

COMPANIES HOUSE
17 MAY 2017
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SCT 17/05/2017 #3
COMPANIES HOUSE

MAKING WORLD-CLASS OUR STANDARD

Contents

1. Strategic report	
Our business today	2
Message from the Chairman	4
Chief Executive's overview	6
Our business model and strategic objectives	8
Chief Financial Officer's overview	20
Standard Life Investments	26
Pensions and Savings	30
India and China	34
Risk management	36
Sustainability	42
Basis of preparation	47
Governance	
2. Board of Directors	50
3. Directors' report	54
4. Corporate governance statement	59
5. Directors' remuneration report	80
6. Statement of Directors' responsibilities	103
Financial information	
7. Independent auditors' report – Group financial statements	106
8. Group financial statements	113
9. Independent auditors' report – Company financial statements	220
10. Company financial statements	222
11. Supplementary information	236
Other information	
12. Reports from the Committees of Standard Life Assurance Limited and the Standard Life Master Trust Co. Ltd.	246
13. Glossary	250
14. Shareholder information	254
15. Contact us	IBC

The Annual report and accounts 2016 and the Strategic report and financial highlights 2016 are 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.

How to navigate this report

Page cross reference

For more information visit our corporate website: www.standardlife.com/annualreport

Highlights

Financial highlights

Assets under administration (AUA)

£357.1bn

2015: £307.4bn

Net flows

£2.6bn outflow

2015: £6.3bn inflow

Operating return on equity

15.2%

2015: 14.2%²

Full year dividend per share

19.82p

2015: 18.36p

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

IFRS profit after tax attributable to equity holders

£368m

2015: £276m

2015 comparatives are in relation to continuing operations unless otherwise stated.

¹ Comparative has been restated. See Chief Financial Officer's overview.

² Comparative includes discontinued operations.

Certain measures, such as operating profit, are not defined under IFRS and are therefore termed alternative performance measures (APMs). Further details on APMs are included in Supplementary Information in Section 11.

Non-financial highlights

Movement in Standard Life brand net promoter score

Down 11

2015: Up 5

See p45 for more information on our non-financial KPIs

Key performance indicator

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

Operating profit

£723m

2015: £665m

Underlying cash generation

£502m

2015: £459m¹

Cost/income ratio

62%

2015: 63%

Basic earnings per share

18.7p

2015: 13.5p

Employee engagement survey Engagement

65%

2015: 63%

Enablement

62%

2015: 64%

We were established in Edinburgh in 1825. Today we're an investment company employing 6,300 people - through operations in the UK, Europe, North America, Asia and Australia.

Our purpose is to invest for a better future. We do it to make a difference. For our customers and clients, our people and our shareholders. This takes the combined skills, expertise and collaboration of a team of people who are committed to excellence in all they do.

Our simple business model is designed to help us generate value over the long term. We manage, administer and advise on assets for customers and clients and our businesses are focused on meeting their investment needs.

Wherever we operate, we aim to make a positive long-term impact. Whether it's by encouraging people to save for their future, by investing responsibly, or by providing support and expertise to benefit the communities around us.

Growing our business...

We look after the investment needs of customers and clients in 45 countries.

Where we operate

We have offices in many of the world's financial centres and market locations. Operating this way lets us understand where and how markets and trends are developing and also how best we can respond to them.

Our head office is in Edinburgh with key operations in London, Dublin and Frankfurt. We also have regional hubs in Boston and Hong Kong for asset management.

Our associate businesses in India, HDFC Life and HDFC Asset Management, are based in Mumbai. Our joint venture in China, Heng An Standard Life, operates out of Tianjin.

Expanding our reach

We are building on the strong foundation of our business in the UK, with acquisitions during 2016 that have strengthened our position in the advice and adviser platform markets. We continued to expand internationally too, including a new office in Tokyo and commencing a strategic partnership with Challenger, a leading retirement income group in Australia.

AUA by geography¹
(£bn)

£357.1bn +16%

Operating profit by business²
(£m)

£723m +9%

¹ Relates to geography of customer and client.

² Diagram excludes operating loss from 'Other'.

...to meet customer and client needs

Our businesses

	Standard Life Investments	Pensions and Savings	India and China
Overview	Standard Life Investments specialises in active asset management. Our key markets are in the UK, Europe, North America and Asia. We offer a wide range of investment solutions and funds, all supported by a distinctive investment philosophy <i>Focus on Change</i> .	Our Pensions and Savings business is a leading provider of long-term savings and investment propositions. We are primarily based in the UK, with operations in Ireland and Germany and serve around 4.5 million customers and clients. Our main aim is to help people manage their money today and save for their future.	Through a combination of associate and joint venture life businesses, we have extensive reach in the key savings markets in India and China. We also have a wholly owned business in Hong Kong. Across these businesses, we help to look after the life insurance needs of over 25 million customers.
How we operate	<p>Our investment funds and solutions are available to clients through two distribution channels.</p> <p>Our Institutional channel manages assets for a wide range of institutions, such as pension fund clients, government authorities, corporates, charities and insurance companies.</p> <p>Our Wholesale channel provides funds and solutions to retail investors through wholesale distributors and platforms.</p> <p>We also provide active asset management services for life insurance books to the wider Standard Life Group and to strategic partners such as the Phoenix Group.</p> <p>Our associate business, HDFC Asset Management, is a leading manager of mutual funds in India.</p>	<p>In the UK, through our Workplace channel, we offer pensions, savings and flexible benefits schemes to employees through their employers.</p> <p>Our Retail channel is a mix of intermediary relationships (financial advisers), direct customer relationships and our own financial planning business (1825).</p> <p>Our valuable mature book includes UK mature Retail as well as spread/risk products, such as annuities and protection.</p> <p>In Ireland and Germany, we offer savings and investment products to a variety of customers and clients.</p>	<p>HDFC Life, our associate business in India, sells individual and group life insurance policies via a network of around 400 branches as well as through a number of key bancassurance relationships.</p> <p>Heng An Standard Life (HASL), our joint venture business in China has 82 offices offering life and health insurance products on both a group and individual basis. Sales are predominantly made direct to customers and clients. HASL also maintains relationships with bank and insurance brokers.</p> <p>We operate as Standard Life in Hong Kong, selling insurance and savings products via insurance brokers.</p>
Operating profit	£383m (2015: £342m)	£362m (2015: £357m)	£36m (2015: £27m)
Outlook	<p>We expect the low interest rate and compressed return climate in financial markets to continue.</p> <p>We will continue to develop innovative investment solutions and global distribution to further diversify our business. This includes expanding our liability aware offering and range of multi-asset investment solutions. We are also strengthening our private markets capabilities.</p> <p>We will continue to expand our geographic reach through developing our own distribution and building strong relationships with strategic partners.</p>	<p>We believe the demand for financial advice will continue to grow. To meet that demand, we aim to continue growing our platform business and to pursue further opportunities to build scale in our 1825 financial advice business.</p> <p>Our Workplace business is expected to continue to benefit from ongoing implementations from auto enrolment, securing a steady flow of regular contributions into our pension products.</p> <p>We will respond to European Union developments in a way that takes into account the best interests of customers, clients and our business.</p>	<p>Following the announcement in August 2016, the aim is to complete the proposed combination of the life insurance businesses of HDFC Life and Max Life within the next 12 months, subject to necessary approvals being obtained.</p> <p>We are well positioned for expected future growth in the life insurance markets in India and China. We continue to develop our future business strategy in mainland China and Hong Kong.</p> <p>In China, HASL continues to work towards gaining a pensions licence from the China Insurance Regulatory Commission.</p>

See p26 for more information

See p30 for more information

See p34 for more information

Sir Gerry Grimstone,
Chairman

An unpredictable and changing world

2016 was not a good year for experts and much happened that was unpredicted and unexpected. In the UK we have had a change of leadership in Government and a great shift in terms of the future direction for the nation as a result of the decision to leave the European Union. In the US there is a new President, clearly different from his predecessor. It has been a time of great and significant change and it will be some years for the long-term effects to become apparent. The good news is that our business has had, in its 191-year history, a very good track record of being able to navigate times of internal, economic, and societal change, all whilst keeping its customers and clients absolutely at the heart of what it does. Change brings comparative advantage for well-run businesses, provided they anticipate and adapt.

Across the world, markets continued to feel the effects of short-term peaks and troughs and this has affected our investment performance in certain asset classes. However, we have a very fine investment management business and a good many excellent investment professionals and I'm confident that our robust processes will continue to deliver strong performance over the longer term.

The major developments in our business in 2016 have been aimed at increasing the depth and reach of what we do. Increased scale is allowing us to improve our operational efficiency and to widen the services we can provide to our customers and clients around the world.

Our dividend

Together with our focus to deliver against our established strategy, we have again generated another solid set of financial results. We continued to make good profits, continued to invest in our operations for the future, and continued to manage our balance sheet effectively.

I am very pleased to confirm, as a result of our strong performance, another year of increased dividend payments to our shareholders. Our final dividend for 2016 is 13.35p per share (up 8.2% on 2015) and gives a total 2016 dividend of 19.82p per share (up 8.0% on 2015). If our shareholders approve the final dividend at our Annual General Meeting in May this year, it will be paid out on 23 May 2017.

Business overview

During 2016, we made several key announcements, designed to further our ambitions. We made a significant strategic investment in the adviser platform market by acquiring Elevate. Together with our own Wrap platform, this gives us a much bigger footprint in the UK marketplace. The demand for platforms and also for professional financial advice has grown as more people are empowered to take control of their long-term savings plan. We also acquired three independent advice businesses as part of our growth strategy for our 1825 brand.

Our investment expertise in both public and private markets continued to develop and our global investment activities further expanded both geographically and in the range of clients we serve. We are closely monitoring potential changes both in regulation and customer behaviour in asset management and we are determined to maintain our position as a successful global investment company of significant expertise and scale.

We have very substantial investments in India through our partner HDFC – one of the leading players in both asset management and life insurance. A change in legislation gave us the opportunity to increase our investment in HDFC Life, which has continued to expand in the Indian life and pensions market, as well as geographically too into the Gulf region. HDFC Life is also working towards combining its life insurance business with that of Max Life, which will give it significantly increased scale and opportunity.

European Union

The decision of the people of the UK to leave the European Union after over 40 years is one of profound importance which is bound to impact our business. For example, we use 'passporting' to service our 500,000 customers in Ireland, Germany and Austria through branches of our UK business, and to allow our Ireland business to service those UK customers invested in our International Bond. Whatever the outcome of the negotiations that will shortly start between the UK and the EU, our intention is to maintain current levels of service for all our customers.

It is no secret that, prior to the referendum, I publicly advocated the advantages that membership of the single market gives to the financial services industry in the UK, and to Standard Life, our customers and clients. It's now clear that many of these advantages will no longer be available. The people have spoken, the politicians are preparing for the Article 50 negotiations and we, as a responsible business, will do everything we can to make a success of the UK's new position in the world.

We intend to play our full part in influencing the negotiations and helping to build a solution that is right for the UK. We believe that this will benefit our customers, our shareholders, our employees and, ultimately, our country.

Culture and governance

Our company's culture is built on a set of strong values, including customer focus and trust. We embody these values in everything that we do. Governance and conduct are the measures we put in place, in part, to ensure we are continuing to follow our values consistently. I have always been very vocal in championing effective governance at board level. In 2016, we continued to look at how best we can serve the needs of our business, our customers and clients and, of course, our shareholders.

Against this background, it was particularly disappointing that the outcome of the Financial Conduct Authority's thematic review into the sale of non-advised annuities showed that a portion of annuity sales that we made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity. We are continuing the work to ensure we put things right and have made a provision in our accounts for the costs that we may incur in relation to this.

We have strengthened the governance and oversight of our principal insurance company, Standard Life Assurance Limited, by appointing an independent Chairman, Lynne Peacock, who already sits on the plc Board, and an additional three very experienced non-executives, Amanda Bowe, Richard Houghton and David Marock. This in turn will allow the plc Board to devote more time to its strategic oversight of the whole of Standard Life.

In other Board changes, we said goodbye to Crawford Gillies and Isabel Hudson, and I was very pleased to welcome John Devine as a non-Executive Director. John previously chaired Standard Life Investments and is a highly experienced operational practitioner and independent director, with previous roles at Threadneedle Asset Management Limited and Merrill Lynch.

In January 2017 we announced that Paul Matthews would be stepping down from the Board as Chief Executive of Pensions and Savings on 1 March 2017, prior to his retirement on 31 August 2017. His successor, Barry O'Dwyer, joins the Board from 1 March, bringing with him a great deal of customer insight experience from his role as CEO of Standard Life Assurance Limited.

Sustainability

As you would expect for a business that has been around for 191 years, operating in a sustainable way is central to what we do. I am very pleased that, once again, our people's hard work and dedication to making your business efficient, effective and responsible, was *recognised in our best-ever achievements in both the Dow Jones and FTSE4Good sustainability rankings*. We also received a 'Silver Class' award from independent experts RobecoSam for our corporate sustainability work. You can read more about our corporate and social responsibility activities in the Sustainability section of this report.

Standard Life Foundation

I announced the launch of the Standard Life Foundation at our AGM in May 2016. This independent charity carries on the spirit of the former Standard Life Charitable Trust, but with a new and enhanced focus. I also announced that a substantial endowment would be gifted to the Foundation too. This endowment, in the region of £80 million, represents the vast majority of the proceeds of the disposal of unclaimed demutualisation shares and related dividends.

Lord Darling, the former Chancellor of the Exchequer, is chair of the Foundation, supported by a team of very experienced trustees. The Foundation will focus on independent research to strengthen financial well-being and resilience in the UK. I expect it to become highly-regarded and a very influential force in commissioning and disseminating research, both on its own account and working alongside other like-minded organisations too.

Finally...

Businesses only succeed if they hold true to their values and constantly try to do the right thing. In a business like ours, customers and clients need to trust us and this trust is hard-earned.

Our achievements during 2016 are down to our dedicated employees. Tremendous people work for Standard Life and I'm very grateful to all of them for their hard work and talent. I'd also like to thank our shareholders for your continued support.

Over recent years we have fundamentally reshaped Standard Life and, very importantly, have created substantial value for shareholders. Standard Life has the potential to achieve much more and your company is in good shape to continue creating value for you in this increasingly complex and ever-changing world.



Sir Gerry Grimstone
Chairman

Standard Life plc

Keith Skeoch,
Chief Executive

Creating a world-class investment company

Q&A with Keith Skeoch, Chief Executive

Q How would you describe Standard Life's performance in 2016?

A Overall, we performed well. Our results show a picture of a business that is playing to its strengths and growing in times of profound political change and market volatility. We improved our financial discipline to increase profits, maintain our financial strength and grow dividends. We also saw our targeted investments in diversification help increase our assets and revenues.

We continued to attract new assets from customers and clients with £42bn of gross inflows across our business. One of the hallmarks of 2016 was the industry wide retreat from parts of the investment market, which saw the most challenging conditions for the UK mutual funds industry in over 20 years.

However, we experienced modest net outflows of £2.6bn, less than 1% of assets at the start of 2016. This included outflows from our mature books which are in long-term run-off. Against these headwinds fee based revenue grew by 5% which, combined with careful cost control, helped us deliver a 9% increase in operating profit. Our strategy to build a well-diversified business helps our company to cope with significant change. What was encouraging was the £4.1bn of net inflows into the areas we regard as the long-term drivers of Standard Life's growth.

Q What are Standard Life's ambitions?

A Our ambition is to create a world class investment company: a global business which competes in our home markets and against the leading companies across the world.

To do this we will have to bring together the best from our successful active asset management, wealth management and pension and savings businesses to meet the changing shape of saver and investor needs.

We will build on our asset management skills, the quality of our advice to customers, the strength of the propositions that sit on our distribution platforms and the administration skills that lie behind them. This combination has allowed us to attract a highly diversified customer and client base which we want to continue growing.

Q You talk about world-class - what does this mean?

A I believe to be world-class will mean our business is truly valued by savers, admired by the market and a source of pride for our people.

Our simple and consistent business model has been the foundation for our success for over a decade now and this continues to serve us well. However, to meet our ambitions we need to increase the pace of change and delivery in the business over the next year.

Building on the work undertaken in 2016, we will continue to broaden and deepen our investment capabilities through new product innovation and identifying investment opportunities. This will allow us to both strengthen our relationships with our customers and, ultimately, give them the investment outcomes they expect.

We'll continue to look for new opportunities to run our business more efficiently to drive real long-term value for all of our stakeholders. And we'll continue to focus on attracting the best talent from around the world to make our ambitions a reality.

Q You have been in the role for 18 months now, what changes have you introduced to make the business operate more effectively?

A My role is to ensure the business continues to evolve and progress. In my view the best way of doing this is to build a well-diversified global investment company where we work effectively together to drive value for customers, clients, and shareholders.

Since I took on the role of Chief Executive I've focused on improving our financial discipline and on ensuring we continue with targeted investments in diversification to generate growth. Delivering long-term value is not just about growing the business but also bringing it closer together and building a strong culture focused on delivering for shareholders and customers. It is a culture based on collaboration, diversity, respect and inclusion.

A culture is not developed overnight. It takes time to win the hearts and minds of those involved and is only evidenced through actions and behaviours. One key indicator of how we are progressing is our employee survey scores. Against the backdrop of change, it was pleasing that our employee engagement score increased slightly compared to the previous year.

So we are making good progress and we are already seeing the benefits of working more closely together, delivering a number of initiatives in the last year across the business.

We delivered new investment propositions across an increasingly broad range of asset classes and geographies to meet the emerging needs of our Institutional, Wholesale, Retail and Workplace customers and clients. Our very successful MyFolio suite of funds was also launched in Germany.

We opened a Tokyo office to further our reach in Japan and began a new strategic collaboration with Bosera International – one of China's leading asset managers. In North America and Asia, we continued to develop strategic partnerships with global names like John Hancock and Sumitomo Mitsui.

In the UK our financial adviser platform proposition grew following the acquisition of Elevate, building on our already successful platform business, and ensuring we now work with a broader adviser population. Our own UK-wide financial planning brand, 1825, continued to develop through the acquisition of three financial planning businesses.

We also announced a very exciting development for our associate business in India, with the proposed combination of the life insurance businesses of HDFC Life and Max Life.

Q How does the leadership team you have in place play its part in delivering Standard Life's strategy?

A My executive team brings together leadership skills and expertise from across the business. It's responsible for developing a single strategic plan that identifies our targeted investments in diversification and capitalises on the opportunities open to our asset management and pension and savings businesses, and those created by our various partnerships around the world. We also have a diverse, experienced and strong leadership population supporting the executive team in implementing our single strategy.

A key element of our strategy is recognising the importance of effective succession planning within that leadership population. We actively demonstrated this following the recent announcement that Paul Matthews is to retire this year. Barry O'Dwyer, a key member of the Pension and Savings management team, will take on Paul's responsibilities and replace him on the plc Board. I think this is a great example of the strength of talent we have at Standard Life and the importance we place on effective succession planning.

Q How will the UK's exit from the European Union impact on Standard Life's strategy?

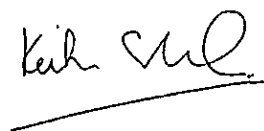
A The process and implications of the UK leaving the EU remain uncertain and we continue to monitor developments closely. However, Standard Life has a strong track record of adapting to changing markets and regulation. As a business we already operate successfully throughout the world as well as across borders in the EU. We have clients in 45 countries around the world, served by our own presence in 18 countries, and we operate across various regulatory regimes. I'm confident that we will continue to identify new opportunities that our developing relationship with the EU will bring. The uncertainty created by the UK's exit from the EU reinforces the global nature of our business. This aspect of our strategy won't change. We will continue to focus on creating innovative solutions, funds and propositions and working with regulators to deliver them to our customers and clients across the world.

Q What's next for the business?

A For me it's simple, we need to continue to deliver steady progress in becoming the world-class business that I've described.

The external environment may be challenging at the moment but I believe we need to continue to look to the long term. As a business we'll be celebrating our 200th birthday in 2025 and we are proud of our heritage. Our longevity has been built on holding true to our values, understanding the evolving needs of our customers and clients and continuously rising to meet the demands of the world around us.

Our purpose in everything that we do is to invest for a better future. We will continue to do this with the aim of making a real difference to the lives of our stakeholders.



Keith Skeoch
Chief Executive
Standard Life plc

World-class sponsorship

Our ambition to be world-class is also expressed through our sponsorships and each one has a direct link to our shared values.

Sir Andy Murray

It's been a fantastic year for current world number one Andy Murray, capped off with a knighthood. His commitment to excellence and ambition to be the best is directly aligned to our values and reflects what we stand for.

The Ryder Cup

Our partnership with the Ryder Cup has provided opportunities to raise awareness of our brand through one of the world's most iconic sporting events. Like the Ryder Cup, we too have a culture based on teamwork and shared values of integrity and respect. We were therefore delighted to confirm our extended partnership to Paris in 2018.

The British and Irish Lions

During 2016 we also announced our sponsorship of the British and Irish Lions' team and the tour to New Zealand in summer 2017. We believe that teams which work together succeed together and win. The Lions personify this and we're already looking forward to a thrilling rugby test series.

A simple and consistent business model...

Our scalable businesses are well positioned to manage, administer and advise on assets to meet a range of customer and client needs, and to create value for our stakeholders.

Our simple business model...

Increasing assets

We aim to grow the assets that we administer or manage, by deepening our relationships with existing customers and by attracting new customers.

Growing revenue

We aim to grow revenue by providing propositions which customers and clients value because of the quality of our service and the long-term investment returns we deliver. *Most of the fees we charge are based on the level of assets managed or administered.*

Lowering unit costs

We aim to reduce our unit costs by controlling expenses and investing carefully to improve both the scalability and efficiency of our business.

Driving profit

Increasing assets, growing revenue and lowering unit costs enables us to drive our profit and further invest in growing our business.

Cash generation is closely aligned with profit.

Optimising the balance sheet

We ensure that we have the appropriate level of capital to support our operations and provide protection for our policyholders, while continuing to focus on growing our capital-efficient fee business. We balance investing for business growth with continuing to pay growing dividends to shareholders.

...is designed to be sustainable and resilient over the long term...

We are well positioned to take advantage of four trends that continue to shape the global savings and investment landscape.

Democratisation of financial risk

Customers and clients are having to take more responsibility for their and their families' financial futures – driving the need for financial guidance, advice and simpler products and services.

Rebuilding trust in financial services

The global financial crisis damaged trust in financial services organisations. We will play our part in helping to rebuild this trust – by demonstrating we are committed to doing the right thing, being transparent in the way we operate and, through our products and services, offering value to our customers and clients.

Innovation, technology and digitalisation

We aim to develop innovative products and services – helping us to work more efficiently while improving the ways customers and clients can access, invest and keep track of their assets.

Slow growth, low inflation, compressed return environment

In these market conditions, customers and clients are looking for simple and transparent products, with clear outcomes that will meet their investment needs.

...to create value for our stakeholders

We aim to create value for our stakeholders by:

- ▶ Providing investment growth and excellent service for our customers and clients
- ▶ Using our influence as an investor to encourage responsible thinking and practices in other organisations
- ▶ Providing employment and opportunities for career growth to our people
- ▶ Delivering increased profits and dividends to grow shareholder value

...with a strategy to achieve our world-class ambitions

Our strategy is designed to help us make the most of our market opportunities and support our world-class ambitions.

Delivering our strategic objectives

Building a world-class investment company means providing real value for our customers and clients over the long term. It takes a commitment to teamwork and excellence in everything we do – and ensuring that our people have the skills, resources and knowledge to deliver.

Our strategic objectives are the key areas that we are focusing on to deliver against our business model. By developing strong relationships with customers and clients and broadening and

deepening our investment capability, we can increase assets and grow our revenue. We can lower our unit costs and grow our profits by building an efficient and effective business.

Attracting, retaining and developing our people will support us in performing strongly in the future.

Together our investments in diversification will help improve the resilience of our business model and the returns and value it delivers for our shareholders.

See p10-19 for more information

Broadening and deepening our investment capability

“We have continued to demonstrate our capabilities as a forward-looking, responsible company, as we look to deliver the investment outcomes our customers and clients expect.”

Rod Paris,
Chief Investment Officer

2016 summary

Key activities

- ▶ Continued to expand our liability aware range with launch of our unique Integrated Liability Plus Solutions
- ▶ Increased our focus on private markets where we believe better investment returns are possible over the long term
- ▶ Enhanced choice of investment funds with 16 funds launched during 2016
- ▶ Launched MyFolio in our European markets following its success in the UK
- ▶ Embedded Environmental, Social and Governance principles into our investment processes

Assets under administration (AUA)

£357.1bn +16%

Net flows

£2.6bn outflow

Key risks

Read more on p36-41

- ▶ Customer and client preferences and demand
- ▶ Investment performance
- ▶ Talent management

Objective

Broadening and deepening our investment capability gives us the potential to attract a wider range of future customers and clients. We design propositions and fund choices to deliver the outcomes they expect over the long term.

Success is measured by delivering investment performance that meets the desired outcomes of our customers and clients. Our propositions and fund choices demonstrate our capabilities as a forward-looking, responsible investor. As a long-term asset manager, our customers and clients expect us to have a long-term view on how their investments will perform.

Market forces

We are well positioned to benefit from global trends that are shaping the savings and investments landscape. This includes the potential for slower economic growth and the compressed return environment continuing for longer which we expect will drive demand for active asset management.

2016 performance

Our short-term investment performance was weaker in 2016 and this had an adverse impact on net flows. Net outflows of £2.6bn were less than 1% of assets at the start of 2016. Our overall long-term investment performance remains strong.

See p29 for more information about our investment performance

We launched 16 new funds across a range of different asset classes, including Equities, Multi-asset and Fixed income. New funds, with specific objectives, are part of our ongoing aim to meet the investment needs of our customers and clients

Our MyFolio range of risk-based funds, which launched in 2010, reached £10bn in assets under management – a positive demonstration of our reputation and ability to actively manage assets over the long term.

Outlook and 2017 objectives

We expect the compressed/low-return market environment to persist during 2017. Our main objective is to continue to innovate and seek new, diverse investment opportunities, including:

- ▶ Further strengthen our private markets capability such as private equity, real estate and illiquid credit
- ▶ Convert our strong pipeline for our Integrated Liability Plus Solution with further variants planned
- ▶ Target opportunities from growing global markets for outsourcing of management of insurance assets

Broadening capabilities to meet the needs of our customers and clients

Today, our ability to offer a broader range of funds compared to 2009 is a direct result of focusing on what our customers and clients want in terms of fund choice and expected outcome, together with continuing to follow our Focus on Change philosophy.

Focus on Change - a distinctive investment philosophy

Our distinctive investment philosophy, Focus on Change, lies at the heart of our wide range of investment funds and solutions. Focus on Change helps analyse key factors driving the market price of an investment and identifies the drivers that the wider market may have missed. Our core belief is that our experienced investment professionals can consistently add value to client portfolios by exploiting these market inefficiencies.

We recognise that corporate governance along with responsible stewardship of a business' capital, employees, customers, environment and society has a fundamental impact on long-term investment returns. Our commitment to socially responsible investing is a fundamental component of our Focus on Change investment philosophy and process.

Strategic objectives

The future of platform development

Elevate

Our acquisition of Elevate helps us create one of the largest and fastest growing adviser platform businesses in the UK – with combined assets under administration of over £40bn, and supporting over 3,000 adviser businesses.

The addition of the Elevate adviser platform provides further scale, expertise and resources to support the growing market demand for platform services and high-quality financial advice.

Building an efficient and effective business

“Our continuing investment in technology is helping us to develop increasingly scalable operations. We are able to administer growing volumes of assets efficiently.”

Colin Walklin,
Group Chief Operating Officer

2016 summary

Key activities

- ▶ Continued to evolve our IT systems to reduce ongoing costs and increase scalability
- ▶ Enhanced our position as a leading platform provider following the acquisition of Elevate
- ▶ Increased automation in customer operations processes

Cost/income ratio

62% -1% pt

Assets under administration

£357.1bn +16%

Operating profit

£723m +9%

Key risks

Read more on p36-41

- ▶ Change management
- ▶ IT failure and security
- ▶ Outsourcer relationship management
- ▶ Political change

Objective

Efficient and effective operations are critical for our business. They help us provide outstanding service to our customers, advisers and employers at a competitive unit cost.

We're transforming our operating platform to make it more modern, flexible and scalable. We are also focusing on efficiency – allowing us to deliver new products to market faster and effectively manage unit costs. The surrounding architecture – which includes our IT systems, the processes we follow and external service providers we use – gives us greater flexibility and reduces ongoing maintenance costs.

Market forces

To meet the expectations of our customers, advisers and employers, we've continued to work to deliver modern, consistent experiences across all of our platforms. Innovation, technology and digitalisation are major market trends – and we are investing in technology that helps us to become more scalable and operate more efficiently.

We're supportive of changes that will improve regulation, and we respond in an efficient and effective manner. For example, we've been early adopters of the European Market Infrastructure Regulation (EMIR) principles, designed to improve transparency and reduce risk in the derivatives market.

2016 performance

We celebrated 10 years of our Wrap platform. Since launching in 2006, the platform has been adopted by over 1,500 financial advice and wealth management firms, and currently serves over 200,000 customers.

We successfully embedded our new trade order management system – the core investment platform for our fund managers – and we've made significant progress with improving the technology and systems we use to manage investment data.

The cost/income ratio, which measures our efficiency, improved by 1% point to 62%. This includes the benefit of synergies delivered from the integration of Ignis. We have generated over £50m of annual cost synergies from this acquisition.

Outlook and 2017 objectives

- ▶ Invest in technology to increase scalability, reduce ongoing costs and increase our ability to adapt to change
- ▶ Modernise the information storage systems in our Pensions and Savings business to address risks around technology going out of date and to reduce costs
- ▶ Transform the way we use digital platforms to provide information to customers and clients

A focus on growing our business and efficiency

Advised platform and DC pension markets expected to grow strongly (£bn)

Sharpening focus on efficiency
Cost/income ratio

Growth opportunity

- ▶ Financial advisers are turning to platforms to drive scalability and efficiency and address the growing need for advice
- ▶ The shift from defined benefit to defined contribution (DC), together with auto enrolment, is driving growth in DC pensions

Efficiency

- ▶ We have an established track record of driving down unit costs
- ▶ We see opportunities for further efficiencies including streamlining our customer operations and the integration of Elevate

¹ Source: Fundscape.

² Source: Spence Johnson.

Attracting, retaining and developing talented people

“We are committed to bringing out the best in our people and enabling them to reach their potential.”

Sandy Begbie,
Chief People Officer

2016 summary

Key activities

- ▶ Developed our people managers with a tailored 12-month training programme
- ▶ Encouraged our people to develop their skills through external board appointments
- ▶ Implemented the Living Wage Foundation's latest UK hourly rate of £8.45 (£9.75 in London)

Employee engagement survey

Engagement

65% +2% pts

Enablement

62% -2% pts

Key risks

read more on p36-41

- ▶ Political change
- ▶ Talent management

We underpin everything we do with clear, consistent values

Objective

We invest in our employees' development because we know that engaged people are central to building long-term customer and client relationships, contributing to our businesses' performance, reputation, profitability and long-term shareholder value.

Market forces

We compete in a global marketplace where talented people are in high demand. We invest in mentoring, coaching and development programmes for our people as part of their ongoing career development.

We have a robust succession planning process in place for our strategic executive committee members. This includes ongoing talent management for people who have the potential and drive to become our future business leaders.

2016 performance

Around 1,200 of our people were supported through employee networks. We launched a Carers Network for people who are, or support, carers and also LGBT+ Allies, which aims to raise awareness of lesbian, gay, bisexual and transgender issues in the workplace.

We continued our commitment to employing young people, recruiting 46 graduates and 158 people through our youth employment initiatives. 8% of our people in the UK and Ireland are aged 25 or under, compared to just 0.5% in 2010.

Our peoples' contribution to business innovation and support for our communities was celebrated through our annual Inspiration Awards.

We had some small changes in the overall engagement and enablement scores from our latest employee survey. In 2017, we will create action plans to address the key themes from the survey.

Outlook and 2017 objectives

- ▶ Continue to invest in our leaders and further develop our strong talent pipeline
- ▶ Promote the continued importance and benefits of cooperation and collaboration to create high performing teams
- ▶ Progress the policies and initiatives for a diverse and inclusive culture, including working towards our targets for the proportion of women in leadership roles
- ▶ Identify and address key actions from our employee engagement survey

See p45 for more information about our employee engagement and enablement

Our commitment to gender equality

We are committed to providing an inclusive workplace where everyone is valued for who they are and what they contribute. A key aspect of this is gender equality. We know it is an area where we have more work to do.

In September 2016, we signed the UK's HM Treasury Women in Finance Charter. This makes firm and public commitments to support actions which will improve the representation of women in our industry, including progressive target setting for our leadership population. By the end of 2021, we aim to have 30-35% women in leadership roles across our business (2016: 25%).

Strategic objectives

Developing relationships through strategic partnerships

We have established partnerships in parts of the world that are strategically important to us. This includes North America – one of the most competitive markets in the world for institutional and wholesale asset management – where we partner with leading financial services company John Hancock.

In 2016 we extended the range of funds we offer to John Hancock's retail investors, by launching the Global Focused Strategies Fund. We have also increased our distribution and client service operations in Boston to support our growing activity in this area. At the end of 2016, we managed £5.4bn of assets through this strategic partnership.

Developing strong relationships with customers and clients

“Our strong relationships with customers, clients and advisers have been the driving force of our success.”

Colin Clark,
Global Client Director

2016 summary

Key activities

- ▶ Continued to expand and diversify Standard Life Investments' client base by geography, channel, client type and range of funds – supported by innovative solutions and commitment to service excellence
- ▶ Supported leading advisers and consultants in the UK to embed workplace and platform solutions
- ▶ Continued to grow strategic partnerships that serve clients in markets worldwide – including John Hancock in the US

Movement in Standard Life brand net promoter score

Down 11

Key risks

Read more on p36-41

- ▶ Customer and client outcomes
- ▶ Customer and client preferences and demand
- ▶ Outsourcer relationship management

Objective

We focus on putting customers and clients first, and we always aim to operate in a timely and efficient way. If we don't meet our own high standards, we look to put it right. Our processes and technology are designed to enable us to deliver great customer experiences that are also scalable, to support the future growth of our business.

Market forces

Increased regulatory and legislative complexity, as well as political uncertainty, have meant a greater need for advice and tailored investment solutions. Individual and institutional clients are looking to trusted organisations and advisers to help them make the right choices. In the UK, we've also seen increased complexity through pension freedoms – where people have greater choice in how they take their pension.

We're also competing against offerings from other organisations. We therefore aim to offer a premium service, consistent with our overall proposition.

A compelling proposition

Administration

We offer innovative products and services that allow customers and clients to easily manage their savings and investments. We make the most of technology to ensure people can easily access, service and consolidate their assets.

Advice

We offer financial planning and advice to help clients achieve a wide range of financial goals. We also offer a platform for independent advisers that helps them capitalise on the growing demand for their services and to serve their clients more efficiently.

2016 performance

During 2016 we continued to strengthen how we support the needs of our increasingly diverse range of institutional and wholesale clients. We've also looked for opportunities to diversify through our strategic relationships.

With individuals taking more responsibility for their finances and seeking advice, our Wrap platform has remained a popular choice for advisers – as it allows them to consolidate and manage clients' financial plans more efficiently. The acquisition of Elevate has strengthened our position in the UK advised platform market, connecting us with more advisers and customers.

Our brand net promoter score is an important *measure of customer advocacy*. In 2016 our score fell by 11 points. We believe the reasons for this include the processes around pension freedoms – which is a complex area – and lower customer confidence in financial services as a whole. We also saw challenges arising from new technology designed to improve customer experience. We've planned a number of actions for 2017 to improve customer experiences – including automating and simplifying key processes, better self

Asset management

We're an active asset manager. We offer market-leading investment products that have clear investment outcomes. Our approach is supported by a team of investment experts and a philosophy which is focused on anticipating market change and carefully managing risks.

service online, and greater collaboration to better understand customer needs.

We have also continued our work to address the findings of the Financial Conduct Authority's thematic review into the sale of non-advised annuities. The review showed that a portion of annuity sales that we made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.

Outlook and 2017 objectives

- ▶ Continue to develop client relationships – including through new distribution partnerships and growing global brand awareness – and how we connect with advisers through our platform business
- ▶ Integrating new technology to improve our telephone systems and online capabilities to deliver services that are scalable, automated and cost efficient
- ▶ Continue to collaborate across our business to keep improving customer, client and adviser experiences

Strategic objectives

Creating shareholder value in India

In April 2016, we increased our stake in HDFC Life from 26% to 35%.

In August 2016, it was announced that HDFC Life and Max Life had agreed terms to combine their life insurance businesses. They are working towards completing this transaction which is expected to strengthen HDFC Life's position as a leading private sector life insurance business in India. The proposed transaction is subject to regulatory, court and other necessary approvals.

The strategic benefits include increased scale and enhanced distribution and product mix. For example, the combined business would have bank assurance relationships – where insurance products are sold through bank branches – with three of the top six private sector banks in India.

Growing and diversifying our revenue and profit

“Our targeted opportunities to further diversify our business help us to grow revenues and profits.”

Luke Savage,
Chief Financial Officer

2016 summary

Key activities

- ▶ Completed the acquisition of Elevate, making us one of the UK's largest and fastest growing adviser platform businesses
- ▶ 1825, our financial advice business, completed three further acquisitions
- ▶ Increased our holding in HDFC Life to 35% and also announced the proposed combination of this business with Max Life

Underlying cash generation

£502m +9%

Operating profit

£723m +9%

Full year dividend per share

19.82p +8%

Key risks

Read more on p36-41

- ▶ Counterparty risk
- ▶ Investment performance
- ▶ Longevity risk
- ▶ Market risk
- ▶ Regulatory change

Objective

We remain focused on growing and diversifying revenue and profit, to deliver sustainable value for our shareholders and other key stakeholders. We aim to do this by creating a world-class investment company that is well diversified by geography, distribution channel, client type, asset class and across the value chain.

To support diversification, we will continue to pursue organic growth opportunities from our own resources and activities – while also carefully targeting appropriate acquisitions and new strategic partnerships.

Market forces

As people are having to take more responsibility for their financial futures, we've seen a growing demand for financial advice and guidance. This presents an opportunity for us to diversify and grow our sources of revenue – in particular, through our financial advice business 1825.

We've seen increased customer and client appetite for simple and transparent products that have clear investment objectives, and to take a more active approach to managing their investments. These are areas of strength for our business, built on our track record of strong long-term investment performance and innovation.

2016 performance

We benefited from our diversified client base with business channels responding in different ways to the market environment – which was impacted by political and economic developments in the UK, the US and other parts of the world. We also enhanced our focus on financial discipline.

We continued to expand our global capabilities and distribution through new strategic relationships. These relationships are an important way of supporting our global growth and diversification plan by providing a cost-effective way of quickly accessing new markets.

Outlook and 2017 objectives

- ▶ Expand our business in Europe, North America and Asia to continue extending our global reach
- ▶ Grow our 1825 financial advice business through organic growth and acquisitions
- ▶ Pursue a structured programme to seek further opportunities to grow and diversify our business, while also reducing costs

Delivering diversified and sustainable growth

Growth fee based revenue (£m)

£1,205m +10%

Full year dividend per share

19.82p +8%

Growth, diversification, performance

- ▶ We have delivered strong increases in revenue and profit by leveraging the scalability of our growth businesses
- ▶ We continue to diversify geographically
- ▶ We are well positioned to capture revenue across the value chain through advice, administration and asset management
- ▶ Our performance allows us to continue to pursue our progressive dividend policy

See the Glossary for definitions of our growth channels and mature books of business

Luke Savage,
Chief Financial Officer

Delivering diversified and sustainable growth

“Our financial performance demonstrates continued growth and resilience during a period of market uncertainty.”

Q How would you summarise Standard Life's performance in 2016?

A Standard Life has demonstrated the benefits of our diversified business, delivering a robust set of results against a backdrop of challenging market conditions.

We have continued to attract high levels of gross flows, indicating strong demand for our products, but we saw an increase in redemptions, particularly in wholesale markets which were impacted by weaker investor sentiment. We delivered another year of increased revenue which together with our improved focus on cost discipline has driven a 9% increase in operating profit to £723m.

Alternative performance measures (APMs)

We assess our financial performance using a variety of measures. Some of these measures are defined under IFRS such as IFRS profit. Others, such as operating profit, are not defined under IFRS and are therefore termed alternative performance measures.

Further details on alternative performance measures including reconciliations to relevant IFRS metrics are provided in Supplementary information in Section 11. Definitions for APMs are included in the Glossary.

Financial performance

2015 comparatives exclude the Canadian and Singapore discontinued operations unless otherwise stated.

Q You announced that there would be an increased focus on efficiency across the business during 2016. How has that work progressed so far and what can we expect during the remainder of 2017?

A Standard Life has a good track record over recent years of improving operational efficiency. This has been demonstrated by the reduction in the cost/income ratio which has fallen by seven percentage points since 2012. The integration of Ignis which has delivered over £50m of annual cost savings and our investment in IT architecture are good examples of what we have done to improve efficiency. Whilst, in the short term, the investment to build our 1825 business and the acquisition of Elevate will impact the downward trajectory in the cost/income ratio, we are confident that the underlying direction remains unchanged. We remain focused on delivering further operational efficiencies at the same time as continuing to invest in the growth of our business.

Q Standard Life has a strong capital and cash position. How can we expect to see this being used?

A Our strong capital position is very important to us. It provides a buffer to support our progressive dividend policy which has continued uninterrupted for the last 10 years, something we are all very proud of. It also allows us to make strategic investments and acquisitions to grow our business, such as our increased stake in HDFC Life and the acquisition of Elevate. We intend to maintain our progressive dividend policy and continue to invest capital where we believe it increases shareholder value.

Q Can you explain what is included in the results in relation to the FCA's enhanced annuity thematic review?

A Our IFRS profit before tax includes a non-operating impact of £175m relating to a provision for an estimate of the redress payable to customers, the costs of conducting the review, and other related expenses. At this stage there is significant uncertainty relating to all of these elements. Note 40 of the Group financial statements provides further background, and explains that we are seeking for up to £100m of the financial impact to be mitigated by insurance. Discussions are ongoing with our insurers and, as a result, no insurance recovery has been recognised as an asset in these financial statements.

Our business model

Increasing assets

Assets under administration and net flows

The increase in AUA from £307.4bn to £357.1bn was driven by market movements, including benefits from a lower Sterling exchange rate since the EU referendum, and the acquisition of the Elevate platform business.

Net outflows were £2.6bn (2015: inflows £6.3bn) against a backdrop of market uncertainty and weaker short-term investment performance.

Resilient net inflows of £4.1bn across our growth channels were offset by net outflows of £7.1bn from our mature books, which are in long-term run-off. Gross inflows remained strong at £42.1bn (2015: £43.0bn) but redemptions increased to £44.7bn (2015: £36.7bn).

Our growth channels saw continued positive net flows, benefiting from product and client diversification. Standard Life Investments experienced net outflows of £0.7bn (2015: inflows £10.3bn). Institutional benefited from the breadth of our product offering with net inflows of £1.1bn (2015: £3.3bn). This was outweighed by net outflows of £1.7bn (2015: inflows £9.3bn) from Wholesale where investors reacted to market volatility and short-term investment performance. Pensions and Savings growth net inflows of £5.9bn (2015: £6.7bn) were driven by strong platform flows and growing contributions into existing Workplace schemes.

Net outflows from our mature books reduced by £1.7bn to £7.1bn, helped by a £1.2bn new mandate secured from Phoenix.

Net flows	2016 £bn	2015 £bn
Standard Life Investments growth	(0.7)	10.3
Pensions and Savings growth	5.9	6.7
Eliminations and other growth	(1.1)	(2.1)
Total growth channels	4.1	14.9
Standard Life Investments third party strategic partner life business	(2.7)	(4.8)
Pensions and Savings mature fee	(3.5)	(3.1)
Pensions and Savings spread/risk	(0.9)	(0.9)
Total mature books	(7.1)	(8.8)
Associate and joint venture life businesses	0.4	0.2
Total net flows	(2.6)	6.3

Further information on AUA and net flows are included in the Supplementary information section of this report

Growing revenue

Fee based revenue

Fee based revenue increased by 5% to £1,651m (2015: £1,579m) driven by higher average asset levels, including the benefit of exchange rate movements. Average fee revenue yield remained broadly in line with the prior year.

Fee based revenue in the UK Pensions and Savings and Standard Life Investments growth channels increased by 11% and 9% respectively. This was partly offset by a £21m reduction in Hong Kong due to lower regular premium new business. Fee based revenue from our mature business reduced in line with expected outflows.

Spread/risk margin

Spread/risk margin, which mainly relates to income earned on annuities, decreased by £11m to £134m. 2016 includes a £22m benefit from an acceleration of payments from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II. This was more than offset by a £26m reduction due to a number of other components including mortality experience in 2016 and new business profits. Although we had expected fewer asset and liability opportunities to exist in the low yield environment, we took advantage of a number of periods of market volatility to deliver a benefit of £25m (2015: £30m).

Operating assumption and actuarial reserving changes provided a benefit of £42m (2015: £44m), primarily relating to future longevity assumptions.

Lowering unit costs

We invest to enhance our propositions and capabilities in a disciplined manner that aims to improve both the scalability and efficiency of our business. The cost/income ratio which includes our share of associates' and joint ventures' (JVs) profit before tax, has improved by 1% point to 62%. This reflects not just the rise in revenue but also our continued cost discipline and drive for greater cost efficiencies.

Operating expenses increased by 3% to £1,159m (2015: £1,124m) reflecting further investment in expanding the distribution and global reach of Standard Life Investments, building scale in the 1825 business, the acquisition of Elevate, ongoing investment in technology in our Pensions and Savings business and the impact of exchange rate movements.

Assets under administration
(£bn)

£357.1bn +16%

Fee based revenue
(£m)

£1,651m +5%

Cost/income ratio
(%)

62% -1% pt

Driving profit

Operating profit before tax increased by 9% and IFRS profit from continuing operations¹ increased by 33%.

See p115, p141 and p142 for further details on operating profit and reconciliation of operating profit to IFRS profit

Operating profit before tax

Operating profit before tax continues to be a key measure which helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing non-operating items.

Operating profit before tax increased by £58m to £723m, driven by higher fee revenue in our growth channels. Capital management increased by £12m to £21m largely due to the benefit of a higher pension scheme surplus. Our share of profit from associates and JVs continued to grow with strong performance from HDFC Life and HDFC Asset Management in India and further progress from Heng An Standard Life in China.

Operating profit benefited by approximately £20m from lower average Sterling exchange rates in 2016 compared to 2015.

Underlying performance

Underlying performance increased by 8% to £681m (2015: £630m) and includes the £22m spread/risk margin benefit from an acceleration of payments from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II. Underlying performance excludes the £42m (2015: £44m) of operating assumption and actuarial reserving changes which benefited operating profit.

IFRS profit¹

IFRS profit from continuing operations increased to £368m (2015: £276m) due to a 9% increase in operating profit and reduced restructuring costs offset by the £175m provision for annuity sales practices.

Short-term fluctuations in investment return and economic assumption changes generated a profit of £8m (2015: loss £63m) mainly due to a narrowing of credit spreads and a fall in yields.

Restructuring and corporate transaction expenses reduced to £67m (2015: £115m), and included £24m relating to the integration of Ignis, £5m for staff pension scheme restructuring, £4m of costs relating to the Elevate acquisition, £15m Pensions and Savings transformation costs and a number of other business unit restructuring programmes and corporate transactions.

2015 also included a £46m non-operating restructuring loss in Hong Kong following regulatory change.

The non-operating loss includes £175m relating to the provision for annuity sales practices.

The total tax expense attributable to equity holders' profit from continuing operations was £68m (2015: £77m). Further details are included on the next page.

Other² profit from continuing operations comprises the share of associates' and joint ventures' tax of £13m (2015: £13m). In 2015, this also included a Singapore IFRS loss before tax of £42m which largely related to expenses in respect of the closure of that business. The 2015 IFRS profit from discontinued operations of £1,147m included the gain on sale of the Canadian business of £1,102m.

IFRS profit	2016 £m	2015 £m
Operating profit before tax	723	665
Non-operating loss before tax	(274)	(257)
Total tax expense	(68)	(77)
Other ²	(13)	(55)
IFRS profit from continuing operations¹	368	276
IFRS profit from discontinued operations	-	1,147
Total IFRS profit¹	368	1,423

Analysis of non-operating loss before tax	2016 £m	2015 £m
Short-term fluctuations in investment return and economic assumption changes	8	(63)
Restructuring and corporate transaction expenses	(67)	(115)
Impairment of intangible assets	(19)	(7)
Provision for annuity sales practices	(175)	-
Other operating profit adjustments	(21)	(72)
Non-operating loss before tax	(274)	(257)

¹ After tax attributable to equity holders of Standard Life plc. For further details on our IFRS results, see the Group's IFRS consolidated income statement on p113.

² Singapore was presented as a discontinued operation within operating profit, but under IFRS 5 it was included in continuing operations. Therefore a reclassification was required. For further details see Note 2 in the Group financial statements section.

IFRS profit
(£m)

Movement in underlying performance and operating profit
(£m)

£368m +33%

Underlying cash generation

This measure provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to our shareholders.

Underlying cash generation increased to £502m driven by the growth in fee based revenue within underlying performance.

Reconciliation of underlying cash generation	2016 £m	2015 ¹ £m
Underlying performance	681	630
Associates and JVs adjustment ²	(60)	(44)
Current tax on underlying performance	(106)	(114)
DAC/DIR adjustment	(2)	5
Fixed and intangible assets adjustment	(11)	(18)
Underlying cash generation	502	459

Group tax expense from continuing operations

The total tax expense attributable to equity holders' profits from continuing operations was £68m (2015: £77m), of which £127m (2015: £114m) related to operating items and a credit of £59m (2015: credit £37m) to non-operating items. The reduction in the tax expense mainly reflects non-recurring items which increased the tax charge in 2015. The effective tax rate was 14%² (2015: 19%²) compared to a UK corporation tax rate of 20% (2015: 20.25%). The main reasons for the rate being less than the UK corporation tax rate are the inclusion within profit before tax of our share of post-tax profit of JVs and associates with no added tax charge and low tax rates relating to profit attributed to non-controlling interests which are included in profit before tax. These are also expected to reduce the effective tax rate in future periods. There are also a number of one-off items affecting both years. Excluding the effect of the accounting for JVs and associates profit and non-controlling interests the effective tax rate would be 18% (2015: 25%). Excluding these effects, in the medium term we would expect the effective tax rate on profit attributable to equity holders (subject to one-off items in any given year) to be broadly in line with the UK corporation tax rate.

In 2016, our total tax contribution from continuing operations to tax authorities in all the jurisdictions in which we operated was £1,149m (2015: £1,059m). Of the total, £451m (2015: £332m) was taxes borne by the Group whilst £698m (2015: £727m) represents tax collected by us on behalf of tax authorities. Taxes borne are higher than 2015 mainly due to increased UK corporation tax payments relating to investment returns on policyholder investments. Of the taxes collected, the largest items are pay-as-you-earn (PAYE) deductions from pension payments made to customers and from employee payroll payments.

Tax policy

Understanding tax risk, how to manage it, and how it impacts all our stakeholders are important parts of running our business responsibly. The Group proactively manages tax risks and employs an experienced in-house tax team to oversee the affairs of the Group. We have a tax risk management policy that is approved annually by the Board and have published our tax strategy on our website at www.standardlife.com/annualreport

Optimising the balance sheet

Solvency II capital surplus³

Our capital surplus is the amount of capital resources (referred to as Own funds) that the Group holds in excess of its capital requirement. The calculation of the Group's capital resources and requirement is governed by the Solvency II regulatory regime. 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 capital requirement (SCR). The SCR is calibrated so that the likelihood of a loss being greater than the SCR in one year is less than 1 in 200. Around 90% of the Group SCR relates to Standard Life Assurance Limited (SLAL), our principal insurance company.

We are strongly capitalised with a Solvency II capital surplus (Investor view) of £3.3bn (2015: £3.3bn) representing a solvency cover of 214% (2015: 222%). Capital requirements have increased by £0.2bn as a result of lower interest rates and higher equity values. We disclose an Investor view of our solvency position as this provides insight into the solvency capital provided by equity and debt investors.

The Solvency II Investor view capital surplus of £3.3bn would change by £0.2bn or less following a:

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

The Regulatory view solvency cover prescribed by Solvency II regulations is 176% (2015: 162%). The Regulatory view capital surplus excludes £0.2bn (2015: £1.2bn) of capital in subsidiaries that is not deemed to be freely transferrable around the Group. The Regulatory view capital surplus increased to £3.1bn (2015: £2.1bn) due to a reduction in unrecognised capital following methodology and legislative changes. In addition, the Regulatory view solvency cover is diluted by the inclusion of £1.2bn (2015: £0.7bn) of capital requirements for with profits funds and our defined benefit pension scheme. These capital requirements are covered in full by capital resources in those funds.

Reconciliation of Standard Life Investor view and Regulatory view	31 December 2016 ³				1 January 2016 ³			
	Investor view	Less unrecognised capital	Add with profits funds and pension scheme	Regulatory view	Investor view	Less unrecognised capital	Add with profits funds and pension scheme	Regulatory view
Own funds	£6.2bn	(£0.2bn)	£1.2bn	£7.2bn	£6.0bn	(£1.2bn)	£0.7bn	£5.5bn
Solvency capital requirement (SCR)	(£2.9bn)	-	(£1.2bn)	(£4.1bn)	(£2.7bn)	-	(£0.7bn)	(£3.4bn)
Solvency II capital surplus	£3.3bn	(£0.2bn)	-	£3.1bn	£3.3bn	(£1.2bn)	-	£2.1bn
Solvency cover	214%			176%	222%			162%

¹ Underlying cash generation now includes dividends received from our Indian associates. Prior period figures have been restated. Further details are included in the Supplementary information section of this report.

² Tax expense attributable to equity holders' profits divided by profit before tax expense attributable to equity holders' profits. Includes profit attributable to non-controlling interests.

³ 31 December 2016 based on draft regulatory returns. 1 January 2016 based on final regulatory returns.

Operating return on equity

Operating return on equity measures our success in generating operating profit relative to our shareholder capital. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders. For example, in April 2016 we invested £179m to increase our stake in HDFC Life.

Operating return on equity increased to 15.2% (2015: 14.2%) reflecting strong operating profit partly offset by a higher tax charge.

Our key growth channels including Standard Life Investments Institutional and Wholesale, and UK Workplace and Retail are 'capital-lite' which means that they do not require significant amounts of additional capital as they continue to grow.

Operating return on equity continues to be diluted by the impact of the c£1bn pension scheme surplus. Excluding the impact of the pension scheme, operating return on equity was 18.8% (2015: 16.9%).

Dividends

Dividend policy

Our progressive dividend policy is to grow the annual dividend from the prior year pence per share payment at a rate that is sustainable over the long term.

Proposed dividend

The Board is recommending a final dividend for 2016 of 13.35p per ordinary share which is an increase of 8.2% on last year's final dividend. Subject to shareholder approval, this will be paid on 23 May 2017 to shareholders on the register at close of business on 18 April 2017.

The dividend payment which is expected to be £262m is strongly supported by underlying cash generation. At 31 December 2016 Standard Life plc held £0.9bn of cash and liquid resources and £1.6bn of distributable reserves.

The final dividend, combined with the 2016 interim dividend of 6.47p, brings the total dividend for the year to 19.82p – an increase of 8.0% on the 2015 full year dividend.

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 the Risk management section of this Strategic report.

Liquidity management

Standard Life plc, the Group holding company, holds substantial cash and liquid resources. At 31 December 2016, Standard Life plc held £395m (2015: £522m) of cash and short-term debt securities, £304m (2015: £290m) of bonds and £201m (2015: £200m) of holdings in pooled investment funds managed by Standard Life Investments.

We continue to maintain a strong liquidity position and this was again shown in internal stress testing undertaken during 2016.

The increase in dividends received from subsidiaries includes approximately £50m related to capital released following the integration of Ignis.

In April 2016 we increased our stake in HDFC Life by 9% to 35%. This was funded from existing Standard Life plc resources. In October 2016 we completed the purchase of the Elevate platform business. This purchase was funded by Standard Life Assurance Limited, but the cost impact will be absorbed by Standard Life plc's resources over time.

In April 2016 we extended the maturity date of our syndicated revolving credit facility by a further year to 2021. This £400m facility is held as part of our contingency funding plans and is currently undrawn.

	2016 £m	2015 £m
Standard Life plc cash and liquid resources		
Opening 1 January	1,012	630
Canada net retained proceeds	-	460
Dividends received from subsidiaries	457	355
Cash dividends paid to shareholders	(370)	(343)
Cash investments in associates and JVs	(177)	(3)
Cash investments in subsidiaries	(31)	(44)
Other	9	(43)
Closing 31 December¹	900	1,012

¹ 31 December 2016 excludes £36m of cash in the Unclaimed Assets Trust. The residual assets of this trust (after claims and costs have been settled) are expected to be donated to the Standard Life Foundation. IFRS presentation at 31 December 2016 consists of investments in subsidiaries of £276m, debt securities of £605m and cash and cash equivalents of £55m.

Operating return on equity
(%)

15.2% +1% pt

Dividend per share
(pence)

19.82p +8%

Business performance

Our reportable segments have been identified in accordance with the way that we are structured and managed. In 2015 discontinued operations for segmental reporting purposes related to our Canadian business which was sold on 30 January 2015 and our Singapore business, the closure of which was announced in June 2015.

Analysis of operating profit¹ from continuing operations

	Standard Life Investments		Pensions and Savings ²		India and China		Other ³		Eliminations ⁴		Total continuing	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Fee based revenue	885	843	861	808	17	38	-	-	(112)	(110)	1,651	1,579
Spread/risk margin	-	-	134	145	-	-	-	-	-	-	134	145
Total operating income	885	843	995	953	17	38	-	-	(112)	(110)	1,785	1,724
Total operating expenses	(537)	(532)	(655)	(610)	(22)	(36)	(57)	(56)	112	110	(1,159)	(1,124)
Capital management	-	-	22	14	-	-	(1)	(5)	-	-	21	9
Share of associates' and joint ventures' profit before tax	35	31	-	-	41	25	-	-	-	-	76	56
Operating profit before tax	383	342	362	357	36	27	(58)	(61)	-	-	723	665
Underlying adjustments ⁵	-	-	(42)	(35)	-	-	-	-	-	-	(42)	(35)
Underlying performance	383	342	320	322	36	27	(58)	(61)	-	-	681	630
Reversal of underlying adjustments	-	-	42	35	-	-	-	-	-	-	42	35
Share of associates' and joint ventures' tax expense	(11)	(11)	-	-	(2)	(2)	-	-	-	-	(13)	(13)
Non-operating items	(50)	(53)	(207)	(131)	(3)	(47)	(14)	(26)	-	-	(274)	(257)
Total tax expense	(63)	(53)	(25)	(38)	-	5	20	9	-	-	(68)	(77)
Singapore included in discontinued segment	-	-	-	-	-	(42)	-	-	-	-	-	(42)
Profit for the year attributable to equity holders of Standard Life plc	259	225	130	188	31	(59)	(52)	(78)	-	-	368	276

¹ Operating profit is IFRS profit before tax adjusted to remove the impact of short-term market driven fluctuations in investment return and economic assumption changes, restructuring costs, amortisation and impairment of intangible assets acquired in business combinations, gain or loss on the sale of a subsidiary, associate or joint venture and other one-off items which are 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 2016 operating profit is based on the expected long-term pension expense, which results in a £5m increase to operating profit before tax (2015: £35m) and a corresponding increase to non-operating restructuring and corporate transaction expenses – refer to Note 10 in the Group financial statements section for further details.

² UK and Europe has been renamed as Pensions and Savings.

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

⁴ Eliminations primarily relate to revenue and expenses included in both the Pensions and Savings business 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 £42m (2015: £44m), included in the spread/risk margin and principally in respect of longevity assumption changes. The 2015 underlying adjustment also included £9m shareholder support provided to the German with profits business, included in operating expenses.

Delivering innovative, client focused, funds and solutions

“Continued revenue growth, together with controlled management of costs, has delivered increased profitability.”

Keith Skeoch,
Chief Executive, Standard Life Investments

Standard Life Investments is a leading active asset manager. We offer market-leading investment funds and solutions to our third party clients through two main distribution channels:

- ▶ **Institutional:** managing assets for a wide range of institutions, such as pension fund clients, government authorities, corporates, charities and insurance companies
- ▶ **Wholesale:** providing funds and solutions to retail investors through wholesale distributors and platforms

We also provide active asset management services for life insurance books to the wider Standard Life Group and to strategic partners such as the Phoenix Group.

As truly 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 key to helping our clients look to their future with confidence.

Our distinctive investment philosophy, Focus on Change, lies at the heart of our wide range of investment funds and solutions. Focus on Change helps analyse key factors driving the market price of an investment and identifies the drivers that the wider market may have missed. Our core belief is that our experienced investment professionals can consistently add value to client portfolios by exploiting these market inefficiencies.

Overview

- ▶ Total AUM up 10% to £277.9bn
- ▶ Fee based revenue from growth channels increased by 9% to £680m
- ▶ Gross inflows, in our growth channels, were resilient at £28.5bn (2015: £31.4bn), while net outflows of £0.7bn (2015: inflows £10.3bn) were impacted by higher redemptions
- ▶ EBITDA margin of 45% (2015: 42%), achieved one year ahead of stated target on acquisition of Ignis
- ▶ Operating profit increased by 12% to £383m (2015: £342m) driven by increased fee revenue and controlled growth in expenses
- ▶ Cost/income ratio improved to 58% (2015: 61%) with continued integration of the Ignis business and ongoing cost discipline
- ▶ Weaker short-term investment performance with 20% of growth channels funds ahead of benchmark over one year, 76% over three years and 88% over five years

We recognise that corporate governance along with responsible stewardship of a business' capital, employees, customers, environment and society has a fundamental impact on long-term investment returns. *Our commitment to socially responsible investing is a fundamental component of our Focus on Change investment philosophy and process.*

Investing for the longer term

An uncertain political backdrop has the potential to dampen global economic growth: the form Brexit takes and the trade and immigration policies implemented by the new US administration makes the path for asset prices more complicated. A number of supportive factors are still in play: the US corporate profits recession is ending, fiscal policy is expected to be expansionary, and financial stress is contained at least for the time being. China is experiencing a slowing economy but remains on course to rebalance away from investment and to consumption.

In a world of slow growth, low inflation and compressed returns, there are still cyclical opportunities to be found. *Our view emphasises sustainable yield as an investment theme, while searching for specific growth opportunities.*

Britain's decision to leave the EU may also affect our future operating environment. We are monitoring developments on behalf of our stakeholders and we remain ready to adapt our business to future changes in regulations and markets. We remain committed to our strategy of European business development. Work has commenced to identify the optimal structure and distribution model in order to continue to meet our clients' needs.

We support the aims of the Financial Conduct Authority (FCA) Market Study of the asset management industry and are committed to improving transparency, value and outcomes for customers and clients. As a truly active asset manager we have always been committed to delivering consistent, long-term investment outperformance, and we welcome any moves which help individuals understand the merits of different approaches to investing. We will continue to work with the FCA throughout the period of its market study.

We remain well positioned to deliver profitable and diversified growth. We are broadening our offering to clients through a strong pipeline of new investment funds and solutions. Our track record of client co-development and commercialising innovation positions us well to continue to meet the changing demands of our clients. At the same time we continue to invest to drive performance, to raise our profile and to enhance our infrastructure to support our growth ambitions.

Increasing assets

AUM increased by 10% to £277.9bn (2015: £253.2bn) driven by market and other movements, of which around one-third relates to favourable foreign exchange gains. The increase has been offset somewhat by the natural run-off from our mature books together with net outflows in our Wholesale channel against a background of volatile markets.

Resilient growth channels flows

Gross flows across our growth channels remained strong at £28.5bn (2015: £31.4bn), largely into Institutional and Wholesale. This result reflects the breadth of our product offering, our expanding global distribution capability and the increasingly diverse range of client segments served. Net outflows of £0.7bn (2015: inflows £10.3bn) were recorded; Institutional net inflows of £1.1bn (2015: £3.3bn) were offset by Wholesale net outflows of £1.7bn (2015: inflows £9.3bn). This reinforces the benefit of our diversified client base where we have seen a clear difference in investor sentiment in our two main distribution channels. Wholesale redemptions increased as retail clients react quickly to volatile markets and weaker short-term investment performance while Institutional clients have longer term investment horizons and are happier to ride out periods of market volatility.

By channel:

Institutional¹ – record gross inflows

Our Institutional business saw record gross flows of £15.6bn during 2016 (2015: £11.1bn). Redemptions also increased to £14.5bn (2015: £7.8bn) resulting in net inflows of £1.1bn (2015: £3.3bn). The quality and breadth of our offering is demonstrated through net inflows into private equity, real estate and multi-asset.

Wholesale¹ – challenging markets

Investor sentiment has been weak in this channel globally given market volatility, the EU referendum result, other political uncertainty and weaker short-term investment performance. Despite this, we have achieved a top 5 gross sales position² in the UK wholesale market for 17 consecutive quarters and remain well positioned with a share of gross sales of 4.7%³ (2015: 5.4%). In terms of net sales, our ranking was 30th in 2016. Lower gross flows and significantly increased redemptions of £13.8bn (2015: £7.5bn) led to a net outflow of £1.7bn (2015: inflows £9.3bn). Net inflows into MyFolio and fixed income are particularly strong although multi-asset saw net outflows during the year, largely due to GARS net outflows of £3.9bn.

By asset class:

Multi-asset experienced net outflows of £3.8bn (2015: inflows £9.5bn), £3.9bn of net outflows from Wholesale offset by £0.1bn of Institutional inflows. Gross flows into GARS slowed during 2016 to £10.2bn (2015: £17.0bn) with redemptions also increasing to £14.5bn (2015: £7.7bn) resulting in net outflows of £4.3bn (2015: inflows £9.3bn). The launch of the Liability Aware Absolute Return III fund and the Global Focused Strategies fund in the US helped other multi-asset solutions net inflows to reach £0.5bn.

Total growth channels gross flows excluding GARS were £18.3bn (2015: £14.4bn) with net inflows of £3.6bn (2015: £1.0bn). Our diversified fund offering is demonstrated by continued demand for asset classes such as our MyFolio range of funds, which saw net inflows of £1.6bn (2015: £1.9bn) as AUM increased to £10.5bn (2015: £8.1bn). Other flows echoed market sentiment with investors continuing to retreat from equities towards fixed income with net outflows of £0.3bn (2015: £nil) and net inflows of £1.1bn (2015: £0.3bn) respectively. Real estate also saw net outflows of £0.3bn (2015: inflows £0.3bn). Other asset classes saw net inflows of £1.0bn (2015: £0.8bn).

By geography:

North America returned net outflows in the year of £0.7bn (2015: inflows £3.0bn), with over half as a result of fund rationalisation activity. European and Asian net outflows of £1.5bn and £0.1bn respectively (2015: inflows of £3.4bn and £1.2bn respectively), reflected the impact of investment volatility on wholesale markets. This also impacted our domestic UK business with net inflows reducing to £0.1bn (2015: £4.4bn). In India, our share of HDFC AMC net inflows increased to £1.5bn (2015: £0.8bn).

Mature books

Our mature books business, which is in natural run-off, saw overall net outflows of £4.8bn (2015: £6.8bn). This was due to net outflows of £2.7bn (2015: £4.8bn) from the assets managed on behalf of Phoenix Group as well as net outflows of £2.1bn (2015: £2.0bn) from the life insurance books we manage for Standard Life Group. Notably, 2016 included the award of a new mandate for £1.2bn of assets from Phoenix Group, as our relationship with this strategic partner develops. 2015 included a £1.4bn one-off redemption by Phoenix Group.

Further information on AUM and net flows is included in the Supplementary information section of this report

	Gross Inflows		Net flows		AUM	
	2016 £bn	2015 £bn	2016 £bn	2015 £bn	2016 £bn	2015 £bn
Institutional ¹	15.6	11.1	1.1	3.3	87.0	67.0
Wholesale ¹	12.1	16.8	(1.7)	9.3	50.1	45.9
Wealth	0.8	0.9	(0.1)	0.2	6.8	6.5
Ignis ¹	-	2.6	-	(2.5)	-	11.1
Total growth channels	28.5	31.4	(0.7)	10.3	143.9	130.5
Standard Life Group	3.5	4.1	(2.1)	(2.0)	90.2	83.1
Phoenix Group	1.2	0.2	(2.7)	(4.8)	43.8	39.6
Total strategic partner life business – mature books	4.7	4.3	(4.8)	(6.8)	134.0	122.7
Total	33.2	35.7	(5.5)	3.5	277.9	253.2

¹ During 2016 Ignis funds were merged into Standard Life Investments funds and are now reported within Institutional and Wholesale. This has resulted in a transfer of £11.1bn AUM out of Ignis into Institutional (£9.8bn) and Wholesale (£1.3bn) through Market and other movements.

² Source: Pridham market report Q4 2016.

³ Source: Investment Association Q4 2016.

Growing revenue

Increased fee based revenue

Growth channels fee based revenue increased by 9% to £680m due to higher AUM, a continued shift in mix towards our higher margin growth products and favourable foreign exchange movements. Total fee based revenue grew by 5% to £885m with a robust performance from our mature business. The average revenue yield on growth AUM was 53bps (2015: 52bps) and for mature books reduced slightly to 16bps (2015: 17bps) due to lower performance fees.

Lowering unit costs

Controlled operating expense growth

We have reduced our cost/income ratio to 58% (2015: 61%), which is helped by the integration of Ignis together with the operational leverage inherent within our business model. We have maintained flexibility in our cost base which provides resilience in current market conditions. Total operating expenses increased modestly by 1% to £537m demonstrating our ability to continue expanding our investment capabilities and global reach while maintaining cost discipline.

Driving profit

Operating profit before tax increased by 12% to £383m driven by the increase in fee revenue and the closely controlled growth in expenses. Operating return on equity increased to 39.5% (2015: 36.3%).

EBITDA, which is closely aligned with operating profit, increased to £395m. Our EBITDA margin grew to 45% (2015: 42%), achieving the target set when we acquired Ignis.

Total IFRS profit¹ increased to £259m (2015: £225m) due to strong operating performance and the benefit of lower Ignis integration costs.

	2016 £m	2015 £m
Fee based revenue	885	843
Operating expenses	(537)	(532)
Share of associates' profit before tax	35	31
Operating profit before tax	383	342
Interest, depreciation and amortisation	12	10
EBITDA	395	352
Reversal of interest, depreciation and amortisation	(12)	(10)
Non-operating items	(50)	(53)
Tax expense ²	(74)	(64)
Total IFRS profit¹	259	225

¹ After tax, from continuing operations, attributable to equity holders of Standard Life plc.

² Tax expense includes share of associates' tax expense.

Fee based revenue
(£m)

£885m +5%

Cost/income ratio
(%)

58% -3% pts

Operating profit before tax
(£m)

£383m +12%

Ignis integration

As at 31 December 2016, in our second full year of ownership, the migration of the Ignis business onto the Standard Life Investments platform is substantially complete, with the final integration costs to be incurred in H1 2017.

The integration of Ignis has allowed us to deliver annual synergies in excess of £50m and helped us to achieve an EBITDA margin for the combined business of 45%, a year ahead of target.

Delivering long-term investment performance

Investment performance in 2016 was weak as short-term performance was adversely impacted by the market reaction to macro-economic and geopolitical events. Over one year, 20% of growth channels funds were ahead of benchmark. Despite this, the longer-term performance remains strong; 76% of funds were ahead over three years while 88% were ahead of benchmark over five years (2015: one year 88%, three years 95%, five years 90%).

Portfolios were positioned for a modest recovery in economic growth. Market volatility, initially in China but more latterly in response to the result of the UK's referendum on EU membership, undermined investor confidence, boosting prices for defensive assets at the expense of more growth orientated stocks. Performance did, however, stage a late recovery as investors regained their appetite for risk assets. However, this rebound was insufficient to offset the losses from earlier in the year.

Increasing diversification

We continue to build efficient and effective global operations with a presence in 29 cities worldwide including our Head Office in Edinburgh and regional hubs in Boston and Hong Kong. As well as our own distribution, we have developed strong relationships with strategic partners in the US, Canada, India, Asia, Japan and in the UK including the wider Standard Life Group, giving us an increasingly international client base across 45 countries. A recent example of this is our strategic partnership with Bosera International, in mainland China, with whom we are collaborating on a manufacturing basis, including joint product innovation and investment management cooperation. In February 2017 we also announced the commencement of a strategic partnership with Challenger, a leading retirement income group in Australia.

We are increasingly diversified with innovative investment solutions, such as liability aware and a range of multi-asset investment solutions as well as investment capabilities in traditional asset classes, including equities and fixed income. We are also working to strengthen our private markets capability.

Building our private markets capability

A large and growing asset base

- ▶ Traditionally only larger more sophisticated investors were able to target this market through specialist managers
- ▶ More investors are looking to 'capture' illiquidity premia and 'dampen' listed market volatility
- ▶ c10% annual growth in private market assets over the last decade

Awards and recognition

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

- ▶ UK Fixed Income Manager of the Year and Global Fixed Income Manager of the Year 2016 – Professional Pensions Investment Awards
- ▶ Best Targeted Absolute Return Fund Provider – Moneyfacts Awards
- ▶ Large Fund Manager of the Year – Local authority pension fund awards
- ▶ UK Equity Income Unconstrained platinum award – Portfolio Adviser Fund Awards 2016
- ▶ UK Core Fixed Income and Pan-Europe Small Cap Equity winner – Institutional Investor 2016 European Money Management Awards
- ▶ Global Fixed Income – Financial Times PIPA Awards 2016
- ▶ Best Application of ESG – Asia Asset Management Best of the Best 2016
- ▶ Best House for Absolute Returns – Asia Asset Management Best of the Best 2016
- ▶ Standard Life Wealth won 'Boutique Investment Management' at the Charity Times Awards
- ▶ Boston office ranked best medium-sized employer – 2016 Pensions & Investments' Best Place to Work in Money Management awards

Creating one private markets platform

- ▶ Focus on co-creation, product development and distribution
- ▶ Leverage existing capabilities and client relationships – typically our institutional clients have one individual responsible for private markets
- ▶ Look to strengthen existing capabilities

Building lasting relationships with our customers

"We want to help and support people in managing their money today and saving for their future. By understanding their needs we use our skills and knowledge to advise, guide, inform and importantly, develop the right products and services."

Paul Matthews,
Chief Executive Pensions and Savings

Our Pensions and Savings business is a leading provider of long-term savings and investment propositions. Our main aim is to help people manage their money today and save for their future.

In the UK we offer products and services through two broad growth channels:

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

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

The **Europe** business consists of our *domestic and international bond* businesses in Ireland as well as our business in Germany.

Our valuable mature book includes UK **mature Retail**, which includes business that was predominantly written before demutualisation and **spread/risk** products, such as annuities and protection, which provide a sustained contribution to our profit.

Close collaboration with **Standard Life Investments** allows us to support customers with a full suite of solutions. Pensions and Savings accounts for 84% of total MyFolio AUA. Standard Life Investments manage 71% of our Workplace AUA and 21% of our Wrap assets. The interaction between the two businesses helps strengthen our relationship with our customers by improving the quality of our propositions and the choices available.

Overview

- ▶ AUA up 21% to £181.5bn driven by the acquisition of Elevate, market movements and net inflows
- ▶ Growth channels gross inflows of £13.5bn – the highest year ever
- ▶ Growth channels net inflows of £5.9bn – down 12% as customers continue to take advantage of pension freedoms
- ▶ Operating profit before tax remained stable at £362m (2015: £357m), including a £5m loss from Elevate
- ▶ Operating expenses are stable in real terms after excluding costs relating to the growth of 1825 and the acquisition of Elevate. We remain committed to driving further cost efficiencies to support future growth.

Broadening and deepening relationships

We acquired the Elevate platform from AXA on 31 October 2016, bringing a further £11.1bn of AUA to the business. Elevate, with its broad market appeal, award-winning service and positive net flows, will *complement our existing Wrap platform with c£30bn of assets which is focused on the wealth management market. Together our platforms have over £44bn of assets and they will give more than 3,000 adviser firms access to the full range of Standard Life's pension and investment capabilities.*

We continue to grow our 1825 financial advice business which offers a full financial planning and personal tax advice service. Offering a wide range of investment options, supported by investment experts and technology, clients are able to access support how and when they need it. We have completed the acquisition of four quality adviser firms to date, broadening our reach across the country and bringing total assets under advice in 1825 up to £3.2bn.

Our Workplace business continues to build scale. Since auto enrolment began in 2012 we have supported over 8,000 employers to set up Qualifying Workplace Pension Schemes (QWPS), with over one million members enrolled into these schemes.

External factors

A number of external factors have impacted global economic growth and led to increased uncertainty, increasing the customer need for advice, guidance and information. Volatility in financial markets resulted in *lower daily average asset values in the first half of the year, whilst the rise in market levels increased asset values in the second half of 2016.* The weakening of Sterling led to an increase in the value of overseas denominated assets.

The EU referendum result in favour of leaving the EU surprised global markets in June and combined with other factors brought challenging conditions for sales. We operate branches in Ireland and Germany and there is a risk that regulations may change and impact on our current operating structure. We will respond to these developments in a way that takes into account the best interests of customers, clients and our Pensions and Savings business.

The Financial Conduct Authority's thematic review into the sale of non-advised annuities showed that a portion of annuity sales that we made *since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity.* We are continuing the work to ensure we put things right and have made a provision in our accounts for the costs that we may incur in relation to this.

Increasing assets

	Gross Inflows		Net flows		AUA	
	2016 £bn	2015 £bn	2016 £bn	2015 £bn	2016 £bn	2015 £bn
UK Retail ¹	8.1	7.5	3.7	3.9	62.9	42.6
UK Workplace	4.1	4.1	1.7	1.9	37.4	33.0
Europe growth fee ¹	1.3	1.6	0.5	0.9	11.2	9.6
Total growth channels	13.5	13.2	5.9	6.7	111.5	85.2
UK mature Retail	0.6	0.7	(2.5)	(2.4)	34.3	32.7
Spread/risk	0.2	0.2	(0.9)	(0.9)	16.1	14.9
Europe mature fee	0.7	0.7	(0.1)	0.2	10.1	8.4
Conventional with profits	-	-	(0.9)	(0.9)	0.6	1.3
Total mature books	1.5	1.6	(4.4)	(4.0)	61.1	57.3
Assets not generating revenue from products	-	-	-	-	8.9	7.7
Total Pensions and Savings	15.0	14.8	1.5	2.7	181.5	150.2

¹ Platform AUA of £44.2bn (Wrap, Elevate and Fundzone) comprises of £41.7bn (2015: £24.4bn) reported within UK Retail and £2.5bn (2015: £2.1bn) relating to Wrap International Bond reported within Europe growth fee.

Growth channels

UK Retail

UK Retail AUA has increased 48% to £62.9bn (2015: £42.6bn), reflecting the acquisition of Elevate, strong platform inflows and positive market movements. Retail gross inflows exceeded £8bn for the first time.

Following pension freedoms we have seen more of our customers moving into our drawdown products, with total assets invested in drawdown products increasing by 21% to £16.4bn (2015: £13.6bn) reflecting both inflows and positive market movements. Gross Retail outflows increased by 22% to £4.4bn as the size of our proposition grows and customers make use of drawdown functionality.

UK Workplace

UK Workplace AUA increased by 13% to £37.4bn (2015: £33.0bn), benefiting from net inflows of £1.7bn. Whilst we have seen fewer large scheme transfers across the market as employers adapt to new pension regulations, we are benefiting from growing contributions into existing schemes which provide a steady long-term source of growth.

Our success in attracting new flows through auto enrolment has resulted in a 5% increase in regular premiums to £3.1bn. Regular premiums now account for 75% of Workplace inflows.

Our Workplace business continues to be a source of growth for our retail businesses with £2.2bn of assets transferring in 2016.

Europe growth fee

In our Europe business, AUA in our growth channels of £11.2bn is up 17% on 2015 with net inflows of £0.5bn and favourable foreign exchange and market movements.

Mature books

UK mature Retail

As expected, we continue to see stable net outflows on our UK mature Retail book of business. This included £0.3bn transferred to our Active Money Personal Pension product (included in our growth channels), with customers continuing to take advantage of pension freedoms. We 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.

Spread/risk

Spread/risk AUA increased by 8% to £16.1bn, with net outflows from scheduled annuity payments of £0.9bn, offset by the benefit from reductions in yields increasing the value of bond investments backing our annuity book.

Europe mature fee

Europe mature fee includes our German with profits book which was closed to new business in April 2015, resulting in net outflows of £0.1bn in 2016.

Pensions and Savings AUA
(£bn)

£181.5bn +21%

UK Retail gross Inflows
(£bn)

£8.1bn +8%

Platform AUA (Wrap, Elevate and Fundzone)
(£bn)

£44.2bn +67%

Further information on AUA and net flows are included in the Supplementary information section of this report

Pensions and Savings *continued*

Profitability	UK		Europe		Pensions and Savings	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Fee based revenue	664	631	197	177	861	808
Spread/risk margin	119	143	15	2	134	145
Total operating income	783	774	212	179	995	953
Operating expenses	(487)	(455)	(168)	(155)	(655)	(610)
Capital management	23	15	(1)	(1)	22	14
Operating profit before tax	319	334	43	23	362	357
Underlying adjustments ¹	(38)	(43)	(4)	8	(42)	(35)
Underlying performance	281	291	39	31	320	322
Reversal of underlying adjustments	38	43	4	(8)	42	35
Non-operating items ²	(213)	(106)	6	(25)	(207)	(131)
Total tax expense	(13)	(31)	(12)	(7)	(25)	(38)
Total IFRS profit³	93	197	37	(9)	130	188

¹ Relates to operating assumption changes of £42m (2015: £44m), included in the spread/risk margin and principally in respect of longevity assumption changes. The 2015 underlying adjustment also included £9m shareholder support provided to the German with profits business, included in operating expenses.

² Non-operating items primarily relate to a provision for annuity sales practices of (£175m), short-term fluctuations in investment return and economic assumption changes of £13m (2015: (£54m)) and restructuring and corporate transaction expenses of (£38m) (2015: (£75m)).

³ After tax attributable to equity holders of Standard Life plc from continuing operations.

Growing revenue

Fee based revenue

UK fee based revenue increased by 5% to £664m. Fee based revenue benefited from a combination of strong net inflows together with positive movement in market levels over the second half of the year. Our continued focus on the growth of 1825 and the acquisition of Elevate has enabled us to diversify our sources of revenue, increasing fee revenue by £8m. Average fee revenue yield remained broadly stable at 58bps (2015: 59bps).

Spread/risk margin

UK spread/risk margin decreased by £24m to £119m. Operating assumption and actuarial reserving changes provided a benefit of £38m (2015: £43m), primarily relating to future longevity assumption changes. Although we had expected fewer asset and liability opportunities to exist in the low yield environment, we took advantage of volatility in financial markets mainly in H1 2016 to deliver a benefit of £25m (2015: £30m). A number of other components contributed to a lower spread/risk margin than 2015 including adverse mortality experience and reduced new business. These reductions were partly offset by an £18m payment in 2016 from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II. This effectively brings forward some of the payments expected in future years under the previous scheme rules.

Lowering unit costs

Operating expenses

UK operating expenses increased by £32m to £487m, impacted by the continued drive to scale our business. The growth of 1825 and acquisition of Elevate incurred operating expenses of £21m. The cost/income ratio rose to 62% (2015: 59%) which also included the impact of lower spread/risk margin in 2016. Excluding the acquisition of Elevate and the growth of 1825 the cost/income ratio would have been 60%.

Ongoing investment in technology to reduce future customer operations and IT maintenance costs has allowed further process automation and customer self service. Examples of our progress include:

- ▶ In 2016, 30% of our customers who took action following pension freedoms transacted entirely online
- ▶ Our online Good to Go proposition meets the needs of smaller employers efficiently by processing pension schemes on the same day and has secured c3,500 schemes in 2016 (c7,500 to date)

UK fee based revenue
(£m)

£664m +5%

UK cost/Income ratio
(%)

62% +3% pts

Pensions and Savings operating
profit before tax (£m)

£362m +1%

Driving profit

Operating profit

Pensions and Savings operating profit before tax remained stable at £362m (2015: £357m) including a loss of £5m from Elevate, £2m of which is underlying trading. Operating profit includes the £22m spread/risk margin benefit from an acceleration of payments from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

UK

UK operating profit reduced by £15m to £319m. The reduction was due to a £24m reduction in the spread/risk margin and a £5m loss for Elevate. Excluding this our operating profit improved by £14m, with an 11% increase in our growth channels fee revenue.

Europe

Europe operating profit increased by £20m to £43m. The 2015 result was lower due to the impact of the £9m one-off shareholder support provided to the German with profits business. In 2016 our German business benefited from a £5m reduction in actuarial reserves due to lower maintenance expenses. The 2016 spread/risk result includes the benefit of a £4m payment from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II. The 2016 result also benefited from favourable foreign exchange movements of £2m.

Operating return on equity

Operating return on equity decreased to 13.4% (2015: 15.2%) reflecting higher opening shareholder net assets and a higher tax charge.

Operating return on equity continues to be diluted by the impact of the £1.1bn pension scheme surplus. Excluding the impact of the pension scheme surplus, operating return on equity was 20.4% (2015: 22.1%).

Total IFRS profit

Pensions and Savings total IFRS profit decreased by £58m to £130m. This is mainly due to a higher non-operating loss of £207m (2015: £131m). The non-operating loss includes a provision of £175m for the costs that we may incur in relation to the FCA's review of our annuity sales practices. This was partly offset by favourable short-term fluctuations in investment return and economic assumption changes and lower restructuring and corporate transaction expenses compared to 2015.

Our online retirement journey

We want to expand our provision of advice and guidance to more people, enhancing engagement with our customers and the opportunity for Standard Life.

An excellent example is how we guide our customers online through their retirement journey. Here we've built an efficient, scalable solution meeting the needs of customers following the introduction of pension freedoms.

By 31 December 2016, almost 54,000 customers had used our online retirement journey.

Awards and recognition

- ▶ Best Group Personal Pension Provider, Money Observer Pension Awards 2016
- ▶ Group Pension Provider of the Year, Corporate Adviser Awards 2016
- ▶ Group Personal Pension provider of the Year, Pensions Insight DC Awards 2016
- ▶ Wrap awarded a Platinum Platform rating, Adviser Asset 2016
- ▶ Wrap awarded Best Platform Provider with AUM over £15bn, Schroders UK Platform Awards 2016
- ▶ Elevate awarded Best Platform Provider with AUM up to £15bn, Schroders UK Platform Awards 2016
- ▶ Elevate awarded Best Platform for Adviser Service, Schroders UK Platform Awards 2016

Integrating two award winning platforms

We're delighted to have won the Best Large Adviser Platform Provider (AUM over £15bn) award at the *Schroders UK Platform Awards 2016*.

This award shows the exceptionally high standard of our Wrap Platform.

Elevate also won the Best Smaller Adviser Platform (AUM up to £15bn) award. This is an exciting time for us as we work towards bringing together two of the best platforms in the industry.

These awards are important because they are voted for by the adviser community, advocating the strength of our advisory relationships.

Well positioned for future growth

Our India and China life business consists of our life associate in India, HDFC Life; our life joint venture in China, Heng An Standard Life; and our wholly owned business in Hong Kong. The results of our Indian asset management associate business, HDFC Asset Management Company, are included in the Standard Life Investments section of this Strategic report.

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

Growing our presence in India

HDFC Life is currently one of India's leading life insurance companies with a 16% market share in the private sector. It has a broad product portfolio which provides over 20 million customers with innovative insurance and savings solutions.

We continue to be encouraged by the future outlook for the life insurance market in India. The insurable population is anticipated to reach 750 million in 2020 and life insurance is projected to comprise 35% of total savings by the end of this decade. Demographic factors such as a growing middle class, young insurable population and increasing awareness of the need for protection and retirement planning are anticipated to support the growth of the life insurance and pensions industry in India.

In April 2016, we completed the transaction to increase our stake in HDFC Life from 26% to 35% for £179m.

In August 2016, we announced that HDFC Life had agreed terms with Max Life Insurance Company Limited (Max Life), Max Financial Services Limited (Max FS) and Max India Limited for the combination of the life insurance businesses of HDFC Life and Max Life. The strategic benefits of this transaction include increased scale and enhanced distribution and product mix. Max Life's bancassurance relationships with three of the leading private sector banks in India will complement HDFC Life's already strong distribution capability.

The proposed transaction is subject to several regulatory, court and other necessary approvals. Although the Insurance Regulatory and Development Authority of India (IRDAI) expressed reservations on the proposed scheme, the transaction parties are working through these with the IRDAI and aim to complete the transaction in the next 12 months.

Overview

India

- ▶ Increased our stake in HDFC Life to 35% in April 2016
- ▶ Proposed combination of the life insurance businesses of HDFC Life and Max Life announced in August 2016
- ▶ HDFC Life operating profit increased to £34m in 2016 driven by the growth in premium income
- ▶ HDFC Life dividend, paid in December 2016, was 22% higher compared to the prior year and Standard Life's share of the dividend was £8m

China

- ▶ Heng An Standard Life's operating profit and net flows increased by over 70% in 2016

Hong Kong

- ▶ Fee based revenue and net flows reduced in Hong Kong due to lower regular premium business which we stopped selling in 2015

Following completion, Standard Life, based on current shareholdings, would hold a 24.1% stake in the enlarged entity. The shares of HDFC Life would list on the Bombay Stock Exchange and the National Stock Exchange of India, subject to approval of these stock exchanges and the Securities and Exchange Board of India.

Anticipated shareholdings in post-completion HDFC Life, based on current shareholdings in HDFC Life and anticipated pre-completion shareholdings of Max Life. Max FS is listed on the National Stock Exchange of India (MFSL NSE) and the Bombay Stock Exchange (500271 BSE).

After a significant amount of change over recent years the regulatory framework is now fairly stable with the Government of India focused on ensuring greater social security for Indian citizens. HDFC Life has responded well to these historic changes maintaining its position as one of the leading private companies in the life insurance market and will continue to work with regulators, in order to better understand and shape future changes and adapt to them efficiently and effectively.

Positioned for future growth in China and Hong Kong

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 mainland China. Both profitability and sales are ahead of 2015.

The Chinese insurance market has grown in recent years to become the second largest in the world and we believe that the prospects for future growth remain very positive, driven by an increasing middle class and wealthy population who are living longer and are more aware of the need for protection, medical insurance and retirement provision. Heng An Standard Life, through its extensive sales network and product range, is well positioned to meet this need. It also continues to investigate opportunities to increase its presence in the growing pensions market and has now submitted an application to the China Insurance Regulatory Commission for a new pension insurance company licence.

In Hong Kong, market volatility and recent regulatory changes have made growing flows challenging. We remain focused on retaining and efficiently managing the policies currently on our books as we continue to define our future business strategy.

Growth opportunity in the Indian insurance market

Source: International Monetary Fund, March 2016. Graph reflects relative growth in GDP.

- ▶ India is the 10th largest life insurance market in the world with Rs 3.7trillion in total premiums in 2016
- ▶ Life insurance penetration expected to rise from 2.7% today towards the global average of 3.5% benefitting from factors such as a growing middle class, young insurable population and increasing awareness of the need for protection and retirement planning

Increasing assets

Total AUA increased by 64% to £4.6bn reflecting favourable market movements, including the benefit from a lower Sterling exchange rate. HDFC Life's AUA increased to £3.4bn (2015: £1.8bn). £0.8bn of the increase reflects our higher share of HDFC Life AUA following our stake increase in April 2016.

AUA in Heng An Standard Life increased to £0.6bn (2015: £0.5bn) and Hong Kong also increased to £0.6bn (2015: £0.5bn).

Net inflows continued to increase in our associate and joint venture businesses to £362m in 2016 (2015: £230m). Net inflows in HDFC Life were £295m of which £49m relates to the increased ownership. Net flows in Heng An Standard Life increased to £67m compared to net flows of £36m in the prior year.

In Hong Kong, net inflows decreased to £46m (2015: £63m) as a result of lower regular premium new business.

Further information on AUA and net flows is included in the Supplementary information section of this report

Growing revenue

HDFC Life's commitment to digital leadership and product innovation for its customers has driven the development of the successful 'Click2' online product series and award-winning cancer care plan. Through their broad product range, premium income increased by 18% compared to 2015.

Heng An Standard Life's new business sales have increased by 39% compared to 2015.

In Hong Kong fee based revenue decreased by £21m due to lower regular premium business which we stopped selling in 2015. This reduction is expected, as regular premium business generates most of its revenue during the first two years from policy issue date.

Lowering unit costs

In Hong Kong, we continue to manage costs whilst investing in new propositions in response to changes in regulation. Our focus on cost management resulted in a reduction in operating costs compared to 2015.

Driving profit

Operating profit before tax increased to £36m driven by an increase in operating profit from HDFC Life to £34m¹ (2015: £21m) and an increase in Heng An Standard Life to £7m (2015: £4m). Both our associate and JV businesses continue to benefit from growth in premium income.

This increase was partly offset by an operating loss in Hong Kong of £5m (2015: operating profit £2m), due to falls in both revenue and expenses as the business product mix continues to adjust following the regulatory changes in 2015. We are considering further actions to address the loss making position.

Total IFRS profit increased to £31m (2015: loss £59m). 2015 included a £46m non-operating restructuring loss in Hong Kong following regulatory change and a Singapore IFRS loss before tax of £42m which largely related to the closure of that business.

	2016 £m	2015 £m
Share of associates' and joint ventures' profit before tax	41	25
Hong Kong fee based revenue	17	38
Hong Kong operating expenses	(22)	(36)
Operating profit before tax	36	27
Share of associates' and joint ventures' tax expense	(2)	(2)
Non-operating loss	(3)	(47)
Total tax expense	-	5
Singapore included in discontinued segment	-	(42)
Total IFRS profit/(loss) after tax	31	(59)

Note: Results are presented on the basis of Standard Life ownership percentages during 2016 and do not include the 40% share in HDFC Asset Management which is included in the results for Standard Life Investments. HDFC Life ownership was 26% until the end of April 2016 and then 35% from May 2016, Heng An Standard Life ownership is 50% and Hong Kong is 100%.

¹ Based on Standard Life ownership percentages during 2016. Assuming a constant 26% shareholding the operating profit in 2016 would have been £28m compared to £21m in 2015.

AUA and net flows

AUA split by business at
31 December 2016 (£bn)

£4.6bn +64%

Operating profit before tax
(£m)

£36m +33%

Effectively managing risk in an uncertain environment

“Our risk management framework continues to operate effectively in a constantly changing risk environment. This is essential for protecting the interests of our customers and clients while providing a sound platform for growth and building long-term value.”

Raj Singh,
Chief Risk Officer

Our approach to risk management

The consistent application of effective and pre-emptive risk management across our business protects the value of Standard Life in the short-term while encouraging the development of long-term value. We ensure that:

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

Our approach to risk management, delivered through our Enterprise Risk Management (ERM) Framework, is well embedded in our business. The pace of change in the business and risk environment, and the threats and opportunities arising from it, mean we will always review and adapt our methods to ensure we are well placed to respond pre-emptively.

Over the past year our risk management approach has received external recognition. In May 2016, Standard & Poor's increased their rating on the Risk and Capital Models component of our framework to 'positive' and maintained their 'strong' rating of our overall ERM Framework.

We also received two external awards; Insurance Risk Manager of the Year (February 2016, Risk Magazine) and Insurance Risk and Actuarial Function of the Year for 2017 (January 2017, Insurance ERM).

We are building a simplified, well diversified and scalable world-class investment company and in order to deliver this effective risk management is essential. We must ensure that change is successfully implemented with any change in our overall risk profile understood. This includes the ongoing integration of Elevate and 1825 acquisitions.

Business and risk environment

The wider environment proved to be challenging in 2016. We continue to operate under a heightened level of uncertainty with political, financial and regulatory risks being the predominant themes over the year. We expect this heightened level of uncertainty to continue in 2017.

The major political event for our business in 2016 was the UK's vote to leave the EU. We will be directly impacted by the outcome of the negotiations between the UK and EU, although the details may not be known for some time. We have a strong track record of successfully responding to changing circumstances and are ready to adapt our business as appropriate to any post-Brexit changes in regulations and markets.

The outlook for financial markets is uncertain; however, we have a robust Focus on Change investment philosophy and a strong, resilient capital position which we have subjected to a wide range of stress and scenario testing. This allows us to be prepared for whatever market conditions we face.

Given the vital role that our industry has in society, we are subject to high levels of political and regulatory focus. In 2017 the regulatory agenda will continue to evolve with the outcome of a number of market studies and new regulatory initiatives. Also, the UK Government will look to determine its priorities and agenda. We are directly engaged with government, industry bodies and regulators to make sure that our knowledge and experience informs the decisions that are taken.

Our principal risks and uncertainties

The specific risks that we face as a business are driven by what we choose to do and how we do it, as well as the wider environment in which we are operating. We group these risks into categories which include Strategic, Conduct, Operational, Financial Market and Credit and Demographic and Expense.

From within these categories we have identified our principal risks and uncertainties. These should not be considered to be an exhaustive list of all the risks that the Company faces, 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 robust assessment by the Board during 2016.

As our strategic development continues and we respond to changes in the external environment, it is to be expected that both the risks themselves and the relative importance of these may change.

Viability statement

The Directors confirm that they have a reasonable expectation that Standard Life 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 Standard Life's current capital and liquidity position, as described in the Chief Financial Officer's overview, which shows a Solvency II regulatory capital surplus of £3.1bn and substantial cash and liquid resources held by Standard Life plc.

The key processes used by the Board to assess the prospects of Standard Life are set out below. The assessment process is overseen by the Risk function and is subject to challenge from executive management and the Risk and Capital Committee, as well as Board consideration.

The business and strategic planning processes: Strategic planning is a continuous process which underpins business planning. Strategic planning considers the sustainability and resilience of our business model as described on page 8 of this report, which is key to ensuring our business remains viable. Business planning is an annual process which projects the performance, regulatory capital and liquidity of Standard Life over a three year period, and considers multiple scenarios including a severe downside economic scenario. The severe downside used in 2016 assumes that the global economy tips into a severe recession; global equities fall and long-term interest rates reach new lows. 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 such stress scenarios. Our analysis shows that, whilst capital is eroded under the severe downside scenario, the strength and quality of our capital base is such that regulatory solvency is maintained and our business remains viable.

Quantitative stress and scenario testing which investigates Standard Life's liquidity and capital positions' exposure to specific risks and combined scenarios. Stresses are calibrated at the 1-in-200 probability level, or more extreme, and test Standard Life's resilience to market, credit, expense and demographic shocks. Standard Life remains solvent in such circumstances and can support potential cash outflows.

Reverse stress testing which gives a quantitative and qualitative understanding of plausible but severe risk scenarios which could threaten the viability of Standard Life, and informs related management actions. The scenarios assessed evolve over time and are informed by the principal risks set out later in this section. Whilst a limited number of scenarios can be assessed each year the insight from previous years' exercises often remain relevant. This year scenarios assessed risk events related to failures of key third parties, significant regulatory change and political change, major shocks to financial markets, cyber threats, and reputational damage caused by matters of conduct in parts of Standard Life or its joint ventures. The assessment showed that, taking into account mitigating actions, Standard Life is resilient to extreme events as a result of its embedded risk management framework.

Oversight of risk within the business delivered through the Own Risk and Solvency Assessment (ORSA) processes described in 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

Standard Life's 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 business. It encompasses our attitudes, capabilities and behaviours. Our culture drives how we identify, understand and openly discuss, and act on, current and future risks.
- ▶ **Risk control process:** The practices by which we manage financial and non-financial risks within Standard Life. They are used to identify, assess, control and monitor risk.
- ▶ **Strategic risk management:** This forms an integral part of the strategic planning process and is directly linked to our corporate objectives. It supports the development of long-term value by ensuring that well informed risk-reward decisions are taken in pursuit of our business plan. It also helps to ensure that capital is distributed to the areas where most value can be created from the risks taken.

Enterprise risk management framework

- ▶ **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 Standard Life. Our proactive 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 individuals and committees:

- ▶ **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 Chief Risk Officer and supported by the specialist Risk Management and Compliance functions across Standard Life as well as through established risk committees such as the Enterprise Risk Management Committee (ERMC) and with reporting to the Risk and Capital Committee (RCC). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by non-executive Directors at the RCC.
- ▶ **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

ORSA process

Our principal risks and uncertainties

STRATEGIC RISK

Our definition and appetite

Risks which threaten the achievement of our strategy through poor strategic decision making, implementation or response to changing circumstances. We recognise that core strategic activity brings with it exposure to strategic risk. However, we seek to proactively manage and control these exposures.

The risks to our business and how we managed them in 2016	Our principles in managing these risks	Link to strategy
<p>Investment Performance (New)</p> <p>Our strategy to be a world-class investment company is underpinned by our ability to offer our customers and clients superior long-term investment performance through active management.</p> <p>Poor investment performance relative to peers, benchmarks or internal targets may impact our ability to grow assets under administration and can increase the level of outflows across our business. This in turn can also cause a stagnation or decline in revenues.</p> <p>Short periods of market dislocation and heightened volatility, such as that seen in 2016, carries a risk that investment performance is weaker. However, our Focus on Change investment philosophy has a good track record of delivering resilient long-term performance.</p> <p>In 2016 we reviewed our investment processes to ensure they continue to work effectively for our customers and clients.</p>	<ul style="list-style-type: none"> ▶ Our Focus on Change investment philosophy is driven by a robust and repeatable investment decision process which is highly disciplined, research intensive and risk informed ▶ Our investment philosophy is designed to operate through the cycle and provides the opportunity to outperform throughout the cycle ▶ We regularly engage with our customers and clients on service and performance ▶ We review our internal processes and investment decisions in light of results on an ongoing basis 	<p>Broadening and deepening our investment capability</p> <p>Growing and diversifying our revenue and profit</p>
<p>Customer and Client Preferences and Demand</p> <p>Delivering our business plan requires us to attract and retain customers and clients across our business. 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 and clients.</p> <p>The UK pensions and savings market continues to evolve as we seek to meet our customers' savings and retirement needs. As customer needs and behaviours develop we continue to place a focus on ensuring their long-term investment solutions are fit for purpose.</p> <p>We have made a number of key propositional enhancements to our Pensions and Savings business with the purchase of Elevate and growth of our financial advice business 1825. Also, our highly differentiated Workplace proposition continues to increase engagement with employers and employees.</p> <p>Standard Life Investments has delivered a number of new solutions to meet client needs. For example, the Integrated Liability Plus Solution (ILPS) fund range for our Institutional growth channel and the expansion of our Global Focused Strategies Range into the US.</p>	<ul style="list-style-type: none"> ▶ The development of our new and existing propositions start from the customer or client need ▶ We regularly seek customer feedback on our performance and use focus groups to help with proposition development ▶ We invest in initiatives to build trust and long-term relationships with customers 	<p>Developing strong relationships with customers and clients</p> <p>Broadening and deepening our investment capability</p>
<p>Political Change</p> <p>Political change can impact us directly through new laws or indirectly by altering the wider environment. Decisions taken by the UK and Scottish governments, but also those in other locations where we operate, can significantly alter circumstances and change the way we do business. We witnessed several significant political events in 2016.</p> <p>Following the UK's vote to leave the EU in June, our business operations in Europe will be directly impacted by the outcome of the forthcoming negotiations. Also, the recent announcement from Theresa May confirming that the UK will leave the European single market provides an indication of the environment we will face outside the EU.</p> <p>The result of the presidential election in the US is likely to result in policy changes that may impact global growth and financial markets.</p> <p>Since the change of leadership within the UK Government we have seen different approaches being taken, for example with secondary annuities. As we look forward to the 2017 budget we may see further changes that could impact our business and our customers and clients.</p> <p>In light of actual and potential political changes we are evaluating possible scenarios and preparing to adapt our business as appropriate.</p>	<ul style="list-style-type: none"> ▶ We constructively engage with key decision makers in the best interests of our stakeholders, for example by contributing to consultations ▶ Political risks are considered under our stress and scenario testing programme (which includes both quantitative and reverse stress testing) and emerging risk process ▶ For the most extreme scenarios we maintain appropriate business continuity and contingency plans and these are regularly tested and reviewed 	<p>Building an effective and efficient business</p> <p>Attracting, retaining and developing talented people</p>

Trends
 Increase Decrease Stable

STRATEGIC RISK *continued*

The risks to our business and how we managed them in 2016	Our principles in managing these risks	Link to Strategy
<p>Regulatory Change</p> <p>We operate in a highly regulated industry and our global growth requires us to comply with an increasing number of regulatory regimes.</p> <p>New or changing regulations can create opportunities for our business but can also increase risk. They can increase compliance costs, impact profitability and demand for our propositions, or tie up resources which may slow the delivery of other developments to support our growth plans.</p> <p>In 2016 the FCA carried out a number of thematic reviews, which we were part of, and also published the initial findings of its Asset Management Market Study which we await the final conclusions of in 2017.</p> <p>While we see the level of regulatory change risk increasing, we remain well placed to deal with significant developments on the horizon including the Markets in Financial Instruments Directive II, Packaged Retail and Insurance-based Investment Products, European Union General Data Protection Reform and the likely introduction of a pension dashboard.</p>	<ul style="list-style-type: none"> ▶ Ongoing regulatory compliance is governed via our Standard Life Policy Framework ▶ We maintain strong and open relationships with our regulators and engage early with areas of potential regulatory change ▶ Regulatory changes are considered under our stress and scenario testing programme and emerging risk process 	<p>Growing and diversifying our revenue and profit</p>
<p>Strategic Transition and Delivery (New)</p> <p>We continue our strategic delivery towards a simplified, well diversified and scalable world-class investment company. We aim to take advantage of a number of growth opportunities in the key markets in which we operate.</p> <p>There is a risk that we fail to deliver long-term value for shareholders because we are unable to successfully deliver this strategic transition.</p> <p>We have continued to deliver on our transition over 2016 with the growth of our investment business and through acquisitions such as Elevate.</p>	<ul style="list-style-type: none"> ▶ Our Strategic Executive Committee has responsibility for our corporate strategy and execution of a single strategic plan ▶ Our Chief Strategy Officer has responsibility to further develop our strategy ▶ Inorganic growth opportunities are fully assessed to ensure they align with strategic priorities 	<p>Impacts all areas of strategy</p>

CONDUCT RISK

Our definition and appetite

The risk that through our behaviours, strategies, decisions and actions the business, or individuals within the business, 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

We recognise that our 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.

The risks to our business and how we managed them in 2016	Our principles in managing these risks	Link to strategy
<p>Customer and Client Outcomes</p> <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 can arise from failed or poorly designed processes, badly designed or performing propositions, poor customer communications or conduct by our people. Unfair customer outcomes can also lead to significant reputational damage and material financial losses for our business.</p> <p>The standards that we aspire to internally, as well as those expected of us by regulators, third parties and our customers are consistently being raised. However, higher standards mean that there is a greater risk of failing to meet these, which leads to our assessment that this risk is increasing.</p> <p>As we transition to a world-class investment company we must ensure that we effectively manage any conflicts of interest across different parts of our business to support fair outcomes for customers. This includes embedding our robust conduct risk framework into any newly acquired businesses.</p> <p>At the FCA's request, we shall be reviewing all non-advised annuity sales from July 2008 to identify whether our customers received sufficient information about enhanced annuity options. It is essential that conduct risk is properly understood and managed throughout this process in order to deliver fair customer outcomes.</p> <p>Our response to increased redemption requests after the EU referendum, from UK property funds, protected investors. We took action to do the right thing to achieve the best possible outcome for our customers and clients.</p>	<ul style="list-style-type: none"> ▶ Our Standard Life Code of Conduct sets out the standards required of colleagues and mandatory training embeds this across the business ▶ 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 FCA and other regulators ▶ Ensuring fair treatment of our customers and clients is continually reinforced through the culture of Standard Life 	<p>Developing strong relationships with customers and clients</p>

Our principal risks and uncertainties *continued*

OPERATIONAL RISK

Our definition and appetite

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

The risks to our business and how we managed them in 2016

Our principles in managing these risks

Link to strategy

IT Failure and Security, including cyber risk

Our business relies on a wide range of IT systems and our strategy requires greater use of online functionality to meet customer preferences, improve efficiency and manage costs.

This exposes us to the risk of failure of key systems, and technological security risks such as cyber-attacks.

Over time we expect our increasing global profile to raise the threat from cyber-attacks. We continue to work with our external providers to ensure that our response is appropriate to the scale and nature of the threat.

In 2016 we established a Chief Information Security Office to oversee and set the security priorities across the business. The Security Office has specified our risk appetite for cyber risk in order to better measure the risk and drive the appropriate responses to it.

- ▶ We continuously invest in modernising our IT infrastructure via internal change programmes
- ▶ We work with specialist external cyber risk experts to identify new risks and develop our response to them
- ▶ IT failure, security and cyber risk are considered under our stress and scenario testing programme and emerging risk process
- ▶ For the most extreme scenarios we maintain appropriate business continuity and contingency plans and these are regularly tested and reviewed

Building an efficient and effective business

Outsourcer Relationship Management

We use a number of outsourcing providers to operate and deliver core systems, capabilities and processes. Key relationships include Citigroup for our investment business and FNZ's role in the delivery of platform functionality for our Pensions and Savings business.

These types of business arrangements allow us to access specialist services and skills, and enable our business to run more efficiently and cost effectively.

The failure of a material outsourcing provider could lead to significant costs and disruption to our operations until we recover the situation or put alternative solutions in place.

Our acquisition of Elevate broadens our relationship with FNZ. This change in risk exposure is well understood and was assessed as part of our due diligence.

- ▶ Our outsourcing policy sets out standards that must be complied with
- ▶ We maintain strong relationships with external providers to ensure that the risks arising are well understood
- ▶ Outsourcing risks are considered under our stress and scenario testing programme
- ▶ For the most extreme scenarios we maintain appropriate business continuity and contingency plans and these are regularly tested and reviewed

Developing strong relationships with customers and clients

Building an efficient and effective business

Change Management

In today's dynamic world successful businesses need to be able to respond effectively and efficiently to changes around them.

We run a large change portfolio with an increased level of activity arising from regulatory changes, transition activity for acquisitions and wider strategic initiatives. 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.

Our risk committees maintain a strong focus on ensuring the effective management of our change risk portfolio.

- ▶ 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

Building an efficient and effective business

Talent Management

The strength of our business is built on our people and it is essential that we are able to attract and retain people with the skills and capabilities that we need to deliver our business plan.

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.

As significant new powers are devolved to the Scottish Parliament it is essential for our business that these are used to make Scotland an attractive place for talented individuals to live and work.

We continue to develop the diversity of our workforce and are involved in a wide range of initiatives aimed at promoting social mobility and increased diversity across the organisation. These include how we consider diverse Board representation, talent pipeline development, talent acquisition, as well as actions to ensure a more inclusive workplace. In 2016 we signed up to the HM Treasury Women in Finance Charter.

- ▶ We regularly benchmark our terms and conditions against the market
- ▶ Our Sustainability section 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

Broadening and deepening our investment capability

Attracting, retaining and developing talented people

FINANCIAL MARKET AND CREDIT RISKS

Our definition and appetite

Risk of losses due to risks inherent in financial markets. Standard Life 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 Standard Life's risk adjusted return.

The risks to our business and how we managed them in 2016	Our principles in managing these risks	Link to strategy
<p>Market Risk</p> <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 Pensions and Savings business, and as a result of fluctuations in fees that we earn which are linked to the value of underlying assets in both our Pensions and Savings and investment businesses.</p> <p>Over time this risk is becoming more important as the contribution of spread business to our overall revenue reduces and we become more focused on fee based revenue as we transition to a world-class investment company.</p> <p>Global political and economic events caused financial markets to be volatile over 2016 and we expect this uncertainty to continue in 2017. This volatility in markets has an impact on asset values as well as investor sentiment.</p> <p>Our rigorous stress and scenario testing programme during 2016 once again confirmed we have a resilient capital position which means we are well prepared for whatever market conditions we face in the future.</p>	<ul style="list-style-type: none"> ▶ We set limits for market risk exposures where this is appropriate ▶ We use our stress and scenario testing programme to understand our sensitivities to markets and identify mitigating actions ▶ Hedging is used to manage market risks faced by policyholders in our with profits funds where appropriate 	<p>Growing and diversifying our revenue and profit</p>
<p>Counterparty Risk</p> <p>In response to economic, political and regulatory developments we saw a number of ratings downgrades from external credit rating agencies in 2016.</p> <p>During this time our governance processes in relation to investment mandates have operated effectively and we remain comfortable with the credit quality of our cash counterparties and other investments.</p> <p>Our forward-looking assessment, given the current uncertainty affecting financial markets, is for credit risk to remain stable but at an elevated level.</p>	<ul style="list-style-type: none"> ▶ Our credit risk management policy sets out the standards that must be complied with ▶ Limits for individual counterparties are overseen by our Group Credit Risk Committee ▶ Where appropriate, counterparties are collateralised and internal credit assessments are used ▶ Exposures are proactively monitored with mitigation action taken where necessary 	<p>Growing and diversifying our revenue and profit</p>

DEMOGRAPHIC AND EXPENSE RISK

Our definition and appetite

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. Within demographic risk we have an appetite for longevity risk since we expect acceptance of this risk to be value additive.

The risks to our business and how we managed them in 2016	Our principles in managing these risks	Link to strategy
<p>Longevity Risk</p> <p>This is the risk that our annuity customers live longer than we expect.</p> <p>In 2016 annuity sales continued to be materially lower following the introduction of Pension Freedoms in the UK. In November we took the decision to restrict annuity sales to existing customers only.</p> <p>We expect our longevity risk to decrease over time as our existing annuity book steadily runs off.</p> <p>Determination of longevity assumptions is a critical accounting estimate. Further details on this judgement are discussed in the Audit Committee report and in Note 33 of the Group financial statements section.</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 transactions to reduce our exposure. ▶ We consider longevity scenarios under our stress and scenario testing programme and emerging risk process 	<p>Growing and diversifying our revenue and profit</p>

Investing for a better future

Our sustainability strategy covers four key priorities and enables us to manage environmental, social and governance (ESG) risks and opportunities. This helps us make a positive contribution to the futures of our people, customers and clients, and wider society.

Our sustainability strategy and approach

During 2016 we engaged directly with our customers, investors and employees to review our strategy and ensure we continue to focus on the right areas. We asked these stakeholders to provide their views on what is important to them across our four sustainability priorities.

This materiality review highlighted a number of areas that matter most to our stakeholders including trust and transparency, governance, sustainable economic growth, cyber-crime, climate change, responsible investment and stewardship, financial inclusion and decent work and pay. This input will also help focus our activity in 2017 and beyond.

You can find out more about our review and what we are doing in these areas in our sustainability report at www.standardlife.com/sustainability

Sustainability at Board level

An update on internal and external ESG issues is provided for each Board meeting. Non-financial measures, which monitor progress against our sustainability strategy, are also highlighted on a quarterly basis.

Our best ever DJSI and FTSE4Good index scores

In 2016, we were listed for the sixth year running in the DJSI World and Europe indices, which include the top 10% and 20% respectively of sustainable companies in our sector. We received our best ever score in this and the FTSE4Good index, and our first ever Silver class distinction from RobecoSAM. These are based on an assessment of how we manage economic, environmental and social factors relevant to company success.

Sir Andy Murray

Our partnership with Sir Andy Murray means a lot more than simply supporting a world famous tennis champion. It means sharing a set of values and goals. Andy's deep sense of purpose, commitment to excellence and personal ambition fits perfectly with ours and inspires and motivates our people.

On Andy's most recent visit to our offices in September he met 400 of our people to tell them about his historic year and pass around his Olympic medals. 200 employees, their family and friends also attended his inaugural tennis event for charity in Glasgow, raising money for UNICEF and local Glasgow charity Young People's Futures. Through our 2016 Master Your Dreams campaign we've shared exclusive content, news and photos telling the story of how Andy has achieved his goals and mastered his dreams.

Like us, Andy is also committed to investing for the future and to giving back through his support of key charity partners. Andy is a WWF global ambassador and we actively support the charity's Earth Hour across all our global offices. We also promote responsible investment and were delighted to secure Andy's support of Good Money Week, when he spoke about embracing saving and investing in line with his values.

Responsible business

This is the core of how we run our business and build a positive culture. We aim to operate in a way that builds trust, to contribute to our communities and to manage our environmental impact.

Business ethics

We recently updated our global code of conduct, which provides a set of guidelines on how we expect our people to behave. In the code, we frame many of the aspects of good conduct as a question, such as 'am I doing the right thing?' or 'what would our customers and clients think?' As part of the launch, we promoted our independent speak-up helpline - an anonymous way to raise concerns. We commit to follow up all issues raised and to support and protect the caller.

We held a series of events in collaboration with the University of Edinburgh Sustainable Business Initiative, the Institute of Business Ethics, and the Institute of Corporate Responsibility and Sustainability. These events were designed to raise awareness of the importance and benefits of investing in an ethical culture. As both a large business and an investor in other companies, we have a distinct perspective on this area and used the events to share best practice and further our learning.

Human rights

We have a responsibility to protect and respect human rights as an employer, investor, procurer and provider of services and through our business partnerships. We have a statement on our website setting out our approach and commitment to human rights and will be reviewing and building on this during 2017 using the UN Guiding Principles on Business and Human Rights framework. We have also published our Modern Slavery statement setting out the steps we are taking to help prevent modern slavery in our business and supply chains. You can find out more at www.standardlife.com/annualreport

Managing our environmental impact

Our operational environmental impact strategy focuses on our highest greenhouse gas (GHG) emitting activities: energy use in our buildings and business travel.

In 2016, we continued to run our awareness programme for our people and customers, including an environmental champions network, promoting sustainable travel, collaborative technology workshops and ongoing energy reduction and recycling initiatives.

In 2013, we targeted a 20% reduction in GHG emissions by 2020. At the end of December 2016, we had achieved an absolute 5% reduction, however, on a like-for-like basis we are ahead of target with a 16% reduction. The table below shows GHG emissions for our business operations. We also measure GHG emissions for our global real estate investment portfolio. You can find out more at www.standardlife.com/annualreport

We know that the biggest impact we can have on environmental issues, including climate change, is through how we invest. You can find out more about this within our sustainability report at www.standardlife.com/sustainability

Volunteering

We have strong links with our local communities and support our people to volunteer and make a difference through our #getinvolved initiative. Our volunteering policy gives our people the opportunity to take three paid days leave a year. Our people donated 1,529 days for volunteering work in 2016 (2015: 661 days), significantly exceeding our target of 1,000 days. In 2017 we are aiming to donate more time and have increased our target again to 2,000 days.

Our charity partners

Our people vote for the charities we support. They pick charities close to their hearts and carry out vital fundraising during the partnership. Our current charities are:

- ▶ In the UK, Place2Be – provides emotional support to children in schools
- ▶ In Ireland, ARC Cancer Centres – therapies and counselling for people with cancer and their carers
- ▶ In Germany, Hilfe für krebskranke Kinder Frankfurt e.V – supports children with cancer
- ▶ In Austria, Österreichische Krebshilfe Wien – provides cancer support in Vienna
- ▶ In the US, Let's Get Ready – supports low-income high school students
- ▶ In Hong Kong, Hong Kong Society for the Protection of Children – focusing on the care and welfare of children

2016 total charitable contribution

£2.6m¹

¹ This consists of time given to the community, Raise and Match, Standard Life Foundation, Standard Life Charity Fund, donation of equipment and services and our employability scheme funding.

Greenhouse gas emissions (continuing operations)

		2016	2015 ⁴	2013 (baseline)	Actual change ⁷	2016 target ⁷
Greenhouse gas emissions (CO ₂ e)	Scope 1 ²	2,227	2,675	2,134	4%	(6%)
	Scope 2 ³	10,194	12,123	12,034	(15%)	(6%)
	Scope 3 ⁴	12,575	10,755	12,070	4%	(15%)
	Total	24,996	25,553	26,238	(5%)	(9%)
FTE / Tonnes CO ₂ e ratio ⁵	Total	3.21	3.39	3.75	(8%)	(6%)
Paper used (tonnes)	Total	407	485	603	(32%)	(15%)
Waste (tonnes)	Landfill	10	7	276	(96%)	N/A
	Divert from landfill	736	718	608	21%	N/A
	Total	746	725	884	(16%)	(6%)

¹ Scope 1 emissions include gas (and fluorinated greenhouse gas from 2014).

² Scope 2 emissions include electricity.

³ Scope 3 emissions include business travel (air, rail and leased fleet), transmission and distribution losses for electricity and electricity use by a third party data centre.

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

⁵ Figures have been restated to reflect full calendar year.

⁷ vs 2013 baseline.

Engaging employment

We want to provide inclusive and engaging employment, encourage collaboration, and enable our people to reach their potential.

Employee proposition

As we continue to create a world-class investment company we appreciate the value that attracting, developing and retaining talented people brings to our business and the impact that they make on our global ambitions and our customers and clients. We offer a range of benefits and financial rewards to our people through our Total Reward package. Our people can tailor their package to suit their individual needs.

We use a performance-based remuneration system, including a variable pay scheme which is based on the performance of the relevant business unit as well as that of individual employees. Our people can access a range of our savings and investment products at preferential rates and have the opportunity to join two different company share schemes. One matches employees' share purchases of up to £50 per month (an increase of £25 in 2016) and the other enables employees to save for a fixed term and exercise their option to purchase shares at the end of the term at a discounted set price.

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

Diversity

We continue to show our commitment to inclusion and supporting diversity and believe we have leading policies and practices in many areas. We aim to provide an inclusive workplace where everyone is valued and able to fulfil their potential. Our latest employee engagement survey showed that 85% of our people believe that our company appreciates difference among our employees, a 7% increase from the previous survey.

In 2016 we created new policies and continued activity in a number of areas for our people to feel part of a more inclusive workplace. Examples include the launch of our Carers Policy, the promotion of our Shared

Parental Leave Policy featuring enhanced shared parental pay, the change to our enhanced paternity pay policy (which means new parents taking paternity leave will be entitled to be paid up to two weeks' salary regardless of how long they've worked at Standard Life), increasing the proportion of our people aged 25 and under in the UK and Ireland to 8% and providing unconscious bias training across our organisation. We also continued supporting our employee networks; Armed Forces, LGBT, LGBT+ Allies, Young People, Carers and Women's Development.

A key strand in our approach is gender equality as we know this is an area where we have more work to do. In 2016, we were one of the first signatories to the HM Treasury Women in Finance Charter. We have made firm, public commitments to support actions which will improve the representation of senior women in our industry, including setting progressive target ranges for our leadership population which is currently 25% women. We will also develop wider targets incorporating other aspects of diversity across our people including reporting our gender targets and our gender pay gap in the coming year.

Working communities

In 2016 we received accreditation from the UK Government as one of only 11 UK Social Mobility Champions based on our work to break down barriers to employment.

We believe job creation is vital to creating healthy communities. Providing quality employment, paid at a living wage, with access to skills and on-the-job experience for all, can turn jobs into careers and allow people to plan and look to the future with confidence. We work with people from disadvantaged backgrounds who are less well qualified or living in poverty, those who have been through the care system, people serving as carers, people with disabilities and people who are transitioning from a career with the Armed Forces.

In 2016 we published our UK community impact report highlighting our employability and financial capability work from 2013-2016.

Early careers

We offer challenging and rewarding opportunities for school leavers and graduates, and internships for those in their penultimate year of study.

Throughout 2016 we have continued our work with the Edinburgh Guarantee Scheme, providing 33 young people with paid work experience for six months. We have also continued our work with the Investment2020 scheme, offering 12-month paid work experience placements to 11 people. Across our global employability programmes we have provided 46 jobs in total in 2016.

Our gender targets

- ▶ By September 2017: 26-30% leadership population will be female
- ▶ By September 2021: 30-35% leadership population will be female
- ▶ By end 2025: our leadership population will represent the gender split of our workforce (currently 49% female)

Our talent pipeline, which we've been developing since 2011, is pivotal to attaining these targets. The numbers we report for our talent pipeline and our leadership population are not mutually exclusive, with the pipeline feeding into our leadership population – 38% of our leadership population are also in our talent pipeline for succession to more senior roles.

Gender		31 Dec	31 Dec	31 Dec
		2016	2016	2015
		Number	%	%
Board	Male	9	75	69
	Female	3	25	31
Leadership population ¹	Male	97	75	80
	Female	32	25	20
Talent pipeline ²	Male	143	58	60
	Female	102	42	40
Employees	Male	3,259	51	51
	Female	3,074	49	49

¹ If you include employees who are directors of consolidated subsidiaries, the percentage increases to 27% female and 73% males.

² Talent pipeline includes graduates and members of the Emerging Leaders Development Support (ELDS) and Accelerated Development Support (ADS) programmes.

Wellbeing

We know that people who work in a healthy and supportive workplace are more engaged in their roles. We base our ongoing wellbeing programme activities around three essential areas: healthy mind, healthy body and healthy culture.

Our analysis shows that mental health is one of the main wellbeing issues our people can face, so we are committed to creating a workplace where everyone feels comfortable discussing any and all mental health issues. To help raise awareness, we offer workplace training on how to build a mentally healthy environment, signed up to the Time for Change pledge, supported World Mental Health Day and in 2016 we became a See Me in Work Partner.

Employee engagement and enablement

Our 2015 employee engagement survey highlighted the importance our people placed on effective and transparent communication across our business. We want to enable collaboration and, during 2016, we made significant steps to address this by:

- ▶ Introducing a new company-wide intranet, built on the principles of social sharing and conversation
- ▶ Running new engagement programmes where our people meet and hear from senior leaders and subject matter experts covering all aspects of our business and the markets we operate in
- ▶ Embedding Microsoft SharePoint as our chosen way to collaborate on projects and share knowledge across our global locations

In November 2016, we again ran our employee survey. The responses gave us a clear update on how our people feel about a range of topics. Our vision, social responsibility, and risk culture were our top three scoring themes. Our overall employee engagement score has increased, however, our enablement score – how well employee skills are utilised and working environments facilitate productivity – has decreased. Specifically, the question on understanding of strategic direction decreased, so this is a focus for us in 2017.

Our employee engagement survey scores were 65% for engagement and 62% for enablement, below the global financial services average scores of 69%.

Supporting saving

We provide support and expertise to enable people to manage their money and save for their future.

Workplace pensions

We support action which can make saving more inclusive and can help address the savings gap. In 2012 the UK Government introduced auto enrolment – where employers are required to offer workers a workplace pension – which opens up long-term saving into a pension for more people. Since then, we have helped over one million people to access saving through a workplace pension and look forward to their future with more confidence.

Inclusion

We have a customer inclusion panel, made up of internal and external specialists, to develop practical ways that we can make our products and services more accessible. We also work with The Wisdom Council – an organisation which helps provide insight on our customers and clients. Most recently we have been looking at financial services jargon and what would help to make communications simpler and more accessible for customers.

Standard Life Foundation

First announced at our AGM in May 2016, the Foundation is a charity that will focus on independent research to strengthen financial well-being and resilience in the UK. We will make a gift of around £80m to the Foundation which is funded from unclaimed shares and cash entitlements as a result of our demutualisation in July 2006. During the past decade we have made continued efforts to trace those entitled to claim and were successful in uniting over 97% of people with their entitlements before the deadline of 9 July 2016. Lord Darling, the former *Chancellor of the Exchequer*, is chair of the Foundation and is supported by a team of very experienced trustees. The Foundation will set out the priorities of its work during the course of 2017.

Customer trust and advocacy

Our brand Net Promoter Score (NPS) is an important measure of customer advocacy. The score indicates how likely a customer is to recommend Standard Life to family and friends. In 2016 our brand NPS fell by 11 points. We believe the reasons for this include the processes around pension freedoms – which some customers may have considered more complex – and lower customer confidence in financial services as a whole. We've planned a number of actions for 2017 to improve customer experiences.

Customer complaints

We aim to always do the right thing for our customers – and if something goes wrong, we are committed to putting it right. We carry out root cause analysis for any issue raised by a customer so we can understand what went wrong and take action. In 2016 we received 7,576 complaints from our customers (2015: 7,516 complaints), which is 17.8 complaints per 10,000 policies in force (2015: 18.5 complaints). 3% of these complaints went to the Financial Ombudsman Service (FOS). Of the complaint cases considered by FOS in H1 2016, they agreed with our decision in 77% of cases against an industry average of 70%.

Investing responsibly

Our approach to responsible investment and stewardship considers investments as a tool to promote positive change.

As stewards of our clients' investments we act responsibly in our investment activities. At Standard Life Investments we integrate ESG issues into our investment process as we believe these issues are significant components of investment risk and can have a fundamental impact on the achievement of sustainable long-term investment returns. We apply this approach throughout our investment processes and to mandates which have tailored sustainable responsible investment (SRI) or ethical criteria.

As a leading investment company, we take our role in this area seriously. We research, analyse and engage with companies on ESG issues to understand the risks and drive positive change. We transparently disclose our discussions and thematic reviews within our quarterly and annual update reports.

595 ESG engagements with companies

We actively use our influence through voting at shareholder meetings of investee companies – in order to hold boards to account and promote high standards of governance. We regularly provide updates of our voting records on our website.

We voted at 1,569 shareholder meetings of investee companies

Sustainable real estate

We are committed to sustainability across our direct real estate portfolio. We have a comprehensive Sustainable Real Estate Investment (SREI) Policy and accompanying procedures that govern how we embed ESG factors into development projects and asset management. Our strategic priorities for SREI cover climate change, resource scarcity and the health, wellbeing and productivity of building occupiers. We have targets in place to reduce waste, and water and energy use.

In 2016, Standard Life Investments achieved 15 'Green Stars' in the annual Global Real Estate Sustainability Benchmark (GRESB) Assessment – the leading global benchmark for real estate sustainability. This is the highest number gained of all participants for the second consecutive year. Three of our 15 Green Stars also attained GRESB's new 5 Star rating – putting us in the top 20% of our peers.

ESG engagement – BHP Billiton

BHP Billiton is a UK-listed metals and mining firm with global operations. We met with the company during 2016 on several occasions. We primarily discussed the tragic incident of the Fundão tailings dam failure, in November 2015, at an iron ore mine operated by Samarco in Minas Gerais, Brazil. The dam collapse caused a 416 mile mudslide, affecting communities downstream, leaving at least 17 people dead and 700 homeless. BHP has a joint venture in the dam.

We believe BHP Billiton has responded proactively to the Samarco incident, both contributing resources and capabilities to the response effort and helping to establish a foundation to develop and deliver around 40 environmental and socioeconomic programmes to help restore and compensate the affected communities. The accident at Samarco calls into question the control companies have over non-operated joint ventures and the extent to which companies can ensure that health, safety and environmental standards are consistently applied across all operations to which they have financial exposure. We continue to monitor BHP's remediation and compensation programmes and encourage best practice.

Our measurement and assurance

Our non-financial performance measures are aligned across our four priority areas: responsible business, engaging employment, supporting saving, and investing responsibly. They are independently assured 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 the leadership population
- ▶ Total customer complaints
- ▶ Annual movement in the Brand Net Promoter Score (NPS)
- ▶ Voting at shareholder meetings of investee companies
- ▶ Environmental, social and governance engagements with companies

You can find out more about our measures and definitions in our 2016 sustainability report at www.standardlife.com/sustainability

Basis of preparation

Overview

Our Strategic report for the year to 31 December 2016 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 the Risk management section of this Strategic report 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 Guidance on the Strategic report issued by the Financial Reporting Council in 2014. We have also considered the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures issued in October 2015.

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 alternative performance measures (APMs), which have been used in the Strategic report, are also useful for both management and investors.

The most important APMs in the Strategic report include operating profit and underlying cash generation.

All APMs 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.

Further details on alternative performance measures, financial ratios and assets under administration are included in the Supplementary information 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 the Chief Financial Officer's overview section and our viability statement and principal risks in the Risk management section. 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 2021. 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.

Having assessed the principal risks and the other matters discussed in connection with the viability statement, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the 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.

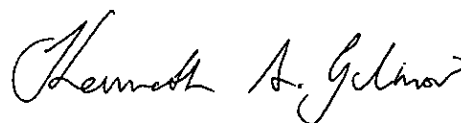
Operating profit

The 2016 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 115 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. Operating profit reporting provides further analysis of the results reported under IFRS and the Directors believe helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing non-operating items.

Forward-looking statements

This document may contain certain 'forward-looking statements' with respect to Standard Life's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. For example, statements containing words such as 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'pursues', 'seeks', 'targets' and 'anticipates', and words of similar meaning, may be forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and circumstances which may be or are beyond Standard Life's control, including among other things: UK domestic and global political, economic and business conditions (such as the United Kingdom's exit from the European Union); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of competition; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Standard Life and its affiliates operate as well as other factors described in the Risk management section of this Strategic report. These may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Standard Life's actual future financial condition, performance and results may differ materially from the plans, goals, strategy and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements. Standard Life undertakes no obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of Standard Life in this document may not be indicative of, and are not an estimate, forecast or projection of, Standard Life's future results.

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



Kenneth A Gilmour
Company Secretary

Standard Life plc (SC286832)

24 February 2017

Contents

2. Board of Directors	50
3. Directors' report	54
4. Corporate governance statement	59
5. Directors' remuneration report	80
6. Statement of Directors' responsibilities	103

2. Board of Directors

Our business is managed by our Board of Directors. Biographical details (and shareholdings) of the Directors as at 24 February 2017 are listed below.

	Sir Gerry Grimstone Chairman	Keith Skeoch Chief Executive	Luke Savage Chief Financial Officer
Nationality:	British	British	British
Age:	67	60	55
Tenure:	Sir Gerry was appointed Chairman in May 2007, having been Deputy Chairman since March 2006. He has been a Director for 11 years.	Keith was appointed Chief Executive in August 2015, having been a Director since May 2006. He has been a Director for 10 years.	Luke was appointed Director and Chief Financial Officer in August 2014. He has been a Director for 2 years.
Background:	<p>Sir Gerry has continued his excellent track record with the Group, leading the Board during a period of significant change and strategic development. His international experience, insight and firm advocacy of the benefits of strong governance are a great asset to the Board and to the Group.</p> <p>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. 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.</p> <p>He holds an MA and MSc from the University of Oxford.</p>	<p>Keith's reputation and breadth of experience in the industry, his market insights and his extensive knowledge of Standard Life are of great benefit to the Board and to the Group.</p> <p>Keith joined Standard Life Investments Limited in 1999 as Chief Investment Officer, and has been its Chief Executive since 2004. 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.</p> <p>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.</p>	<p>For 30 years Luke has provided corporate and financial support within the financial services sector and by bringing that experience to the Board, has continued to make an effective contribution to Board deliberations.</p> <p>Prior to joining Standard Life, Luke spent 10 years as director of finance and operations at Lloyd's of London. Previously, 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.</p> <p>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.</p>
Shareholding:	206,626	2,246,620	885
Committee memberships:	► Nomination and Governance, Chairman (c)		

	Colin Clark Executive Director	Paul Matthews Executive Director	Kevin Parry Senior Independent Director
Nationality:	British	British	British
Age:	57	56	55
Tenure:	Colin was appointed Director in November 2015. He has been a Director for 1 year.	Paul was appointed Director in November 2015. He has been a Director for 1 year. Paul is standing down from the Board on 1 March 2017.	Kevin was appointed Director in October 2014. He has been a Director for 2 years.
Background:	<p>With his background in investment management and client services, both with Standard Life and elsewhere, Colin brings important skills to the Board.</p> <p>Colin was appointed to the Board of Standard Life Investments Limited 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 20 years with Mercury Asset Management/Merrill Lynch Investment Managers, becoming head of global marketing in 1999.</p> <p>He holds a BA (Hons) Philosophy, Politics and Economics degree from the University of Oxford.</p>	<p>Paul's appointment reflected his depth of knowledge of Standard Life and experience in the financial services industry spanning over 30 years. He brings a strong customer focus and significant marketing and distribution expertise to the Board.</p> <p>Paul joined Standard Life in 1989, working in a variety of roles before being appointed UK Chief Executive in 2011 and then UK and Europe Chief Executive in 2012. His senior management roles have included UK Take to Market Director, Managing Director of UK Distribution, and Head of IFA Sales.</p> <p>Paul started work straight from school, initially balancing his work with a rugby career, captaining the England U19s 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.</p> <p>He is a board member of the Association of British Insurers and is a member of the Financial Conduct Authority Practitioner Panel.</p>	<p>Kevin's international commercial and acquisition experience is particularly valuable to the Board. He has extensive audit and regulatory knowledge gained in a 'Big 4' firm and a FTSE 100 asset management and private banking group.</p> <p>Kevin is chairman of Intermediate Capital Group plc (ICG) and a non-executive director of Nationwide Building Society (Nationwide) and Daily Mail and General Trust plc (DMGT). At ICG he is chairman of the nominations committee and a member of the remuneration committee. At Nationwide he chairs the audit committee and is a member of the risk and nominations committees. At DMGT he chairs the audit and risk committee. He is chairman of the Royal National Children's Foundation.</p> <p>He was formerly chairman of the Homes and Communities Agency, a non-executive board member of Knight Frank LLP, CFO of Schroders plc, CEO at Management Consulting Group PLC and a managing partner at KPMG.</p> <p>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.</p>
Shareholding:	757,766	237,039	50,000
Committee memberships:			<ul style="list-style-type: none"> ▶ Audit (c) ▶ Nomination and Governance ▶ Risk and Capital

2. Board of Directors *continued*

	Pierre Danon Non-executive Director	John Devine Non-executive Director	Melanie Gee Non-executive Director
Nationality:	French	British	British
Age:	60	58	55
Tenure:	Pierre was appointed Director in October 2011. He has been a Director for 5 years.	John was appointed Director on 4 July 2016. He has been a Director for 8 months.	Melanie was appointed Director in November 2015. She has been a Director for 1 year.
Background:	<p>With extensive experience in leading technology and customer-facing businesses, Pierre brings a strong combination of international commercial and customer skills to the Board.</p> <p>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.</p> <p>He holds a degree in Civil Engineering, École Nationale des Ponts et Chaussées, Paris, a Law degree from the Faculté de droit, Paris, together with an MBA from HEC Paris.</p>	<p>John joined the Board in July 2016. He brings extensive financial and asset management experience to the Board.</p> <p>From April 2015 until August 2016, John was non-executive chairman of Standard Life Investments (Holdings) Limited. He is a non-executive director of GE Capital International Holdings Limited, Euroclear plc and Citco Custody Limited.</p> <p>From 2008 to 2010, John was chief operating officer of Threadneedle Asset Management Limited (Threadneedle). Prior to joining Threadneedle, John held a number of senior positions at Merrill Lynch in London and New York.</p> <p>He holds a BA (Hons) from Preston Polytechnic and is a Member of the Chartered Institute of Public Finance and Accounting.</p>	<p>Melanie brings deep understanding of investment banking and financial services to the Board.</p> <p>Melanie is 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 has also served as a non-executive director of Drax Group plc.</p> <p>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.</p> <p>She holds an MA in Mathematics from the University of Oxford.</p>
Shareholding:	49,656	1,321	20,000
Committee memberships:	<ul style="list-style-type: none"> ▶ Investment (c) ▶ Nomination and Governance 	<ul style="list-style-type: none"> ▶ Investment ▶ Remuneration ▶ Risk and Capital 	<ul style="list-style-type: none"> ▶ Remuneration (c) ▶ Investment ▶ Risk and Capital

	Noel Harwerth Non-executive Director	Lynne Peacock Non-executive Director	Martin Pike Non-executive Director
Nationality:	British and American	British	British
Age:	69	63	55
Tenure:	Noel was appointed Director in July 2012. She has been a Director for 4 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 3 years.
Background:	<p>Noel's executive background is in international banking. She brings extensive knowledge of financial and governance issues to the Board.</p> <p>In January she was appointed chair of the UK Export Finance board. As part of this role she is also a non-executive member of the Department of International Trade board. Noel is outgoing chairman of GE Capital Bank Limited. She also holds non-executive director appointments with CHAPS Clearing Company Limited, the London Metal Exchange, the British Horseracing Authority and Sirius Minerals Plc.</p> <p>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.</p> <p>She holds a Law degree from the University of Texas.</p>	<p>With a successful career in the UK financial services industry and a strong focus on customer care, Lynne brings important skills to the Board. Her experience as a chief executive officer and in managing change in the financial services sector has been of great value to the Board.</p> <p>In April 2016, Lynne was appointed as non-executive chairman of Standard Life Assurance Limited. Lynne is a non-executive director of Scottish Water, where she chairs its audit committee. She is a non-executive director and senior independent director of Nationwide Building Society and chairs its remuneration committee. She is also a member of its audit, risk and nomination and governance 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.</p> <p>She holds a BA from North East London Polytechnic.</p>	<p>The Board continues to benefit from Martin's insight, based on his broad commercial and strategic risk experience.</p> <p>Martin is a non-executive director of esure Group plc, where he chairs the remuneration committee and is a member of the audit and risk committees. He is a non-executive director of Faraday Underwriting Limited which manages a syndicate at Lloyds, where he is chair of the audit and risk committee and member of the remuneration committee. He is also a non-executive adviser to Travers Smith LLP.</p> <p>Martin spent nearly 30 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.</p> <p>He holds an MA in Mathematics from the University of Oxford. He is a Fellow of the Institute and Faculty of Actuaries.</p>
Shareholding:	10,074	12,554	32,727
Committee memberships:	<ul style="list-style-type: none"> ▶ Audit ▶ Nomination and Governance ▶ Risk and Capital 	<ul style="list-style-type: none"> ▶ Audit 	<ul style="list-style-type: none"> ▶ Risk and Capital (c) ▶ Audit ▶ Remuneration

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 2016.

Reporting for the year ended 31 December 2016

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 Strategic report. During 2016, the Company's principal undertakings operated branches in Germany, Hong Kong, India and Ireland.

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 2016 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 executive team together with the Board and forms part of the management report.

Dividends

The Board recommends paying a final dividend for 2016 of 13.35p per ordinary share. This will be paid on 23 May 2017 to shareholders whose names are on the Register of members (the Register) at the close of business on 18 April 2017.

The total payment is estimated at £262m for the final dividend and together with the interim dividend of 6.47p per share totalling £127m paid on 19 October 2016, the total dividend for 2016 will be 19.82p per share (2015: 18.36p) totalling £389m (2015: £362m).

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 2016, in the Shareholder information section.

As at 31 December 2016, there were 1,978,884,437 ordinary shares in issue held by 102,942 registered members. The Standard Life Share Account (the Company-sponsored nominee) held 746,304,323 of those shares on behalf of 1,060,964 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 Guidance and Transparency Rules of the Financial Conduct Authority (FCA).

Shareholder	Date of transaction	Type of transaction	Number of voting rights following the transaction	Percentage of voting rights following the transaction
BlackRock, Inc.	23.09.2016	Acquisition	98,854,534	5.00%

In 2016, 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 also obtain a copy from Companies House or by writing to the Company Secretary at our registered address (details of which can be found in the Contact us section). The Articles may only be amended by a special resolution passed by the shareholders.

You can read the Articles on our website www.standardlife.com/annualreport

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, provided, that where a proxy is appointed by more than one shareholder entitled to vote on a resolution and is instructed by one shareholder to vote 'for' the resolution and by another shareholder to vote 'against' the resolution, then the proxy will be allowed two votes on a show of hands – one vote 'for' and one vote 'against'. 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 2016 Annual General Meeting (AGM), shareholders granted the Directors limited powers to:

- ▶ Allot ordinary shares in the Company up to a maximum aggregate amount of £80,259,685
- ▶ Disapply, up to a maximum total nominal amount of £12,038,952 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 197,001,046 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 2016, 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 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 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 Standard Life Investments Limited that results in the acquisition by a third party, either directly or indirectly, of more than 20% of the issued, subscribed and paid-up capital of Standard Life Investments Limited, HDFC will have 90 days from the date upon which Standard Life Investments Limited notifies it in writing of the occurrence of such a change to purchase the relevant Group company's shares in HDFC AMC for a price determined in accordance with an agreed pricing formula.

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 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 Gery Grimstone (Chairman)
- ▶ Keith Skeoch
- ▶ Luke Savage
- ▶ Colin Clark
- ▶ Paul Matthews
- ▶ Kevin Parry
- ▶ Pierre Danon
- ▶ John Devine (appointed 4 July 2016)
- ▶ Melanie Gee
- ▶ Noel Harwerth
- ▶ Lynne Peacock
- ▶ Martin Pike
- ▶ Crawford Gillies (retired 17 May 2016)
- ▶ Isabel Hudson (resigned 24 June 2016)

Biographies of the current Directors can be found on pages 50 to 53.

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

3. Directors' report *continued*

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 us section) during normal business hours (9am to 5pm Monday to Friday) and will be available for inspection at the Company's AGM on 16 May 2017:

- ▶ 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 as at the date of the AGM will retire at the AGM on 16 May 2017. Paul Matthews is standing down as Director on 1 March 2017 and Barry O'Dwyer will be appointed to the Board as Director on the same day. John Devine and Barry O'Dwyer, having been appointed since the last AGM, will stand for election at the 2017 AGM. All remaining Directors who wish to continue in office will stand for re-election.

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

Directors' liability insurance

During 2016, 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.

You can read more on our people strategy in the Sustainability section of the Strategic report

Diversity and Inclusion

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. Our approach to diversity and inclusion is defined in its broadest sense including, for example, age, socio-economic background, gender, disability, sexual orientation, experience and ethnicity. We are committed to enabling all our people to fulfil their potential and to providing an inclusive workplace where all forms of diversity are valued. This covers our recruitment process, policies, working practices and our people networks.

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. This year we have signed up to the Women in Finance Charter, supporting our aim for an inclusive workplace and in particular, to support actions which will improve the representation of senior women in our industry. We are committed to continuing to improve the gender balance split at a senior management level and in October 2016 we published our target ranges for gender balance. Although 25% of our leadership population is female, we appreciate that there is still more work to be done. We continue to run our Non-Executive Director 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 addition, we are working with executive search partners who have signed up to providing an equal balance of men and women on shortlists provided.

In 2016 our established people networks continued to support our people across the business. At present we have a successful Women's Development Network, LGBT Network, Carers' Network, Armed Forces Network and Young Persons' Development Network. In addition, we have an LGBT+ Allies Group.

Talent

Since 2010 we have increased the number of employees aged 25 and under in the UK and Ireland from 0.5% to 8%. Through a series of initiatives and partnerships and by offering traineeships and apprenticeships, Standard Life demonstrates it is committed to youth employment. On our Edinburgh Guarantee programme we have, to date, taken on more than 140 school leavers, providing six-month placements across the business, paid at the living wage. Our experience has been good, with 98% of our placements leading to a positive destination – whether it be a role within Standard Life or progression to further education, training or other employment. This commitment extends to supporting young people through education, as we work with Career Ready to equip young people for better futures, with mentors and paid internships.

We are committed to retaining and attracting the best talent and our recruitment campaigns advertise our flexible approach to working patterns, capturing individuals at the beginning and middle years of their careers. Our veteran and 'returnship' programmes also support those in the middle and later years of their careers.

Engagement

There are several separate employee representation arrangements across the organisation aimed at providing insights from our people to help drive the business towards becoming a world-class investment company. 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.

We want to hear from our people about how to make things better, so we get insight from our employee engagement survey 'InterAction', as well as through our employee associations and conversations with leavers. The InterAction survey gives our employees the chance to tell the leadership teams how they feel about working for Standard Life. In November 2016, 80% of our employees completed our most recent InterAction survey, which is up from 79% in 2015. The responses gave us a clear update on how our people feel about a range of topics.

We want our employees to be engaged in their work and give their best every day. We have collaborated with the voluntary movement Engage for Success to focus on the best ways to make this happen. Their aim – like ours – is to improve employee engagement.

As a result of these collaborations, we have launched our own engagement network which will begin work early in 2017 to focus on our group-wide engagement priorities.

To support our healthy body strategy, we took part in our fifth Global Corporate Challenge – a 100-day walking challenge. We averaged 14,037 steps a day (well above World Health Organisation target of 10,000). We also work with our on-site caterers to provide healthy, nutritious lunch and snack choices for our people.

To help our people in work and home life, we provide a variety of support from our people networks to our family friendly policies, and we provide an employee assistance programme called Solutions. It is a free, confidential service available to our people and their families whenever they need it.

We also run free regular mindfulness and meditation sessions, where employees can get space and time to clear their minds in the middle of a working day.

Changes to the UK employee pension were implemented on 16 April 2016. From this date, pension scheme members build up future pension on a defined contribution basis rather than a career average defined benefit basis. In 2016 over 95% of our UK employees were in our pension scheme.

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.

Our new Group intranet, Stan, launched in March 2016, enhances engagement, collaboration and communication across the whole business, helping employees to do their job more quickly and connect with each other more easily. In addition, independent analysis of Stan conducted by Digital Workplace Group highlighted that we are well positioned to build on the initial positive impact of the site. Stan achieved an extremely high score for its strategy and governance, ranking third in the global league tables compiled by Digital Workplace Group.

Reward

We rely on highly skilled employees. We are committed to policies that are progressive and attract and retain the talent we need to continue to build a world-class investment company. We offer a range of benefits and financial rewards to our people. As we are all different, our people can tailor their package to suit their needs.

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 our approach continues to support our reward principles and links pay to performance. This ensures our remuneration remains competitive in the market.

As at 31 December 2016, approximately 73% 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 £150 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 in the UK, the Company matches the purchase by allocating them ordinary shares up to a maximum total value of £50 per month. As at 31 December 2016, 68% of eligible employees in the UK were making a monthly average contribution of £58. A similar tax approved plan is used in Ireland, where the maximum monthly matched amount is €70, and has a 55% take-up. Even though the Plan cannot be structured on a tax favourable basis in Germany or Austria, at the end of the year, 35% of eligible employees 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 2016, we launched a sixth invitation to UK employees and at the same time made a fifth invitation

to employees in Ireland. On 1 November 2016, the 2013 three-year UK and Ireland Sharesave invitations matured. Participating employees have the opportunity, until 1 May 2017, to buy Standard Life plc shares at a price of £2.834 per share (UK) and €3.216 per share (Ireland) with their accumulated savings. On 1 November 2016 the 2011 five-year Sharesave invitation also matured. Participating employees have the opportunity, until 1 May 2017, to buy Standard Life plc shares at a price of £1.576 per share (UK) with their accumulated savings.

As a result, there are now over 3,400 employees in the UK and Ireland participating in Sharesave plans.

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, including our greenhouse gas emissions, in the Sustainability section of the Strategic report.

Political donations

We did not make any political donations in the year ended 31 December 2016. The Company has limited authorisation from shareholders to make political donations and incur political expenditure (Resolution 14, 2016 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. PricewaterhouseCoopers LLP is not seeking re-appointment as auditors of the Company. Following the conclusion of the audit tender process, resolutions proposing the appointment of KPMG 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 16 May 2017.

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 2017 which will be available online at www.standardlife.com from 22 March 2017. The AGM was held in London for the first time last year. As it is intended to hold the AGMs in Edinburgh and London in alternate years, it will be held in Edinburgh in 2017.

Annual General Meeting – Tuesday 16 May 2017 at 2pm (UK time)

Edinburgh International Conference Centre
The Exchange
150 Morrison Street
Edinburgh
EH3 8EE
Scotland

Overview

- ▶ 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 2017. After this, there will be an opportunity to ask questions
- ▶ Voting – shareholders will be asked to consider and vote on a number of resolutions

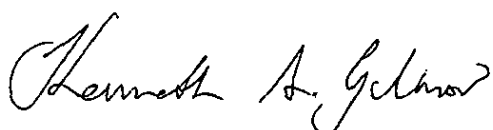
3. Directors' report *continued*

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	None/ Not applicable
Interest capitalised			x
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			x
Details of long-term incentive schemes		x	
Waiver of emoluments by a director			x
Waiver of future emoluments by a director			x
Non pre-emptive issues of equity for cash			x
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings			x
Parent participation in a placing by a listed subsidiary			x
Contracts of significance			x
Provision of services by a controlling shareholder			x
Shareholder waivers of dividends	x		
Shareholder waivers of future dividends	x		
Agreements with controlling shareholders			x

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



Kenneth A Gilmour
Company Secretary

24 February 2017

4. Corporate governance statement

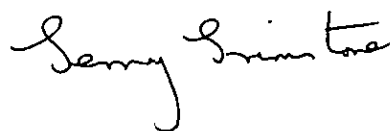
4.1 Nomination and Governance Committee report

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 2016 Corporate governance statement and Nomination and Governance Committee report, in line with my responsibility to 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. As well as our key activities to oversee the composition of the Board and its effectiveness, during 2016 we:

- ▶ Reviewed and revised the composition of the boards of our principal subsidiaries, Standard Life Assurance Limited (SLAL) and Standard Life Investments (Holdings) Limited (SLIH)
- ▶ Established the Investment Committee to support the Board in its oversight role



Sir Gerry Grimstone
Chairman, Nomination and Governance Committee

Membership

The members of the Committee are the Chairman and independent non-executive directors. Their attendance at Committee meetings was:

Member	Attendance
Sir Gerry Grimstone, Chairman	6/6
Pierre Danon	5/6
Kevin Parry	5/5
Noel Harwerth	6/6
Former member	
Crawford Gillies	1/1

Keith Skeoch, in his role as Chief Executive, was 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, and oversees the Group's activities to strengthen its talent pipeline at all levels. It also oversees the development and implementation of the Group's governance framework.

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

- ▶ Identifying and recommending Directors to be appointed to the Board
- ▶ 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 2016

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

- ▶ Reviewed compliance with the Corporate Governance Code
- ▶ Reviewed the corporate governance statement
- ▶ Reviewed the Board Charter
- ▶ Committee Effectiveness review
- ▶ Recommended appointment of Senior Independent Director (SID)
- ▶ Reviewed membership of Committees

- ▶ Reviewed executive succession and talent
- ▶ Reviewed emerging talent and support and development programmes
- ▶ Appointment of subsidiary board members
- ▶ Reviewed preparation to support the Market Abuse Regulation (MAR)
- ▶ Signed up to Women in Finance Charter
- ▶ Recommended appointment of non-executive Director

- ▶ Reviewed *Organisation Design* reshaping and output
- ▶ Reviewed executive succession and talent

- ▶ Reviewed results of Board Effectiveness
- ▶ Recommended establishment of Investment Committee
- ▶ Reviewed implementation of Senior Insurance Managers Regime (SIMR) requirements
- ▶ Reviewed executive succession and talent
- ▶ Reviewed subsidiaries' committees' terms of reference

4. Corporate governance statement *continued*

The Committee's work in 2016

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

Committee effectiveness

The Committee reviews its remit and effectiveness each year. The 2016 review was carried out via an internal self-assessment questionnaire. The review concluded that the Committee:

- ▶ Continued to focus Director and senior manager recruitment on the skills and experience required by the Board, reflecting the changing shape of the business
- ▶ Continued to look for strength in the succession, talent and development, diversity and leadership programmes across the Group
- ▶ Worked to deliver effective subsidiary board composition and processes to support changing governance requirements

Roles and responsibilities

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

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 2016, the Company complied with all of the provisions set out in the Code issued by the Financial Reporting Council (FRC) in September 2014, which is available at www.frc.org.uk

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/annualreport

The Group's Code of Conduct guides our people to do the right thing and 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 2016, the Committee oversaw the implementation of the governance map and processes to support SIMR and the preparation for the introduction of MAR.

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 24 February 2017, the Board comprises the Chairman, seven independent non-executive Directors and four executive Directors. The Board is made up of nine men (75%) and three women (25%) (2015: men 69%, women 31%). The Board continues to support its Board Diversity statement which states that the Board:

- ▶ Believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, when undertaking a search for candidates, both executive and non-executive
- ▶ Recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness

- ▶ Believes that it should have a blend of skills, experience, independence, knowledge and gender amongst its individual members that is appropriate to its needs
- ▶ Believes that it should be able to demonstrate with conviction that *any new appointee can make a meaningful contribution to its deliberations*
- ▶ Is committed to maintaining its diverse composition
- ▶ Supports the Chief Executive's 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 in Section 2

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. During 2016, the Board signed up to the Women in Finance Charter and has published our progressive target ranges for our leadership population to represent the gender split of our workforce by 2025. You can read more about our diversity activities in the Sustainability section of the Strategic report.

Board changes during the period

Appointments

John Devine was appointed to the Board on 3 July 2016. John had served as the non-executive chairman of SLIH from 28 April 2015 until the end of August 2016. From 2008 to 2010, John was chief operating officer of Threadneedle Asset Management Limited. Prior to joining Threadneedle, John held a number of senior positions at Merrill Lynch in London and New York. As recently announced, Barry O'Dwyer will be appointed as an executive Director to the Board on 1 March 2017, to replace Paul Matthews as CEO Pensions and Savings.

Retirements

Crawford Gillies retired from the Board at the conclusion of the 2016 AGM, having served for nine years. Isabel Hudson stood down from the Board on 24 June 2016, having served for 18 months. As recently announced, Paul Matthews, CEO Pensions and Savings will stand down from the Board on 1 March 2017 prior to his retirement later this year.

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.

Taking account of the regulatory changes that have been or will be introduced to the responsibilities of the board of Standard Life Assurance Limited (SLAL), including:

- ▶ The transition from the current Individual Capital Assessment regime to Solvency II
- ▶ The Prudential Regulation Authority's (PRA) Position Paper on Corporate Governance: Board Responsibilities
- ▶ SIMR regime changes
- ▶ The role of the Independent Governance Committee

During 2016, the Committee considered and strengthened the oversight of the governance of key subsidiaries. Specifically, the Committee supported changes to the composition of the board of SLAL, in particular that a non-executive chairman and three independent non-executive directors should be appointed.

4. Corporate governance statement *continued*

Recognising strategic developments and the impact of the change noted above, the Committee also supported changes to the composition of the board of SLIH, in particular that the independent non-executive Directors should stand down. Following this, to provide increased connectivity with Standard Life Investments, the Committee supported the proposal to establish an Investment Committee which will become operational in 2017 and which is discussed in more detail in the Other committees section on page 66.

After identifying 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, Heidrick and Struggles, Odgers Berndtson, Zygos and Egon Zehnder to support its recent recruitment searches and Egon Zehnder has also provided executive development assessment support. Standard Life administers three active pension plans for Heidrick and Struggles and provides a group self-invested pension plan for The Zygos Partnership. In addition, Standard Life hold a fully paid-up executive pension plan for Egon Zehnder. The Board is not aware of any other connection between the Group and the aforementioned consultants, JCA Group or Odgers Berndtson.

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 vote on whether to elect/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 2016, the Committee recommended to the Board that the appointment of Martin Pike 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/annualreport 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 around 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

At the 2017 AGM, all of the current Directors will retire. John Devine and Barry O'Dwyer, having been appointed since the previous AGM, will retire and stand for election. All the others, except Paul Matthews who will have resigned as at 1 March 2017, will stand for re-election.

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 2017, which will be published online at www.standardlife.com from 22 March 2017, 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 has retained his non-executive positions with Barclays PLC, where he serves as deputy chairman and senior independent director, Deloitte LLP and the UK Government's Ministry of Defence. He is also an adviser to the board of the Abu Dhabi Commercial Bank.

Crawford Gillies served as the Senior Independent Director (SID) until his retirement on 17 May 2016, and Kevin Parry was appointed as SID on that date. In this role, Kevin 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. As part of his induction we offered institutional shareholders the chance to meet with him, and one chose to do so.

The Directors continued to review and authorise Board members' actual and potential conflicts of interest on a regular and ad hoc basis in line with the authority granted to them in the Company's Articles. As part of the process to approve the appointment of a new Director, the Board considers and, where appropriate, authorises his or her potential or actual conflicts. The Board also considers whether any new outside appointment of any current Director creates a potential or actual conflict before, where appropriate, authorising it. All appointments are approved in accordance with the Group's Outside Appointments and Conflicts of Interest policies.

In January 2017, 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 2016, when considering the external audit tender, the Board recognised the Chairman's conflict resulting from his role with Deloitte LLP and he took no part in the tender process. The Audit Committee also considered Kevin Parry's previous employment with KPMG. As this ended in 1999, the Committee did not consider that it brought any potential conflict to the tender exercise or decision.

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. Paul Matthews is a member of the Association of British Insurers board and of the FCA's practitioner panel.

You can read more about the Directors' outside appointments in their biographies in Section 2

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 2016.

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 2016 review, the Nomination and Governance Committee also considered how the themes from the previous reviews continued to be taken forward. In respect of engagement, the non-executive Directors continued their support for participants in the leadership programmes, and executive Directors held regular interactive sessions open to all employees.

The 2016 review was facilitated internally. It comprised an online self-assessment questionnaire, followed up by individual meetings between each Director and the Company Secretary and individual meetings between the Chairman and each Director. 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 discussed with the Chairman and then considered in detail by the Nomination and Governance Committee at its October meeting before being formally presented to the Board in December.

The key outputs from the review included:

- ▶ Recognising the Directors' collective role in setting the 'tone from the top' and monitoring how culture was embedded across the Group
- ▶ Recognising the Board's role in supporting effective behaviours in the Boardroom and constructive leadership and management across the Group
- ▶ Acknowledging that there had been improvements to Board papers, but that there was still the need to focus on papers to support succinct decision-making
- ▶ The Board's continuing desire to connect with and hear from people in the whole business to support future leaders and key role successors

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, Kevin Parry. It was based on feedback given in the confidential online questionnaires and followed up by individual interviews between the SID and each Director. The questions covered:

- ▶ The Chairman's role to lead the Board and encourage effective participation and consensus decision-making
- ▶ How he informs the Board of stakeholders' views
- ▶ 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

report also contained the reflections from the SID's individual meetings. 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 met 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, meeting all of their statutory and regulatory duties, and 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 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) approval process and, if relevant, the Prudential Regulation Authority's (PRA) SIMR notification or approval process before they are appointed and to self-certify annually that they remain competent to carry out this aspect of their role. These processes continue to adapt to meet evolving best practice in respect of SIMR.

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 investments, Solvency II, conduct risk, risk and capital management, and financial reporting
- ▶ Visits to business units to meet our people and gain a better insight into the operation of the business and its culture
- ▶ 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, 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

4. Corporate governance statement *continued*

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 2016, John Devine was appointed to the Board. Given the strength of his asset management experience, the induction programme was 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 2016, specific Board sessions took place on the Group's balance sheet, Solvency II and conduct risk 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 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.

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 2016, 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 2016 and up to the date of approval of the Annual report and accounts 2016.

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 Own Risk and Solvency Assessment (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 2016. The Risk function 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 ERMCs 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 has 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 maintain and further develop a dialogue with its shareholders. As part of this, our investor relations and Group secretariat teams support communication with investors. During 2016, 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 compliance with regulations, 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. Around 430,000 shareholders receive all communications electronically helping to reduce our environmental impact. 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. 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 also held a Capital Markets Day in May 2016 during which we took the opportunity to update investors on the developments at Standard Life Investments, the Group's principal asset management company, including our broad range of investment solutions and growing international reach. We also discussed the strength of our Pensions and Savings business and the ongoing focus on improving efficiency in our business.

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 including our sustainability strategy. 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 2017 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 2016 AGM was held at etc venues St. Paul's on 17 May 2016 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, including proxy votes lodged prior to the meeting, were made available on our website the same day. 43% of the shares in issue were voted and all resolutions were passed. The formal results announcement also included an extract from the Chairman's script about the Board's continuing commitment to respond to feedback from shareholders.

Our 2016 AGM was 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 is a signatory to and a supporter of the UK Stewardship Code and the United Nations Principles for Responsible Investment. It understands and promotes the importance of good governance and stewardship including the management of broader aspects of risk relating to the environment, society and governance (ESG). In 2016, Standard Life Investments published a new climate change statement demonstrating how climate related factors are embedded in the investment process. Standard Life Investments believes that it is mutually beneficial for companies and the long-term investors it represents, to have a relationship based on accountability, engagement and trust. As a major asset manager, it monitors and analyses the long-term ESG investment factors relating to the companies it invests in and holds regular meetings with their senior management representatives. Standard Life Investments maintains principles and policy guidelines on ESG matters, 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 Code, the Nomination and Governance Committee also reviewed the Company's compliance with the Standard Life Investments 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 Standard Life Investments' 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

4. Corporate governance statement *continued*

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. In September 2016, the Board travelled to Boston to meet with key members of staff and hear presentations on developments in the North American business. 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 several times 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.

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 distributed before meetings other than, by exception urgent papers which may need to be tabled at the meeting. 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 Board has established the Standing Committee as a formal procedure for holding unscheduled meetings. The Standing Committee meets when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently. During 2016, the Standing Committee did not meet.

The Chairman is not a member of the Audit, Risk and Capital, Remuneration or Investment Committees. He does, however, attend the meetings of all Committees, by invitation, in order to keep abreast of their discussions. Directors' attendance at the 2016 Board meetings is shown in the table below. The Board met nine times during the year.

Number of meetings	Board
Chairman	
Sir Gerry Grimstone	9/9
Executive Directors	
Keith Skeoch	9/9
Luke Savage	9/9
Paul Matthews	9/9
Colin Clark	8/9
Non-executive Directors	
Pierre Danon	9/9
John Devine	4/4
Melanie Gee	9/9
Noel Harwerth	9/9
Kevin Parry	9/9
Lynne Peacock	9/9
Martin Pike	9/9
Former members	
Crawford Gillies	3/4
Isabel Hudson	4/4

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.

Investment Committee

The Board has established the Investment Committee to provide increased connectivity with, and Standard Life plc non-executive Director oversight of, the investment performance of Standard Life Investments, and to strengthen the Board's engagement with the fund management team. The Board recognises the value this will bring, both internally in terms of liaison with the Chief Investment Officer and his fund management team, and externally from the perspective of our clients. The Investment Committee has been operational from the beginning of 2017. It is chaired by Pierre Danon and the other members are John Devine and Melanie Gee. There will be an open invitation to the other non-executive Directors to attend the Committee's meetings.

Committee reports

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 as well as a report from the chairman of the Standard Life Master Trust Co. Ltd. You can read more in Section 12.

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 2016, the activities of the Audit Committee increased once again. We:

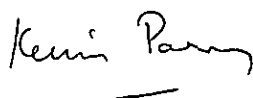
- ▶ Undertook the external audit tender, resulting in the recommendation to appoint KPMG LLP for the 2017 financial year
- ▶ Monitored the implementation of Solvency II, the new prudential regime that took effect from 1 January 2016, including preparing for external narrative reporting required in 2017
- ▶ Recruited a new Chief Internal Auditor and spent more time discussing the work of Internal audit
- ▶ Updated our approach to considering non-audit services from the External auditors

The Committee has also worked with executive management to continue to improve the financial reporting. In July 2016 we received a letter from the Financial Reporting Council (FRC) informing us that they had carried out a review of our Annual report and accounts 2015. I am pleased to report that the FRC letter noted that there were no questions or queries that the FRC wished to raise on our report and accounts. The FRC asked that we make clear the inherent limitations of their review, which we have set out in the financial reporting section of this report.

Our report to you is structured in four parts:

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

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
Lynne Peacock	8/8
Martin Pike	8/8
Former member	
Isabel Hudson	5/5

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 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. In 2016, there were two extra meetings, of which one was focused solely on the external audit tender and the other on a presentation of Solvency II disclosures.

Invitations to attend Committee meetings are extended on a regular basis to the Chairman, the Chief Executive, the Chief Financial Officer, 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 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

During the year, the audit, risk and compliance committee of Standard Life Investments (Holdings) Limited was stood down as all important financial and regulatory reporting matters are considered at the Group Audit Committee from the overall perspective of the Group. To comply with new EU rules for public interest entities, a Standard Life Assurance Limited (SLAL) audit committee was established. Its work is to be closely

4. Corporate governance statement *continued*

co-ordinated with the Group Audit Committee. During 2016, this Committee considered all key financial and regulatory reporting issues in relation to SLAL. The Audit Committee chairman will regularly attend meetings of the SLAL audit committee and the SLAL audit committee chairman will be invited to report regularly to the Audit Committee.

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.

In accordance with the Senior Insurance Manager's Regime, the Audit Committee Chairman is responsible for the oversight of the independence, autonomy and effectiveness of our policies and procedures on whistleblowing including the procedures for the protection of staff that raise concerns from detrimental treatment. Throughout the year the Audit Committee chairman met regularly with the Chief Internal Auditor and the Head of Financial Crime to discuss their work, findings and current developments.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2016 review was carried out using an internal self-assessment questionnaire. The review concluded that the Committee had:

- ▶ Performed effectively during the year and conducted a robust process to appoint new auditors
- ▶ Fulfilled its duties under its terms of reference, and kept its terms of reference up-to-date, recognising that in 2017 its regulatory reporting duties would continue 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.

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
- ▶ Regular refreshes and updates to the Internal audit plan
- ▶ Results of the monitoring of financial crime, fraud risk assessments and whistleblowing including 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 were aligned to the annual financial cycle as set out below.

-
- ▶ Annual report and accounts 2015
 - ▶ 2015 Strategic report and financial highlights
 - ▶ Solvency II reporting
 - ▶ Audit tender
-

- ▶ Completion of the 2015 external audit for all audited entities
 - ▶ 2015 external audit fee and the proposed 2016 fee for all audited entities
 - ▶ Solvency II 'day one' reporting
 - ▶ Audit tender (including special meeting)
-

- ▶ Half year results 2016
 - ▶ External auditors' review of Half year results
 - ▶ External audit plan for 2016 for all audited entities
 - ▶ 2016 external audit engagement letter for all audited entities
 - ▶ Solvency II reporting
-

- ▶ Initial findings from the 2016 year end work
 - ▶ The Internal audit global charter and the Internal audit plan
 - ▶ Effectiveness of the External auditors
 - ▶ Group non-audit services provided by External auditors
 - ▶ Effectiveness of the Committee
 - ▶ Solvency II reporting and related assurance provisions and asset valuations
 - ▶ Liaison with the Remuneration Committee on targets and measures
 - ▶ External Financial Reporting Policy
 - ▶ Taxation policy and reporting
 - ▶ Audit transition
-

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

Detail of work

The focus of work in respect of 2016 is described below.

Financial reporting

The Committee supported the recommendation that International Financial Reporting Standards (IFRS) provide a clearer view of the performance and condition of the Group compared to other accounting conventions such as embedded value.

The Committee believes that some Alternative Performance Measures (APMs, which are also called non-GAAP measures) can add insight to the IFRS reporting and help to give shareholders a fuller understanding of the performance of the business. The Committee considered guidance on APMs issued during the year as discussed further in the 'Fair, balanced and understandable' section below.

The Committee reviewed the Group accounting policies and confirmed they were appropriate to be used for the 2016 Group financial statements. There are no important changes this year. The Committee also considered future changes to accounting standards (in particular, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*) and ensured that the impact of these future changes was appropriately disclosed in the financial statements. The Committee also discussed that status of the new insurance contracts standard (IFRS 17) which is expected to be issued in 2017.

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.

In addition, the Committee considered the form of the viability statement and in particular whether the three-year period remained appropriate and concluded that it did. This reflects 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 it uses when considering the risks that are taken into account to determine regulatory capital. The Committee recommended the viability statement to the Board.

The Committee reviewed the Annual report and accounts 2015 and the Half year results 2016. 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 auditors. 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. Following its reviews, the Committee was able to recommend the approval of each of the reports to the Board, being satisfied that the annual and half year financial statements complied with laws and regulations and had been appropriately compiled.

We received a letter from the Financial Reporting Council informing us that they had carried out a review of our Annual report and accounts 2015 and that there were no questions or queries that the FRC wished to raise. The FRC asked us to note that their letter provides no assurance that our report and accounts are correct in all material respects, and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC noted that their review is based on our report and accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into.

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 with liabilities that 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 Audit Committee considered all estimates and judgements that Directors understood 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 determining that annuitant mortality was the most material estimate (see Note 33 of the Group financial statements for more detail).

We considered key assumptions determining the pension fund surplus: inflation (including the gap between the retail price index and the consumer price index), mortality and the discount rate. The assumptions were compared with market data and expert opinions. As with last year we also noted proposed new accounting guidance on recognising a pension surplus on the consolidated statement of financial position. Interpretation remains uncertain and so the Committee supported continuing with additional disclosures. Further details are set out in Note 37 of the Group financial statements.

We considered the carrying value of intangible assets in a number of areas including the acquisition of Ignis and agreed with management that it was necessary to write them down by £9m (2015: £5m) resulting from the loss of clients and associated revenues. We also considered the valuation of intangibles relating to the acquisition of the Elevate platform and concluded that a customer contract asset should be recognised with a value of £6m. After challenge, we agreed with management that it was appropriate to recognise a 'bargain purchase' gain (where the purchase price of an acquisition is less than the net assets acquired) arising from near-term losses in the acquired business. We also discussed capitalisation and useful lives for internally developed software. This software is generally amortised over a period of between 3 and 6 years. In respect of one major software development asset, we challenged management's view that a 10-year amortisation period was appropriate, concurring with their conclusion following review of supporting evidence. See Note 16 of the Group financial statements for further details relating to intangible assets.

In 2015, we determined that there was a need to disclose a contingent liability in relation to the sale of annuities in prior years. In 2016, taking account of further investigatory work and regulatory developments, we determined that we should book a provision in respect of past sales practices of annuities. We reviewed the estimate of the provision and considered sensitivities on its calculation. We were satisfied that the quantification of £175 million is an appropriate estimate at this time. In addition to the provision, there remain a number of uncertainties in respect of annuities sales practices so we continue to provide disclosures in the contingent liability note.

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 continued review of the Annual report and accounts. Notable improvements in 2016 include the addition of a Supplementary Information section in this year's report, which provides more transparency around Standard Life's key alternative performance measures, and enhanced reporting of our business model and strategic objectives in the Strategic report.

4. Corporate governance statement *continued*

The creation of a core set of fair, balanced and understandable principles for Standard Life has enhanced our approach towards engraining these concepts throughout our Annual report and accounts production and review process. These principles along with our enhanced approach are detailed below.

Standard Life's principles

To create clarity around what Standard Life means when it talks of being fair, balanced and understandable, a set of principles were developed, which can also act as an organisational definition for each aspect.

<p>Fair <i>"We are being open and honest in the way we present our discussions and analysis, and are providing what we believe to be an accurate assessment of business and economic realities"</i></p>	<ul style="list-style-type: none"> ▶ The narrative contained in the report is honest and accurate ▶ The key messages in the narrative in the 'front half' of the report reflect the financial reporting contained in the financial statements ▶ The Key Performance Indicators (KPIs) results for the period are consistent with the key messages outlined in the Strategic report
<p>Balanced <i>"We are fully disclosing our successes, the challenges we have faced in the period, and the challenges and opportunities we anticipate in the future – all with equal importance and at a level of detail that's appropriate for our stakeholders"</i></p>	<ul style="list-style-type: none"> ▶ The report presents the 'whole' story where both successes and challenges experienced during the year and expected in the future are covered ▶ The level of prominence we give to successes in the year versus challenges faced is appropriate ▶ The narrative and analysis contained in the report effectively balances the information needs and interests of each of our key stakeholder groups
<p>Understandable <i>"The language we use and the way we structure our report is helping us present our business and its performance clearly – in a way that someone with a reasonably informed knowledge of financial statements and our industry would understand"</i></p>	<ul style="list-style-type: none"> ▶ There is a clear and easy to understand framework to the report which is effective in addressing Standard Life's objectives, vision, mission and values ▶ The layout is clear and consistent and the language used is simple and easy to understand (industry specific terms are defined where appropriate) ▶ There is a consistent tone across and good linkage between all sections in a manner that reflects a complete story and clear signposting to where additional information can be found

Prepare, Review and Challenge

The above principles and supporting statements are considered in each stage of the Annual report and accounts production process. They represent a set of key criteria that the Annual report and accounts are prepared, reviewed and challenged against. The financial reporting team are required to provide direct responses to any challenges raised by the Internal Review Group (see more below) in respect of the above principles and supporting statements.

Activities

- ▶ An Internal Review Group (IRG) is in place which reviews the Annual report and accounts specifically from a fair, balanced and understandable perspective and provides feedback to our financial reporting team on whether it conforms to our standards. The members of the IRG are independent of the financial reporting team.
- ▶ We provided fair, balanced and understandable training and guidance to all key stakeholders involved in the Annual report and accounts production process
- ▶ We, as an Audit Committee, reviewed the messaging in the Annual report and accounts, taking into account material received and discussion taken place during the year
- ▶ Three drafts of the Annual report and accounts 2016 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.
- ▶ Our Annual report and accounts goes through an extensive internal verification process of all content to verify accuracy

The Committee also reviewed the use and presentation of Alternative Performance Measures (APMs) which complement the statutory IFRS results in order to give a more complete view of the performance of the business. This review considered guidelines issued by the European Securities and Markets Authority in the year. As noted previously an additional Supplementary Information section has been added to the Annual report and accounts to explain why we use these metrics and to provide reconciliations of these metrics to IFRS measures where relevant. This section also provides increased transparency over the calculation of reported financial ratios.

Operating profit is a key APM. The Committee particularly considered operating profit policies and 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 relied on the verification process for other financial metrics. Processes and controls relating to assets under administration and net flows were also reviewed by Internal audit during the year.

We agreed to recommend to the Board that the Annual report and accounts 2016, taken as a whole, is fair, balanced and can be understood by someone with a reasonably informed knowledge of financial statements and our industry.

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

Prudential reporting

Solvency II reporting applied with effect from 1 January 2016. During 2016, the Group submitted regular reporting to the PRA. The Committee built on procedures established last year that allow it to adopt a compliance approach to Solvency II reporting drawing on work undertaken by management, Group Risk, Internal audit and the External auditors. 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 2016 Solvency II reporting, including mortality, persistency and expense assumptions. Similar work was undertaken as for financial reporting (see the Accounting estimates and judgements section 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.

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

Financial crime and whistleblowing

Staff are trained to detect the signs of possible fraudulent or improper activity and how to report concerns either directly or via our independent whistleblowing hotline. The Committee receives regular updates from the 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 whistleblowing arrangements for 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 satisfied that the Group's procedures are currently operating effectively.

Internal audit

The Group has an Internal audit function comprising of approximately 40 people. In addition, there was a co-sourcing agreement with KPMG LLP and this was used to support specific technical reviews. KPMG LLP were selected as External auditors for year end 2017 and have not undertaken any internal audit work after 30 September 2016. Ernst and Young have been engaged to provide co-source support for Internal audit until a tender process is undertaken in 2017. 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 covers all businesses in the Group after holding risk based discussions with management, regulators, the External auditors 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 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, where dates have been rescheduled
- ▶ The assessment of the internal control environment at each business unit

During 2016, approximately 70 internal audits were completed. The Committee considered the reports on:

- ▶ Readiness for Solvency II reporting for the 2016 year end
- ▶ Data governance, cyber security incident response and social media
- ▶ Financial controls and end user applications

to be 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. During the year, Internal audit carried out its own internal effectiveness review as well as quality assurance processes and reported the satisfactory results back to the Committee.

During the year, Committee members increased the amount of time spent with senior team members, meeting them before most formal meetings 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.

Following the succession process carried out in 2015, the new Chief Internal Auditor commenced his role in May 2016. This was an external appointment 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 auditors

The appointment

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

Following its review of the quality and independence of the 2015 audit, the Committee recommended to the Board that PricewaterhouseCoopers (PwC) should be recommended to shareholders as the auditors for 2016. The shareholders voted in favour of the reappointment at the 2016 AGM.

PwC has been the Group's auditors since 1994. A tender was held in 2016 to take effect for the year ending 31 December 2017. Whilst PwC could have continued as auditors for three more years under applicable law, a change of auditor has been co-ordinated with the PwC partner rotation.

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 tendered the audit for the year ending 31 December 2017, as discussed in the audit tender section below.

4. Corporate governance statement *continued*

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 FRC Ethical standards for auditors (Ethical Standards). 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

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.

During 2016, the Committee approved a revised non-audit services policy taking into account the revised Ethical Standards. The revised policy sets out an updated list of prohibited services which applies to KPMG LLP (subject to shareholder approval, our auditors for the 2017 financial year), in line with the Ethical Standards. This updated list of prohibited services is more restrictive than the current list and, in particular, prohibits KPMG LLP from providing almost all taxation services.

Audit and non-audit fees

The Group audit fee payable to PwC in respect of 2016 was £4.1m (2015: £3.7m). In addition fees payable were £0.8m (2015: £0.7m) in relation to the audit of investment funds which are not consolidated by the Group, and £0.8m (2015: £1.6m) was incurred on audit related services. Fees for audit related services are primarily in respect of Solvency II regulatory reporting, client money reporting and the half year review. The reduction in these fees compared to 2015 largely relates to lower Solvency II assurance services and no longer also requiring audit reporting under the previous regulatory regime. The Committee is satisfied that the audit fee is commensurate with permitting PwC to provide a quality audit and monitors regularly the level of audit and non-audit fees. 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. Unless fees are clearly trivial (which we have defined as less than £50,000), the approval of the whole Committee is now required.

Non-audit fees amounted to £1.4m (2015: £1.3 million). This includes tax compliance fees of £0.4m (2015: £0.4m) which are primarily services provided to Standard Life Investments' funds. Tax advisory fees were £0.2m (2015: £0.1m) and related to areas that the Committee was comfortable did not impact auditor independence. Non-audit fees also included £0.5m (2015: £0.5m) relating to control assurance reports, in particular those provided to Standard Life Investments' clients, which are closely associated with audit work. Other non-audit services of £0.3m (2015: £0.3m) included a review of internal credit ratings and support provided to fund mergers. 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 25% (2015: 22%). The level of non-audit fees is expected to reduce in 2017 as a result of the revised non-audit services policy discussed above.

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 discussed the scope of the audit prior to its commencement
- ▶ The Committee reviewed the annual findings of the Audit Quality Review team of the FRC 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 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.
- ▶ PwC's transparency report for the year ended 30 June 2016 was reviewed
- ▶ The Committee approved a formal engagement with the auditor and agreed its audit fee
- ▶ The Committee Chairman had at least monthly meetings with the lead audit partner to discuss Group developments
- ▶ The Committee received 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 on the subject of the work undertaken to support their opinion on the financial statements and the consistency of the remainder of the Annual 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 the discussion on materiality in the paragraph below for more detail.
- ▶ Additional work was again undertaken on Solvency II reporting and the Committee also reviewed separate papers from PwC covering this specific work

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 £34 million (2015: £31 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 (2015: £2 million). The aggregated net difference between the reported pre-tax profit and the auditor's judgment of pre-tax profit was less than £8m which was significantly less than audit materiality. The gross differences were attributable to various individual components of the consolidated income statement and balance sheet. 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. Work that PwC perform on Solvency II reporting uses a higher level of materiality.

PwC has confirmed to us that the audit complies with their independent review procedures. Last year's audit was subject to an independent quality assurance process undertaken internally by PwC.

Audit tender

This section sets out the audit tender process followed since our announcement in last year's Annual report and accounts that we would commence a tender process for the appointment of the External auditors, through to the announcement to propose the appointment of KPMG LLP as the Group's auditor for the financial year ending 31 December 2017.

Introduction

In our Annual report and accounts 2015, we disclosed the decision to commence a process for the appointment of our External auditors to be completed by Q2 2016, with the chosen firm to be appointed for the 2017 financial year at the earliest. The external audit tender resulted in the proposal, subject to shareholder approval at the 2017 AGM, to appoint KPMG LLP as the External auditors for the 2017 financial year.

PwC was not 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.

Scope

The scope of the tender consisted of the Standard Life Group audit and statutory audits of subsidiaries with effect from the 2017 financial year for a tenure of five years* with the option of an extension by another five years. The audit tender also considered relevant fund audits, although recognising that these are also subject to separate governance and appointment arrangements.

* The appointment of KPMG LLP as External auditors for a financial year is subject to approval by the Annual General Meeting in that year.

Governance

The overall objective of the audit tender was to select the best auditor in terms of quality within a reasonable price range. To ensure a transparent and robust selection and evaluation process, the following governance model was applied. A Selection Committee, chaired by the Chairman of the Audit Committee and consisting of two members of the Audit Committee and co-opting the Chief Financial Officer (CFO) was formed to oversee the tender process.

A Steering Committee, chaired by the Group Financial Controller and Treasurer, and consisting of the Company Secretary and the Deputy Company Secretary, the Head of Group Reporting and the Strategic Procurement Manager was set-up to coordinate and execute the audit tender process. The main responsibilities of the different governance bodies were:

Governance body	Key responsibilities
Audit Committee	Ultimate authority over the tender process and audit firm evaluation Approve tender strategy Recommend selection of the audit firm to the Board
Selection Committee	Approve the detail of the audit tender Agree objectives and evaluation criteria Oversee the execution of the audit tender
Steering Committee	Approve Request for Proposal and Information Requirements Coordinate detailed assessment of individual audit firms Execute audit tender process

To avoid influencing or the perception of influencing the tender decision, a strict policy was agreed with the participants in the tender process prohibiting the provision of any gifts and hospitality and restricting other engagement with key decision makers to regular business matters only.

Market assessment and selection criteria

A desktop market assessment focusing on the audit market and firms' capabilities, network, experience in the financial services industry and findings of audit regulator reports, was completed in November 2015 and resulted in a shortlist of three audit firms.

In order to be successful in the audit tender, the participants were assessed on certain minimum requirements. In addition, a number of selection criteria were applied with specific weightings, as described below:

Minimum requirements were in respect of:

- ▶ Willingness to bid
- ▶ Audit firm and auditor independence
- ▶ Commercial scoping, including price range
- ▶ Ethics and compliance standards
- ▶ Investigations by regulators
- ▶ Acceptance of legal terms and conditions

Selection criteria:

- ▶ Technical criteria, including the proposed audit plan, audit quality, structure of audit, innovative tools and the transition plan
- ▶ Team quality, including lead partner and team, industry knowledge, access to specialists and mitigation of frequent team changes
- ▶ Resources and organisation, including representation in industry and accounting bodies and conflict resolution mechanism in the audit firm
- ▶ Value added, including access to accounting training and additional assurance obtained
- ▶ Weight factors were applied to each of the selection criteria with the technical criteria and team quality being the most significant criteria

4. Corporate governance statement *continued*

The selection criteria to evaluate each of the audit firms participating in the tender formed the basis for the questions included in the request for proposal.

Request for proposal

In December 2015, the request for proposal was issued to the three audit firms invited to the audit tender. Relevant information on Standard Life was shared with each of the firms through an electronic data room that was accessible during the tender period. In this period a structured Q&A process was in place where responses to clarification questions and additional information requests were shared with all participating firms through the electronic data room.

At this stage, one firm withdrew from the process and therefore two firms progressed to the next stages.

Engagement sessions

To promote a level playing field, Standard Life arranged a series of structured and targeted engagement sessions with Standard Life's key business and function leaders. These sessions provided participating firms the opportunity to understand Standard Life's business and discuss certain subject matter areas in greater depth.

In addition to the engagement sessions the participating firms were given the opportunity to meet with the Chief Executive, the CFO, the Audit Committee Chairman and all of the Audit Committee members.

Technical tests

Each of the participants in the tender was given the opportunity to demonstrate its differentiating technical capability relevant to the Standard Life audit in a presentation dedicated to that subject. This meeting was attended by the Audit Committee, the Steering Committee and selected functional specialists.

1 to 1 interviews

Each of the participating firms' lead engagement partners met with the Chairman of the Audit Committee and the CFO, with the Company Secretary in attendance, and answered a series of identical questions related to Standard Life's financial reporting and wider industry matters.

Final presentations and evaluation

Each firm provided a final presentation of their proposal to the Audit Committee in early May 2016, with the Chief Executive and the CFO in attendance.

The final proposals submitted were compliant with the minimum requirements set and the bids qualified and were assessed against the selection criteria. The Steering Committee reviewed each of the proposals and sought additional clarifications from the audit firms through a structured Q&A.

In early May 2016 the Audit Committee reviewed the evaluation conducted by the Steering Committee and concluded that KPMG LLP was the preferred firm to conduct the Standard Life audit engagement. The Audit Committee also considered the transition arrangements and concluded there were no significant blockers.

Conclusion

The Audit Committee during its May 2016 meeting considered the results of the tender and agreed to recommend to the Board that it would propose KPMG LLP for appointment as the External auditors of Standard Life plc at the Annual General Meeting (AGM) for the 2017 financial year. The Committee believed that the strength of the various presentations, and the interaction with the proposed engagement team during the course of the tender supported this decision. This advice resulted in a resolution by the Board to recommend KPMG LLP to shareholders at the 2017 AGM.

The Committee will continue to follow the annual appointment process but does not currently anticipate re tendering the audit before 2026.

Transition

We are now working closely with both PwC and KPMG LLP to ensure an efficient transition of the external audit. KPMG LLP are shadowing key meetings and regular reports on transition are provided to the Committee.

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 work of the Risk and Capital Committee in 2016 continued to focus on ensuring the effective oversight and independent challenge of the use of capital and the management of risks, in particular the management of conduct risk. The year has been characterised by heightened uncertainty as a result of global economic and political developments as well as further regulatory focus on conduct risk and these factors have provided a keen focus for the Committee. Following regulatory approval for the Group to use an Internal Model for the purpose of calculating its capital requirements for Solvency II reporting, the Committee has also focused on ensuring the Group's Internal Model remains fit for purpose.

The report that follows provides further detail on the activities performed by the Committee in 2016 in discharging its responsibilities.



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	7/7
John Devine	3/3
Melanie Gee	4/4
Noel Harwerth	7/7
Kevin Parry	7/7
Former member	
Pierre Danon	3/3
Crawford Gillies	3/3
<i>Isabel Hudson</i>	3/3

The Committee meetings are attended by the Group Chief Risk Officer, the Deputy Group Chief Risk Officer and the UK and Europe Chief Risk Officer. Others invited to attend on a regular basis include the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Executive Pensions and Savings, the Chief Investment Officer, the Company Secretary and the Chief Internal Auditor as well as the External auditors. During 2016, the Chief Investment Officer was invited to attend meetings on a regular basis reflecting the increased significance of Standard Life Investments within the business and the importance attached to the management of investment risk.

Regular private meetings of the Committee's members have been held during the year providing an opportunity to raise any issues or concerns with the Chairman of the Committee. The Committee's members have also been given access to management and subject matter experts outside of the Committee meetings in order to support them in gaining an in-depth understanding of specific topics.

Key responsibilities

Our ambition of being a world-class investment company results in exposure to a range of risks and uncertainties. Understanding and actively managing the sources and scale of these risks and uncertainties are key to fulfilling this ambition.

In supporting the Company's work to fulfil its ambition, the Risk and Capital Committee is responsible for overseeing, challenging and advising the Board on:

- ▶ 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
- ▶ Changes to the risk appetite framework and quantitative risk limits
- ▶ Risk aspects of major investments, major product developments and other corporate transactions
- ▶ Regulatory compliance across the Group

Further detail on the work performed in each of these areas is set out in the report below.

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.

4. Corporate governance statement *continued*

The Committee's work in 2016

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

The Committee operates a rolling agenda which comprises both *recurring items* and *items that are more ad hoc in nature*. *Recurring items* that are reviewed and discussed in our meetings include:

- ▶ Matters escalated from the Standard Life Enterprise Risk Management Committee
- ▶ The Group Views on Risk report which provides a holistic view of the key risks and uncertainties across all of the Group's businesses and the actions being taken to manage these
- ▶ Customer proposition developments
- ▶ The Group's 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*. The Business Risk Review team is tasked with reviewing specific business activities and issues and providing independent assessments and reports that assist management to anticipate, manage and mitigate risk. Items subject to *Business Risk Reviews* are proposed by members of the executive team with the Committee also providing input into this process.

Other matters considered by the Committee during the year included:

- ▶ Advised the Remuneration Committee regarding the delivery of performance in 2015 relative to risk appetites
- ▶ Process used to manage IT obsolescence
- ▶ Overview of the management awareness of risks (MARS) process
- ▶ The impact of global risks on the nature and complexity of our business environment

- ▶ Review of third party supplier management
- ▶ Conduct risk in the context of Workplace pricing policy
- ▶ Review stress test results ahead of the results of the UK referendum on EU membership
- ▶ Overview of the triggers framework used to support the Internal Model
- ▶ Update on the FCA thematic review: Meeting Investors' Expectations

- ▶ Update on the market response to the results of the UK referendum on EU membership
- ▶ Risk assessment relating to the proposed acquisition of Elevate
- ▶ Overview of the EU General Data Protection Regulation
- ▶ Proposed risk and capital disclosures in the half year financial statements

- ▶ Update on the status of acquisitions within the 1825 advice business
- ▶ Critical IT applications and services, hot spots and the framework used to manage associated risks
- ▶ Managing risks relating to call volumes within Customer Operations
- ▶ Principal risks proposed for disclosure in the Annual report and accounts
- ▶ Review of material supporting the viability statement proposed for inclusion in the Annual report and accounts
- ▶ Initial advice to the Remuneration Committee regarding the delivery of performance in 2016
- ▶ Plans to introduce a new governance, risk and compliance system
- ▶ Proposed changes to the Committee's terms of reference relating to the governance of Standard Life Investments Limited, Standard Life Assurance Limited (SLAL), Standard Life Savings Limited and AXA Portfolio Services Limited.

After each meeting, the Committee Chairman reports to the Board, summarising the key points from the Committee's discussions and any specific recommendations.

Risk appetites, exposures and capital

The Group continues to use its risk appetite framework to provide a common framework to enable stakeholders to communicate, understand and control the risks that Standard Life is willing to accept in pursuing its business plan objectives and the associated capital required.

During the year we received the results of the Risk function's annual review of the framework. This concluded that the framework remained fit for purpose and recommended quantitative risk limits for use in managing the business during 2017. The Committee also reviewed minor changes proposed to the framework, including an update to the conduct risk appetite statement to reflect the increasing maturity of conduct risk management within Standard Life and to support further embedding of this through improving the articulation of behaviours considered unacceptable. The Committee supported the conclusions and recommendations from the Risk function and advised the Board accordingly.

The Group Views on Risk report includes dashboards on financial exposures, conduct and operational risks and capital. The Committee reviews this information at each meeting to monitor risks relative to quantitative and qualitative appetites and the resilience of the capital position under current and stressed conditions. The report also includes dashboards covering regulatory risk and financial crime providing the Committee with status updates on the regulatory outlook and the financial crime framework with the latter addressing risks related to money laundering, terrorist financing, market abuse, fraud and bribery and corruption. Environmental, social and governance risks are actively managed within the business and updates on this are also included within the report. Using this material, the Committee is able to oversee, challenge and advise the Board on the Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital.

Specific items discussed in this context included the impact on the measurement of longevity risk exposure as a result of falling yields and narrowing credit spreads during the year, backlogs in the handling of customer calls, risks arising from material projects undertaken as part of the change programme and risks arising from the suspension of certain property funds during the year.

As highlighted in the table opposite, we received a number of one-off papers during the year which directly supported the Committee in our

oversight of risk appetites, exposures and capital. One example of this was the review of third party supplier management provided by the Risk function which provided an assessment of Standard Life's capabilities relative to external benchmarking data. In reviewing this item the Committee noted the conclusion that Standard Life compared well against the external benchmark in its management of large suppliers and supported proposals for clarifying the ownership of governance, appetite setting and training.

Another paper which supported the Committee in discharging our responsibilities in this area was the paper regarding conduct risk in the context of Workplace pricing policy. This paper responded to a request from the Committee for information on the approach to pricing Workplace propositions and an assessment of why the business was comfortable that any differences in pricing did not give rise to conduct risk. The paper concluded that Workplace provided fair value to customers and highlighted that this conclusion was consistent with the independent views of the Standard Life Master Trust Co. Ltd. and the Independent Governance Committee.

We also received an update from the Standard Life Investments Chief Investment Officer on the market response to the results of the UK referendum on EU membership where we explored the potential impacts of this on investment performance and the risks posed to our fee based business. The results of the referendum were noted as having contributed to momentum-driven trading conditions with the expectation that these conditions would persist until US interest rates increased and there was a return to more cyclical investing conditions. One consequence of the referendum was that a number of UK property funds were temporarily suspended leading to certain unit linked funds being placed into deferral. The Committee received regular reporting on this matter including the additional steps being taken to protect customers' interests at that time.

The Group's stress and scenario testing programme has continued to support the Committee in understanding, monitoring and managing the Group's risk and capital profile under stressed conditions. The programme provides a forward-looking assessment of resilience to significant adverse events affecting key risk exposures and in 2016 comprised:

- ▶ Univariate stresses – looking at stresses to financial and demographic risks in isolation
- ▶ Combined stresses – looking at simultaneous stresses to a combination of financial and demographic risks
- ▶ Reverse stress testing – considering circumstances or severe events, including as a result of operational, conduct and reputational risks, that have the potential to cause the business plan to become unviable
- ▶ Tail risk analysis – exploring the possible sequential development of a low likelihood but high impact scenario

The conclusion of the stress and scenario testing was that Standard Life had high quality regulatory capital and remained solvent under the stress scenarios considered. Furthermore the reverse stress testing exercise confirmed that Standard Life is resilient to extreme events as a result of the robust controls, monitoring and triggers in place to identify events quickly and to help mitigate their escalation.

The tail risk analysis performed by the Risk function investigated a severe financial stress prompted by falling oil prices and record low growth in China which, given the severity of the overall stress, was estimated as having a less than 0.5% likelihood of occurrence. The choice of scenario recognised the reliance of Standard Life's business plan on fee revenue from assets under management and that solvency is sensitive to changes in yields and credit spreads and sought to provide insight relating to this.

The analysis highlighted the triggers and actions that could be taken by the business to protect solvency and delivery of the business plan. Overall Standard Life remained solvent but was reliant on reducing

expenses to protect profits and dividends under the assumed stressed conditions.

In addition to receiving information on liquidity risk through the dashboard reporting, the Committee received the results of the Group's annual quantitative assessment of liquidity risk. This highlighted 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 and indicated that the Company and its subsidiaries were able to meet customer demands in the scenarios considered.

Having reviewed the regular updates presented regarding developments affecting the ORSA processes, the Committee determined that these were well understood and there was no need for the full ORSA report to be updated outside of the routine annual cycle.

Enterprise Risk Management (ERM) framework

The ERM framework is used to identify, assess, control and model the Group's risks and consists of five elements:

- ▶ Risk control processes
- ▶ Strategic risk management
- ▶ Risk and capital models
- ▶ Emerging risks
- ▶ Risk culture

During the year, the Committee has continued to monitor the structure and implementation of the Group's ERM framework to ensure the framework remains suitable for identifying, assessing and managing current and new risk types and for reacting to forward-looking risk issues and the changing nature of risks.

At a high level the Committee has gained assurance regarding operation of the ERM framework from its review of regular content within the Group Views on Risk report. In particular we have used our review of the various risk and capital dashboards, including the consolidated dashboard on key conduct risk indicators and conduct risk outcomes, to understand the Group's risk profile and the effectiveness of the framework in supporting the management of these risks.

Our view of the ERM framework is also informed by the Chief Internal Auditor's assessment of the internal control environment related to the management of risk and capital. The Committee receives semi-annual assessments for Standard Life Investments and our Pensions and Savings business with the most recent assessments highlighting both businesses had maintained a stable control environment in the face of challenging external conditions.

The Committee specifically monitors risk control processes through reviewing the results of policy compliance reporting and updates regarding action plans raised in response to risk events which is included within the Group Views on Risk report.

Strategic risk management within the context of the ERM framework refers to the process of optimising risk-adjusted returns and for evaluating and prioritising strategic options. This takes place as part of the Group's ORSA reporting process whereby the Risk function provides a forward-looking assessment of the Group's risk and capital position as a result of the business strategy and business plan. The operation of this process was observed during the year with the Committee reviewing this reporting when assessing the business plan. Aligned to this, the Committee also received a presentation from the Finance function in 2016 outlining work being undertaken to enhance the optimisation of the balance sheet and ensure the optimal use of capital.

Solvency II was implemented at the start of 2016. The Committee has continued to keep under review the methodology of the Group's Internal Model which was developed in response to the new regime and which represents a key component within the risk and capital models section of the ERM framework. This has included reviewing the key elements of design, the use of significant assumptions and expert judgements, key sensitivities, significant limitations and uncertainty in the model.

4. Corporate governance statement *continued*

Emerging risks have been actively monitored and assessed during the year with regular reporting provided to the Committee through the Group Views on Risk report. This reporting focuses on the key geo political, economic, societal, legal, regulatory, technological and economic risks that are emerging and provides an assessment of the relative likelihood and significance of these. In supporting the management of emerging risks, we also received a paper highlighting the potential impacts on the business of global risks identified by external organisations. Although we are not directly exposed to many of these risks, the increasing global footprint of Standard Life presents indirect exposures as a consequence of risks to financial markets and the environment of our customers and clients.

Recognising the importance of risk culture and good risk governance within the ERM framework, changes have been made to the governance arrangements within certain operating subsidiaries with effect from 2017. This includes the creation of risk and capital committees within SLAL, Standard Life Savings Limited and AXA Portfolio Services Limited with an audit committee also being established in SLAL. The terms of reference for the Committee were also refreshed to reflect the impact of the Standard Life Investments (Holdings) Limited (SLIH) audit, risk and compliance committee standing down in 2016.

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. No matters were highlighted to the Committee during the year.

Due to the timing of production of this year's annual report by the With Profits Committee on the management of SLAL's with profits business, it was considered that the Board was better placed to perform a timely review of the report. As a result this Committee was not required to review the report this year.

As part of the tail risk analysis looking into a possible severe financial stress prompted by falling oil prices and record low growth in China the Risk function explored the potential impact on the with profits funds. The analysis presented to the Committee highlighted that, in response to a tail risk event such as the one investigated, there were a range of triggers and actions available within the with profits funds to protect the solvency of these funds.

Regulatory compliance

During the year we reviewed and assessed the regulatory compliance plans detailing the planned assurance activities to be performed across the Group in 2016. Subsequent reporting presented to the Committee provided updates on the progress of this work and key findings from it. In reviewing this reporting we noted improvements to the controls supporting regulatory compliance in both the Investment and Pensions and Savings businesses.

The Committee noted the enhanced data analytics capability developed in Standard Life Investments during the year relating to transactions monitoring and oversight of trading decisions. This enhanced capability helps support regulatory compliance through providing improved monitoring and detection of potential instances of conflicts of interest or market abuse.

The Committee also noted enhancements to the assurance processes within the Pensions and Savings business through improvements made to the framework for monitoring customer calls. Other improvements in this business resulted from the completion of internal thematic reviews performed to further support regulatory compliance and reflected:

- ▶ Regulatory changes
- ▶ External risk events
- ▶ Components of the ERM framework
- ▶ Results of regular compliance testing
- ▶ Business changes

During the year the Committee received a dedicated training and challenge session on the Internal Capital Adequacy Assessment Process (ICAAP) for SLIH. This supported the Committee in discharging their responsibility to review the key assumptions and bases underlying the SLIH ICAAP document submitted to the FCA. The Committee also reviewed the ICAAP document for Standard Life Savings Limited during the year.

The regulatory agenda for the financial services sector in 2016 has been a busy one, prompted by numerous data requests and industry thematic reviews from regulators. As a Committee we have closely monitored these developments to understand and seek to anticipate potential implications for Standard Life and the wider financial services sector. One example of this was the FCA's Meeting Investors' Expectations thematic review which, amongst other things, prompted the Committee to consider the processes used by Standard Life Investments to monitor and control fund literature published on websites including those owned by third parties. To support us in understanding and anticipating the regulatory agenda, and to provide an independent perspective, we engaged an external consultant to provide a presentation on potential future developments relating to conduct risk regulatory activity.

Business Risk Reviews and other reporting

The Committee has continued to receive a number of reports from the Business Risk Review team in 2016. These reports provide the Committee with an independent assessment from the Risk function of aspects of the business that could have a material impact on long-term profitability or delivery of strategy, or that introduce a material new risk. Business Risk Reviews presented to the Committee in 2016 have included:

- ▶ Standard Life Investments, liability aware insurance proposition – assessing the readiness of the business to provide third party insurance asset management
- ▶ Pensions and Savings' guidance at retirement proposition – assessing the sustainability of the telephone and on-line journeys offered to non-advised customers
- ▶ Strategy for the Pensions and Savings Workplace business – assessing the threats and uncertainty affecting the strategy
- ▶ 1825 business readiness review – assessing the defined target operating model and adequacy of the framework for managing risks including conduct risk
- ▶ Pensions and Savings' non-advised income drawdown proposition – assessing the extent to which the proposition is commercially viable and risks are at an acceptable level

These Business Risk Reviews reports supported the Committee in allowing informed discussion regarding the progress of these propositions and businesses and included various recommendations aimed at supporting the businesses and propositions achieve their respective objectives. The Committee endorsed the recommendations that were presented.

During the year, the Committee has reviewed and challenged due diligence risk assessments relating to proposed material strategic transactions. This included considering the risks relating to the acquisition of Elevate and the risks associated with the proposed combination of the life insurance businesses of HDFC Life and Max Life.

Governance changes

As already highlighted in this report, with effect from 2017 risk and capital committees have been established within SLAL, Standard Life Savings Limited and AXA Portfolio Services Limited.

The responsibilities of the Committee remain largely unchanged as a result of the creation of these new committees, other than responsibility for scrutinising with profits risk and capital matters, which is transferred to the SLAL risk and capital committee.

Governance arrangements have been put in place to ensure that the Committee retains appropriate oversight of material risk and capital matters following the introduction of the new committees. This includes this Committee being responsible for approving the terms of reference for the risk and capital committee of SLAL (being a direct subsidiary of the Company) and any subsequent material changes to those terms of reference.

This Committee receives and reviews minutes from the SLAL risk and capital committee and any other reports escalated by the chairman of that committee. Arrangements also exist for the Committee Chairman to attend the SLAL risk and capital committee. Corresponding arrangements have been put in place between the SLAL risk and capital committee and the risk and capital committees for Standard Life Savings Limited and AXA Portfolio Services Limited.

Given the Committee's existing responsibilities regarding oversight of Group companies, the decision to stand down the SLIH Audit, Risk and Compliance Committee in 2016 has not significantly impacted the responsibilities of this Committee.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. In 2016 this review was completed via an internal self-assessment questionnaire.

The overall conclusion of the review was that the Committee operated effectively in 2016. In particular, comments highlighted the benefits of the Business Risk Review reports in highlighting and assessing risks and the role of the risk assessments in supporting consideration of proposed corporate transactions.

For 2017, the review highlighted an expectation that to continue to operate effectively the Committee would need to remain focused on evolving in response to a range 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

5.1 Remuneration Committee Chairman's statement

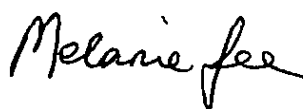
This report sets out what we paid the Directors of Standard Life plc in 2016 and how we will pay them in 2017, together with an explanation of what the Remuneration Committee considered in reaching its recommendations. Where tables and charts in this report have been audited by PricewaterhouseCoopers LLP we have marked them as 'audited' for clarity.

The report is structured in the following sections:

- ▶ This statement which sets actual remuneration for 2016 and proposed remuneration for 2017 for our Directors in the context of Group performance
- ▶ An 'at a glance' summary of the key remuneration decisions for 2016 on page 83
- ▶ A summary of our Directors' remuneration policy on pages 84 to 87. The policy was approved at the 2015 AGM. No changes are proposed and so there will be no resolution for a vote on the Directors' Remuneration Policy at the 2017 AGM.
- ▶ Our annual report on remuneration, beginning on page 88, details the decisions we took and how we applied our remuneration policy for our Directors for the 2016 performance year. This will be subject to an advisory shareholder vote at the 2017 AGM.

Approval

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



Melanie Gee,
Chairman, Remuneration Committee

24 February 2017

Dear Shareholder

On behalf of the Board I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year ended 31 December 2016. This sets out how our remuneration policy, adopted at our 2015 AGM, was applied during 2016.

This is my first report as Chairman of the Remuneration Committee having taken over the role after the 2016 AGM. I would like to thank Lynne Peacock who served as the previous Committee Chairman, the Board, and my fellow Committee members for their support.

Executive remuneration remains under intense scrutiny and we recognise that it is important that companies, especially a major investor such as Standard Life, must consider very carefully how senior executives are paid. We remain conscious of the societal impact of executive remuneration and views of the Government, investors and their representatives and also the general public. However, we must attract and retain talented individuals to manage our company and ensure that they are appropriately incentivised within the global market place.

Looking back at the 2016 AGM

When we appointed Keith Skeoch to replace David Nish as Chief Executive in August 2015 the Remuneration Committee restructured his pay to reflect his new responsibilities of running both an investment business and a life assurance business. We believe in the alignment of reward and performance and compared to his predecessor, David Nish, the variable component of Keith's pay was increased, the deferral period of the shares was lengthened and the shareholding requirements were increased. His basic salary was increased but was positioned considerably below that of his predecessor. We also set stretching performance targets, so that the highest levels of reward are only delivered for exceptional performance.

However, it became clear in the lead up to the 2016 AGM that views on executive remuneration had continued to evolve. Whilst a number of our shareholders were comfortable with our proposals, others had concerns with elements of our executive Director remuneration. The concerns raised by these shareholders were in respect of the terms for new appointments to the Board, Keith's promotion, and the termination arrangements for David Nish. As such, prior to the 2016 AGM, the Chairman and the Director of Group Reward and Employment Policy held discussions with a number of our largest investors and also with the Investment Association (IA) and Institutional Shareholder Services Inc. (ISS) to understand these concerns.

Having listened to the concerns raised, Keith volunteered a reduction in the 2016 Executive Long-Term Incentive Plan (Executive LTIP) award that had been granted to him on 24 March 2016. The Committee approved a reduction equivalent to 100% of Keith's basic salary, from 500% to 400%, in the face value of this 2016 Executive LTIP award. This was communicated by an announcement to the Stock Exchange on 11 May 2016. A number of shareholders had voted before the announcement was made, but others changed their position as a result of the decision, with the result that 77.69% of shareholders voted for the resolution to approve the Directors' remuneration report.

The Committee also agreed that until a new policy is approved by shareholders, 400% will be the maximum annual award grant level for executive Directors and it reviewed the approach to bonuses during garden leave for executive Directors and agreed to adopt best practice.

As a long-term investor, Standard Life champions the principles of good governance and stewardship. As part of these principles my fellow Board members and I strongly believe that constructive engagement with our investors is essential to building relationships based on trust and accountability. As such, recognising that 22.31% of shareholders voted against the resolution to approve the Directors' remuneration report, the Committee felt it was essential that I, as the new Chairman of the Remuneration Committee, follow up with our investors (including those who supported the resolution and those who voted against or abstained), to understand fully their views in relation to our executive remuneration. During the summer of 2016, I met with a number of our

largest investors, the IA and ISS to understand fully the concerns raised in the lead up to the 2016 AGM. We also discussed our thinking regarding our future remuneration arrangements and solicited their views on the shape and direction of executive remuneration. The meetings were open, frank and constructive and were very helpful in gaining a detailed understanding of the concerns. The points raised by investors were discussed with the Remuneration Committee members and have informed our thinking regarding 2016/2017 remuneration and continue to inform our consideration of a new remuneration policy to be presented at the 2018 AGM. I would like to thank our investors and the IA and ISS for their time.

Our performance in 2016 and alignment with remuneration

2016 has been a year in which we have seen increased political uncertainty, regulatory and legislative complexity and market volatility. Against this complex backdrop our people have delivered a strong set of results while continuing to drive our strategic agenda. Our business model is based on increasing assets, growing revenue and lowering unit costs to drive profit. For 2016 operating profit has increased to £723m (2015: £665m) and operating return on equity has increased to 15.2% (2015: 14.2%). Net outflows were £2.6bn (2015: £6.3bn inflow), however, gross inflows remained strong at £42.1bn (2015: £43.0bn). The proposed final dividend, combined with the 2016 interim dividend brings the total dividend for the year to 19.82p – an increase of 8.0% on the 2015 full year dividend.

We have continued to develop strong relationships with our customers and clients. Standard Life Investments has continued to expand and diversify by geography, channel, client type and range of solutions. We have partnered with leading advisers and consultants in the UK – embedding workplace and platform solutions, and continued to grow strategic alliances that serve our markets worldwide. However, we have seen a fall of 11 points in our brand net promoter score which is an important measure of customer advocacy and a key consideration in the customer quadrant of the Group annual bonus scorecard. We've planned a number of actions for 2017 to improve customer experiences.

As detailed in the Chairman's statement and Chief Financial Officer's overview we have made a provision in our accounts for the costs we may incur in relation to the outcome of the Financial Conduct Authority's thematic review into the sale of non-advised annuities. This has been discussed by the Committee as part of its consideration of performance in respect of the Group annual bonus scorecard and the 2014 Executive LTIP.

Attracting, retaining and developing talented people is critical to successful delivery of our strategy and we believe that engaged people are central to building long-term customer and client relationships. To support our diverse workforce we have a number of employee networks and we remain committed to youth employment. We continue to develop our people managers with a tailored 12-month training programme, recognising the critical role of people managers in the engagement of our employees. In our 2016 employee survey we saw a 2% point increase in employee engagement to 65%. However employee enablement, the measure of how well employee skills are utilised and working environments facilitate productivity, dropped by 2% points to 62%. Action plans are being put in place to address key themes from the survey.

The Group continues to evolve and progress towards building a world-class investment company. We continued to expand and diversify Standard Life Investments' client base by geography, channel, client type and range of funds. The integration of Ignis is also substantially complete. Within Pensions and Savings we completed the acquisition of Elevate enhancing our position as a leading platform provider and three acquisitions were completed by 1825, our financial advice business. In Asia we completed the stake increase in HDFC Life and the aim is to complete the proposed combination of the life insurance businesses of HDFC Life and Max Life within the next 12 months subject to necessary approvals.

How our remuneration policy was applied in 2016

2016 Group annual bonus

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. For all other executive Directors their awards are based 80% on Group performance and 20% on personal performance. The Group performance element is based on performance against four quadrants weighted as follows:

- ▶ Financial – 70%
 - Operating profit before tax
 - Operating return on equity (RoE)
- ▶ Customer and external leadership – 10%
 - Drive customer focus within the organisation and build advocacy for the Standard Life brand
 - Protect and enhance Standard Life's corporate reputation
- ▶ People – 10%
 - Develop our organisational capability by building the environment, the resources, and the capabilities we will need through developing the right behaviours
- ▶ Strategic/delivery/process – 10%
 - 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

The key achievements for each scorecard quadrant are detailed on page 90. Having reviewed our performance, including the delivery of the key financial, strategic and non-financial objectives during the year, the Remuneration Committee approved a score of 4.325 out of 5 for performance against the Group annual bonus scorecard in 2016. In making the evaluation under each quadrant, we sought input from both the Risk and Capital Committee and Audit Committee as referenced below.

In reaching its decisions in terms of the annual bonus scorecard the Remuneration Committee considered a range of factors in order to ensure that the awards are fair and appropriately reflect overall Group performance. As well as considering the achievement against the targets, the Committee reviewed the individual components which contributed to the delivery of this financial performance. Looking externally, the Committee also considered the alignment of its decisions on remuneration with the interests of shareholders.

As part of the discussion of the scorecard rating the Committee considered the experience of our customers and clients including the deterioration in our net promoter score and the outcome of the Financial Conduct Authority's thematic review into the sale of non-advised annuities and the provision we have made in our accounts for the costs that we may incur in relation to this. Having considered the experience of our customers and clients the Committee reduced the score for the customer quadrant from 3 to zero. This change took the overall score from 4.625 to 4.325.

Considering this scorecard rating in conjunction with the personal performance of each of the executive Directors, the Remuneration Committee approved the following awards under the Group annual bonus, for 2016;

- ▶ 81% of the Chief Executive's maximum potential bonus (141% of salary)
- ▶ 79% of the Chief Financial Officer's maximum potential bonus (119% of salary)
- ▶ 79% of the Chief Executive Pensions and Savings' maximum potential bonus (119% of salary)
- ▶ 80% of the Global Client Director's maximum potential bonus (141% of salary)

5. Directors' remuneration report *continued*

Last year, as announced in the 2015 Directors' remuneration report, having considered our bonus deferral levels in the light of regulatory direction and best practice, the Committee decided to increase the deferral period for bonuses from two to three years. This three-year deferral will apply in respect of the bonuses for 2016 as detailed in this report. Normally, 50% of any bonus above 25% of salary is deferred into shares (subject to the deferred amount being at least 10% of salary).

As well as determining the bonus for executive Directors, the Group annual bonus scorecard is also included in the determination of bonus for all employees in central supporting functions, and in the Pensions and Savings business, to provide alignment in reward and performance at all levels of the company.

Until now we have disclosed our bonus threshold and maximum in the Directors' remuneration report published in the year following the bonus payment. In line with best practice, increased transparency and to demonstrate further the alignment of the Company's performance and remuneration, the Committee has decided to accelerate the disclosure of the bonus targets. As such, the threshold, target and maximum for the financial measures used to determine the 2016 Group annual bonus payments are detailed on page 88.

2014 LTIP

Having considered performance over the past three financial years against the three-year cumulative targets set in 2014, as set out in the 'at a glance' section, the Remuneration Committee also approved the vesting level of the 2014 Executive Long-Term Incentive Plan as 31.02% and awards granted under the Standard Life Investments Long-Term Incentive Plan will vest at 62.44%.

In relation to the vesting of the 2014 Executive LTIP, on a purely arithmetic basis the vesting level would be 41.02%. However, when determining the final vesting level for this award the Committee considered performance during the three year performance period, including the outcome of the Financial Conduct Authority's thematic review into the sale of non-advised annuities and the provision we have made in our accounts for the costs that we may incur in relation to this. Considering these factors the Committee determined that a reduction in the vesting level by circa 25% to 31.02% more appropriately represented the overall performance of the company.

In its consideration of how performance for both the annual bonus and LTIP has been achieved the Committee receives formal input from the Risk and Capital Committee and Audit Committee. The Audit Committee provided comments on material financial and reporting issues that it considered during the year. The Risk and Capital Committee provided advice on how the performance outcome was achieved including specific advice in respect of the Financial Conduct Authority's thematic review into the sale of non-advised annuities.

Before finalising its decisions the Committee reviewed the overall remuneration for our executive Directors considering our shareholder experience over the performance periods, the underlying performance of the company and the remuneration decisions for the broader employee workforce. We believe that the remuneration for our executive Directors is appropriate considering these factors. The single remuneration figure for our executive Directors is presented in the 'at a glance' section below, with the full breakdown set out in Section 5.3 of this report.

Board changes

As announced, on 26 January 2017 Barry O'Dwyer will join the Board on 1 March 2017 in the role of Chief Executive Pensions and Savings. From his appointment to the Board his base salary will be £525,000 per annum and his maximum bonus will be 150% of base salary. For the 2017 Executive LTIP the Committee is proposing to grant an award of 120% of base salary.

As announced, Paul Matthews will retire from the Company on 31 August 2017. With effect from 1 March 2017 Paul will step down as an executive Director but will remain employed until 31 August 2017 in the capacity of Strategic Advisor to the Chief Executive. Paul will continue to be eligible to receive salary and benefits until 31 August 2017 and will accrue bonus until this date. Given his retirement, and in line with best

practice, he will not be eligible to participate in the 2017 Executive LTIP award. Existing Executive LTIP grants will be pro-rated up to 31 August 2017 and will vest on the normal vesting dates, subject to the published performance conditions and in line with plan rules. The Remuneration Committee has agreed that any bonus for the 2016 and 2017 performance years will be subject to deferral in line with our remuneration policy. The deferred portion will be deferred for a period of three years. However, the portion of his bonus for the 2015 performance year, which was deferred into shares, will vest on cessation in line with the plan rules.

2016/2017 policy implementation

This year the Committee has decided not to increase the salaries for any of the executive Directors, with salary increases only being awarded by exception across our senior cadre of employees. This is to ensure that the available pay review budget is targeted towards more junior employees, for whom base pay forms a significant proportion of their total compensation.

As in previous years we will continue to set stretching targets for the Group annual bonus and the Executive LTIP to ensure that the maximum opportunity will only be earned for exceptional performance. The financial targets for the 2017 Group annual bonus will be disclosed at the end of this performance year in the Annual report and accounts 2017. The threshold and maximum for the proposed grants under the 2017 Executive LTIP plan are detailed on page 98.

Given the continuing, volatile external environment we will be making a change to the weighting of the Executive LTIP targets for the 2017 award. In order to improve incentivisation in these volatile conditions, align our employees with our strategy, and increase the focus on delivering shareholder value, the Remuneration Committee feels it appropriate to increase the weighting given to operating profit to 80% from 70%, with a corresponding reduction in measures of outright generation of net flows. In addition the Remuneration Committee has increased the period for which cash awards, made under the Group annual bonus plan, are subject to clawback to three years to align with the deferral period.

Looking forward to 2018

As the strategy and structure of Standard Life continues to evolve, and we continue our progress to become a world-class investment company, we will continue to review the remuneration arrangements for our executive Directors and the performance measures to ensure that the awards are aligned to the company's strategy and structure and the experience of our shareholders. During 2016 we commenced a fundamental review of our remuneration structures and are actively considering a major simplification of these for 2018. In the development of our new remuneration policy the Committee wants to consider as wide a range of views as possible and to this end has discussed research on executive remuneration and consulted an academic in this field. We will present a new Directors' remuneration policy to shareholders at the 2018 AGM. We will consult the Company's major institutional investors in good time as part of this review.

I hope that you find this report a clear account of how the Committee has implemented the policy during 2016 and that you are able to support the remuneration decisions we have taken. I would again like to thank our investors for their time and for sharing their views during our meetings during 2016.

Performance and remuneration for 2016 at a glance

Key performance measures

The tables below illustrate outcomes against the Group's key performance measures relevant to 2016 remuneration. The annual bonus outcome is driven by assessment of performance against a scorecard, which includes financial and non-financial measures and personal performance. The Executive LTIP targets measure Group performance over a three-year period against a range of financial measures. The Standard Life Investments LTIP target measures Standard Life Investments' consolidated cumulative three-year third party EBITDA performance.

Annual bonus performance measures	2016	2015
Operating profit before tax	£723m	£663m
Operating return on equity	15.2%	14.5%
Overall Group annual bonus scorecard outcome (financial and non-financial measures)	4.325/5	4.6/5

Executive LTIP 2014 performance measure	Threshold	Actual performance	Weighted vesting level ¹
Cumulative group operating profit before tax	£1,795m	£1,967m	41.02%
Cumulative group net flows	£15.5bn	£3.2bn	0%
Final vesting after performance adjustment			31.02%
Standard Life Investments LTIP 2014 Performance Measure	Threshold	Actual performance	Vesting level
Consolidated cumulative three-year third party EBITDA	60% of target	109.96% of target	62.44% of maximum

¹ Executive LTIP 2014 weighted 70% cumulative group operating profit before tax, and 30% cumulative group net flows.

Operating profit is not defined under IFRS and is therefore deemed an alternative performance measure.

A definition of operating profit can be found in the Glossary. Further information including reconciliations to relevant IFRS metrics are provided in Supplementary information in Section 11.

Total remuneration

In this table maximum remuneration includes the value of dividend equivalents added to LTIP awards and share price movement from the value when the awards were granted. The LTIPs are valued on the same basis as in the single figure table.

Executive Directors	Maximum remuneration £000s	2016 single figure remuneration £000s
Keith Skeoch	3,981	2,746
Luke Savage	2,424	1,733
Paul Matthews	2,012	1,631
Colin Clark	2,418	1,979

The chart illustrates the elements of remuneration that contribute to the single figure of remuneration.

Pay Ratios

The Committee is mindful of the relationship between Chief Executive pay and the pay of other employees across the Standard Life Group. In line with emerging best practice, the Committee has therefore voluntarily decided to include the pay ratio between the Chief Executive and the median pay of other employees within the Group.

Based on the Chief Executive's single figure set out on page 88 the ratio of pay to the median of all other UK based employees is 61:1. Employee pay includes base salary, employer pension contributions, benefits and incentive payments.

There is no external guidance on the methodology to be used for the calculation of the pay ratio. The Remuneration Committee used the median as the comparator as it is affected less by changes in the remuneration of a small number of employees when comparing between years. We look forward to any additional guidance that may be provided on the methodology going forward.

5. Directors' remuneration report *continued*

5.2 Overview of the remuneration policy

The following sets out key aspects of the current remuneration policy as it applies to the Company's executive Directors. The policy 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 www.standardlife.com/annualreport and in the Annual report and accounts 2014. A shareholder vote on the remuneration policy is not required in 2017.

Base salary	
<p>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.</p> <p>Operation The Remuneration Committee sets base salaries taking into account a range of factors including:</p> <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 	<p>Maximum opportunity No maximum level set.</p> <p>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.</p> <p>The Remuneration Committee may award increases above this level in certain circumstances.</p>
Benefits	
<p>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.</p> <p>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.</p> <p>Core benefits include health screening, private healthcare, death in service protection, disability benefit and reimbursement of membership fees of professional bodies</p>	<p>Maximum opportunity Car allowance up to a maximum of £16,585 per annum.</p> <p>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.</p>
All-employee share plans	
<p>Purpose and link to strategy To promote share ownership by all employees to drive performance aligned to the Company's shareholders' interests.</p> <p>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:</p> <ul style="list-style-type: none"> ▶ The Standard Life (Employee) Share Plan ▶ The Standard Life Sharesave Plan 	<p>Maximum opportunity The maximum opportunity is in line with all other employees and is as determined by the prevailing HMRC opportunity.</p>
Pension	
<p>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.</p> <p>Operation Executive Directors are auto enrolled into a defined contribution pension plan and are offered the alternative of a cash allowance.</p> <p>Legacy arrangements will continue to be honoured.</p>	<p>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.</p>

Group annual bonus	
<p>Purpose and link to strategy To support the delivery of the Group's annual business plan.</p> <p>The focus is on the delivery of the annual financial, strategic, customer and people objectives.</p> <p>Operation Performance targets are set annually by the Remuneration Committee.</p> <p>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.</p> <p>To date, 50% of any bonus above 25% of salary has been deferred into shares which vest two years from the date of award.</p> <p>The deferral period for bonuses in respect of 2016 onwards will be three years.</p> <p>Deferred bonus shares are subject to malus between grant and vest and cash awards are subject to clawback for three years from the date of award.</p>	<p>Maximum opportunity The maximum award opportunity in respect of any financial year is based on role and is up to 175% of salary.</p> <p>Performance measures Performance is measured against a range of key financial metrics, strategic, customer and people indicators and personal performance.</p> <p>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.</p> <p>Performance is measured over 12 months.</p>

The Standard Life plc Executive Long-Term Incentive Plan (Executive LTIP)	
<p>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.</p> <p>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.</p> <p>Performance targets are set annually for each three-year cycle by the Remuneration Committee.</p> <p>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.</p> <p>The Remuneration Committee has the discretion to amend the final vesting level of awards if it does not consider that it reflects the performance of the Group.</p> <p>Unvested awards are subject to malus.</p> <p>Dividend equivalents, or equivalents for other forms of awards, accrue over the five-year period on a re-invested basis.</p>	<p>Maximum opportunity The maximum award opportunity is based on role.</p> <p>The maximum award possible under the plan rules is 500% of salary. No award in excess of 400% of salary will be made to an executive Director under this policy.</p> <p>Performance measures Vesting of the award is based on the following Group performance measures:</p> <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
<p>There is currently no intention to make further awards under the following plans to executive Directors:</p> <ul style="list-style-type: none"> ▶ 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 role as Chief Executive in August 2015. ▶ 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 <p>Further details on these plans are set out in the Annual report and accounts 2014</p>

5. Directors' remuneration report *continued*

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 the Company's 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
- ▶ 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, 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 Material Risk Takers (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 in the policy table. 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	Apply during the contract and, at the Company's choice, for up to six months after leaving.										
Contract Dates	<table border="1"> <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 on 5 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 Company Secretary at the Company's registered address (details of which can be found in Section 14) and at the 2017 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 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><i>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.</i></p>

Provision	Policy
Other payments	Other payments such as the outgoing Director's legal fees or outplacement costs may be paid if considered commercially appropriate.

Change of Control

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.

Remuneration Committee discretion in relation to future operation of the remuneration policy

In the event of a variation of share capital, demerger, special dividend or similar event, the Remuneration Committee may adjust or amend awards in accordance with the rules of the relevant plan.

The Remuneration Committee retains the discretion to amend the performance target in exceptional business or regulatory circumstances. If discretion is exercised in this way, the Remuneration Committee will consult with major shareholders as appropriate.

All awards are subject to Remuneration Committee discretion and may be adjusted (or reduced to zero) where it determines that the overall level of the Company or Group performance does not warrant payment of variable remuneration, or it considers that risks (such as financial, regulatory, compliance or brand risk) have not adequately been reflected in awards.

5. Directors' remuneration report *continued*

5.3 Annual remuneration report - what we did in 2016 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 2016. Where a Director has been appointed or stepped down during the year shown 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 £000s ¹	Annual bonus earned for year £000s	Long-term incentives with performance period ending during the year £000s ^{2,3}	Other payments £000s ⁴	Pension allowance paid in year £000s	Total remuneration for the year £000s
Keith Skeoch	2016	700	-	988	883	-	175	2,746
	2015	574	36	1,489	1,215	-	143	3,457
Luke Savage	2016	612	16	729	223	-	153	1,733
	2015	600	27	767	-	-	150	1,544
Paul Matthews ⁵	2016	630	14	747	82	-	158	1,631
	2015	107	3	139	14	-	27	290
Colin Clark ⁵	2016	600	-	843	386	-	150	1,979
	2015	98	-	159	64	-	25	346

¹ This includes the taxable value of all benefits paid in respect of the year ended 31 December 2016. This includes car allowances of £15,825 for Luke Savage and £13,820 for Paul Matthews. Also included for all executive Directors is private health cover at a cost to the Group of £380 per employee.

² The value reported for 2016 is the market value of the Executive LTIP awards that will vest in 2019 and Standard Life Investments LTI awards that will vest in March 2017. As the share price at the date of vesting is not known at the date of publication of this report the number of Standard Life plc shares that will vest (including additional Standard Life plc shares received in respect of accrued dividends from grant through to 31 December 2016) has been multiplied by the average share price over the quarter ending 31 December 2016 (350.94 pence).

³ The value reported for 2015 has been restated to reflect the value of the shares that vested using the share price on the vesting date rather than the estimate provided in the Annual report and accounts 2015. The value at vesting was £185k, £2k and £6k lower than the estimate for Keith Skeoch, Paul Matthews and Colin Clark respectively due to a reduction in the share price.

⁴ Keith Skeoch and Luke Savage participate in the Standard Life Sharesave Plan. Keith Skeoch, Luke Savage and Paul Matthews participate in the Standard Life (Employee) Share Plan – the maximum annual award of matching shares in 2016 was £475.

⁵ Paul Matthews and Colin Clark were appointed as Directors on 1 November 2015 and the figures reported for their long-term incentive awards in both 2015 and 2016 represent the value of the proportion of the award which relates to the period of time in the performance period for which they were executive Directors.

Base salary (audited)

The table below shows the annual base salary paid to executive Directors in 2016.

	At 1 Jan 2016	From 16 March 2016	Total base salary paid in 2016
Keith Skeoch	£700,000	£700,000	£700,000
Luke Savage	£600,000	£615,000	£611,875
Paul Matthews	£630,000	£630,000	£630,000
Colin Clark	£600,000	£600,000	£600,000

Pension (audited)

Executive Directors received a cash allowance of 25% of salary in lieu of pension as follows:

	Paid in 2016
Keith Skeoch	£175,000
Luke Savage	£152,969
Paul Matthews	£157,500
Colin Clark	£150,000

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 2016 he was aged 56 and his accrued defined benefit pension was £144,044 per annum. There is no additional value paid on early retirement.

Annual bonus plans

Group annual bonus targets

Year ended 31 December 2015

The financial targets used in the determination of the 2015 Group annual bonuses and not previously disclosed are shown in the following table. Those bonuses were paid in March 2016 and were disclosed in the Annual report and accounts 2015.

Performance Measure 2015	Threshold	Target	Maximum	Outcome
Operating profit before tax	£500m	£544m	£589m	£663m
Operating return on equity	10.7%	11.6%	12.6%	14.5%

Year ended 31 December 2016

As explained in the Remuneration Committee Chairman's statement (Section 5.1), in the interests of transparency, the Committee has decided to accelerate the disclosure of the financial bonus targets, and as such the threshold, target and maximum for the financial targets used to determine 2016 Group bonus payments payable in March 2017 are detailed below.

Performance Measure 2016	Threshold	Target	Maximum	Outcome
Operating profit before tax	£645m	£680m	£715m	£723m
Operating return on equity	13.5%	14.3%	15.0%	15.2%

Non-financial measures

The non-financial measures used for the determination of the annual bonus plans for 2016 have not been disclosed in this Directors' remuneration report as the Board deems that, the disclosure of these could seriously prejudice the Group's business.

Detailed disclosure is provided on key achievements in the year to provide shareholders with context on the level of performance delivered in 2016.

The performance measures for the non-financial elements of the bonus scorecard are reviewed by the Remuneration Committee each year. Assessment of achievement against these outcomes takes into account corporate performance on environmental, social and governance issues either as a specific measure in the scorecard (e.g. brand advocacy and employee engagement) or in the exercise of judgement at the end of the year in determining awards when the Remuneration Committee seeks to ensure the outcome is fair in the context of overall Group performance. This includes performance against our sustainability priorities as set out in the Sustainability section within the Strategic report.

Group annual bonus opportunity

The target and maximum bonus award opportunities (expressed as a percentage of base salary at 31 December 2016) that could be earned in respect of 2016 Group performance were:

	Target	Maximum opportunity
Keith Skeoch	75%	175%
Luke Savage	65%	150%
Paul Matthews	65%	150%
Colin Clark	75%	175%

The award opportunity for bonus at threshold performance is zero.

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 80% based on Group performance and 20% on personal performance in respect of the other executive Directors.

More information on the Group's financial key performance indicators can be found in the Chief Financial Officer's overview section of the Strategic report.

Before approving the level of performance in 2016, the Remuneration Committee sought the views of the Group Audit Committee on material accounting issues that it considered during the year and the Group Chief Risk Officer and the Risk and Capital Committee on the management of risk within the business.

In determining the bonus awards for personal performance the Remuneration Committee considered individual performance with regard to the Company's overall strategic priorities.

Keith Skeoch

Keith's performance has been reviewed in relation to both aspects of his role: as Chief Executive and Chief Executive, Standard Life Investments. The comments below cover both roles:

- ▶ Good increase in pace of delivery across all key aspects of our strategy to become a world-class investment company
- ▶ Relatively strong financial performance delivered in difficult markets and with a close focus on costs, particularly in Standard Life Investments
- ▶ Strong delivery on our people agenda, including laying the foundations for increased engagement and a shared culture across the Group

Luke Savage

- ▶ Effective management of our strong capital position to support our progressive dividend policy and strategic investments and acquisitions to grow our business
- ▶ Improvements in the operational efficiency of the company and continued progress on reducing the cost/income ratio whilst focussing on the growth of the business
- ▶ Development of reporting to provide additional clarity and insight into the performance of the business
- ▶ Active engagement with our investors and the analyst community

Paul Matthews

- ▶ Leadership of the Pensions and Savings business through a period of market and industry change and challenging conditions for sales
- ▶ The expansion of our already successful platform business with the acquisition of Elevate which complements our existing Wrap platform and enhances our position as a leading platform provider
- ▶ Continued growth of 1825 business, our financial planning and personal tax advice business, with three further acquisitions broadening our reach across the country and increasing total assets under advice

Colin Clark

- ▶ Focus on emerging needs of our Institutional, Wholesale, Retail and Workplace customer and clients with new investment propositions across a range of asset classes and geographies
- ▶ Expansion of our liability aware range with launch of our unique Integrated Liability Plus Solution and enhanced choice of investment fund with 16 funds launched during 2016 across a range of different asset classes
- ▶ Continued growth in our strategic partnerships serving our clients in markets worldwide, including John Hancock
- ▶ Maintenance of strong relationships with customers, clients and advisers and delivery of resilient flows in growth channels in a challenging market environment

The key achievements, scores for each scorecard element and overall score for the 2016 scorecard are shown in the following tables:

The scorecard is based on a scale of 1 to 5 with 5 reflecting maximum, 3 on target and 1 unsatisfactory performance.

5. Directors' remuneration report *continued*

Element	Financial	
Performance measures	Operating profit before tax Threshold £645m Target £680m Maximum £715m Outcome £723m	Operating return on equity (RoE) Threshold 13.5% Target 14.3% Maximum 15.0% Outcome 15.2%
Achievements against measures	Strong financial performance with operating profit before tax and operating return on equity both above maximum.	
Score (out of 5)	5	

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 transactions and the efficiency of the Group's balance sheet. Maintain consistent and effective progress with the IT programme of work.	
Achievements against measures	Continuation of progress toward becoming a world-class investment company including: <ul style="list-style-type: none"> ▶ Substantial completion of migration of Ignis business onto the Standard Life Investments platform delivering annual synergies, earlier than targeted, in excess of £50m ▶ Purchase of Elevate, building on our successful Wrap platform business and growth of financial advice business 1825, with three further acquisitions in this business ▶ Increased stake in HDFC Life and proposed combination between the life companies of HDFC Life and Max Life announced August 2016 ▶ Successful embedding of our new trade management system and significant progress with improving the technology and systems we use to manage investment data 	
Score (out of 5)	4.25	

Element	Customer and external leadership	
Performance measures	Drive customer focus within the organisation and build advocacy for the Standard Life brand. Deliver meaningful progress in brand advocacy as measured through Net Promoter Score measures or equivalent indices/measures. <i>Protect and enhance Standard Life's corporate reputation.</i> Enhance collaboration and co-operation across the Group to support customer and client needs.	
Achievements against measures	<ul style="list-style-type: none"> ▶ <i>Our brand net promoter score is an important measure of customer advocacy. In 2016 our score fell by 11 points. We've planned a number of actions for 2017 to improve customer experiences - including automating key processes, better self service online and greater collaboration to better understand customer needs</i> ▶ Sponsorship with a direct link to our shared values which includes our continued partnership with Sir Andy Murray, extended Ryder Cup partnership and announced sponsorship of the British and Irish Lion's team and the tour to New Zealand ▶ Announcement of Standard Life Foundation (May 2016), a charity that will focus on independent research to strengthen financial well-being and resilience in the UK and subsequent appointment of the Board of Trustees 	
Score (out of 5)	3 revised to 0 (see the explanation in the Remuneration Committee Chairman's statement)	

Element	People
Performance measures	<p>Develop our organisational capability by building the environment, the resources, and the capabilities we will need through developing the right behaviours.</p> <p>This will include:</p> <ul style="list-style-type: none"> ▶ Ensuring the environment we work in creates a culture of continuous improvement ▶ Improving the employee effectiveness scores for enablement and engagement as measured by the Group engagement survey 'InterAction' and other supplementary indicators ▶ Developing powerful and consistent leadership, identifying and growing tomorrow's leaders ▶ Developing and actively managing robust and future facing plans to ensure sustainable succession for critical roles ▶ Embedding our remuneration and performance management strategy to encourage high performance and the delivery of our business objectives
Achievements against measures	<ul style="list-style-type: none"> ▶ Developed our people managers with a tailored 12-month training programme and encouraged our people to develop their skills through external board appointments ▶ Signed HM Treasury Women in Finance charter, demonstrating our ongoing commitment to diversity. ▶ Continued strong engagement, (+2% points) measured by our InterAction survey although enablement, the measure of how well employee skills are utilised and working environments facilitate productivity, dropped by 2% points. Action plans are being developed to address key themes. ▶ Continued commitment to youth employment. Awarded Investors in Young People Gold accreditation and increased the percentage of employees aged 25 and under to 8% in the UK and Ireland. Continued our work with the Edinburgh Guarantee Scheme, providing young people with paid work experience for six months and the Investment2020 scheme offering 12-months paid work experience placements.
Score (out of 5)	4

5. Directors' remuneration report *continued*

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 4.325 out of 5 (reduced from 4.625 to 4.325 as explained in the Remuneration Committee Chairman's statement) for performance against the Group annual bonus scorecard during 2016.

As a result of the approved ratings, the Group annual bonus outcome as approved by the Remuneration Committee for 2016 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 salary at 31 December 2016
Keith Skeoch				
Maximum	90%	10%	100%	175%
Actual	73%	8%	81%	141%
Luke Savage				
Maximum	80%	20%	100%	150%
Actual	65%	14%	79%	119%
Paul Matthews				
Maximum	80%	20%	100%	150%
Actual	65%	14%	79%	119%
Colin Clark				
Maximum	80%	20%	100%	175%
Actual	64%	16%	80%	141%

If the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for three 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.

2016 Group annual bonus outcomes (audited)

The following table shows the total bonus awards made in respect of 2016 and the cash and deferred elements. Annual bonus payments are not pensionable.

	Group cash bonus	Group deferred bonus	Total
Keith Skeoch	581,437	406,438	987,875
Luke Savage	441,416	287,667	729,083
Paul Matthews	452,182	294,683	746,865
Colin Clark	496,500	346,500	843,000

Long-term incentives

Executive Long-Term Incentive Plan (Executive LTIP)

The Executive LTIP has been used to grant awards since May 2014.

The awards granted in 2014 under the Executive LTIP have two performance conditions. The outcome is based 70% on cumulative Group operating profit before tax and 30% on cumulative Group net flows. 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 and Group net flows performance reflect overall Group performance.

2014 Executive LTIP awards vesting in respect of performance ending in 2016 (audited)

Awards were made in March 2014 of 200% of salary to Keith Skeoch and in September 2014 of 125% of salary for Luke Savage. An award was also granted to Paul Matthews who was not a Director when the grant was made in March 2014. The original targets for the 2014 Executive LTIP award were adjusted to reflect the impact of corporate activities in 2014 and 2015. Further details of the adjustments made are provided in the Annual report and accounts 2014 from page 92 onwards.

	Threshold	Target	Maximum
Cumulative Group operating profit before tax for the three years ended 31 December 2016¹	£1,795m	£1,930m	£2,145m
Actual performance and vesting outcome (70% weighting)		£1,967m	58.60%
Cumulative Group net flows for the three years ended 31 December 2016¹	£15.5bn	£20.6bn	£24.3bn
Actual performance and vesting outcome (30% weighting)		£3.2bn	0%

¹ Including our life associate HDFC Life and our life joint venture Heng An Standard Life from 2015.

In line with the above results, and following consideration of performance over the three-year period as set out in the Remuneration Committee Chairman's statement, the Remuneration Committee determined a vesting factor of 31.02% more appropriately reflects the overall performance of the Group and therefore reduced the vesting factor from the arithmetically calculated 41.02% in respect of awards granted in 2014 to executive Directors. These awards will be delivered to the executive Directors at the end of the holding period in 2019.

Standard Life Investments Long-Term Incentive Plan (Standard Life Investments LTIP)

In 2014, Keith Skeoch participated in the Standard Life Investments LTIP. An award was also granted to Colin Clark who was not a Director when the award was made. 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 three-year third party EBITDA performance shown in the following table. The actual EBITDA targets are not disclosed as Standard Life Investments is a subsidiary business of Standard Life plc and the Board deems that this is commercially sensitive information which, if disclosed, could seriously prejudice the Group's business.

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.

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.

2014 Standard Life Investments LTIP awards vesting in respect of performance ending in 2016 (audited)

In line with the above, Keith Skeoch received an award under this plan in March 2014 equivalent to 200% of salary (at maximum vesting).

The following table sets out performance against targets for the 2014 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				109.96% 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 109.96% of target, the Remuneration Committee determined that 124.89% of the target award (62.44% of the maximum award) granted in 2014 would vest in 2017.

Awards granted in 2016

Awards to executive Directors were made in 2016 under the Executive LTIP only.

All of the 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.

The number of shares under option and the share price at the date of grant are set out in the table on page 95.

The table below summarises the key details of the awards made in 2016:

	Basis of award (% of salary)	Face value at grant
Keith Skeoch ¹	400%	£2,800,000
Luke Savage	125%	£768,750
Paul Matthews	120%	£756,000
Colin Clark	300%	£1,800,000
Nature of award	Nil cost option	
Performance criteria	Cumulative Group operating profit before tax (70%) and cumulative Group net flows (30%) for the three-year period ended 31 December 2018	
Threshold and % of award vesting at threshold	Vesting: 0% Cumulative Group operating profit before tax Threshold: £2,130m Cumulative Group net flows Threshold: £30.8bn	
Maximum and % of award vesting at maximum	Vesting: 100% Cumulative Group operating profit before tax Maximum: £2,595m Cumulative Group net flows Maximum: £51.0bn	

¹ A grant of 500% of salary was made to Keith Skeoch but the award was reduced to 400% of salary, as explained in the Remuneration Committee Chairman's statement.

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.

The requirement (increased in respect of the Chief Executive in 2015) is that the Chief Executive acquires and maintains a shareholding valued at 500% of salary. The other executive Directors are required to acquire and maintain a shareholding valued at 200% of salary.

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 May 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

Keith Skeoch and Paul Matthews were subject to previous shareholding guidelines and from 2014, when the requirement was introduced, to a shareholding requirement. Luke Savage became subject to the requirement on appointment. 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. Personal investment strategies (such as hedging arrangements) are not permitted.

5. Directors' remuneration report *continued*

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 2016	Shares acquired/ (sold) during the period 1 January 2016 to 31 December 2016	Total number of shares owned at 31 December 2016	Total value ¹ of shares owned at 31 December 2016 as a % of salary at 31 December 2016	Shares acquired/(sold) during the period 31 December 2016 to 22 February 2017
Keith Skeoch	2,054,208	192,361	2,246,569	1194%	51
Luke Savage	129	698	827	1%	58
Paul Matthews	175,287	61,701	236,988	140%	51
Colin Clark	666,197	91,569	757,766	470%	-

¹ The closing share price at 31 December 2016 used to determine total value was 372.0p.

At 31 December 2016 all executive Directors have complied with the requirement in respect of retaining shares from vested awards. Keith Skeoch holds significantly more shares than his shareholding requirement requires. Luke Savage was appointed in August 2014. No share awards granted since his appointment have yet vested. He has not yet met his shareholding requirement. Paul Matthews holds shares valued at 140% of salary, including shares acquired from awards not subject to either a guideline or the requirement. Colin Clark holds shares valued at 470% from previous awards not subject to either a previous guideline or the requirement.

David Nish, our former Chief Executive, is required to hold 703,651 shares until 31 March 2017. This number of shares was equivalent in value (at 31 March 2016) to 300% of his salary at 31 March 2016 (the date his employment ceased). At 31 December 2016, he held the number of shares required.

This table shows, in relation to each executive Director, the total number of share options with and without performance conditions held at 31 December 2016:

	Options with performance measures ¹	Options without performance measures ²	Vested but unexercised	Exercised during the year ³
Keith Skeoch	1,652,348	186,015	-	361,862
Luke Savage	550,660	114,406	-	-
Paul Matthews	526,350	103,010	-	115,405
Colin Clark	1,586,480	17,237	-	173,158

¹ This comprises Executive LTIP awards made in 2014, 2015 and 2016 and awards under the Standard Life Investments LTIP made in 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 other than 2016 Executive LTIP awards were granted before their appointments as executive Directors on 1 November 2015.

² This comprises deferred bonus awards made in 2015 and 2016 (excluding shares to be awarded in lieu of dividend equivalents) and options granted under the Standard Life Sharesave Plan. This includes the 2015 deferred bonus award granted to Paul Matthews before his appointment as executive Director on 1 November 2015.

³ This comprises exercises of awards made under the 2013 Group and Standard Life Investments LTIPs and deferred share awards granted in 2016 in respect of the 2013 Group bonus plan, and includes shares awarded in lieu of dividend equivalents.

The closing market price of Standard Life plc shares at 31 December 2016 was 372.0p and the range for the year was 262.1p to 375.0p.

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.

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				
Date of original award	Expected first date of exercise	Original award	Shares in lieu of rolled-up dividends		Exercised during year ¹	Lapsed during year ¹	At end of year	Share price at award date ¹	Share price on exercise date	Actual date of exercise	Total value on exercise date
			from grant to end of year	2016 awards							
Keith Skeoch											
25/03/13 ³	25/03/16	236,634	-	40,365	112,932	164,067	-	£3.6998	£3.559	30/03/16	£401,925
25/03/13 ⁴	25/03/16	236,634	-	40,365	233,233	43,766	-	£3.6998	£3.559	30/03/16	£830,076
28/03/14 ⁴	28/03/17	237,818	-	33,617	-	-	271,435	£3.7844	-	-	-
20/05/14	20/05/19	231,469	-	33,093	-	-	264,562	£3.8882	-	-	-
27/03/15	27/03/20	207,805	-	20,108	-	-	227,913	£4.8122	-	-	-
30/03/15 ⁴	30/03/18	208,637	-	19,930	-	-	228,567	£4.7930	-	-	-
24/03/16	24/03/21	-	958,274	43,492	-	191,655	810,111	£3.6524	-	-	-
		1,358,997	958,274	230,970	346,165	399,488	1,802,588				
Luke Savage											
10/09/14	10/09/19	184,329	-	20,832	-	-	205,161	£4.0688	-	-	-
27/03/15	27/03/20	155,853	-	15,081	-	-	170,934	£4.8122	-	-	-
24/03/16	24/03/21	-	210,478	11,940	-	-	222,418	£3.6524	-	-	-
		340,182	210,478	47,853	-	-	598,513				
Paul Matthews											
24/03/16	24/03/21	-	206,987	11,742	-	-	218,729	£3.6524	-	-	-
		-	206,987	11,742	-	-	218,729				
Colin Clark											
24/03/16	24/03/21	-	492,826	27,959	-	-	520,785	£3.6524	-	-	-
		-	492,826	27,959	-	-	520,785				

¹ The 2013 Group LTIP vested at 40.77% and the 2013 Standard Life Investments LTIP vested at 84.20%.

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 shares shown against the awards granted in 2013 lapsed as a result of performance outcome. Following grant, the 2016 award was reduced from 500% of salary to 400% of salary and the corresponding number of shares lapsed.

The Standard Life Restricted Stock Plan

The award lapses six months after the expected first date of exercise and carries the right to receive rolled up dividends, but only to the extent awards vest.

Award dates		Number of shares					Value of shares				
Date of original award	Expected first date of exercise	Original award	Shares in lieu of rolled-up dividends		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
			from grant to end of year	2017 awards							
Colin Clark²											
8/10/15	31/03/17	173,181	9,417	-	-	182,598	£4.042	-	-	-	-

¹ Based on the average share price for the five dealing days immediately before the awards were granted.

² 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 before 31 March 2017. The award was granted prior to his Board appointment in 2015.

5. Directors' remuneration report *continued*

Bonus awards - deferred shares

These awards are the deferred share elements of the 2013, 2014 and 2015 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			
Date of original award	Expected first date of exercise	Original award	2016 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 ¹	Share price on exercise date	Actual date of exercise	Total value on exercise date
28/03/14	28/03/16	14,503	-	1,194	15,697	-	-	£3.448	£3.559	30/03/16	£55,866
27/03/15	27/03/17	17,825	-	1,702	-	-	19,527	£4.071	-	-	-
24/03/16	24/03/18	-	162,898	8,753	-	-	171,651	£3.897	-	-	-
		32,328	162,898	11,649	15,697	-	191,178				
Luke Savage											
27/03/15	27/03/17	30,076	-	2,872	-	-	32,948	£4.071	-	-	-
24/03/16	24/03/18	-	79,214	4,256	-	-	83,470	£3.897	-	-	-
		30,076	79,214	7,128	-	-	116,418				
Paul Matthews											
24/03/16	24/03/18	-	56,470	3,033	-	-	59,503	£3.897	-	-	-
			56,470	3,033	-	-	59,503				
Colin Clark											
24/03/16	24/03/18	-	17,237	925	-	-	18,162	£3.897	-	-	-
			17,237	925	-	-	18,162				

¹ Based on the average share price for the month of December preceding the date on which the options were granted.

The Standard Life Sharesave Plan

Luke Savage was granted an option under this plan on 12 September 2014 over 5,116 Standard Life plc shares exercisable from 1 November 2019. The exercise price for these options is £2.961.

Keith Skeoch was granted an option under this plan on 16 September 2016 over 5,292 Standard Life plc shares exercisable from 1 November 2021. The exercise price for these options is £2.834.

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	2016 Fees
Keith Skeoch	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 Practitioner Panel of the Financial Conduct Authority	£nil

Loss of office payments (audited)

No loss of office payments were made in the year.

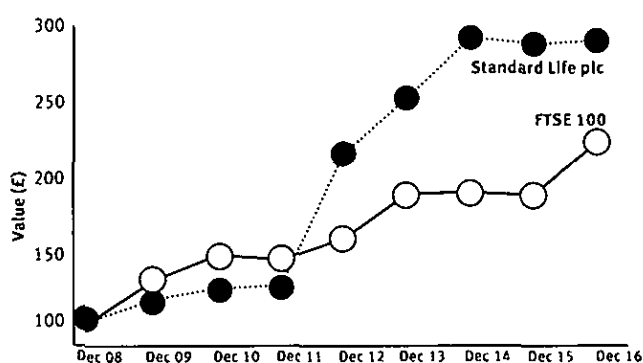
Payments to former directors (audited)

Payments made to former directors during the year (if not reported elsewhere) will be reported here if they are in excess of £20,000.

Details of the nature of the payments to be made to David Nish in 2016 following his stepping down as Chief Executive in August 2015 were set out in the Annual report and accounts 2015. The bonus to be paid in March 2017 in respect of his employment in the period 1 January 2016 to 31 March 2016 amounts to £294,860. This has been determined with reference to company performance as measured by the Group annual bonus scorecard. No further cash payments are to be made. In addition the value of his 2014 Executive LTIP award at 31 December 2016 following the application of the performance outcome is £388,336 (valued using the average Standard Life plc share price for the quarter 1 October 2016 to 31 December 2016 in line with the approach taken in the single figure disclosures for Directors). This award does not vest until 20 May 2019.

Pay compared to performance

The graph shows the difference in value at 31 December 2016 between having invested £100 on 1 January 2009, respectively, in Standard Life plc and in the FTSE 100. It is assumed dividends are reinvested in both. The FTSE 100 has been chosen as the comparator index because we consider it to be the widely recognised benchmark for large companies in the UK. 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 eight financial years as shown in the graph above. 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 (%)
2016	Keith Skeoch	2,746	81	31.02
2015	Keith Skeoch ²	1,411	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	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.

² The figure shown is the remuneration shown in the single figure table on page 88, 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 Chief Executive with effect from 5 August 2015 and the figure reported is that relating to the period 1 January 2015 to 5 August 2015.

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:

	2015	2016	% change
Remuneration payable to all Group employees (£m)	635	596	6%
Dividends paid in respect of financial year (£m)	362	389	7%
Operating profit before tax (£m)	665	723	9%

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 2015 and the year ended 31 December 2016 for the Chief Executive compared to the average UK-based Group employee. The Committee considers these appropriate comparables as the Chief Executive is UK-based and the largest number of Group employees are based in the UK.

	% change in base salary ¹	% change in bonus	% change in benefits
Chief Executive	-	(33.6%) ²	-
UK-based employees of the Group	3%	(2.8%)	-

¹ There was no change to the salary awarded to the Chief Executive from his appointment on 5 August 2015 to 31 December 2016.

² This is the difference between the bonus awarded to Keith Skeoch for 2016 and 2015, as shown on page 88. It reflects both the movement in performance between years and the reduction of the maximum bonus opportunity from his previous role as the importance of variable remuneration delivered over the long term increases.

5. Directors' remuneration report *continued*

Implementation of policy in 2017

Base salary

The Remuneration Committee has not awarded increases to base pay for executive Directors. Base pay for 2017 is therefore:

	Base pay
Keith Skeoch	£700,000
Luke Savage	£615,000
Paul Matthews	£630,000
Colin Clark	£600,000
Barry O'Dwyer ¹	£525,000

¹ From the date of his appointment to the Board.

Bonus

The executive Directors will participate in the Group annual bonus plan. Target and maximum award opportunities are:

	Target opportunity as a % of salary	Maximum opportunity as a % of salary
Keith Skeoch	75%	175%
Luke Savage	65%	150%
Paul Matthews ¹	65%	150%
Colin Clark	75%	175%
Barry O'Dwyer ²	65%	150%

¹ The bonus will be apportioned to 31 August 2017.

² From the date of his appointment to the Board.

For Keith Skeoch, 90% of the award will be based on Group performance and 10% on personal performance. For the other executive Directors and for Barry O'Dwyer from appointment, 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 of the financial targets, 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.

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, in the form of nil-cost options, in 2017 under the Executive LTIP plan, which will vest in March 2022. These are set out in the table below.

	Basis of award (% of salary)	Face value at grant
Keith Skeoch	400%	£2,800,000
Luke Savage	125%	£768,750
Colin Clark	300%	£1,800,000
Barry O'Dwyer	120%	£630,000

Performance criteria Cumulative Group operating profit before tax (80%) and cumulative Group net flows (20%) for the three-year period ended 31 December 2019

Threshold and % of award vesting at threshold Vesting: 0%
Cumulative Group operating profit before tax
Threshold: £2,240m
Cumulative Group net flows
Threshold: £27.7bn

Maximum and % of award vesting at maximum Vesting: 100%
Cumulative Group operating profit before tax
Maximum: £2,725m
Cumulative Group net flows
Maximum: £45.9bn

5.4 Annual remuneration report - what we did in 2016 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 2016. 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 £000s ¹	Total remuneration for the year ended 31 December £000s
Sir Gerry Grimstone	2016	380	17	397
	2015	370	21	391
Pierre Danon	2016	78	36	114
	2015	72	17	89
John Devine ²	2016	41	-	41
	2015	-	-	-
Melanie Gee ³	2016	93	4	97
	2015	9	-	9
Crawford Gillies ⁴	2016	35	2	37
	2015	84	3	87
Noel Harwerth	2016	73	5	78
	2015	83	4	87
Isabel Hudson ⁵	2016	36	8	44
	2015	72	7	79
Kevin Parry ⁶	2016	116	7	123
	2015	90	16	106
Lynne Peacock ⁷	2016	143	5	148
	2015	101	9	110
Martin Pike	2016	104	6	110
	2015	90	8	98

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 4 July 2016.

³ Appointed with effect from 1 November 2015.

⁴ Stepped down from the Board following the conclusion of the AGM on 17 May 2016.

⁵ Resigned with effect from 24 June 2016.

⁶ Appointed Senior Independent Director following the conclusion of the AGM on 17 May 2016.

⁷ Appointed chairman of Standard Life Assurance Limited on 1 April 2016.

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 annual 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. There is no provision for compensation payments for loss of office for non-executive Directors.
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	Current letter of appointment
Sir Gerry Grimstone ¹	6 June 2003 as Director 28 February 2007 as Chairman (continuation 27 May 2010, 28 May 2013 and 17 May 2016)
Pierre Danon	28 November 2011 (continuation 6 October 2014)
John Devine	4 July 2016
Melanie Gee	26 October 2015
Crawford Gillies ²	7 December 2006 (continuation 11 January 2010, 3 December 2012 and 18 December 2015)
Noel Harwerth	18 July 2012 (continuation 29 June 2015)
Isabel Hudson ³	15 October 2014
Kevin Parry ⁴	27 October 2014
Lynne Peacock	13 March 2012 (continuation 13 March 2015)
Martin Pike	27 September 2013 (continuation 8 September 2016)

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 Retired from the Board, having concluded nine years' service at the conclusion of the AGM on 17 May 2016.

³ Resigned with effect from 24 June 2016.

⁴ Appointed Senior Independent Director with effect from the conclusion of the AGM on 17 May 2016.

The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Company Secretary at the Company's registered address (details of which can be found in Section 14) and at the 2017 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 1 January 2016 or date of appointment if later	Shares acquired/(sold) by the Directors during the period to 31 December 2016	Total number of shares owned at 31 December 2016 or date of cessation if earlier	Shares acquired/(sold) by the Directors during the period 31 December 2016 to 22 February 2017
Sir Gerry Grimstone	206,626	-	206,626	-
Pierre Danon	47,034	2,622	49,656	-
John Devine ¹	1,321	-	1,321	-
Melanie Gee	-	20,000	20,000	-
Crawford Gillies ²	41,046	-	41,046	-
Noel Harwerth	10,074	-	10,074	-
Isabel Hudson ³	5,067	-	5,067	-
Kevin Parry	36,324	13,676	50,000	-
Lynne Peacock	12,554	-	12,554	-
Martin Pike	32,727	-	32,727	-

¹ Appointed with effect from 4 July 2016.

² Retired on 17 May 2016.

³ Resigned on 24 June 2016.

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 2016 with the value of his shares at the end of the year being 202% of his fees.

5. Directors' remuneration report *continued*

Implementation of policy for non-executive Directors in 2017

Following a review of non-executive Director fees, no changes were proposed for 2017.

Role	2017 fees ¹	2016 fees
Chairman's fees ²	£380,000	£380,000
Non-executive fees ³	£73,500	£73,500
Additional fees:		
Senior Independent Director	£18,000	£18,000
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 the Investment Committee ⁴	£30,000	-
Chairman of Standard Life Assurance Limited ⁵	£75,000	£50,000

¹ The core fee of £73,500 paid to each non-executive Director (including the Chairman) is expected to total £588,000 for 2017 (2016: £603,303). 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 £1,107,500 for 2017 (2016: £1,099,000).

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 2017 the Chairman will also receive £15,000 (2016: £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 An appointment was made to this role in November 2016.

⁵ An appointment was made to this role in April 2016 at which time the fee was revised from £50,000 to £75,000.

5.5 The Remuneration Committee

Membership

During 2016 the Remuneration Committee was made up of independent non-executive Directors: Lynne Peacock (Chairman and member until 17 May 2016), Melanie Gee (Chairman from 17 May 2016), John Devine (from 4 July 2016), Pierre Danon (until 24 October 2016), and Martin Pike.

Member	Attendance
Melanie Gee, Chairman	8/9
John Devine	4/4
Martin Pike	9/9
Former member	
Pierre Danon	6/8
Lynne Peacock	4/4

The role of the committee

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

The terms of reference are published within the Board Charter on our website at www.standardlife.com/annualreport

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2016 review was carried out via an internal self-assessment questionnaire. The review concluded that the Committee remained effective and fulfilled its remit.

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.

Fees paid to Pinsent Mason LLP were £8,230.

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 and data 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 2016 for professional advice to the Committee were £179,800. This reflects all the fees paid to Deloitte LLP in relation to remuneration matters.

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 board member 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. The Remuneration Committee was 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 continues 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 adviser, 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 2016

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

- ▶ 2015 Directors' remuneration report
- ▶ 2015 bonus payments and 2013 LTIP outcomes
- ▶ 2016 annual bonus and LTIP targets
- ▶ 2016 salaries and LTIP awards
- ▶ Investor feedback on executive Directors' remuneration
- ▶ Compliance review and updates for Solvency II requirements for reward
- ▶ Group Remuneration Policy

- ▶ Investor response to the 2015 Directors' remuneration report and executive Directors' remuneration
- ▶ Reward regulation and practice update
- ▶ Material risk taker populations and disclosures for 2016
- ▶ All employee share plans

- ▶ Mid-year review of performance against target for annual bonus and LTIP awards
- ▶ Review of bonus and LTIP terms
- ▶ Regulatory update on in-force and pending regulations impacting different parts of the Group
- ▶ Investor consultation on executive remuneration

- ▶ End of year review of performance against target for annual bonus and LTIP awards
- ▶ Investor feedback on executive remuneration
- ▶ 2016 Directors' remuneration report
- ▶ Governance of incentive arrangements, including sales incentives, in line with regulatory compliance

Shareholder voting

We remain committed to ongoing shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Remuneration Committee seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The remuneration policy was not subject to a vote at the 2016 AGM and the following table sets out the outcome of the vote on the remuneration policy presented at the 2015 AGM on 12 May 2015.

Policy	For	Against	Withheld
(% of total votes)	96.6%	3.4%	
(No. of votes cast)	852,195,858	29,881,743	4,276,901

The Directors' remuneration report was subject to a vote at the 2016 AGM and the following table sets out the outcome.

2015 Directors' Remuneration Report	For	Against	Withheld
(% of total votes)	77.7%	22.3%	
(No. of votes cast)	639,048,996	183,477,683	22,528,635

The Remuneration Committee acknowledges that a significant number of votes were cast against the 2015 Directors' remuneration report notwithstanding that all remuneration paid and awarded was within the approved policy. We understand that a key concern was the increase in the quantum of variable deferred remuneration awarded to the Chief Executive in 2016.

Having listened to the concerns raised, the Chief Executive volunteered a reduction in the 2016 LTIP award that had been granted to him on 24 March 2016. The Committee approved a reduction equivalent to 100% of salary from 500% to 400% in the value of the 2016 LTIP award that was granted to the Chief Executive. The Committee have also agreed that 400% will continue to be the maximum annual award grant level for the duration of the current remuneration policy.

In response to the 2016 vote on the remuneration report the Chairman of the Remuneration Committee met with a number of our largest investors, the Investment Association (IA) and Institutional Shareholder Services Inc. (ISS) with a view to understanding investors' concerns. The meetings were very helpful in gaining a detailed understanding of these concerns and their views of the evolving remuneration landscape more

5. Directors' remuneration report *continued*

generally. The points raised by investors at these meetings were discussed with the Remuneration Committee and have informed our 2017 remuneration decisions and our consideration of a new remuneration policy to be presented at the 2018 AGM. Further detail can be found in the Remuneration Committee Chairman's statement.

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 2016, 73% 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. A similar tax-approved plan is used in Ireland. At 31 December 2016, 3,915 employees in the UK were making a monthly average contribution of £58 and 171 employees in Ireland were making an average contribution of €44. Even though the plan cannot be structured on a tax-favourable basis in Germany and Austria, 119 employees in these countries participated in December 2016 with an average contribution of €40.
- ▶ 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 2016, over 3,300 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 2016, 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 2016, the Company's standing against these dilution limits was:

- ▶ 4.6% 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 and Standard Life Investments LTIP)
- ▶ 5.5% 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 and Standard Life Investments LTIP and the Standard Life (Employee) Share Plan. On 31 December 2016, the number of unallocated shares held within these trusts was 3,611 in respect of the Standard Life (Employee) Share Plan. In addition, the trusts held 1,287,431 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 66,131 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 2016, the Directors (including close family members) contributed £1,408,546 (2015: £3,283,620) to products sold by the Group.

6. Statement of 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 2016.

The Directors are responsible for preparing the Annual report and accounts 2016. It is also their responsibility to state that they consider that the Annual report and accounts 2016, 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 Guidance 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.

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:

- ▶ 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
- ▶ 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

24 February 2017



Luke Savage
Chief Financial Officer

24 February 2017

Financial information

How to navigate our Group financial statements

The Group's significant accounting policies are included at the beginning of the relevant notes to the Group financial statements with this background colour. Critical judgements in applying accounting policies are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Accounting policies that are relevant to the financial statements as a whole are also set out in that section.

The Group's critical accounting estimates and assumptions are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Further detail on these critical accounting estimates and assumptions is provided in the relevant note with this background colour.

Contents

7. Independent auditors' report – Group financial statements	106
8. Group financial statements	113
9. Independent auditors' report – Company financial statements	220
10. Company financial statements	222
11. Supplementary information	236

Group financial statements

Group primary statements	113	Note 26. Assets and liabilities held for sale	154
Presentation of consolidated financial statements	120	Note 27. Cash and cash equivalents	154
Note 1. Group structure	124	Note 28. Issued share capital and share premium	155
Note 2. Segmental analysis	125	Note 29. Shares held by trusts	155
Note 3. Business written in the Group's insurance entities	129	Note 30. Retained earnings	156
Note 4. Investment return	133	Note 31. Movements in other reserves	157
Note 5. Fee income	134	Note 32. Non-controlling interests and third party interest in consolidated funds	159
Note 6. Expenses under arrangements with reinsurers	134	Note 33. Insurance contracts, investment contracts and reinsurance contracts	160
Note 7. Other administrative expenses	134	Note 34. Non-participating investment contracts	166
Note 8. Staff costs and other employee-related costs	135	Note 35. Financial liabilities	166
Note 9. Auditors' remuneration	135	Note 36. Subordinated liabilities	167
Note 10. Restructuring and corporate transaction expenses	135	Note 37. Pension and other post-retirement benefit provisions	168
Note 11. Taxation	136	Note 38. Deferred income	173
Note 12. Discontinued operations	139	Note 39. Other financial liabilities	173
Note 13. Earnings per share	140	Note 40. Provisions and other liabilities	174
Note 14. Operating profit and non-operating items	141	Note 41. Risk management	176
Note 15. Dividends and return of value	142	Note 42. Structured entities	195
Note 16. Intangible assets	143	Note 43. Fair value of assets and liabilities	196
Note 17. Deferred acquisition costs	145	Note 44. Statement of cash flows	203
Note 18. Investments in associates and joint ventures	146	Note 45. Contingent liabilities and contingent assets	204
Note 19. Investment property	148	Note 46. Commitments	205
Note 20. Property, plant and equipment	149	Note 47. Employee share-based payments	205
Note 21. Financial investments	150	Note 48. Related party transactions	208
Note 22. Loans	151	Note 49. Capital management	209
Note 23. Derivative financial instruments	151	Note 50. Related undertakings	211
Note 24. Receivables and other financial assets	153		
Note 25. Other assets	153		

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 2016 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 IAS Regulation

What we have audited

The financial statements, included within the Annual report and accounts (the 'Annual Report'), comprise:

- ▶ The Consolidated statement of financial position as at 31 December 2016
- ▶ 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 and notes to the financial statements, which includes the Presentation of consolidated financial statements section and other explanatory information

We have not audited the pro forma reconciliation of consolidated operating profit to profit for the year ending 31 December 2016 set out on page 115 which was prepared by Standard Life plc.

We have not audited the elements of Note 49 – Capital management on pages 209 and 210 described as unaudited which have been prepared by Standard Life plc.

Certain required disclosures have been presented elsewhere in the Annual report, 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 IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

- ▶ Overall Group materiality: £34.0 million which represents approximately 5% of operating profit before tax
- ▶ We selected 23 reporting units (as explained on page 109) on whose financial information we conducted audit procedures
- ▶ We identified 8 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 Pensions and Savings segments.
- ▶ For the remaining 15 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 process

Our areas of focus included:

- ▶ Determination of actuarial assumptions for valuation of assets and liabilities
- ▶ Valuation of complex financial instruments and investment property
- ▶ Valuation of identifiable intangible assets arising from the acquisition of Ignis Asset Management Limited ('Ignis')
- ▶ Provision for annuity sales practices

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 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>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, because of 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><i>Refer to page 69 (Audit Committee report), page 122 (Critical accounting estimates and judgements), pages 160 to 166 (Accounting policies and notes).</i></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 20 of the largest life insurers in the UK which were included in PwC's <i>independent benchmarking survey</i>. 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"> ▶ <i>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</i> <p><i>We determined, based on our audit work, that the assumptions used in the models are appropriate, and that the methodologies applied are in line with financial reporting requirements and industry accepted practice and reflect the nature of the Group's life insurance contracts.</i></p>
<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><i>Refer to page 69 (Audit Committee report), page 122 (Critical accounting estimates and judgements), pages 168 to 173 (Accounting policies and notes).</i></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 Retail Price Index and Consumer Price Index and inflation rate premium) against over 25 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>

7. Independent auditors' report to the members of Standard Life plc *continued*

Area of focus	How our audit addressed the area of focus
<p>Valuation of complex financial instruments and investment property 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 independent property experts to assist in selecting these assumptions.</p> <p><i>Refer to page 69 (Audit Committee report), page 122 (Critical accounting estimates and judgements), pages 148, 150 to 153 (Accounting policies and notes)</i></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 property 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>Valuation of identifiable intangible assets arising from the acquisition of Ignis</p> <p>The Directors' valuation of intangible assets arising from business combinations involves complex judgements about forecast fund flows, discount rates and operating margins, changes to which can have a material impact on the valuations adopted in the financial statements.</p> <p>The Directors' also apply judgement when assessing whether there are any indicators of impairment to the remaining institutional, life and retail intangibles.</p> <p>We gave specific focus to the changes in assumptions used in the revaluation of the remaining institutional intangible, as changes to these assumptions were most likely to result in an impairment charge within the consolidated income statement for the year.</p> <p><i>Refer to page 69 (Audit Committee report), page 122 (Critical accounting estimates and judgements), pages 143 to 144 (Accounting policies and notes)</i></p>	<p>Our audit work in respect of the valuation of the intangible assets arising through the acquisition of Ignis included:</p> <ul style="list-style-type: none"> ▶ Evaluating whether there had been indicators of impairment that would trigger an impairment review of any of the intangibles assets ▶ Challenging whether the cash generating units for the intangibles are supportable by reference to the progress of Ignis' integration into the Group ▶ 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 in the cash generating unit and comparing to 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 <p><i>We determined that the assumptions used in the valuation of the remaining intangible assets were appropriate to the current circumstances and plans of the Group, and were within a reasonable range.</i></p> <p><i>We determined that the impairment charge recognised in the financial statements for the institutional intangible asset appropriately reflected the changes in assumptions during the year.</i></p>

Area of focus	How our audit addressed the area of focus
<p>Provision for annuity sales practices</p> <p>The Directors' determination of the valuation of the provision for annuity sales practices involves a range of accounting judgements. A key area of focus for our audit is the consideration of the reporting implications of the FCA's 2015 Thematic Review of Annuity Sales Practices relating to the period since July 2008. There are a number of elements to consider, including:</p> <ul style="list-style-type: none"> ▶ An assessment of the recognition criteria for this liability ▶ The estimated valuation of any such provision, based on the latest available information, including associated costs ▶ The separate recognition criteria for any reimbursement asset arising from existing indemnity insurance contracts <p><i>Refer to page 69 (Audit Committee report), page 122 (Critical accounting estimates and judgements), pages 174 to 175 and 204 to 205 (Accounting policies and notes)</i></p>	<p>Our audit work in respect of the measurement of the provision for annuity sales practices included:</p> <ul style="list-style-type: none"> ▶ Evaluating the regulatory communications, legal support and the Directors' intention to put things right for any disadvantaged customers to establish whether there is sufficient evidence to recognise a provision. ▶ Understanding and assessing the model and methodology used to value and calculate the provision against the scope of the review required by the FCA in their Thematic Review of Annuity Sales Practices report dated October 2016 ▶ Challenging the assumptions set by management and used within the model to supporting evidence, including regulatory communications from October to February 2017 and budgeted project costs as approved by the steering committee in February 2017. Due to the uncertain nature of such assumptions, there is a range of possible factors identified by management. ▶ Assessing the selection of the model assumption within the range and the sensitivities disclosed within the Annual report and accounts <p>In respect of the population and policyholder data which is used by the model:</p> <ul style="list-style-type: none"> ▶ Evaluating the controls applied by management over the extraction of the data from the underlying customer data systems and its subsequent analysis to obtain the appropriate data set <p><i>We are satisfied that there is sufficient evidence to recognise a provision in respect of annuity sales practices in the period since July 2008 as at 31 December 2016.</i></p> <p><i>We are satisfied that the model and assumptions used are appropriate for a best-estimate provision for year-end reporting within a reasonable range, given current evidence available to Standard Life at this time.</i></p> <p>Our work over the recognition criteria of any potential reimbursement asset relating to the provision for annuity sales practices included evaluating communications with the relevant insurers.</p> <p><i>We are satisfied that Standard Life has not yet obtained sufficient evidence to be virtually certain that the asset will be received and accordingly that there should not be recognition of an asset as at 31 December 2016.</i></p>

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, Pensions and Savings, 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 eight 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 Pensions and Savings segments.

In addition, specific audit procedures on certain account balances and transactions were performed at a further 15 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 operations in Hong Kong which is the wholly owned business within the India and China segment.

7. Independent auditors' report to the members of Standard Life plc *continued*

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	£34.0m (2015: £31.0m).
How we determined it	Represents approximately 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 help give a fuller understanding of the performance of the business in both its internal and external reporting to stakeholders, including shareholders and analysts. We have also referenced IFRS profit before tax.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. 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 between £9m and £28m 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 materiality in a similar range. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.0m (2015: £2.0m) 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 Statement of Directors' responsibilities, set out on page 103, 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 draw attention to.

As noted in the Basis of preparation, set out on page 47, 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 and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- ▶ 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 Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

▶ Information in the Annual Report is: <ul style="list-style-type: none"> – Materially inconsistent with the information in the audited financial statements – Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit – Otherwise misleading 	We have no exceptions to report.
▶ The statement given by the Directors on page 47, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and 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 on pages 67 to 74, 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 36 of the Annual Report, 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 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 pages 36 and 37 of the Annual Report, 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 Listing Rules we are required to review the part of the Corporate Governance Statement relating to 10 further provisions of the Code. We have nothing to report having performed our review.

7. Independent auditors' report to the members of Standard Life plc *continued*

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 103, 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 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. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the company financial statements of Standard Life plc for the year ended 31 December 2016 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
24 February 2017

- 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 2016

	Notes	2016 £m	2015 £m
Revenue			
Gross earned premium		2,139	2,276
Premium ceded to reinsurers		(47)	(48)
Net earned premium		2,092	2,228
Investment return	4	15,376	5,460
Fee income	5	1,186	1,120
Other income		75	84
Total revenue		18,729	8,892
Expenses			
Claims and benefits paid		4,801	4,543
Claim recoveries from reinsurers		(492)	(514)
Net insurance benefits and claims		4,309	4,029
Change in reinsurance assets and liabilities	33	140	520
Change in insurance and participating contract liabilities	33	2,115	(1,693)
Change in unallocated divisible surplus	33	53	(117)
Change in non-participating investment contract liabilities	34	8,768	3,363
Expenses under arrangements with reinsurers	6	509	42
Administrative expenses			
Restructuring and corporate transaction expenses	10	62	88
Other administrative expenses	7	1,494	1,540
Total administrative expenses		1,556	1,628
Provision for annuity sales practices	40	175	-
Change in liability for third party interest in consolidated funds	32	296	531
Finance costs		82	83
Total expenses		18,003	8,386
Share of profit from associates and joint ventures		63	43
Profit before tax		789	549
Tax expense attributable to policyholders' returns	11	302	134
Profit before tax expense attributable to equity holders' profits		487	415
Total tax expense	11	370	211
Less: Tax attributable to policyholders' returns		(302)	(134)
Tax expense attributable to equity holders' profits	11	68	77
Profit for the year from continuing operations		419	338
Profit for the year from discontinued operations	12	-	1,147
Profit for the year		419	1,485
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		368	276
From discontinued operations		-	1,147
Equity holders of Standard Life plc		368	1,423
Non-controlling interests	32	51	62
		419	1,485
Earnings per share from continuing operations			
Basic (pence per share)	13	18.7	13.5
Diluted (pence per share)	13	18.6	13.4
Earnings per share			
Basic (pence per share)	13	18.7	69.4
Diluted (pence per share)	13	18.6	69.1

The Notes on pages 120 to 219 are an integral part of these consolidated financial statements.

8. Group financial statements *continued*

Consolidated statement of comprehensive income For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit for the year		419	1,485
Less: Profit for the year from discontinued operations	12	-	(1,147)
Profit for the year from continuing operations		419	338
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement gains on defined benefit pension plans	37	162	167
Revaluation of owner occupied property	20	5	4
Equity movements transferred to unallocated divisible surplus	31	(5)	(4)
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	11	2	-
Total items that will not be reclassified subsequently to profit or loss		164	167
Items that may be reclassified subsequently to profit or loss:			
Fair value losses on cash flow hedges		-	(1)
Net investment hedge		-	(1)
Fair value gains/(losses) on available-for-sale financial assets		17	(8)
Exchange differences on translating foreign operations		173	(6)
Equity movements transferred to unallocated divisible surplus	31	(62)	1
Share of other comprehensive income/(expense) of associates and joint ventures	30	(10)	2
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	11	(3)	2
Total items that may be reclassified subsequently to profit or loss		115	(11)
Other comprehensive income for the year from continuing operations		279	156
Other comprehensive income for the year from discontinued operations		-	(187)
Total other comprehensive income for the year		279	(31)
Profit for the year from discontinued operations	12	-	1,147
Total comprehensive income for the year		698	1,454
Attributable to:			
Equity holders of Standard Life plc			
From continuing operations		647	432
From discontinued operations		-	960
Non-controlling interests			
From continuing operations		51	62
		698	1,454

The Notes on pages 120 to 219 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 2016**

	Notes	2016 £m	Continuing operations £m	2015		Total £m
				Discontinued operations £m		
Operating profit/(loss) before tax						
Standard Life Investments		383	342	-		342
Pensions and Savings ¹		362	357	-		357
India and China ²		36	27	(2)		25
Other		(58)	(61)	-		(61)
Canada		-	-	5		5
Operating profit before tax	2	723	665	3		668
Adjusted for the following items						
Short-term fluctuations in investment return and economic assumption changes	14	8	(63)	63		-
Restructuring and corporate transaction expenses	10	(67)	(115)	(10)		(125)
Impairment of intangible assets		(19)	(7)	(2)		(9)
Gain on sale of Canadian business	12	-	-	1,102		1,102
Provision for annuity sales practices	40	(175)	-	-		-
Other		(21)	(72)	(31)		(103)
Total non-operating items	2	(274)	(257)	1,122		865
Singapore included in discontinued operations segment ²	2	-	(42)	42		-
Share of associates' and joint ventures' tax expense	2	(13)	(13)	-		(13)
Profit attributable to non-controlling interests	2	51	62	-		62
Profit before tax expense attributable to equity holders' profits		487	415	1,167		1,582
Tax (expense)/credit attributable to						
Operating profit	2	(127)	(114)	-		(114)
Non-operating items	2	59	37	(20)		17
Singapore included in discontinued operations segment ²	2	-	-	-		-
Total tax expense attributable to equity holders' profits		(68)	(77)	(20)		(97)
Profit for the year		419	338	1,147		1,485

Financial Information

¹ UK and Europe has been renamed as Pensions and Savings.

² Singapore business, the closure of which was announced in June 2015 was included as a discontinued operation for segmental reporting purposes under IFRS 8 as this is reflective of the presentation of information provided to the Chief Operating Decision Maker. This was previously included in the Asia and Emerging Markets segment which has been renamed India and China. Under IFRS 5, Singapore does not constitute a discontinued operation and was included under continuing operations in the consolidated Income statement. Therefore the pro forma reconciliation above includes the reclassification of Singapore results between discontinued and continuing operations.

The Group's key alternative performance measure is operating profit. Refer to Note 14 for further details.

The Notes on pages 120 to 219 are an integral part of these consolidated financial statements.

8. Group financial statements *continued*

Consolidated statement of financial position

As at 31 December 2016

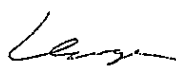
	Notes	2016 £m	2015 £m
Assets			
Intangible assets	16	572	566
Deferred acquisition costs	17	651	646
Investments in associates and joint ventures	18	7,948	5,719
Investment property	19	9,929	9,991
Property, plant and equipment	20	89	91
Pension and other post-retirement benefit assets	37	1,093	897
Deferred tax assets	11	42	35
Reinsurance assets	33	5,386	5,515
Loans	21	295	811
Derivative financial assets	21	3,534	2,444
Equity securities and interests in pooled investment funds	21	83,307	71,679
Debt securities	21	67,933	66,657
Receivables and other financial assets	21	1,255	1,447
Current tax recoverable	11	166	168
Other assets	25	94	89
Assets held for sale	26	263	327
Cash and cash equivalents	21	7,938	9,640
Total assets		190,495	176,722
Equity			
Share capital	28	242	241
Shares held by trusts	29	(2)	(6)
Share premium reserve	28	634	628
Retained earnings	30	2,855	2,162
Other reserves	31	618	977
Equity attributable to equity holders of Standard Life plc		4,347	4,002
Non-controlling interests	32	297	347
Total equity		4,644	4,349
Liabilities			
Non-participating insurance contract liabilities	33	23,422	21,206
Non-participating investment contract liabilities	34	102,063	92,894
Participating contract liabilities	33	31,273	29,654
Deposits received from reinsurers	35	5,093	5,134
Third party interest in consolidated funds	32	16,835	17,196
Subordinated liabilities	35	1,319	1,318
Pension and other post-retirement benefit provisions	37	55	33
Deferred income	38	198	236
Deferred tax liabilities	11	259	205
Current tax liabilities	11	113	113
Derivative financial liabilities	23	965	1,254
Other financial liabilities	35	3,916	2,900
Provisions	40	227	48
Other liabilities	40	113	99
Liabilities of operations held for sale	26	-	83
Total liabilities		185,851	172,373
Total equity and liabilities		190,495	176,722

The Notes on pages 120 to 219 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 113 to 219 were approved by the Board and signed on its behalf by the following Directors:



Sir Gerry Grimstone
Chairman
24 February 2017



Luke Savage
Chief Financial Officer
24 February 2017

8. Group financial statements *continued*

Notes to the Group financial statements

1. Group structure

(a) Composition

The following diagram is an extract of the Group structure at 31 December 2016 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

(b)(i) Subsidiaries

On 31 October 2016 Standard Life Savings Limited (SLG) purchased the Elevate adviser platform (Elevate) through the purchase of the entire share capital of AXA Portfolio Services Limited from AXA UK plc. The acquisition enhances the Group's position as a leading platform provider for professional advisers by bringing together award-winning platforms to create one of the largest and fastest growing adviser platform businesses in the UK.

Additionally during the year, the Group's UK wide financial advice business, 1825, entered into sale and purchase agreements to purchase the entire share capital of The Munro Partnership Ltd. (Munro), Baigrie Davies Holdings Limited (Baigrie Davies) and Jones Sheridan Holdings Limited (Jones Sheridan) with combined assets under advice of £1.5bn. The acquisitions of Munro, Baigrie Davies and Jones Sheridan completed on 1 July 2016, 1 August 2016, and 1 November 2016 respectively and are not material to the Group individually or in aggregate.

At the acquisition date the consideration, net assets acquired and resulting bargain purchase gain from the Elevate acquisition was as follows:

31 October 2016	£m
Purchase consideration (all cash)	31
Fair value of net assets acquired:	
Customer-related intangible assets	6
Cash and cash equivalents	33
Other assets	6
Deferred tax liability	(1)
Other liabilities	(8)
Bargain purchase gain	5

Customer-related intangible assets relate to the existing customer contracts in place at the acquisition date. The deferred tax liability of £1m relates to the temporary difference arising from the recognition of the customer-related intangible assets and will be released as these intangible assets are amortised or impaired.

The bargain purchase gain recognised as a result of the Elevate acquisition has arisen primarily due to the requirement to fund near term losses in the acquired business. The gain is included in other income in the consolidated income statement.

The amount of revenue contributed to the Group's consolidated income statement for the year ended 31 December 2016 from the acquired Elevate entity was £6m, with a reduction in profit after tax of £1m.

If the acquisition had occurred on 1 January 2016, the amount of revenue that would have been contributed to the Group for the year ended 31 December 2016 would have been £28m, increasing the Group's revenue to £18,757m with a reduction in profit after tax of £9m reducing the Group's profit from continuing operations to £410m.

(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:

	2016	2016	2015	2015
	Income statement and cash flows (average rate)	Statement of financial position (closing rate)	Income statement and cash flows (average rate)	Statement of financial position (closing rate)
Euro	1.229	1.171	1.375	1.357
US Dollar	1.356	1.236	1.528	1.474
Canadian Dollar	1.800	1.657	1.956	2.047
Indian Rupee	91.058	83.864	98.116	97.504
Chinese Renminbi	8.999	8.587	9.599	9.571
Hong Kong Dollar	10.521	9.580	11.844	11.423

(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.

8. Group financial statements *continued*

(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 revenue 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 Treatment of tax relating to 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

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 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 intangible assets arising from business combinations Determination of useful lives Determination of amounts to be recognised as internally developed software Determination of the recoverable amount in relation to impairment assessments	Note 16
Provisions	Measurement of provision for annuity sales practices	Note 40

Further detail on critical accounting estimates and assumptions is provided in the relevant note.

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.

In September 2016 the IASB issued amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts*. The amendments address the consequences of the different effective dates of IFRS 9 and the new insurance contracts standard, IFRS 17, expected to be issued in 2017. Insurers are permitted to defer implementation of IFRS 9 until periods beginning on or after 1 January 2021 if they satisfy criteria regarding the predominance of their insurance activities, or to apply an overlay approach to remove incremental volatility from the income statement. Management has determined that the Group is eligible to defer the implementation of IFRS 9 and intends to defer. The amendments have not yet been endorsed by the EU.

The impact of the implementation of IFRS 9 will be dependent on the implementation of the new insurance contracts standard.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019 with earlier adoption permitted if IFRS 15 has also been applied)
The IASB issued IFRS 16 *Leases* on 13 January 2016 with a mandatory effective date of 1 January 2019. The new standard replaces IAS 17 *Leases* and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The accounting for leases by lessors remains largely unchanged.

The Group leases property for use as office space which is currently classified as operating leases. As a result of the new standard the property leased by the Group will be brought onto the statement of financial position. The right of use asset will be measured at the amount of the lease liability, adjusted for items such as lease prepayments and lease incentives received. The lease liability will be measured using the interest rate implicit in the lease. The right of use asset will be depreciated over the life of the lease and the interest expense on the lease liability will be recognised separately. The standard has not yet been endorsed by the EU. The Group will commence its full impact assessment of the standard during 2017.

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.

8. Group financial statements *continued*

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 in these consolidated financial statements have been consistently applied to all financial reporting periods presented.

(a)(i) New interpretations and amendments to existing standards that have been adopted by the Group

The Group has adopted the following new interpretations and amendments to existing standards which have been endorsed by the EU.

Interpretation or amendment	Effective Date ¹	Detail
Amendments to IFRS 11 <i>Joint Arrangements</i> : Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	The amendment requires the application of business combination accounting for the acquisition of an interest in a joint operation which constitutes a business.
Amendments to IAS 1 <i>Presentation of Financial Statements</i> : Disclosure Initiative	1 January 2016	These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> : Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	The amendment clarifies when a method of depreciation or amortisation based on revenue may be appropriate.
Annual improvements 2012 – 2014 cycle	1 January 2016	This annual improvements cycle makes five 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 2016. 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. New disclosure requirements including estimate and judgement thresholds will also be introduced.

The Group's revenue generated from the following contracts is exempt from this standard:

- ▶ Lease contracts within the scope of IAS 17 *Leases*
- ▶ Insurance contracts within scope of IFRS 4 *Insurance Contracts*
- ▶ Financial instruments within the 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*

In 2015 the IASB issued amendments to the standard and delayed the mandatory adoption date until 1 January 2018. In April 2016, the IASB issued further clarifications to IFRS 15 which have not yet been endorsed by the EU. The Group does not intend to early adopt the standard.

A detailed impact assessment was continued in 2016, reviewing contracts and analysing the revenue recognised by the Group. This work has been completed for all major revenue streams and no significant impacts to profit or net assets have been identified.

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018 with option to defer for certain insurance entities)

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

Consolidated statement of cash flows
For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax from continuing operations		789	549
Profit before tax from discontinued operations	12	-	1,167
		789	1,716
Change in operating assets	44	(12,995)	(6,607)
Change in operating liabilities	44	12,926	4,042
Adjustment for non-cash movements in investment income		174	(20)
Change in unallocated divisible surplus	33	53	(117)
Other non-cash and non-operating items	44	122	(1,017)
Taxation paid		(333)	(261)
Net cash flows from operating activities		736	(2,264)
Cash flows from investing activities			
Purchase of property, plant and equipment		(10)	(8)
Proceeds from sale of property, plant and equipment		22	98
Acquisition of subsidiaries and unincorporated businesses net of cash acquired		(5)	(6)
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	1	(179)	(9)
Purchase of intangible assets not acquired through business combinations		(61)	(61)
Net cash flows from investing activities		(233)	1,714
Cash flows from financing activities			
Repayment of other borrowings		(2)	(3)
Repayment of subordinated liabilities		-	(282)
Capital flows (to)/from third party interest in consolidated funds and non-controlling interests		(1,845)	1,575
Distributions paid to third party interest in consolidated funds and non-controlling interests		(109)	(110)
Shares acquired by trusts		(3)	(9)
Proceeds from issue of shares		6	-
Interest paid		(83)	(89)
Return of cash to shareholders under 'B/C' share scheme	15	-	(1,749)
Ordinary dividends paid	15	(370)	(343)
Net cash flows from financing activities		(2,406)	(1,010)
Net decrease in cash and cash equivalents		(1,903)	(1,560)
Cash and cash equivalents at the beginning of the year		9,591	11,243
Effects of exchange rate changes on cash and cash equivalents		212	(92)
Cash and cash equivalents at the end of the year	27	7,900	9,591
Supplemental disclosures on cash flows from operating activities			
Interest paid		3	7
Interest received		1,929	1,979
Dividends received		2,023	1,923
Rental income received on investment property		564	490

Financial Information

The Notes on pages 120 to 219 are an integral part of these consolidated financial statements.

8. Group financial statements *continued*

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		-	-	-	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 year		-	-	-	-	-	-	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

The Notes on pages 120 to 219 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016

2016	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		241	(6)	628	2,162	977	4,002	347	4,349
Profit for the year		-	-	-	368	-	368	51	419
Other comprehensive income for the year		-	-	-	154	125	279	-	279
Total comprehensive income for the year	30, 31	-	-	-	522	125	647	51	698
Dividends paid on ordinary shares	15	-	-	-	(370)	-	(370)	-	(370)
Issue of share capital	28	1	-	6	-	-	7	-	7
Reserves credit for employee share-based payment schemes	31	-	-	-	-	30	30	-	30
Transfer to retained earnings for vested employee share-based payment schemes	30, 31	-	-	-	23	(23)	-	-	-
Shares acquired by employee trusts		-	(3)	-	-	-	(3)	-	(3)
Shares distributed by employee and other trusts	30	-	7	-	(7)	-	-	-	-
Expiry of unclaimed asset trust claim period	30	-	-	-	41	-	41	-	41
Cancellation of capital redemption reserve	28	-	-	-	488	(488)	-	-	-
Other movements in non-controlling interests in the period		-	-	-	-	-	-	(101)	(101)
Aggregate tax effect of items recognised directly in equity	11	-	-	-	(4)	(3)	(7)	-	(7)
31 December		242	(2)	634	2,855	618	4,347	297	4,644

Financial Information

(b)(ii) Associates

In August 2015, the Group entered into a sale and purchase agreement to purchase an additional 9% of the issued share capital of HDFC Standard Life Insurance Company Limited, an associate of the Group. The transaction completed in April 2016, after satisfactory regulatory approvals were obtained, for a consideration of Rs 1,706 crore (£179m), increasing the Group's interest to 35%.

(c) Prior year disposal

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. Until disposal the operations of the Canadian business were classified as discontinued and the assets and liabilities were classified as held for sale. 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.

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.

Pensions and Savings (formerly UK and Europe)

Pensions and Savings 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

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.

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 (now renamed India and China). The results of this business were included as discontinued operations for segmental reporting purposes as this was reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 8, Singapore did not constitute a discontinued operation and was included under continuing operations in the consolidated income statement. Therefore the segmental analysis disclosures for the year ended 31 December 2015 include the reclassification of Singapore results between discontinued and continuing operations.

8. Group financial statements *continued*

(b) Reportable segments - Group operating profit and revenue information

(b)(i) Analysis of Group operating profit by segment

Operating profit is the key alternative performance measure utilised by the Group's management in their evaluation of segmental performance and is therefore also presented by reportable segment.

31 December 2016	Notes	Standard Life Investments £m	Pensions and Savings £m	India and China £m	Other £m	Eliminations £m	Total £m
Fee based revenue		885	861	17	-	(112)	1,651
Spread/risk margin		-	134	-	-	-	134
Total operating income		885	995	17	-	(112)	1,785
Total operating expenses		(537)	(655)	(22)	(57)	112	(1,159)
Capital management		-	22	-	(1)	-	21
Share of associates' and joint ventures' profit before tax ¹		35	-	41	-	-	76
Operating profit/(loss) before tax		383	362	36	(58)	-	723
Tax on operating profit		(72)	(71)	-	16	-	(127)
Share of associates' and joint ventures' tax expense	11	(11)	-	(2)	-	-	(13)
Operating profit/(loss) after tax		300	291	34	(42)	-	583
Adjusted for the following items							
Short-term fluctuations in investment return and economic assumption changes	14	3	13	-	(8)	-	8
Restructuring and corporate transaction expenses	10	(23)	(38)	(3)	(3)	-	(67)
Impairment of intangible assets		(9)	(10)	-	-	-	(19)
Provision for annuity sales practices	40	-	(175)	-	-	-	(175)
Other		(21)	3	-	(3)	-	(21)
Total non-operating items		(50)	(207)	(3)	(14)	-	(274)
Tax on non-operating items		9	46	-	4	-	59
Profit/(loss) for the year attributable to equity holders of Standard Life plc		259	130	31	(52)	-	368
Profit attributable to non-controlling interests							51
Profit for the year							419

¹ 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 operating 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 customer base and is therefore not reliant on any individual customers.

31 December 2015	Notes	Standard Life Investments £m	Pensions and Savings £m	India and China £m	Other Eliminations £m	Total continuing operations £m	Discontinued operations ¹ £m	Total £m
Fee based revenue		843	808	38	-	(110)	21	1,600
Spread/risk margin		-	145	-	-	-	9	154
Total operating income		843	953	38	-	(110)	30	1,754
Total operating expenses		(532)	(610)	(36)	(56)	110	(29)	(1,153)
Capital management		-	14	-	(5)	-	2	11
Share of associates' and joint ventures' profit before tax ²		31	-	25	-	-	-	56
Operating profit/(loss) before tax		342	357	27	(61)	-	3	668
Tax on operating profit		(64)	(54)	-	4	-	-	(114)
Share of associates' and joint ventures' tax expense	11	(11)	-	(2)	-	-	-	(13)
Operating profit/(loss) after tax		267	303	25	(57)	-	3	541
Adjusted for the following items								
Short-term fluctuations in investment return and economic assumption changes	14	-	(54)	-	(9)	-	63	-
Restructuring and corporate transaction expenses	10	(23)	(75)	-	(17)	-	(10)	(125)
Impairment of intangible assets		(5)	(2)	-	-	-	(2)	(9)
Gain on sale of Canadian business		-	-	-	-	-	1,102	1,102
Other		(25)	-	(47)	-	-	(31)	(103)
Total non-operating items		(53)	(131)	(47)	(26)	-	1,122	865
Tax on non-operating items		11	16	5	5	-	(20)	17
Singapore included in discontinued operations segment ¹		-	-	(42)	-	-	42	-
Profit/(loss) for the year attributable to equity holders of Standard Life plc		225	188	(59)	(78)	-	1,147	1,423
Profit attributable to non-controlling interests		-	-	-	-	62	-	62
Profit for the year						338	1,147	1,485

Financial Information

¹ Under IFRS 5, Singapore did not constitute a discontinued operation and was 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.

8. Group financial statements *continued*

(b)(ii) Total income and expenses

The following table provides a reconciliation of total operating 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:

	2016		2015	
	Income £m	Expenses £m	Income £m	Expenses £m
Total operating income or operating expenses from continuing operations as presented in the analysis of Group operating profit by segment	1,785	(1,159)	1,724	(1,124)
Net insurance benefits and claims	4,309	(4,309)	4,029	(4,029)
Change in reinsurance assets and liabilities	140	(140)	520	(520)
Change in insurance and participating contract liabilities	2,115	(2,115)	(1,693)	1,693
Change in unallocated divisible surplus	53	(53)	(117)	117
Change in non-participating investment contract liabilities	8,768	(8,768)	3,363	(3,363)
Expenses under arrangements with reinsurers	509	(509)	42	(42)
Change in liability for third party interest in consolidated funds	296	(296)	531	(531)
Other presentation differences	380	(380)	305	(305)
Tax movement attributable to policyholder returns	302	-	134	-
Non-operating items	-	(274)	(23)	(234)
Non-controlling interests and capital management	72	-	71	-
Singapore included in discontinued operations segment ¹	-	-	6	(48)
Total revenue or expenses from continuing operations as presented on the consolidated income statement	18,729	(18,003)	8,892	(8,386)

¹ Under IFRS 5, Singapore did not constitute a discontinued operation and was included under continuing operations in the consolidated income statement. Therefore the reconciliation includes the reclassification of 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.

(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:

	2016	2015
	£m	£m
UK	16,822	6,628
Rest of the world	1,907	2,264
Total	18,729	8,892

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

	2016	2015
	£m	£m
UK	9,887	9,954
Rest of the world	703	694
Total	10,590	10,648

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) Pensions and Savings

Standard Life Assurance Limited

The main entity in the Pensions and Savings 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, Germany and Ireland branches
- ▶ Heritage With Profits Fund (HWPF) – includes UK, Germany and Ireland 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 (recurso 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 Germany 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 Designated Activity Company (formerly Standard Life International Limited)

The Pensions and Savings reportable segment also contains the International Bond issued by Standard Life International Designated Activity Company (SL Intl) (formerly Standard Life International Limited) to UK residents. SL Intl 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.

8. Group financial statements *continued*

(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) Pensions and Savings – 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 2016 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £445m (2015: £373m) and this represents approximately 10% (2015: 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 2016 is £432m (2015: £348m) and this represents approximately 10% (2015: 9%) 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 Ireland 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.

The major unit linked pension contracts include UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pensions, UK Stakeholder, Irish Synergy Personal Pensions, UK Group SIPPs, UK Group Flexible Retirement Plans, UK Group Stakeholder and Trustee Investment Plans. 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.

The International Bond is issued by SL Intl 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 SL Intl 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.

Germany unit linked deferred annuity 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 provide a return of premiums guarantee on death and the option to take up an annuity on guaranteed terms. They are classified as non-participating insurance contracts. These contracts do not contain a with profits investment option.

Germany unitised with profits deferred annuity contracts (fee business)

Germany 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) Pensions and Savings – 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 were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees. For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

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 Ireland 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, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

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 Ireland 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.

8. Group financial statements *continued*

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

Germany unitised with profits contracts (fee business via German additional expenses basis)

Unitised with profits Germany 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.

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 Ireland 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, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

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 Ireland 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 Ireland 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. In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium (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 reinsurance asset recognised in relation to this arrangement is £5,190m (2015: £5,258m).

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 2016 is £2,951m (2015: £2,869m) and this represents approximately 32% (2015: 33%) of the total liability for UK annuity in payments contracts held within the HWPF.

The total liability at 31 December 2016 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,983m (2015: £1,811m) and this represents approximately 22% (2015: 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 5 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.

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	2016 £m	2015 £m
Interest and similar income			
Cash and cash equivalents		86	94
Available-for-sale debt securities		12	15
Loans		6	4
		104	113
Dividend income		1,999	1,902
Gains/(losses) on financial instruments at fair value through profit or loss			
Associates (other than dividend income)		19	204
Equity securities (other than dividend income)		9,769	1,131
Debt securities		7,169	(27)
Derivative financial instruments		(3,857)	1,179
		13,100	2,487
Foreign exchange (losses)/gains on instruments other than those at fair value through profit or loss		(80)	19
Income from investment property			
Rental income	19	555	487
Net fair value (losses)/gains on investment property	19	(302)	452
		253	939
Investment return from continuing operations		15,376	5,460

8. Group financial statements *continued*

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	2016 £m	2015 £m
Fee income from investment contracts and fund platforms		649	622
Fee income from third party funds under management		466	438
Fee income deferred during the year	38	(15)	(25)
Amortisation of deferred income	38	61	63
Other fee income		25	22
Total fee income from continuing operations		1,186	1,120

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.

	2016 £m	2015 £m
Interest payable on deposits from reinsurers	31	34
Premium Adjustments	478	8
Expenses under arrangements with reinsurers from continuing operations	509	42

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	2016 £m	2015 £m
Interest expense		5	12
Commission expenses		153	170
Staff costs and other employee-related costs	8	596	635
Operating lease rentals		34	21
Auditors' remuneration	9	6	7
Depreciation of property, plant and equipment	20	14	16
Impairment losses on property, plant and equipment	20	1	4
Impairment losses reversed on property, plant and equipment	20	-	(5)
Amortisation of intangible assets	16	64	51
Impairment losses on intangible assets	16	20	9
Other		556	506
		1,449	1,426
Acquisition costs deferred during the year	17	(51)	(83)
Impairment of deferred acquisition costs	17	-	73
Amortisation of deferred acquisition costs	17	96	124
Total other administrative expenses from continuing operations		1,494	1,540

In addition to interest expense from continuing operations of £5m (2015: £12m), interest expense of £82m (2015: £83m) was incurred in respect of subordinated liabilities and £31m (2015: £34m) in respect of deposits from reinsurers. For the year ended 31 December 2016, total interest expense from continuing operations is £118m (2015: £129m).

8. Staff costs and other employee-related costs

Notes	2016	2015		Total £m
	£m	Continuing operations £m	Discontinued operations £m	
The aggregate remuneration payable in respect of employees:				
Wages and salaries	489	491	12	503
Social security costs	56	57	1	58
Pension costs	37			
Defined benefit plans	(14)	25	2	27
Defined contribution plans	33	27	-	27
Employee share-based payments	47	35	1	36
Total staff costs and other employee-related costs	596	635	16	651

	2016	2015 ¹
The average number of staff employed by the Group during the year:		
Standard Life Investments ²	1,681	1,496
Pensions and Savings	4,026	4,116
India and China	112	136
Other ³	483	518
Canada ²	-	165
Total average number of staff employed	6,302	6,431

¹ Allocation between India and China and Pensions and Savings restated.

² 2015 includes all staff employed by the Canadian business including Standard Life Investments Inc. until its sale on 30 January 2015.

³ 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 80 to 102.

9. Auditors' remuneration

	2016	2015 (all continuing operations)
	£m	£m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	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	3.8	3.4
The audit of funds not consolidated in the Group's financial statements	0.8	0.7
Audit related assurance services	0.8	1.6
Total audit related assurance fees	5.7	6.0
Other assurance services	0.5	0.5
Tax compliance services	0.4	0.4
Tax advisory services	0.2	0.1
Other non-audit fee services	0.3	0.3
Total non-audit fees	1.4	1.3
Total auditors' remuneration	7.1	7.3

In addition, the audit fees in respect of the UK staff defined benefit plan and the Ireland staff defined benefit plan were £71,000 (2015: £65,000).

For more information on non-audit services, refer to the Audit Committee report in Section 4 – Corporate governance statement.

10. Restructuring and corporate transaction expenses

Total restructuring and corporate transaction expenses incurred from continuing operations during the year were £62m (2015: £88m). The expenses relate mainly to Ignis integration and Pensions and Savings restructuring programmes and corporate transactions. Deal costs relating to acquisitions included in restructuring and corporate transaction expenses for the year ended 31 December 2016 were £3m (2015: £nil).

In December 2014 the Group announced that the UK staff defined benefit pension plan would be closed to future accrual. On 16 April 2016 all employees in the closing plan were transferred to the UK defined contribution plan for future service and employer contributions into the defined contribution plan were amended. Following this restructuring of the pension plans, operating profit from continuing operations for the year ended 31 December 2016 has been increased by £5m (2015: £35m) so that operating profit reflects the expected long-term pension expense for the year and is therefore more indicative of the long-term operating performance of the Group. As a result £5m (2015: £35m) of pension costs that are included in staff costs in the consolidated income statement for the year ended 31 December 2016, are included in restructuring and corporate

8. Group financial statements *continued*

transaction expenses in determining operating profit from continuing operations. Further details of the defined benefit pension plan expense for the year are included in Note 37.

The table below reconciles restructuring and corporate transaction expenses from continuing operations to restructuring and corporate transaction expenses used to determine operating profit from continuing operations.

	2016	2015
	£m	£m
Restructuring and corporate transaction expenses from continuing operations	62	88
Pension plan restructuring	5	35
Expenses incurred by the Heritage With Profit Fund	-	(1)
Closure of Singapore ¹	-	(7)
Restructuring and corporate transaction expenses used to determine operating profit from continuing operations	67	115

¹ Singapore business, the closure of which was announced in June 2015, was included as a discontinued operation for segmental reporting purposes under IFRS 8 as this was reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 5, Singapore did not constitute a discontinued operation and was included under continuing operations in the consolidated income statement.

Restructuring and corporate transaction expenses for the year ended 31 December 2015 of £10m were used to determine operating profit before tax from discontinued operations. These expenses related to the sale of the Canadian business and the closure of the Singapore business.

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.

(a) Tax charge in the consolidated income statement

(a)(i) Current year tax expense

	2016	2015
	£m	£m
Current tax:		
UK	316	197
Double tax relief	(3)	(2)
Overseas	23	15
Adjustment to tax expense in respect of prior years	(3)	12
Total current tax attributable to continuing operations	333	222
Deferred tax:		
Deferred tax expense/(credit) arising from the current year	37	(11)
Total deferred tax attributable to continuing operations	37	(11)
Total tax expense attributable to continuing operations	370	211
Attributable to policyholders' investment return	302	134
Attributable to equity holders' profits	68	77
Total tax expense attributable to continuing operations	370	211

The share of associates' and joint ventures' tax expense from continuing operations is £13m (2015: £13m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

In 2016 unrecognised tax losses from previous years of £6m (2015: £1m) were used to reduce the current tax expense. Unrecognised losses and timing differences of £3m were used to reduce the deferred tax expense (2015: £nil).

Current tax recoverable and current tax liabilities at 31 December 2016 were £166m (2015: £168m) and £113m (2015: £113m) respectively. Current tax assets and liabilities at 31 December 2016 and 31 December 2015 are expected to be recoverable or payable in less than 12 months.

Certain Group entities are party to claims and proceedings to recover tax suffered in respect of overseas income. These claims and proceedings predominantly relate to assets in policyholder funds, primarily SLAL's HWPF. There is significant uncertainty on the outcome of these claims and they are not expected to materially impact profit for the year attributable to equity holders or total equity.

(a)(ii) Reconciliation of tax expense

	2016	2015
	£m	£m
Profit before tax from continuing operations	789	549
Tax at 20% (2015: 20.25%)	158	111
Policyholder tax (net of tax at UK standard rate)	241	107
Permanent differences	2	9
Tax effect of accounting for non-controlling interests	(10)	(13)
Tax effect of accounting for share of profit from associates and joint ventures	(13)	(9)
Different tax rates	(5)	(19)
Adjustment to current tax expense in respect of prior years	(3)	12
Recognition of previously unrecognised tax credit	(9)	(2)
Deferred tax not recognised	-	18
Adjustment to deferred tax expense in respect of prior years	(2)	(4)
Write-down of deferred tax asset	11	5
Other	-	(4)
Total tax expense from continuing operations for the year	370	211

The standard rate of UK corporation tax is 20%. The UK corporation tax rate will reduce to 19% from 1 April 2017 and 17% 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 2016.

The accounting for certain items in the consolidated income statement results in certain reconciling items in the table above, the values of which vary from year to year depending upon the underlying accounting values.

- ▶ The tax expense for the year includes policyholder tax, as described in the accounting policy above. Profit before tax includes an equivalent amount of income in relation to this policyholder tax and this therefore gives rise to a reconciling item.
- ▶ The Group's non-controlling interests primarily relate to private equity vehicles which do not incur significant tax expense and therefore this gives rise to a reconciling item. Other interests in these vehicles are held by policyholders and therefore do not contribute to profit before tax.
- ▶ Share of profit from associates and joint ventures is presented net of tax in the consolidated income statement and therefore also gives rise to a reconciling item

Details of other significant reconciling items are as follows:

- ▶ Different tax rates will vary according to the level of profit subject to tax at rates different from the UK standard rate (e.g. overseas profit and profit arising in consolidated investment funds)
- ▶ Prior year adjustments will vary depending upon the specific items to which they relate and are regarded as non-recurring in nature
- ▶ The ability to value tax losses and other tax assets will also affect the actual tax charge. These items are expected to be non-recurring. In 2016 we were able to recognise historic tax losses valued at £9m and there was a write down of a deferred tax asset in the Germany Pension and Savings business valued at £11m. In 2015 there was a one-off item of £18m relating to tax losses arising in our Singapore and Germany businesses for which deferred tax was not recognised due to uncertainty of recoverability.

The occurrence of other reconciling items is dependent upon the underlying tax results of the Group.

(b) Tax relating to components of other comprehensive income

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

	2016	2015
	£m	£m
Tax relating to defined benefit pension plan deficit	(2)	-
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	(2)	-
Current tax on net change in financial assets designated as available-for-sale	3	(2)
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	3	(2)
Tax relating to other comprehensive income from continuing operations	1	(2)

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

8. Group financial statements *continued*

(c) Tax relating to items taken directly to equity

	2016	2015
	£m	£m
Tax relating to expiry of unclaimed asset trust claim period	7	-
Tax credit on reserves for employee share-based payments	-	(4)
Tax relating to items taken directly to equity	7	(4)

(d) Deferred tax assets and liabilities

(d)(i) Movements in net deferred tax liabilities

	2016	2015
	£m	£m
At 1 January	(170)	(181)
Acquired through business combinations	(2)	-
Amounts (charged)/credited to the consolidated income statement	(37)	11
Amounts credited directly to equity in respect of employee share-based payment schemes	-	4
Transfer to current tax for vested employee share-based payment schemes	(3)	(5)
Foreign exchange adjustment	(4)	1
Other	(1)	-
Net deferred tax liability at 31 December	(217)	(170)

(d)(ii) Analysis of recognised deferred tax

	2016	2015
	£m	£m
Deferred tax assets comprise:		
Actuarial liabilities	-	5
Losses carried forward	12	9
Depreciable assets	42	38
Deferred income	12	20
Employee benefits	26	25
Provisions and other temporary timing differences	14	13
Insurance related items	5	12
Other	-	5
Gross deferred tax assets	111	127
Less: Offset against deferred tax liabilities	(69)	(92)
Deferred tax assets	42	35
Deferred tax liabilities comprise:		
Insurance related items	5	6
Unrealised gains on investments	187	148
Intangible assets acquired through business combinations	25	25
Deferred acquisition costs	104	111
Temporary timing differences	1	3
Other	6	4
Gross deferred tax liabilities	328	297
Less: Offset against deferred tax assets	(69)	(92)
Deferred tax liabilities	259	205
Net deferred tax liability at 31 December	(217)	(170)

A deferred tax asset of £12m (2015: £9m) 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 £165m (2015: £215m)
- ▶ Tax reserves of the Germany branch of Standard Life Assurance Limited of £20m (2015: £26m)
- ▶ Unrealised investment losses of £12m (2015: £20m)

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.

There are no discontinued operations for the year ended 31 December 2016. Discontinued operations for the year ended 31 December 2015 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.

	2015
	£m
Consolidated income statement	
Revenue	
Gross earned premium	138
Premium ceded to reinsurers	(43)
Net earned premium	95
Investment return	1,166
Fee income	11
Gain on sale of subsidiaries	1,102
Other income	1
Total revenue from discontinued operations	2,375
Expenses	
Claims and benefits paid	123
Claim recoveries from reinsurers	(63)
Net insurance benefits and claims	60
Change in reinsurance assets and liabilities	45
Change in insurance and participating contract liabilities	507
Change in non-participating investment contract liabilities	525
Administrative expenses	
Restructuring and corporate transaction expenses	3
Other administrative expenses	37
Total administrative expenses	40
Change in liability for third party interest in consolidated funds	30
Finance costs	1
Total expenses from discontinued operations	1,208
Share of loss from associates and joint ventures	-
Profit before tax from discontinued operations	1,167
Tax expense attributable to policyholders' returns	-
Profit before tax expense attributable to equity holders' profits	1,167
Total tax expense	20
Less: Tax attributable to policyholders' returns	-
Tax expense attributable to equity holders' profits	20
Profit for the year from discontinued operations	1,147
Attributable to:	
Equity holders of Standard Life plc	1,147
Non-controlling interests	-
	1,147

8. Group financial statements *continued*

	2015
	£m
Other comprehensive income	
Items that will not be reclassified subsequently to profit or loss:	
Remeasurement losses on defined benefit pension plans	(19)
Revaluation of owner occupied property	-
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	5
Total items that will not be reclassified subsequently to profit or loss	(14)
Items that may be reclassified subsequently to profit or loss:	
Fair value gains on cash flow hedges	58
Net investment hedge	57
Fair value gains on available-for-sale financial assets	15
Exchange differences on translating foreign operations	(62)
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	(4)
Total items that may be reclassified subsequently to profit or loss	64
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)
	2015
	£m
Cash flows	
Net cash flows from operating activities	(132)
Net cash flows from financing activities	(7)
Net cash flows from investing activities	(500)
Total net cash flows	(639)

The net cash flows from investing activities represent 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.

Basic earnings per share was 18.7p (2015: 69.4p) and diluted earnings per share was 18.6p (2015: 69.1p) for the year ended 31 December 2016. The following table shows details of basic, diluted and alternative earnings per share.

	2016	2015	
	£m	Continuing operations £m	Discontinued operations £m
Operating profit before tax	723	665	3
Tax on operating profit	(127)	(114)	-
Share of associates' and joint ventures' tax expense	(13)	(13)	-
Operating profit after tax	583	538	3
Total non-operating items	(274)	(257)	1,122
Tax on non-operating items	59	37	(20)
Singapore included in discontinued operations segment ¹	-	(42)	42
Profit attributable to equity holders of Standard Life plc	368	276	1,147

	Millions	Millions	Millions
Weighted average number of ordinary shares outstanding	1,972	2,051	2,051
Dilutive effect of share options and awards	6	9	9
Weighted average number of diluted ordinary shares outstanding	1,978	2,060	2,060

	Pence	Pence	Pence
Basic earnings per share	18.7	13.5	55.9
Diluted earnings per share	18.6	13.4	55.7
Alternative earnings per share	29.6	26.2	0.1
Diluted alternative earnings per share	29.5	26.1	0.1

¹ Singapore business, the closure of which was announced in June 2015, was included as a discontinued operation for segmental reporting purposes under IFRS 8 as this was reflective of the presentation of information provided to the Chief Operating Decision Maker. Under IFRS 5, Singapore did not constitute a discontinued operation and was included under continuing operations in the consolidated income statement. Therefore the analysis of Group operating profit above includes the reclassification of 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 in 2015 followed by a return of value to shareholders. In accordance with IAS 33, earnings per share were not 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 2016 are not directly comparable with the prior year.

14. Operating profit and non-operating items

Operating profit is the Group's key alternative performance 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 corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- ▶ Impairment of intangible assets acquired in business combinations
- ▶ 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 and, due to their size or nature, are not indicative of the long-term operating performance of the Group

As disclosed in our Annual report and accounts 2015, from 1 January 2016 we changed 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. This change has had no impact on comparative reporting periods presented.

(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 returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movement in equity holder liabilities, as well as the impact of changes in economic assumptions on equity holder liabilities, are excluded from operating profit. Investments backing equity holder funds include investments backing annuities and subordinated debt, investments from surplus capital in insurance companies, and investments held by holding companies and other non-insurance entities.

8. Group financial statements *continued*

For annuities this means that all fluctuations in liabilities and the assets backing those liabilities due to market interest rate (including credit risk) movements over the year are excluded from operating profit.

The expected rates of return for debt securities and equity securities are determined separately. The expected rates of return for equity securities are determined based on the gilt spot rates of an appropriate duration plus an equity risk premium of 3% (2015: 3%). Investments in pooled investment funds which target equity returns over the longer term, including absolute return funds, also use an expected rate of return determined based on the gilt spot rates of an appropriate duration plus a risk premium of 3%.

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. 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.

The expected rates of return used for both the assets backing subordinated liabilities and the subordinated liabilities themselves include a discount for expected credit defaults. This means that the interest expense included in operating profit for subordinated liabilities is after deducting a margin for own credit risk. Additionally, the effect of the accounting mismatch, where subordinated liabilities are measured at amortised cost and certain assets backing the liabilities are measured at fair value, is also excluded from operating profit.

There have been no actual defaults or impairments of assets backing subordinated liabilities during the year ended 31 December 2016 or 31 December 2015. If these were to arise they would be excluded from operating profit.

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 2016, short-term fluctuations in investment return and economic assumption changes resulted in gains of £8m (2015: £63m losses) from continuing operations. Short-term fluctuations in investment return from continuing operations relate principally to the impact of interest rate changes on UK annuity liabilities and the assets backing those liabilities. Short-term gains in investment return from discontinued operations of £63m for the year ended 31 December 2015 related 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 the Other non-operating sub-total includes:

- ▶ Amortisation of intangibles acquired in business combinations and fair value movements in contingent consideration
- ▶ The impact of restructuring on deferred acquisition costs, claims, and change in investment and insurance contract liabilities

Other non-operating items from continuing operations for the year ended 31 December 2016 includes £19m (2015: £20m) in relation to amortisation of intangible assets acquired through business combinations. For the year ended 31 December 2015, other non-operating items from continuing operations also included £46m relating to a review of expense and reserving assumptions in Hong Kong following regulatory change. This Hong Kong non-operating restructuring loss primarily related to an impairment of deferred acquisition costs.

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.

	2016		2015	
	Pence per share	£m ¹	Pence per share	£m
Prior year's final dividend paid	12.34	243	11.43	224
Interim dividend paid	6.47	127	6.02	119
Total dividends paid on ordinary shares		370		343
Current year final recommended dividend	13.35	262	12.34	243

¹ Estimated for current year final recommended dividend

The final recommended dividend will be paid on 23 May 2017 to shareholders on the Company's register as at 18 April 2017, subject to approval at the Annual General Meeting on 16 May 2017. After the current year final recommended dividend, the total dividend in respect of the year ended 31 December 2016 is 19.82p (2015: 18.36p).

During the year ended 31 December 2015, 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 also recognises 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.

	Acquired through business combinations						Total £m
	Notes	Goodwill £m	Investment management and customer contracts £m	Technology £m	Internally developed software £m	Purchased software £m	
Gross amount							
At 1 January 2015		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
Additions		14	14	-	61	-	89
Disposals and adjustments		-	-	-	(6)	-	(6)
Other		-	-	-	3	-	3
At 31 December 2016		233	254	30	345	66	928
Accumulated amortisation and impairment							
At 1 January 2015		-	(54)	(22)	(118)	(21)	(215)
Amortisation charge for the year		-	(16)	(4)	(23)	(8)	(51)
Impairment losses recognised		-	(5)	-	(4)	-	(9)
Disposals and adjustments		-	-	-	1	-	1
Other		-	-	-	-	(2)	(2)
At 31 December 2015		-	(75)	(26)	(144)	(31)	(276)
Amortisation charge for the year	7	-	(16)	(3)	(37)	(8)	(64)
Impairment losses recognised	7	(10)	(9)	-	(1)	-	(20)
Disposals and adjustments		-	-	-	6	-	6
Other		-	-	-	(2)	-	(2)
At 31 December 2016		(10)	(100)	(29)	(178)	(39)	(356)
Carrying amount							
At 1 January 2015		216	183	8	116	42	565
At 31 December 2015		219	165	4	143	35	566
At 31 December 2016		223	154	1	167	27	572

The Group's goodwill has been acquired through a series of business combinations, most recently through the acquisitions discussed in Note 1. Of the Group's goodwill of £223m (2015: £219m) at 31 December 2016, £145m (2015: £145m) is attributed to the Standard Life Investments cash-generating unit. This primarily relates to the Ignis acquisition in 2014. The remaining goodwill of £78m (2015: £74m) is attributable to a number of smaller cash-generating units in the Pensions and Savings segment.

Included in investment management and customer contracts intangible assets of £154m (2015: £165m) are £114m (2015: £136m) relating to investment management contracts acquired through the acquisition of Ignis, comprising life company contracts, institutional client contracts and retail client contracts, each of which formed a cash-generating unit.

8. Group financial statements *continued*

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 amounts to be recognised as internally developed software
- ▶ 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 contracts acquired through business combinations – between 10 and 17 years
- ▶ Customer contracts acquired through business combinations – between 5 and 7 years
- ▶ Technology acquired through business combinations – 6 years
- ▶ Internally developed software – generally between 2 and 6 years, but can be up to 10 years. Amortisation commences once the asset is available for use.
- ▶ Purchased software – between 2 and 6 years

The determination of amounts to be recognised as internally developed software requires judgement and assumptions in respect of whether assets are capable of being separated and the extent to which development costs form part of the separable asset. Additionally judgement is required to determine which costs have been incurred in relation to the research phase, which are not capitalised, and which have been incurred in relation to the development phase of a project, which are capitalised. We consider that costs are directly attributable to the software asset and can therefore be capitalised, where they would not have been incurred if the software development had not taken place.

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.

In relation to investment management contracts acquired in business combinations, the most significant judgements relate to assumptions for the institutional and life client contracts cash-generating units. The key assumptions for these cash-generating units are future changes in assets under management due to net flows and market movements, forecasted operating profit margins and the discount rate. Future changes to assets under management due to net flows and market movements are based on forecasted information for the next five years and thereafter assume no further net flows. The remaining economic life of these intangible assets is between 8 and 13 years and therefore the projected cash flows used to determine value in use cover a period of longer than five years. The operating profit margins are based on current experience and the discount rates reflect the level of risk for the relevant contracts.

The investment management and customer contracts impairment charge of £9m in 2016 (2015: £5m) relates to the institutional client contracts cash generating unit and primarily reflects lower than forecast net inflows for the Absolute Return Government Bond Fund. Following the impairment the remaining carrying value of the institutional client contracts at 31 December 2016 is £25m (2015: £36m). The recoverable amount at 31 December 2016 was calculated using a discount rate of 14% (2015: 14%) and an operating margin of 50% (2015: 40%). Increasing the discount rate by 2% or decreasing the operating margin by 5% would result in an additional impairment loss of £2m or £3m respectively. The current carrying value assumes no future inflows into the Absolute Return Government Bond Fund.

The carrying value of the life client contracts at 31 December 2016 is £58m (2015: £66m). 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 8 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:

Pensions and Savings – 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	2016 £m	2015 £m
At 1 January		646	771
Additions during the year	7	51	83
Amortisation charge	7	(96)	(124)
Impairment charge	7	-	(73)
Foreign exchange adjustment		50	(11)
At 31 December		651	646

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £566m (2015: £558m). Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £389m (2015: £411m).

Included within the impairment charge of £73m for the year ended 31 December 2015 is £59m 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 related to impairment of deferred acquisition costs in Singapore resulting from the closure of the business.

8. Group financial statements *continued*

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.

Our judgement is that the Group also has 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 is also adjusted for any impairment losses.

	Notes	2016 £m	2015 £m
Investments in associates and joint ventures accounted for using the equity method		569	292
Investments in associates measured at FVTPL	21	7,376	5,425
Loans to associates and joint ventures	21	3	2
Total investments in associates and joint ventures		7,948	5,719

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	
	2016 £m	2015 £m	2016 £m	2015 £m
Summarised financial information of associate:				
Revenue	2,844	1,961	175	127
Profit after tax	99	72	58	46
Other comprehensive income/(expense)	(5)	-	-	-
Total assets	10,199	7,529	345	267
Total liabilities	9,776	7,228	180	131
Net assets	423	301	165	136
Interest held	35%	26%	40%	40%
Share of net assets	148	78	66	54
Carrying value of associate	363	115	111	87
Dividends received	8	5	8	7

In April 2016 the Group acquired an additional 9% of the issued share capital of HDFC Standard Life Insurance Company Limited (HDFC Life). Refer to Note 1 for further details.

On 8 August 2016, HDFC Life announced that it had agreed terms with Max Life Insurance Company Limited (Max Life), Max Financial Services Limited (Max FS) and Max India Limited (Max India) for the combination of the life insurance businesses of HDFC Life and Max Life. The transaction is intended to be effected through a composite scheme of arrangement and remains subject to regulatory, court and other necessary approvals. The aim is to complete the transaction within the next 12 months.

Under the proposed transaction Max Life will merge into Max FS and HDFC Life will then issue new shares to shareholders of Max FS in exchange and as consideration for the life insurance business of Max Life. Following completion of the transaction, the shares of HDFC Life will list on the Bombay

Stock Exchange and the National Stock Exchange of India, subject to the approval of these stock exchanges and the Securities and Exchange Board of India.

Completion of the proposed transaction would result in the Group's current holding of 35% in HDFC Life becoming 24.1% of the enlarged HDFC Life entity at completion (based on current shareholdings). As a result, if the transaction is completed, the Group expects to recognise a dilution gain in the consolidated income statement, with a corresponding increase in the carrying value of its investment in HDFC Life. The amount of the dilution gain will be dependent on a number of factors including the share price of Max FS at completion, foreign exchange rates and the profit or loss reported by HDFC Life until completion of the transaction. The Group will remain the second largest shareholder in the enlarged HDFC Life entity. The dilution gain is not expected to give rise to a tax charge.

The Group's interest in HDFC Life has been built up over time to its current level of 35% (2015: 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.

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 year end date for HDFC Asset Management Company Limited and HDFC Life is 31 March which is different from the Group's year end date of 31 December. For the purposes of the preparation of the Group's consolidated financial statements, financial information as at and for the 12 months ended 30 September and 31 December is used for HDFC Asset Management Company Limited and HDFC Life respectively.

The Group also has investments in associates measured at FVTPL of £7,376m (2015: £5,425m), none of which are considered individually material to the Group as the investments are primarily held by unit linked 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 (2015: 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	
	2016 £m	2015 £m
Summarised financial information of joint venture:		
Revenue	254	194
Profit after tax	15	8
Other comprehensive income/(expense)	(15)	3
Total assets	1,212	963
Total liabilities	1,035	807
Net assets	177	156
Interest held	50%	50%
Current share of net assets	88	78
Carrying value of joint venture	88	78
Dividends received	-	-

8. Group financial statements *continued*

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	2016 £m	2015 £m
At 1 January		9,991	9,041
Reclassified as held for sale during the year		(191)	(87)
Additions – acquisitions ¹		1,624	595
Additions – subsequent expenditure		131	267
Net fair value (losses)/gains	4	(302)	452
Disposals		(1,337)	(290)
Transferred to owner occupied property	20	(28)	-
Foreign exchange adjustment		44	(8)
Other		(3)	21
At 31 December		9,929	9,991
The fair value of investment property can be analysed as:			
Freehold		7,271	7,137
Long leasehold		2,658	2,788
Short leasehold		-	66
		9,929	9,991

¹ Additions – acquisitions includes £1,289m (2015: £nil) relating to the merger of property investment vehicles.

The rental income arising from investment property during the year from continuing operations amounted to £555m (2015: £487m). Direct operating expenses (included within other administrative expenses) from continuing operations arising in respect of such rented property during the year amounted to £75m (2015: £70m).

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:

	2016 £m	2015 £m
Not later than one year	477	478
Later than one year and no later than five years	1,529	1,563
Later than five years	4,028	4,105
Total operating lease receivables	6,034	6,146

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 2015		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
Additions		1	9	10
Transferred from investment property	19	28	-	28
Reclassified as held for sale		(8)	-	(8)
Disposals and adjustments ¹		(22)	(10)	(32)
Revaluations		5	-	5
Impairment losses recognised	7	(1)	-	(1)
Foreign exchange adjustment		-	1	1
At 31 December 2016		58	138	196
Accumulated depreciation				
At 1 January 2015		-	(82)	(82)
Depreciation charge for the year	7	-	(16)	(16)
Impairment loss recognised	7	-	(4)	(4)
At 31 December 2015		-	(102)	(102)
Depreciation charge for the year	7	-	(14)	(14)
Disposals and adjustments ¹		-	9	9
At 31 December 2016		-	(107)	(107)
Carrying amount				
At 1 January 2015		138	48	186
At 31 December 2015		55	36	91
At 31 December 2016		58	31	89

¹ For the year ended 31 December 2016 £4m (2015: £nil) 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 for the year ended 31 December 2015 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 £93m (2015: £76m). As the expected residual value of owner occupied property is in line with the current fair value, no depreciation is currently charged.

8. Group financial statements *continued*

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.

2016	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 associates and joint ventures	18	7,376	-	-	3	7,379
Loans	22	-	-	-	295	295
Derivative financial assets	23	-	3,534	-	-	3,534
Equity securities and interests in pooled investment funds	41	83,307	-	-	-	83,307
Debt securities	41	67,312	-	621	-	67,933
Receivables and other financial assets	24	10	-	-	1,245	1,255
Cash and cash equivalents	27	-	-	-	7,938	7,938
Total		158,005	3,534	621	9,481	171,641

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 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

The amount of debt securities expected to be recovered or settled after more than 12 months is £55,591m (2015: £46,814m). 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 these assets 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	2016 £m	2015 £m
Loans secured by mortgages	43(e)	73	87
Loans and advances to banks with greater than three months to maturity from acquisition date		220	721
Loans secured on policies		2	3
Loans	41	295	811

Loans with variable rates and fixed interest rates are £52m and £243m respectively (2015: £67m and £744m respectively). Loans that are expected to be recovered after more than 12 months are £88m (2015: £138m).

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	Contract amount £m	2016		2015		
		Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	9	-	-	10	-	-
Net investment hedges	6	-	-	5	-	-
Held for trading	35	119,926	3,534	153,277	2,444	1,254
Derivative financial instruments	41	119,941	3,534	153,292	2,444	1,254

Derivative assets of £2,460m (2015: £2,098m) are expected to be recovered after more than 12 months. Derivative liabilities of £215m (2015: £475m) 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 £9m (2015: £10m) and a net fair value asset position of less than £1m (2015: less than £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 2016 and 2015, the ineffectiveness recognised in the consolidated income statement that arises from these cash flow hedges was less than £1m.

8. Group financial statements *continued*

(b) Net investment hedges

Forward foreign exchange contracts with a notional principal amount of £6m (2015: £5m) and a net fair value liability position of less than £1m (2015: less than £1m) were designated as net investment hedges and gave rise to losses for the year of less than £1m (2015: less than £1m), 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 2016, the losses recognised in the consolidated income statement were less than £1m (2015: less than £1m). 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.

(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.

	2016			2015		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Futures	5,907	33	88	12,684	18	129
Variance swaps	17	27	22	28	25	20
Options	3,397	571	8	4,752	661	3
Total return swaps	2,313	3	38	3,652	18	50
Bond derivatives:						
Futures	34,125	247	96	8,908	13	52
Interest rate derivatives:						
Swaps	22,604	762	148	81,160	748	458
Floors	44	8	-	63	11	-
Options	-	-	-	-	-	-
Swaptions	5,980	1,097	-	7,139	704	5
Foreign exchange derivatives:						
Forwards	42,228	704	506	30,860	203	497
Futures	-	-	-	-	-	-
Options	1	-	-	1,276	-	11
Other derivatives:						
Inflation rate swaps	2,032	27	41	1,108	5	26
Credit default swaps	1,278	55	18	1,647	38	3
Derivative financial instruments held for trading	119,926	3,534	965	153,277	2,444	1,254

(d) Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
2016							
Cash inflows							
Derivative financial assets	23,319	448	355	172	221	744	25,259
Derivative financial liabilities	14,060	11	-	-	1	-	14,072
Total	37,379	459	355	172	222	744	39,331
Cash outflows							
Derivative financial assets	(22,175)	(2)	(4)	(16)	(11)	-	(22,208)
Derivative financial liabilities	(14,821)	(46)	(23)	(14)	(32)	(147)	(15,083)
Total	(36,996)	(48)	(27)	(30)	(43)	(147)	(37,291)
Net derivative financial instruments cash inflows	383	411	328	142	179	597	2,040

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	Total
2015	£m	£m	£m	£m	£m	£m	£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

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	2016 £m	2015 £m
Amounts receivable on direct insurance business		82	83
Amounts receivable on reinsurance contracts		1	1
Outstanding sales of investment securities		196	58
Accrued income		223	224
Cancellations of units awaiting settlement		317	265
Collateral pledged in respect of derivative contracts	41	30	448
Property related assets		156	169
Contingent consideration asset	43	10	15
Other		240	184
Receivables and other financial assets		1,255	1,447

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 £77m (2015: £69m).

25. Other assets

	2016 £m	2015 £m
Prepayments	41	36
Other	53	53
Other assets	94	89

The amount of other assets expected to be recovered after more than 12 months is £4m (2015: £26m).

8. Group financial statements *continued*

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 relate to 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 and owner occupied 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.

	2016	2015
	£m	£m
Assets of operations held for sale		
Investment vehicles	27	207
Investments in associates at FVTPL	-	33
Investment and owner occupied property ¹	236	87
Assets held for sale	263	327
Liabilities of operations held for sale	-	83

¹ Consists of £228m investment property (2015: £87m) and £8m owner occupied property (2015: £nil).

The assets and liabilities of operations held for sale at 31 December 2015 primarily related to the assets and liabilities of a consolidated infrastructure fund and its subsidiaries. The Group no longer has control of this fund at 31 December 2016. The assets and liabilities were held in the Pensions and Savings segment.

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 (including reverse repurchase agreements) 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.

	2016	2015
	£m	£m
Cash at bank and in hand	753	824
Money at call, term deposits and debt instruments with less than three months to maturity from acquisition	7,185	8,816
Cash and cash equivalents	7,938	9,640

	Notes	2016	2015
		£m	£m
Cash and cash equivalents		7,938	9,640
Bank overdrafts	39	(38)	(49)
Total cash and cash equivalents for consolidated statement of cash flows		7,900	9,591

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:

	2016 12 2/9p each	2016 £m	2015 10p each	2015 12 2/9p each	2015 £m
Issued shares fully paid					
At 1 January	1,969,937,375	241	2,394,373,744	-	239
Shares issued in respect of share incentive plans	460,194	-	169,283	194,329	-
Shares issued in respect of share options	8,486,868	1	642,089	10,046,128	2
New shares issued immediately prior to share consolidation	-	-	6	-	-
Share consolidation	-	-	(2,395,185,122)	1,959,696,918	-
At 31 December	1,978,884,437	242	-	1,969,937,375	241

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.

On 17 June 2016 the Company's capital redemption reserve was cancelled in accordance with section 649 of the Companies Act 2006 resulting in a transfer of £488m to retained earnings.

(c) Share premium

	2016 £m	2015 £m
1 January	628	1,115
Issue of 'B' shares	-	(488)
Shares issued in respect of share options	6	1
31 December	634	628

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 allocated shares in the new listed Company. Some former members were yet to claim their shares and the UAT held these on their behalf. There was an off-setting obligation to deliver these shares which was also recognised in the shares held by trust reserve. The shares and the off-setting obligation were both measured at £nil. The claim entitlement period for the UAT expired on 9 July 2016. Shares remaining in the UAT after 9 July 2016 continue to be measured at £nil.

8. Group financial statements *continued*

The number of shares held in trust at 31 December 2016 was as follows:

	2016	2015
Number of shares held in trust		
Employee Share Trust	1,287,431	1,637,419
Unclaimed Asset Trust	12,999,801	14,709,934

On expiry of the claim period on 9 July 2016, the entitlement to the unclaimed shares remaining in the UAT transferred to the Company. Unclaimed shares, and unclaimed cash referred to in Note 30, will be used to fund the charitable activities of the Standard Life Foundation.

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	2016 £m	2015 £m
At 1 January		2,162	1,816
Recognised in comprehensive income			
Recognised in profit for the year attributable to equity holders		368	1,423
Recognised in other comprehensive income			
Remeasurement gains on defined benefit pension plans	37	162	148
Share of other comprehensive income/(expense) of associates and joint ventures		(10)	2
Aggregate tax items recognised in other comprehensive income		2	5
Total items recognised in comprehensive income		522	1,578
Recognised directly in equity			
Dividends paid on ordinary shares		(370)	(343)
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	23	32
Transfer from other reserves on disposal of a subsidiary		-	827
Cancellation of capital redemption reserve	31	488	-
Shares distributed by employee and other trusts		(7)	(2)
Expiry of unclaimed asset trust claim period		41	-
Aggregate tax items recognised in equity		(4)	5
Total items recognised directly in equity		171	(1,232)
At 31 December		2,855	2,162

In addition to unclaimed shares, which are referred to in Note 29, the UAT holds cash in relation to unclaimed cash entitlements arising from both cash entitlements which were allocated to eligible members of the mutual company at the date of demutualisation and dividends received on shares held in the UAT. On expiry of the UAT claim period on 9 July 2016, the entitlement to the unclaimed assets remaining in the UAT transferred to the Group. The expiry resulted in the derecognition of a liability of £41m to eligible members in relation to their cash entitlements, which was recognised directly in retained earnings in equity.

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 tables show the movements in other reserves during the year. The movements are aggregated for both continuing and discontinued operations.

2016	Notes	Revaluation of owner occupied property £m	Foreign currency translation £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		-	(7)	1	2,080	53	241	(1,879)	488	977
Recognised in other comprehensive income										
Fair value gains on available-for-sale financial assets		-	-	17	-	-	-	-	-	17
Revaluation of owner occupied property	20	5	-	-	-	-	-	-	-	5
Exchange differences on translating foreign operations		-	173	-	-	-	-	-	-	173
With profits funds: Associated UDS movement recognised in other comprehensive income	33	(5)	(62)	-	-	-	-	-	-	(67)
Aggregate tax effect of items recognised in other comprehensive income		-	-	(3)	-	-	-	-	-	(3)
Total items recognised in other comprehensive income		-	111	14	-	-	-	-	-	125
Recognised directly in equity										
Reserves credit for employee share-based payment schemes		-	-	-	-	30	-	-	-	30
Transfer to retained earnings for vested employee share-based payments	30	-	-	-	-	(23)	-	-	-	(23)
Cancellation of capital redemption reserve	28	-	-	-	-	-	-	-	(488)	(488)
Aggregate tax effect of items recognised directly in equity		-	-	-	-	(3)	-	-	-	(3)
Total items recognised directly within equity		-	-	-	-	4	-	-	(488)	(484)
At 31 December		-	104	15	2,080	57	241	(1,879)	-	618

8. Group financial statements *continued*

	Revaluation of owner occupied property	Cash flow hedges	Foreign currency translation	Net investment hedge	Available- for-sale financial assets	Merger reserve	Equity compensation reserve	Special reserve	Reserve arising on Group reconstruction	Capital redemption reserve	Total
2015	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£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	-	(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	-	-	-	-	-	-	-	-	-	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	(20)	-	-	-	-	(1,028)	-	-	221	-	(827)
Aggregate tax effect of items <i>recognised directly in equity</i>	-	-	-	-	-	-	(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

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:

	2016	2015
	£m	£m
At 1 January	347	278
Profit in the year attributable to non-controlling interests	51	62
Net contributions	(66)	44
Distributions	(45)	(35)
Foreign exchange differences on translating foreign operations	10	(2)
At 31 December	297	347

Included in non-controlling interests of £297m (2015: £347m) are non-controlling interests of Standard Life European Private Equity Trust plc (SLEPET), which was renamed Standard Life Private Equity Trust plc on 1 February 2017, of £251m (2015: £210m) which is considered material to the Group. Non-controlling interests own 45% (2015: 46%) of the voting rights of SLEPET. The profit allocated to non-controlling interests of SLEPET for the year ended 31 December 2016 is £49m (2015: £31m). Dividends paid to non-controlling interests of SLEPET during the year ended 31 December 2016 were £4m (2015: £5m).

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 2016 and 2015 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 2016 and 2015 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 2016 and 2015 respectively.

	2016	2015
	£m	£m
SLEPET 30 September		
Statement of financial position:		
Total assets	540	439
Total liabilities	7	-
Income statement:		
Revenue	119	53
Profit after tax	107	47
Total comprehensive income	107	47
Cash flows:		
Cash flows from operating activities	5	8
Cash flows from investing activities	73	22
Cash flows from financing activities	(13)	(20)
Net increase in cash equivalents	65	10

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:

	2016	2015
	£m	£m
At 1 January	17,196	15,805
Change in liability for third party interest in consolidated funds	296	531
Net contributions and movements between classifications of investments	(559)	1,166
Distributions	(298)	(267)
Foreign exchange differences on translating foreign operations	200	(39)
At 31 December	16,835	17,196

8. Group financial statements *continued*

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
Pensions and Savings	Germany unitised with profits deferred annuity contracts	UK & Ireland annuity-in-payment contracts	UK & Ireland unitised with profits pension contracts	UK & Ireland unit linked pension contracts
	UK & Ireland unitised with profits life contracts	Certain UK & Ireland unit linked investment bonds		Certain UK & Ireland unit linked investment bonds
		UK deferred annuity contracts		
		Germany unit linked deferred annuity contracts		
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.

Participating insurance and investment contract liabilities

Participating contract liabilities arising under contracts issued by with profits funds which were within the scope of the Prudential Regulation Authority (PRA) realistic capital regime prior to the introduction of Solvency II are measured on the PRA realistic basis that was used in the PRA realistic capital regime. 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 asset 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 that fell 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 Ireland 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 Germany 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.

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.

8. Group financial statements *continued*

Some participating contract liabilities arise under contracts issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within SLAL that fell within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. In particular the expected future cash flows included in the FPRL reflect the transfer of charges to the non-participating fund only to the extent that solvency of the with profit fund on the realistic basis is maintained. 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

This applies only to the HWPF as no other with profits funds hold non-participating contracts. An amount is recognised for the PVFP on non-participating contracts since the determination of the realistic value of liabilities for with profits contracts in the HWPF takes account of this value. The amount is recognised as a deduction from liabilities. As 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.

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 Germany 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 Germany branch business, they are recognised as an addition to equity holders' profits.

(v) Measurement – non-participating insurance contract liabilities

Pensions and Savings

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 to reflect conditions at the reporting date in accordance with Prudential Regulation Authority (PRA) requirements that existed at 31 December 2015.

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.

(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

	2016	2015
	£m	£m
Non-participating insurance contract liabilities	23,422	21,206
Participating contract liabilities:		
Participating insurance contract liabilities	15,151	14,283
Participating investment contract liabilities	15,537	14,716
Unallocated divisible surplus	585	655
Participating contract liabilities	31,273	29,654

(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	Non-participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurance contracts	Net
2016	£m	£m	£m	£m	£m	£m
At 1 January	14,283	21,206	14,716	50,205	(5,515)	44,690
Expected change	(1,335)	(662)	(881)	(2,878)	374	(2,504)
Methodology/modelling changes	(45)	1	3	(41)	53	12
Effect of changes in						
Economic assumptions	(465)	1,901	194	1,630	(384)	1,246
Non-economic assumptions	(23)	(104)	47	(80)	50	(30)
Effect of						
Economic experience	1,193	413	1,426	3,032	41	3,073
Non-economic experience	88	(358)	(106)	(376)	6	(370)
New business	-	794	34	828	-	828
Total change in contract liabilities	(587)	1,985	717	2,115	140	2,255
Foreign exchange adjustment	1,455	231	104	1,790	(11)	1,779
At 31 December	15,151	23,422	15,537	54,110	(5,386)	48,724

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 net of reinsurance decrease of £30m primarily relates to changes in mortality assumptions for non-participating insurance contract liabilities.

Economic assumptions reflects changes in fixed income yields, leading to lower valuation interest rates for non-participating business, and other market movements. Economic assumptions also include the effect of a change in the discount rate used to measure the liability for non-participating insurance contract liabilities resulting from a change in the way assets are hypothecated between participating and non participating business in the HWPF. This change has resulted in an increase in non-participating insurance contract liabilities, fully offset by a decrease in participating liabilities.

	Participating insurance contract liabilities	Non-participating insurance contract liabilities	Participating investment contract liabilities	Total insurance and participating contracts	Reinsurance contracts	Net
2015	£m	£m	£m	£m	£m	£m
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

8. Group financial statements *continued*

(c) **Movement in components of unallocated divisible surplus (UDS)**

The movement in UDS was as follows:

	2016	2015
	£m	£m
At 1 January	655	688
Change in UDS recognised in the consolidated income statement	53	(117)
Change in UDS recognised in other comprehensive income	67	3
Foreign exchange adjustment	(190)	81
At 31 December	585	655

(d) **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, longevity and mortality assumptions, and expense assumptions are all key accounting estimates.

The principal assumptions are shown in the following tables:

(i) **Non-participating insurance contracts**

Pensions and Savings

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 that existed at 31 December 2015. 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 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 Ireland annuity business and Germany non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used.

The valuation interest rates used are:

Non-participating	2016	2015
1. Business held within the PBF		
Annuities: Individual and group		
Life	2.06%	3.05%
Pensions	2.06%	3.05%
Linked to RPI	(1.55%)	(0.47%)
2. Business held within the HWPF		
Annuities: Individual and group		
Non-linked		
Life	0.20%	2.30%
Pensions: reinsured externally	1.55%	2.35%
Pensions: not reinsured externally	1.15%	2.80%
Deferred annuities	1.15%	2.80%
Linked to RPI		
Reinsured externally	(1.85%)	(0.60%)
Not reinsured externally	(2.10%)	(0.45%)
Deferred annuities	(2.10%)	(1.00%)

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	2016	2015
Annuities		
Individual and group in deferment	Males: 64.7% AMC00 Females: 65.7% AFC00	Males: 67.0% AMC00 Females: 65.2% AFC00
Individual after vesting (business written after 10 July 2006)	Males: 91.2% RMC00 Females: 99.9% RFC00	Males: 92.6% RMC00 Females: 100.3% RFC00
Individual after vesting (business written prior to 10 July 2006)	Males: 95.7% RMC00 Females: 104.7% RFC00	Males: 97.1% RMC00 Females: 104.0% RFC00
Group after vesting (business written after 10 July 2006)	Males: 109.8% RMV00 Females: 118.3% WA00	Males: 112.1% RMV00 Females: 119.9% WA00
Group after vesting (business written prior to 10 July 2006)	Males: 109.3% RMV00 Females: 120.1% WA00	Males: 111.6% RMV00 Females: 120.8% 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. For 2016, this is based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2014 model with long-term improvement rates of 1.8% for males and 1.5% for females. 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_2014 is a model that was published towards the end of 2014.

At 2015, this was 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. CMI_2013 is a model that was published towards the end of 2013.

The SLAL parameterisation of the CMI_2013 and CMI_2014 models make 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 3.79% (2015: 3.12%) 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) Sensitivity analysis

Refer to Note 41 for sensitivity analysis for the shareholder business.

8. Group financial statements *continued*

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	2016 £m	2015 £m
At 1 January		92,894	88,207
Contributions		10,776	12,561
Account balances paid on surrender and other terminations in the year		(10,737)	(10,564)
Change in non-participating investment contract liabilities recognised in the consolidated income statement		8,768	3,363
Recurring management charges		(473)	(450)
Foreign exchange adjustment		835	(223)
At 31 December	35	102,063	92,894

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.

2016	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Financial liabilities measured at amortised cost £m	Total £m
Non-participating investment contract liabilities	41	102,059	-	4	102,063
Deposits received from reinsurers	41	-	-	5,093	5,093
Third party interest in consolidated funds	41	16,835	-	-	16,835
Subordinated liabilities	36	-	-	1,319	1,319
Derivative financial liabilities	23	-	965	-	965
Other financial liabilities	39	15	-	3,901	3,916
Total		118,909	965	10,317	130,191

2015	Notes	Designated as at fair value through profit or loss £m	Held for trading £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

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	2016		2015	
		Principal amount £m	Carrying value £m	Principal amount £m	Carrying value £m
Subordinated notes					
5.5% Sterling fixed rate due 4 December 2042		500	499	500	499
Subordinated guaranteed bonds					
6.75% Sterling fixed rate perpetual		500	502	500	502
Mutual Assurance Capital Securities					
6.546% Sterling fixed rate perpetual		300	318	300	317
Total subordinated liabilities	41		1,319		1,318

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 43.

The principal amount of all subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £37m (2015: £37m) is expected to be settled within 12 months.

Amounts due under the perpetual subordinated guaranteed bonds and Mutual Assurance Capital Securities (MACS) are classified as liabilities. This classification is determined by the interaction of these arrangements with a £100 internal subordinated loan note issued by Standard Life Assurance Limited (SLAL) to the Company on 10 July 2006. There is no fixed redemption date for the internal loan note, but interest payments cannot be deferred and must be paid on the date they become due and payable. Under the terms for the subordinated guaranteed bonds and MACS any interest deferred on these instruments becomes immediately due and payable on the date of an interest payment in respect of the internal loan note. The existence of the internal loan note therefore removes the discretionary nature of the interest payments on the subordinated guaranteed bonds and MACS, and results in their classification as liabilities. Under IAS 32 *Financial Instruments: Presentation*, if the Group were to cancel the internal loan note then this would result in the reclassification of these perpetual instruments from liabilities to equity instruments at that point.

A description of the key features of the Group's subordinated liabilities is as follows:

	5.5% Sterling fixed rate	6.75% Sterling fixed rate	6.546% Sterling fixed rate
Principal amount	£500,000,000	£500,000,000	£300,000,000
Issue date	4 December 2012	12 July 2002	4 November 2004
Maturity date	4 December 2042	Perpetual	Perpetual
Callable at par at option of the Company from	4 December 2022 and on every interest payment date (semi-annually) thereafter	12 July 2027 and on every fifth anniversary thereafter	6 January 2020 and on every anniversary thereafter
If not called by the Company interest will reset to	4.85% over the five year gilt rate (and at each fifth anniversary)	2.85% over the gross redemption yield on the appropriate 5 year benchmark gilt rate	2.7% over the gross redemption yield on the appropriate 1 year benchmark gilt rate
Solvency II own funds treatment	Tier 2	Tier 1	Tier 1

8. Group financial statements *continued*

37. Pension and other post-retirement benefit provisions

The Group operates two types of pension plans:

- ▶ Defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules
- ▶ Defined contribution plans where the Group makes contributions 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 defined benefit plans are valued by at least annual actuarial calculations. The Group has funded these liabilities in relation to its principal defined benefit plans by ring-fencing assets in trustee-administered funds. The Group has a further smaller defined benefit plan which is unfunded.

The statement of financial position reflects a net asset or net liability for 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.

The IASB are expected to publish an amendment to pension accounting (IFRIC 14) during 2017. This amendment, once effective in future accounting periods, may impact the recognition of the UK pension fund surplus. Management will consider the implications of the amendment once it has been published.

Net interest income (if a plan is in surplus) or interest expense (if a 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 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.</p> <p>The UK staff defined benefit pension plan was closed to future accrual in April 2016. Since April 2016, all UK employees accrue pension through a defined contribution plan.</p> <p>The defined benefit 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><i>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.</i></p> <p>In their last formal valuation, as at 31 December 2013, the trustees measured the ratio of plan assets to technical provisions to be 112%. The valuation as at 31 December 2016 is currently being completed.</p> <p>The trustees set the plan investment strategy to protect the ratio of plan assets to the trustees' measure of technical provisions. This investment strategy does not aim to protect the IAS 19 surplus or the ratio of plan assets to the IAS 19 measure of liabilities. Falling bond yields over the period, in part due to the result of the EU referendum on 23 June 2016, have led to a significant increase in the IAS 19 surplus. However, the ratio of plan assets to the IAS 19 liabilities has remained relatively stable.</p>	<p>Since April 2016 the Group contributes 12% of pensionable salary to each employee's plan plus a further employer contribution (matching employee contributions) of up to 4%. Prior to this the Group contributed 9% of pensionable salary to each employee's plan.</p> <p>Separate arrangements exist for some employees e.g. those in the executive job family.</p>

	Defined benefit	Defined contribution
Other	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. At the last actuarial valuation effective 1 January 2016 the plan was 70% funded on an ongoing basis. The Group also operates a small unfunded defined benefit plan for employees in Germany.	The Group contributes 9% of members' pensionable salaries to a group flexible retirement plan.

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

	2016 £m	2015 £m
UK	2	3
Other	2	1
Canada	-	1

Expected contributions to the defined benefit plans in 2017 are £4m.

(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	2016 £m	2015 £m
Current service cost		(49)	(80)
Interest income		33	30
Administrative expenses		(3)	(2)
Expense recognised in the consolidated income statement	8	(19)	(52)

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. Eligible members of the defined benefit plan received an additional contribution of 6% of pensionable salary into the defined contribution plan in April 2015 and April 2016. These contributions were 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

	2016			2015		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Present value of funded obligation	(3,207)	(117)	(3,324)	(2,525)	(85)	(2,610)
Present value of unfunded obligation	-	(10)	(10)	-	(8)	(8)
Fair value of plan assets	4,927	72	4,999	3,936	60	3,996
Effect of limit on plan surplus	(627)	-	(627)	(514)	-	(514)
Net asset/(liability)	1,093	(55)	1,038	897	(33)	864

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.

8. Group financial statements *continued*

(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
2016					
At 1 January	(2,618)	3,996	1,378	(514)	864
Total expense					
Current service cost	(16)	-	(16)	-	(16)
Interest (expense)/income	(93)	144	51	(18)	33
Administrative expenses	(3)	-	(3)	-	(3)
Total (expense)/income recognised in consolidated income statement	(112)	144	32	(18)	14
Remeasurements					
Return on plan assets, excluding amounts included in interest income	-	1,036	1,036	-	1,036
Gain from change in demographic assumptions	-	-	-	-	-
Loss from change in financial assumptions	(812)	-	(812)	-	(812)
Experience gains	33	-	33	-	33
Change in effect of limit on plan surplus	-	-	-	(95)	(95)
Remeasurement (losses)/gains recognised in other comprehensive income	(779)	1,036	257	(95)	162
Exchange differences	(15)	9	(6)	-	(6)
Employer contributions	-	4	4	-	4
Benefit payments	190	(190)	-	-	-
At 31 December	(3,334)	4,999	1,665	(627)	1,038

	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

(d) Defined benefit 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. Assets and liabilities are managed holistically to create a portfolio with the dual objectives of return generation and liability management. This is achieved through a diversified multi-asset absolute return strategy seeking consistent positive returns, and hedging techniques which protect liabilities against movements arising from changes in interest rates and inflation expectations. Derivative financial instruments support both of these objectives and may lead to increased or decreased exposures to the physical asset categories disclosed below.

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 defined benefit plans at 31 December 2016 is as follows:

	UK		Other		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Assets measured at fair value based on level 1 inputs						
Derivatives	16	7	-	-	16	7
Equity securities and interests in pooled investment funds	982	850	54	48	1,036	898
Debt securities	3,357	2,029	-	-	3,357	2,029
Total assets measured at fair value based on level 1 inputs	4,355	2,886	54	48	4,409	2,934
Assets measured at fair value based on level 2 or 3 inputs						
Derivatives	324	(9)	-	(3)	324	(12)
Equity securities and interests in pooled investment funds	163	185	-	-	163	185
Debt securities	190	589	-	-	190	589
Qualifying insurance policies	5	4	-	-	5	4
Total assets measured at fair value based on level 2 or 3 inputs	682	769	-	(3)	682	766
Cash and cash equivalents	186	281	18	15	204	296
Liability in respect of collateral held	(292)	-	-	-	(292)	-
Other	(4)	-	-	-	(4)	-
Total	4,927	3,936	72	60	4,999	3,996

Investment strategy risks include underperformance of the absolute return strategy and underperformance of the liability hedging strategy. As the trustees set investment strategy to protect their own view of plan strength (not the IAS 19 position), changes in the IAS 19 liabilities (e.g. due to movements in corporate bond prices) may not always result in a similar movement in plan assets. Further information on risks is provided in section (g) of this note. The £3,547m (2015: £2,618m) of debt securities includes £3,357m (2015: £2,068m) government bonds (including conventional and index-linked). Of the remaining £190m (2015: £550m) debt securities, £169m (2015: £532m) are investment grade corporate bonds or certificates of deposit.

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, cash, equity securities, property, debt securities and absolute return portfolios.

(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 UK plan which are based in part on current market conditions are shown below:

	2016 %	2015 %
Discount rate	2.70	3.70
Rates of inflation		
Consumer Price Index (CPI)	2.25	2.15
Retail Price Index (RPI)	3.25	3.15

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:

2016	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male age today		Female age today	
				NRA	40	NRA	40
	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	30	32	32	34
2015	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male age today		Female age today	
				NRA	40	NRA	40
	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	30	32	32	34

8. Group financial statements *continued*

(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.

	2016	2015
	years	years
Weighted average duration		
Current pensioner	19	17
Non-current pensioner	29	27

(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 plan. 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 for the UK plan 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	2016		2015		
	(Increase)/decrease in present value of obligation	Increase/(decrease) in fair value of plan assets	(Increase)/decrease in present value of obligation	Increase/(decrease) in fair value of plan assets	
	£m	£m	£m	£m	
Yield/discount rate	Decrease by 1%	(1,040)	1,768	(729)	1,312
	Increase by 1%	739	(1,226)	526	(896)
Rates of inflation	Decrease by 1%	629	(1,089)	459	(823)
	Increase by 1%	(912)	1,553	(635)	1,178
Life expectancy	Decrease by 1 year	101	-	55	-
	Increase by 1 year	(101)	-	(55)	-

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	2016 £m	2015 £m
At 1 January		236	276
Additions during the year	5	15	25
Amortised to the consolidated income statement as fee income	5	(61)	(63)
Foreign exchange adjustment		8	(2)
At 31 December		198	236

The amount of deferred income expected to be settled after more than 12 months is £148m (2015: £178m).

39. Other financial liabilities

	Notes	2016 £m	2015 £m
Amounts payable on direct insurance business		368	340
Amounts payable on reinsurance contracts		6	7
Outstanding purchases of investment securities		300	180
Accruals		379	403
Creation of units awaiting settlement		251	174
Cash collateral held in respect of derivative contracts	41	2,016	1,166
Bank overdrafts	27	38	49
Property related liabilities		246	223
Contingent consideration liabilities	43	15	-
Other		297	358
Other financial liabilities		3,916	2,900

The amount of other financial liabilities expected to be settled after more than 12 months is £211m (2015: £79m).

8. Group financial statements *continued*

40. Provisions and 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.

(a) Provisions

The movement in provisions during the year is as follows:

2016	Provision for annuity sales practices	Legal provisions	Other provisions	Total provisions
	£m	£m	£m	£m
At 1 January	-	14	34	48
Charged/(credited) to the consolidated income statement				
Additional provisions	175	-	18	193
Release of unused provision	-	(1)	(1)	(2)
Used during the year	-	-	(16)	(16)
Foreign exchange adjustment	-	3	1	4
At 31 December	175	16	36	227

2015	Legal provisions	Other provisions	Total provisions
	£m	£m	£m
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

Other provisions comprise obligations in respect of compensation, staff entitlements, vacant property and reorganisations.

The amount of provisions expected to be settled after more than 12 months is £106m (2015: £35m).

Provision for annuity sales practices relating to enhanced annuities

The Group has established a provision of £175m (2015: £nil) for annuity sales practices relating to enhanced annuities.

On 14 October 2016, the Financial Conduct Authority (FCA) published the findings of its thematic review of non-advised annuity sales practices. Standard Life has been a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced annuities.

At the request of the FCA, Standard Life will conduct a review of non-advised annuity sales (with a purchase price above a minimum threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until such date as Standard Life can demonstrate its compliance with the applicable regulatory standards. The purpose of this review is to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who have suffered loss as a result of not having received sufficient information. Standard Life has been working with the FCA regarding the process for conducting this past business review.

The Group has provided for an estimate of the redress payable to customers, which may comprise both lump sum payments and enhancements to future annuity payments, the costs of conducting the review and other related expenses.

The Group has in place liability insurance and is seeking for up to £100m of the financial impact of the provision to be mitigated by this insurance. Discussions are ongoing with our insurers and, as a result, no insurance recovery has been recognised as an asset in these financial statements.

The Group expects the majority of the outflows associated with this provision, including outflows relating to establishing any reserves for future annuity payments, to have occurred by the end of 2018.

The Group has not provided for any possible FCA-levied financial penalty relating to the review. Disclosure of related contingent liabilities is included in Note 45.

Estimates and assumptions

The key assumptions in relation to the provision for annuity sales practices are:

- ▶ The number of customers entitled to redress
- ▶ The amount of redress payable per customer
- ▶ The costs of conducting the review

The number of customers entitled to redress has been estimated based on:

- ▶ The number of customers in the review population
- ▶ The estimated percentage of these customers eligible for an enhanced annuity
- ▶ The estimated percentage of these eligible customers that did not receive sufficient information from Standard Life about enhanced annuities

The FCA thematic review noted that, for the industry as a whole, between 39% and 48% of customers who bought a standard annuity may potentially have been eligible for an enhanced annuity, and the provision assumes 43.5% of customers were eligible for an enhanced annuity.

The assumption of the percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities and suffered loss as a result is based on a sample of Standard Life customers reviewed as part of the FCA thematic review.

The FCA thematic review noted, for the industry as a whole, a plausible range of lost income for customers who were entitled to enhanced annuities but purchased standard annuities to be between £120 and £240 per annum for an average annuity purchase price of £25,000. The provision assumes lost income of £180 per annum for an average annuity purchase price of £25,000. Assumptions relating to future annuity payments are consistent with other annuity reserving assumptions.

The costs of conducting the review relate to administrative expenses per case and wider project costs. The costs are based on our high level planning.

At this stage there is significant uncertainty relating to the amount of redress payable and the expenses of the review. Sensitivities are provided in the table below.

Assumption	Change in assumption	Consequential change in provision
Percentage of customers eligible for an enhanced annuity	Percentage changed by +/-4.5 (e.g. 43.5% increased to 48%)	+/- £11m
Percentage of eligible customers that did not receive sufficient information from Standard Life about enhanced annuities	Percentage changed by +/-5	+/- £9m
Lost income per annum for an average annuity purchase of £25,000	+/- £60	+/- £43m
Costs per case of conducting the review	+/- 20% of the cost per case	+/- £7m

(b) Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £nil (2015: £nil).

8. Group financial statements *continued*

41. Risk management

(a) Overview

(a)(i) Application of the risk management framework

The consistent application of effective and pre-emptive risk management across the business protects the value of Standard Life in the short term while encouraging the development of long-term value. The Group ensures that:

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

The Group's approach to risk management, delivered through the Enterprise Risk Management (ERM) framework, is well embedded in the business. The ERM framework enables a risk-based approach to managing the business and integrates concepts of strategic planning, operational management and internal control, and is set out in more detail in the Strategic Report.

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.
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 are higher than planned or revenue falls below that necessary to cover actual expenses. 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 the Risk management section 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 funds

Unit linked funds refers to the assets and liabilities of the unit linked 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 fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked 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 funds ¹
Pensions and Savings	SLAL – SHF	SLAL – HWPF	SLAL – PBF unit linked funds
	SLAL – PBF (excluding unit linked funds)	SLAL – GWPF	SL Intl unit linked funds
	SLS	SLAL – GSMWPF	
	SLCM	SLAL – UKSMWPF	
	Vebnet Group SL Intl (excluding unit linked funds)		
Standard Life Investments	SLIH and all its subsidiaries	n/a	n/a
India and China	SLA (excluding unit linked funds) Interests in Indian and Chinese associates and joint ventures	n/a	SLA unit linked funds
Other	Company	n/a	n/a

SLAL = Standard Life Assurance Limited

SLIH = Standard Life Investments (Holdings) Limited

SL Intl = Standard Life International Designated Activity Company

SLA = Standard Life (Asia) Limited

SLS = Standard Life Savings Limited (including Etevate)

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 funds does not include cash flows arising from unit linked fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked fund contracts. Such cash flows and liabilities are included in shareholder or participating business.

8. Group financial statements *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 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 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 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.
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts held by Pensions and Savings, and mortality risk on contracts held in non-participating funds by Pensions and Savings, and India and China including those containing insurance features that are invested in unit linked funds or in the GWPF or G\$MWPF. 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 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 funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked 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, conduct and strategic risks 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.

	Shareholder business		Participating business		Unit linked funds		TPICF & NCI ¹		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Intangible assets	572	566	-	-	-	-	-	-	572	566
Deferred acquisition costs	613	602	38	44	-	-	-	-	651	646
Investments in associates and joint ventures	602	313	847	531	5,605	4,561	894	314	7,948	5,719
Investment property	-	1	1,716	2,167	5,727	5,947	2,486	1,876	9,929	9,991
Property, plant and equipment	31	36	30	55	28	-	-	-	89	91
Pension and other post-retirement benefit assets	1,093	897	-	-	-	-	-	-	1,093	897
Deferred tax assets	42	35	-	-	-	-	-	-	42	35
Reinsurance assets	50	53	5,336	5,462	-	-	-	-	5,386	5,515
Loans	52	75	134	340	102	307	7	89	295	811
Derivative financial assets	19	9	2,211	1,478	1,025	716	279	241	3,534	2,444
Equity securities and interests in pooled investment funds at FVTPL	58	52	8,478	8,187	67,452	56,307	7,319	7,133	83,307	71,679
Debt securities										
At FVTPL	7,763	6,833	28,193	25,913	25,885	26,789	5,471	6,379	67,312	65,914
At available-for-sale	621	743	-	-	-	-	-	-	621	743
Receivables and other financial assets	515	495	97	99	533	644	110	209	1,255	1,447
Current tax recoverable	15	27	15	19	128	115	8	7	166	168
Other assets	59	51	13	15	18	18	4	5	94	89
Assets held for sale	27	50	224	82	12	73	-	122	263	327
Cash and cash equivalents	963	691	1,336	1,960	4,636	5,311	1,003	1,678	7,938	9,640
Total assets	13,095	11,529	48,668	46,352	111,151	100,788	17,581	18,053	190,495	176,722
Non-participating insurance contract liabilities	6,192	5,197	9,796	9,556	7,434	6,453	-	-	23,422	21,206
Non-participating investment contract liabilities	4	4	-	-	102,059	92,890	-	-	102,063	92,894
Participating insurance contract liabilities	-	-	15,151	14,283	-	-	-	-	15,151	14,283
Participating investment contract liabilities	-	-	15,537	14,716	-	-	-	-	15,537	14,716
Unallocated divisible surplus	-	-	585	655	-	-	-	-	585	655
Deposits received from reinsurers	-	-	5,093	5,134	-	-	-	-	5,093	5,134
Third party interest in consolidated funds	-	-	-	-	-	-	16,835	17,196	16,835	17,196
Subordinated liabilities	1,319	1,318	-	-	-	-	-	-	1,319	1,318
Pension and other post-retirement benefit provisions	55	33	-	-	-	-	-	-	55	33
Deferred income	154	185	44	51	-	-	-	-	198	236
Deferred tax liabilities	124	114	65	58	70	33	-	-	259	205
Current tax liabilities	35	32	(9)	5	78	66	9	10	113	113
Derivative financial liabilities	12	16	39	88	714	836	200	314	965	1,254
Other financial liabilities	913	867	2,036	1,385	745	532	222	116	3,916	2,900
Provisions	225	46	2	2	-	-	-	-	227	48
Other liabilities	51	49	13	15	37	19	12	16	113	99
Liabilities of operations held for sale	-	-	-	37	-	-	-	46	-	83
Total liabilities	9,084	7,861	48,352	45,985	111,137	100,829	17,278	17,698	185,851	172,373
Net inter-segment assets/(liabilities)	336	334	(316)	(367)	(14)	41	(6)	(8)	-	-
Net assets	4,347	4,002	-	-	-	-	297	347	4,644	4,349

¹ Third party interest in consolidated funds and non-controlling interests.

8. Group financial statements *continued*

(b) Market risk

As described in the table on page 178, 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 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 funds. The shareholder is also not exposed to the market risk from the assets held by third party interest 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 and to reduce the risk exposure of a portfolio
- ▶ 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 exposed to the risk of adverse equity market movements which could result in losses. This applies 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

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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
UK	6	10	3,545	3,540	3,551	3,550
Australia	1	-	21	20	22	20
Belgium	-	1	63	27	63	28
Canada	-	-	49	39	49	39
Denmark	2	1	172	126	174	127
Finland	2	1	44	85	46	86
France	4	3	461	412	465	415
Germany	3	3	495	467	498	470
Greece	-	-	1	-	1	-
Ireland	1	1	183	187	184	188
Italy	1	2	73	142	74	144
Japan	1	1	124	118	125	119
Mexico	-	-	-	1	-	1
Netherlands	2	2	335	291	337	293
Norway	-	-	19	24	19	24
Portugal	-	-	65	59	65	59
Russia	-	-	-	3	-	3
Spain	1	1	127	125	128	126
Sweden	2	1	204	165	206	166
Switzerland	2	2	453	601	455	603
US	22	10	1,680	1,506	1,702	1,516
Other	8	13	241	177	249	190
Total	58	52	8,355	8,115	8,413	8,167

Financial Information

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £nil (2015: £nil) and investments in associates at FVTPL of £30m (2015: £19m). The participating business has interests in pooled investment funds of £123m (2015: £72m) and investments in associates at FVTPL of £847m (2015: £531m).

(b)(i)(ii) Group exposure to property risk

The Group is exposed to the risk of adverse property market movements which could result in losses. This applies to changes in the value and return on holdings in investment property. This risk arises from:

- ▶ 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 shareholder business is not exposed to significant property price risk.

8. Group financial statements *continued*

The table below analyses investment property held by the participating business by country and sector:

Participating business

	Office		Industrial		Retail		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK	404	703	206	230	841	938	6	6	1,457	1,877
Belgium	12	12	-	-	9	-	-	-	21	12
France	-	-	-	-	-	-	2	1	2	1
Germany	85	26	6	5	18	15	-	-	109	46
Ireland	-	-	-	-	-	-	32	26	32	26
Netherlands	64	48	31	26	-	-	-	-	95	74
Spain	-	131	-	-	-	-	-	-	-	131
Total	565	920	243	261	868	953	40	33	1,716	2,167

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 losses due to 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 ERM 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).

(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 adverse movements in currency exchange rates impact the value of revenues received from, and the value of assets and liabilities held in, currencies other than the local currency. The Group can be exposed to foreign currency risk through the need to meet the expectations of particular groups of policyholders or to improve the Group's 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	11,360	10,046	911	956	21	20	53	64	150	117	474	202	126	124	13,095	11,529
Total liabilities	(8,436)	(7,357)	(558)	(416)	(18)	(18)	(26)	(29)	(25)	(26)	-	-	(21)	(15)	(9,084)	(7,861)
Net investment hedges	6	5	-	-	-	-	(6)	(5)	-	-	-	-	-	-	-	-
Cash flow hedges	(9)	(10)	9	10	-	-	-	-	-	-	-	-	-	-	-	-
Non designated derivatives	225	426	(145)	(385)	-	-	-	2	(64)	1	13	10	(29)	(54)	-	-
	3,146	3,110	217	165	3	2	21	32	61	92	487	212	76	55	4,011	3,668

Other currencies include assets of £9m (2015: £3m) and liabilities of £7m (2015: £7m) 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 2016 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.

Participating business

	UK Sterling		Euro		Canadian Dollar		Hong Kong Dollar		US Dollar		Indian Rupee		Other currencies		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	31,119	31,722	14,703	11,846	51	38	28	31	1,796	1,672	7	6	964	1,037	48,668	46,352
Total liabilities	(37,547)	(36,808)	(10,783)	(9,137)	-	-	-	-	(2)	(2)	-	-	(20)	(38)	(48,352)	(45,985)
Non designated derivatives	1,040	880	(878)	(804)	-	-	-	-	(124)	(35)	-	-	(38)	(41)	-	-
	(5,388)	(4,206)	3,042	1,905	51	38	28	31	1,670	1,635	7	6	906	958	316	367

There are no net investment hedges or cash flow hedges in the participating business. Other currencies include assets of £49m (2015: £3m) and liabilities of £11m (2015: £27m) 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 from continuing operations and equity 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.

Unit linked funds

Changes in equity security and property prices and/or fluctuations in interest rates will affect unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked 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.

Participating business

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. Given the nature of the Group's participating business, changes in equity security and property prices and/or fluctuations in interest rates will generally affect participating liabilities and the associated assets by the same amount. Therefore the change in participating contract liabilities and the corresponding asset movement has not been presented. However under certain economic scenarios guarantees in participating contracts could require the shareholder to provide support to the participating business. This is presented as follows:

HWPF

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 recourse cash flows have been determined in accordance with the Scheme and consider the extent to which shareholders participate in the investment return and surplus 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 flows 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 and only the impact on the recourse cash flows of the sensitivity tests is presented. 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). The sensitivities presented are not sufficiently severe to have restricted recourse cash flows in 2016 and 2015.

GWPF

For the GWPF, whilst shareholders are entitled to charges from this fund, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. Profit after tax from continuing operations and equity are sensitive to the extent that the receipt of future charges is not taken into account in the measurement of the non participating contract liabilities in the shareholder risk segment in economic scenarios where the charges are deemed foregone to support the participating liabilities. This sensitivity is included within the non-participating insurance contract liabilities in the following table.

Limitations

The sensitivity of the Group's profit after tax from continuing operations and equity 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.

8. Group financial statements *continued*

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.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked 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.

Profit after tax of continuing operations sensitivity to market risk

2016	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										
Pensions and Savings:										
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
Assets backing non-participating liabilities	-	-	-	-	-	-	-	-	(696)	833
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-	673	(790)
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	-	-	-	-	-	-	-	-	-	-
Total Pensions and Savings	-	-	-	-	-	-	-	-	(23)	43
Standard Life Investments	4	(4)	7	(7)	-	-	-	-	-	-
India and China:										
Deferred acquisition costs	-	-	-	-	-	-	-	-	-	(4)
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	-	-	-	-	-	-	-	-	1	1
Total India and China	-	-	-	-	-	-	-	-	1	(3)
Other	2	(2)	4	(4)	-	-	-	-	(2)	2
Total shareholder business	6	(6)	11	(11)	-	-	-	-	(24)	42
Participating business										
Pensions and Savings:										
Recourse cash flow	-	-	-	-	-	-	-	-	-	-
Total Pensions and Savings	-	-	-	-	-	-	-	-	-	-
Total participating business	-	-	-	-	-	-	-	-	-	-
Total	6	(6)	11	(11)	-	-	-	-	(24)	42

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 from continuing operations to changes in interest rates does not include the impact of changes in interest rates for these AFS assets.

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										
Pensions and Savings:										
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 Pensions and Savings	-	-	-	(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										
Pensions and Savings:										
Recourse cash flow	-	-	-	-	-	-	-	-	-	-
Total Pensions and Savings	-	-	-	-	-	-	-	-	-	-
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 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.

The Other segment's equity sensitivity to a 1% increase in interest rates is (£17m) (2015: (£14m)) and to a 1% decrease in interest rates is £17m (2015: £15m). The sensitivity of the Group's total equity to a 1% increase in interest rates is (£39m) (2015: (£61m)) and a 1% decrease in interest rates is £57m (2015: £80m).

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.

(c) Credit risk

As described in the table on page 178, 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 funds since the shareholder is not directly exposed to credit risk from these assets. The unit linked business includes £3,779m (2015: £3,228m) 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.

8. Group financial statements *continued*

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, with business units having to assign internal credit ratings to reinsurance counterparties. The Group is restricted 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Neither past due nor impaired:																
AAA	-	-	-	-	-	-	-	-	481	673	-	-	92	32	573	705
AA	-	-	30	37	-	-	-	-	1,809	1,586	-	-	221	193	2,060	1,816
A	-	-	17	13	51	40	13	5	3,378	2,830	-	-	583	388	4,042	3,276
BBB	-	-	-	-	-	33	2	2	1,483	1,349	-	-	67	78	1,552	1,462
Below BBB	-	-	-	-	-	-	-	-	133	118	-	-	-	-	133	118
Not rated	3	2	-	-	1	2	4	2	13	1	507	475	-	-	528	482
Internally rated	-	-	3	3	-	-	-	-	1,087	1,019	-	-	-	-	1,090	1,022
Past due	-	-	-	-	-	-	-	-	-	-	8	20	-	-	8	20
Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	3	2	50	53	52	75	19	9	8,384	7,576	515	495	963	691	9,986	8,901

At 31 December 2016, receivables and other financial assets of £7m (2015: £19m) were past due by less than three months and £1m (2015: £1m) 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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
UK	594	527	426	389	1,205	1,335	2,006	1,576	-	-	4,231	3,827
Australia	-	-	107	100	17	-	17	9	-	-	141	109
Austria	29	22	-	-	-	-	-	-	-	-	29	22
Belgium	-	-	1	1	-	-	23	12	-	-	24	13
Canada	-	-	105	1	-	-	1	1	-	-	106	2
Denmark	-	-	26	51	-	-	16	15	-	-	42	66
Finland	-	-	-	25	-	-	-	-	-	-	-	25
France	240	201	344	343	3	-	347	306	-	-	934	850
Germany	31	296	167	131	1	1	285	243	-	-	484	671
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	1	-	-	6	-	-	-	6	1
Italy	-	-	28	27	-	-	82	75	-	-	110	102
Japan	-	-	36	26	-	-	25	22	-	-	61	48
Mexico	-	12	-	-	-	-	115	105	-	-	115	117
Netherlands	22	21	331	257	-	-	35	24	-	-	388	302
Norway	-	-	25	1	-	-	42	39	-	-	67	40
Portugal	-	-	-	-	-	-	-	-	-	-	-	-
Russia	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	55	105	-	-	45	41	-	-	100	146
Sweden	-	-	115	40	1	1	48	58	-	-	164	99
Switzerland	-	-	55	116	-	-	7	7	-	-	62	123
US	14	-	226	217	89	133	450	310	-	-	779	660
Other	46	37	204	51	58	52	14	12	219	201	541	353
Total	976	1,116	2,251	1,882	1,374	1,522	3,564	2,855	219	201	8,384	7,576

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.

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	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Neither past due nor impaired:														
AAA	-	-	-	-	-	-	4,523	4,342	-	-	30	64	4,553	4,406
AA	5,329	5,436	60	139	-	-	16,595	14,917	-	-	337	498	22,321	20,990
A	-	19	-	111	1,056	643	4,682	4,214	-	-	964	1,297	6,702	6,284
BBB	-	-	-	-	668	428	1,771	1,673	-	-	5	101	2,444	2,202
Below BBB	-	-	-	-	-	-	367	434	-	-	-	-	367	434
Not rated	-	-	74	90	487	407	-	34	91	84	-	-	652	615
Internally rated	7	7	-	-	-	-	255	299	-	-	-	-	262	306
Past due	-	-	-	-	-	-	-	-	6	15	-	-	6	15
Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	5,336	5,462	134	340	2,211	1,478	28,193	25,913	97	99	1,336	1,960	37,307	35,252

At 31 December 2016, receivables and other financial assets of £6m (2015: £15m) were past due by less than three months.

Not rated loans of £74m (2015: £90m) 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 2016, the financial assets of the HWPF include £5,093m (2015: £5,134m) 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.

8. Group financial statements *continued*

An analysis of debt securities by country is as follows:

	Government, provincial and municipal ¹		Banks		Other financial institutions		Other corporate		Other ²		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
UK	10,952	10,275	885	925	1,934	1,929	1,875	1,730	-	-	15,646	14,859
Australia	6	-	206	206	50	31	38	35	-	-	300	272
Austria	392	235	4	4	10	-	-	-	-	-	406	239
Belgium	691	452	10	10	-	-	57	15	-	-	758	477
Canada	3	3	67	195	10	8	4	3	-	-	84	209
Denmark	3	4	23	11	-	-	14	22	-	-	40	37
Finland	194	85	69	54	-	-	4	4	-	-	267	143
France	2,009	1,708	450	437	29	24	364	331	-	-	2,852	2,500
Germany	3,118	2,620	196	587	120	122	199	189	-	-	3,633	3,518
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	25	7	4	9	11	10	18	13	-	-	58	39
Italy	49	4	31	27	11	11	46	120	-	-	137	162
Japan	21	21	172	35	-	-	-	1	-	-	193	57
Mexico	-	-	-	-	-	-	56	58	-	-	56	58
Netherlands	467	403	328	338	36	42	48	34	-	-	879	817
Norway	-	17	24	6	-	-	65	63	-	-	89	86
Portugal	-	-	-	-	-	-	4	5	-	-	4	5
Russia	-	-	-	-	-	-	-	-	-	-	-	-
Spain	13	5	4	11	5	5	38	52	-	-	60	73
Sweden	-	1	367	280	10	6	12	16	-	-	389	303
Switzerland	-	-	150	103	63	59	62	57	-	-	275	219
US	106	107	432	361	151	206	499	437	-	-	1,188	1,111
Other	98	85	247	105	48	62	139	116	347	361	879	729
Total	18,147	16,032	3,669	3,704	2,488	2,515	3,542	3,301	347	361	28,193	25,913

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 2016, 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 £22m (2015: £23m). A further reduction of £58m (2015: £46m) 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 and bilateral repurchase agreements 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. For OTC derivatives 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.

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 2016, the Group had pledged £30m (2015: £448m) of cash and £187m (2015: £36m) of securities as collateral for derivative financial liabilities. At 31 December 2016, the Group had accepted £2,016m (2015: £1,166m) of cash and £808m (2015: £10m) of securities as collateral for derivatives financial assets and reverse repurchase agreements. None of the securities were sold or repledged at the year end.

(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. ISDA master agreements and reverse repurchase agreements entered into by the Group are considered master netting agreements as they provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy.

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 2016	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		Net position £m
		Financial instruments £m	Financial collateral pledged/(received) £m	
Financial assets				
Derivatives ¹	2,654	(558)	(2,000)	96
Reverse repurchase agreements	800	-	(804)	(4)
Total financial assets	3,454	(558)	(2,804)	92
Financial liabilities				
Derivatives ¹	(751)	558	186	(7)
Total financial liabilities	(751)	558	186	(7)

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		Net position £m
		Financial instruments £m	Financial collateral pledged/(received) £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.

(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 2016 was £835m (2015: £652m) of which £116m related to participating business (2015: £140m) and £719m related to shareholder business (2015: £512m). 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 gains of £27m (2015: £4m losses) 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 £9m (2015: £2m).

As described in section (b), the Group's ERM 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.

8. Group financial statements *continued*

(d) Demographic and expense risk

As described in the table on page 178, 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 analysing experience and using statistical data to make 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 policyholders live longer than expected which gives rise to losses for the shareholder. This may arise from current experience differing from that expected, or the rate of improvement in mortality being greater than anticipated. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities.

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 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 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 clients redeem their investments and policyholders surrender, lapse or pay-up their policies at different rates than assumed resulting in reduced revenue and/or financial losses. 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 profit.

Profit is directly exposed to the risk of expenses being higher than otherwise expected. It 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 33.

The tables that follow illustrate the sensitivity of profit after tax from continuing operations 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	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5%	-5%	+10%	-10%	+10%	-10%	+5%	-5%
2016	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business								
Pensions and Savings:								
Reinsurance assets	-	-	-	-	-	-	1	(1)
Non-participating insurance contract liabilities	(136)	128	(8)	8	1	(1)	-	-
India and China								
Deferred acquisition costs	-	-	(4)	-	-	-	-	-
Non-participating insurance contract liabilities	-	-	-	-	-	-	-	-
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Total shareholder business	(136)	128	(12)	8	1	(1)	1	(1)
Participating business								
Pensions and Savings:								
Recourse cash flows	(16)	15	(1)	1	-	-	(2)	2
Total participating business	(16)	15	(1)	1	-	-	(2)	2
Total	(152)	143	(13)	9	1	(1)	(1)	1

(Decrease)/increase in profit after tax from continuing operations and equity	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5%	-5%	+10%	-10%	+10%	-10%	+5%	-5%
2015	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business								
Pensions and Savings:								
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								
Pensions and Savings:								
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

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 Pensions and Savings 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.

8. Group financial statements *continued*

(e) Liquidity risk

As described in the table on page 178, the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked 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 Pensions and Savings, 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.

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.

(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	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No defined maturity	Total
	£m	£m	£m	£m	£m	£m	£m	£m
2016								
Shareholder business								
Non-participating insurance contract liabilities	330	1,194	1,351	1,139	881	1,297	-	6,192
Non-participating investment contract liabilities	1	1	1	1	-	-	-	4
Reinsurance liabilities	-	-	-	-	-	-	-	-
Total shareholder business	331	1,195	1,352	1,140	881	1,297	-	6,196
Participating business								
Non-participating insurance contract liabilities	618	2,263	2,324	1,685	1,105	1,801	-	9,796
Participating insurance contract liabilities	1,611	3,603	2,867	2,398	2,376	2,296	-	15,151
Participating investment contract liabilities	600	2,649	3,484	3,411	2,692	2,701	-	15,537
Unallocated divisible surplus	-	-	-	-	-	-	585	585
Total participating business	2,829	8,515	8,675	7,494	6,173	6,798	585	41,069
Unit linked funds								
Non-participating insurance contract liabilities	6,126	669	368	123	69	79	-	7,434
Non-participating investment contract liabilities	9,951	31,696	26,705	16,024	9,118	8,565	-	102,059
Total unit linked funds	16,077	32,365	27,073	16,147	9,187	8,644	-	109,493
Total	19,237	42,075	37,100	24,781	16,241	16,739	585	156,758
	Within 1 year	2-5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years	No defined maturity	Total
	£m	£m	£m	£m	£m	£m	£m	£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 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 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

8. Group financial statements *continued*

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 Pensions and Savings 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business														
Non-participating investment contract liabilities	4	4	-	-	-	-	-	-	-	-	-	-	4	4
Subordinated liabilities	81	81	313	324	359	377	290	345	143	208	671	700	1,857	2,035
Other financial liabilities	876	793	40	37	-	2	-	-	-	-	-	-	916	832
Total shareholder business	961	878	353	361	359	379	290	345	143	208	671	700	2,777	2,871
Participating business														
Other financial liabilities	2,179	1,317	27	7	6	12	6	6	5	6	85	97	2,308	1,445
Total participating business	2,179	1,317	27	7	6	12	6	6	5	6	85	97	2,308	1,445
Unit linked funds														
Non-participating investment contract liabilities	102,059	92,890	-	-	-	-	-	-	-	-	-	-	102,059	92,890
Other financial liabilities	908	481	11	12	9	10	9	8	9	8	141	16	1,087	535
Total unit linked funds	102,967	93,371	11	12	9	10	9	8	9	8	141	16	103,146	93,425
Total	106,107	95,566	391	380	374	401	305	359	157	222	897	813	108,231	97,741

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 2016 or 31 December 2015.

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 2016 with a contractual maturity of within one year and between one and five years of £453m and £nil respectively (2015: £319m and £nil).

(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
- ▶ Products and practices
- ▶ Business interruption
- ▶ Supplier failure
- ▶ Process execution
- ▶ People
- ▶ Security

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 to mitigate the exposure to the risk; accepting exposure to 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 2016 and 31 December 2015, 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 2016 and 31 December 2015, 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 funds		TPICF & NCI ¹		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
2016	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Investments in associates	28	19	847	531	5,607	4,561	894	314	7,376	5,425
Equity securities and interests in pooled investment funds	-	-	122	72	21,421	17,406	2,078	1,425	23,621	18,903
Debt securities	664	576	1,490	1,454	1,317	1,381	167	140	3,638	3,551
Total	692	595	2,459	2,057	28,345	23,348	3,139	1,879	34,635	27,879

¹ Third party interest in consolidated funds and non-controlling interests.

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 £41,379m (2015: £28,150m). 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 £57,877m (2015: £54,214m).

8. Group financial statements *continued*

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 funds, and third party interest 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 £12,634m at 31 December 2016 (2015: £11,599m). The fees received in respect of these assets under management during the year to 31 December 2016 were £61m (2015: £48m).

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 based on valuations provided by external property valuation experts. The fair value of investment property is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. No adjustment has been made for vacant possession for the Group's owner occupied property.

In the UK and Europe, valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. These are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving property with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving property with similar characteristics to the property being valued. In both approaches where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

As income capitalisation and market comparison valuations generally include significant unobservable inputs including unobservable adjustments to recent market transactions, these assets are categorised as level 3 within the fair value hierarchy.

Derivative financial assets and derivative financial liabilities

The majority of the Group's derivatives are over-the-counter derivatives which are measured at fair value 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 2016 and 31 December 2015 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 and contingent consideration liabilities

A contingent consideration asset was recognised during 2014 in respect of a purchase price adjustment mechanism relating to the acquisition of Ignis. The fair value of the asset is calculated using a binomial 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.

Contingent consideration liabilities have also been recognised in respect of acquisitions made during the year. The valuations are based on unobservable assumptions regarding expected movements in assets under advice and therefore the liabilities are classified as level 3 in the fair value hierarchy.

8. Group financial statements *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 consolidated statement of financial position (line item)		Classified as held for sale		Total		Fair value hierarchy							
							Level 1		Level 2		Level 3			
							2016	2015	2016	2015	2016	2015	2016	2015
							£m	£m	£m	£m	£m	£m	£m	£m
Investments in associates at FVTPL	7,376	5,425	-	33	7,376	5,458	7,211	5,370	2	2	163	86		
Investment property	9,929	9,991	228	87	10,157	10,078	-	-	-	-	10,157	10,078		
Owner occupied property	58	55	8	-	66	55	-	-	-	-	66	55		
Derivative financial assets	3,534	2,444	-	-	3,534	2,444	844	692	2,690	1,752	-	-		
Equity securities and interests in pooled investment vehicles	83,307	71,679	27	17	83,334	71,696	82,539	70,877	-	-	795	819		
Debt securities	67,933	66,657	-	-	67,933	66,657	28,721	23,210	38,344	42,660	868	787		
Contingent consideration asset	10	15	-	-	10	15	-	-	-	-	10	15		
Total assets at fair value	172,147	156,266	263	137	172,410	156,403	119,315	100,149	41,036	44,414	12,059	11,840		

There were transfers of debt securities of £98m from level 1 to level 2 during the year (2015: no transfers). 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	Fair value hierarchy											
	2016		2015		Total		Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business												
Investments in associates at FVTPL	30	19	-	33	30	52	10	36	2	2	18	14
Investment property	-	1	-	-	-	1	-	-	-	-	-	1
Owner occupied property	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	19	9	-	-	19	9	2	1	17	8	-	-
Equity securities and interests in pooled investment vehicles	58	52	27	17	85	69	78	61	-	-	7	8
Debt securities	8,384	7,576	-	-	8,384	7,576	928	1,089	6,704	5,858	752	629
Contingent consideration asset	10	15	-	-	10	15	-	-	-	-	10	15
Total shareholder business	8,501	7,672	27	50	8,528	7,722	1,018	1,187	6,723	5,868	787	667
Participating business												
Investments in associates at FVTPL	847	531	-	-	847	531	702	459	-	-	145	72
Investment property	1,716	2,167	216	-	1,932	2,167	-	-	-	-	1,932	2,167
Owner occupied property	30	55	8	-	38	55	-	-	-	-	38	55
Derivative financial assets	2,211	1,478	-	-	2,211	1,478	480	407	1,731	1,071	-	-
Equity securities and interests in pooled investment vehicles	8,478	8,187	-	-	8,478	8,187	8,159	7,840	-	-	319	347
Debt securities	28,193	25,913	-	-	28,193	25,913	16,994	15,573	11,083	10,198	116	142
Total participating business	41,475	38,331	224	-	41,699	38,331	26,335	24,279	12,814	11,269	2,550	2,783
Unit linked funds												
Investments in associates at FVTPL	5,605	4,561	-	-	5,605	4,561	5,605	4,561	-	-	-	-
Investment property	5,727	5,947	12	68	5,739	6,015	-	-	-	-	5,739	6,015
Owner occupied property	28	-	-	-	28	-	-	-	-	-	28	-
Derivative financial assets	1,025	716	-	-	1,025	716	281	220	744	496	-	-
Equity securities and interests in pooled investment vehicles	67,452	56,307	-	-	67,452	56,307	67,252	56,117	-	-	200	190
Debt securities	25,885	26,789	-	-	25,885	26,789	9,434	6,053	16,451	20,720	-	16
Total unit linked funds	105,722	94,320	12	68	105,734	94,388	82,572	66,951	17,195	21,216	5,967	6,221
TPICF and NCI¹												
Investments in associates at FVTPL	894	314	-	-	894	314	894	314	-	-	-	-
Investment property	2,486	1,876	-	19	2,486	1,895	-	-	-	-	2,486	1,895
Owner occupied property	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial assets	279	241	-	-	279	241	81	64	198	177	-	-
Equity securities and interests in pooled investment vehicles	7,319	7,133	-	-	7,319	7,133	7,050	6,859	-	-	269	274
Debt securities	5,471	6,379	-	-	5,471	6,379	1,365	495	4,106	5,884	-	-
TPICF and NCI¹	16,449	15,943	-	19	16,449	15,962	9,390	7,732	4,304	6,061	2,755	2,169
Total	172,147	156,266	263	137	172,410	156,403	119,315	100,149	41,036	44,414	12,059	11,840

¹ Third party interest in consolidated funds and non-controlling interests.

Financial information

8. Group financial statements *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.

	Fair value hierarchy							
	As recognised in the consolidated statement of financial position line item		Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Non-participating investment contract liabilities	102,059	92,890	-	-	102,059	92,890	-	-
Liabilities in respect of third party interest in consolidated funds	16,835	17,196	-	-	15,607	15,889	1,228	1,307
Derivative financial liabilities	965	1,254	185	184	780	1,070	-	-
Contingent consideration liabilities	15	-	-	-	-	-	15	-
Total liabilities at fair value	119,874	111,340	185	184	118,446	109,849	1,243	1,307

There were no transfers between levels 1 and 2 during the year (2015: 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.

	Fair value hierarchy							
	As recognised in the consolidated statement of financial position (line item)		Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business								
Derivative financial liabilities	12	16	1	1	11	15	-	-
Contingent consideration liabilities	15	-	-	-	-	-	15	-
Total shareholder business	27	16	1	1	11	15	15	-
Participating business								
Derivative financial liabilities	39	88	20	47	19	41	-	-
Total participating business	39	88	20	47	19	41	-	-
Unit linked funds								
Non-participating investment contract liabilities	102,059	92,890	-	-	102,059	92,890	-	-
Derivative financial liabilities	714	836	130	103	584	733	-	-
Total unit linked funds	102,773	93,726	130	103	102,643	93,623	-	-
TPICF and NCI¹								
Liabilities in respect of third party interest in consolidated funds	16,835	17,196	-	-	15,607	15,889	1,228	1,307
Derivative financial liabilities	200	314	34	33	166	281	-	-
TPICF and NCI¹	17,035	17,510	34	33	15,773	16,170	1,228	1,307
Total	119,874	111,340	185	184	118,446	109,849	1,243	1,307

¹ Third party interest in consolidated funds and non-controlling interests.

(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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	86	83	9,991	9,041	55	138	819	836	787	519	(1,307)	(1,338)
Reclassified to held for sale	-	-	(191)	(87)	(8)	-	-	-	-	-	-	-
Total gains/(losses) recognised in the consolidated income statement	10	1	(302)	452	(1)	5	80	135	34	-	19	(47)
Purchases ¹	103	16	1,755	862	1	-	109	116	183	360	(19)	(91)
Settlement	-	-	-	-	-	-	-	-	-	-	81	169
Sales	(39)	(14)	(1,337)	(290)	(22)	(92)	(242)	(296)	(97)	(111)	-	-
Transfers in to level 3 ²	-	-	-	-	-	-	5	26	-	33	-	-
Transfers out of level 3 ²	-	-	-	-	-	-	(33)	-	(39)	(14)	-	-
Transfers between investment property and owner occupied property	-	-	(28)	-	28	-	-	-	-	-	-	-
Foreign exchange adjustment	3	-	44	(8)	-	-	57	2	-	-	(2)	-
Total gains recognised on revaluation of owner occupied property within other comprehensive income	-	-	-	-	5	4	-	-	-	-	-	-
Other	-	-	(3)	21	-	-	-	-	-	-	-	-
At 31 December	163	86	9,929	9,991	58	55	795	819	868	787	(1,228)	(1,307)

¹ Purchases of investment property for the year ended 31 December 2016 includes £1,289m (2015: £nil) relating to the merger of property investment vehicles.

² Transfers are deemed to have occurred at the end of the calendar quarter in which they arose.

In addition to the above, the Group had a contingent consideration asset with a fair value of £10m at 31 December 2016 (2015: £15m) and contingent consideration liabilities with a fair value of £15m (2015: £nil). There were no settlements during the year. Movements in the fair value of contingent consideration assets and liabilities are recognised in other income in the consolidated income statement.

As at 31 December 2016, £119m of total losses from continuing operations (2015: £418m gains) 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 £137m losses (2015: £460m gains) were recognised in investment return, £1m losses (2015: £5m gains) were recognised in other administrative expenses and £19m gains (2015: £47m losses) were recognised in change in liability for third party interest in consolidated funds.

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 the majority of 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.

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 investments 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.

8. Group financial statements *continued*

The table below presents quantitative information about the significant unobservable inputs for level 3 instruments:

2016	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property and owner occupied property	9,567	Income capitalisation	Equivalent yield	3.6% to 9.1% (5.4%)
			Estimated rental value per square metre per annum	£29 to £2,422 (£336)
Investment property (hotels)	596	Income capitalisation	Equivalent yield	4.6% to 7.1% (5.7%)
			Estimated rental value per room per annum	£990 to £13,750 (£5,462)
Investment property and owner occupied property	60	Market comparison	Estimated value per square metre	£2 to £12,807 (£4,081)
Equity securities and interests in pooled investment funds and investments in associates at FVTPL (private equity investments)	958	Adjusted net asset value	Adjustment to net asset value ¹	N/A
Debt securities (commercial mortgages)	451	Discounted cash flow	Credit spread	1.9% to 2.6% (2.1%)
Debt securities (unquoted corporate bonds)	373	Discounted cash flow	Credit spread	0.2% to 4.3% (1.9%)
Debt securities (infrastructure loans)	11	Discounted cash flow	Credit spread	1.3% (1.3%)
Debt securities (other)	33	Single broker	Single broker indicative price ²	N/A
<hr/>				
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 (£346) ³
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.

³ Restated.

(e) Assets and liabilities not carried at fair value

The table below presents estimated fair values by level of the fair value hierarchy 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		Fair value		Level 1		Level 2		Level 3	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets											
Loans secured by mortgages	22	73	87	86	84	-	-	86	84	-	-
Liabilities											
Non-participating investment contract liabilities	35	4	4	4	4	-	-	-	-	4	4
Subordinated notes	36	499	499	530	530	-	-	530	530	-	-
Subordinated guaranteed bonds	36	502	502	577	579	-	-	577	579	-	-
Mutual Assurance Capital Securities	36	318	317	334	345	-	-	334	345	-	-

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 2016 was £15,537m (2015: £14,716m). The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

44. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

(a) Change in operating assets

	2016	2015
	£m	£m
Investment property	(116)	(1,061)
Equity securities and interests in pooled investment funds	(11,131)	(889)
Debt securities	63	(2,506)
Derivative financial instruments	(1,331)	1,063
Reinsurance assets	140	518
Investments in associates and joint ventures	(1,305)	(1,042)
Receivables and other financial assets and other assets	118	(281)
Deferred acquisition costs	45	114
Loans	497	(593)
Assets held for sale	25	(1,930)
Change in operating assets	(12,995)	(6,607)

(b) Change in operating liabilities

	2016	2015
	£m	£m
Other financial liabilities, provisions and other liabilities	1,209	(820)
Deposits received from reinsurers	(41)	(507)
Pension and other post-retirement benefit provisions	(19)	21
Deferred income	(46)	(38)
Insurance contract liabilities	1,393	(630)
Investment contract liabilities	9,051	4,945
Change in liability for third party interest in consolidated funds	1,379	285
Liabilities held for sale	-	786
Change in operating liabilities	12,926	4,042

8. Group financial statements *continued*

(c) Other non-cash and non-operating items

	2016	2015
	£m	£m
Gain on sale of subsidiaries excluding transaction costs and provision recognised on disposal	-	(1,136)
Gain on disposal of property, plant and equipment	1	(6)
Depreciation of property, plant and equipment	14	16
Amortisation of intangible assets	64	51
Impairment losses on intangible assets	20	11
Impairment losses on property, plant and equipment	1	4
Impairment losses reversed on property, plant and equipment	-	(5)
Other interest cost	3	7
Finance costs	82	84
Share of profit from associates and joint ventures	(63)	(43)
Other non-cash and non-operating items	122	(1,017)

(d) Disposal of subsidiaries

There were no operations disposed of in the year ended 31 December 2016. The following table sets out the cash inflows from the disposal of the Canadian business in 2015.

	Notes	2015 £m
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	12	1,102
Transaction costs		21
Provision recognised on disposal of subsidiaries		13
Total cash consideration	1	2,100
Cash and cash equivalents disposed of	12	(500)
Cash inflow from disposal of subsidiary		1,600

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. If such a benefit becomes virtually certain it is no longer considered contingent and is recognised as an asset.

(a) Annuity sales practices relating to enhanced annuities

As discussed in Note 40, at the request of the Financial Conduct Authority (FCA), Standard Life is conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on Standard Life. At this stage it is not possible to determine an estimate of the financial effect, if any, of this contingent liability. The Group is also considering whether the FCA's enhanced annuities review could have implications for other past annuity sales practices.

Note 40 also provides disclosure of potential insurance recoveries relating to redress payable to customers, the costs of conducting the review and other related expenses. Any FCA levied financial penalties cannot be covered by such liability insurance.

(b) Legal proceedings, complaints and regulations

The Group is subject to regulation in all of the territories in which it operates insurance and investment businesses. In the UK, where the Group primarily operates, the FCA has broad powers, including powers to investigate marketing and sales practices.

The Group, like other financial organisations, is subject to legal proceedings, complaints and regulatory discussions, reviews and challenges in the normal course of its business. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings, complaints and related regulatory matters.

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 2016, capital expenditure that was authorised and contracted for, but not provided and incurred, was £286m (2015: £231m) in respect of investment property. Of this amount, £220m (2015: £203m) and £66m (2015: £28m) 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 £453m (2015: £343m) in respect of unrecognised financial instruments to customers and third parties. Of this amount £363m (2015: £291m) is 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:

	2016	2015
	£m	£m
Not later than one year	32	30
Later than one year and no later than five years	70	69
Later than five years	102	111
Total operating lease commitments	204	210

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.

8. Group financial statements *continued*

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	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 2016 and 2015 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 three years (two years for the 2015 annual bonus), 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 £50 each month (up to a value of £25 until May 2016). 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.

(a) Options granted

The number, weighted average exercise price and weighted average remaining contractual life for options outstanding during the year are as follows:

	2016					2015				
	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	28,071,264	2,951,682	537,726	9,108,246	255p	25,131,521	2,732,361	557,301	8,235,878	228p
Granted	19,574,146	1,452,614	387,848	3,036,190	283p	14,096,423	1,423,236	305,253	2,091,965	328p
Forfeited	(3,570,503)	(100,580)	-	(497,778)	279p	(2,516,468)	(431,168)	-	(311,887)	260p
Exercised	(4,339,160)	(477,508)	(372,536)	(3,365,277)	188p	(8,640,212)	(772,747)	(324,828)	(847,383)	198p
Expired	-	-	-	-	-	-	-	-	(914)	157p
Cancelled	-	-	-	(706,102)	312p	-	-	-	(59,413)	267p
Outstanding at										
31 December	39,735,747	3,826,208	553,038	7,575,279	290p	28,071,264	2,951,682	537,726	9,108,246	255p
Exercisable at										
31 December	40,970	25,161	-	302,214	193p	-	-	-	84,517	220p
Weighted average remaining contractual life of options outstanding (years)	2.21	1.35	1.43	2.66		2.18	1.96	1.31	2.34	

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	24 March 2016	Throughout	24 March 2016	7 October 2016
Share price at grant date	349p	340p	349p	355p
Fair value at grant date	349p	340p	349p	56p
Exercise price	Nil	Nil	Nil	280p-283p
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)	3.45	2.17	3.23	3.53
Options exercised during the year				
Share price at time of exercise	349p	350p	357p	341p

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 2016. All options are exercisable for a period of six months after the vesting date.

	2016 Number of options outstanding	2015 Number of options outstanding
Long-term incentive plans		
£nil	43,561,955	31,022,946
Short-term incentive plan		
£nil	553,038	537,726
Sharesave		
Less than 200p	206,770	2,727,416
200p-320p	5,891,582	4,296,662
321p-400p	1,476,927	2,084,168
Outstanding at 31 December	51,690,272	40,668,918
(b) Share incentive plan		
	2016	2015
Number of instruments granted ¹	503,931	261,123
Share price at date of grant ²	333p	431p
Fair value per granted instrument at grant date ²	333p	431p

¹ Included in the number of instruments granted are 11,814 (2015: 11,433) rights to shares granted to eligible employees in Germany and Austria.

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.

8. Group financial statements *continued*

(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:

	2016	2015
	£m	£m
Share options granted under long-term incentive plans	25	29
Share options granted under Sharesave	2	1
Share options granted under short-term incentive plan	2	2
Matching shares granted under share incentive plans	1	1
Expense from continuing operations	30	33
Expense from discontinued operations	-	1
	30	34

Additionally, the Group incurred an expense for cash-settled share-based payment schemes from continuing operations of £2m in 2016 (2015: £2m). The liability for cash-settled share-based payments outstanding at 31 December 2016 is £4m (2015: £3m).

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:

	2016	2015
	£m	£m
Sales to		
Associates	9,328	1,018
Other related parties	66	53
	9,394	1,071
Purchases from		
Associates	9,782	1,495
Joint ventures	1	9
	9,783	1,504

Sales to and purchases from associates primarily relate to transactions with Group managed investment vehicles which are classified as associates measured at FVTPL.

Sales to and amounts due from other related parties include management fees received/receivable from non-consolidated investment vehicles managed by Standard Life Investments and from the Group's defined benefit pension plans.

The year end balances arising from transactions carried out by the Group with related parties are as follows:

	2016	2015
	£m	£m
Due from related parties		
Associates	16	24
Joint ventures	3	2
	19	26

In addition to the amounts shown above, the Group's defined benefit pension plans have assets of £1,028m (2015: £579m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

In 2016 key management personnel includes only Directors of Standard Life plc; in 2015 key management personnel also included certain direct reports of the 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:

	2016	2015
	£m	£m
Salaries and other short-term employee benefits	6	8
Post-employment benefits	1	1
Share-based payments	3	5
Termination benefits	-	2
Total compensation of key management personnel	10	16

(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 2016, key management personnel and their close family members contributed £1m (2015: £6m) to products sold by the Group. At 31 December 2016 the total value of key management personnel's investments in Group products was £21m (2015: £19m).

49. Capital management**(a) Capital management policies and risk management objectives**

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 financial 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 liquidity and capital management policy forms one aspect of the Group's overall management framework. Most notably, it operates alongside and complements the strategic investment policy and the Group risk policies. Integrating policies in this way enables the Group to have 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 the forecast available capital resources. 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.

(b) Regulatory capital**(b)(i) Regulatory capital framework**

From 1 January 2016, both the consolidated Group and regulated insurance entities within the Group operating in the EU have been required to measure and monitor their capital resources under the Solvency II (SII) regulatory regime.

The Group's capital position under SII is determined by aggregating the assets and liabilities of the Group recognised and measured on a SII basis (being Own funds) and comparing this to the Group's SII solvency capital requirement (SCR) to determine surplus capital.

There are a number of differences to the recognition and measurement of the Group's assets and liabilities on a SII basis compared to IFRS. These are described in (b)(iii).

The Group's SII SCR primarily consists of the consolidated SII SCR for insurance entities (including Standard Life plc) which is calculated on the basis of management's own regulator-approved internal model. In addition, the Group's SCR also includes SII SCRs for other insurance entities whose SCRs are calculated on the basis of the standard formula within the SII regulations, and the capital requirements of other regulated entities in the Group that are set by their regulator. The SII SCRs for insurance entities are calibrated so that the likelihood of a loss exceeding the SII SCR in one year is less than 0.5%. The SII capital resources are also subject to Minimum Capital Requirements.

Surplus capital at individual entity level is assessed for availability to the Group and therefore may be restricted when determining Group own funds.

This regulatory framework can be summarised as follows for the main regulated entities in the Group:

	Entity level	Contribution to Group SII position
Standard Life Investments Limited	BIPRU ¹	BIPRU ¹
Standard Life Assurance Limited (SLAL)	SII internal model	SII internal model
Standard Life International DAC	SII standard formula	SII standard formula
Standard Life plc	-	SII internal model
Standard Life (Asia) Limited	Local regime (Hong Kong)	SII standard formula
Heng An Standard Life Insurance Company Limited	Local regime (China)	SII standard formula
HDFC Standard Life Insurance Company Limited	Local regime (India)	Excluded

¹ Prudential Sourcebook for Banks, Building Societies and Investment Firms.

(b)(ii) Regulatory capital position (unaudited)

The table below shows the Group's own funds and solvency capital requirement:

	2016 ¹	2015 ¹
	£bn	£bn
Own funds	7.2	5.5
Solvency capital requirement (SCR)	(4.1)	(3.4)
Solvency II capital surplus	3.1	2.1
Solvency cover	176%	162%

¹ 2016 based on draft regulatory returns which are not audited. 2015 based on the position on adoption of the SII regulatory regime at 1 January 2016.

8. Group financial statements *continued*

The Group has complied with all externally imposed capital requirements during the year. The Group position can be analysed as follows:

	Own funds	SCR	Surplus
	£bn	£bn	£bn
31 December 2016¹			
SLAL	6.0	3.8	2.2
Restriction on SLAL own funds recognised at Group	(0.1)	-	(0.1)
Other businesses	1.3	0.3	1.0
Group total	7.2	4.1	3.1
31 December 2015¹			
SLAL	5.3	3.1	2.2
Restriction on SLAL own funds recognised at Group	(1.1)	-	(1.1)
Other businesses	1.3	0.3	1.0
Group total	5.5	3.4	2.1

¹ 2016 based on draft regulatory returns which are not audited. 2015 based on the position on adoption of the SII regulatory regime at 1 January 2016.

The Group's own funds do not take into account capital in subsidiaries that is not deemed to be freely transferable around the Group. The reduction in unrecognised capital in SLAL from £1.1bn at 31 December 2015 to £0.1bn at 31 December 2016 is due to methodology and legislative changes.

(b)(iii) Reconciliation of regulatory capital own funds to IFRS equity

A reconciliation of the Group own funds to the equity attributable to equity holders of Standard Life plc on an IFRS basis is as follows:

	2016 ¹	2015 ¹
	£bn	£bn
Own funds	7.2	5.5
Add unrecognised Solvency II capital (availability restriction)	0.2	1.2
Remove with profits funds and pension scheme contribution to own funds ¹	(1.2)	(0.7)
Remove subordinated liabilities contribution to own funds ²	(1.6)	(1.5)
Remove value of fee business future profits ³	(2.9)	(2.9)
Add IFRS pension scheme surplus ¹	1.1	0.9
Add IFRS DAC, DIR and other intangibles assets and other valuation differences ⁴	1.5	1.5
IFRS equity attributable to equity holders of Standard Life plc	4.3	4.0

¹ In determining Group own funds the asset recognised for a surplus in a with profits fund or a defined benefit pension scheme is restricted to their capital requirements.

² Subordinated liabilities provide capital in SII provided certain conditions are met.

³ The measurement of technical provisions in Group own funds reflects the value of future profits on investment fee business which are not included in the measurement of IFRS liabilities.

⁴ Certain items that are recognised as assets and liabilities under IFRS are not recognised as assets and liabilities in Group own funds, being the Group's DAC, DIR and other intangible assets. Other valuation differences are mainly due to differences in the measurement of technical provisions for insurance business.

¹ 2016 based on draft regulatory returns which are not audited. 2015 based on the position on adoption of the SII regulatory regime at 1 January 2016.

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 2016 are listed below. For details of the Group's consolidation policy refer to (b) Basis of consolidation in the Presentation of consolidated financial statements section.

The ability of subsidiaries to transfer cash or other assets within the Group for example through payment of cash dividends is 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 financial statements with Companies House has been taken in accordance with the Partnership Accounting Regulations (2008). The registered head office of all related undertakings is 1 George St, Edinburgh, EH2 2LL unless otherwise stated.

(a) Direct subsidiaries

Name of related undertaking	Share class ¹	% Interest held
30 STMA 1 Limited ³	Ordinary Shares	100%
30 STMA 2 Limited ³	Ordinary Shares	100%
30 STMA 3 Limited ³	Ordinary Shares	100%
30 STMA 4 Limited ³	Ordinary Shares	100%
Elevate Portfolio Services Limited ³	Ordinary Shares	100%
Focus Solutions Group Limited ⁴	Ordinary Shares	100%
Standard Life (Asia Pacific Holdings) Private Limited ⁵	Ordinary Shares	100%
Standard Life Assurance Limited ⁷	Ordinary Shares	100%
	Ordinary B Shares	
Standard Life (London) Limited ¹	Ordinary Shares	100%
Standard Life (Mauritius Holdings) 2006 Limited ⁶	Ordinary Shares	100%
Standard Life Employee Services Limited ⁷	Ordinary Shares	100%
Standard Life Finance Limited ⁷	Ordinary Shares	100%
Standard Life Foundation ⁷	N/A	100%
Standard Life Investments (Holdings) Limited	Ordinary Shares	100%
Standard Life Oversea Holdings Limited ⁷	Ordinary Shares	100%
Threesixty Support LLP ⁷	Limited Liability Partnership	100%
Vebnet (Holdings) Limited ³	Ordinary Shares	100%

(b) Other subsidiaries, joint ventures, associates and other significant holdings

Name of related undertaking	Share class ¹	% Interest held
1825 Financial Planning Limited ³	Ordinary Shares	100%
28 Ribera del Loira SA ⁸	Ordinary Shares	100%
330 Avenida de Aragon SL ⁸	Ordinary Shares	100%
4th Contact Limited ³	Ordinary Shares	100%
Andaes S.à r.l. ⁹	Ordinary Shares	60%
Aurora Kaasunjakelu Oy ¹⁰	Ordinary Shares	35%
AXA Portfolio Services Limited ³	Ordinary Shares	100%
	Preference Shares	
Baigrie Davies & Company Limited ³	Ordinary Shares	100%
Baigrie Davies Holdings Limited ³	Ordinary Shares	100%
Bardol Inversiones SL ⁸	Ordinary Shares	60%
Bechtel Properties Limited ¹¹	Ordinary Shares	100%
Castlepoint General Partner Limited ¹²	Ordinary Shares	100%
Castlepoint LP ¹²	Ordinary Shares	50%
Castlepoint Nominee Limited ¹²	Ordinary Shares	100%
City Road (Jersey) Limited ¹³	Ordinary Shares	100%
Crawley Unit Trust ¹³	Unit Trust	100%
ESP 2006 Conduit LP	Limited Partnership	8%
ESP 2008 Conduit LP	Limited Partnership	4%

8. Group financial statements *continued*

Name of related undertaking	Share class ¹	% Interest held
ESP CPPIB European Mid Market Fund	Limited Partnership	1%
ESP General Partner Limited Partnership	Limited Partnership	50%
ESP Golden Bear Europe Fund	Limited Partnership	3%
ESP II Conduit LP	Limited Partnership	46%
ESP II General Partner Limited Partnership	Limited Partnership	46%
ESP Tidal Reach LP	Limited Partnership	1%
European Strategic Partners	Limited Partnership	73%
European Strategic Partners 2006 'B'	Limited Partnership	9%
European Strategic Partners 2008 'B'	Limited Partnership	4%
European Strategic Partners II 'A'	Limited Partnership	1%
European Strategic Partners II 'B'	Limited Partnership	1%
European Strategic Partners II 'C'	Limited Partnership	69%
European Strategic Partners II 'D'	Limited Partnership	1%
European Strategic Partners II 'E'	Limited Partnership	1%
Extraverde Property BV ¹⁴	Ordinary Shares	60%
Ezraya Sp z.o.o. ¹⁵	Ordinary Shares	60%
Falcon II Pavlova s.r.o. ¹⁶	Ordinary Shares	60%
Focus Business Solutions Limited ⁴	Ordinary Shares	100%
Focus Holdings Limited ⁴	Ordinary Shares	100%
Focus Software Limited ⁴	Ordinary Shares	100%
Focus Solutions EBT Trustee Limited ⁴	Ordinary Shares	100%
G Park Management Company Limited ¹¹	Preference shares	100%
Gallions Reach Shopping Park (Nominee) Limited ¹¹	Ordinary Shares	100%
Gallions Reach Shopping Park Limited Partnership ¹¹	Limited Partnership	100%
Gallions Reach Shopping Park Unit Trust ¹¹	Unit Trust	100%
GRAF Almeda Park SL ⁸	Ordinary Shares	60%
GRAF Jersey Esplanade Limited ¹⁷	Ordinary Shares	60%
GRAF Jersey Holding Limited ¹⁷	Ordinary Shares	60%
GRAF Jersey Ireland Holding Limited ¹⁷	Ordinary Shares	60%
GRAF Jersey Ireland Property Limited ¹⁷	Ordinary Shares	60%
HDFC Asset Management Company Limited ¹⁸	Ordinary Shares	40%
HDFC International Life and Re Company Limited ¹⁹	Ordinary shares	35%
HDFC Pension Management Company Limited ²⁰	Equity Shares	35%
HDFC Standard Life Insurance Company Limited ²¹	Equity Shares	35%
Heng An Standard Life Insurance Company Limited ²²	Equity Shares	50%
High Street Nominee No. 1 Limited ¹³	Ordinary Shares	100%
High Street Nominee No. 2 Limited ¹³	Ordinary Shares	100%
Hundred S.à r.l. ⁹	Ordinary Shares	100%
Ibis (748) Limited ¹¹	Ordinary Shares	100%
Ibis (749) Limited ¹¹	Ordinary Shares	100%
Iceni Nominees (No.2) Limited ¹¹	Ordinary Shares	100%
Iceni Nominees (No.2A) Limited ¹¹	Ordinary Shares	100%
Ignis Asset Management Limited	Ordinary Shares	100%
Ignis Carry Partner Limited ²⁴	Ordinary Shares	100%
Ignis Cayman GP2 Limited ²⁴	Ordinary Shares	60%
Ignis Cayman GP3 Limited ²⁴	Ordinary Shares	60%
Ignis Fund Managers Limited	Ordinary Shares	100%
Ignis Investment Management Limited	Ordinary Shares	100%
Ignis Investment Services Limited	Ordinary Shares	100%
Ignis Nominees Limited	Ordinary Shares	100%
Inesia S.A. ⁹	Ordinary Shares	100%
Inhoco 3107 Limited ¹¹	Ordinary Shares	100%
Invest Park 3 Sp. z.o.o. ²⁵	Ordinary Shares	60%
Jones Sheridan Financial Consulting Limited ²⁶	Ordinary Shares	100%
Jones Sheridan Holdings Limited ²⁶	Ordinary Shares	100%
Lake Meadows Management Company Limited ¹¹	Ordinary Shares	100%

Name of related undertaking	Share class ¹	% Interest held
Lincoln St Marks (One) Limited ¹¹	Ordinary Shares	100%
Lincoln St Marks (Two) Limited ¹¹	Ordinary Shares	100%
Lothian Development III (Nederland) BV ¹⁴	Ordinary Shares	100%
Lothian Development III SA ²⁷	Ordinary Shares	100%
Mallard Investments LLP	Limited Liability Partnership	35%
Mastscreen Limited ²⁸	Ordinary Shares	100%
NASP 2006 General Partner Limited Partnership	Limited Partnership	62%
Nordic Hydro AS ²⁹	Ordinary Shares	35%
Nordic Hydro Holding AS ²⁹	Ordinary Shares	35%
Nordic Power AS ²⁹	Ordinary Shares	35%
Nordic Power Torsnes AS ²⁹	Ordinary Shares	35%
North American Strategic Partners (Feeder) 2006	Limited Partnership	70%
North American Strategic Partners (Feeder) 2008 Limited Partnership	Limited Partnership	100%
North American Strategic Partners 2006 L.P. ³⁰	Limited Partnership	55%
North American Strategic Partners 2008 L.P. ³⁰	Limited Partnership	100%
North American Strategic Partners GP, LP ³⁰	Limited Partnership	80%
North American Strategic Partners, LP ³⁰	Limited Partnership	41%
North East Trustees Limited ³¹	Ordinary A Shares Ordinary B Shares	100%
Pace Financial Solutions Limited ³	Ordinary A Shares Ordinary B Shares Ordinary C Shares	100%
Pace Mortgage Solutions Limited ³	Ordinary A Shares Ordinary B Shares	100%
Panker Invest S.à r.l. ⁹	Ordinary Shares	60%
Parnell Fisher Child & Co. Limited ³	Ordinary Shares	100%
Parnell Fisher Child Holdings Limited ³	Ordinary A Shares Ordinary B Shares	100%
Pearson Jones & Company (Trustees) Limited ³¹	Ordinary Shares	100%
Pearson Jones Nominees Limited ³¹	Ordinary Shares	100%
Pearson Jones plc ³	Ordinary A Shares Ordinary B Shares	100%
PLC Poland 20 Sp z.o.o. ¹⁵	Ordinary Shares	60%
PLC Poland 25 Sp z.o.o. ¹⁵	Ordinary Shares	60%
PLC Poland 34 Sp z.o.o. ¹⁵	Ordinary Shares	60%
Property Corporate Director 1 Limited ¹¹	Ordinary Shares	100%
Property Corporate Director 2 Limited ¹¹	Ordinary Shares	100%
Ravensbourne Retail Park Limited ¹²	Ordinary Shares	100%
Retail Park HANÁ a.s. ¹⁶	Ordinary Shares	60%
Retail Park Ostrava a.s. ¹⁶	Ordinary Shares	60%
Rock Rail East Anglia (Holdings) 1 Limited ²⁷	Ordinary Shares	35%
Rock Rail East Anglia (Holdings) 2 Limited ²⁷	Ordinary Shares	35%
Rock Rail East Anglia plc ²⁷	Ordinary Shares	35%
Rock Rail Moorgate (Holdings) Limited ²²	Ordinary Shares	35%
Rock Rail Moorgate plc ²²	Ordinary Shares	35%
Scottish Mutual Investment Managers Limited	Ordinary Shares	100%
Scottish Mutual PEP and ISA Managers Limited ³	Ordinary Shares	100%
Seabury Assets Fund plc		
The Euro VNAV Liquidity Fund ³³	OEIC	99%
The No. 1 Fund ³³	OEIC	100%
The Sterling VNAV Liquidity Fund ³³	OEIC	97%
Select Japan (GK Holdings UK) Limited	Ordinary Shares	60%
Select Japan (TK Holdings UK) Limited	Ordinary Shares	60%
Select Japan G.K.	Limited by members	60%
Select Malta Holdings Limited ³⁴	Ordinary Shares	60%
Select Property Holdings (Mauritius) Limited ³⁵	Ordinary Shares	60%

Financial Information

8. Group financial statements *continued*

Name of related undertaking	Share class ¹	% interest held
Serin Wealth Limited ³⁶	Ordinary Shares	50%
SL (NEWCO) Limited ²	Ordinary Shares	100%
SL Capital ESF I LP	Limited Partnership	1%
SL Capital Infrastructure I LP	Limited Partnership	35%
SL Capital NASF I A LP	Limited Partnership	22%
SL Capital NASF I LP ³⁰	Limited Partnership	19%
SL Capital Partners (US) Limited	Ordinary Shares	100%
SL Capital Partners LLP	Limited Liability Partnership	60%
SL Capital SOF I Feeder LP	Limited Partnership	0.4%
SL Capital SOF I LP	Limited Partnership	0.3%
SL Capital SOF II Feeder LP	Limited Partnership	1%
SL Capital SOF II LP	Limited Partnership	0.4%
SLA Belgium No. 1. SA ²⁷	Ordinary Shares	100%
SLA Germany No. 1 S.à r.l. ⁹	Ordinary Shares	100%
SLA Germany No. 2 S.à r.l. ⁹	Ordinary Shares	100%
SLA Germany No.3 S.à r.l. ⁹	Ordinary Shares	100%
SLA Ireland No.1 S.à r.l. ⁹	Ordinary Shares	100%
SLA Netherlands No.1 B.V. ¹⁴	Ordinary Shares	100%
SLACOM (No.8) Limited ²	Ordinary Shares	100%
SLACOM (No.9) Limited ²	Ordinary Shares	100%
SLACOM (No.10) Limited ²	Ordinary Shares	100%
SLCP (Founder Partner Ignis Private Equity) Limited	Ordinary Shares	60%
SLCP (Founder Partner Ignis Strategic Credit) Limited	Ordinary Shares	60%
SLCP (General Partner 2016 Co-investment) Limited	Ordinary Shares	60%
SLCP (General Partner CPP) Limited	Ordinary Shares	100%
SLCP (General Partner EC) Limited	Ordinary Shares	100%
SLCP (General Partner Edcastle) Limited	Ordinary Shares	100%
SLCP (General Partner ESF I) Limited	Ordinary Shares	100%
SLCP (General Partner ESF II) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2004) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2006) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2008 Coinvestment) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2008) Limited	Ordinary Shares	100%
SLCP (General Partner ESP CAL) Limited	Ordinary Shares	100%
SLCP (General Partner Europe VI) Limited	Ordinary Shares	100%
SLCP (General Partner Infrastructure I) Limited	Ordinary Shares	100%
SLCP (General Partner Infrastructure Secondary I) Limited	Ordinary Shares	100%
SLCP (General Partner NASF I) Limited	Ordinary Shares	100%
SLCP (General Partner NASP 2006) Limited	Ordinary Shares	100%
SLCP (General Partner NASP 2008) Limited	Ordinary Shares	100%
SLCP (General Partner Pearl Private Equity) Limited	Ordinary Shares	100%
SLCP (General Partner Pearl Strategic Credit) Limited	Ordinary Shares	100%
SLCP (General Partner SOF I) Limited	Ordinary Shares	100%
SLCP (General Partner SOF II) Limited	Ordinary Shares	100%
SLCP (General Partner SOF III) Limited	Ordinary Shares	100%
SLCP (General Partner Tidal Reach) Limited	Ordinary Shares	100%
SLCP (General Partner USA) Limited	Ordinary Shares	100%
SLCP (General Partner) Limited	Ordinary Shares	100%
SLCP (General Partner II) Limited	Ordinary Shares	100%
SLCP (Holdings) Limited	Ordinary Shares	100%
SLCP Infrastructure I (Holdings) S.à r.l. ⁹	Ordinary Shares	35%
SLCP Infrastructure I-A S.à r.l. ⁹	Ordinary Shares	35%
SLIF Property Investment GP Limited	Ordinary Shares	100%
SLTM Limited	Ordinary Shares	100%
Standard Life Active Plus Bond Trust	Unit Trust	100%
Standard Life Agency Services Limited ²	Ordinary Shares	100%

Name of related undertaking	Share class ¹	% Interest held
Standard Life (Asia) Limited ³⁷	Ordinary Shares	100%
Standard Life Assurance (HWPF) Luxembourg S.à r.l. ⁹	Ordinary Shares	100%
Standard Life Charity Fund ⁷	N/A	100%
Standard Life Client Management Limited ²	Ordinary Shares	100%
Standard Life Equity Income Trust PLC ²⁸	Ordinary Shares	1%
Standard Life European Private Equity Trust plc	Ordinary Shares	56%
Standard Life European Trust	Unit Trust	98%
Standard Life European Trust II	Unit Trust	100%
Standard Life Global Equity Trust II	Unit Trust	100%
Standard Life International Designated Activity Company ³⁸	Ordinary Shares	100%
Standard Life International Trust	Unit Trust	100%
Standard Life Investment Company		
AAA Income Fund	OEIC	3%
American Equity Income Fund	OEIC	100%
American Equity Unconstrained Fund	OEIC	56%
Asian Pacific Growth Fund	OEIC	38%
Corporate Bond Fund	OEIC	45%
Emerging Market Debt Fund	OEIC	78%
European Equity Growth Fund	OEIC	44%
European Equity Income Fund	OEIC	19%
Europe ex-UK Smaller Companies Fund	OEIC	23%
Global Emerging Markets Equity Fund	OEIC	97%
Global Emerging Markets Equity Income Fund	OEIC	95%
Global Equity Income Fund	OEIC	19%
Global Equity Unconstrained Fund	OEIC	41%
Global Smaller Companies Fund	OEIC	9%
Higher Income Fund	OEIC	38%
Investment Grade Corporate Bond Fund	OEIC	55%
Japanese Equity Growth Fund	OEIC	95%
Short Duration Credit Fund	OEIC	71%
UK Equity Growth Fund	OEIC	45%
UK Equity High Alpha Fund	OEIC	44%
UK Equity High Income Fund	OEIC	44%
UK Equity Recovery Fund	OEIC	18%
UK Ethical Fund	OEIC	11%
UK Gilt Fund	OEIC	8%
UK Opportunities Fund	OEIC	70%
UK Smaller Companies Fund	OEIC	34%
Standard Life Investment Company II		
Standard Life Investments Corporate Debt Fund	OEIC	100%
Standard Life Investments Ethical Corporate Bond Fund	OEIC	67%
Standard Life Investments European Ethical Equity Fund	OEIC	92%
Standard Life Investments Global Index Linked Bond Fund	OEIC	18%
Standard Life Investments Global REIT Fund	OEIC	53%
Standard Life Investments Short Duration Global Index Linked Bond Fund	OEIC	44%
Standard Life Investments Short Dated Corporate Bond Fund	OEIC	45%
Standard Life Investments UK Equity Income Unconstrained Fund	OEIC	30%
Standard Life Investments UK Equity Unconstrained Fund	OEIC	40%
Standard Life Investment Company III		
Enhanced-Diversification Growth Fund	OEIC	98%
MyFolio Managed I Fund	OEIC	69%
MyFolio Managed II Fund	OEIC	66%
MyFolio Managed III Fund	OEIC	75%
MyFolio Managed IV Fund	OEIC	58%
MyFolio Managed V Fund	OEIC	69%
MyFolio Managed Income I Fund	OEIC	41%
MyFolio Managed Income II Fund	OEIC	45%

8. Group financial statements *continued*

Name of related undertaking	Share class ¹	% Interest held
MyFolio Managed Income III Fund	OEIC	49%
MyFolio Managed Income IV Fund	OEIC	48%
MyFolio Managed Income V Fund	OEIC	57%
MyFolio Market I Fund	OEIC	46%
MyFolio Market II Fund	OEIC	43%
MyFolio Market III Fund	OEIC	63%
MyFolio Market IV Fund	OEIC	62%
MyFolio Market V Fund	OEIC	69%
MyFolio Multi-Manager I Fund	OEIC	52%
MyFolio Multi-Manager II Fund	OEIC	52%
MyFolio Multi-Manager III Fund	OEIC	59%
MyFolio Multi-Manager IV Fund	OEIC	53%
MyFolio Multi-Manager V Fund	OEIC	51%
MyFolio Multi-Manager Income I Fund	OEIC	46%
MyFolio Multi-Manager Income II Fund	OEIC	43%
MyFolio Multi-Manager Income III Fund	OEIC	51%
MyFolio Multi-Manager Income IV Fund	OEIC	40%
MyFolio Multi-Manager Income V Fund	OEIC	56%
Standard Life Investment Funds Limited ²	Ordinary Shares	100%
Standard Life Investments Brent Cross General Partner Limited	Ordinary Shares	100%
Standard Life Investments Brent Cross LP	Limited Partnership	100%
Standard Life Investments (Corporate Funds) Limited	Ordinary Shares	100%
Standard Life Investments Dynamic Distribution Fund	Unit Trust	46%
Standard Life Investments European Property Growth Fund L.P. ²⁸	Limited Partnership	7%
Standard Life Investments European Real Estate Club LP ²⁸	Limited Partnership	2%
Standard Life Investments European Real Estate Club II LP ²⁸	Limited Partnership	1%
Standard Life Investments European Real Estate Club III LP ²⁸	Limited Partnership	2%
Standard Life Investments (France) SAS ²⁹	Ordinary Shares	100%
Standard Life Investments (General Partner CRED) Limited ¹¹	Ordinary Shares	100%
Standard Life Investments (General Partner EPGF) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club) Limited ²⁸	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club II) Limited ²⁸	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club III) Limited ²⁸	Ordinary Shares	100%
Standard Life Investments (General Partner GARS) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner GFS) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner MAC) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner PDFI) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner UK Shopping Centre Feeder Fund LP) Limited ¹¹	Ordinary Shares	100%
Standard Life Investments Global Absolute Return Strategies Fund	Unit Trust	78%
Standard Life Investments Global Real Estate Fund	Unit Trust	60%
Standard Life Investments Global SICAV		
Absolute Return Global Bond Strategies Fund ⁴⁰	SICAV	80%
American Equity Unconstrained Fund ⁴⁰	SICAV	<0.01%
Asian Equities Fund ⁴⁰	SICAV	10%
China Equities Fund ⁴⁰	SICAV	65%
Continental European Equity Income Fund ⁴⁰	SICAV	5%
Emerging Market Corporate Bond Fund ⁴⁰	SICAV	89%
Emerging Market Debt Fund ⁴⁰	SICAV	0.1%
Emerging Market Debt Unconstrained Fund ⁴⁰	SICAV	9%
Emerging Markets Local Currency Debt Fund ⁴⁰	SICAV	97%
Enhanced Diversification Global Emerging Markets Equities Fund ⁴⁰	SICAV	99%
Euro Government All Stocks Fund ⁴⁰	SICAV	100%
European Corporate Bond Fund ⁴⁰	SICAV	33%
European Corporate Bond Sustainable and Responsible Investment Fund ⁴⁰	SICAV	<0.01%

Name of related undertaking	Share class ¹	% interest held
European Equities Fund ⁴⁰	SICAV	73%
European Equity Unconstrained Fund ⁴⁰	SICAV	88%
European High Yield Bond Fund ⁴⁰	SICAV	35%
European Smaller Companies Fund ⁴⁰	SICAV	44%
Global Absolute Return Strategies Fund ⁴⁰	SICAV	27%
Global Bond Fund ⁴⁰	SICAV	76%
Global Corporate Bond Fund ⁴⁰	SICAV	46%
Global Emerging Markets Equities Fund ⁴⁰	SICAV	0.03%
Global Emerging Markets Equity Unconstrained Fund ⁴⁰	SICAV	89%
Global Equities Fund ⁴⁰	SICAV	89%
Global Equity Unconstrained Fund ⁴⁰	SICAV	16%
Global Focused Strategies Fund ⁴⁰	SICAV	50%
Global High Yield Bond Fund ⁴⁰	SICAV	78%
Global Inflation-Linked Bond Fund ⁴⁰	SICAV	55%
Global REIT Focus Fund ⁴⁰	SICAV	83%
Indian Equity Midcap Opportunities Fund ⁴⁰	SICAV	87%
Japanese Equities Fund ⁴⁰	SICAV	87%
Japanese Equity High Alpha Fund ⁴⁰	SICAV	0.06%
Total Return Credit Fund ⁴⁰	SICAV	92%
Standard Life Investments Global SICAV II		
Enhanced-Diversification Multi Asset Fund ⁴⁰	SICAV	99%
MyFolio Multi-Manager I Fund ⁴⁰	SICAV	100%
MyFolio Multi-Manager II Fund ⁴⁰	SICAV	100%
MyFolio Multi-Manager III Fund ⁴⁰	SICAV	100%
MyFolio Multi-Manager IV Fund ⁴⁰	SICAV	100%
MyFolio Multi-Manager V Fund ⁴⁰	SICAV	100%
Standard Life Investments GS (Mauritius Holdings) Limited ⁶	Ordinary Shares	87%
Standard Life Investments (Hong Kong) Limited ⁴¹	Ordinary Shares	100%
Standard Life Investments ICVC plc		
Global Real Estate Feeder Fund ³³	OEIC	0.3%
Standard Life Investments - India Advantage Fund ⁶	Ordinary Shares	100%
Standard Life Investments (Japan) Limited ⁴²	Ordinary Shares	100%
Standard Life Investments (Jersey) Limited ¹³	Ordinary Shares	100%
Standard Life Investments Liability solutions ICAV		
Liability Aware Absolute Return III Nominal Profile Fund ³³	ICAV	<0.01%
Liability Aware Absolute Return III Real Profile Fund ³³	ICAV	<0.01%
Standard Life Investments Limited	Ordinary Shares	100%
Standard Life Investments Liquidity Fund plc		
Euro Liquidity Fund ⁴³	OEIC	19%
Sterling Liquidity Fund ⁴³	OEIC	10%
Standard Life Investments Multi Asset Class Company ²⁴	Ordinary Shares	100%
Standard Life Investments (Mutual Funds) Limited	Ordinary Shares	100%
Standard Life Investments No. 2 (Hong Kong) Limited ⁴¹	Ordinary Shares	100%
Standard Life Investments (PDF No. 1) Limited ¹³	Ordinary Shares	50%
Standard Life Investments (Private Capital) Limited	Ordinary Shares	100%
Standard Life Investments Property Income Trust Limited ⁴⁴	Ordinary Shares	4%
Standard Life Investments (Schweiz) AG ⁴⁵	Ordinary Shares	100%
Standard Life Investments Securities LLC ³⁰	Ordinary Shares	100%
Standard Life Investments (Singapore) Pte. Ltd ⁴⁶	Ordinary Shares	100%
Standard Life Investments Strategic Bond Fund	Unit Trust	67%
Standard Life Investments (Trustee No. 1 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 2 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 3 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 4 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 5 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 6 UK PDF) Limited	Ordinary Shares	100%

8. Group financial statements *continued*

<i>Name of related undertaking</i>	<i>Share class¹</i>	<i>% interest held</i>
Standard Life Investments (Trustee No. 7 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 8 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 9 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 10 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 11 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (Trustee No. 12 UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (USA) Limited	Ordinary Shares	100%
Standard Life Investments UK PDF Investment LP	Limited Partnership	39%
Standard Life Investments UK Property Development Fund L.P. ²⁸	Limited Partnership	39%
Standard Life Investments UK Real Estate Funds ICVC		
Standard Life Investments UK Real Estate Fund	OEIC	71%
Standard Life Investments UK Real Estate Trust		
Standard Life Investments UK Real Estate Accumulation Feeder Fund	Unit Trust	50%
Standard Life Investments UK Real Estate Income Feeder Fund	Unit Trust	1%
Standard Life Investments UK Retail Park Trust ⁴⁷	Unit Trust	57%
Standard Life Investments UK Shopping Centre Feeder Fund Company Limited ¹³	Ordinary Shares	100%
Standard Life Investments UK Shopping Centre Trust ⁴⁷	Unit Trust	47%
Standard Life Japan Trust	Unit Trust	87%
Standard Life Lifetime Mortgages Limited ²	Ordinary Shares	100%
Standard Life Master Trust Co. Ltd ³	Ordinary Shares	100%
Standard Life Multi-Asset Trust	Unit Trust	100%
Standard Life North American Trust	Unit Trust	100%
Standard Life Pacific Basin Trust	Unit Trust	98%
Standard Life Pan-European Trust	Unit Trust	100%
Standard Life Pension Funds Limited ²	N/A	100%
Standard Life Portfolio Investments Limited	Ordinary Shares	100%
Standard Life Premises Services Limited ²	Ordinary Shares	100%
Standard Life Property Company Limited ²	Ordinary Shares	100%
Standard Life Savings Limited ²	Ordinary Shares	100%
Standard Life Savings Nominees Limited ²	Ordinary Shares	100%
Standard Life Short Dated UK Government Bond Trust	Unit Trust	100%
Standard Life Strategic Investment Allocation Fund	Unit Trust	<0.01%
Standard Life Trustee Company Limited ²	Ordinary Shares	100%
Standard Life UK Corporate Bond Trust	Unit Trust	100%
Standard Life UK Equity General Trust	Unit Trust	100%
Standard Life UK Government Bond Trust	Unit Trust	100%
Standard Life UK Smaller Companies Trust plc ⁴⁸	Ordinary Shares	6%
Standard Life Wealth (C) Limited ⁴⁹	Ordinary Shares	100%
Standard Life Wealth Balanced Bridge Fund	Unit Trust	<0.01%
Standard Life Wealth Bridge Fund	Unit Trust	<0.01%
Standard Life Wealth Falcon Fund	Unit Trust	<0.01%
Standard Life Wealth International Limited ⁴⁹	Ordinary Shares	100%
Standard Life Wealth Limited	Ordinary Shares	100%
Standard Life Wealth Phoenix Fund	Unit Trust	<0.01%
Suomi Gas Distribution Holdings Oy ¹⁰	Ordinary Shares	35%
Suomi Gas Distribution Oy ¹⁰	Ordinary Shares	35%
Telles Holding S.à r.l. ⁹	Ordinary Shares	60%
Tenet Group Limited ⁵¹	Ordinary B Shares	20%
The Coaching Platform Limited ⁴	Ordinary Shares	100%
The Heritable Securities and Mortgage Investment Association Limited ²	Ordinary Shares	100%
The Munro Partnership Ltd. ⁵⁰	Ordinary Shares	100%
The Standard Life Assurance Company 2006 ²	N/A	100%
The Standard Life Assurance Company of Europe (Nederland) BV ¹⁴	Ordinary Shares	100%
Threesixty Partnerships Limited ⁷	Ordinary Shares	100%
Threesixty Services LLP ⁷	Limited Liability Partnership	100%

Name of related undertaking	Share class ¹	% Interest held
Touchstone Insurance Company Limited ²³	Ordinary Shares	100%
Vebnet Limited ²	Ordinary Shares	100%
Welbrent Property Investment Company Limited ¹¹	Ordinary Shares	100%
Whiteleys of Bayswater Limited	Ordinary Shares	100%

¹ OEIC = Open-ended investment company

SICAV = Société d'investissement à capital variable

ICAV = Irish collective asset-management vehicle

Registered offices

- ² Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH
- ³ 14th Floor, 30 St Mary Axe, London, EC3A 8BF
- ⁴ Cranford House, Kenilworth Road, Blackdown, Leamington Spa, CV32 6RQ
- ⁵ 133 Cecil Street, #13-03 Keck Seng Tower, Singapore, 069535
- ⁶ C/O Cim Fund Services Ltd, 33 Edith Cavell Street, Port Louis, Mauritius
- ⁷ 2nd Floor, The Royals, Altrincham Road, Sharston, Manchester, M22 4BJ
- ⁸ Avenida de Aragón 330 - Building 5, 3rd Floor, Parque Empresarial Las Mercedes, 28022 - Madrid, Spain
- ⁹ 6B, rue Gabriel Lippmann, Parc d'Activité Syrdall 2, L-5365 Munsbach, Luxembourg
- ¹⁰ C/O Dittmar & Indrenius, Pohjoiseplanadi 25 A, 00100, Helsinki
- ¹¹ 100 Barbirolli Square, Manchester, M2 3AB
- ¹² 11th Floor, Two Snowhill, Birmingham, West Midlands, B4 6WR
- ¹³ 44 Esplanade, St Helier, Jersey, JE4 9WG
- ¹⁴ Naritaweg 165, 1043 BW Amsterdam, The Netherlands
- ¹⁵ ul. Skaryszewska 7, 03-802 Warsaw, Poland
- ¹⁶ V celnici 1031/4, Nové Město, 110 00 Praha 1, Czech Republic
- ¹⁷ 47 Esplanade, St Helier, Jersey, JE1 0BD
- ¹⁸ HUL House, 2nd floor, H.T. Parekh Marg, 165-166, Backbay Reclamation, Churchgate, Mumbai - 400 020, India
- ¹⁹ Unit OT 17-30, Level 17, Central Park, Dubai International Financial Centre, Dubai, 114603, United Arab Emirates
- ²⁰ Lodha Excelus, 14th Floor, Apollo Mills Compound, N.M. Joshi Marg, Mahalaxmi, Mumbai - 400011, Maharashtra, India
- ²¹ Lodha Excelus, 13th Floor, Apollo Mills Compound, N.M. Joshi Marg, Mahalaxmi, Mumbai - 400011, Maharashtra, India
- ²² 18F, Tower II, The Exchange, 189 Nanjing Road, Heping District, Tianjin, People's Republic of China, 300051
- ²³ PO Box 33, Maison Trinity, Trinity Square, St Peter Port, Guernsey, GY1 4AT
- ²⁴ C/O Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104
- ²⁵ ul. Emilii Plater 53, 00-113, Warszawa, Poland
- ²⁶ Datum House, Electra Way, Crewe, Cheshire, CW1 6ZF
- ²⁷ Avenue Louise 326, bte 33, 1050 Brussels, Belgium
- ²⁸ 31st Floor, 30 St Mary Axe, London, EC3A 8BF
- ²⁹ Dokkveien 1, P.O.Box 1400 Vika, NO-0115 Oslo, Norway
- ³⁰ C/O Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, County of New Castle, Delaware, 19808, USA
- ³¹ Clayton Wood Close, West Park Ring Road, Leeds, LS16 6QE
- ³² Wesley House, Bull Hill, Leatherhead, KT22 7AH
- ³³ 70 Sir Rogerson's Quay, Dublin, Republic of Ireland
- ³⁴ Level 2 West, Mercury Tower, The Exchange Financial & Business Centre, Elia Zammit Street, St. Julian's, STJ 3155, Malta
- ³⁵ C/O Citco (Mauritius) Limited, 4th Floor, Tower A, 1 CyberCity, Ebene, Mauritius (Fax number 00 230 404 2601)
- ³⁶ Springpark House, Basing View, Basingstoke, RG21 4HG
- ³⁷ 40th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
- ³⁸ 90 St. Stephen's Green, Dublin D2, Republic of Ireland
- ³⁹ 100 Avenue des Champs Elysees, 1 Rue de Berri, F-75008, Paris, France
- ⁴⁰ 2-4, Rue Eugène Ruppert, L-2453 Luxembourg
- ⁴¹ 30th Floor, Jardine House, One Connaught Place, Hong Kong
- ⁴² Tokyo Bankers Club Building 15F, 1-3-1 Marunouchi, Chiyoda-ku, Tokyo, Japan
- ⁴³ 25/28 North Wall Quay, Dublin, Republic of Ireland
- ⁴⁴ PO Box 255, Trafalgar Court, Les Banques, St. Peter Port, Guernsey, GY1 3QL
- ⁴⁵ Bahnhofstrasse 100, 8001 Zurich, Switzerland
- ⁴⁶ 8 Marina Boulevard #05-02, Marina Bay Financial Centre Tower 1 01 8981, Singapore
- ⁴⁷ Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP
- ⁴⁸ Kintyre House, 205 West George Street, Glasgow, G2 2LW
- ⁴⁹ Liberte House, 19-23 La Molle Street, St Helier, Jersey, JE4 5RL
- ⁵⁰ Citadel House, 6 Citadel Place, Ayr, KA7 1JN
- ⁵¹ 5 Lister Hill, Horsforth, Leeds, LS18 5AZ

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 2016 and of its 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 and as applied in accordance with the provisions of the Companies Act 2006
- ▶ 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 (the 'Annual Report'), comprise:

- ▶ The Company statement of financial position as at 31 December 2016
- ▶ 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, 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 IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- ▶ 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 Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

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 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 Statement of Directors' responsibilities set out on page 103, 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* 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. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Standard Life plc for the year ended 31 December 2016.



Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
24 February 2017

- 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.

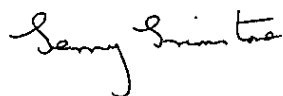
10. Company financial statements

Company statement of financial position

As at 31 December 2016

	Notes	2016 £m	2015 £m
Assets			
Investments in subsidiaries	A	4,769	4,591
Investments in associates and joint ventures	B	134	150
Loans to subsidiaries	C	323	322
Debt securities	C	605	743
Receivables and other financial assets	C	54	48
Other assets	F	8	19
Cash and cash equivalents	C	55	61
Total assets		5,948	5,934
Equity			
Share capital	H	242	241
Shares held by trusts	I	(2)	(6)
Share premium reserve	H	634	628
Retained earnings			
Brought forward retained earnings		837	785
Profit for the year		351	1,090
Other movements in retained earnings		163	(1,038)
Total retained earnings		1,351	837
Other reserves	K	2,393	2,860
Total equity		4,618	4,560
Liabilities			
Subordinated liabilities	L	1,319	1,318
Deferred tax liabilities	N	3	1
Derivative financial liabilities	L	-	2
Other financial liabilities	L	8	52
Other liabilities	P	-	1
Total liabilities		1,330	1,374
Total equity and liabilities		5,948	5,934

The financial statements on pages 222 to 235 were approved by the Board and signed on its behalf, by the following Directors:



Sir Gerry Grimstone
Chairman
24 February 2017



Luke Savage
Chief Financial Officer
24 February 2017

The Notes on pages 226 to 235 are an integral part of these financial statements.

Company statement of changes in equity
For the year ended 31 December 2016

2016	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		241	(6)	628	837	2,860	4,560
Profit for the year		-	-	-	351	-	351
Other comprehensive income that may be reclassified subsequently to profit or loss							
Fair value gains on available-for-sale financial assets		-	-	-	-	17	17
Tax effect relating to items that may be reclassified subsequently to profit or loss		-	-	-	-	(3)	(3)
Total other comprehensive income for the year that may be reclassified subsequently to profit or loss		-	-	-	-	14	14
Total comprehensive income for the year		-	-	-	351	14	365
Dividends paid on ordinary shares		-	-	-	(370)	-	(370)
Issue of share capital	H	1	-	6	-	-	7
Expiry of unclaimed asset trust claim period	J	-	-	-	36	-	36
Reserves credit for employee share-based payment schemes	K	-	-	-	-	30	30
Transfer to retained earnings for vested employee share-based payment schemes	K	-	-	-	23	(23)	-
Shares acquired by employee trusts		-	(3)	-	-	-	(3)
Shares distributed or sold by employee trusts		-	7	-	(7)	-	-
Cancellation of capital redemption reserve		-	-	-	488	(488)	-
Aggregate tax effect of items recognised directly in equity		-	-	-	(7)	-	(7)
31 December		242	(2)	634	1,351	2,393	4,618

Financial Information

The Notes on pages 226 to 235 are an integral part of these financial statements.

10. Company financial statements *continued*

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 income that may be reclassified subsequently to profit or loss							
Fair value (losses) on available-for-sale financial assets		-	-	-	-	(7)	(7)
Loss on sale of available-for-sale financial assets recycled to profit and loss		-	-	-	-	(2)	(2)
Tax effect relating to items that may be reclassified subsequently to profit or loss		-	-	-	-	2	2
Total other comprehensive income/(expense) for the year that may be reclassified subsequently to profit or loss		-	-	-	-	(7)	(7)
Total comprehensive income for the year		-	-	-	1,090	(7)	1,083
Dividends paid on ordinary shares		-	-	-	(343)	-	(343)
Issue of share capital	H	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	K	-	-	-	-	34	34
Transfer to retained earnings for vested employee share-based payment schemes	K	-	-	-	32	(32)	-
Transfer between reserves on disposal of subsidiary	K	-	-	-	1,028	(1,028)	-
Shares acquired by employee trusts		-	(9)	-	-	-	(9)
Shares distributed or sold by employee trusts		-	6	-	(6)	-	-
31 December		241	(6)	628	837	2,860	4,560

The Notes on pages 226 to 235 are an integral part of these financial statements.

Company statement of cash flows
For the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax		334	1,073
Impairment of subsidiary undertakings		49	1,415
Impairment of associate undertaking		3	-
Gains on financial instruments		(4)	(1)
Dividend income from subsidiaries		(458)	(2,585)
Interest income on loans to subsidiaries		(20)	(20)
Interest income on available-for-sale debt securities		(12)	(15)
Distributions from equity instruments		(34)	(34)
Interest payable on subordinated liabilities		82	82
Movements in operating assets and liabilities		5	49
Taxation paid		-	-
Net cash flows used in operating activities		(55)	(36)
Cash flows from investing activities			
Loans repaid by subsidiaries		-	301
Capital injections into existing subsidiaries	A	(208)	(35)
Acquisition of subsidiaries measured at cost	A	-	(12)
Interest received on loans to subsidiaries		20	20
Interest received on available-for-sale debt securities		17	6
Distributions from equity instruments		34	34
Dividends received from subsidiaries		457	2,585
Acquisition of subsidiaries at FVTPL		(18)	(200)
Disposal of subsidiaries at FVTPL	A	-	75
Sale of debt securities and derivatives		147	(235)
Disposal of investment in associates and joint ventures		13	-
Net cash flows generated from investing activities		462	2,539
Cash flows from financing activities			
Repayment of subordinated liabilities		-	(294)
Dividends paid		(370)	(343)
Interest paid on subordinated liabilities		(82)	(82)
Proceeds from issue of shares		6	1
Shares acquired by trusts		(3)	(9)
Return of cash to shareholders under 'B/C' share scheme		-	(1,749)
Expiry of unclaimed asset trust claim period		36	-
Net cash flows used in financing activities		(413)	(2,476)
Net (decrease)/increase in cash and cash equivalents		(6)	27
Cash and cash equivalents at the beginning of the year	G	61	34
Cash and cash equivalents at the end of the year	G	55	61
Supplemental disclosures on cash flows from operating activities			
Interest received		-	2

Financial Information

The Notes on pages 226 to 235 are an integral part of these financial statements.

10. Company financial statements *continued*

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.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. This is a change from the treatment adopted in 2015 when an income statement was presented. The Company has no employees.

(a)(i) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018 with option to defer for certain insurance entities) IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. Details of the Group's assessment of IFRS 9 are given in the basis of preparation of the Group financial statements. Management are assessing the impact of the standard in relation to the Company financial statements. The impact of the standard is not expected to be significant.

(a)(ii) Investment in subsidiaries, associates and joint ventures

The Company has certain subsidiaries which are investment vehicles such as open-ended investment companies, 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)(iii) 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)(iv) 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 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 A and B

Notes to the Company financial statements

A. Investments in subsidiaries

	Notes	2016 £m	2015 £m
Investments in subsidiaries measured at cost		4,493	4,334
Investments in subsidiaries measured at FVTPL	C	276	257
Investments in subsidiaries		4,769	4,591

	2016 £m	2015 £m
At 1 January	4,591	5,833
Investment into existing subsidiaries measured at cost	220	35
Acquisition of subsidiaries at cost	-	12
Disposal of subsidiaries measured at cost	(12)	-
Impairment of subsidiaries measured at cost	(49)	(1,415)
Acquisition of subsidiaries at FVTPL	19	200
Gains on subsidiaries at FVTPL	-	1
Disposal of subsidiaries at FVTPL	-	(75)
At 31 December	4,769	4,591

Details of the Company's subsidiaries are given in Note 50 of the Group financial statements.

On 11 February 2016 the Company increased its investment in Standard Life Employee Services Limited through the purchase of 8,000 ordinary shares for a cash consideration of £8m.

On 11 April 2016 the Company increased its investment in Standard Life (Mauritius Holdings) 2006 Limited through the purchase of 250,300,000 ordinary shares for a cash consideration of £177m.

On 30 June 2016 the Company increased its investment in Standard Life Assurance Limited through the purchase of 10,000,000 ordinary shares for a cash consideration of £10m.

On 22 December 2016 the Company further increased its investment in Standard Life Assurance Limited through the purchase of 13,000,000 ordinary shares for a cash consideration of £13m.

On 14 December 2016 the Company transferred its 100% holding in Pearson Jones plc to 1825 Financial Planning Limited, the Group's UK-wide financial advice business. The consideration received was 11,600,000 £1 ordinary shares in Standard Life Assurance Limited.

Included within the impairment charge of £49m in 2016 (2015: £1,415m) is an impairment of £31m (2015: £nil) in the Company's investment in its subsidiary Focus Solutions Group Limited. The recoverable amount is £18m which is its value in use and has been determined using a discount rate of 12% (2015: 12%). This impairment is as a result of a decrease in projected future revenues of the entity. Additionally, an impairment charge of £18m (2015: £70m) has been recognised 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. In 2015 the impairment was primarily as a result of a review of expense and reserving assumptions following regulatory change.

On 30 January 2015 Standard Life Oversea Holdings Limited 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 in 2015 of £1,345m.

Investments in subsidiaries at FVTPL are £276m (2015: £257m) which relate to holdings in money market and absolute return investment funds over which the Group has control.

10. Company financial statements *continued*

B. Investments in associates and joint ventures

	Notes	2016 £m	2015 £m
Investment in associate measured at cost		10	13
Investments in associates measured at FVTPL	C	-	13
Investment in joint venture measured at cost		124	124
Investments in associates and joint ventures		134	150

(a) Investments in associates

The Company's investment in associate measured at cost relates to a 25.3% (2015: 25.3%) interest in Tenet Group Limited, a company incorporated in England. The year end date for Tenet Group Limited is 30 September which is different from the Company's year end date of 31 December. For the purposes of the preparation of the Company's financial statements, financial information for the year ended 31 December is used.

(b) Investment in joint venture

The Company has a 50% (2015: 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.

C. Financial investments

2016	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		276	-	-	-	276
Loans to subsidiaries		-	-	-	323	323
Debt securities		-	-	605	-	605
Receivables and other financial assets	E	-	-	-	54	54
Cash and cash equivalents	G	-	-	-	55	55
Total		276	-	605	432	1,313

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
Debt securities		-	-	743	-	743
Receivables and other financial assets	E	-	-	-	48	48
Cash and cash equivalents	G	-	-	-	61	61
Total		270	-	743	431	1,444

The amount of debt securities expected to be recovered or settled after more than 12 months is £297m (2015: £290m).

The amount of loans to subsidiaries expected to be recovered or settled after more than 12 months is £323m (2015: £322m).

D. Derivative financial instruments

The Company uses derivative financial instruments in order to reduce the risk from potential movements in foreign exchange rates. These instruments are designated as held for trading in the Company's financial statements.

	2016			2015		
	Contract amount	Fair value assets	Fair value liabilities	Contract amount	Fair value assets	Fair value liabilities
	£m	£m	£m	£m	£m	£m
Foreign exchange forwards	6	-	-	40	-	2

The derivative liabilities of £nil (2015: £2m) are expected to be settled within 12 months.

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

	Within 1 year	2-5 years	Total
2016	£m	£m	£m
Cash inflows			
Derivative financial liabilities	6	-	6
Total	6	-	6
Cash outflows			
Derivative financial liabilities	6	-	6
Total	6	-	6
Net derivative financial instruments cash flows	-	-	-
	Within 1 year	2-5 years	Total
2015	£m	£m	£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)

Financial Information

E. Receivables and other financial assets

	2016	2015
	£m	£m
Due from related parties	52	44
Collateral pledged in respect of derivatives contracts	-	2
Other financial assets	2	2
Total receivables and other financial assets	54	48

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.

F. Other assets

Other assets of £8m (2015: £19m) comprise amounts due from related parties in respect of Group relief, which are expected to be recovered within 12 months.

G. Cash and cash equivalents

	2016	2015
	£m	£m
Money at call and term deposits with original maturity of less than three months	55	61
Total cash and cash equivalents	55	61

Money at call and term deposits with original maturity of less than three months are subject to variable interest rates.

H. Share capital

Details of the Company's share capital are given in Note 28 of the Group financial statements.

Details of the dividends paid on ordinary shares and the 73p per ordinary share returned to the shareholders in 2015 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 2016.

10. Company financial statements *continued*

I. 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 allocated shares in the new listed Company. Some former members were yet to claim their shares and the UAT held these on their behalf.

On expiry of the claim period on 9 July 2016, the entitlement to the unclaimed shares remaining in the UAT transferred to the Company and they became classified as shares held by trusts. These shares are measured at £nil. Unclaimed shares and unclaimed cash referred to in Note J will be used to fund the charitable activities of the Standard Life Foundation.

The number of shares held in trust at 31 December 2016 was as follows:

	2016	2015
Number of shares held in trust		
Employee Share Trust	1,287,431	1,637,419
Unclaimed Asset Trust	12,999,801	-

J. Retained earnings

Included in retained earnings is an amount related to the expiry of the UAT claim period. In addition to unclaimed shares, which are referred to in Note I, the UAT holds cash in relation to unclaimed cash entitlements arising from both cash entitlements which were allocated to eligible members of the mutual company at the date of demutualisation and dividends received on shares held in the UAT. On expiry of the UAT claim period on 9 July 2016, the entitlement to the unclaimed cash remaining in the UAT transferred partly to the Company and partly to the Standard Life Foundation. The transfer of the cash entitlement to the Company resulted in the recognition of a cash asset of £36m, the impact of which was recognised directly in retained earnings in equity.

K. Reconciliation of movements in other reserves

	Merger reserve	Equity compensation reserve	Special reserve	Capital redemption reserve	Available-for- sale financial assets	Total
	£m	£m	£m	£m	£m	£m
2016						
At 1 January	2,080	50	241	488	1	2,860
Reserves credit for employee share-based payment schemes	-	30	-	-	-	30
Transfer to retained earnings for vested employee share-based payments	-	(23)	-	-	-	(23)
Cancellation of capital redemption reserve	-	-	-	(488)	-	(488)
Fair value gains on available-for-sale financial assets	-	-	-	-	17	17
Tax effect relating to items that may be reclassified subsequently to profit or loss	-	-	-	-	(3)	(3)
At 31 December	2,080	57	241	-	15	2,393
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

Further information on the merger reserve and special reserve is given in Note 31 of the Group financial statements.

On 17 June 2016 the Company's capital redemption reserve was cancelled in accordance with section 649 of the Companies Act 2006 resulting in a transfer of £488m to retained earnings.

L. Financial liabilities

2016	Notes	Held for trading	Financial liabilities measured at amortised cost	Total
		£m	£m	
Subordinated liabilities	M	-	1,319	1,319
Other financial liabilities	O	-	8	8
Total		-	1,327	1,327

2015	Notes	Held for trading	Financial liabilities measured at amortised cost	Total
		£m	£m	
Subordinated liabilities	M	-	1,318	1,318
Derivative financial liabilities	D	2	-	2
Other financial liabilities	O	-	52	52
Total		2	1,370	1,372

M. Subordinated liabilities

	2016		2015	
	Principal amount £m	Carrying value £m	Principal amount £m	Carrying value £m
Subordinated notes:				
5.5% Sterling fixed rate due 4 December 2042	500	499	500	499
Subordinated guaranteed bonds:				
6.75% Sterling fixed rate perpetual	500	502	500	502
Mutual Assurance Capital Securities:				
6.546% Sterling fixed rate perpetual	300	318	300	317
Subordinated liabilities		1,319		1,318

Subordinated liabilities are considered current if the contractual re-pricing or maturity dates are within one year. The principal amount of all the subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on the subordinated liabilities of £37m (2015: £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.

N. Deferred tax liabilities

	2016	2015
	£m	£m
Deferred tax liabilities	3	1
Total tax liabilities	3	1

The amount of deferred tax liabilities expected to be settled after more than 12 months is £3m (2015: £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 £8m (2015: £19m). The Company has provided for deferred tax amounting to £3m (2015: £1m) in respect of unrealised gains on assets held as available for sale.

10. Company financial statements *continued*

Recognised deferred tax

	2016	2015
	£m	£m
Deferred tax liabilities comprise:		
Unrealised gains on assets held as available-for-sale	(3)	(1)
Net deferred tax liabilities	(3)	(1)
Movements in deferred tax liabilities comprise:		
At 1 January	(1)	(1)
Amounts credited to net profit	1	-
Amounts charged to other comprehensive income	(3)	-
At 31 December	(3)	(1)

O. Other financial liabilities

The amount of other financial liabilities expected to be settled after more than 12 months is £nil (2015: £nil).

P. Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £nil (2015: £nil).

Q. Risk management

(a) Overview

The Company is principally involved in the management of its investments in subsidiaries, and is responsible for the raising and allocation of capital to ensure that the operational funding and regulatory capital needs of its subsidiaries are met at all times. The Group's capital management policies are explained in Note 49 of the Group financial statements.

Through the management of its investment in subsidiaries and capital position the Company holds financial instruments and is principally exposed to market, credit and liquidity risks.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Risk Management' section within the Strategic report and in Note 41 of the Group financial statements.

(b) Market risk

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 and money market instruments. 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.

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.

The market risk exposure to foreign currency assets is matched by liabilities held in the same currency or managed using derivative financial instruments.

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.

The following table provides information regarding the market risk exposure to debt securities of the Company at 31 December 2016 and 31 December 2015, showing diversification by geographic region.

	Geography							
	UK		Europe		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	215	183	254	521	136	39	605	743

(b) Market risk *continued***(b)(ii) Sensitivity analysis – market risk**

The table below illustrates the sensitivity of profit after tax to changes in equity security prices and to changes in interest rates as at the reporting date, assuming other assumptions remain unchanged.

	Equity security prices						Interest rates					
	+20%		-20%		+10%		-10%		+1%		-1%	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Impact on profit after tax	4	5	(4)	(5)	2	2	(2)	(2)	(2)	-	2	-

Equity sensitivity to market risk

The Company classifies certain debt securities 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 (£17m) (2015: (£16m)) and to a 1% decrease in interest rates is £17m (2015: £16m).

The sensitivity of the Company's total equity to change in equity security prices 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.

(c) Credit risk

The Company is exposed to credit risk from 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. Exposure also includes the risk of a reduction in the value of assets due to widening of credit spreads. 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. An explanation of credit ratings is included in Note 41(c) of the Group financial statements.

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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
AAA	-	-	-	-	-	-	-	-	36	35	-	-	-	-	36	35
AA	-	-	-	-	-	-	-	-	127	64	-	-	2	9	129	73
A	-	-	-	-	-	-	-	-	295	537	-	-	10	4	305	541
BBB	-	-	-	-	-	-	-	-	131	92	-	-	43	48	174	140
Below BBB	-	-	-	-	-	-	-	-	15	-	-	-	-	-	15	-
Not rated	276	257	-	13	323	322	-	-	1	15	54	48	-	-	654	655
Total	276	257	-	13	323	322	-	-	605	743	54	48	55	61	1,313	1,444

Investments in subsidiaries at FVTPL of £276m (2015: £257m) includes £201m (2015: £200m) invested in absolute return funds and £75m (2015: £57m) 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.

At 31 December 2016 and 31 December 2015, all financial assets were neither past due nor impaired.

10. Company financial statements *continued*

(d) Liquidity risk

Liquidity risk is the risk that the Company 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. 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 mostly offset by receipts arising from loans to subsidiaries and investments in subsidiaries. Refer to Note D for the maturity profile of undiscounted cash flows of derivative financial instruments.

Liquidity risk is managed through the Group liquidity and capital management policy which is outlined in Note 41 (e) of the Group financial statements. 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 held as part of its contingency funding plans, to £400m (from £500m) in line with a lower risk profile following the sale of the Canadian business. In 2016 the maturity date of this facility was extended for a further year to 2021 and it 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

A cash flow analysis by remaining contractual maturities for subordinated liabilities (all of which are issued by the Company) is included in the shareholder business section of Note 41(e)(i) of the Group financial statements. Other financial liabilities have a contractual maturity of within 1 year.

R. 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. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Company incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings, complaints and related regulatory matters.

(b) Indemnities and guarantees

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 2016 (2015: £nil).

S. 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:

	2016	2015
	£m	£m
Due from related parties:		
Subsidiaries	60	63
Loans to subsidiaries	323	322
	383	385

Transactions with related parties carried out by the Company during the year were as follows:

	2016	2015
	£m	£m
Revenues from related parties:		
Subsidiaries	512	1,295
Associates	4	-
	516	1,295
Expenses to related parties:		
Subsidiaries	109	156
Associates	3	-
	112	156

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 and the audited section of the Directors' remuneration report. 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. Details of the employee share-based payment schemes operated by the Company are given in Note 47 of the Group financial statements.

T. Fair value of assets and liabilities

The Company's approach to the fair value of assets and liabilities is aligned with the Group policy detailed in Note 43 of the Group financial statements. 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 C and L and includes those financial assets and liabilities held at fair value.

(a) Methodology used to determine fair value of assets and liabilities

The fair value hierarchy, and the methods and assumptions used to determine fair value by the Company are aligned with the Group, as detailed in Note 43 of the Group financial statements, with the following exceptions:

Investments in subsidiaries at FVTPL

Investments in subsidiaries at FVTPL comprises £201m (2015: £200m) 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.

(b) 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							
	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Investments in subsidiaries at FVTPL	201	200	75	57	-	-	276	257
Investment in associate at FVTPL	-	13	-	-	-	-	-	13
Debt securities	32	31	572	711	1	1	605	743
Total	233	244	647	768	1	1	881	1,013
Liabilities								
Derivative financial liabilities	-	-	-	2	-	-	-	2
Total	-	-	-	2	-	-	-	2

There were no significant transfers between level 1 and level 2 in the year. During the year, there were no disposals (2015: none) of level 3 securities. There is no significant sensitivity of level 3 financial instruments measured at fair value in relation to changes in key assumptions.

(c) Fair value of financial assets and liabilities measured at amortised cost

The fair value of subordinated liabilities is set out in Note 43(e) of the Group financial statements.

The table below presents estimated fair values of other financial assets and liabilities held by the Company whose carrying value does not approximate fair value.

	Notes	2016	2015	2016	2015
		Carrying value	Carrying value	Fair value	Fair value
		£m	£m	£m	£m
Loans to subsidiaries	C	323	322	340	348

The estimated fair values of loans to subsidiaries are determined with reference to quoted market prices determined using observable market inputs. 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 loans to subsidiaries as detailed above measured at fair value by level of the fair value hierarchy.

	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
Loans to subsidiaries	-	-	334	343	6	5	340	348

11. Supplementary Information

11.1 Alternative performance measures

We assess our performance using a variety of measures that are not defined under IFRS and are therefore termed alternative performance measures (APMs). The APMs that we use may not be directly comparable with similarly named measures used by other companies.

We have presented below reconciliations from these APMs to the most appropriate measure prepared in accordance with IFRS.



Full definitions for APMs are included in the Glossary

Operating profit

Operating profit is a key APM used by our management to evaluate performance.

Operating profit reporting provides further analysis of the results reported under IFRS and the Directors believe it helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing non-operating items. Operating profit is a key performance indicator, and is consistent with the way that financial performance is measured by management and reported to the Board and strategic executive committee.

	2016	2015
	£m	£m
Fee based revenue	1,651	1,579
Spread/risk margin	134	145
Total operating income	1,785	1,724
Total operating expenses	(1,159)	(1,124)
Capital management	21	9
Share of associates' and joint ventures' profit before tax	76	56
Operating profit before tax from continuing operations	723	665
Tax on operating profit	(127)	(114)
Share of associates' and joint ventures' tax expense	(13)	(13)
Operating profit after tax from continuing operations	583	538
Singapore included in discontinued operations segment	-	(42)
Total non-operating items	(274)	(257)
Tax on non-operating items	59	37
IFRS profit from continuing operations	368	276
IFRS profit from discontinued operations	-	1,147
Total IFRS profit attributable to equity holders of Standard Life plc	368	1,423

Operating profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes. Operating profit also excludes restructuring and corporate transaction costs, amortisation and impairment of intangibles acquired in business combinations, and certain one off items. Further details on operating profit and non operating items are included in Notes 2(b)(i) and 14 of the Group financial statements section of this report.

As set out in the table above, the key components of operating profit before tax are total operating income (which is broken down into fee based revenue and spread/risk margin), total operating expenses and share of associates' and joint ventures' profit before tax. These components provide a meaningful analysis of our operating results. A reconciliation of total operating income and total operating expenses from continuing operations (as presented in the analysis of operating profit above) to total revenue and total expenses respectively (as presented in the Group consolidated income statement) is included in Note 2(b)(ii) of the Group financial statements section of this report.

Underlying performance

Underlying performance is calculated as operating profit before tax after excluding the impact of spread/risk operating actuarial assumption changes and specific management actions in the reporting period. It therefore removes certain volatile items from operating profit and supports an understanding of the underlying operating performance of the business.

	2016	2015
	£m	£m
Operating profit before tax from continuing operations	723	665
Underlying adjustments		
Operating assumption changes	(42)	(44)
Shareholder support to the German with profits business	-	9
Underlying performance from continuing operations	681	630

Underlying cash generation

This is an APM which presents a shareholder view of underlying cash earnings. Underlying cash generation adjusts underlying performance for certain non-cash items as set out below. It provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to shareholders. The IFRS consolidated statement of cash flows includes policyholder cash flows, and therefore does not present a shareholder view, and does not exclude underlying adjustments and non-operating items.

		2016 £m	2015 £m
Operating profit before tax from continuing operations		723	665
Underlying adjustments		(42)	(35)
Underlying performance from continuing operations		681	630
Associates and JVs adjustment	(a)	(60)	(44)
Current tax on underlying performance	(b)	(106)	(114)
DAC/DIR adjustment	(c)	(2)	5
Fixed and intangible assets adjustment	(d)	(11)	(18)
Underlying cash generation		502	459

Further details on the reconciling items between underlying performance and underlying cash generation are included below.

(a) Associates and Joint Ventures (JVs) adjustment

The calculation of underlying cash generation was changed during H1 2016. Underlying cash generation now includes dividends received from associates and joint ventures, previously no contribution was included from these businesses. The revised approach reflects more closely the underlying cash generated given the regular receipt of dividends in recent years from our Indian associates HDFC Life and HDFC Asset Management. Comparatives have been restated.

	Notes per Group financial statements	2016 £m	2015 £m
Exclude share of associates' and joint ventures' profit before tax	2	(76)	(56)
Dividends received from associates and joint ventures	18	16	12
Associates and JVs adjustment		(60)	(44)

(b) Current tax on underlying performance

Current tax on underlying performance excludes tax on non-operating and underlying adjustments, excludes current tax attributable to policyholders, and excludes deferred tax charges/credits.

	Notes per Group financial statements	2016 £m	2015 £m
Total current tax attributable to continuing operations	11	(333)	(222)
Current tax expense attributable to policyholders' returns		264	168
Current tax credit relating to non-operating profit items		(44)	(68)
Current tax expense attributable to underlying adjustments		7	8
Current tax on underlying performance		(106)	(114)

(c) Deferred acquisition costs (DAC)/ Deferred income reserve (DIR) adjustment

The DAC/DIR non-cash adjustment adds back existing business DAC/DIR amortisation included in underlying performance for the period and deducts the equivalent new business DAC/DIR additions for the period. The following table reconciles DAC/DIR movements in the Group financial statements to the DAC/DIR adjustment.

	Notes per Group financial statements	2016 £m	2015 £m
Amortisation of deferred acquisition costs	17	96	124
Acquisition costs deferred during the period	17	(51)	(83)
Amortisation of deferred income	38	(61)	(63)
Fee income deferred during the period	38	15	25
Adjustments for HWPf and GWPf DAC/DIR not included in shareholder view		(1)	2
DAC/DIR adjustment		(2)	5

Supplementary information *continued*

(d) Fixed and intangible assets adjustment

The fixed and intangible assets adjustment adds back depreciation and amortisation that is included within underlying performance for the period and deducts additions for the period where the depreciation or amortisation of those additions will be included within underlying performance. The following table reconciles equipment and intangible asset movements in the Group financial statements to the fixed and intangible asset adjustment.

	Notes per Group financial statements	2016 £m	2015 £m
Depreciation of equipment	20	14	16
Amortisation of intangible assets	16	64	51
Amortisation of intangible assets acquired through business combinations (non-operating)	16	(19)	(20)
Additions of equipment ¹	20	(9)	(7)
Additions of intangible assets	16	(89)	(64)
Additions of intangible assets acquired through business combinations (not amortised through operating profit)	16	28	6
Fixed and intangible assets adjustment		(11)	(18)

¹ Excludes equipment acquired through business combinations.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is an APM reported by Standard Life Investments, which is commonly used by asset management businesses to measure profitability and therefore provides useful information on operating performance. EBITDA for Standard Life Investments adjusts operating profit by removing net interest expense, depreciation and amortisation.

	2016 £m	2015 £m
Standard Life Investments		
EBITDA	395	352
Interest, depreciation and amortisation	(12)	(10)
Operating profit before tax from continuing operations	383	342
Share of associates' and joint ventures' tax expense	(11)	(11)
Total non-operating items	(50)	(53)
Total tax expense	(63)	(53)
Profit for the year attributable to equity holders of Standard Life plc	259	225

11.2 Financial ratios

We also use a number of financial ratios to help assess our performance and these are also not defined under IFRS. Details of our main financial ratios and how they are calculated are presented below.

Operating return on equity

Operating return on equity is a measure that highlights our ability to generate operating profit relative to our shareholder capital. Operating return on equity represents the annualised post-tax operating profit expressed as a percentage of the opening IFRS equity, adjusted for time apportioned dividends paid to equity holders.

	2016	2015
Operating profit after tax (£m)	583	541
Opening IFRS equity attributable to equity holders of Standard Life plc (£m)	4,002	4,672
External final dividend payment - time apportioned (£m)	(142)	(131)
External interim dividend payment - time apportioned (£m)	(21)	(20)
Canada: Sale proceeds less return of value - time apportioned (£m)	-	397
Canada: Remove net asset value at point of sale - time apportioned (£m)	-	(1,106)
Adjusted IFRS equity (£m)	3,839	3,812
Operating return on equity (%)	15.2	14.2

Cost/income ratio

Cost/income ratio is a measure that highlights our efficiency and is calculated as operating expenses divided by operating income on a rolling 12 month basis, and includes the share of associates' and joint ventures' profit before tax.

	2016	2015	2014
Operating expenses from continuing operations (£m)	(1,159)	(1,124)	(1,045)
Fee based revenue (£m)	1,651	1,579	1,429
Spread/risk margin (£m)	134	145	183
Share of associates' and joint ventures' profit before tax (£m)	76	56	39
Total operating income and share of associates' and joint ventures' profit before tax from continuing operations (£m)	1,861	1,780	1,651
Cost/Income ratio (%)	62	63	63

Fee revenue yield (bps)

The average revenue yield on fee based business is a measure which illustrates the average margin earned on the assets that we administer. It is calculated as a rolling 12 month fee based revenue divided by a rolling 12 month monthly average AUA.

	Standard Life Investments growth channels		UK Pensions and Savings	
	2016	2015	2016	2015
Fee based revenue (£m)	680	624	664	631
Average fee based assets under administration (£bn) ¹	129.4	119.0	115.2	106.2
Fee revenue yield (bps)	53	52	58	59

¹ Excludes AUA from conventional with profits for the UK Pensions and Savings business and HDFC Asset Management for Standard Life Investments.

EBITDA margin

EBITDA margin is a measure reported by Standard Life Investments and is commonly used by asset management businesses to measure profit in relation to revenue. It is calculated as EBITDA divided by fee based revenue.

Standard Life Investments	2016	2015
EBITDA (£m)	395	352
Fee based revenue (£m)	885	843
EBITDA margin (%)	45	42

11.3 Assets under administration and net flows

Assets under administration (AUA) is a measure of the total assets we administer. It includes Standard Life Investments assets under management (AUM), as well as those assets that the Group administers where the customer has made a choice to select an external third party investment manager.

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, and excluding certain assets which do not constitute AUA. The assets excluded are primarily reinsurance assets, deferred acquisition costs and intangible assets.

As an investment company, AUA and net flows are key drivers of shareholder value.

Assets under administration 12 months ended 31 December 2016

	Opening AUA at 1 Jan 2016	Gross flows	Redemptions	Net flows	Market and other movements	Closing AUA at 31 Dec 2016
	£bn	£bn	£bn	£bn	£bn	£bn
Total growth channels	198.3	38.6	(34.5)	4.1	35.2	237.6
Total mature books fee	82.0	2.5	(8.7)	(6.2)	13.0	88.8
Total mature books spread/risk	14.9	0.2	(1.1)	(0.9)	2.1	16.1
Total other	12.2	0.8	(0.4)	0.4	2.0	14.6
Total AUA	307.4	42.1	(44.7)	(2.6)	52.3	357.1
Growth Channels	Institutional	67.0	15.6	(14.5)	1.1	87.0
	Wholesale	45.9	12.1	(13.8)	(1.7)	50.1
	Wealth	6.5	0.8	(0.9)	(0.1)	6.8
	Ignis ¹	11.1	-	-	-	(11.1)
	Standard Life Investments	130.5	28.5	(29.2)	(0.7)	143.9
	UK Workplace	33.0	4.1	(2.4)	1.7	37.4
	UK Retail ²	42.6	8.1	(4.4)	3.7	62.9
	UK Pensions and Savings	75.6	12.2	(6.8)	5.4	100.3
	Europe growth fee ²	9.6	1.3	(0.8)	0.5	11.2
	Pensions and Savings	85.2	13.5	(7.6)	5.9	111.5
	Hong Kong	0.5	0.1	(0.1)	-	0.6
	Eliminations ³	(17.9)	(3.5)	2.4	(1.1)	(18.4)
Total growth channels	198.3	38.6	(34.5)	4.1	35.2	237.6
Mature Books	UK mature Retail	32.7	0.6	(3.1)	(2.5)	34.3
	Europe mature fee	8.4	0.7	(0.8)	(0.1)	10.1
	Third party strategic partner life business	39.6	1.2	(3.9)	(2.7)	43.8
	Other fee including CWP	1.3	-	(0.9)	(0.9)	0.6
	Total mature books fee	82.0	2.5	(8.7)	(6.2)	88.8
	Spread/risk	14.9	0.2	(1.1)	(0.9)	16.1
Total mature books	96.9	2.7	(9.8)	(7.1)	104.9	
Associate and joint venture life businesses ⁴	2.3	0.8	(0.4)	0.4	1.3	4.0
Other ⁵	10.4	-	-	-	0.8	11.2
Other Eliminations ³	(0.5)	-	-	-	(0.1)	(0.6)
Total	307.4	42.1	(44.7)	(2.6)	52.3	357.1

¹ During 2016 Ignis funds were merged into Standard Life Investments funds and are now reported within Institutional and Wholesale. This has resulted in a transfer of £11.1bn AUM out of Ignis into Institutional (£9.8bn) and Wholesale (£1.3bn) through Market and other movements.

² Platform AUA (Wrap, Elevate and Fundzone) of £44.2bn (2015: £26.5bn) comprises £41.7bn (2015: £24.4bn) reported within UK Retail and £2.5bn (2015: £2.1bn) relating to Wrap International Bond reported within Europe growth fee.

³ Certain products are included in both Pensions and Savings growth AUA and Standard Life Investments growth AUM. Therefore, at a Group level an elimination adjustment is required to remove any duplication in addition to other necessary consolidation adjustments. Comprises £18.4bn (2015: £17.9bn) related to growth channel business eliminations, and £0.6bn (2015: £0.5bn) related to other consolidation/eliminations.

⁴ Market and other movements includes £0.8bn relating to stake increase in HDFC Life in April 2016.

⁵ Other comprises Assets that do not generate revenue from products of £8.9bn (2015: £7.7bn) and Other corporate assets of £2.3bn (2015: £2.7bn).

Assets under administration
12 months ended 31 December 2015

	Opening AUA at 1 Jan 2015	Gross flows	Redemptions	Net flows	Market and other movements	Closing AUA at 31 Dec 2015	
	£bn	£bn	£bn	£bn	£bn	£bn	
Total growth channels	180.7	40.8	(25.9)	14.9	2.7	198.3	
Total mature books fee	87.9	1.6	(9.5)	(7.9)	2.0	82.0	
Total mature books 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	
Growth Channels	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
	Standard Life Investments	117.5	31.4	(21.1)	10.3	2.7	130.5
	UK Workplace	32.0	4.1	(2.2)	1.9	(0.9)	33.0
	UK Retail ¹	37.3	7.5	(3.6)	3.9	1.4	42.6
	UK Pensions and Savings	69.3	11.6	(5.8)	5.8	0.5	75.6
	Europe growth fee ¹	8.7	1.6	(0.7)	0.9	-	9.6
	Pensions and Savings	78.0	13.2	(6.5)	6.7	0.5	85.2
	Hong Kong	0.4	0.1	-	0.1	-	0.5
	Eliminations ²	(15.2)	(3.9)	1.7	(2.2)	(0.5)	(17.9)
	Total growth channels	180.7	40.8	(25.9)	14.9	2.7	198.3
Mature Books	UK mature Retail	33.5	0.7	(3.1)	(2.4)	1.6	32.7
	Europe mature fee	8.5	0.7	(0.5)	0.2	(0.3)	8.4
	Third party strategic partner life business	43.8	0.2	(5.0)	(4.8)	0.6	39.6
	Other fee including CWP	2.1	-	(0.9)	(0.9)	0.1	1.3
	Total mature books fee	87.9	1.6	(9.5)	(7.9)	2.0	82.0
	Spread/risk	16.1	0.2	(1.1)	(0.9)	(0.3)	14.9
Total mature books	104.0	1.8	(10.6)	(8.8)	1.7	96.9	
Associate and joint venture life businesses	2.1	0.4	(0.2)	0.2	-	2.3	
Other ³	10.2	-	-	-	0.2	10.4	
Other Eliminations ²	(0.4)	-	-	-	(0.1)	(0.5)	
Total	296.6	43.0	(36.7)	6.3	4.5	307.4	

Financial Information

¹ Platform AUA (Wrap, Elevate and Fundzone) of £26.5bn comprises £24.4bn reported within UK Retail and £2.1bn relating to Wrap International Bond reported within Europe growth fee.

² Certain products are included in both Pensions and Savings growth AUA and Standard Life Investments growth 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) related to growth channel business eliminations and (£0.5bn) related to other consolidation/eliminations.

³ Other comprises Assets that do not generate revenue from products of £7.7bn and Other corporate assets of £2.7bn.

11.4 Standard Life Investments assets under management and net flows

12 months ended 31 December 2016		Opening AUM at	Gross flows	Redemptions	Net flows	Market and other movements	Closing AUM at
		1 Jan 2016					31 Dec 2016
		£bn	£bn	£bn	£bn	£bn	£bn
Growth AUM	UK	83.2	17.3	(17.2)	0.1	17.3	100.6
	Europe	14.2	4.0	(5.5)	(1.5)	3.5	16.2
	North America	11.7	4.8	(5.5)	(0.7)	1.7	12.7
	Asia Pacific	3.3	0.9	(1.0)	(0.1)	0.6	3.8
	India	7.0	1.5	-	1.5	2.1	10.6
	Ignis ¹	11.1	-	-	-	(11.1)	-
	By geography of client	130.5	28.5	(29.2)	(0.7)	14.1	143.9
	Equities	16.9	3.8	(4.1)	(0.3)	1.3	17.9
	Fixed income	21.8	5.4	(4.3)	1.1	9.1	32.0
	Multi-asset ²	50.3	11.3	(15.1)	(3.8)	5.0	51.5
	Real estate	8.6	1.1	(1.4)	(0.3)	2.0	10.3
	MyFolio	8.1	2.5	(0.9)	1.6	0.8	10.5
	Other ³	13.7	4.4	(3.4)	1.0	7.0	21.7
	Ignis ¹	11.1	-	-	-	(11.1)	-
	By asset class	130.5	28.5	(29.2)	(0.7)	14.1	143.9
Institutional	67.0	15.6	(14.5)	1.1	18.9	87.0	
Wholesale	45.9	12.1	(13.8)	(1.7)	5.9	50.1	
Wealth	6.5	0.8	(0.9)	(0.1)	0.4	6.8	
Ignis ¹	11.1	-	-	-	(11.1)	-	
By channel	130.5	28.5	(29.2)	(0.7)	14.1	143.9	
Standard Life Group	83.1	3.5	(5.6)	(2.1)	9.2	90.2	
Phoenix Group	39.6	1.2	(3.9)	(2.7)	6.9	43.8	
Strategic partner life business AUM	122.7	4.7	(9.5)	(4.8)	16.1	134.0	
Standard Life Investments AUM	253.2	33.2	(38.7)	(5.5)	30.2	277.9	

12 months ended 31 December 2015		Opening AUM at	Gross flows	Redemptions	Net flows	Market and other movements	Closing AUM at
		1 Jan 2015					31 Dec 2015
		£bn	£bn	£bn	£bn	£bn	£bn
Growth AUM	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
	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	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	245.9	35.7	(32.2)	3.5	3.8	253.2	

¹ During 2016 Ignis funds were merged into Standard Life Investments funds, transferring £11.1bn AUM through Market and other movements into the following categories - By geography: UK (£11.1bn), By asset class: Fixed income (£5.3bn), Multi-asset (£0.2bn), Real estate (£1.7bn) and Other (£3.9bn), By channel: Institutional (£9.8bn) and Wholesale (£1.3bn).

² Comprises absolute return strategies, enhanced diversification strategies, risk-based portfolios and traditional balanced portfolios.

³ Comprises cash, private equity, illiquidity funds and Wealth. Net inflows from India cash funds £0.4bn (2015: £0.6bn), net inflows from liquidity funds of £0.3bn (2015: £0.7bn).

11.5 Assets under administration by reporting segment

An analysis of AUA by reportable segment is included below.

	Standard Life Investments	Pensions and Savings	India and China	Other	Eliminations ¹	Total
	£bn	£bn	£bn	£bn	£bn	£bn
31 December 2016						
Assets under administration						
Fee based	177.1	156.5	0.6	-	(18.4)	315.8
Spread/risk	-	16.1	-	-	-	16.1
Assets not generating revenue from products	-	8.9	-	-	-	8.9
Associate and joint venture businesses	10.6	-	4.0	-	-	14.6
Other corporate assets	1.1	-	-	1.2	(0.6)	1.7
Total assets under administration	188.8	181.5	4.6	1.2	(19.0)	357.1
31 December 2015						
Assets under administration						
Fee based	163.1	127.6	0.5	-	(17.9)	273.3
Spread/risk	-	14.9	-	-	-	14.9
Assets not generating revenue from products	-	7.7	-	-	-	7.7
Associate and joint venture businesses	7.0	-	2.3	-	-	9.3
Other corporate assets	1.0	-	-	1.6	(0.5)	2.1
Total assets under administration	171.1	150.2	2.8	1.6	(18.4)	307.4

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.

Financial information

Other information

Contents

12. Reports from the Committees of Standard Life Assurance Limited and the Standard Life Master Trust Co. Ltd.	246
13. Glossary	250
14. Shareholder information	254
15. Contact us	IBC

12. Reports from the Committees of Standard Life Assurance Limited and the Standard Life Master Trust Co. Ltd.

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.

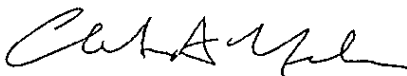
The committee's routine formal interaction with the SLAL board is by the submission of the minutes of its meetings to the board, together with the provision of feedback on its advice, and by an annual report to the SLAL board in which it reviews the management of with profits business having regard to 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 2016 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. Minutes of the committee meetings are also submitted to the Board of Standard Life plc and, in May 2016, the committee Chairman attended a meeting of the Standard Life plc Board which focused on three key with profits issues – investment strategy, the implementation of the new Solvency II insurance regulation regime and the terms on which the main with profits fund secures guaranteed annuities for customers.

The committee's work in 2016

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

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 ¹	10/10
Finula Cilliers ²	9/9

¹ Ross Ainslie was appointed for a second term in June 2016.

² Finula Cilliers was appointed as a member of the WPC in March 2016.

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 Nick Dumbreck, an actuary from Milliman LLP, to routinely

During 2016, the committee's work focused on these key areas:

Customer

Policy values – the WPC reviewed the algorithm for setting regular bonus rates and confirmed that it remains appropriate. It approved management's recommendations regarding bonus rates and payout values.

Service – the WPC regularly reviews with profits customer complaints data and has been pleased to note the continuation of an improving trend. The WPC visited the Customer Hub to understand how pensions freedoms are applied to the customer experience from a digital and telephony perspective. Following SLAL's decision to close the German With Profits Fund to new business in 2015 and subsequent restructuring to improve efficiency, the WPC has had detailed briefings on the management of the with profits business there, and in 2016, held one of its meetings in the branch office in Germany. The committee has noted that the reduction in numbers of complaints has been especially pronounced in Germany.

Balance of interests

A fundamental responsibility of the WPC is to ensure that with profits customers' interests are protected, with appropriate balance between different cohorts of customers, and that shareholder interests do not compromise this protection.

The WPC approved the transfers to shareholder funds, in accordance with the Scheme of Demutualisation, for the year ended 31 December 2015 of some £190m.

The WPC also reviewed the With Profits Actuary's advice on expense allocation within SLAL and agreed with his conclusion that the methodology had no material bias against policyholders' interests. Occasionally there are administrative errors that give rise to extra costs and particular care is taken to ensure that the with profits funds do not bear any inappropriate burden from these.

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.

Annuitiy Rates for Guaranteed Annuity Option/Guaranteed Minimum Pension Buyouts

Following the committee's review and challenge of the rates charged by SLAL to the Heritage With Profits Fund (HWPF) for buying out guaranteed annuity liabilities, SLAL is now offering a discounted rate to the HWPF on the basis that SLAL is not in a position to offer the HWPF the benefit of the open market option that is available to individual customers without taking on additional risk. The committee is satisfied that the arrangement will help to protect the interests of the fund, but will continue to monitor the fairness of this arrangement.

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 revision of the scenarios for testing investment risk, adjusting Equity Backing Ratios and other allocations of the assets directly backing with profits policies, reviewing the effectiveness of hedging strategies, and setting distribution rates for the Inherited Estate. The HWPF was set up at demutualisation with surplus referred to as an Inherited Estate. Its primary role is to provide a cushion against the possibility that the assets set aside to cover the liabilities of the HWPF prove insufficient and to meet any unforeseen liabilities.

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 technical changes to the Scheme of Demutualisation, to ensure that it continues to operate as intended, all of which were reviewed by the WPC. Some required Court approval, and this was obtained during 2016.

Investments

The WPC receives quarterly presentations from Standard Life Investments on the performance of the with profits funds. The committee noted recent slippage in the performance of some asset classes and challenged their performance. The committee also advised SLAL on the actions that are being taken to reverse this and maintain strong long-term performance.

Conclusion

Looking back on 2016, 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

The committee provides information on its members, 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

12. Reports from the Committees of Standard Life Assurance Limited and the Standard Life Master Trust Co. Ltd. *continued*

Member attendance at meetings for the year ending 31 December 2016 was:

IGC Member	Attendance
Rene Poisson, Chairman	12/12
Richard Butcher	11/12
Ingrid Kirby	12/12
Roger Mattingly	12/12
Michael Craig (non-independent member)	12/12

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 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. In May 2016, the committee chairman attended a meeting of the Standard Life plc Board to present the findings from the IGC's first report.

The Chairman is responsible for the production of an annual report, the first of which was published on 29 March 2016. The report and information on the committee's composition can be found at the following website www.standardlife.co.uk/igc

The committee's work in 2016

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

12.2 Report from the Independent Governance Committee of Standard Life Assurance Limited

During 2016, the Independent Governance Committee (IGC) published their first annual report. The IGC 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

In their first report, the IGC concluded that Standard Life does provide value for money for workplace schemes.

By way of reminder, 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
- ▶ The results of a subsequent 2014 report (the legacy audit) by the Independent Project Board (IPB) of the Association of British Insurers which looked at legacy pension schemes at risk of being exposed to charges over an equivalent of one per cent annual management charge

Membership

The members are appointed by the SLAL board on the recommendation of the Nomination and Governance Committee. The membership of the IGC remains unchanged since inception.

The IGC intends to meet as often as necessary to fulfil its obligations. During 2016, as the IGC fulfilled the commitments they outlined in their first report, the committee has met 12 times.

Legacy audit

The IGC has focused on the implementation of the changes agreed under the legacy audit which were successfully implemented on 31 October 2016 as per the deadline agreed between the IGC and SLAL.

Value for money

In its first annual report the IGC concluded overall that Standard Life's various workplace personal pension products (both newer and older style) offer policyholders value for money; are of good quality; benefit from well-designed investment solutions, good administration and governance; and, comprehensive member support and communication materials. However, it noted that to achieve a suitable level of income in retirement, adequate contributions are required through the lifetime of pension saving.

Looking ahead to 2017

The IGC is looking more closely at the value for money offered by the wider range of investment options as well as default arrangements that have been designed by employer sponsors and/or scheme advisers. It has commissioned some independent analysis to help with this work.

The IGC recognises the importance of gathering the views of scheme members as customers and has continued to attend retirement roadshows. One of Standard Life's commitments to the IGC referenced in the 2016 report was to commission member research. Standard Life, along with ten other providers, sponsored and participated in independent research co-ordinated by Sacker & Partners LLP. This approach allowed insight to be gathered from scheme members to build an understanding of what they value and why. The results of this will be shown in the second annual report due to be published in March 2017.

The annual report can be found at the following website www.standardlife.co.uk/igc

12.3 Report from the Standard Life Master Trust Co. Ltd

During 2015, Standard Life Master Trust Co. Ltd (SLMTC) was established as a subsidiary of SLAL. 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.

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.



Richard Butcher
Chairman, Standard Life Master Trust Co. Ltd

Membership

The board of SLMTC consists of five members, all of whom are independent of Standard Life. They meet regularly throughout the year. Pitmans Trustees Limited was appointed as chair of the board of directors of the SLMTC. Richard Butcher is their representative.

The membership of the board remains unchanged since inception.

The SLMTC board intends to meet at least four times a year and as often as necessary to fulfil its obligations. During its second year the board of SLMTC has met six times.

Member attendance at meetings for the year ending 31 December 2016 was:

Member	Attendance
Richard Butcher, Chairman	6/6
Rene Poisson	6/6
Stella Girvin	6/6
Ruston Smith	6/6
Francois Barker	6/6

The Head of Pensions Strategy routinely attends these meetings and the Managing Director for Corporate, Retail and Wholesale has had regular interactions with the board.

The board's work in 2016

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

Legacy audit

Alongside the IGC, the SLMTC has focused on the implementation of the changes agreed under the legacy audit which were successfully implemented on 31 October 2016 as per the deadline agreed between the SLMTC board and SLAL.

Good value

In the first chairman's statement published in July 2016, it was concluded that Standard Life's Defined Contribution and Stanplan A Master Trusts offer good value.

Audit and assurance framework

In 2016, the board of SLMTC adopted the framework provided by the Audit and Assurance faculty of the Institute of Chartered Accountants in England and Wales entitled Assurance Reporting on Master Trusts (Master Trust Supplement to ICAEW AAF 02/07). This report provides information and assurance on the design and description of governance and administrative control procedures in relation to the business operations of SLMTC for providing pensions trustee services.

Looking ahead to 2017

A key focus for the board is the impact of the Pension Schemes Bill and the changes to come in the months ahead.

More information on the composition of SLMTC can be found at the following website www.standardlife.co.uk/c1/master-trust-committee.page

13. Glossary

Annuity

A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums. If the annuity commences immediately after the payment of the sum, it is called an immediate annuity. If it commences at some future date, it is called a deferred annuity.

Articles

The Articles of Association detail the provisions relating to the regulation of a company in terms of the rights of its members and the authority of its directors.

Assets under administration (AUA)

AUA is a measure of the total assets we administer. It includes Standard Life Investments assets under management (AUM), as well as those assets that the Group administers where the customer has made a choice to select an external third party investment manager.

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, and excluding certain assets which do not constitute AUA. The assets excluded are primarily reinsurance assets, deferred acquisition costs and intangible assets.

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.

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.

Board

The Board of Directors of the Company.

Capital management

Capital management is a component of operating profit and relates to the return from the net assets of the shareholder business, net of costs of financing. This includes the net assets in defined benefit staff pension plans and net assets relating to the financing of subordinated liabilities. The measure excludes short term fluctuations in investment return.

Capital surplus

This is a regulatory measure of our financial strength. From 1 January 2016 our capital surplus is measured on a Solvency II basis. Prior to 1 January 2016, our capital surplus was measured in accordance with the Insurance Groups Directive.

Chief Operating Decision Maker

The strategic executive committee.

Company

Standard Life plc.

Cost/income ratio

This is an efficiency measure that is calculated as operating expenses divided by operating income on a rolling 12 month basis, and includes the share of associates' and joint ventures' profit before tax.

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.

Drawdown (flexible income)

Drawdown, also known as flexible income, 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.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, restructuring costs, other non-operating items and non-controlling interests.

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, such as share options awarded to employees.

EBITDA margin

This is an industry measure of performance for investment management companies. It is calculated as EBITDA divided by fee based revenue.

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.

Fee based business/revenue

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 our major indirect exposure to rising or falling markets coming from higher or lower AMCs.

Fee revenue yield (bps)

The average revenue yield on fee based business is a measure that illustrates the average margin being earned on the assets that we administer. It is calculated as a rolling 12 month fee based revenue divided by a rolling 12 month monthly average AUA.

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.

Group, Standard Life Group or Standard Life

Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006, the Company and its subsidiaries.

Growth 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.

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 funds outside the HWPF. The HWPF also contains increments to this business.

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS as endorsed by the EU.

Investor view

The investor view of Solvency II adjusts the regulatory position for the impact from unrecognised capital and with profit funds / defined benefit pension plans.

Key performance indicators (KPI)

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 plans and insurance companies.

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 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 gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period, including annuity payments.

Operating expenses

Operating expenses is a component of operating profit and relates to the day-to-day expenses of managing our business.

Operating income

Operating income is a component of operating profit and consists of fee based revenue and spread/risk margin.

Operating profit

Operating profit is the Group's key alternative performance 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 corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- ▶ Impairment of intangible assets acquired in business combinations
- ▶ 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 which, due to their size or nature, are not indicative of the long-term operating performance of the business

13. Glossary *continued*

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.

Platform

An investment platform (eg Wrap or Elevate) 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.

Recurse cash flows (RCF)

Certain cash flows arising in the Heritage With Profits Fund (HWPF) on specified blocks of UK and Ireland business, which are transferred out of the fund annually 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.

Scheme of Demutualisation or the Scheme

The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

SICAV

A SICAV (société d'investissement à capital variable) is an open-ended collective investment scheme common in Western Europe. SICAVs can be cross-border marketed in the EU under the Undertakings for Collective Investment in Transferable Securities (UCITS) directive.

Single premium

A single premium contract (as opposed to a regular premium contract), which involves the payment of one premium at inception with no obligation for the policyholder to make subsequent additional payments.

SIPP

A self invested personal pension which provides the policyholder with greater choice and flexibility as to the range of investments made, how those investments are managed, the administration of those assets and how retirement benefits are taken.

SLAC

The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

SLAL

Standard Life Assurance 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.

Solvency capital requirement (SCR)

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 business

Spread/risk 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. Spread/risk margin excludes the impact of economic assumption changes, which are not included in determining operating profit.

Standard Life Investments Institutional

Standard Life Investments Institutional 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 executive committee

Responsible for the day-to-day running of the business and comprises: Chief Executive, Chief Executive – Life Insurance, Chief Executive – Pensions and Savings, Chief Financial Officer, Chief Investment Officer, Chief Operating Officer, Chief People Officer, Chief Risk Officer, General Counsel and the Global Client Director.

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 with third party companies such as Phoenix Group.

Subordinated liabilities

Subordinated liabilities are debts of a company which, in the event of liquidation, rank below its other debts but above share capital.

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 10 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.

Underlying cash generation

This presents a shareholder view of underlying cash earnings. The IFRS consolidated statement of cash flows includes policyholder cashflows, and does not exclude underlying adjustments and non-operating items.

Underlying cash generation adjusts underlying performance for certain 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 underlying performance. A reconciliation of underlying performance to underlying cash generation is included in the Strategic report. Reconciliations between underlying performance, operating profit and profitability on an IFRS basis are also included in this report.

Underlying performance

Underlying performance is operating profit before tax after excluding the impact of spread/risk operating actuarial assumption changes and specific management actions in the reporting period.

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.

14. Shareholder information

Registered office
Standard Life House
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Edinburgh
EH1 2DH
Scotland

Company registration number: SC286832

Phone: 0345 850 9071* or 0131 225 2552*

For shareholder services call:
0345 113 0045*

* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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 next page.
- ▶ Visit our share portal at www.standardlifeshareportal.com

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 2016	24 February
Ex-dividend date for 2016 final dividend	13 April
Record date for 2016 final dividend	18 April
Last date for DRIP elections for 2016 final dividend	03 May
Annual General Meeting	16 May
Dividend payment date for 2016 final dividend	23 May
Half year results 2017	08 August
Ex-dividend date for 2017 interim dividend	07 September
Record date for 2017 interim dividend	08 September
Last date for DRIP elections for 2017 interim dividend	27 September
Dividend payment date for 2017 interim dividend	18 October

Analysis of registered shareholdings at 31 December 2016

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	63,383	61.57	27,054,291	1.37
1,001-5,000	34,672	33.68	70,479,180	3.56
5,001-10,000	2,898	2.82	19,440,771	0.98
10,001-100,000	1,528	1.48	35,141,061	1.78
*100,001+	461	0.45	1,826,769,134	92.31
Total	102,942	100	1,978,884,437	100

These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,060,964 participants holding 746,304,323 shares.

Contact us

Got a shareholder question? Contact our shareholder services team.

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* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Twitter

About our business: @StandardLifeplc

For investors: @sl_invrelations

For financial advisers: @sl_adviser

For businesses: @sl_biz

For UK customers: @StandardLifeUK

Standard Life Investments: @SLI_Global

1825: @1825

Our business in Germany: @standardlife_de

Facebook

Find us on Facebook at
www.facebook.com/standardlifeuk

Blog

Read our latest blogs at
www.standardlife.co.uk/cl/news-and-blog/

Download our app

Keep up to date with Standard Life news, share price updates and other useful information on Standard Life's Investor App

Designed by Black Sun (Strategic report) and
Standard Life (rest of Annual report and accounts)

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2016 (unless otherwise indicated). This document has been published by Standard Life plc for information only. It is based on our understanding as at February 2017 and does not provide financial or legal advice.

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