfolios.

37. Pension and other post-retirement benefit provisions *continued*

(e) Estimates and assumptions

Determination of the valuation of plan liabilities is a key estimate as a result of the assumptions made relating to both economic and non-economic factors.

The principal economic assumptions for the plans which are based in part on current market conditions are shown below:

	2015 UK %	2014 UK %	2014 Canada %
Discount rate	3.70	3.60	4.00
Rates of inflation			
Consumer Price Index (CPI)	2.15	2.45	2.00
Retail Price Index (RPI) (UK only)	3.15	3.35	-
Salary inflation (Canada only)	-	-	3.50

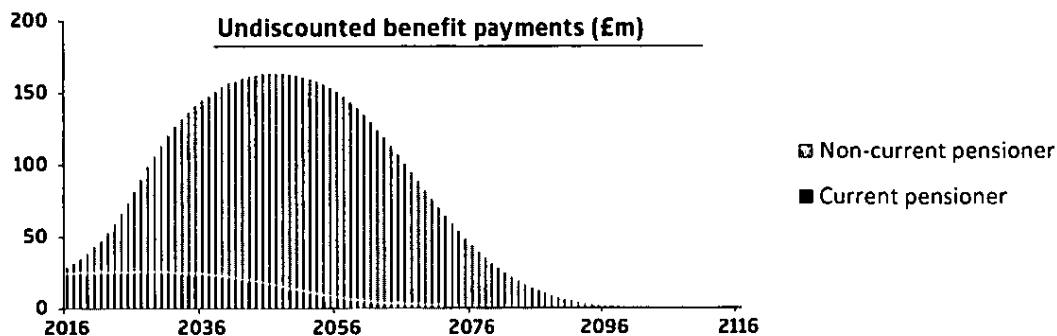
The most significant non-economic assumption is post-retirement longevity which is inherently uncertain. The assumptions (along with sample expectations of life) are illustrated below:

2015	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model - adjusted to assume that improvements continue to increase in the short-term before declining toward an ultimate long-term rate of 1.375%	60	NRA 40	32	NRA 40	34

2014	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model - adjusted to assume that improvements continue to increase in the short-term before declining toward an ultimate long-term rate of 1.375%	60	NRA 40	32	NRA 40	34

(f) Duration of defined benefit obligation

The graph below provides an illustration of the undiscounted expected benefit payments included in the valuation of the UK plan obligations.



Weighted average duration	2015 UK years	2014 UK years	2014 Canada years
Current pensioner	17	16	11
Non-current pensioner	27	28	22

(g) Risk

(g)(i) Risks and mitigating actions

The Group's consolidated statement of financial position is exposed to movements in the defined benefit plans' net asset. In particular, the consolidated statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the UK. By offering post-retirement defined benefit pension plans the Group is exposed to a number of risks. An explanation of the key risks and mitigating actions in place is given below.

Asset volatility

Failure of the asset strategy to keep pace with changes in plan liabilities would expose the plan to the risk of a deficit developing, which could increase funding requirements for the Group.

Yields/discount rate

Falls in yields would in isolation be expected to increase the defined benefit plan liabilities.

The UK plan uses both bonds and derivatives to hedge out yield risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise the plan's need to rely on support from the Group.

Inflation

Rises in inflation expectations would in isolation be expected to increase the defined benefit plan liabilities.

The UK plan uses both bonds and derivatives to hedge out inflation risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise the plan's need to rely on support from the Group.

In the UK plan pensions in payment are generally linked to CPI, however inflationary risks are hedged using RPI instruments due to lack of availability of CPI linked instruments. Therefore, the plan is exposed to movements in the actual and expected long-term gap between RPI and CPI.

Life expectancy

Increases in life expectancy beyond those currently assumed will lead to an increase in plan liabilities. Regular reviews of longevity assumptions are performed to ensure assumptions remain appropriate.

(g)(ii) Sensitivity to principal assumptions

The sensitivity of the UK defined benefit plan's net assets to the principal assumptions is disclosed below.

Change in assumption	2015		2014		
	(Increase)/decrease in present value of obligation £m	Increase/(decrease) in fair value of plan assets £m	(Increase)/decrease in present value of obligation £m	Increase/(decrease) in fair value of plan assets £m	
Yield/ discount rate	Decrease by 1%	(729)	1,312	(837)	1,262
	Increase by 1%	526	(896)	596	(900)
Rates of inflation	Decrease by 1%	459	(823)	539	(780)
	Increase by 1%	(635)	1,178	(827)	1,111
Life expectancy	Decrease by 1 year	55	-	62	-
	Increase by 1 year	(55)	-	(62)	-

38. Deferred income

Where the Group receives fees in advance (front-end fees) for services it is providing, including investment management services, these fees are initially recognised as a deferred income liability and released to the consolidated income statement on a straight line basis over the period services are provided.

	Notes	2015 £m	2014 £m
At 1 January		276	316
Reclassified as held for sale		-	(1)
Additions during the year	5	25	35
Amortised to the consolidated income statement as fee income	5	(63)	(66)
Release of deferred income	5	-	(5)
Foreign exchange adjustment		(2)	(3)
At 31 December		236	276

The amount of deferred income expected to be settled after more than 12 months is £178m (2014: £216m).

39. Other financial liabilities

	Notes	2015 £m	2014 £m
Amounts payable on direct insurance business		340	310
Amounts payable on reinsurance contracts		7	5
Outstanding purchases of investment securities		180	369
Accruals		403	406
Creation of units awaiting settlement		174	196
Cash collateral held in respect of derivative contracts	41	1,166	1,847
Bank overdrafts	27	49	33
Property related liabilities		223	191
Contingent consideration liability		-	3
Other		358	374
Other financial liabilities		2,900	3,734

The amount of other financial liabilities expected to be settled after more than 12 months is £79m (2014: £65m).

40. Other liabilities

Provisions are obligations of the Group which are of uncertain timing or amount. They are recognised when the Group has a present obligation as a result of a past event, it is probable that a loss will be incurred in settling the obligation and a reliable estimate of the amount can be made.

	2015 £m	2014 £m
Provisions	48	20
Other	99	80
At 31 December	147	100

The amount of other liabilities expected to be settled after more than 12 months is £35m (2014: £15m).

	Legal provisions £m	Other provisions £m	Total provisions £m
2015			
At 1 January	1	19	20
Charged/(credited) to the consolidated income statement			
Additional provisions	13	16	29
Release of unused provision	-	-	-
Used during the year	-	(1)	(1)
At 31 December	14	34	48

	Legal provisions £m	Other provisions £m	Total provisions £m
2014			
At 1 January	1	18	19
Charged/(credited) to the consolidated income statement			
Additional provisions	1	8	9
Release of unused provision	-	(4)	(4)
Used during the year	(1)	(3)	(4)
At 31 December	1	19	20

Other provisions comprise obligations in respect of compensation, staff entitlements, vacant property and reorganisations.

41. Risk management

(a) Overview

(a)(i) Application of the risk management framework

The Group's risk management activities support the creation of long-term value by ensuring well-informed risk-reward decisions are taken in pursuit of the Group's business plan objectives and by ensuring capital is delivered to areas where most value can be created for the risks taken.

The risk management framework used by the Group in 2015 to identify, assess, control and monitor risks is set out in the Strategic report. This includes information on the use of qualitative risk appetite statements and quantitative risk limits in order to manage the Group's risks.

For the purposes of managing risks to the Group's financial assets and financial liabilities, the Group considers the following categories:

Risk	Definition
Market	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.
Credit	The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of assets due to a widening of mortgage, bond and swap spreads.
Demographic	The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 <i>Insurance Contracts</i> and other financial risks.
Expense	The risk that expense levels will be higher than assumed. This can arise from an increase in the unit costs of the company or an increase in expense inflation, either company specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.
Liquidity	The risk that the Group is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.
Operational	The risk of adverse consequences for the Group's business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.
Conduct	The risk that through our behaviours, strategies, decisions and actions the Group, or individuals within the Group, do not do the right thing and/or do not behave in a manner which: <ul style="list-style-type: none">• Pays due regard to treating our customers and clients fairly• Is consistent with our disclosures and setting of customer and client expectations• Supports the integrity of financial markets
Strategic	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.

There are a range of sources of risk affecting these risk categories and the principal risks and uncertainties that affect the business model are set out in detail in Section 1.5 of the Strategic report.

Risk segments

The assets and liabilities on the Group's consolidated statement of financial position can be split into four categories (risk segments) which give the shareholder different exposures to the risks listed previously. These categories are:

Shareholder business

Shareholder business refers to the assets and liabilities to which the shareholder is directly exposed. For the purposes of this note, the shareholder refers to the equity holders of the Company.

Participating business

Participating business refers to the assets and liabilities of the participating funds of the life operations of the Group. It includes the liabilities for insurance features and financial guarantees contained within contracts held in the HWPF that invest in unit linked funds. It does not include the liabilities for insurance features contained in contracts invested in the GWPF or GSMWPF. Such liabilities are included in shareholder business.

Unit linked and segregated funds

Unit linked and segregated funds refers to the assets and liabilities of the unit linked and segregated funds of the life operations of the Group. It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked or segregated fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked or segregated fund contracts. Such cash flows and liabilities are included in shareholder business or participating business.

Third party interest in consolidated funds and non-controlling interests

Third party interest in consolidated funds and non-controlling interests refers to the assets and liabilities recorded on the Group's consolidated statement of financial position which belong to third parties. The Group controls the entities which own the assets and liabilities but the Group does not own 100% of the equity or units of the relevant entities.

The following table sets out the link between the reportable segments set out in Notes 2 and 3 and the risk segments.

Reportable segment	Risk segment		
	Shareholder business	Participating business	Unit linked and segregated funds ¹
UK and Europe	SLAL – SHF SLAL – PBF (excluding unit linked funds and Canadian branch) SLS SLCM Vebnet Group SLIL (excluding unit linked funds) ²	SLAL – HWPF SLAL – GWPF SLAL – GSMWPF SLAL – UKSMWPF	SLAL – PBF unit linked funds SLIL unit linked funds ²
Standard Life Investments	SLIH and all its subsidiaries (excluding SLI Inc.)	n/a	n/a
India and China ⁴	SLIL (excluding unit linked funds) ³ SLA (excluding unit linked funds) Interests in Indian and Chinese associates and joint ventures	n/a	SLIL unit linked funds ³ SLA unit linked funds
Other	Company	n/a	n/a
Discontinued operations ⁴	SLCC (excluding segregated funds and participating fund) SLAL – PBF Canadian branch SLI Inc.	SLCC participating fund	SLCC segregated funds

SLAL = Standard Life Assurance Limited
SLIH = Standard Life Investments (Holdings) Limited
SLCC = The Standard Life Assurance Company of Canada
SLIL = Standard Life International Limited
SLA = Standard Life (Asia) Limited
SLI Inc. = Standard Life Investments Inc.
SLS = Standard Life Savings Limited
SLCM = Standard Life Client Management Limited

HWPF = Heritage With Profits Fund
PBF = Proprietary Business Fund
GWPF = German With Profits Fund
GSMWPF = German Smoothed Managed With Profits Fund
SHF = Shareholder Fund
UKSMWPF = UK Smoothed Managed With Profits Fund

¹ As discussed in Note 3 and above, unit linked and segregated funds does not include cash flows arising from unit linked or segregated fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked or segregated fund contracts. Such cash flows and liabilities are included in shareholder or participating business.

² Related to SLIL's International Bond business.

³ Related to SLIL's business excluding International Bond business.

⁴ For the purposes of this table, Dubai and Singapore businesses are included in India and China and not Discontinued operations as they do not meet the definition of a discontinued operation under IFRS 5.

41. Risk management *continued*

(a) Overview *continued*

(a)(i) Application of the risk management framework *continued*

The table below sets out how the shareholder is exposed to market, credit, demographic and expense, and liquidity risk at the reporting date, arising from the assets and liabilities of the four risk segments:

Risk	Shareholder business	Participating business	Unit linked and segregated funds	Third party interest in consolidated funds and non-controlling interests (TPICF & NCI)
Market	The shareholder is directly exposed to the impact of movements in equity and property prices, interest rates and foreign exchange rates on the value of assets held by the shareholder business and the associated movements in the value of liabilities.	The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are borne by the policyholder. The shareholder's exposure arises from the changes in the value of future fee based revenue earned on unit linked and segregated funds due to market movements.	The shareholder is not exposed to the market risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties.
Credit	The shareholder is directly exposed to credit risk from holding cash, debt securities, loans, derivative financial instruments and reinsurance assets and the associated movement in the value of liabilities.	The shareholder is exposed to the credit risk on the assets which could cause the with profits funds to have insufficient resources to meet their obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure is limited to changes in the value of future fee based revenue earned on unit linked and segregated funds due to market movements.	The shareholder is not exposed to the credit risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties.

Risk	Shareholder business	Participating business	Unit linked and segregated funds	Third party interest in consolidated funds and non-controlling interests (TPICF & NCI)
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts held by UK and Europe, and mortality risk on contracts held in non-participating funds by UK and Europe and India and China including those containing insurance features that are invested in unit linked funds or in the GWPF or GSMWPF. The shareholder is also exposed to expenses and persistency being different from expectation on these contracts.	The shareholder receives recourse cash flows and certain other defined payments in accordance with the Scheme of Demutualisation and other relevant agreements. The recourse cash flows are based on several different components of which some are sensitive to demographic and expense risk.	The shareholder is exposed to demographic and expense risk arising on components of a unit linked or segregated fund contract, but it is not the assets or liabilities of the fund which gives rise to this exposure.	TPICF & NCI are not exposed to demographic and expense risk.
Liquidity	The shareholder is directly exposed to the liquidity risk from the shareholder business.	With profits funds are normally expected to meet their obligations through liquidating assets held in the respective with profits fund. If a with profits fund cannot meet its obligations as they fall due, the shareholder will be required to provide liquidity to meet the policyholder claims and benefits as they fall due.	Unit linked and segregated funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked or segregated fund cannot meet its obligations in this way, the shareholder may be required to meet the obligations to the policyholder.	The shareholder is not exposed to the liquidity risk from these liabilities, since the financial risks of the obligations are borne by third parties.

The shareholder is exposed to operational and strategic risk arising across the four risk segments and any losses incurred are typically borne by the shareholder.

The shareholder is also exposed to certain risks relating to defined benefit pension plans operated by the Group. These risks are explained in Note 37.

(a)(ii) Consolidated financial position by risk segment

The table that follows provides an analysis of the consolidated statement of financial position showing the Group's assets and liabilities by risk segment. This categorisation has been used to present the information in this note.

The assets and liabilities of the Group's Canadian business were reclassified as held for sale in the consolidated statement of financial position for the year ended 31 December 2014 as detailed in Note 26 and are not included in the tables in this note.

41. Risk management *continued*

(a) Overview *continued*

(a)(ii) Consolidated financial position by risk segment *continued*

	Shareholder business		Participating business		Unit linked and segregated funds		Third party interest in consolidated funds and non-controlling interests		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Intangible assets	566	565	-	-	-	-	-	-	566	565
Deferred acquisition costs	602	717	44	54	-	-	-	-	646	771
Investments in associates and joint ventures	313	260	531	535	4,561	3,568	314	145	5,719	4,508
Investment property	1	-	2,167	2,090	5,947	5,223	1,876	1,728	9,991	9,041
Property, plant and equipment	36	50	55	136	-	-	-	-	91	186
Pension and other post-retirement benefit assets	897	760	-	-	-	-	-	-	897	760
Deferred tax assets	35	33	-	-	-	-	-	-	35	33
Reinsurance assets	53	47	5,462	5,989	-	-	-	-	5,515	6,036
Loans	75	4	340	194	307	166	89	36	811	400
Derivative financial assets	9	18	1,478	1,649	716	1,711	241	643	2,444	4,021
Equity securities and interests in pooled investment funds at FVTPL	52	31	8,187	9,658	56,307	55,471	7,133	6,167	71,679	71,327
Debt securities										
At FVTPL	6,833	6,879	25,913	27,785	26,789	23,597	6,379	5,824	65,914	64,085
At available-for-sale	743	356	-	-	-	-	-	-	743	356
Receivables and other financial assets	495	468	99	98	644	534	209	148	1,447	1,248
Current tax recoverable	27	27	19	19	115	138	7	7	168	191
Other assets	51	52	15	21	18	38	5	5	89	116
Assets held for sale	50	9,837	82	857	73	17,679	122	965	327	29,338
Cash and cash equivalents	691	976	1,960	1,778	5,311	5,751	1,678	2,112	9,640	10,617
Total assets	11,529	21,080	46,352	50,863	100,788	113,876	18,053	17,780	176,722	203,599
Non-participating insurance contract liabilities	5,197	5,276	9,556	10,753	6,453	5,812	-	-	21,206	21,841
Non-participating investment contract liabilities	4	4	-	-	92,890	88,203	-	-	92,894	88,207
Participating insurance contract liabilities	-	-	14,283	15,397	-	-	-	-	14,283	15,397
Participating investment contract liabilities	-	-	14,716	15,191	-	-	-	-	14,716	15,191
Unallocated divisible surplus	-	-	655	688	-	-	-	-	655	688
Deposits received from reinsurers	-	-	5,134	5,642	-	-	-	-	5,134	5,642
Third party interest in consolidated funds	-	-	-	-	-	-	17,196	15,805	17,196	15,805
Subordinated liabilities	1,318	1,612	-	-	-	-	-	-	1,318	1,612
Pension and other post-retirement benefit provisions	33	44	-	-	-	-	-	-	33	44
Deferred income	185	216	51	60	-	-	-	-	236	276
Deferred tax liabilities	114	86	58	79	33	49	-	-	205	214
Current tax liabilities	32	38	5	73	66	56	10	5	113	172
Derivative financial liabilities	16	17	88	80	836	1,187	314	409	1,254	1,693
Other financial liabilities	867	966	1,385	1,548	532	928	116	292	2,900	3,734
Other liabilities	95	52	17	17	19	16	16	15	147	100
Liabilities of operations held for sale	-	8,725	37	858	-	17,492	46	958	83	28,033
Total liabilities	7,861	17,036	45,985	50,386	100,829	113,743	17,698	17,484	172,373	198,649
Net inter-segment assets/(liabilities)	334	628	(367)	(477)	41	(133)	(8)	(18)	-	-
Net assets	4,002	4,672	-	-	-	-	347	278	4,349	4,950

(b) Market risk

As described in the table on pages 184 to 185, the shareholder is exposed to market risk from the shareholder and participating businesses and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating businesses.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked and segregated funds since the shareholder is not exposed to market risks from these assets. The shareholder's exposure to market risk on these assets is limited to variations in the value of future fee based revenue earned on the contracts as fees are based on a percentage of the fund value. The sensitivity to market risk analysis includes the impact on those statement of financial position items which are affected by changes in future fee based revenue due to the market stresses changing the value of assets held by the unit linked and segregated funds. The shareholder is also not exposed to the market risk from the assets held by third party interests in consolidated funds and non-controlling interests and therefore they have been excluded from the following quantitative disclosures.

The Group manages market risks through the use of a number of 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 shareholder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities
- Setting risk limits for main market risks and managing exposures against these appetites

The specific controls and techniques used to manage the market risks in the shareholder and participating businesses are discussed below:

Shareholder business

Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies. A combination of limits by name of issuer, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

Participating business

The assets of the participating business are principally managed to support the liabilities of those funds and are appropriately diversified by both asset class and geography.

The key considerations in the asset and liability management of the participating business are:

- The economic liability and how this varies with market conditions
- The need to invest the assets in a manner consistent with participating policyholders' reasonable expectations and, where appropriate, the Scheme of Demutualisation and the Principles and Practices of Financial Management (PPFM)
- The need to ensure that regulatory 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.

(b)(i) Elements of market risk

The main elements of market risk to which the Group is exposed are equity risk, property risk, interest rate risk and foreign currency risk, which are discussed on the following pages.

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 a range of 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 and Note 19.

(b)(i)(i) Group exposure to equity risk

The Group is subject to equity price risk due to daily changes in the market values and returns on the holdings in its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in the shareholder business and the Group's defined benefit pension plans
- Burnthrough from the with profits funds where adverse movements in the market values and returns on holdings in the equity portfolios of these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of equities held in funds from which management charges are taken

41. Risk management *continued*

(b) Market risk *continued*

(b)(i) Elements of market risk *continued*

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices.

The table below shows the shareholder and participating businesses' exposure to equity markets. Equity securities are analysed by country based on the ultimate parent country of risk.

	Shareholder business		Participating business		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
UK	10	-	3,540	4,060	3,550	4,060
Canada	-	-	39	42	39	42
Australia	-	1	20	53	20	54
Belgium	1	-	27	73	28	73
Denmark	1	-	126	165	127	165
Finland	1	-	85	48	86	48
France	3	1	412	453	415	454
Germany	3	1	467	523	470	524
Greece	-	-	-	12	-	12
Ireland	1	-	187	137	188	137
Italy	2	-	142	100	144	100
Japan	1	1	118	114	119	115
Mexico	-	-	1	1	1	1
Netherlands	2	1	291	364	293	365
Norway	-	-	24	44	24	44
Portugal	-	-	59	19	59	19
Russia	-	-	3	4	3	4
Spain	1	-	125	161	126	161
Sweden	1	-	165	236	166	236
Switzerland	2	-	601	669	603	669
US	10	-	1,506	1,977	1,516	1,977
Other	13	7	177	311	190	318
Total	52	12	8,115	9,566	8,167	9,578

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £nil (2014: £19m) and investments in associates at FVTPL of £19m (2014: £16m). The participating business has interests in pooled investment funds of £72m (2014: £92m) and investments in associates at FVTPL of £531m (2014: £535m).

(b)(i)(ii) Group exposure to property risk

The Group is subject to property risk due to changes in the value and return on holdings in investment property. This risk arises from:

- Direct property holdings in the shareholder business
- Burnthrough from the with profits funds where adverse movements in the market values and returns on investment property in these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of property held in funds from which management charges are taken

Exposures to property holdings are primarily controlled through the use of portfolio limits which 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

The tables below show the shareholder and the participating businesses' direct exposure to investment property analysed by country and sector:

Shareholder business

	Office		Industrial		Retail		Other		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
UK	-	-	-	-	1	-	-	-	1	-

Participating business

	Office		Industrial		Retail		Other		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
UK	703	608	230	237	938	1,051	6	6	1,877	1,902
Belgium	12	14	-	-	-	-	-	-	12	14
France	-	-	-	3	-	-	1	2	1	5
Germany	26	-	5	-	15	-	-	-	46	-
Ireland	-	-	-	-	-	-	26	26	26	26
Netherlands	48	-	26	14	-	-	-	-	74	14
Spain	131	129	-	-	-	-	-	-	131	129
Total	920	751	261	254	953	1,051	33	34	2,167	2,090

There is no direct exposure to residential property in the shareholder and participating businesses.

(b)(i)(iii) Group exposure to interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the Group which give rise to interest rate risk are debt securities, loans and cash and cash equivalents. The main financial liabilities giving rise to interest rate risk principally comprise non-unit linked insurance, participating and non-participating investment contract liabilities and subordinated liabilities. Derivative financial instruments held by the Group also give rise to interest rate risk.

Shareholder business

Under the Group's risk management framework, Group companies are required to manage their interest rate exposures in line with the Group's qualitative risk appetite statements and quantitative risk limits. Group companies typically use a combination of cash flow and duration matching techniques to manage their interest rate risk at an entity level. Hedging is used to mitigate the risk that burnthrough may arise from the with profits funds under certain circumstances where adverse interest rate movements could mean the assets of the with profits funds are not sufficient to meet the obligations of the with profits funds.

Participating business

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

The sensitivity of profit after tax to changes in interest rates for both the shareholder business and the participating business is included in the profit after tax sensitivity to market risk table, shown in section (b)(ii).

41. Risk management *continued*

(b) Market risk *continued*

(b)(i) Elements of market risk *continued*

(b)(i)(iv) Group exposure to foreign currency risk

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 tables below summarise the shareholder and participating businesses' exposure to foreign currency risks in Sterling. The tables exclude inter-segment assets and liabilities.

Shareholder business

	UK Sterling		Euro		Canadian Dollar		Hong Kong Dollar		US Dollar		Indian Rupee		Other currencies		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Total assets	10,046	9,566	956	1,194	20	9,741	64	92	117	153	202	159	124	175	11,529	21,080
Total liabilities	(7,357)	(7,511)	(416)	(702)	(18)	(8,728)	(29)	(39)	(26)	(26)	-	-	(15)	(30)	(7,861)	(17,036)
Net investment hedges	5	1,107	-	-	-	(1,085)	(5)	(22)	-	-	-	-	-	-	-	-
Cash flow hedges	(10)	1,100	10	18	-	(1,118)	-	-	-	-	-	-	-	-	-	-
Non designated derivatives	426	433	(385)	(427)	-	-	2	(1)	1	15	10	2	(54)	(22)	-	-
	3,110	4,695	165	83	2	(1,190)	32	30	92	142	212	161	55	123	3,668	4,044

Other currencies include assets of £3m (2014: £15m) and liabilities of £7m (2014: £16m) in relation to the fair value of derivatives used to manage currency risk.

The principal source of foreign currency risk for shareholders arises from the Group's investments in overseas subsidiaries, joint ventures and associates.

Non designated derivatives relate to foreign exchange forward contracts that are not designated as cash flow hedges or net investment hedges.

During 2015 the Group reaffirmed its strategy for hedging foreign currency risks in the shareholder business. The purpose of this strategy is to provide a consistent approach to managing foreign exchange risks in the shareholder business. This includes, within certain parameters, minimising currency volatility within the regulatory capital surplus and reducing the currency risk relating to dividend receipts from overseas operations. The Group does not separately hedge translation of reported earnings from overseas operations in the consolidated financial statements. The Group fully hedged the currency risk relating to the sale of its Canadian operations which it completed in January 2015.

Participating business

	UK Sterling		Euro		Canadian Dollar		Hong Kong Dollar		US Dollar		Indian Rupee		Other currencies		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Total assets	31,722	34,323	11,846	11,654	38	883	31	42	1,672	2,744	6	2	1,037	1,215	46,352	50,863
Total liabilities	(36,808)	(40,341)	(9,137)	(9,142)	-	(858)	-	-	(2)	(26)	-	-	(38)	(19)	(45,985)	(50,386)
Non designated derivatives	880	1,471	(804)	(1,109)	-	-	-	-	(35)	(329)	-	-	(41)	(33)	-	-
	(4,206)	(4,547)	1,905	1,403	38	25	31	42	1,635	2,389	6	2	958	1,163	367	477

There are no net investment hedges or cash flow hedges in the participating business. Other currencies include assets of £3m (2014: £29m) and liabilities of £27m (2014: £14m) in relation to the fair value of derivatives used to manage currency risk exposures.

The foreign currency exposures shown above largely reflect the impact of financial assets being denominated in currencies other than the local currency of the operational geographic location. These exposures arise as a result of asset allocation decisions that are intended to meet the expectations of particular groups of policyholders or to improve the risk profile through diversification. The investment mandates used to manage the participating business contain limits to restrict the extent of foreign currency risk that can be taken and currency derivatives are held to provide economic hedges of some of the above exposures. These are typically short dated forward foreign exchange contracts, however the investment mandates do not normally require these contracts to be replaced on maturity providing the foreign currency risk is within limits.

(b)(ii) Sensitivity to market risk analysis

The Group's profit after tax and equity from continuing operations are sensitive to variations in respect of the Group's market risk exposures and a sensitivity analysis is presented on the following pages. The analysis has been performed by calculating the sensitivity of profit after tax from continuing operations and equity to changes in equity security and property prices and to changes in interest rates as at the reporting date applied to assets and liabilities other than those classified as held for sale. 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 funds is included in the sensitivity analysis where there is an impact on the value of other statement of financial position items, 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 2015 there is no direct impact of market risk on the sensitivity of GWPF. However, there is an indirect impact on the PBF due to a realistic Capital Support Arrangement 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 statement of financial position to the extent necessary to avoid a realistic deficit (if possible). There is no impact on GWPF participating liabilities. At 31 December 2015 support is provided under the realistic Capital Support Arrangement and there is an increase in expense reserves in the PBF. Further realistic support may be required for changes in interest rates and the sensitivity of 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. 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 change 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 shareholders 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.

Limitations

The sensitivity of the Group's profit after tax and equity from continuing operations is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profit at 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 participating business, in particular the HWPF and the GWPF, the risk to shareholders is that the assets of the fund are insufficient to meet the obligations to policyholders.

For the HWPF, whilst shareholders 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 2015 and 2014.

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 Principles and Practices of Financial Management (PPFM).

41. Risk management *continued*

(b) Market risk *continued*

(b)(ii) Sensitivity to market risk analysis *continued*

Profit after tax of continuing operations sensitivity to market risk

2015	Equity markets				Property markets				Interest rates	
	+10%	-10%	+20%	-20%	+10%	-10%	+20%	-20%	+1%	-1%
Increase/(decrease) in profit after tax from continuing operations	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business										
UK and Europe:										
Deferred acquisition costs	-	-	-	(5)	-	-	-	-	-	-
Assets backing non-participating liabilities	-	-	-	-	-	-	-	-	(569)	691
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	538	(642)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	-	-	-	-	-	-	-	-	(17)	18
Total UK and Europe	-	-	-	(5)	-	-	-	-	(48)	67
Standard Life Investments	3	(3)	7	(7)	-	-	-	-	-	-
India and China:										
Deferred acquisition costs	2	(2)	3	(4)	-	-	-	-	1	(2)
Assets backing non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	-	-
Assets backing non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	-	-
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	-	-	-	-	-	-	-	-	-	-
Total India and China	2	(2)	3	(4)	-	-	-	-	1	(2)
Other	3	(3)	6	(6)	-	-	-	-	-	-
Total shareholder business	8	(8)	16	(22)	-	-	-	-	(47)	65
Participating business										
UK and Europe:										
Recourse cash flow	-	-	-	-	-	-	-	-	-	-
Total UK and Europe	-	-	-	-	-	-	-	-	-	-
Total participating business	-	-	-	-	-	-	-	-	-	-
Total	8	(8)	16	(22)	-	-	-	-	(47)	65

¹ The amounts in the table above are presented net of tax.

² A positive number represents a credit to the consolidated income statement.

³ The interest rate sensitivity is a parallel shift subject to a floor of -30bps.

The Company within other shareholder business classifies certain debt securities as available-for-sale (AFS). The Group's sensitivity of profit after tax of continuing operations to changes in interest rates does not include the impact of changes in interest rates for these AFS assets.

2014	Equity markets				Property markets				Interest rates	
	+10%	-10%	+20%	-20%	+10%	-10%	+20%	-20%	+1%	-1%
Increase/(decrease) in profit after tax from continuing operations	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business										
UK and Europe:										
Deferred acquisition costs	-	-	-	(4)	-	-	-	-	-	-
Assets backing non-participating liabilities	-	-	-	-	-	-	-	-	(595)	721
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	567	(702)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	-	-	-	-	-	-	-	-	(10)	11
Total UK and Europe	-	-	-	(4)	-	-	-	-	(38)	30
Standard Life Investments	3	(3)	7	(7)	-	-	-	-	-	-
India and China:										
Deferred acquisition costs	-	-	-	(1)	-	-	-	-	-	-
Assets backing non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	-	-
Assets backing non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	-	-
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	-	-	-	-	-	-	-	-	-	-
Total India and China	-	-	-	(1)	-	-	-	-	-	-
Other	1	(1)	2	(2)	-	-	-	-	1	(1)
Total shareholder business	4	(4)	9	(14)	-	-	-	-	(37)	29
Participating business										
UK and Europe:										
Recourse cash flow	-	-	-	-	-	-	-	-	-	-
Total UK and Europe	-	-	-	-	-	-	-	-	-	-
Total participating business	-	-	-	-	-	-	-	-	-	-
Total	4	(4)	9	(14)	-	-	-	-	(37)	29

¹ The amounts in the table above are presented net of tax.

² A positive number represents a credit to the consolidated income statement.

³ The interest rate sensitivity is a parallel shift subject to a floor of nil.

Equity sensitivity to market risk on assets and liabilities other than those classified as held for sale

The shareholder business in the other reportable segment classifies certain debt securities as AFS. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in the consolidated income statement. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result, the sensitivity of the Group's equity to variations in interest rate risk exposures differs from the sensitivity of the Group's profit after tax from continuing operations to variations in interest rate risk exposures.

Other's equity sensitivity to a 1% increase in interest rates is (£14m) (2014: (£15m)) and to a 1% decrease in interest rates is £15m (2014: £15m). The sensitivity of the Group's total equity from continuing operations to a 1% increase in interest rates is (£61m) (2014: (£53m)) and a 1% decrease in interest rates is £80m (2014: £45m).

The sensitivity of the Group's total equity to variations in equity and property prices for assets and liabilities other than those classified as held for sale in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Group's profit after tax.

41. Risk management *continued*

(c) Credit risk

As described in the table on pages 184 to 185, the shareholder is exposed to credit risk from the shareholder and participating businesses and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets of these categories.

Quantitative credit risk disclosures are not provided in respect of the assets of the unit linked and segregated funds since the shareholder is not directly exposed to credit risks from these assets. The unit linked business includes £3,228m (2014: £3,523m) of assets that are held as reinsured external funds links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the reinsured external fund links. 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 shareholder is also not exposed to the credit risk from the assets held by third party interest in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

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 (c)(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 of exposures and any limit breaches to the Group Credit Risk Committee.

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 with rules followed for determining the credit rating to be disclosed when different credit ratings are assigned by different external rating agencies. 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'. 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.

(c)(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

The following tables show the shareholder and participating businesses' exposure to credit risk from financial assets analysed by credit rating and country.

Shareholder business

An analysis of financial assets by credit rating is as follows:

	Loans to associates and joint ventures		Reinsurance assets		Loans		Derivative financial assets		Debt Securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Neither past due nor impaired:																
AAA	-	-	-	-	-	-	-	-	673	524	-	-	32	-	705	524
AA	-	-	37	34	-	-	-	1	1,586	1,517	-	-	193	228	1,816	1,780
A	-	-	13	10	40	4	5	6	2,830	3,293	-	-	388	718	3,276	4,031
BBB	-	-	-	-	33	-	2	9	1,349	1,105	-	-	78	30	1,462	1,144
Below BBB	-	-	-	-	-	-	-	-	118	31	-	-	-	-	118	31
Not rated	2	2	-	-	2	-	2	2	1	1	475	448	-	-	482	453
Internally rated	-	-	3	3	-	-	-	-	1,019	764	-	-	-	-	1,022	767
Past due	-	-	-	-	-	-	-	-	-	-	20	20	-	-	20	20
Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	2	2	53	47	75	4	9	18	7,576	7,235	495	468	691	976	8,901	8,750

At 31 December 2015, receivables and other financial assets of £19m (2014: £17m) were past due by less than three months and £1m (2014: £3m) were past due by three to six months.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other ²		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
UK	527	565	389	377	1,335	1,286	1,576	1,330	-	-	3,827	3,558
Canada	-	3	1	25	-	-	1	1	-	-	2	29
Australia	-	-	100	72	-	6	9	10	-	-	109	88
Austria	22	25	-	-	-	-	-	-	-	-	22	25
Belgium	-	-	1	25	-	-	12	11	-	-	13	36
Denmark	-	-	51	41	-	-	15	16	-	-	66	57
Finland	-	-	25	25	-	-	-	-	-	-	25	25
France	201	209	343	228	-	-	306	347	-	-	850	784
Germany	296	87	131	115	1	1	243	300	-	-	671	503
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	1	-	-	3	-	-	-	-	1	3
Italy	-	-	27	36	-	-	75	86	-	-	102	122
Japan	-	-	26	119	-	10	22	32	-	-	48	161
Mexico	12	1	-	-	-	-	105	112	-	-	117	113
Netherlands	21	-	257	313	-	-	24	24	-	-	302	337
Norway	-	-	1	-	-	-	39	40	-	-	40	40
Portugal	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	105	37	-	-	41	52	-	-	146	89
Sweden	-	-	40	38	1	1	58	66	-	-	99	105
Switzerland	-	-	116	87	-	-	7	7	-	-	123	94
US	-	-	217	302	133	133	310	283	-	-	660	718
Other	37	48	51	61	52	2	12	11	201	226	353	348
Total	1,116	938	1,882	1,901	1,522	1,442	2,855	2,728	201	226	7,576	7,235

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government.

² This balance primarily consists of securities held in supranationals.

41. Risk management *continued*

(c) Credit risk *continued*

(c)(i) Credit exposure *continued*

Participating business

An analysis of financial assets by credit rating is as follows:

	Reinsurance assets		Loans		Derivative financial assets		Debt Securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Neither past due nor impaired:														
AAA	-	-	-	-	-	-	4,342	4,842	-	-	64	-	4,406	4,842
AA	5,436	5,962	139	84	-	55	14,917	15,608	-	-	498	275	20,990	21,984
A	19	20	111	-	643	1,262	4,214	4,902	-	-	1,297	1,502	6,284	7,686
BBB	-	-	-	-	428	-	1,673	1,578	-	-	101	-	2,202	1,578
Below BBB	-	-	-	-	-	-	434	481	-	-	-	-	434	481
Not rated	-	-	90	110	407	332	34	33	84	83	-	1	615	559
Internally rated	7	7	-	-	-	-	299	335	-	-	-	-	306	342
Past due	-	-	-	-	-	-	-	-	15	15	-	-	15	15
Impaired	-	-	-	-	-	-	-	6	-	-	-	-	-	6
Total	5,462	5,989	340	194	1,478	1,649	25,913	27,785	99	98	1,960	1,778	35,252	37,493

At 31 December 2015, receivables and other financial assets of £15m (2014: £15m) were past due by less than three months.

Not rated loans of £90m (2014: £110m) relate to mortgages.

The shareholders' 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 (b). As at 31 December 2015, the financial assets of the HWPF include £5,134m (2014: £5,642m) 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.

An analysis of debt securities by country is as follows:

	Government, Provincial and Municipal ¹		Banks		Other financial institutions		Other corporate		Other ²		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
UK	10,275	11,030	925	926	1,929	2,050	1,730	1,966	-	-	14,859	15,972
Canada	3	35	195	77	8	10	3	1	-	-	209	123
Australia	-	-	206	199	31	39	35	42	-	-	272	280
Austria	235	240	4	8	-	-	-	-	-	-	239	248
Belgium	452	381	10	16	-	-	15	16	-	-	477	413
Denmark	4	5	11	10	-	-	22	32	-	-	37	47
Finland	85	83	54	57	-	-	4	5	-	-	143	145
France	1,708	1,641	437	473	24	19	331	375	-	-	2,500	2,508
Germany	2,620	2,996	587	440	122	114	189	214	-	-	3,518	3,764
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	7	1	9	6	10	10	13	13	-	-	39	30
Italy	4	3	27	31	11	13	120	138	-	-	162	185
Japan	21	20	35	295	-	-	1	10	-	-	57	325
Mexico	-	-	-	-	-	-	58	64	-	-	58	64
Netherlands	403	358	338	228	42	46	34	31	-	-	817	663
Norway	17	18	6	16	-	-	63	72	-	-	86	106
Portugal	-	-	-	-	-	-	5	3	-	-	5	3
Russia	-	-	-	-	-	-	-	7	-	-	-	7
Spain	5	8	11	8	5	-	52	62	-	-	73	78
Sweden	1	1	280	261	6	8	16	20	-	-	303	290
Switzerland	-	-	103	182	59	35	57	56	-	-	219	273
US	107	434	361	383	206	254	437	408	-	-	1,111	1,479
Other	85	92	105	161	62	92	116	146	361	291	729	782
Total	16,032	17,346	3,704	3,777	2,515	2,690	3,301	3,681	361	291	25,913	27,785

¹ Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government.

² This balance primarily consists of securities held in supranationals.

(c)(ii) Credit spreads

As at 31 December 2015, 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 from continuing operations of £23m (2014: £24m). A further reduction of £46m (2014: £39m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(c)(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of bilateral over-the-counter (OTC) 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 these instruments is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is determined by the daily bilateral OTC exposure calculations in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Under the terms of these agreements, collateral is posted with the ownership captured under title transfer of the contract. 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 bilateral OTC exposure 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 2015, the Group had pledged £448m (2014: £202m) of cash and £36m (2014: £58m) of securities as collateral for derivative financial liabilities. At 31 December 2015, the Group had accepted £1,166m (2014: £1,847m) of cash and £10m (2014: £16m) of securities as collateral. None of the securities were sold or repledged at the year end.

41. Risk management *continued*

(c) Credit risk *continued*

(c)(iv) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the consolidated 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.

The Group does not offset financial assets and liabilities on the consolidated statement of financial position, as there are no unconditional rights to set off. Consequently, the gross amount of financial instruments presented on the consolidated statement of financial position is the net amount. The Group's bilateral OTC derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement.

The Group does not hold any other financial instruments which are subject to master netting agreements or similar arrangements. The following table presents the effect of master netting agreements and similar arrangements.

As at 31 December 2015	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Related amounts not offset on the consolidated statement of financial position		
		Financial instruments £m	Financial collateral pledged/(received) £m	Net position £m
Financial assets				
Derivatives ¹	1,752	(549)	(1,176)	27
Total financial assets	1,752	(549)	(1,176)	27
Financial liabilities				
Derivatives ¹	(1,070)	549	466	(55)
Total financial liabilities	(1,070)	549	466	(55)

¹ Only OTC derivatives subject to master netting agreements have been included above.

As at 31 December 2014	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Related amounts not offset on the consolidated statement of financial position		
		Financial instruments £m	Financial collateral pledged/(received) £m	Net position £m
Financial assets				
Derivatives ¹	3,051	(1,057)	(1,863)	131
Total financial assets	3,051	(1,057)	(1,863)	131
Financial liabilities				
Derivatives ¹	(1,260)	1,057	194	(9)
Total financial liabilities	(1,260)	1,057	194	(9)

¹ Only OTC derivatives subject to master netting agreements have been included above.

(c)(v) Credit risk on loans and receivables and financial liabilities designated as at fair value through profit or loss

(c)(v)(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 FVTPL. These instruments are included in debt securities on the consolidated statement of financial position. The Group's exposure to such financial instruments at 31 December 2015 was £652m (2014: £442m) of which £140m related to participating business (2014: £237m) and £512m related to shareholder business (2014: £205m). 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 losses of £4m (2014: £22m gains) 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 gains of £2m (2014: £3m loss).

As described in section (b), the Group's 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.

(c)(v)(II) Financial liabilities designated at FVTPL

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 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.

(d) Demographic and expense risk

As described in the table on pages 184 to 185, the shareholder is directly exposed to demographic and expense risk from shareholder business and participating business and, as a result, quantitative demographic and expense risk disclosures are provided in respect of these categories.

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 example 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.

(d)(i) Elements of demographic and expense risk

The main elements of demographic and expense risk that give rise to the exposure are discussed below.

(d)(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 incurred at a higher than expected rate or, in the case of income benefits, continue for a longer duration or start earlier than those assumed. This risk will be present on disability income, healthcare and critical illness contracts. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected, for example, due to non-disclosure.

Income protection contracts have the risk that claim duration may be longer than anticipated.

Mortality

The Group defines mortality risk as the risk that paid death claims are at a higher rate or are more volatile than assumed. This risk will exist on any contracts where the payment on death is greater than the reserve held. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected, for example due to non-disclosure.

(d)(i)(II) Other financial risks

Persistency – withdrawals and lapse rates

The Group defines persistency risk as the risk that business lapses or becomes paid-up at a different rate than assumed. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits arising from early retirements, surrenders – either partial or in full – and similar policyholder options.

Variances in persistency will affect equity holder profit 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 and unitised with profits business. Profit 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 businesses or an increase in expense inflation, either Group specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.

41. Risk management *continued*

(d) Demographic and expense risk *continued*

(d)(i) Elements of demographic and expense risk *continued*

Profit is 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.

(d)(ii) Sensitivity to demographic and expenses risk analysis

Recognition of profit 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 3.

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 in profit after tax from continuing operations and equity 2015	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
Shareholder business								
UK and Europe								
Reinsurance assets	-	-	-	-	-	-	1	(1)
Non-participating insurance contract liabilities	(111)	104	(7)	7	1	(1)	(1)	1
India and China								
Deferred acquisition costs	-	-	(5)	3	(1)	1	-	-
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Total shareholder business	(111)	104	(12)	10	-	-	-	-
Participating business								
UK and Europe								
Recourse cash flows	(17)	16	(3)	3	-	-	(3)	3
Total participating business	(17)	16	(3)	3	-	-	(3)	3
Total	(128)	120	(15)	13	-	-	(3)	3
(Decrease)/increase in profit after tax from continuing operations and equity 2014	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
Shareholder business								
UK and Europe								
Reinsurance assets	-	-	-	-	-	-	1	(1)
Non-participating insurance contract liabilities	(117)	110	(7)	6	1	(1)	(1)	1
India and China								
Deferred acquisition costs	-	-	-	-	-	-	-	-
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Total shareholder business	(117)	110	(7)	6	1	(1)	-	-
Participating business								
UK and Europe								
Recourse cash flows	(13)	12	(3)	3	-	-	(3)	3
Total participating business	(13)	12	(3)	3	-	-	(3)	3
Total	(130)	122	(10)	9	1	(1)	(3)	3

When the sensitivities presented in the tables 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. Amounts in the tables above are presented net of tax and reinsurance.

For the participating business, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows from the HWPF, 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 (b)(ii).

The shareholder business of UK and Europe 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.

(e) Liquidity risk

As described in the table on pages 184 to 185, the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked and segregated funds and, as a result, the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

The shareholder is not exposed to the liquidity risk from the assets held by third party interests in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

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 (b)(i) and Section (c)(i) of this Note. For UK and Europe, 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 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 linked 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 2015 and 31 December 2014, none of the funds under management were subject to deferral.

Business units 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 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 of committed bank facilities

The Group's committed bank facilities are currently undrawn.

Liquidity risk is managed by each business unit in consultation with the Group Treasury function and each business unit is responsible for the definition and management of its contingency funding plan.

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

41. Risk management *continued*

(e) Liquidity risk *continued*

(e)(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.

	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	No defined maturity £m	Total £m
2015								
Shareholder business								
Non-participating insurance contract liabilities	316	1,078	1,165	949	717	972	-	5,197
Non-participating investment contract liabilities	1	1	1	1	-	-	-	4
Reinsurance liabilities	-	-	-	-	-	-	-	-
Total shareholder business	317	1,079	1,166	950	717	972	-	5,201
Participating business								
Non-participating insurance contract liabilities	691	2,454	2,387	1,640	1,015	1,369	-	9,556
Participating insurance contract liabilities	2,044	3,668	2,536	1,939	2,019	2,077	-	14,283
Participating investment contract liabilities	582	2,518	3,229	3,174	2,492	2,721	-	14,716
Unallocated divisible surplus	-	-	-	-	-	-	655	655
Total participating business	3,317	8,640	8,152	6,753	5,526	6,167	655	39,210
Unit linked and segregated funds								
Non-participating insurance contract liabilities	5,267	630	362	96	46	52	-	6,453
Non-participating investment contract liabilities	9,155	29,418	24,351	14,357	8,083	7,526	-	92,890
Total unit linked and segregated funds	14,422	30,048	24,713	14,453	8,129	7,578	-	99,343
Total	18,056	39,767	34,031	22,156	14,372	14,717	655	143,754
2014								
Shareholder business								
Non-participating insurance contract liabilities	319	1,044	1,143	948	737	1,085	-	5,276
Non-participating investment contract liabilities	-	1	1	1	-	1	-	4
Reinsurance liabilities	-	-	-	-	-	-	-	-
Total shareholder business	319	1,045	1,144	949	737	1,086	-	5,280
Participating business								
Non-participating insurance contract liabilities	723	2,597	2,597	1,852	1,194	1,790	-	10,753
Participating insurance contract liabilities	1,532	5,139	2,715	1,740	1,865	2,406	-	15,397
Participating investment contract liabilities	634	2,634	3,414	3,300	2,533	2,676	-	15,191
Unallocated divisible surplus	-	-	-	-	-	-	688	688
Total participating business	2,889	10,370	8,726	6,892	5,592	6,872	688	42,029
Unit linked and segregated funds								
Non-participating insurance contract liabilities	4,628	644	378	84	38	40	-	5,812
Non-participating investment contract liabilities	8,060	26,779	23,034	14,152	8,271	7,907	-	88,203
Total unit linked and segregated funds	12,688	27,423	23,412	14,236	8,309	7,947	-	94,015
Total	15,896	38,838	33,282	22,077	14,638	15,905	688	141,324

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 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.

	Within 1 year		2-5 years		6-10 years		11-15 years		16-20 years		Greater than 20 years		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Shareholder business														
Non-participating investment contract liabilities	4	4	-	-	-	-	-	-	-	-	-	-	4	4
Subordinated liabilities	81	390	324	324	377	375	345	341	208	206	700	449	2,035	2,085
Other financial liabilities	793	907	37	25	2	2	-	-	-	-	-	-	832	934
Total shareholder business	878	1,301	361	349	379	377	345	341	208	206	700	449	2,871	3,023
Participating business														
Other financial liabilities	1,317	1,462	7	12	12	19	6	11	6	11	97	242	1,445	1,757
Total participating business	1,317	1,462	7	12	12	19	6	11	6	11	97	242	1,445	1,757
Unit linked and segregated funds														
Non-participating investment contract liabilities	92,890	88,203	-	-	-	-	-	-	-	-	-	-	92,890	88,203
Other financial liabilities	481	860	12	14	10	9	8	7	8	7	16	99	535	996
Total unit linked and segregated funds	93,371	89,063	12	14	10	9	8	7	8	7	16	99	93,425	89,199
Total	95,566	91,826	380	375	401	405	359	359	222	224	813	790	97,741	93,979

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.

Deposits received from reinsurers reflect the liability to repay the deposit received from an external reinsurer under the reinsurance transaction referred to in Section (c). 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 2015 or 31 December 2014.

Refer to Note 23 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 2015 of £319m and £nil with a contractual maturity of within one year and between one and five years respectively (2014: £312m and £nil).

41. Risk management *continued*

(f) Operational and conduct 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. This includes conduct risk which is defined as the risk that through our behaviours, strategies, decisions and actions the Group, or individuals within the Group, do not do the right thing and/or do not behave in a manner which:

- Pays due regard to treating our customers and clients fairly
- Is consistent with our disclosures and setting of customer and client expectations
- Supports the integrity of financial markets

The policy framework, which includes the Group operational risk policy and the Group conduct risk policy, is used to support the management of operational and conduct risks. Business units adopt the relevant minimum standards and limits contained within these policies and are required to manage risk in accordance with the policies, taking 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 risk function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of CSA are reported through the risk governance structure.

The 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.

(g) Strategic risk

The Group defines strategic risk as those risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances. Strategic risks are considered across the Group through the business planning process. The strategic risks to which the Group is exposed are reviewed on a regular basis.

42. Structured entities

A structured entity is an entity that is structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group has interests in structured entities through investments in a range of investment vehicles including:

- Pooled investment funds managed internally and externally, including OEICs, SICAVs, unit trusts and limited partnerships
- Debt securitisation vehicles which issue asset-backed securities

The Group consolidates structured entities which it controls. Where the Group has an investment in, but not control over these types of entities, the investment is classified as an investment in associate when the Group has significant influence.

The Group also has interests in structured entities through asset management fees and other fees received from these entities.

(a) Consolidated structured entities

As at 31 December 2015 and 31 December 2014, the Group has not provided any non-contractual financial or other support to any consolidated structured entity and there are no current intentions to do so.

(b) Unconsolidated structured entities

As at 31 December 2015 and 31 December 2014, the Group has not provided any non-contractual financial or other support to any unconsolidated structured entities and there are no current intentions to do so.

(b)(i) Investments in unconsolidated structured entities

The following table shows the carrying value of the Group's investments in unconsolidated structured entities by line items in the consolidated statement of financial position and by risk segment as defined in Note 41.

	Shareholder business		Participating business		Unit linked and segregated funds		Third party interest in consolidated funds and non-controlling interests		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
2015	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Investments in associates	19	16	531	535	4,561	3,568	314	145	5,425	4,264
Equity securities and interests in pooled investment funds	-	19	72	92	17,406	15,845	1,425	1,199	18,903	17,155
Debt securities	576	358	1,454	793	1,381	851	140	79	3,551	2,081
Total	595	393	2,057	1,420	23,348	20,264	1,879	1,423	27,879	23,500

The asset value of unconsolidated structured entities which are managed by the Group and in which the Group's holding is classified as an investment in associate is £28,150m (2014: £28,266m). There are no interests in pooled investment funds managed by the Group other than those classified as investments in associates. The total issuance balance relating to unconsolidated structured debt securitisation vehicles in which the Group has an investment is £54,214m (2014: £31,046m).

The Group's maximum exposure to loss in respect of its investments in unconsolidated structured entities is the carrying value of the Group's investment. As noted in Note 41, the shareholder is not exposed to market or credit risk in respect of investments held in the unit linked and segregated funds, and third party interests in consolidated funds and non-controlling interests risk segments.

Additional information on how the Group manages its exposure to risk can be found in Note 41.

(b)(ii) Other interests in unconsolidated structured entities

For those structured entities which the Group receives asset management or other fees from but has no direct investment, the maximum exposure to loss is loss of future fees.

Total assets under management of structured entities in which the Group has no direct investments but has other interests in are £11,599m at 31 December 2015 (2014: £13,153m). The fees received in respect of these assets under management during the year to 31 December 2015 were £48m (2014: £65m).

43. Fair value of assets and liabilities

The Group uses fair value to measure the majority of its assets and liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Estimates and assumptions

Determination of the fair value of private equity investments, debt securities categorised as level 3 in the fair value hierarchy, over-the-counter derivatives and investment property are key estimates. Further details on the methods and assumptions used to value these investments are set out in section (d) below. Disclosures regarding sensitivity of level 3 instruments measured at fair value on the statement of financial position to changes in key assumptions are set out in (d)(iv) below.

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

- Level 1** Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3** Fair values measured using inputs that are not based on observable market data (unobservable inputs).

(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 21 and 35 and includes those financial assets and liabilities held at fair value.

(c) Non-financial investments

An analysis of the Group's investment property and owner occupied property within property, plant and equipment in accordance with IAS 40 – *Investment property* and IAS 16 – *Property, plant and equipment* is presented in Notes 19 and 20 respectively and includes those assets held at fair value.

(d) Methods and assumptions used to determine fair value of assets and liabilities

Information on the methods and assumptions used to determine fair values for each major category of instrument measured at fair value is given below. These methods and assumptions include those used to fair value assets and liabilities held for sale, including the individual assets and liabilities of operations held for sale.

Investments in associates at FVTPL, equity securities and interests in pooled investment funds, and amounts seeded into funds classified as held for sale

Investments in associates at FVTPL are valued in the same manner as the Group's equity securities and interests in pooled investment funds.

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 categorised as level 1 instruments within the fair value hierarchy.

Unlisted equities are valued using an adjusted net asset value. 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 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 categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Where pooled investment funds have been seeded and the investments in the fund have been classified as held for sale, the costs to sell are assumed to be negligible. The fair value of pooled investment funds held for sale is calculated as equal to the observable unit price.

Investment property and owner occupied property

The fair value of investment property and all owner occupied property is valued by external property valuation experts. The current use is considered the best indicator of the highest and best use of the Group's property from a market participants' perspective. No adjustment has been made for vacant possession for the Group's owner occupied property.

In UK and Europe valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards and predominantly an income capitalisation method is used. In Canada all valuations were completed in accordance with International Valuation Standards (IVS) and predominantly a discounted cash flow method was used. Both valuation techniques are income approaches as they consider the income that an asset will generate over its useful life and estimate fair

value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate.

The determination of the fair value of investment property and all owner occupied property requires the use of estimates such as future cash flows from the assets for example, future rental income and discount rates applicable to those assets.

Where it is not possible to use an income approach a market approach will be used whereby comparisons are made to recent transactions with similar characteristics and locations to those of the Group's assets. Where appropriate, adjustments will be made by the valuer to reflect any differences.

Where an income approach, or a market approach with significant unobservable adjustments, has been used, valuations are predominantly based on unobservable inputs and accordingly these assets are categorised as level 3 within the fair value hierarchy. Where a market approach valuation does not include significant unobservable adjustments, these assets are categorised as level 2.

Derivative financial assets and derivative financial liabilities

The majority of the Group's derivatives are over-the-counter derivatives which are fair valued using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and over-the-counter derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Group's risk management policies. At 31 December 2015 and 31 December 2014 the residual credit risk is considered immaterial and therefore no credit risk adjustment has been made.

Debt securities

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 categorised as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.
- **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 categorised 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 categorised 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 categorised as level 3 instruments within the fair value hierarchy.
- **Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit**
These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The categorisation 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.
- **Commercial mortgages**
These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending on whether the spread is adjusted by an internal underwriting rating.

Contingent consideration asset

A contingent consideration asset was recognised during 2014 in respect of a purchase price adjustment mechanism relating to the acquisition of Ignis as discussed in Note 1. The fair value of the asset is calculated using a binominal tree option pricing model. The main inputs are management fee income and expected probabilities of payouts. These are considered unobservable and as a result the asset is classified as level 3 in the fair value hierarchy.

43. Fair value of assets and liabilities *continued*

(d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

Non-participating investment contract liabilities

The fair value of the non-participating investment contract liabilities is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately categorised as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are categorised within level 2 of the fair value hierarchy.

Liabilities in respect of third party interest in consolidated funds

The fair value of liabilities in respect of third party interest in consolidated funds is calculated equal to the fair value of the underlying assets and liabilities in the funds. 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. When the underlying assets and liabilities are valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 2. Where the underlying assets and liabilities are not valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 3.

(d)(i) Fair value hierarchy for assets measured at fair value in the statement of financial position

The table below presents the Group's assets measured at fair value by level of the fair value hierarchy.

As recognised in the statement of financial position line item	Fair value hierarchy											
	Classified as held for sale				Total		Level 1		Level 2		Level 3	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Investments in associates at FVTPL	5,425	4,264	33	33	5,458	4,297	5,370	4,214	2	-	86	83
Investment property	9,991	9,041	87	1,427	10,078	10,468	-	-	-	105	10,078	10,363
Owner occupied property	55	138	-	26	55	164	-	-	-	1	55	163
Derivative financial assets	2,444	4,021	-	44	2,444	4,065	692	971	1,752	3,094	-	-
Equity securities and interests in pooled investment vehicles	71,679	71,327	17	13,035	71,696	84,362	70,877	83,521	-	1	819	840
Debt securities	66,657	64,441	-	11,059	66,657	75,500	23,210	23,780	42,660	50,077	787	1,643
Contingent consideration asset	15	20	-	-	15	20	-	-	-	-	15	20
Total assets at fair value	156,266	153,252	137	25,624	156,403	178,876	100,149	112,486	44,414	53,278	11,840	13,112

There were no transfers between levels 1 and 2 during the year (2014: none). Refer to 43(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's assets measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 41.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy					
							Level 1		Level 2		Level 3	
							2015	2014	2015	2014	2015	2014
2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business												
Investments in associates at FVTPL	19	16	33	14	52	30	36	30	2	-	14	-
Investment property	1	-	-	520	1	520	-	-	-	105	1	415
Owner occupied property	-	3	-	26	-	29	-	-	-	1	-	28
Derivative financial assets	9	18	-	44	9	62	1	-	8	62	-	-
Equity securities and interests in pooled investment vehicles	52	31	17	250	69	281	61	254	-	-	8	27
Debt securities	7,576	7,235	-	5,934	7,576	13,169	1,089	981	5,858	10,952	629	1,236
Contingent consideration asset	15	20	-	-	15	20	-	-	-	-	15	20
Total shareholder business	7,672	7,323	50	6,788	7,722	14,111	1,187	1,265	5,868	11,120	667	1,726
Participating business												
Investments in associates at FVTPL	531	535	-	-	531	535	459	452	-	-	72	83
Investment property	2,167	2,090	-	86	2,167	2,176	-	-	-	-	2,167	2,176
Owner occupied property	55	135	-	-	55	135	-	-	-	-	55	135
Derivative financial assets	1,478	1,649	-	-	1,478	1,649	407	332	1,071	1,317	-	-
Equity securities and interests in pooled investment vehicles	8,187	9,658	-	232	8,187	9,890	7,840	9,526	-	-	347	364
Debt securities	25,913	27,785	-	418	25,913	28,203	15,573	17,036	10,198	10,991	142	176
Total participating business	38,331	41,852	-	736	38,331	42,588	24,279	27,346	11,269	12,308	2,783	2,934
Unit linked and segregated funds												
Investments in associates at FVTPL	4,561	3,568	-	19	4,561	3,587	4,561	3,587	-	-	-	-
Investment property	5,947	5,223	68	816	6,015	6,039	-	-	-	-	6,015	6,039
Owner occupied property	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	716	1,711	-	-	716	1,711	220	458	496	1,253	-	-
Equity securities and interests in pooled investment vehicles	56,307	55,471	-	11,909	56,307	67,380	56,117	67,200	-	1	190	179
Debt securities	26,789	23,597	-	4,420	26,789	28,017	6,053	5,536	20,720	22,273	16	208
Total unit linked and segregated funds	94,320	89,570	68	17,164	94,388	106,734	66,951	76,781	21,216	23,527	6,221	6,426
Third party interest in consolidated funds and non-controlling interests												
Investments in associates at FVTPL	314	145	-	-	314	145	314	145	-	-	-	-
Investment property	1,876	1,728	19	5	1,895	1,733	-	-	-	-	1,895	1,733
Owner occupied property	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	241	643	-	-	241	643	64	181	177	462	-	-
Equity securities and interests in pooled investment vehicles	7,133	6,167	-	644	7,133	6,811	6,859	6,541	-	-	274	270
Debt securities	6,379	5,824	-	287	6,379	6,111	495	227	5,884	5,861	-	23
Third party interest in consolidated funds and non-controlling interests	15,943	14,507	19	936	15,962	15,443	7,732	7,094	6,061	6,323	2,169	2,026
Total	156,266	153,252	137	25,624	156,403	178,876	100,149	112,486	44,414	53,278	11,840	13,112

43. Fair value of assets and liabilities *continued*

(d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

(d)(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The table below presents the Group's liabilities measured at fair value by level of the fair value hierarchy.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy					
							Level 1		Level 2		Level 3	
							2015	2014	2015	2014	2015	2014
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Non-participating investment contract liabilities	92,890	88,203	-	13,734	92,890	101,937	-	-	92,890	101,937	-	-
Liabilities in respect of third party interest in consolidated funds	17,196	15,805	-	953	17,196	16,758	-	-	15,889	15,419	1,307	1,339
Derivative financial liabilities	1,254	1,693	-	26	1,254	1,719	184	441	1,070	1,278	-	-
Contingent consideration liability	-	3	-	-	-	3	-	-	-	-	-	3
Total liabilities at fair value	111,340	105,704	-	14,713	111,340	120,417	184	441	109,849	118,634	1,307	1,342

There were no transfers between levels 1 and 2 during the year (2014: none). Refer to 43(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's liabilities measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 41.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy					
							Level 1		Level 2		Level 3	
							2015	2014	2015	2014	2015	2014
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Shareholder business												
Derivative financial liabilities	16	17	-	23	16	40	1	8	15	32	-	-
Contingent consideration liability	-	3	-	-	-	3	-	-	-	-	-	3
Total shareholder business	16	20	-	23	16	43	1	8	15	32	-	3
Participating business												
Derivative financial liabilities	88	80	-	-	88	80	47	26	41	54	-	-
Total participating business	88	80	-	-	88	80	47	26	41	54	-	-
Unit linked and segregated funds												
Non-participating investment contract liabilities	92,890	88,203	-	13,734	92,890	101,937	-	-	92,890	101,937	-	-
Derivative financial liabilities	836	1,187	-	2	836	1,189	103	319	733	870	-	-
Total unit linked and segregated funds	93,726	89,390	-	13,736	93,726	103,126	103	319	93,623	102,807	-	-
Third party interest in consolidated funds and non-controlling interests												
Liabilities in respect of third party interest in consolidated funds	17,196	15,805	-	953	17,196	16,758	-	-	15,889	15,419	1,307	1,339
Derivative financial liabilities	314	409	-	1	314	410	33	88	281	322	-	-
Third party interest in consolidated funds and non-controlling interests	17,510	16,214	-	954	17,510	17,168	33	88	16,170	15,741	1,307	1,339
Total	111,340	105,704	-	14,713	111,340	120,417	184	441	109,849	118,634	1,307	1,342

(d)(iii) Reconciliation of movements in level 3 instruments

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed below.

	Investments in associates at FVTPL		Investment property		Owner occupied property		Equity securities and interests in pooled investment funds		Debt securities		Liabilities in respect of third party interest in consolidated funds	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
At 1 January	83	-	9,041	8,542	138	171	836	1,066	519	1,299	(1,338)	(1,246)
Reclassified as held for sale	-	-	(87)	(1,233)	-	(42)	-	(1)	-	(945)	-	-
Total gains/(losses) recognised in the consolidated income statement	1	2	452	825	4	4	135	(31)	-	38	(47)	(124)
Purchases	16	101	862	1,033	-	-	116	112	360	439	(91)	35
Settlement	-	-	-	-	-	-	-	-	-	-	169	(3)
Sales	(14)	(20)	(290)	(128)	(92)	-	(296)	(306)	(111)	(87)	-	-
Transfers in to level 3	-	-	-	-	-	-	26	1	33	436	-	-
Transfers out of level 3	-	-	-	-	-	-	-	(1)	(14)	(659)	-	-
Foreign exchange adjustment	-	-	(8)	(14)	-	-	2	(4)	-	(2)	-	-
Total gains recognised on revaluation of owner occupied property within other comprehensive income	-	-	-	-	5	5	-	-	-	-	-	-
Other	-	-	21	16	-	-	-	-	-	-	-	-
At 31 December	86	83	9,991	9,041	55	138	819	836	787	519	(1,307)	(1,338)

The Group recognised a contingent consideration asset in 2014 of £20m, in respect of the acquisition of Ignis. The fair value of this asset at 31 December 2015 was £15m (2014: £20m). Movements in fair value of contingent consideration assets are recognised in other income in the consolidated income statement.

As at 31 December 2015, £418m of total gains from continuing operations (2014: £625m) were recognised in the consolidated income statement in respect of assets and liabilities held at fair value classified as level 3 at the year end. Of this amount £465m gains (2014: £749m) were recognised in investment return from continuing operations and £47m losses (2014: £124m) were recognised in change in liability for liabilities in respect of third party interest in consolidated funds from continuing operations in the consolidated income statement.

Transfers of equity securities and interests in pooled investment funds and debt securities into level 3 generally arise when external pricing providers stop providing a price or where the price provided is considered stale. Transfers of equity securities and interests in pooled investment funds and debt securities out of level 3 arise when acceptable prices become available from external pricing providers.

(d)(iv) Sensitivity of level 3 instruments measured as at fair value on the statement of financial position to changes in key assumptions

Effect of changes of significant unobservable assumptions to reasonable possible alternative assumptions

For level 3 investments, other than commercial mortgages and unquoted corporate bonds, the Group does not use internal models to value the investments but rather obtains valuations from external parties. The Group reviews the appropriateness of these valuations on the following basis:

- For investment property and owner occupied property (including property that is classified as held for sale), the valuations are obtained from external valuers and are assessed on an individual property basis. The principle assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the following table using knowledge of the investment property market.
- Private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market.
- Unquoted corporate bonds are valued using internal models on an individual instrument basis. Sensitivities are determined by adjusting internally estimated credit spreads.
- Commercial mortgage valuations are obtained from internal models on an individual instrument basis. Sensitivities are determined by adjusting the spread added to the current base rate.
- Contingent consideration asset valuation is provided by an external valuer using a binomial tree option pricing model. Sensitivities are determined through adjusting probabilities applied to expected payout patterns.

43. Fair value of assets and liabilities *continued*

(d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

(d)(iv) Sensitivity of level 3 Instruments measured as at fair value on the statement of financial position to changes in key assumptions *continued*

The shareholder is directly exposed to movements in the value of level 3 investments held by the shareholder business (to the extent they are not offset by opposite movements in investment and insurance contract liabilities). Movements in level 3 securities held by the other risk segments are offset by an opposite movement in investment and insurance contract liabilities and therefore the shareholder is not directly exposed to such movements unless they are sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders.

Changing unobservable inputs in the measurement of the fair value of level 3 financial assets to reasonably possible alternative assumptions would not have a significant impact on profit for the year or total assets.

The table below presents quantitative information about the significant unobservable inputs for level 3 instruments:

2015	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property and owner occupied property	9,496	Income capitalisation	Equivalent yield	2.1% to 15.5% (5.2%)
			Estimated rental value per square metre per annum	£3 to £2,422 (£240)
Investment property (hotels)	515	Income capitalisation	Equivalent yield	4.6% to 7.2% (5.9%)
			Estimated rental value per room per annum	£995 to £13,748 (£5,632)
Investment property and owner occupied property	122	Market comparison	Estimated value per square metre	£2 to £14,604 (£4,246)
Equity securities and interests in pooled investment funds and investments in associates at FVTPL (private equity investments)	905	Adjusted net asset value	Adjustment to net asset value ¹	N/A
Debt securities (commercial mortgages)	382	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	270	Discounted cash flow	Credit spread	0.2% to 4.0% (1.9%)
Debt securities (other)	135	Single broker	Single broker indicative price ²	N/A

¹ A Group level adjustment is made for significant movements in private equity values.

² Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices

2014	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property and owner occupied property	8,753	Income capitalisation	Equivalent yield	3.8% to 12.9% (5.5%)
			Estimated rental value per square metre per annum	£11 to £2,422 (£345)
Investment property (hotels)	312	Income capitalisation	Equivalent yield	4.6% to 7.3% (6.2%)
			Estimated rental value per room per annum	£215 to £11,905 (£3,818) ¹
Investment property and owner occupied property	1,337	Discounted cash flow	Internal rate of return	6.0% to 10.5% (7.3%)
			Terminal capitalisation rate	5.3% to 9.5% (6.6%)
Investment property and owner occupied property	124	Market comparison	Estimated value per square metre	£2 to £10,764 (£2,591)
Equity securities and interests in pooled investment funds and investments in associates at FVTPL (private equity investments)	923	Adjusted net asset value	Adjustment to net asset value ²	N/A
Debt securities (commercial mortgages)	274	Discounted cash flow	Credit spread	1.9% to 2.6% (2.1%)
Debt securities (unquoted corporate bonds)	237	Discounted cash flow	Credit spread	0.1% to 4.0% (1.5%)
Debt securities (other)	1,132	Single broker	Single broker indicative price ³	N/A

¹ Restated.

² A Group level adjustment is made for significant movements in private equity values.

³ Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices.

(e) Assets and liabilities not carried at fair value

The table below presents estimated fair values of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

	Notes	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total carrying value		Fair value	
		2015	2014	2015	2014	2015	2014	2015	2014
		£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Loans secured by mortgages	22	87	107	-	2,230	87	2,337	84	2,426
Liabilities									
Non-participating investment contract liabilities	35,26	4	4	-	2,118	4	2,122	4	2,285
Subordinated notes	36,26	499	499	-	223	499	722	530	800
Subordinated guaranteed bonds	36	502	502	-	-	502	502	579	580
Mutual Assurance Capital Securities	36	317	611	-	-	317	611	345	643

The estimated fair values for subordinated liabilities are based on the quoted market offer price. The estimated fair values of the other instruments detailed above are calculated by discounting the expected future cash flows at current market rates.

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 Note 33. The carrying value of participating investment contract liabilities at 31 December 2015 was £14,716m (31 December 2014: £15,193m including those classified as held for sale).

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

	Level 1		Level 2		Level 3		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Loans secured by mortgages	-	-	84	2,426	-	-	84	2,426
Liabilities								
Non-participating investment contract liabilities	-	-	-	-	4	2,285	4	2,285
Subordinated notes	-	-	530	800	-	-	530	800
Subordinated guaranteed bonds	-	-	579	580	-	-	579	580
Mutual Assurance Capital Securities	-	-	345	643	-	-	345	643

44. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

(a) Change in operating assets

	2015 £m	2014 £m
Investment property	(1,061)	(1,633)
Equity securities and interests in pooled investment funds	(889)	3,190
Debt securities	(2,506)	(7,716)
Derivative financial instruments	1,063	(1,270)
Reinsurance assets	518	(60)
Investments in associates and joint ventures	(1,042)	(2,697)
Receivables and other financial assets and other assets	(281)	(333)
Deferred acquisition costs	114	7
Loans	(593)	(165)
Assets held for sale	(1,930)	(2,778)
Change in operating assets	(6,607)	(13,455)

(b) Change in operating liabilities

	2015 £m	2014 £m
Other financial liabilities and other liabilities	(820)	1,617
Deposits received from reinsurers	(507)	53
Pension and other post-retirement benefit provisions	21	(12)
Deferred income	(38)	(36)
Insurance contract liabilities	(630)	3,294
Investment contract liabilities	4,945	6,491
Change in liability for third party interest in consolidated funds	285	(2,458)
Liabilities held for sale	786	2,751
Change in operating liabilities	4,042	11,700

(c) Non-cash items relating to investing and financing activities

	2015 £m	2014 £m
Gain on sale of subsidiaries excluding transaction costs and provision recognised on disposal	(1,136)	-
Gain on disposal of property, plant and equipment	(6)	-
Depreciation of property, plant and equipment	16	16
Amortisation of intangible assets	51	41
Impairment losses on intangible assets	11	47
Impairment losses on property, plant and equipment	4	-
Impairment losses reversed on property, plant and equipment	(5)	(5)
Impairment losses on deferred acquisition costs	-	9
Other interest cost	7	6
Finance costs	84	107
Share of profit from associates and joint ventures	(43)	(32)
Non-cash and other items	(1,017)	189

(d) Disposal of subsidiaries

	Notes	2015 Em
Investment property		1,343
Loans		2,235
Equity securities and interests in pooled investment funds		12,415
Debt securities		11,206
Other assets of operations disposed of excluding cash and cash equivalents		1,354
Non-participating insurance contract liabilities		(9,455)
Non-participating investment contract liabilities		(15,195)
Other liabilities of operations disposed of		(2,702)
Net assets disposed of		1,201
Items transferred to profit or loss on disposal of subsidiaries	12	(237)
Gain on sale	1	1,102
Transaction costs		21
Provision recognised on disposal of subsidiaries		13
Total cash consideration	1	2,100
Cash and cash equivalents disposed of	1	(500)
Cash inflow from disposal of subsidiary		1,600

There were no operations disposed of in the year ended 31 December 2014.

45. Contingent liabilities and contingent assets

Contingent liabilities are possible obligations of the Group of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the consolidated statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability.

Conversely, contingent assets are possible benefits to the Group. Contingent assets are only disclosed if it is probable that the Group will receive the benefit.

(a) Annuity sales

Following an earlier thematic review which concluded in 2014, the Financial Conduct Authority (FCA) commenced in mid-2015 a sample-based review of non-advised annuity sales from a selection of firms across the industry in which Standard Life has been participating. This review has focussed on processes for identifying and explaining eligibility for enhanced annuity options.

The Group has cooperated with the FCA's requests for information and has carried out analysis including an initial sampling of historical sales. We are currently analysing the implications of this sample for relevant components of our annuity population. We do not expect to know the outcome of the FCA's review until later in 2016.

The outcome and consequences of our further analysis and the FCA review are uncertain but it is possible that, for relevant components of our annuity population, these consequences could include requirements to compensate customers who could have obtained a more favourable annuity rate. Ahead of Standard Life completing further analysis and learning the outcome of the FCA's review, it is not practicable to determine an estimate of the financial effect of this contingent liability. In addition, it is possible that any financial impact may be mitigated by the Group's professional indemnity insurance.

(b) 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 all material respects with local solvency and other regulations. Therefore, there are no contingencies in respect of these regulations.

45. Contingent liabilities and contingent assets *continued*

(c) Unclaimed Asset Trust (UAT)

The UAT was established in July 2006. It holds shares and cash which were allocated to eligible members of The Standard Life Assurance Company at the date of demutualisation where those eligible members have not yet claimed their entitlement. Dividends paid on the shares held by the UAT are also held in the UAT until the related shares are claimed. The Scheme of Demutualisation sets a 10-year time limit, ending in July 2016, for those eligible members to claim their entitlements. On expiry of the UAT in July 2016, the ownership of any assets remaining in the UAT would be transferred to the Company, for general corporate purposes including charitable donations. The Board intends that the assets will be used for charitable purposes. At 31 December 2015 the UAT held cash of £47m (2014: £32m). The number of shares held by the UAT is presented in Note 29. The position at July 2016 will depend on the actions of eligible members and the success of the ongoing efforts to trace eligible members.

46. Commitments

The Group has contractual commitments in respect of expenditure on investment property, funding arrangements and leases which will be payable in future periods. These commitments are not recognised on the Group's statement of financial position at the year end but are disclosed to give an indication of the Group's future committed cash flows.

All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of the ownership of the leased asset.

(a) Capital commitments

As at 31 December 2015, capital expenditure that was authorised and contracted for, but not provided and incurred, was £231m (2014: £332m) in respect of investment property. Of this amount, £203m (2014: £287m) and £28m (2014: £36m) 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.

	2015 £m	2014 £m
Commitments to extend credit with an original term to maturity of one year or less	-	1
Other commitments	343	300

Included in other commitments of £343m (2014: £300m) is £291m (2014: £300m) committed by consolidated private equity funds. These commitments will be funded through contractually agreed additional investments both by the Group, through its controlling interests, and the funds' non-controlling interests. The level of funding provided by each will not necessarily be in line with the current ownership profile of the funds.

(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 from continuing operations are as follows:

	2015 £m	2014 £m
Not later than one year	30	36
Later than one year and no later than five years	69	61
Later than five years	111	63
Total operating lease commitments	210	160

47. Employee share-based payments

The Group operates share incentive plans for its employees. These generally take the form of an award of options or shares in Standard Life plc (equity-settled share based payments) but can also take the form of a cash award based on the share price of Standard Life plc (cash-settled share based payments). All the Group's incentive plans have conditions attached before the employee becomes entitled to the award. These can be performance and/or service conditions (vesting conditions) or the requirement of employees to save in the save-as-you-earn scheme (non-vesting condition). The period over which all vesting conditions are satisfied is the vesting period and the awards vest at the end of this period.

For all share-based payments services received for the incentive granted are measured at fair value.

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 consolidated 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 at the grant date. The fair value of the number of instruments expected to vest is charged to the income statement over the vesting period with a corresponding credit to the equity compensation reserve in equity.

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 consolidated 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.

Share options

(i) Long-term incentive plans

The Group operates the following long-term incentive plans.

Plan	Recipients	Conditions which must be met prior to vesting
Long-term incentive plan (LTIP)	Executives and senior management	Service and performance conditions as set out in the Directors' remuneration report
Standard Life Investments long-term incentive plan (Standard Life Investments LTIP)	Executives and senior management of Standard Life Investments	Service and performance conditions as set out in the Directors' remuneration report
Restricted stock plan (RSP)	Executives (other than executive Directors) and senior management	Service, or service and performance conditions. These are tailored to the individual award

All of the awards are equity-settled other than awards made under the Standard Life Investments LTIP in respect of employees in the US, France and Asia which are cash-settled.

(ii) Short-term incentive plan (annual bonus deferred shares)

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 2015 and 2014 annual bonus, half of any bonus earned by executive Directors and members of the executive team above 25% of salary will be settled in nil-cost options which are deferred for a period of two years, subject to the deferred amount being worth 10% or more of salary. Further details of the annual bonus are set out in the Directors' remuneration report.

Employees may forfeit some or all of awards made under any of the above share-based payment schemes if they leave the Group prior to the end of the awards' vesting periods.

(iii) Sharesave (Save-as-you-earn)

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees in the UK and Ireland 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. The shares can be purchased at the end of the savings period at a predetermined price. 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. Settlement is made in the form of shares.

Share awards

(i) Share incentive plan

The Group operates a share incentive plan, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any year is £1,800. The Group offers to match the number of shares bought up to a value of £25 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.

47. Employee share-based payments *continued*

(a) Options granted

The number, weighted average exercise price and weighted average remaining contractual life for options outstanding during the year are as follows:

	2015					2014				
	Long-term incentive plans (excluding RSP)	RSP	Short-term incentive plan	Sharesave	Weighted average exercise price for Sharesave	Long-term incentive plans (excluding RSP)	RSP	Short-term incentive plan	Sharesave	Weighted average exercise price for Sharesave
Outstanding at 1 January	25,131,521	2,732,361	557,301	8,235,878	228p	36,045,486	2,680,153	686,008	8,686,357	184p
Granted	14,096,423	1,423,236	305,253	2,091,965	328p	9,268,993	1,547,881	270,053	2,855,756	296p
Forfeited	(2,516,468)	(431,168)	-	(311,887)	260p	(8,294,265)	(596,595)	(36,876)	(280,728)	185p
Exercised	(8,640,212)	(772,747)	(324,828)	(847,383)	198p	(11,888,693)	(899,078)	(361,884)	(2,948,049)	157p
Expired	-	-	-	(914)	157p	-	-	-	(15,763)	165p
Cancelled	-	-	-	(59,413)	267p	-	-	-	(61,695)	254p
Outstanding at 31 December	28,071,264	2,951,682	537,726	9,108,246	255p	25,131,521	2,732,361	557,301	8,235,878	228p
Exercisable at 31 December	-	-	-	84,517	220p	10,365	9,931	-	227,318	157p
Weighted average remaining contractual life of options outstanding (years)	2.18	1.96	1.31	2.34		2.40	1.81	1.19	2.76	

The exercise price for options granted under long-term and short-term incentive schemes is nil. Fair value of options granted under the Group's incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

The following table shows the weighted average assumptions that were considered in determining the fair value of options granted during the year and the share price at exercise of options exercised during the year.

	Long-term incentive plans (excluding RSP)	RSP	Short-term incentive plan	Sharesave
Options granted during the year				
Grant date	27 March 2015 and 30 March 2015	Throughout	27 March 2015	9 October 2015
Share price at grant date	480p	457p	477p	425p
Fair value at grant date	480p	457p	477p	81p
Exercise price	Nil	Nil	Nil	328p-330p
Dividends	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	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	The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date	No dividend entitlement
Option term (years)	3.38	2.63	3.24	3.42
Options exercised during the year				
Share price at time of exercise	469p	473p	468p	424p

No departures from share option schemes are expected at grant date, with any leavers being accounted for on departure. In determining the fair value of options granted under the Sharesave scheme the historic volatility of the share price over a period of up to five years and a risk free rate determined by reference to swap rates was also considered.

The following table shows the range of exercise prices of options outstanding at 31 December 2015. All options are exercisable for a period of six months after the vesting date.

	2015	2014
	Number of options outstanding	Number of options outstanding
Long-term incentive plans		
£nil	31,022,946	27,863,882
Short-term incentive plan		
£nil	537,726	557,301
Sharesave		
157p	2,727,416	3,129,728
207p-221p	318,675	823,405
237p-272p	1,385,894	1,465,743
273p-296p	2,592,093	2,817,002
328p-330p	2,084,168	-
Outstanding at 31 December	40,668,918	36,657,061

(b) Share incentive plan

	2015	2014
Number of instruments granted ¹	261,123	318,208
Share price at date of grant ²	431p	389p
Fair value per granted instrument at grant date ²	431p	389p

¹ Included in the number of instruments granted are 11,433 (2014: 53,598) rights to shares granted to eligible employees in Germany, Austria and Canada.

² Weighted average.

The fair value of instruments granted under the share incentive plan is calculated by reference to the share price at grant date. The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date. 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.

(c) Employee share-based payment expense

The amounts recognised as an expense in Note 8 for equity-settled share-based payment transactions with employees are as follows:

	2015	2014
	£m	£m
Share options granted under long-term incentive plans	29	22
Share options granted under Sharesave	1	1
Share options granted under short-term incentive plan	2	1
Matching shares granted under share incentive plans	1	1
Expense from continuing operations	33	25
Expense from discontinued operations	1	2
	34	27

Additionally, the Group incurred an expense for cash-settled share-based payment schemes from continuing operations of £2m in 2015 (2014: £2m) and £nil (2014: £nil) from discontinued operations. The liability for cash-settled share-based payments outstanding at 31 December 2015 is £3m (2014: £6m).

48. Related party transactions

(a) Transactions and balances with 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:

	2015 £m	2014 £m
Sale to		
Associates	1,018	451
Joint ventures	-	1
Other related parties	53	94
	1,071	546
Purchase from		
Associates	1,495	816
Joint ventures	9	14
	1,504	830

Sales to and amounts due from other related parties include management fees received/receivable from non-consolidated investment vehicles managed by Standard Life Investments.

The year end balances arising from transactions carried out by the Group with related parties are as follows:

	2015 £m	2014 £m
Due from related parties		
Associates	24	16
Joint ventures	2	2
	26	18

In addition to the amounts shown above, the Group's defined benefit pension plans have assets of £579m (2014: £1,553m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

Key management personnel comprise 20 people (2014: 19 people) within the Group, including all Directors, both executive and non-executive and certain direct reports of the position of Chief Executive. Detailed disclosures of Directors' remuneration for the year and transactions in which the Directors are interested are contained within the audited section of the Directors' remuneration report.

The summary of compensation of key management personnel is as follows:

	2015 £m	2014 £m
Salaries and other short-term employee benefits	8	9
Post-employment benefits	1	1
Share-based payments	5	4
Termination benefits	2	-
Total compensation of key management personnel	16	14

(c) Transactions with key management personnel and their close family members

All transactions between key management and their close family members, and the Group during the year are on terms which are equivalent to those available to all employees of the Group.

During the year to 31 December 2015, key management personnel and their close family members contributed £6m (2014: £1m) to products sold by the Group. At 31 December 2015 the total value of key management personnel's investments in Group products was £19m (2014: £22m).

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 Strategic report 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 Prudential Regulation Authority (PRA).

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 policies. 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 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 41.

Regulatory capital

The Group operates in a number of geographical regions, and local regulators, primarily the PRA, specify rules and guidance for the minimum level of capital required to meet local requirements.

Until 31 December 2015, the PRA required all insurance companies and financial conglomerates to maintain capital resources in excess of their capital resources requirement (CRR). From 1 January 2016, the Group will be required to maintain and report capital under the Solvency II regime. This note sets out the Group's capital resources under the regulatory requirements in place at 31 December 2015.

For the purposes of calculating the Group's CRR at 31 December 2015, 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* were treated as capital. For the Group, this applies to its subordinated guaranteed bonds, Mutual Assurance Capital Securities and subordinated notes. 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, under the regulatory regime at 31 December 2015, each regulated company in the Group was required to identify the major risks it faces and, if appropriate, quantify the amount and type of capital it believed was 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 longevity could be significantly different from that assumed in the calculation of the liabilities.

Capital structure

The Group is classified as an insurance group by the PRA. 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).

49. Capital statement *continued*

The HWPF's capital resources of £4,044m at 31 December 2015 (2014: £4,317m) 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 (iv) Note 33), 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 restricts 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 at 31 December 2015. The other significant components are insurance entities in Asia and non-insurance entities, including Standard Life Investments Limited and Standard Life plc. The capital position at 31 December 2014 includes the held for sale insurance entities in Canada which were sold on 30 January 2015.

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 in the following table. For the year ended 31 December 2014, this includes the capital position and contract liabilities of the Canadian business classified as held for sale on the consolidated statement of financial position.

2015	UK regulated life business			Total UK regulated life business	Overseas life operations	Total life business	Other activities	Group total
	Heritage With Profits Fund ¹	Proprietary Business Fund	Life business equity holders' funds					
	£m	£m	£m	£m	£m	£m	£m	£m
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	834	834	236	1,070	1,323	2,393
Held within life assurance funds	-	1,609	-	1,609	-	1,609	-	1,609
Equity attributable to ordinary equity holders of Standard Life plc	-	1,609	834	2,443	236	2,679	1,323	4,002
Unallocated divisible surplus	655	-	-	655	-	655	-	655
Other sources of capital								
Subordinated liabilities	-	-	-	-	-	-	1,318	1,318
Internal subordinated liabilities	-	-	819	819	-	819	(819)	-
	-	-	819	819	-	819	499	1,318
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,514	(69)	-	3,445	-	3,445	-	3,445
Exclusion of deferred acquisition costs and other inadmissible assets	(39)	(584)	(109)	(732)	(24)	(756)	(546)	(1,302)
Exclusion of deferred income	51	182	-	233	-	233	-	233
Changes to the valuation of other assets and liabilities	46	(1,099)	(87)	(1,140)	(55)	(1,195)	258	(937)
	3,572	(1,570)	(196)	1,806	(79)	1,727	(288)	1,439
Total available capital resources to meet regulatory requirement	4,227	39	1,457	5,723	157	5,880	1,534	7,414
Analysed as follows:								
Capital not subject to constraints	-	-	1,437	1,437	63	1,500	1,369	2,869
Capital subject to constraints	4,227	39	20	4,286	94	4,380	165	4,545
Total available capital resources	4,227	39	1,457	5,723	157	5,880	1,534	7,414
Restricted assets within the long-term business fund								(1,109)
Regulatory capital resources								6,305
Regulatory capital resources requirement				3,484	94	3,578	73	3,651
Regulatory capital surplus								2,654
Analysis of contract liabilities								
Participating								
Insurance contracts	14,283	-	-	14,283	-	14,283	-	14,283
Investment contracts	14,716	-	-	14,716	-	14,716	-	14,716
Total participating contract liabilities	28,999	-	-	28,999	-	28,999	-	28,999
Unit linked								
Insurance contracts	-	6,094	-	6,094	359	6,453	-	6,453
Investment contracts	-	92,830	-	92,830	60	92,890	-	92,890
Total unit linked liabilities	-	98,924	-	98,924	419	99,343	-	99,343
Other non-participating								
Insurance contracts	9,563	5,164	-	14,727	23	14,750	3	14,753
Investment contracts	-	3	-	3	1	4	-	4
Total other non-participating liabilities	9,563	5,167	-	14,730	24	14,754	3	14,757
Total contract liabilities	38,562	104,091	-	142,653	443	143,096	3	143,099

¹ Capital resources amounting to £183m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £1,664m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

49. Capital statement *continued*

2014	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 Fund £m	Life business equity holders' funds £m					
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	884	884	1,418	2,302	931	3,233
Held within life assurance funds	-	1,439	-	1,439	-	1,439	-	1,439
Equity attributable to ordinary equity holders of Standard Life plc	-	1,439	884	2,323	1,418	3,741	931	4,672
Unallocated divisible surplus	688	-	-	688	-	688	-	688
Other sources of capital								
Subordinated liabilities	-	-	-	-	223	223	1,318	1,541
Internal subordinated liabilities	-	-	819	819	-	819	(819)	-
	-	-	819	819	223	1,042	499	1,541
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,593	(67)	-	3,526	-	3,526	-	3,526
Exclusion of deferred acquisition costs and other inadmissible assets	(47)	(572)	(287)	(906)	(271)	(1,177)	(475)	(1,652)
Exclusion of deferred income	60	211	-	271	1	272	-	272
Changes to the valuation of other assets and liabilities	206	(797)	(268)	(859)	84	(775)	269	(506)
	3,812	(1,225)	(555)	2,032	(186)	1,846	(206)	1,640
Total available capital resources to meet regulatory requirement	4,500	214	1,148	5,862	1,455	7,317	1,224	8,541
Analysed as follows:								
Capital not subject to constraints	-	-	1,132	1,132	538	1,670	1,039	2,709
Capital subject to constraints	4,500	214	16	4,730	917	5,647	185	5,832
Total available capital resources	4,500	214	1,148	5,862	1,455	7,317	1,224	8,541
Restricted assets within the long-term business fund								(1,172)
Regulatory capital resources								7,369
Regulatory capital resources requirement				3,637	747	4,384	73	4,457
Regulatory capital surplus								2,912
Analysis of contract liabilities²								
Participating								
Insurance contracts	15,397	-	-	15,397	702	16,099	-	16,099
Investment contracts	15,191	-	-	15,191	2	15,193	-	15,193
Total participating contract liabilities	30,588	-	-	30,588	704	31,292	-	31,292
Unit linked								
Insurance contracts	-	5,512	-	5,512	3,936	9,448	-	9,448
Investment contracts	-	88,151	-	88,151	13,794	101,945	-	101,945
Total unit linked liabilities	-	93,663	-	93,663	17,730	111,393	-	111,393
Other non-participating								
Insurance contracts	10,760	5,877	-	16,637	5,178	21,815	3	21,818
Investment contracts	-	295	-	295	1,819	2,114	-	2,114
Total other non-participating liabilities	10,760	6,172	-	16,932	6,997	23,929	3	23,932
Total contract liabilities	41,348	99,835	-	141,183	25,431	166,614	3	166,617

¹ Capital resources amounting to £183m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £1,553m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

² Contract liabilities include the contract liabilities of the Canadian business classified as held for sale. Refer to Note 26.

Movements in capital

The movements in the total capital resources shown in the capital statement are set out below.

2015	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 Fund £m	Life business equity holders funds £m					
At 1 January	4,500	214	1,148	5,862	1,455	7,317	1,224	8,541
Methodology/modelling changes	300	12	-	312	-	312	-	312
Change in assumptions used to measure life assurance contract liabilities and experience differences	294	56	-	350	-	350	-	350
New business	(10)	(187)	-	(197)	-	(197)	-	(197)
Investment surplus	(67)	56	(5)	(16)	-	(16)	-	(16)
Equity holder/inter-fund transfers	(417)	(132)	581	32	3	35	(35)	-
Dividend transfers	-	-	(190)	(190)	-	(190)	(153)	(343)
Sale of Canadian business including return of value	-	-	-	-	(1,327)	(1,327)	460	(867)
Other factors	(373)	20	(77)	(430)	26	(404)	38	(366)
At 31 December	4,227	39	1,457	5,723	157	5,880	1,534	7,414

Equity holder/inter-fund transfers of £417m (2014: £37m) includes the transfer from the HWPF to the PBF and support provided to the German With Profits Fund.

2014	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 Fund £m	Life business equity holders funds £m					
At 1 January	4,815	204	1,763	6,782	1,538	8,320	1,299	9,619
Methodology/modelling changes	351	(2)	-	349	15	364	-	364
Change in assumptions used to measure life assurance contract liabilities and experience differences	26	55	-	81	10	91	-	91
New business	(11)	(157)	-	(168)	(8)	(176)	-	(176)
Investment surplus	(225)	53	47	(125)	126	1	-	1
Equity holder/inter-fund transfers	(37)	22	40	25	14	39	(39)	-
Dividend transfers	-	-	(296)	(296)	(191)	(487)	101	(386)
Redemption of subordinated liabilities	-	-	(294)	(294)	-	(294)	-	(294)
Other factors	(419)	39	(112)	(492)	(49)	(541)	(137)	(678)
At 31 December	4,500	214	1,148	5,862	1,455	7,317	1,224	8,541

In November 2014, the Company notified the PRA of its intention to call the Euro denominated 5.314% fixed/floating rate Mutual Assurance Capital Securities (MACS) prior to 31 December 2014. At this time these MACS became excluded from regulatory capital resources. The MACS were redeemed in full on 6 January 2015.

UK regulated life business

SLAL's regulatory solvency position is determined using the PRA'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 2015, SLAL had available capital resources of £5,723m (2014: £5,862m) and a CRR of £3,484m (2014: £3,637m). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis. However, the CRR reflects the higher value required as a result of the application of the realistic peak.

Capital subject to constraints for the UK regulated life business of £4,286m at 31 December 2015 (2014: £4,730m) represents capital resources held within long-term business funds, or in relation to other regulated entities, the amount of the CRR.

49. Capital statement *continued*

Overseas life operations

Capital resources of £157m (2014: £1,455m) relate mainly to operations in Asia. At 31 December 2014 these also included operations in Canada classified as held for sale. The overseas life capital subject to constraints amounted to £94m at 31 December 2015 (2014: £917m).

Other activities

At 31 December 2015, capital resources of £1,534m (2014: £1,224m) and capital subject to constraints of £165m (2014: £185m) 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, Hong Kong, India and China. 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. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

Group capital requirement

The Group must also calculate a group 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 £4,266m (2014: £4,714m) is restricted to the level of the CRR of those funds of £3,484m (2014: £3,637m). 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 2015 is a surplus of £2,654m (2014: £2,912m).

The decrease in the estimated regulatory capital position is due to a £0.2bn net reduction resulting from the sale of the Canadian business comprising of:

- The removal of its contribution to Group surplus of £0.6bn at 31 December 2014
- The return of value to shareholders of £1.75bn during the year
- Partially offset by the disposal proceeds of £2.2bn received in January 2015

In respect of Group 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 3 and Note 33.

The sensitivity of contract liabilities to changes in market conditions, key assumptions and other variables, and assumptions about management actions in response to changes in market conditions, are disclosed in Note 41.

50. Related undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings are subsidiaries, joint ventures, associates and other significant holdings. In this context significant means either a shareholding greater than or equal to 20% of the nominal value of any class of shares, or a book value greater than 20% of the Group's assets.

The particulars of the Company's related undertakings at 31 December 2015 are listed below.

The ability of subsidiaries to transfer cash or other assets within the Group for example through payment of cash dividends are restricted only by local laws and regulations, and solvency requirements. These are not considered significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

The Group also has investments in Qualifying Limited Partnerships which are consolidated in these financial statements. For the Qualifying Limited Partnerships, North American Strategic Partners (Feeder) 2006 Limited Partnership and North American Strategic Partners (Feeder) 2008 Limited Partnership an exemption from filing annual accounts with Companies House has been taken in accordance with the Partnership Accounting Regulations (2008).

(a) Subsidiaries

Name of related undertaking	Country of incorporation or residence	Share class ¹	% interest held
15 Ramirez de Arellano SA	Spain	Ordinary Shares	100%
1825 Financial Planning Limited	United Kingdom	Ordinary Shares	100%
28 Ribera del Loira SA	Spain	Ordinary Shares	100%
30 STMA 1 Limited	United Kingdom	Ordinary Shares	100%
30 STMA 2 Limited	United Kingdom	Ordinary Shares	100%
30 STMA 3 Limited	United Kingdom	Ordinary Shares	100%
30 STMA 4 Limited	United Kingdom	Ordinary Shares	100%
30 STMA 5 Limited	United Kingdom	Ordinary Shares	100%
330 Avenida de Aragon SL	Spain	Ordinary Shares	100%
4th Contact Limited	United Kingdom	Ordinary Shares	100%
Andaes Sarl	Luxembourg	Ordinary Shares	60%
Aurora Kaasunjakelu Oy	Finland	Ordinary Shares	45%
Bardol Inversiones SL	Spain	Ordinary Shares	60%
Bechtel Properties Limited	United Kingdom	Ordinary Shares	100%
Castlepoint General Partner Limited	United Kingdom	Ordinary Shares	100%
Castlepoint LP	United Kingdom	Ordinary Shares	50%
Castlepoint Nominee Limited	United Kingdom	Ordinary Shares	100%
City Road (Jersey) Limited	Jersey	Ordinary Shares	100%
Crawley Unit Trust	Jersey	Unit Trust	100%
Edmundsbury Nominee (No.1) Limited	United Kingdom	Ordinary Shares	100%
Edmundsbury Nominee (No.2) Limited	United Kingdom	Ordinary Shares	100%
ESP General Partner Limited Partnership	United Kingdom	Limited Partnership	50%
ESP II General Partner Limited Partnership	United Kingdom	Limited Partnership	46%
European Strategic Partners	United Kingdom	Limited Partnership	73%
European Strategic Partners II 'C'	United Kingdom	Limited Partnership	69%
Extra Verde Property BV	Netherlands	Ordinary Shares	60%
Ezraya Sp zoo	Poland	Ordinary Shares	60%
Falcon II Pavlova s.r.o.	Czech Republic	Ordinary Shares	60%
Focus Business Solutions Limited	United Kingdom	Ordinary Shares	100%
Focus Holdings Limited	United Kingdom	Ordinary Shares	100%
Focus Software Limited	United Kingdom	Ordinary Shares	100%
Focus Solutions EBT Trustee Limited	United Kingdom	Ordinary Shares	100%
Focus Solutions Group Limited	United Kingdom	Ordinary Shares	100%
G Park Management Company Limited	United Kingdom	Preference Shares	100%
Gallions Reach Shopping Park (Nominee) Limited	United Kingdom	Ordinary Shares	100%

50. Related undertakings *continued*

(a) Subsidiaries *continued*

Name of related undertaking	Country of incorporation or residence	Share class¹	% Interest held
Gallions Reach Shopping Park Limited Partnership	United Kingdom	Limited Partnership	100%
Gallions Reach Shopping Park Unit Trust	Jersey	Unit Trust	100%
Genesis Business Park (Freehold) Nominee 3 Limited	United Kingdom	Ordinary Shares	100%
Genesis Business Park (Leasehold) Nominee 1 Limited	United Kingdom	Ordinary Shares	100%
Genesis Business Park (Leasehold) Nominee 2 Limited	United Kingdom	Ordinary Shares	100%
GRAF Almeda Park SL	Spain	Ordinary Shares	60%
GRAF Jersey Esplanade Limited	Jersey	Ordinary Shares	60%
GRAF Jersey Holding Limited	Jersey	Ordinary Shares	60%
GRAF Jersey Ireland Holding Limited	Jersey	Ordinary Shares	60%
GRAF Jersey Ireland Property Limited	Jersey	Ordinary Shares	60%
Gresham Developments Limited	Anguilla	Ordinary Shares	100%
High Street Nominee No. 1 Limited	Jersey	Ordinary Shares	100%
High Street Nominee No. 2 Limited	Jersey	Ordinary Shares	100%
Hundred Sarl	Luxembourg	Ordinary Shares	100%
Ibis (748) Limited	United Kingdom	Ordinary Shares	100%
Ibis (749) Limited	United Kingdom	Ordinary Shares	100%
Iceni Nominees (No.2) Limited	United Kingdom	Ordinary Shares	100%
Iceni Nominees (No.2A) Limited	United Kingdom	Ordinary Shares	100%
Ignis Asset Management Limited	United Kingdom	Ordinary Shares	100%
Ignis Carry Partner Limited	Cayman Islands	Ordinary Shares	100%
Ignis Cayman GP2 Limited	Cayman Islands	Ordinary Shares	60%
IGNIS Cayman GP3 Limited	Cayman Islands	Ordinary Shares	60%
Ignis Fund Managers Limited	United Kingdom	Ordinary Shares	100%
Ignis Investment Management Limited	United Kingdom	Ordinary Shares	100%
Ignis Investment Services Limited	United Kingdom	Ordinary Shares	100%
Ignis Nominees Limited	United Kingdom	Ordinary Shares	100%
Inesia SA	Luxembourg	Ordinary Shares	100%
Inhoco 3107 Limited	United Kingdom	Ordinary Shares	100%
Invest Park 3 Sp. Z.o.o.	Poland	Ordinary Shares	42%
Lake Meadows Management Company Limited	United Kingdom	Ordinary Shares	100%
Lincoln St Marks (One) Limited	United Kingdom	Ordinary Shares	100%
Lincoln St Marks (Two) Limited	United Kingdom	Ordinary Shares	100%
Lothian Development II (Nederland) BV	Netherlands	Ordinary Shares	100%
Lothian Development II SA	Belgium	Ordinary Shares	100%
Lothian Development III (Nederland) BV	Netherlands	Ordinary Shares	100%
Lothian Development III SA	Belgium	Ordinary Shares	100%
Lothian Development V (Nederland) BV	Netherlands	Ordinary Shares	100%
Maidenhead Office Park Management Company Limited	United Kingdom	Ordinary Shares	100%
Martinford Portfolio Inc	Bahamas	Ordinary Shares	100%
Mastscreen Limited	United Kingdom	Ordinary Shares	100%
NASP 2006 General Partner Limited Partnership	United Kingdom	Limited Partnership	62%
Nordic Hydro AS	Norway	Ordinary Shares	45%
Nordic Hydro Holding AS	Norway	Ordinary Shares	45%
Nordic Power AS	Norway	Ordinary Shares	45%

Name of related undertaking	Country of incorporation or residence	Share class¹	% interest held
Nordic Power Torsnes AS	Norway	Ordinary Shares	45%
Nordown Developments Limited	United Kingdom	Ordinary Shares	100%
North American Strategic Partners (Feeder) 2006	United Kingdom	Limited Partnership	70%
North American Strategic Partners (Feeder) 2008 Limited Partnership	United Kingdom	Limited Partnership	100%
North American Strategic Partners GP, LP	United Kingdom	Limited Partnership	80%
North American Strategic Partners, LP	United States	Limited Partnership	40%
North East Trustees Limited	United Kingdom	Ordinary A Shares Ordinary B Shares	100%
OVG Projecten LXXIII BV	Netherlands	Ordinary Shares	60%
Pace Financial Solutions Limited	United Kingdom	Ordinary A Shares Ordinary B Shares Ordinary C Shares	100%
Pace Mortgage Solutions Limited	United Kingdom	Ordinary A Shares Ordinary B Shares	100%
Panker Invest Sarl	Luxembourg	Ordinary Shares	60%
Parnell Fisher Child & Co. Limited	United Kingdom	Ordinary Shares	100%
Parnell Fisher Child Holdings Limited	United Kingdom	Ordinary A Shares Ordinary B Shares	100%
Pearson Jones & Company (Trustees) Limited	United Kingdom	Ordinary Shares	100%
Pearson Jones Nominees Limited	United Kingdom	Ordinary Shares	100%
Pearson Jones plc	United Kingdom	Ordinary A Shares Ordinary B Shares	100%
Pitcroft Properties Limited	United Kingdom	Ordinary Shares	100%
PLC Poland 20 Sp zoo	Poland	Ordinary Shares	60%
PLC Poland 25 Sp zoo	Poland	Ordinary Shares	60%
PLC Poland 34 Sp zoo	Poland	Ordinary Shares	60%
Property Corporate Director 1 Limited	United Kingdom	Ordinary Shares	100%
Property Corporate Director 2 Limited	United Kingdom	Ordinary Shares	100%
Ravensbourne Retail Park Limited	United Kingdom	Ordinary Shares	100%
Retail Park Hana a.s.	Czech Republic	Ordinary Shares	60%
Retail Park Ostrava a.s.	Czech Republic	Ordinary Shares	60%
Scottish Mutual International Fund Managers Limited	Ireland	Ordinary Shares	100%
Scottish Mutual Investment Managers Limited	United Kingdom	Ordinary Shares	100%
Scottish Mutual PEP and ISA Managers Limited	United Kingdom	Ordinary Shares	100%
Seabury Assets Fund plc:			
No.1 Fund	Ireland	OEIC	100%
The Euro VNAV Liquidity Fund	Ireland	OEIC	67%
The Sterling VNAV Liquidity Fund	Ireland	OEIC	94%
Select Brazil Nominee Limited	United Kingdom	Ordinary Shares	60%
Select Japan (GK Holdings UK) Limited	United Kingdom	Ordinary Shares	60%
Select Japan (TK Holdings UK) Limited	United Kingdom	Ordinary Shares	60%
Select Japan GK	Japan	Limited by members	60%
Select Malta Holdings Limited	Malta	Ordinary Shares	60%
Select Property Holdings (Mauritius) Limited	Mauritius	Ordinary Shares	60%
SL (NEWCO) Limited	United Kingdom	Ordinary Shares	100%
SL Capital Infrastructure I LP	United Kingdom	Limited Partnership	45%
SL Capital Partners (US) Limited	United Kingdom	Ordinary Shares	100%
SL Capital Partners LLP	United Kingdom	Limited Liability Partnership	60%
SLA Belgium No. 1. SA	Luxembourg	Ordinary Shares	100%
SLA Germany No. 1 S.a.r.l	Luxembourg	Ordinary Shares	100%

50. Related undertakings *continued*

(a) Subsidiaries *continued*

Name of related undertaking	Country of incorporation or residence	Share class ¹	% interest held
SLA Germany No 2 S.a.r.l	Luxembourg	Ordinary Shares	100%
SLA Germany No 3 S.a.r.l	Luxembourg	Ordinary Shares	100%
SLA Ireland No.1 Sarl	Luxembourg	Ordinary Shares	100%
SLA Netherlands No.1 B.V.	Netherlands	Ordinary Shares	100%
SLACOM (No.10) Limited	United Kingdom	Ordinary Shares	100%
SLACOM (No.8) Limited	United Kingdom	Ordinary Shares	100%
SLACOM (No.9) Limited	United Kingdom	Ordinary Shares	100%
SLCP (General Partner CPP) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner EC) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Edcastle) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESF I) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESF II) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESP 2004) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESP 2006) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESP 2008 Coinvestment) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESP 2008) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner ESP CAL) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Europe VI) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner II) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Infrastructure I) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Infrastructure Secondary I) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner NASF I) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner NASP 2006) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner NASP 2008) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Pearl Private Equity) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Pearl Strategic Credit) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner SOF I) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner SOF II) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner Tidal Reach) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner USA) Limited	United Kingdom	Ordinary Shares	60%
SLCP (General Partner) Limited	United Kingdom	Ordinary Shares	60%
SLCP (Holdings) Limited	United Kingdom	Ordinary Shares	60%
SLI European Real Estate Club II LP	United Kingdom	Limited Partnership	100%
SLI European Real Estate Club LP	United Kingdom	Limited Partnership	100%
SLI Multi Asset Class Fund LP	Cayman Islands	Limited Partnership	100%
SLIF Property Investment GP Limited	United Kingdom	Ordinary Shares	100%
SLTM Limited	United Kingdom	Ordinary Shares	100%
Standard Life (Asia Pacific Holdings) Private Limited	Singapore	Ordinary Shares	100%
Standard Life (Asia) Limited	Hong Kong	Ordinary Shares	100%
Standard Life (China Holdings) Limited	Mauritius	Ordinary Shares	100%
Standard Life (London) Limited	United Kingdom	Ordinary Shares	100%
Standard Life (Mauritius Holdings) 2006 Limited	Mauritius	Ordinary Shares	100%
Standard Life Active Plus Bond Trust	United Kingdom	Unit Trust	100%
Standard Life Agency Services Limited	United Kingdom	Ordinary Shares	100%
Standard Life Anniversary Appeal	United Kingdom	N/A	50%

Name of related undertaking	Country of incorporation or residence	Share class¹	% interest held
Standard Life Assurance (HWPF) Luxembourg S.a r.l.	Luxembourg	Ordinary Shares	100%
Standard Life Assurance Limited	United Kingdom	Ordinary Shares Ordinary B shares	100%
Standard Life Charitable Trust	United Kingdom	N/A	100%
Standard Life Charity Fund	United Kingdom	N/A	100%
Standard Life Client Management Limited	United Kingdom	Ordinary Shares	100%
Standard Life Employee Services Limited	United Kingdom	Ordinary Shares	100%
Standard Life European Private Equity Trust plc	United Kingdom	Ordinary Shares	55%
Standard Life European Trust	United Kingdom	Unit Trust	98%
Standard Life European Trust II	United Kingdom	Unit Trust	100%
Standard Life Finance Limited	United Kingdom	Ordinary Shares	100%
Standard Life Global Equity Trust II	United Kingdom	Unit Trust	100%
Standard Life International Limited	Ireland	Ordinary Shares	100%
Standard Life International Trust	United Kingdom	Unit Trust	100%
Standard Life Investment (Corporate Funds) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investment Company:			
Investment Grade Corporate Bond Fund	United Kingdom	OEIC	54%
UK Equity High Alpha Fund	United Kingdom	OEIC	38%
European Equity Income Fund	United Kingdom	OEIC	49%
Short Duration Credit Fund	United Kingdom	OEIC	75%
Global Emerging Markets Equity Income Fund	United Kingdom	OEIC	94%
UK Equity High Income Fund	United Kingdom	OEIC	45%
UK Opportunities Fund	United Kingdom	OEIC	69%
Emerging Market Debt Fund	United Kingdom	OEIC	87%
American Equity Unconstrained Fund	United Kingdom	OEIC	47%
European Equity Growth Fund	United Kingdom	OEIC	42%
Global Equity Unconstrained Fund	United Kingdom	OEIC	36%
Japanese Equity Growth Fund	United Kingdom	OEIC	92%
UK Equity Growth Fund	United Kingdom	OEIC	45%
UK Equity Recovery Fund	United Kingdom	OEIC	44%
Global Emerging Markets Equity Fund	United Kingdom	OEIC	92%
Standard Life Investment Company II:			
Standard Life Investments Corporate Debt Fund	United Kingdom	OEIC	100%
Standard Life Investments Ethical Corporate Bond Fund	United Kingdom	OEIC	54%
Standard Life Investments Global REIT Fund	United Kingdom	OEIC	47%
Standard Life Investments Short Duration Global Index Linked Bond Fund	United Kingdom	OEIC	50%
Standard Life Investments European Ethical Equity Fund	United Kingdom	OEIC	95%
Standard Life Investment Company III:			
Enhanced-Diversification Growth Fund	United Kingdom	OEIC	95%
MyFolio Market I Fund	United Kingdom	OEIC	46%
MyFolio Market II Fund	United Kingdom	OEIC	53%
MyFolio Market III Fund	United Kingdom	OEIC	63%
MyFolio Market IV Fund	United Kingdom	OEIC	63%
MyFolio Market V Fund	United Kingdom	OEIC	70%
MyFolio Multi-Manager I Fund	United Kingdom	OEIC	52%
MyFolio Multi-Manager II Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager III Fund	United Kingdom	OEIC	60%

50. Related undertakings *continued*

(a) Subsidiaries *continued*

Name of related undertaking	Country of incorporation or residence	Share class ¹	% interest held
MyFolio Multi-Manager IV Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager V Fund	United Kingdom	OEIC	55%
MyFolio Managed I Fund	United Kingdom	OEIC	72%
MyFolio Managed II Fund	United Kingdom	OEIC	68%
MyFolio Managed III Fund	United Kingdom	OEIC	75%
MyFolio Managed IV Fund	United Kingdom	OEIC	57%
MyFolio Managed V Fund	United Kingdom	OEIC	66%
MyFolio Multi-Manager Income I Fund	United Kingdom	OEIC	48%
MyFolio Multi-Manager Income II Fund	United Kingdom	OEIC	42%
MyFolio Multi-Manager Income III Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager Income IV Fund	United Kingdom	OEIC	41%
MyFolio Multi-Manager Income V Fund	United Kingdom	OEIC	54%
MyFolio Managed Income I Fund	United Kingdom	OEIC	52%
MyFolio Managed Income II Fund	United Kingdom	OEIC	52%
MyFolio Managed Income III Fund	United Kingdom	OEIC	52%
MyFolio Managed Income IV Fund	United Kingdom	OEIC	51%
MyFolio Managed Income V Fund	United Kingdom	OEIC	58%
Standard Life Investment Company IV:			
Standard Life Investments UK Property Fund	United Kingdom	OEIC	85%
Standard Life Investment Funds Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments - India Advantage Fund	Mauritius	Ordinary Shares	100%
Standard Life Investments (France) Limited	France	Ordinary Shares	100%
Standard Life Investments (General Partner CRED) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner EPGF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club II) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner GARS) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner MAC) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner PDFI) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (General Partner UK Shopping Centre Feeder Fund LP) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Holdings) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Hong Kong) Limited	Hong Kong	Ordinary Shares	100%
Standard Life Investments (Japan) Limited	Japan	Ordinary Shares	100%
Standard Life Investments (Jersey) Limited	Jersey	Ordinary Shares	100%
Standard Life Investments (Mutual Funds) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (PDF. No 1) Limited	Jersey	Ordinary Shares	50%
Standard Life Investments (Private Equity) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Schweiz) AG	Switzerland	Ordinary Shares	100%
Standard Life Investments (Trustee No 1 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 10 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 11 UK PDF) Limited	United Kingdom	Ordinary Shares	100%

Name of related undertaking	Country of incorporation or residence	Share class¹	% interest held
Standard Life Investments (Trustee No 12 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 2 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 3 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 4 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 5 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 6 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 7 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 8 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (Trustee No 9 UK PDF) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments (USA) Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments Brent Cross General Partner Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments Brent Cross LP	United Kingdom	Limited Partnership	100%
Standard Life Investments Dynamic Distribution Fund	United Kingdom	Unit Trust	49%
Standard Life Investments European Real Estate Club (Offshore Feeder) Limited	Cayman Islands	Ordinary Shares	100%
Standard Life Investments European Real Estate Club II (Offshore Feeder) Limited	Cayman Islands	Ordinary Shares	100%
Standard Life Investments Global Absolute Return Strategies Fund	United Kingdom	Unit Trust	71%
Standard Life Investments Global Real Estate Fund	United Kingdom	Unit Trust	60%
Standard Life Investments Global SICAV:			
Asian Equities	Luxembourg	SICAV	51%
China Equities	Luxembourg	SICAV	63%
European Equities	Luxembourg	SICAV	69%
Global Bond	Luxembourg	SICAV	88%
Global Equities	Luxembourg	SICAV	91%
Global Inflation-linked Bond	Luxembourg	SICAV	61%
Japanese Equities	Luxembourg	SICAV	95%
Global High Yield Bond	Luxembourg	SICAV	77%
Euro Govt All Stocks	Luxembourg	SICAV	100%
Global REIT Focus	Luxembourg	SICAV	81%
India Equities	Luxembourg	SICAV	99%
European Smaller Companies	Luxembourg	SICAV	50%
European Equity Unconstrained	Luxembourg	SICAV	90%
Absolute Return Global Bond Strategies	Luxembourg	SICAV	87%
Global Emerging Markets Equity Unconstrained	Luxembourg	SICAV	81%
Global Corporate Bond	Luxembourg	SICAV	86%
Global Emerging Markets Local Currency Debt	Luxembourg	SICAV	97%
Global Focused Strategies	Luxembourg	SICAV	56%
Emerging Market Corporate Bond	Luxembourg	SICAV	87%
Continental European Equity Income	Luxembourg	SICAV	55%
Total Return Credit	Luxembourg	SICAV	100%
Enhanced Diversification GEM Equities Fund	Luxembourg	SICAV	99%
Standard Life Investments GS (Mauritius Holdings) Limited	Mauritius	Ordinary Shares	99%
Liability Solutions ICAV:			
Standard Life Investments Liability Aware Absolute Return III Fund	Ireland	ICAV	100%
Standard Life Investments Liability Aware Absolute Return III Nominal Profile Fund	Ireland	ICAV	100%
Standard Life Investments Liability Aware Absolute Return III Real Profile Fund	Ireland	ICAV	100%

50. Related undertakings *continued*

(a) Subsidiaries *continued*

Name of related undertaking	Country of incorporation or residence	Share class ¹	% Interest held
Standard Life Investments Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investments Multi Asset Class Company	Cayman Islands	Ordinary Shares	100%
Standard Life Investments Securities LLC	United States	Ordinary Shares	100%
Standard Life Investments Strategic Bond Fund	United Kingdom	Unit Trust	63%
Standard Life Investments UK PDF Investment Limited Partnership	United Kingdom	Limited Partnership	100%
Standard Life Investments UK Property Development Fund L.P.	United Kingdom	Limited Partnership	39%
Standard Life Investments UK Property Feeder Trust:			
Standard Life Investments UK Property Accumulation Feeder Fund	United Kingdom	Unit Trust	68%
Standard Life Investments UK Retail Park Trust	Jersey	Unit Trust	54%
Standard Life Investments UK Shopping Centre Feeder Fund Company Limited	Jersey	Ordinary Shares	100%
Standard Life Investments UK Shopping Centre Trust	Jersey	Unit Trust	48%
Standard Life Japan Trust	United Kingdom	Unit Trust	85%
Standard Life Lifetime Mortgages Limited	United Kingdom	Ordinary Shares	100%
Standard Life Master Trust Co. Ltd	United Kingdom	Ordinary Shares	100%
Standard Life Multi-Asset Trust	United Kingdom	Unit Trust	100%
Standard Life North American Trust	United Kingdom	Unit Trust	100%
Standard Life Oversea Holdings Limited	United Kingdom	Ordinary Shares	100%
Standard Life Pacific Basin Trust	United Kingdom	Unit Trust	98%
Standard Life Pan European Trust	United Kingdom	Unit Trust	100%
Standard Life Pension Funds Limited	United Kingdom	N/A	100%
Standard Life Portfolio Investments Limited	United Kingdom	Ordinary Shares	100%
Standard Life Premises Services Limited	United Kingdom	Ordinary Shares	100%
Standard Life Property Company Limited	United Kingdom	Ordinary Shares	100%
Standard Life Savings Limited	United Kingdom	Ordinary Shares	100%
Standard Life Savings Nominees Limited	United Kingdom	Ordinary Shares	100%
Standard Life Short Dated UK Government Bond Trust	United Kingdom	Unit Trust	100%
Standard Life Trustee Company Limited	United Kingdom	Ordinary Shares	100%
Standard Life UK Corporate Bond Trust	United Kingdom	Unit Trust	100%
Standard Life UK Equity General Trust	United Kingdom	Unit Trust	100%
Standard Life UK Government Bond Trust	United Kingdom	Unit Trust	100%
Standard Life Wealth (CI) Limited	Jersey	Ordinary Shares	100%
Standard Life Wealth International Limited	Jersey	Ordinary Shares	100%
Standard Life Wealth Limited	United Kingdom	Ordinary Shares	100%
Suomi Gas Distribution Holdings Oy	Finland	Ordinary Shares	45%
Suomi Gas Distribution Oy	Finland	Ordinary Shares	45%
Tarascon United SA	Bahamas	Ordinary Shares	100%
Telles Holding Sarl	Luxembourg	Ordinary Shares	60%
The Coaching Platform Limited	United Kingdom	Ordinary Shares	100%
The Heritable Securities and Mortgage Investment Association Limited	United Kingdom	Ordinary Shares	100%
The Standard Life Assurance Company 2006	United Kingdom	N/A	100%
The Standard Life Assurance Company of Europe (Nederland) BV	Netherlands	Ordinary Shares	100%
Threesixty Partnerships Limited	United Kingdom	Ordinary Shares	100%
Threesixty Services LLP	United Kingdom	Limited Liability Partnership	100%
Threesixty Support LLP	United Kingdom	Limited Liability Partnership	100%

Name of related undertaking	Country of incorporation or residence	Share class¹	% interest held
Touchstone Insurance Company Limited	Guernsey	Ordinary Shares	100%
Unclaimed Asset Trust	United Kingdom	N/A	100%
Vebnet (Holdings) Limited	United Kingdom	Ordinary Shares	100%
Vebnet (Trustee) Limited	United Kingdom	Ordinary Shares	100%
Vebnet Limited	United Kingdom	Ordinary Shares	100%
Welbrent Property Investment Company Limited	United Kingdom	Ordinary Shares	100%
Whiteleys of Bayswater Limited	United Kingdom	Ordinary Shares	100%

¹ OEIC = Open-ended investment company
SICAV = Société d'investissement à capital variable
ICAV = Irish collective asset-management vehicle

All subsidiaries in the table above are consolidated in the Group financial statements. Refer to Basis of consolidation for details of the consolidation assessment.

(b) Associates

Name of related undertaking	Country of incorporation or residence	Share class¹	% interest held
Argonaut Capital Partners LLP	United Kingdom	Limited Partnership	40%
Central Insurance Repository Limited	India	Equity Shares	1%
ESP CPPIB European Mid Market Fund	United Kingdom	Limited Partnership	0.5%
ESP Golden Bear Europe Fund	United Kingdom	Limited Partnership	3%
ESP II Conduit LP	United Kingdom	Limited Partnership	32%
ESP Tidal Reach LP	United Kingdom	Limited Partnership	1%
European Strategic Partners 2006 'B'	United Kingdom	Limited Partnership	10%
European Strategic Partners 2008 'B'	United Kingdom	Limited Partnership	4%
HDFC Asset Management Company Limited	India	Ordinary Shares	40%
HDFC Pension Management Company Limited	India	Equity Shares	26%
HDFC Standard Life Insurance Company Limited	India	Equity Shares	26%
PGPL2 Sp zoo	Poland	Ordinary Shares	15%
PGPL7 Sp zoo	Poland	Ordinary Shares	30%
PLC Poland 1 Sp zoo	Poland	Ordinary Shares	30%
PLC Poland 30 Sp zoo	Poland	Ordinary Shares	30%
SL Capital ESF I LP	United Kingdom	Limited Partnership	1%
SL Capital NASF I A LP	United Kingdom	Limited Partnership	2%
SL Capital NASF I LP	United Kingdom	Limited Partnership	17%
SL Capital SOF I Feeder LP	United Kingdom	Limited Partnership	0.4%
SL Capital SOF II Feeder LP	United Kingdom	Limited Partnership	0.5%
Standard Life Equity Income Trust PLC	United Kingdom	Ordinary Shares	1%
Standard Life Investment Company:			
AAA Income Fund	United Kingdom	OEIC	5%
Global Equity Income Fund	United Kingdom	OEIC	13%
Higher Income Fund	United Kingdom	OEIC	34%
UK Gilt Fund	United Kingdom	OEIC	27%
Asian Pacific Growth Fund	United Kingdom	OEIC	29%
Global Smaller Companies Fund	United Kingdom	OEIC	9%
Corporate Bond Fund	United Kingdom	OEIC	35%
Europe ex-UK Smaller Companies Fund	United Kingdom	OEIC	13%
UK Ethical Fund	United Kingdom	OEIC	13%
UK Smaller Companies Fund	United Kingdom	OEIC	33%
Global Emerging Markets Equity Unconstrained Fund	United Kingdom	OEIC	<0.01%

50. Related undertakings *continued*

(b) Associates *continued*

Name of related undertaking	Country of incorporation or residence	Share class ¹	% interest held
Standard Life Investment Company II:			
Standard Life Investments Global Index Linked Bond Fund	United Kingdom	OEIC	12%
Standard Life Investments UK Equity Income Unconstrained Fund	United Kingdom	OEIC	30%
Standard Life Investments UK Equity Unconstrained Fund	United Kingdom	OEIC	26%
Standard Life Investments Emerging Markets Debt Unconstrained Fund	United Kingdom	OEIC	21%
Standard Life Investments Emerging Market Debt Unconstrained Fund	United Kingdom	OEIC	<0.01%
Standard Life Investments European Property Growth Fund L.P.	United Kingdom	Limited Partnership	7%
Standard Life Investments Global Selector Fund	United Kingdom	OEIC	<0.01%
Standard Life Investments Global SICAV:			
European Corporate Bond	Luxembourg	SICAV	30%
European High Yield Bond	Luxembourg	SICAV	31%
European Corp Bond SRI Fund	Luxembourg	SICAV	30%
Global Absolute Return Strategies	Luxembourg	SICAV	23%
Emerging Market Debt	Luxembourg	SICAV	31%
Global Equities Unconstrained	Luxembourg	SICAV	17%
American Equity Unconstrained	Luxembourg	SICAV	0.01%
Global Emerging Markets Equity Fund	Luxembourg	SICAV	0.03%
Japanese Equity High Alpha Fund	Luxembourg	SICAV	0.13%
European Corporate Bond Sustainable and Responsible Investment Fund	Luxembourg	SICAV	<0.01%
Standard Life Investments ICVC plc:			
Global Real Estate Feeder Fund	Ireland	OEIC	0.05%
Standard Life Investments Ignis Real Estate Funds ICVC:			
Standard Life Investments Ignis UK Property Fund	United Kingdom	OEIC	6%
Standard Life Investments Ignis Real Estate Trust:			
Standard Life Investments Ignis UK Property Feeder Fund	United Kingdom	Unit Trust	4%
Standard Life Investments Liquidity Fund plc:			
Sterling Liquidity Fund	Ireland	OEIC	0.08%
Standard Life Investment Property Income Trust Limited	Guernsey	Ordinary Shares	9%
Standard Life Investments UK Property Income Feeder Fund	United Kingdom	Unit Trust	8%
Standard Life Investments UK Shopping Centre Feeder Fund Limited Partnership	United Kingdom	Limited Partnership	<0.01%
Standard Life Strategic Investment Allocation Fund	United Kingdom	Unit Trust	<0.01%
Standard Life UK Smaller Companies Trust plc	United Kingdom	Ordinary Shares	6%
Tenet Group Limited	United Kingdom	Ordinary B Shares	25%

¹ OEIC = Open-ended investment company
SICAV = Société d'investissement à capital variable
ICAV = Irish collective asset-management vehicle

(c) Joint ventures

Name of related undertaking	Country of incorporation or residence	Share class	% interest held
Heng An Standard Life Insurance Company Limited	China	Equity Shares	50%

(d) Significant holdings

The Group has no significant holdings in entities other than subsidiaries, associates and joint ventures.

9. Independent auditors' report to the members of Standard Life plc

Report on the Company financial statements

Our opinion

In our opinion, Standard Life plc's company financial statements (the 'financial statements'):

- ▶ Give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended
- ▶ Have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union
- ▶ Have been prepared in accordance with the requirements of the Companies Act 2006

What we have audited

The financial statements, included within the Annual report and accounts, comprise:

- ▶ The Company statement of financial position as at 31 December 2015
- ▶ The Company statement of comprehensive income for the year then ended
- ▶ The Company statement of cash flows for the year then ended
- ▶ The Company statement of changes in equity for the year then ended
- ▶ The accounting policies
- ▶ The Notes to the financial statements, which include other explanatory information

Certain required disclosures have been presented elsewhere in the Annual report and accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual report and accounts is:

- ▶ Materially inconsistent with the information in the audited financial statements
- ▶ Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit
- ▶ Otherwise misleading

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ We have not received all the information and explanations we require for our audit
- ▶ 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
- ▶ The financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibility statement set out on page 99, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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
- ▶ The overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Standard Life plc for the year ended 31 December 2015.



Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

19 February 2016

- (a) The maintenance and integrity of the Standard Life plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

10. Company financial statements

Company statement of comprehensive income

For the year ended 31 December 2015

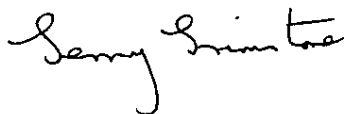
	Notes	2015 £m	2014 £m
Revenue			
Investment return	A	1,312	697
Other income		-	1
Total revenue		1,312	698
Expenses			
Administrative expenses	B	157	65
Finance costs		82	97
Total expenses		239	162
Profit before tax		1,073	536
Tax credit	F	17	17
Profit for the year		1,090	553
Other comprehensive income that may be reclassified subsequently to profit or loss			
Fair value (losses)/gains on available-for-sale financial assets	R	(7)	28
Loss on sale of available-for-sale financial assets recycled to profit and loss		(2)	-
Tax effect relating to items that may be reclassified subsequently to profit or loss	F	2	(6)
Total other comprehensive (loss)/income for the year that may be reclassified subsequently to profit or loss		(7)	22
Total comprehensive income for the year		1,083	575

The Notes on pages 243 to 260 are an integral part of these financial statements.

Company statement of financial position
As at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Investments in subsidiaries	G	4,591	5,833
Investments in associates and joint ventures	H	150	150
Loans to subsidiaries	J	322	634
Derivative financial assets	J	-	24
Debt securities	J	743	492
Receivables and other financial assets	J	48	40
Other assets	M	19	10
Cash and cash equivalents	J	61	34
Total assets		5,934	7,217
Equity			
Share capital	O	241	239
Shares held by trusts	P	(6)	(3)
Share premium reserve		628	1,115
Retained earnings	Q	837	785
Other reserves	R	2,860	3,405
Total equity		4,560	5,541
Liabilities			
Subordinated liabilities	S	1,318	1,612
Deferred tax liabilities	I	1	1
Derivative financial liabilities	K	2	25
Other financial liabilities	S	52	38
Other liabilities	V	1	-
Total liabilities		1,374	1,676
Total equity and liabilities		5,934	7,217

The financial statements on pages 239 to 260 were approved by the Board and signed on its behalf, by the following Directors:



Sir Gerry Grimstone, Chairman
 19 February 2016



Luke Savage, Chief Financial Officer
 19 February 2016

The Notes on pages 243 to 260 are an integral part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2015

2015	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		239	(3)	1,115	785	3,405	5,541
Profit for the year		-	-	-	1,090	-	1,090
Other comprehensive (loss)/income for the year		-	-	-	-	(7)	(7)
Total comprehensive income for the year		-	-	-	1,090	(7)	1,083
Dividends paid on ordinary shares		-	-	-	(343)	-	(343)
Issue of share capital	O	2	-	1	-	-	3
Issue of 'B' shares		488	-	(488)	-	-	-
Issue of 'C' shares		-	-	-	-	-	-
Redemption of 'B' shares		(488)	-	-	(488)	488	(488)
Dividends paid on 'C' shares		-	-	-	(1,261)	-	(1,261)
Purchase of 'C' shares		-	-	-	-	-	-
Reserves credit for employee share-based payment schemes	R	-	-	-	-	34	34
Transfer to retained earnings for vested employee share-based payment schemes	Q, R	-	-	-	32	(32)	-
Transfer between reserves on disposal of subsidiary	Q, R	-	-	-	1,028	(1,028)	-
Shares acquired by employee trusts		-	(9)	-	-	-	(9)
Shares distributed by employee trusts	Q	-	6	-	(6)	-	-
31 December		241	(6)	628	837	2,860	4,560

2014	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		238	(10)	1,110	601	3,383	5,322
Profit for the year		-	-	-	553	-	553
Other comprehensive (loss)/income for the year		-	-	-	-	22	22
Total comprehensive income for the year		-	-	-	553	22	575
Dividends paid on ordinary shares		-	-	-	(386)	-	(386)
Issue of share capital	O	1	-	5	-	-	6
Reserves credit for employee share-based payment schemes	R	-	-	-	-	27	27
Transfer to retained earnings for vested employee share-based payment schemes	Q, R	-	-	-	27	(27)	-
Shares acquired by employee trusts		-	(3)	-	-	-	(3)
Shares distributed by employee trusts	Q	-	10	-	(10)	-	-
31 December		239	(3)	1,115	785	3,405	5,541

The Notes on pages 243 to 260 are an integral part of these financial statements.

Company statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax		1,073	536
Impairment of subsidiary undertakings		1,415	-
Gains on financial instruments	A	(1)	(2)
Dividend income from subsidiaries		(2,585)	(613)
Interest income on loans to subsidiaries	A	(20)	(36)
Interest income on available-for-sale debt securities	A	(15)	(10)
Distributions from equity instruments	A	(34)	(34)
Interest payable on subordinated liabilities		82	97
Movements in operating assets and liabilities		49	25
Net cash flows from operating activities		(36)	(37)
Cash flows from investing activities			
Loans issued to subsidiaries		-	(9)
Loans repaid by subsidiaries		301	-
Capital injections into existing subsidiaries	G	(35)	(431)
Acquisition of subsidiaries measured at cost	G	(12)	-
Interest received on loans to subsidiaries	A	20	36
Interest received on available-for-sale securities		6	7
Distributions from equity instruments	A	34	34
Dividends received from subsidiaries	A	2,585	613
Acquisition of subsidiaries at FVTPL	G	(200)	-
Disposal of subsidiaries at FVTPL	G	75	12
Sale of debt securities and derivatives		(235)	262
Capital injections into associates and joint ventures		-	(14)
Net cash flows from investing activities		2,539	510
Cash flows from financing activities			
Repayment of subordinated liabilities		(294)	-
Dividends paid		(343)	(386)
Interest paid on subordinated liabilities		(82)	(97)
Proceeds from exercise of share options		1	5
Shares acquired by trusts		(9)	(1)
Return of cash to shareholders under 'B/C' share scheme		(1,749)	-
Net cash flows from financing activities		(2,476)	(479)
Net increase/(decrease) in cash and cash equivalents		27	(6)
Cash and cash equivalents at the beginning of the year	N	34	40
Cash and cash equivalents at the end of the year	N	61	34
Supplemental disclosures on cash flows from operating activities			
Interest received	A	2	2

The Notes on pages 243 to 260 are an integral part of these financial statements.

Company 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 financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (AFS) and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The principal accounting policies adopted are the same as those set out in the Group financial statements, together with the Company specific policies set out below, and have been consistently applied to all financial reporting periods presented in these financial statements.

(a)(i) Investment in subsidiaries, associates and joint ventures

The Company has certain subsidiaries which are investment vehicles such as open-ended investment companies (OEIC's), unit trusts and limited partnerships whose primary function is to generate capital or income growth through holding investments. This category of subsidiary is held at FVTPL since they are managed on a fair value basis.

Investments in subsidiaries (other than those measured at FVTPL), associates (other than those measured at FVTPL) 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. Any gain or loss on disposal of a subsidiary, associate or joint venture is recognised in the statement of comprehensive income.

(a)(ii) Financial guarantee contracts

The Company recognises and measures financial guarantee and indemnity contracts initially at fair value. The Company must reassess the value at each subsequent reporting date by estimating the expenditure required to settle the contract and comparing this to the fair value (net of any amortisation). The higher of these values is recognised on the statement of financial position.

(a)(iii) 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 UK defined benefit plan is Standard Life Assurance Limited (SLAL), and therefore the net defined benefit cost of the plan 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 plan and the UK defined contribution plan represent the contributions payable for the accounting period.

For the defined contribution plan, the Company pays contributions to separately administered pension insurance plans. The contributions are recognised in staff costs and other employee-related costs when they are due.

(b) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements 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 area where estimates and assumptions have the most significant effect on the amounts recognised in the consolidated financial statements is as follows:

Financial statement area	Critical accounting estimates or assumptions	Related notes
Investments in subsidiaries and joint ventures held at cost	Determination of the recoverable amount	Notes G and H

Notes to the Company financial statements

A. Investment return

	2015 £m	2014 £m
Interest and similar income		
Cash and cash equivalents	2	2
Loans to subsidiaries	20	36
Debt securities	15	10
	37	48
Income from subsidiary undertakings		
Dividend income	1,240	613
Distributions from equity instruments	34	34
	1,274	647
Gains on financial instruments		
Subsidiaries at FVTPL	1	1
Associates at FVTPL	-	1
	1	2
Investment return	1,312	697

Dividend income for the year of £1,240m (2014: £613m) includes £885m relating to a dividend received from the Company's subsidiary Standard Life Oversea Holdings Limited (SLOH). The Company received a dividend of £2,230m from SLOH on 4 February 2015 which resulted in an impairment in the Company's investment in SLOH of £1,345m. The dividend has been presented in dividend income net of the resulting impairment.

B. Administrative expenses

	Notes	2015 £m	2014 £m
Staff costs and other employee-related costs	C	37	46
Other administrative expenses		120	19
Total administrative expenses		157	65

Other administrative expenses include an impairment of the investment in Standard Life Oversea Holdings Limited of £70m (2014: £nil) as detailed in note G.

C. Staff costs and other employee-related costs

	Notes	2015 £m	2014 £m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		28	35
Social security costs		4	5
Pension costs	D	2	4
Employee share-based payments		3	2
Total staff costs and other employee-related costs		37	46
		2015	2014
The average number of staff during the year was:			
Group corporate centre		297	443
Total average number of staff		297	443

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 compensation of key management personnel is provided in Note 48 of the Group financial statements and the audited section of the Directors' remuneration report. Details of the employee share-based payment schemes operated by the Company are given in Note 47 of the Group 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 plan and/or 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 plan across the participating UK companies. The sponsoring employer for the defined benefit plan is SLAL, and therefore the net defined benefit cost of the plan 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 2015 were £2m (2014: £4m).

Further information on the Group's pension plans and the changes agreed during the year to the employee pension the Group provides, is given in Note 37 of the Group financial statements.

E. Auditors' remuneration

In 2015 auditors' remuneration amounted to £0.3m (2014: £0.3m) in respect of the audit of the Company's individual and Group financial statements. Auditors' remuneration for services other than the statutory audit of the Company is disclosed in Note 9 of the Group financial statements.

F. Tax credit

(a) Current year tax credit

	2015 £m	2014 £m
Current tax credit	17	17
Total income tax credit	17	17

The standard rate of UK corporation tax for the accounting period is 20.25% (2014: 21.5%). The UK tax rate will reduce to 19% from 1 April 2017 and 18% from 1 April 2020. These future rate changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2015.

(b) Tax relating to components of other comprehensive income

	Notes	2015 £m	2014 £m
Current tax credit/(charge) on net change in financial assets designated as available-for-sale	R	2	(6)
Tax relating to each component of other comprehensive income that may be reclassified subsequently to profit or loss		2	(6)

F. Tax credit continued
(c) Reconciliation of tax credit

	2015 £m	2014 £m
Profit before tax	1,073	536
Tax at UK corporation tax rate of 20.25% (2014: 21.5%)	(217)	(115)
Dividends not subject to UK corporation tax	523	132
Non-taxable impairment of subsidiary undertakings	(287)	-
Permanent differences	(3)	-
Prior year tax adjustment	1	-
Total income tax credit	17	17

G. Investments in subsidiaries

	Notes	2015 £m	2014 £m
Investments in subsidiaries measured at cost		4,334	5,702
Investments in subsidiaries measured at FVTPL	J	257	131
Investments in subsidiaries		4,591	5,833

	2015 £m	2014 £m
At 1 January	5,833	5,413
Investment into existing subsidiaries measured at cost	35	554
Acquisition of subsidiaries at cost	12	-
Disposal of subsidiaries measured at cost	-	(123)
Impairment of subsidiaries measured at cost	(1,415)	-
Acquisition of subsidiaries at FVTPL	200	-
Gains on subsidiaries at FVTPL	1	1
Disposal of subsidiaries at FVTPL	(75)	(12)
At 31 December	4,591	5,833

Details of the Company's subsidiaries are given in Note 50 of the Group financial statements.

On 19 June 2014 the Company sold 100% of the share capital of Standard Life Wealth Limited (SLW) to Standard Life Investments (Holdings) Limited (SLIH), another wholly owned subsidiary of the Company. The consideration received was equal to 123,200,000 newly issued £1 ordinary shares of SLIH. As the carrying value of Standard Life Wealth Limited on the Company's statement of financial position at the date of disposal was £123m no gain or loss was recognised in the statement of comprehensive income.

On 30 January 2015 Standard Life Oversea Holdings Limited, a subsidiary of the Company, sold its Canadian business to The Manufacturers Life Insurance Company (MLC), a subsidiary of Manulife Financial Corporation (Manulife), for a fixed consideration of CAD \$4bn (£2.1bn). Following the sale, a dividend of £2,230m was paid to the Company from Standard Life Oversea Holdings Limited which resulted in an impairment in the Company's investment in this subsidiary of £1,345m (see Note A).

Included within the impairment charge of £1,415m (2014: £nil) is £70m (2014: £nil) additional impairment in the Company's investment in its subsidiary Standard Life Oversea Holdings Limited. This was primarily in relation to an impairment of Standard Life Oversea Holdings Limited's investment in Standard Life (Asia) Limited as a result of a review of expense and reserving assumptions following regulatory change.

Investments in subsidiaries at FVTPL are £257m (2014: £131m) which relates to holdings in short term investment funds over which the Group has control.

H. Investments in associates and joint ventures

	Notes	2015 £m	2014 £m
Investment in associates measured at cost		13	13
Investments in associates measured at FVTPL	J	13	13
Investments in joint ventures measured at cost		124	124
Investments in associates and joint ventures		150	150

(a) Investments in associates

The Company's investment in associates measured at cost relates to a 25.3% (2014: 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. In addition to the above the Company has investments in associates measured at FVTPL of £13m (2014: £13m).

(b) Investments in joint ventures

The Company has a 50% (2014: 50%) interest in Heng An Standard Life Insurance Company Limited, a company incorporated in China. Further details on this joint venture are provided in Note 18 of the Group financial statements.

I. Tax assets and liabilities

	2015 £m	2014 £m
Deferred tax liabilities	1	1
Total tax liabilities	1	1

The amount of deferred tax liabilities expected to be settled after more than 12 months is £1m (2014: £1m).

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 £19m (2014: £11m) which will be receivable within one year. The Company has provided for deferred tax amounting to £1m (2014: £1m) in respect of unrealised gains on equity securities.

Recognised deferred tax

	2015 £m	2014 £m
Deferred tax liabilities comprise:		
Unrealised gains on investments	(1)	(1)
Net deferred tax liabilities	(1)	(1)
Movements in deferred tax liabilities comprise:		
At 1 January	(1)	(1)
Amounts credited to net profit	-	-
At 31 December	(1)	(1)

J. Financial investments

2015	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Total £m
Investments in subsidiaries at FVTPL		257	-	-	-	257
Investments in associates at FVTPL		13	-	-	-	13
Loans to subsidiaries		-	-	-	322	322
Derivative financial assets	K	-	-	-	-	-
Debt securities		-	-	743	-	743
Receivables and other financial assets	L	-	-	-	48	48
Cash and cash equivalents	N	-	-	-	61	61
Total		270	-	743	431	1,444

2014	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Total £m
Investments in subsidiaries at FVTPL		131	-	-	-	131
Investments in associates at FVTPL		13	-	-	-	13
Loans to subsidiaries		-	-	-	634	634
Derivative financial assets	K	-	24	-	-	24
Debt securities		135	-	357	-	492
Receivables and other financial assets	L	-	-	-	40	40
Cash and cash equivalents	N	-	-	-	34	34
Total		279	24	357	708	1,368

The amount of debt securities expected to be recovered or settled after more than 12 months is £290m (2014: £357m). Due to the nature of investments in associates at FVTPL, 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 £322m (2014: £634m).

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 in 2014 were certain forward foreign exchange contracts, which for the Group, hedged part of the currency translation risk of net investments in foreign operations and a portion of the expected cash proceeds of the sale of the Canadian business received on 30 January 2015. For details refer to Note 23 of the Group financial statements.

	2015			2014		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Foreign exchange forwards	40	-	2	8,511	24	25

The derivative liabilities of £2m (2014: £25m) are expected to be settled within 12 months. The derivative assets of £nil (2014: £24m) 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:

2015	Within 1 year £m	2-5 years £m	Total £m
Cash inflows			
Derivative financial assets	18	-	18
Derivative financial liabilities	22	-	22
Total	40	-	40
Cash outflows			
Derivative financial assets	18	-	18
Derivative financial liabilities	24	-	24
Total	42	-	42
Net derivative financial instruments cash flows	(2)	-	(2)

2014	Within 1 year £m	2-5 years £m	Total £m
Cash inflows			
Derivative financial assets	4,262	-	4,262
Derivative financial liabilities	4,245	4	4,249
Total	8,507	4	8,511
Cash outflows			
Derivative financial assets	4,237	-	4,237
Derivative financial liabilities	4,270	4	4,274
Total	8,507	4	8,511
Net derivative financial instruments cash flows	-	-	-

L. Receivables and other financial assets

	2015 £m	2014 £m
Due from related parties	44	39
Collateral pledged in respect of derivatives contracts	2	-
Other financial assets	2	1
Total receivables and other financial assets	48	40

The carrying amounts disclosed above reasonably approximate the fair values at the year end.

Receivables and other financial assets are expected to be recovered within 12 months.

M. Other assets

Other assets of £19m (2014: £10m) comprise amounts due from related parties in respect of Group relief, which are expected to be received within 12 months.

N. Cash and cash equivalents

	2015 £m	2014 £m
Demand and term deposits with original maturity of less than three months	61	34
Total cash and cash equivalents	61	34

Demand and term deposits with original maturity of less than three months are subject to variable interest rates.

O. Share capital

Details of the Company's share capital are given in Note 28 of the Group 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. Retained earnings

	Notes	2015 £m	2014 £m
At 1 January		785	601
Profit for the year attributable to equity holders		1,090	553
Dividends and appropriations		(343)	(386)
Dividends paid on 'C' shares		(1,261)	-
Redemption of 'B' shares	R	(488)	-
Transfer from merger reserve on disposal of subsidiary	R	1,028	-
Transfer from equity compensation reserve for vested employee share-based payments	R	32	27
Shares distributed by employee trusts		(6)	(10)
At 31 December		837	785

Details of the dividends paid on ordinary shares and the 73p per ordinary share returned to the shareholders through a 'B/C' share scheme by the Company are provided in Notes 15 and 28 of the Group financial statements. Note 15 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2015.

R. Reconciliation of movements in other reserves

	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Capital redemption reserve £m	Available-for- sale financial assets £m	Total £m
2015						
At 1 January	3,108	48	241	-	8	3,405
Reserves credit for employee share-based payment schemes	-	34	-	-	-	34
Transfer to retained earnings for vested employee share-based payments	-	(32)	-	-	-	(32)
Redemption of 'B' shares	-	-	-	488	-	488
Transfer between reserves on disposal of subsidiary	(1,028)	-	-	-	-	(1,028)
Loss on sale of AFS financial assets recycled to profit and loss	-	-	-	-	(2)	(2)
Fair value losses on available-for-sale financial assets	-	-	-	-	(7)	(7)
Tax effect relating to items that may be reclassified subsequently to profit or loss	-	-	-	-	2	2
At 31 December	2,080	50	241	488	1	2,860
2014						
At 1 January	3,108	48	241	-	(14)	3,383
Reserves credit for employee share-based payment schemes	-	27	-	-	-	27
Transfer to retained earnings for vested employee share-based payments	-	(27)	-	-	-	(27)
Fair value gains on available-for-sale financial assets	-	-	-	-	28	28
Tax effect relating to items that may be reclassified subsequently to profit or loss	-	-	-	-	(6)	(6)
At 31 December	3,108	48	241	-	8	3,405

Further information on the merger reserve and special reserve is given in Note 31 of the Group financial statements.

S. Financial liabilities

	Notes	Held for trading £m	Financial liabilities measured at amortised cost £m	Total £m
2015				
Subordinated liabilities	T	-	1,318	1,318
Derivative financial liabilities	K	2	-	2
Other financial liabilities	U	-	52	52
Total		2	1,370	1,372
2014				
Subordinated liabilities	T	-	1,612	1,612
Derivative financial liabilities	K	25	-	25
Other financial liabilities	U	-	38	38
Total		25	1,650	1,675

T. Subordinated liabilities

	2015		2014	
	Principal Amount	Carrying value £m	Principal Amount	Carrying value £m
Subordinated notes:				
5.5% Sterling fixed rate due 4 December 2042	£500,000,000	499	£500,000,000	499
Subordinated guaranteed bonds:				
6.75% Sterling fixed rate perpetual	£500,000,000	502	£500,000,000	502
Mutual Assurance Capital Securities:				
6.546% Sterling fixed rate perpetual	£300,000,000	317	£300,000,000	317
5.314% Euro fixed/floating rate perpetual	-	-	€360,000,000	294
Subordinated liabilities		1,318		1,612

Subordinated liabilities are considered current if the contractual re-pricing or maturity dates are within one year. On 6 January 2015 the Company redeemed in full the 5.314% Euro fixed/floating rate perpetual Mutual Assurance Capital Securities at their outstanding principal amount of €360,000,000. Accrued interest of £15m relating to these securities was also settled. The principal amount of all other subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on the remaining subordinated liabilities of £37m (2014: £37m) is expected to be settled within 12 months.

Further information on the terms and conditions of the subordinated liabilities is given in Note 36 of the Group financial statements.

U. Other financial liabilities

	2015 £m	2014 £m
Collateral accepted in respect of derivative contracts	-	3
Loan notes arising on acquisition of subsidiary	-	6
Other	52	29
Total other financial liabilities	52	38

The amount of other financial liabilities expected to be settled after more than 12 months is £nil (2014: £6m).

V. Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £nil (2014: £nil).

W. Risk management

(a) Overview

An overview of the Group risk management framework and policies is provided in Note 41 of the Group 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 equity markets. 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 corporate bonds, 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 and cash equivalents or underlying assets to cover any potential obligation or exercise right following reasonably foreseeable adverse variations.

(b)(i) Market risk concentrations

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 2015 and 31 December 2014, 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						Total	
	UK		Europe		Other		2015 £m	2014 £m
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m		
Investments in subsidiaries at FVTPL	257	131	-	-	-	-	257	131
Investments in associates at FVTPL	-	-	-	-	13	13	13	13
Loans to subsidiaries	317	317	-	294	5	23	322	634
Derivative financial assets	-	24	-	-	-	-	-	24
Debt securities	183	277	521	181	39	34	743	492
Cash and cash equivalents	49	30	11	4	1	-	61	34
	806	779	532	479	58	70	1,396	1,328
Receivables and other financial assets							48	40
Financial investments							1,444	1,368

The market risk exposure to foreign currency assets is either matched by liabilities held in the same currency or managed using derivative financial instruments.

W. Risk management *continued*

(b) Market risk *continued*

(b)(ii) Sensitivity analysis - market risk

The table below illustrates the sensitivity of profit after tax and equity to reasonably possible variations in the key assumptions made in relation to the Company's most significant market risk exposures. The sensitivity analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security prices and to changes in interest rates as at the reporting date, assuming other assumptions remain unchanged. When illustrating the impact of equity risk, the expectations of corporate earnings remain unchanged. Correlation between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

	Equity						Interest					
	+20%		-20%		+10%		-10%		+1%		-1%	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Impact on profit after tax	5	3	(5)	(3)	2	1	(2)	(1)	-	1	-	1

Equity sensitivity to market risk

The Company classifies certain debt securities which back subordinated debt liabilities as available-for-sale. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in the income statement. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result, the sensitivity of the Company's equity to variations in interest rate risk exposures differs from the sensitivity of the Company's profit after tax to variations in interest rate risk exposures.

The Company's equity sensitivity to a 1% increase in interest rates is (£16m) (2014: (£17m)) and to a 1% decrease in interest rates is £16m (2014: £17m).

The sensitivity of the Company's total equity to variations in equity markets in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Company's profit after tax.

Limitations

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profits at the year end that the changes in assumptions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the tests been applied at a date other than the reporting date.

(c) Credit risk

The Group defines credit risk as the risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform 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 SLAL, 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 at the year end without taking into account any collateral held.

	Investments in subsidiaries at FVTPL		Investments in associates at FVTPL		Loans to subsidiaries		Derivative financial assets		Debt Securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
AAA	-	-	-	-	-	-	-	-	35	36	-	-	-	-	35	36
AA	-	-	-	-	-	-	-	-	64	121	-	-	9	7	73	128
A	-	-	-	-	-	-	-	-	537	235	-	-	4	25	541	260
BBB	-	-	-	-	-	-	-	-	92	99	-	-	48	2	140	101
Not rated	257	131	13	13	322	634	-	24	15	1	48	40	-	-	655	843
Total	257	131	13	13	322	634	-	24	743	492	48	40	61	34	1,444	1,368

The Investments in subsidiaries at FVTPL of £257m (2014: £131m) includes £200m (2014: £nil) invested in absolute return funds and £57m (2014: £131m) relating to a holding in a money market fund. These funds are managed by a subsidiary company and are not rated. The money market fund invests in a range of counterparties that are externally rated, and uses concentration limits and maturity limits in managing its exposures.

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 2015 and 31 December 2014, 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 2015, the Company had pledged £nil (2014: £9m) of debt securities and £2m (2014: £nil) of cash as collateral for derivative financial liabilities and accepted £nil (2014: £3m) of cash as collateral for derivative financial assets.

None of the collateral accepted has been sold or repledged at the year end.

(c)(iii) Offsetting financial assets and liabilities

The Company does not offset any financial assets and liabilities in the statement of financial position, as there are no unconditional rights to set off.

The Company's over-the-counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement. The Company does not hold any other financial instruments which are subject to master netting agreements or similar arrangements.

W. Risk management *continued*

(c) Credit risk *continued*

(c)(iii) Offsetting financial assets and liabilities *continued*

As at 31 December 2015	Gross amounts of financial instruments recognised £m	Gross amounts of financial instruments offset in the Company statement of financial position £m	Net amounts of financial instruments as presented in the Company statement of financial position £m	Related amounts not offset in the Company statement of financial position		
				Financial Instruments £m	Financial collateral pledged/ (received) £m	Net position £m
Financial assets						
Derivatives ¹	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-
Financial liabilities						
Derivatives ¹	(2)	-	(2)	-	2	-
Total financial liabilities	(2)	-	(2)	-	2	-

¹ Only derivatives subject to master netting agreements have been included above.

As at 31 December 2014	Gross amounts of financial instruments recognised £m	Gross amounts of financial instruments offset in the Company statement of financial position £m	Net amounts of financial instruments as presented in the Company statement of financial position £m	Related amounts not offset in the Company statement of financial position		
				Financial Instruments £m	Financial collateral pledged/ (received) £m	Net position £m
Financial assets						
Derivatives ¹	24	-	24	-	(10)	14
Total financial assets	24	-	24	-	(10)	14
Financial liabilities						
Derivatives ¹	(25)	-	(25)	-	16	(9)
Total financial liabilities	(25)	-	(25)	-	16	(9)

¹ Only derivatives subject to master netting agreements have been included above.

(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 Treasury function. 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. In May 2015, the Company reduced its syndicated revolving credit facility which it holds as part of its contingency funding plans, to £400m (2014: £500m) in line with a lower risk profile following the sale of the Canadian business. The maturity date for this facility was extended until 2020 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	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
2015							
Subordinated liabilities	81	324	377	345	208	700	2,035
Other financial liabilities	64	-	-	-	-	-	64
Total	145	324	377	345	208	700	2,099
2014							
Subordinated liabilities	390	324	375	341	206	449	2,085
Other financial liabilities	40	-	-	-	-	-	40
Total	430	324	375	341	206	449	2,125

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, for the maturity profile of undiscounted cash flows of derivative financial instruments.

X. Contingent liabilities, contingent assets, 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) Unclaimed asset trust

The details of the expiry of the Unclaimed Asset Trust are given in Note 45 of the Group financial statements.

(c) Indemnities and 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 2015 (2014: £nil).

Under the trust deed in respect of the Group's UK defined benefit pension plan, Standard Life Employee Services Limited (SLESL), the principal employer, must pay contributions to the pension plan as the trustees' actuary may certify necessary. The Company has guaranteed the obligations of SLESL to the UK defined benefit pension plan for a period of 15 years from 10 July 2006, which gave rise to a liability of £nil at 31 December 2015 (2014: £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:

	2015 £m	2014 £m
Due from related parties:		
Subsidiaries	63	49
Loans to subsidiaries	322	634
	385	683

Transactions with related parties carried out by the Company during the year were as follows:

	2015 £m	2014 £m
Revenues from related parties:		
Subsidiaries	1,295	684
Associates	-	1
	1,295	685
Expenses to related parties:		
Subsidiaries	156	64
	156	64

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 Group financial statements. Information on transactions with/from and balances from/to key management personnel and their close family members can also be found in Note 48 of the Group financial statements.

Z. Fair value of assets and liabilities

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

- Level 1** Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3** Fair values measured using inputs that are not based on observable market data (unobservable inputs).

(b) 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 S and includes those financial assets and liabilities held at fair value.

(c) Methods and assumptions used to determine fair value of assets and liabilities

Information on the methods and assumptions used to determine fair values for each major category of instrument measured at fair value is given in the following note:

Derivative financial assets and derivative financial liabilities

The Company's derivatives are over-the-counter investments which are fair valued using valuation techniques based on observable market data and are therefore treated as level 2 investments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Group's risk management policies. At 31 December 2015 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Investments in subsidiaries at FVTPL

Investments in subsidiaries at FVTPL comprises £200m (2014: £nil) of investments on a recognised exchange which 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 investments within the fair value hierarchy.

The remaining investments in subsidiaries at FVTPL relate to a short term investment fund which is valued daily at net asset value (NAV) adjusted for accrued interest. Although the price is not quoted in an active market the valuation is based on observable market data and as a result has been classified as level 2 in the fair value hierarchy.

Investments in associates at FVTPL

Investments in associates at FVTPL 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 investments within the fair value hierarchy.

Debt securities

For debt securities, the Company 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 Company 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 depending upon the nature of the underlying pricing information used for valuation purposes.
- **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 Company 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, commercial paper and certificates of deposit**
These instruments are valued using models. For unquoted bonds, the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. 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.

(c)(i) 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		2015	2014
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Investment in subsidiaries at FVTPL	200	-	57	131	-	-	257	131
Investment in associates at FVTPL	13	13	-	-	-	-	13	13
Derivative financial assets	-	-	-	24	-	-	-	24
Debt securities	31	78	711	413	1	1	743	492
Total	244	91	768	568	1	1	1,013	660
Liabilities								
Derivative financial liabilities	-	-	2	25	-	-	2	25
Total	-	-	2	25	-	-	2	25

There were no significant transfers between level 1 and level 2 in the year.

Z. Fair value of assets and liabilities *continued*

(c) Methods and assumptions used to determine fair value of assets and liabilities *continued*

(c)(ii) Reconciliation of movements in level 3 instruments

During the year, there were no disposals (2014: none) of level 3 equity securities.

(c)(iii) 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.

(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	2015 Carrying value £m	2014 Carrying value £m	2015 Fair value £m	2014 Fair value £m
Assets					
Loans to subsidiaries	J	322	634	348	666
Liabilities					
Subordinated notes	T	499	499	530	561
Subordinated guaranteed bonds	T	502	502	579	580
Mutual Assurance Capital Securities	T	317	611	345	643

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.

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

	Level 1		Level 2		Level 3		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Assets								
Loans to subsidiaries	-	-	343	643	5	23	348	666
Liabilities								
Subordinated notes	-	-	530	561	-	-	530	561
Subordinated guaranteed bonds	-	-	579	580	-	-	579	580
Mutual Assurance Capital Securities	-	-	345	643	-	-	345	643

11. Supplementary information

11.1 Group assets under administration and net flows

Group assets under administration (AUA) represent the IFRS gross assets of the Group adjusted to include third party AUA, which are not included on the consolidated statement of financial position. In addition, certain assets are excluded, for example deferred acquisition costs, intangibles and reinsurance assets. Continuing operations excludes the Canadian business assets sold on 30 January 2015 and includes Ignis assets acquired on 1 July 2014 (£60.5bn) which were reflected within market and other movements in 2014.

Group assets under administration (summary) 12 months ended 31 December 2015

	Growth (G) Mature (M) Other (O)	Fee (F) Spread/risk (S/R) Other (O)	Opening AUA at 1 Jan 2015 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2015 £bn
Total fee			268.6	42.4	(35.4)	7.0	4.7	280.3
Total spread/risk			16.1	0.2	(1.1)	(0.9)	(0.3)	14.9
Total other			11.9	0.4	(0.2)	0.2	0.1	12.2
Total AUA			296.6	43.0	(36.7)	6.3	4.5	307.4
By business:								
Standard Life Investments								
Institutional	G		61.4	11.1	(7.8)	3.3	2.3	67.0
Wholesale	G		35.5	16.8	(7.5)	9.3	1.1	45.9
Wealth	G		6.1	0.9	(0.7)	0.2	0.2	6.5
Ignis	G		14.5	2.6	(5.1)	(2.5)	(0.9)	11.1
Third party strategic partner life business	M		43.8	0.2	(5.0)	(4.8)	0.6	39.6
Standard Life Investments third party		F	161.3	31.6	(26.1)	5.5	3.3	170.1
UK Pensions and Savings								
Workplace	G		32.0	4.1	(2.2)	1.9	(0.9)	33.0
Retail ¹	G		37.3	7.5	(3.6)	3.9	1.4	42.6
Mature Retail	M		33.5	0.7	(3.1)	(2.4)	1.6	32.7
Workplace and Retail		F	102.8	12.3	(8.9)	3.4	2.1	108.3
Conventional with profits	M	F	2.1	-	(0.9)	(0.9)	0.1	1.3
Annuities	M	S/R	15.5	0.2	(1.1)	(0.9)	(0.3)	14.3
Assets not backing products	O	O	7.7	-	-	-	-	7.7
UK Pensions and Savings			128.1	12.5	(10.9)	1.6	1.9	131.6
Europe Pensions and Savings								
Fee ¹	G/M	F	17.2	2.3	(1.2)	1.1	(0.3)	18.0
Spread/risk	M	S/R	0.6	-	-	-	-	0.6
Europe Pensions and Savings			17.8	2.3	(1.2)	1.1	(0.3)	18.6
UK and Europe Pensions and Savings			145.9	14.8	(12.1)	2.7	1.6	150.2
India and China								
Hong Kong	G	F	0.4	0.1	-	0.1	-	0.5
Associate and joint venture life businesses	O	O	2.1	0.4	(0.2)	0.2	-	2.3
India and China			2.5	0.5	(0.2)	0.3	-	2.8
Other corporate assets	O	O	2.5	-	-	-	0.2	2.7
Consolidation and eliminations ²	G/O	F/O	(15.6)	(3.9)	1.7	(2.2)	(0.6)	(18.4)
Group AUA – continuing operations			296.6	43.0	(36.7)	6.3	4.5	307.4

¹ Wrap AUA is reported predominantly within Retail: £23.4bn, (2014: £19.2bn). Offshore bond is reported within Europe fee business: £2.1bn, (2014: £1.7bn).

² Certain products are included in both Pensions and Savings AUA and Standard Life Investments third party AUM. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments. Comprises £17.9bn (2014: £15.2bn) related to fee business eliminations and £0.5bn (2014: £0.4bn) related to other eliminations.

11.1 Group assets under administration and net flows *continued*

Group assets under administration (summary) 12 months ended 31 December 2014

	Growth(G) Mature (M) Other (O)	Fee (F) Spread/risk (S/R) Other (O)	Opening AUA at 1 Jan 2014 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2014 £bn
Total fee			190.7	33.3	(31.6)	1.7	76.2	268.6
Total spread/risk			15.1	0.3	(1.2)	(0.9)	1.9	16.1
Total other			8.9	0.4	(0.2)	0.2	2.8	11.9
Total AUA			214.7	34.0	(33.0)	1.0	80.9	296.6
By business:								
Standard Life Investments								
Institutional	G		55.1	9.4	(8.6)	0.8	5.5	61.4
Wholesale	G		28.9	11.8	(6.6)	5.2	1.4	35.5
Wealth	G		5.8	0.7	(0.7)	-	0.3	6.1
Ignis	G		-	1.9	(6.2)	(4.3)	18.8	14.5
Third party strategic partner life business	M		-	-	(1.6)	(1.6)	45.4	43.8
Standard Life Investments third party		F	89.8	23.8	(23.7)	0.1	71.4	161.3
UK Pensions and Savings								
Workplace	G		29.2	4.0	(1.8)	2.2	0.6	32.0
Retail ¹	G		33.8	5.9	(3.0)	2.9	0.6	37.3
Mature Retail	M		33.5	0.6	(2.8)	(2.2)	2.2	33.5
Workplace and Retail		F	96.5	10.5	(7.6)	2.9	3.4	102.8
Conventional with profits	M	F	2.9	0.1	(1.1)	(1.0)	0.2	2.1
Annuities	M	S/R	14.6	0.3	(1.2)	(0.9)	1.8	15.5
Assets not backing products	O	O	5.7	-	-	-	2.0	7.7
UK Pensions and Savings			119.7	10.9	(9.9)	1.0	7.4	128.1
Europe Pensions and Savings								
Fee ¹	G/M	F	14.9	2.2	(1.1)	1.1	1.2	17.2
Spread/risk	M	S/R	0.5	-	-	-	0.1	0.6
Europe Pensions and Savings			15.4	2.2	(1.1)	1.1	1.3	17.8
UK and Europe Pensions and Savings			135.1	13.1	(11.0)	2.1	8.7	145.9
India and China								
Hong Kong	G	F	0.3	0.1	-	0.1	-	0.4
Associate and joint venture life businesses	O	O	1.6	0.4	(0.2)	0.2	0.3	2.1
India and China			1.9	0.5	(0.2)	0.3	0.3	2.5
Other corporate assets	O	O	2.0	-	-	-	0.5	2.5
Consolidation and eliminations ²	G/O	F/O	(14.1)	(3.4)	1.9	(1.5)	-	(15.6)
Group AUA – continuing operations			214.7	34.0	(33.0)	1.0	80.9	296.6

¹ Wrap AUA is reported predominantly within Retail: £19.2bn. Offshore bond is reported within Europe fee business: £1.7bn.

² Certain products are included in both Pensions and Savings AUA and Standard Life Investments third party AUM. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments. Comprises (£15.2bn) related to fee business eliminations and (£0.4bn) related to other eliminations.

11.2 Standard Life Investments assets under management and net flows

12 months ended 31 December 2015

	Opening AUA at 1 Jan 2015 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2015 £bn
UK	75.5	15.2	(10.8)	4.4	3.3	83.2
Europe	11.3	5.4	(2.0)	3.4	(0.5)	14.2
North America	8.1	5.3	(2.3)	3.0	0.6	11.7
Asia Pacific	2.0	2.1	(0.9)	1.2	0.1	3.3
India	6.1	0.8	-	0.8	0.1	7.0
Ignis	14.5	2.6	(5.1)	(2.5)	(0.9)	11.1
By geography of client	117.5	31.4	(21.1)	10.3	2.7	130.5
Third party AUM¹						
Equities	15.5	2.6	(2.6)	-	1.4	16.9
Fixed income	22.0	3.1	(2.8)	0.3	(0.5)	21.8
Multi-asset ²	38.6	17.3	(7.8)	9.5	2.2	50.3
Real estate	7.4	1.1	(0.8)	0.3	0.9	8.6
MyFolio	5.9	2.6	(0.7)	1.9	0.3	8.1
Other ³	13.6	2.1	(1.3)	0.8	(0.7)	13.7
Ignis ⁴	14.5	2.6	(5.1)	(2.5)	(0.9)	11.1
By asset class	117.5	31.4	(21.1)	10.3	2.7	130.5
Institutional	61.4	11.1	(7.8)	3.3	2.3	67.0
Wholesale	35.5	16.8	(7.5)	9.3	1.1	45.9
Wealth	6.1	0.9	(0.7)	0.2	0.2	6.5
Ignis	14.5	2.6	(5.1)	(2.5)	(0.9)	11.1
By channel	117.5	31.4	(21.1)	10.3	2.7	130.5
Standard Life Group	84.6	4.1	(6.1)	(2.0)	0.5	83.1
Phoenix Group	43.8	0.2	(5.0)	(4.8)	0.6	39.6
Strategic partner life business AUM	128.4	4.3	(11.1)	(6.8)	1.1	122.7
Standard Life Investments AUM – continuing operations	245.9	35.7	(32.2)	3.5	3.8	253.2

12 months ended 31 December 2014

	Opening AUA at 1 Jan 2014 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2014 £bn
UK	68.3	14.3	(12.4)	1.9	5.3	75.5
Europe	10.4	2.8	(1.5)	1.3	(0.4)	11.3
North America	5.2	2.9	(1.4)	1.5	1.4	8.1
Asia Pacific	1.8	1.0	(0.6)	0.4	(0.2)	2.0
India	4.1	0.9	-	0.9	1.1	6.1
Ignis	-	1.9	(6.2)	(4.3)	18.8	14.5
By geography of client	89.8	23.8	(22.1)	1.7	26.0	117.5
Third party AUM¹						
Equities	15.1	2.8	(4.1)	(1.3)	1.7	15.5
Fixed income	20.2	2.3	(3.3)	(1.0)	2.8	22.0
Multi-asset ²	31.4	11.4	(6.3)	5.1	2.1	38.6
Real estate	6.1	1.1	(0.4)	0.7	0.6	7.4
MyFolio	4.0	2.2	(0.6)	1.6	0.3	5.9
Other ³	13.0	2.1	(1.2)	0.9	(0.3)	13.6
Ignis ⁴	-	1.9	(6.2)	(4.3)	18.8	14.5
By asset class	89.8	23.8	(22.1)	1.7	26.0	117.5
Institutional	55.1	9.4	(8.6)	0.8	5.5	61.4
Wholesale	28.9	11.8	(6.6)	5.2	1.4	35.5
Wealth	5.8	0.7	(0.7)	-	0.3	6.1
Ignis	-	1.9	(6.2)	(4.3)	18.8	14.5
By channel	89.8	23.8	(22.1)	1.7	26.0	117.5
Standard Life Group	80.3	3.8	(6.2)	(2.4)	6.7	84.6
Phoenix Group	-	-	(1.6)	(1.6)	45.4	43.8
Strategic partner life business AUM	80.3	3.8	(7.8)	(4.0)	52.1	128.4
Standard Life Investments AUM – continuing operations	170.1	27.6	(29.9)	(2.3)	78.1	245.9

¹ Excluding strategic partner life business.

² Comprises absolute return strategies, enhanced diversification strategies, risk-based portfolios and traditional balanced portfolios.

³ Comprises cash, private equity and Wealth. Net inflows from India cash funds £0.6bn (2014: net inflow £0.3bn).

⁴ Includes net inflows from Ignis liquidity funds of £0.7bn (2014: net outflows £1.0bn).

11.3 Additional analysis - Group 15 months net flows

Group assets under administration net flows 15 months ended 31 December 2015

	Growth (G) Mature (M) Other (O)	Fee (F) Spread/risk (S/R) Other (O)	3 months to 31 Dec 2015 £bn	3 months to 30 Sep 2015 £bn	3 months to 30 Jun 2015 £bn	3 months to 31 Mar 2015 £bn	3 months to 31 Dec 2014 £bn
Total fee			0.7	2.5	0.8	3.0	(3.1)
Total spread/risk			(0.2)	(0.2)	(0.3)	(0.2)	(0.3)
Total other			-	0.1	-	0.1	0.1
Total net flows			0.5	2.4	0.5	2.9	(3.3)
By business:							
Standard Life Investments							
Institutional	G		0.4	1.1	0.7	1.1	0.1
Wholesale	G		2.2	1.8	2.7	2.6	1.5
Wealth	G		0.1	0.1	-	-	-
Ignis	G		(0.2)	(0.4)	(1.9)	-	(4.5)
Third party strategic partner life business	M		(2.3)	(0.3)	(0.9)	(1.3)	(0.9)
Standard Life Investments third party		F	0.2	2.3	0.6	2.4	(3.8)
UK Pensions and Savings							
Workplace	G		0.4	0.4	0.5	0.6	0.6
Retail ¹	G		1.0	1.1	0.9	0.9	0.8
Mature Retail	M		(0.5)	(0.7)	(0.7)	(0.5)	(0.5)
Workplace and Retail		F	0.9	0.8	0.7	1.0	0.9
Conventional with profits	M	F	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)
Annuities	M	S/R	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)
Assets not backing products	O	O	-	-	-	-	-
UK Pensions and Savings			0.5	0.3	0.2	0.6	0.3
Europe Pensions and Savings							
Fee ¹	G/M	F	0.3	0.3	0.2	0.3	0.3
Spread/risk	M	S/R	-	-	-	-	-
Europe Pensions and Savings			0.3	0.3	0.2	0.3	0.3
UK and Europe Pensions and Savings			0.8	0.6	0.4	0.9	0.6
India and China							
Hong Kong	G	F	0.1	-	-	-	-
Associate and joint venture life businesses	O	O	-	0.1	-	0.1	0.1
India and China			0.1	0.1	-	0.1	0.1
Consolidation and eliminations ²	G	F	(0.6)	(0.6)	(0.5)	(0.5)	(0.2)
Group net flows - continuing			0.5	2.4	0.5	2.9	(3.3)

¹ Wrap net flows are reported predominantly within Retail and offshore bond net flows are reported within Europe fee business.

² Certain products are included in both Pensions and Savings AUA and Standard Life Investments third party AUM. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments. Net flows eliminations relate entirely to fee business and growth channels, FY15: £2.2bn (FY14: £1.5bn).

11.4 Additional analysis - Standard Life Investments 15 months net flows

Standard Life Investments assets under management net flows
15 months ended 31 December 2015

	3 months to 31 Dec 2015	3 months to 30 Sep 2015	3 months to 30 Jun 2015	3 months to 31 Mar 2015	3 months to 31 Dec 2014
	£bn	£bn	£bn	£bn	£bn
UK	0.8	1.5	1.1	1.0	0.4
Europe	0.7	0.5	1.0	1.2	0.5
North America	0.6	0.9	0.7	0.8	0.3
Asia Pacific	0.5	(0.1)	0.6	0.2	0.1
India	0.1	0.2	-	0.5	0.3
Ignis	(0.2)	(0.4)	(1.9)	-	(4.5)
By geography of client	2.5	2.6	1.5	3.7	(2.9)
Third party net flows¹					
Equities	-	0.1	-	(0.1)	(1.0)
Fixed income	(0.3)	0.2	-	0.4	-
Multi-asset ²	2.1	1.8	2.9	2.7	1.4
Real estate	-	0.1	0.1	0.1	0.3
MyFolio	0.5	0.5	0.5	0.4	0.5
Other ³	0.4	0.3	(0.1)	0.2	0.4
Ignis ⁴	(0.2)	(0.4)	(1.9)	-	(4.5)
By asset class	2.5	2.6	1.5	3.7	(2.9)
Institutional	0.4	1.1	0.7	1.1	0.1
Wholesale	2.2	1.8	2.7	2.6	1.5
Wealth	0.1	0.1	-	-	-
Ignis	(0.2)	(0.4)	(1.9)	-	(4.5)
By channel	2.5	2.6	1.5	3.7	(2.9)
Standard Life Group	(0.4)	(0.4)	(0.7)	(0.5)	(0.5)
Phoenix Group	(2.3)	(0.3)	(0.9)	(1.3)	(0.9)
Strategic partner life business net flows	(2.7)	(0.7)	(1.6)	(1.8)	(1.4)
Standard Life Investments net flows – continuing operations	(0.2)	1.9	(0.1)	1.9	(4.3)

¹ Excluding strategic partner life business.

² Comprises absolute return strategies, enhanced diversification strategies, risk-based portfolios and traditional balanced portfolios.

³ Comprises cash, private equity and Wealth. Net inflows from India cash funds, FY15: £0.6bn (FY14: net inflow £0.3bn).

⁴ Includes net inflows from Ignis liquidity funds, FY15: £0.7bn (FY14: net outflows £1.0bn).

Other information

Contents

12 Reports from the Committees of Standard Life Assurance Limited	268
13 Glossary	272
14 Shareholder information	276

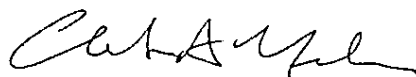
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12.1 Report from the With Profits Committee of Standard Life Assurance Limited

Whilst the management of its with profits business is the direct responsibility of the board of Standard Life Assurance Limited (SLAL), FCA regulations require that a with profits firm's governance arrangements should make provision for independent judgement and advice. The SLAL board has established a With Profits Committee (WPC) for this purpose.



Clifton Melvin,
Chairman, With Profits Committee of
Standard Life Assurance Limited

Membership

All members of the WPC are independent of Standard Life. Their attendance at WPC meetings was:

Member	Attendance
Clifton Melvin*, Chairman	10/10
Graham Aslet	10/10
Ross Ainslie	10/10
Former member	
Niall Franklin*, Chairman	5/5

*the Chairmanship changed on 1 June 2015

The members are appointed by the SLAL Board on the recommendation of the Nomination and Governance Committee. Directors of the Standard Life plc and SLAL Boards, the UK and Europe Chief Risk Officer and senior actuaries, in particular the With Profits Actuary and the UK and Europe Actuarial Director, routinely attend these meetings.

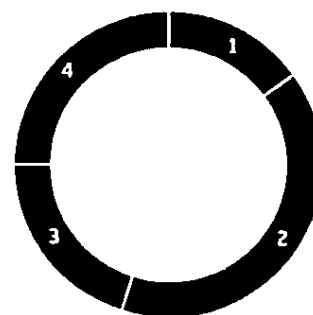
SLAL has had a WPC since demutualisation. Its role is to monitor and advise the SLAL Board on the management of with profits business, providing independent judgement on the fair treatment of with profits policyholders, and to take a proactive role in raising any issues that merit further consideration. The Committee reviews all proposals that are material to the interests of SLAL's with profits policyholders. The Committee has the authority to engage external advisers and has engaged an actuary from Milliman LLP to routinely provide the members with advice. The Chairman has a right of access at all times to the Chairman of the Risk and Capital Committee but saw no requirement during the year to exercise this right.

The Committee's routine formal interaction with the SLAL Board is by the minutes of its meetings together with feedback on its advice, and by an annual report to the SLAL Board in which it reviews the management of with profits business having regard to SLAL's duty to treat its with profits policyholders fairly and to meet their reasonable benefit expectations. The Committee has authority to make a report to the with profits policyholders. It did not do so during 2015 and would not expect to do so unless it disagreed materially with SLAL's own annual report to its with profits policyholders (which is required by FCA regulations) on the management of the with profits business. The directors

of SLAL and of the Company have an open invitation to attend any of the Committee meetings and two Directors of the Company attended WPC meetings during 2015. Minutes of the Committee meetings are submitted to the Board and, in May 2015, the outgoing and incoming Committee Chairmen attended a meeting of the Board which focused on three key with profits issues – the investment strategy framework, the closure to new business in the German with profits fund, and changes to discretionary practices in UK pensions business.

The Committee's work in 2015

An indicative breakdown as to how the Committee spent its time is shown below:



1. Bonuses and payouts
2. Investment matters
3. Treatment of vesting annuities
4. Regulatory and governance

During 2015, the Committee's work focussed on these key areas:

Customer

Policy Values – the WPC approved management's recommendations regarding regular bonus rates and asked that the algorithm used to set these bonus rates be reviewed in 2016 so that they can ensure that it remains appropriate.

Pension freedoms - the WPC has been keen to understand how Standard Life's with profits customers have been reacting to the recent legislative changes in the UK and reviewed this in two sessions during the year.

Pensions discretionary practices - the WPC reviewed SLAL's initial proposals for extending its discretionary practices following these legislative changes, and after proposing an amendment to the approach, was supportive

Service – the WPC reviewed an annual paper summarising with profits customer complaints and was pleased to note a reducing trend.

Balance of Interests

A fundamental responsibility of the WPC is to ensure an appropriate balance of interests between the shareholder and the with profits customers, as well as between different cohorts of customers.

The WPC approved the transfers to shareholder funds, in accordance with the Demutualisation Scheme, for the year ended 31 December 2014 of some £195m.

The WPC also reviewed the With Profits Actuary's advice relating to expense allocation within SLAL and agreed with his conclusion that the methodology had no material bias against policyholders' interests.

The WPC approved SLAL's proposal that no changes were required to the rates of deduction from with profits policies in respect of the cost of guarantees.

Annuity Rates for GAO/GMP Buyouts

The Committee has continued to review and challenge management on the competitiveness of SLAL's immediate annuity rates, insofar as they are used when buying out guaranteed liabilities of the HWPF.

Germany

SLAL took the decision to close the German WP Fund to new business in March. The WPC had been closely involved in the discussions and rationale leading to this major step and was fully supportive, recognising that keeping the fund open to new with profits business would have run the risk of conferring unfair advantage on new customers at the expense of existing customers.

Capital and Risk management

During the year the WPC approved a number of proposals to manage the finances of the with profits funds and to control risks appropriately. These included setting distribution rates for the Inherited Estate, adjusting Equity Backing Ratios, reviewing the effectiveness of hedging strategies and making changes to German interest rate and equity hedges, and reviewing the scenarios for testing investment risk.

Regulatory and Governance

Principles and Practices of Financial Management (PPFM)

The WPC sought and obtained assurance that the with profits businesses in the UK have been managed in accordance with the published PPFM.

Solvency II

The introduction of Solvency II on 1 January 2016 has necessitated a number of changes to the Demutualisation Scheme. The WPC approved the first tranche of these changes (those not requiring Court approval) and during the early part of 2016 will be reviewing more substantial changes prior to SLAL seeking Court approval.

Investments

The WPC receives quarterly presentations from Standard Life Investments regarding the performance of the with profits funds. The Committee was pleased to note the generally strong performance against benchmark, but raised some questions regarding the performance of particular asset classes which it will continue to keep under review.

Conclusion

Looking back on 2015, the WPC concluded that:

- ▶ The management of SLAL's with profits business has paid due regard to its duty to treat its with profits policyholders fairly and to meet their reasonable benefit expectations
- ▶ The UK Smoothed Managed With Profits Fund and the HWPF PPFMs have been complied with
- ▶ It had continued to challenge management on the exercise of discretion

Effectiveness


The Committee reviews its remit and effectiveness annually. The 2015 review was carried out by means of a self-assessment questionnaire and the Committee discussed the results of the review formally at one of its meetings. The WPC members concluded that they had used their available time effectively, focusing on the key issues and providing appropriate challenge.

The Committee provides information on its composition and how the Committee protects the interests of policyholders and makes its views known at the following website
www.standardlife.co.uk/c1/funds/with-profits-committee.page

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12.2 Report from the Independent Governance Committee of Standard Life Assurance Limited

During 2015, the board of Standard Life Assurance Limited (SLAL) established its Independent Governance Committee (IGC). The Committee acts solely in the interests of scheme members by providing credible and effective challenge on the value for money of workplace personal pension schemes



Rene Poisson
Chairman, Independent Governance Committee of Standard Life Assurance Limited

Independent Governance Committees have been established as a response to:

- ▶ The market review undertaken in 2013 by the Office of Fair Trading which identified that competition was not having the expected impact in improving value for policyholders in workplace pension schemes and that change was required to ensure that they received Value for Money (VfM)
- ▶ The results of a subsequent 2014 report (the legacy audit) by the Independent Project Board (the IPB) which looked at legacy pension schemes at risk of being exposed to charges over an equivalent of one percent annual management charge (AMC)

The IGC intends to meet at least four times a year but as often as necessary to fulfil its obligations. This first year has required more meetings than would be expected on an ongoing basis, in terms of establishing the Committee and its operations, considering how to assess VfM, understanding the Standard Life business and products, reviewing how Standard Life conducts its relationship with relevant members, and reaching agreement on the steps to be taken in response to the IPB legacy audit

Membership

The majority of the members of the Independent Governance Committee are independent of Standard Life. Their attendance at meetings to the year ending 31 December 2015 was:

Member	Attendance
Rene Poisson, Chairman	12/12
Richard Butcher	12/12
Ingrid Kirby	12/12
Roger Mattingly	12/12
Michael Craig (non-independent member)	12/12

The members are appointed by the SLAL Board on the recommendation of the Nomination and Governance Committee. The IGC's first meeting was in May 2015. The Head of Pensions Strategy routinely attends these meetings and the Managing Director for Corporate, Retail and Wholesale has had regular interactions with the Committee.

The Committee's role is to advance the Financial Conduct Authority's (FCA) statutory objectives of securing an appropriate degree of protection for consumers by assessing the value for money of relevant schemes, raising concerns, where necessary, and reporting on the VfM of the relevant schemes operated by SLAL. The Committee acts solely in the interests of scheme members by providing credible and effective challenge on the VfM of workplace personal pension schemes.

The Committee's key duties are to:

- ▶ Act solely in the interests of relevant policyholders (both active and deferred scheme members)
- ▶ Assess the ongoing VfM that relevant policyholders obtain from SLAL's relevant schemes
- ▶ As part of this assessment, where the Committee finds problems, to raise concerns (as it sees fit) with the SLAL board
- ▶ After giving the SLAL board an opportunity to address those concerns, if the Committee remains concerned, it can escalate these to the FCA, and has the option to alert relevant scheme members and employers, and make its concerns public as it sees fit
- ▶ Produce an annual report of its findings by 5 April 2016 and annually thereafter

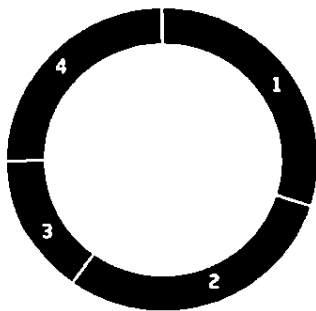
The Committee's routine formal interaction with the SLAL board is by the minutes of its meetings. The directors of SLAL and of the Company have an open invitation to attend any of the Committee meetings. Minutes of the Committee meetings are submitted to the Board.

The Chairman is responsible for the production of an annual report which will be publicly available on the website below by 5 April 2016.

The Committee provides information on its composition at the following website www.standardlife.co.uk/igc

The Committee's work in 2015

An indicative breakdown as to how the Committee spent its time is shown below:



1. IPB legacy audit
2. VfM
3. Member feedback processes
4. Establishing the Committee

Legacy Audit

The IGC focused initially on the results of the legacy audit, reviewing the IPB report and requiring the business to conduct some further analysis to identify at a member level how many members were experiencing ongoing charges in excess of 1% and, if so, why this was the case. The IGC reviewed the Standard Life proposals provided by 30 June 2015, and challenged the business to ensure these proposals delivered value. Following this process an implementation plan was agreed with the SLAL board and in place by the end of 2015.

Value for Money (VfM)

The IGC considered the ongoing VfM provided to policyholders by the relevant schemes. In this review, the IGC focused on the default investment offerings of the schemes together with the other items noted in 19.5.5 of the FCA's Code of Business rules, recognising that the vast majority of policyholders and assets were invested in those offerings. The IGC considered whether the default strategies were designed in the interests of relevant members with clear statements of aims, objectives and structure, and reviewed the governance processes and reporting used by Standard Life to ensure that the default and other investment strategies remained in the interests of scheme members.

Compliance with 2014 Pensions Act

The IGC has also undertaken an initial assessment of Standard Life's compliance with the charges measures introduced by the 2014 Pensions Act and which came into effect on 6 April 2015.

Feedback

The IGC recognises the importance of gathering the views of scheme members as customers and is trialling a number of channels for gathering feedback, including a dedicated web page with a link to email the IGC. The IGC has also encouraged Standard Life to publicise the IGC via direct policyholder communications. The IGC has engaged with policyholders directly by IGC attendance at workplace seminars and retirement roadshows. The IGC has also discussed with Standard Life the

commissioning of research with representative groups of policyholders from different workplace schemes.

Other services and communications

A core element of Standard Life's proposition to workplace members is the support services and communication materials that are designed to inform members of their pension plan and the steps they should take to achieve their retirement goals. The IGC reviewed these materials and how they form part of the online and offline experiences of members.

As noted above, more detail on the IGC's work since its formation, its conclusions on the Standard Life proposals responding to the legacy audit and VfM will be available in its first annual report.

Standard Life Master Trust Co. Ltd.

During 2015, Standard Life Master Trust Co. Ltd (SLMTC) was established as a subsidiary of Standard Life Assurance Limited. Its role is to act as trustee and to work in the interests of members of the Standard Life Defined Contribution Master Trust and Stanplan A pension schemes, both of which are trust based schemes designed for multiple employers.

The board of SLMTC consists of five members, all of whom are independent of Standard Life. They also meet regularly throughout the year. Pitmans Trustees Limited have been appointed as chair of the board of directors of the Company. Richard Butcher is their representative.

Similar to the IGC, SLMTC has a duty to assess whether members of these schemes are receiving good value. Alongside their trustee duties, they are following a similar programme to the IGC to carry out this assessment.

A report with their findings will be published at the end of July 2016.

13. Glossary

13.1 Product related terms

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 called an immediate annuity. If it commences at some future date, it is called a deferred annuity.

Auto enrolment

The UK Government introduced auto enrolment to help people save for their retirement. Employers have to automatically enrol eligible employees into a qualifying workplace pension scheme (QWPS). This pension scheme needs to meet the standards set by the Pensions Regulator.

Flexible income (drawdown)

Flexible income, also known as drawdown, allows the policyholder to withdraw pension income as and when they request it. The remainder of the pension fund remains invested, giving it the potential for growth.

Global absolute return strategies (GARS)

A discretionary multi-asset fund provided under several regulated pooled and segregated structures globally by Standard Life Investments. The investment objective is to target a level of return over a rolling 3 year period equivalent to cash plus 5% a year (gross of fees), and to do so with as little risk as possible.

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.

Non-participating/non-profit policy

A policy, including a unit linked policy, which is not a participating/with profits policy.

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.

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.

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.

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.

13.2 Key financial terms

Assets under administration (AUA)

A measure of the total assets that the Group administers on behalf of individual 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 on the consolidated statement of financial position.

Assets under management (AUM)

A measure of the total assets that Standard Life Investments manages on behalf of individual customers and institutional clients, for which it receives a fee.

Business unit underlying performance

Business unit underlying performance is operating profit before tax after excluding the impact of spread/risk operating actual assumption changes, specific management actions, group centre costs and group centre capital management in the reporting period.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, foreign exchange gains and losses, fair value movements on certain derivatives, restructuring costs and non-controlling interest.

EBITDA margin

This is an industry measure of performance for investment management companies. It is calculated as EBITDA divided by net revenue.

Fee based business

Fee based 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.

Group capital surplus

This is a regulatory measure of our financial strength.

From 1 January 2016 our Group capital surplus is measured on a Solvency II basis. Prior to 1 January 2016, our Group capital surplus compared the Group's capital resources to its capital resources requirements in accordance with the Insurance Groups Directive.

Group underlying cash generation

This is a non-Generally Accepted Accounting Principles (GAAP) measure which presents a shareholder view of underlying cash generation. The IFRS Consolidated statement of cash flows includes policyholder cashflows, and does not exclude non-recurring and non-operating items.

Group underlying cash generation adjusts Group underlying performance for non-cash items. Adjustments are made for deferred acquisition costs/deferred income reserve, fixed/intangible assets and the Asian joint ventures and associates. Depreciation/ amortisation that would normally be included in operating profit is replaced with the cash movement in the period. The measure is stated net of current (cash) tax on Group underlying performance. A reconciliation of Group underlying performance to Group underlying cash generation is included in the Strategic report. Reconciliations between Group underlying performance, Group operating profit and profitability on an IFRS basis are also included in this report.

Group underlying performance

Group underlying performance is Group operating profit before tax after excluding the impact of spread/risk operating actuarial assumption changes and specific management actions in the reporting period.

Growth channels

We aim to drive the increase in our assets, revenue and profit via our growth channels. This comprises Standard Life Investments Institutional and Wholesale, UK Workplace and Retail, Europe (excluding Germany with profits), Hong Kong, Standard Life Wealth and Ignis.

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.

Mature book / business

Mature books are expected to provide a stable and consistent contribution to our profit. This includes UK Mature Retail, Standard Life Investments third party Strategic Partner Life books and spread/risk based business. It also includes the with profits business in Germany which closed to new business in April 2015.

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).

Operating profit

The Group's chosen supplementary measure of performance is operating profit and is a non-GAAP measure. 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. Restructuring includes the impact of major regulatory change.
- ▶ 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 and fair value movements in contingent consideration
- ▶ 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

Operating return on equity (RoE)

The annualised post-tax operating profit expressed as a percentage of the opening IFRS equity, adjusted for time apportioned dividends paid to equity holders.

Own funds

Under Solvency II, the capital resources available to meet solvency capital requirements are called own funds.

Solvency capital requirement

Under Solvency II, insurers are required to identify their key risks – for example that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. This amount of capital is referred to as the Solvency capital requirement or SCR.

Spread/risk based business

Spread/risk based business mainly comprises products where we provide a guaranteed level of income for our customers in return for an investment, for example, 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 is a component of operating profit and 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.

Standard Life Investments Institutional

Standard Life Investments institutional business sell to institutions (including corporates, pension schemes, local authorities, government agencies and insurance companies) either directly or through intermediaries.

Standard Life Investments Wholesale

Standard Life Investments wholesale sell retail products through wholesale distributors including third party fund supermarkets, global financial institutions and private banks.

Strategic partner life business

A measure of the assets that Standard Life Investments manages on behalf of Standard Life Group companies and under other long-term life book partnership agreements, such as Phoenix Group.

Technical provisions

The best estimate market consistent value of our policyholder liabilities is referred to as technical provisions. The calculation is discounted to recognise the time value of money and includes a risk margin, calculated in accordance with Solvency II regulations.

Third party (excluding strategic partner life business)

A measure of the assets that Standard Life Investments manages on behalf of individual customers and institutional clients, for which it receives a fee. This measure excludes the assets that are managed on behalf of strategic partners in life assurance books.

Transitional relief

Solvency II regulations allow insurers to smooth the introduction of new rules for calculating policyholder liabilities. This relief includes a deduction from the amount of Solvency II technical provisions, based on the difference between technical provisions under the previous regulatory framework and Solvency II. The deduction decreases over the course of 16 years from 1 January 2016.

UK retail

This relates to business where we have a relationship with the customer either directly or through an independent financial adviser. We analyse this type of business into growth and mature categories. Retail growth includes the products, platforms, investment solutions and services of our UK retail business that we continue to market actively to our customers. Retail mature includes business that was predominantly written before demutualisation.

UK workplace

UK workplace pensions, savings and benefits to UK employers and employees. These are sold through corporate benefit consultants, independent financial advisers, or directly to employers.

13.3 Other terms

B/C share scheme

Following the completion of the sale of the Canadian business on 30 January 2015 the Company returned 73 pence per share to shareholders via a B/C share scheme. Eligible shareholders were able to elect to receive one B share or one C share for each ordinary share that they held on 13 March 2015. The B shares were redeemable and had a nominal value of 73 pence each. The Company redeemed all outstanding B shares on 20 March 2015 giving rise to a capital receipt for shareholders. The C shares were non-redeemable and had a negligible nominal value. A dividend was declared on the C shares of 73 pence per share on 20 March 2015, giving rise to an income receipt for shareholders. Thereafter C shares were automatically reclassified as deferred shares.

Board

The Board of Directors of the Company.

Canadian business

On 3 September 2014 the Group announced its intention to sell its Canadian business to The Manufacturers Life Insurance Company (MLC), a subsidiary of Manulife Financial Corporation (Manulife). The assets and liabilities of the Canadian business were classified as held for sale at 31 December 2014 and the results of this business were classified as discontinued operations for the year then ended. The comparative consolidated income statement, statement of comprehensive income and related notes were restated on this basis. The Canadian business comprises the Canadian long-term savings and retirement, individual and group insurance business (Standard Life Financial Inc. and its subsidiaries), the Canadian investment management business (Standard Life Investments Inc. and its subsidiaries) and the business of the Canadian branch of Standard Life Assurance Limited (SLAL Canada branch).

The sale of Standard Life Financial Inc. and Standard Life Investments Inc. completed on 30 January 2015. The assets and liabilities of the SLAL Canada branch were transferred on 31 December 2015 following the fulfilment of certain conditions to completion, including regulatory approval.

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.

Chief Operating Decision Maker

The strategic executive committee.

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.

Deferred acquisition costs (DAC)

The method of accounting whereby acquisition costs on long-term business are deferred on the consolidated 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 on the consolidated 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.

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 profit for the year attributable to equity holders of Standard Life plc divided by the total dividend for that financial period.

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.

Effective tax rate

Tax expense/(credit) attributable to equity holders' profit divided by profit before tax attributable to equity holders' profits expressed as a percentage.

Fair value through profit or loss (FVTPL)

FVTPL is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the income statement.

Group, Standard Life Group or Standard Life

Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006, the Company and its subsidiaries.

Heritage With Profits Fund (HWPF)

The Heritage With Profits Fund contains all 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. The HWPF also contains increments to this business.

Investment grade

Debt securities with a credit rating of BBB or higher.

Key performance indicators (KPI)

This is a measure by reference to which the development, performance or position of the business can be measured effectively.

Liability aware

Liability Aware is a framework for proactively managing the various liability risks and requirements that are faced by defined benefit pension schemes and insurance companies.

Proprietary Business Fund

The Proprietary Business Fund in Standard Life Assurance Limited (SLAL) contains, amongst other things, most new insurance business written after demutualisation in the UK, Ireland and Germany and certain classes of business written before demutualisation – pension contribution insurance policies, income protection plan policies and a number of SIPP policies.

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.

Single premium

A single premium contract (as opposed to a regular premium contract), involves the payment of one premium at inception with no obligation for the policyholder to make subsequent additional payments.

SLAC

The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

SLAL

Standard Life Assurance Limited.

SLIL

Standard Life International Limited.

Solvency II

Solvency II is an EU-wide initiative that brings consistency to how EU insurers manage capital and risk. Solvency II was implemented on 1 January 2016.

Strategic executive committee

Responsible for the day-to-day running of the Group and comprises; Chief Executive, Chief Executive – UK and Europe, Chief Financial Officer, Chief Investment Officer, Chief Operating Officer, Chief People Officer, Chief Risk Officer and the Global Client Director.

Subordinated liabilities

Subordinated liabilities are debts of a Company which, in the event of liquidation, rank below its other debts but above share capital.

14. Shareholder information

Registered office

Company registration number:
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For shareholder services call:
0345 113 0045*

Secretary

Kenneth A Gilmour

Registrar

Capita Registrars Limited

Auditors

PricewaterhouseCoopers LLP

Solicitors

Slaughter and May

Brokers

JP Morgan Cazenove
Goldman Sachs

Shareholder services

We offer a wide range of shareholder services. For more information, please:

- ▶ Contact our registrar, Capita, on **0345 113 0045*** if calling from the UK. International numbers can be found on the back cover of this report
- ▶ Visit our share portal at **www.standardlifeshareportal.com**

* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Sign up for Ecommunications

Signing up means:

- ▶ You'll receive an email when documents like the Annual report and accounts, Half year results and AGM guide are available on our website
- ▶ Voting instructions for the Annual General Meeting will be sent to you electronically

Set up a share portal account

Having a share portal account means you can:

- ▶ Manage your account at a time that suits you
- ▶ Download your documents when you need them

To find out how to sign up, visit **www.standardlifeshareportal.com**

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 or phone calls. You could also be targeted by fraudulent 'investment specialists'. Remember, if it sounds too good to be true, it probably is.

You can find more information about share scams at the Financial Conduct Authority website **www.fca.org.uk/consumers/scams**

If you are a certificated shareholder, your name and address may appear on a public register. Using a nominee company to hold your shares can help

protect your privacy. You can transfer your shares into the Company-sponsored nominee – the Standard Life Share Account – by contacting Capita, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please visit **www.mpsonline.org.uk**

Financial calendar

Full year results 2015	19 February
Ex-dividend date for 2015 final dividend	14 April
Record date for 2015 final dividend	15 April
Last date for DRIP elections for 2015 final dividend	4 May
Annual General Meeting	17 May
Dividend payment date for 2015 final dividend	24 May
Half year results 2016	9 August
Ex-dividend date for 2016 interim dividend	8 September
Record date for 2016 interim dividend	9 September
Last date for DRIP elections for 2016 interim dividend	28 September
Dividend payment date for 2016 interim dividend	19 October

Analysis of registered shareholdings at 31 December 2015

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	63,650	60.81	27,421,274	1.39
1,001-5,000	36,108	34.50	73,473,243	3.73
5,001-10,000	2,874	2.75	19,563,915	0.99
10,001-100,000	1,582	1.50	35,782,666	1.82
#100,001+	456	0.44	1,813,696,277	92.07
Total	104,670	100	1,969,937,375	100

These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,074,753 participants holding 746,258,569 shares, and the Unclaimed Asset Trust, which holds 14,709,934 shares on behalf of eligible claimants.

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Follow us on Twitter – standardlife_de

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Find us on Facebook at
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Blog

Read our latest blogs at
www.moneyplusblog.co.uk

Download our app

Keep up to date with Standard Life news, share price updates and other useful information on Standard Life's Investor App



*Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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