Standard Life plc

# Preliminary Results 2009

The Preliminary Results 2009 are published on the Group's website at **www.standardlife.com**
The Directors are responsible for the maintenance and integrity of the financial information published on the website in accordance with UK legislation governing the dissemination of financial statements. Access to the website is available outside the UK, where comparable information may be different.

## Standard Life Group

# Press Release

## Standard Life plc
## Preliminary Results 2009
## 10 March 2010

## Strong platform for profitable growth

### Positive net flows across the Group

- Net flows across the Group up 51% to £6.5bn (2008: £4.3bn)[1,2]
- Group assets under administration up 15% to £170bn (31 December 2008: £148bn)[2,3]

### Cash flow robust

- EEV core capital and cash generation after tax up 16% to £350m (2008: £303m)[4,5]
- Full year dividend up 4.0% to 12.24p (2008: 11.77p)

### Profits resilient in difficult markets

- EEV operating profit before tax of £919m (2008: £933m)[4]
- IFRS profit after tax attributable to equity holders of £213m (2008: £100m)

### Strong platform for profitable growth

- Significant step up in investment to develop our leading corporate and retail propositions to accelerate profitable growth
- A further £100m of efficiency savings targeted by 2012

### Chief Executive David Nish said:

*"2009 was a successful year for Standard Life in which we delivered against our strategic objectives and built a strong platform for future profitable growth.*

*"Today's announcement highlights good profits and healthy cash flow for the year, and the ongoing delivery of efficiency savings in our business despite the difficult and uncertain year for financial markets. We continued to grow customer assets, generated further value from back book management, and maintained a robust capital position through our disciplined approach to risk management.*

*"Standard Life starts 2010 in a good position. We will continue to drive shareholder value through being a customer-centric business, focused on long-term savings and investments propositions. We are stepping up our investment in our leading corporate and retail propositions during 2010 and are excited by the many opportunities across our markets. We have also announced an increase to our efficiency targets which will improve margins. These actions will enable Standard Life to grow profits more strongly."*

Unless otherwise stated, all comparisons are in Sterling and are for the 12 months ended 31 December 2008.

## EEV operating profit

| | 2009 £m | 2008 £m |
|---|---|---|
| **Covered business by region** | | |
| UK | **506** | 658 |
| Canada | **192** | 215 |
| Europe | **23** | 68 |
| Asia[4] | **6** | (35) |
| HWPF TVOG | **143** | 11 |
| **Covered business operating profit** | **870** | 917 |
| **Covered business by source** | | |
| New business contribution | **213** | 264 |
| Contribution from in-force business: | | |
| Expected return on existing business | **375** | 431 |
| Experience variances | **277** | 64 |
| Operating assumption changes | **68** | 195 |
| Other covered | **(63)** | (37) |
| **Covered business operating profit** | **870** | 917 |
| **Non-covered business** | | |
| Global investment management | **42** | 48 |
| UK | **57** | 5 |
| Group corporate centre costs | **(50)** | (50) |
| Other | **-** | 13 |
| **Non-covered business operating profit** | **49** | 16 |
| **Operating profit before tax** | **919** | 933 |
| Tax on operating profit | **(279)** | (284) |
| **Operating profit after tax** | **640** | 649 |
| **Profit/(loss) after tax** | **305** | (134) |
| **Diluted EEV operating EPS** | **29.1p** | 29.8p |

## IFRS underlying profit

| | 2009 £m | 2008 £m |
|---|---|---|
| UK | **259** | 238 |
| Canada | **(7)** | (102) |
| Europe | **45** | 48 |
| Asia | **(27)** | (35) |
| Global investment management | **66** | 42 |
| Other | **(45)** | (37) |
| **Underlying profit before tax** | **291** | 154 |
| Tax on underlying profit | **(26)** | 100 |
| **Underlying profit after tax** | **265** | 254 |
| **Profit attributable to equity holders after tax** | **213** | 100 |
| **Diluted IFRS underlying EPS** | **12.0p** | 11.7p |

For more information please refer to Section 1.9 - Basis of preparation and Section 3 - IFRS pro forma reconciliation of Group underlying profit to IFRS profit for the year of the *Preliminary Results 2009*.

## Our focus in 2009

Market conditions remained challenging as we entered 2009. Consequently our strategic priority was to strengthen and stabilise our business model by focusing on key objectives within our control, namely balance sheet strength, the sustainability of our cash flow, our continued drive for operational efficiency, the mitigation of unrewarded risk and our desire to do the right thing for our customers. Our success in achieving these aims has created a strong platform for our future investment programme as we look to accelerate our strategy for profitable growth.

## Strong growth in assets under administration

At the end of December 2009 total assets under administration (AUA) had increased 13% to £177.6bn (31 December 2008: £156.8bn, 30 June 2009: £156.5bn). Excluding our discontinued banking operations total AUA increased 15% to £170.1bn (31 December 2008: £147.9bn).

Positive net flows of £4.5bn (2008: £2.7bn) across the Group included life and pensions net inflows of £2.7bn (2008: £2.7bn)[1] and third party investment management net inflows of £5.7bn (2008: £3.4bn). Consolidation adjustments[6] reduced net flows by £1.9bn (2008: £1.8bn). Prior to the sale of our banking operations to Barclays Bank PLC on 1 January 2010 we continued to manage our mortgage exposure in light of the difficult credit market conditions. This has been reflected in a net outflow of £2.0bn (2008: £1.6bn). Excluding the outflows in respect of these discontinued operations, consolidated net inflows across the Group amounted to £6.5bn (2008: £4.3bn), equating to 4% (2008: 3%) of opening assets under administration.

Market and other movements increased AUA by £16.3bn (2008: decrease £14.9bn).

## EEV operating cash flow robust with strong coverage of new business strain

Core capital and cash generation after tax was 16% higher at £350m (2008: £303m)[4], driven by reduced new business strain following our decision to pay only customer funded commission on UK onshore bonds. Capital and cash generated from existing business of £546m (2008: £546m)[4] comfortably covered new business strain of £188m (2008: £224m)[4] by 2.9 times (2008: 2.4 times).

Efficiency items reduced capital and cash by £7m (2008: increase £7m)[4]. Capital and cash generated from back book management amounted to £71m (2008: £113m)[4] largely arising from a release of reserves in respect of deferred annuities. The 2008 comparative reflected the reinsurance of UK immediate annuity liabilities and an earlier UK deferred annuity reserve release.

Overall, operating capital and cash generation amounted to £414m (2008: £423m)[4].

## EEV operating profits resilient in difficult markets

EEV operating profit before tax was £919m (2008: £933m)[4], delivering a return on embedded value (RoEV) of 10.6% (2008: 10.9%)[4].

We report our RoEV under three components: core, efficiency and back book management.

| | Breakdown of RoEV[4] | | Breakdown of EEV operating profit[4] | |
|---|---|---|---|---|
| | **2009 %** | 2008 % | **2009 £m** | 2008 £m |
| Core | **6.7** | 8.0 | **584** | 685 |
| Efficiency | **(0.1)** | 0.8 | **(14)** | 64 |
| Back book management | **4.0** | 2.1 | **349** | 184 |
| **Total** | **10.6** | 10.9 | **919** | 933 |

## Core return influenced by market levels

Core return comprises new business contribution, expected return, development costs for covered business[5] and IFRS normalised underlying profit for non-covered businesses[7].

As a long-term savings and investments business our core return will inevitably be influenced by the overall level of financial markets, with average equity markets in 2009 15%[8] lower than 2008. Core return was 15% lower at £584m (2008: £685m)[4] delivering a core RoEV of 6.7% (2008: 8.0%)[4]. New business contribution was 19% lower at £213m (2008: £264m)[4], due to reduced sales volumes as a result of challenging markets. Core return was also impacted by a market driven reduction in the value of the in-force book at the end of 2008, which resulted in a lower expected return on existing business.

We continue to invest in our market leading propositions across our life and pensions businesses. This has been reflected in a slight increase in core development expenses to £41m (2008: £36m)[4].

Our new business metrics of internal rate of return (IRR) and discounted payback period were 14% (2008: 16%)[4] and 9 years (2008: 8 years)[4] respectively, the decrease in IRR and lengthening of payback period having been driven by lower asset values and lower sales volumes, which have reduced the value of reported sales across our UK and international operations.

## Efficiency

Efficiency comprises covered business maintenance expense variances and assumption changes. In 2009 expense variances reduced RoEV by 0.1% (2008: increase 0.8%)[4]. The negative expense assumption reflects mainly the reclassification of expenses as maintenance.

We announced in March 2009 a target of achieving a further £75m of annual efficiency savings by the end of 2010.

In 2009 we have achieved £47m of annual efficiency savings towards this target. We have achieved this through a number of initiatives including:

- Alignment of our UK distribution and marketing operating models with our strategic objectives. This has led to a headcount reduction of around 200 and a reduction in associated overheads.
- Restructure of our Europe and Canada customer service operations.
- Continued improvement and automation of customer service processes, which has allowed us to maintain our award-winning levels of customer service with lower headcount.
- Outsourcing elements of IT development.

## Substantial value generated through back book management

We remain committed to driving increased value from the management of our back book. This category includes all non-expense related operating variances and assumption changes for covered business plus those development costs directly related to back book management initiatives and, for non-covered business, specific costs attributed to back book management. During the year, back book management generated an operating profit before tax of £349m (2008: £184m)[4], delivering a back book management RoEV of 4.0% (2008: 2.1%)[4].

Positive factors within the back book management result include a £143m benefit from changes to asset allocations and hedging arrangements, which have reduced the time value of options and guarantees (TVOG) associated with the Heritage With Profits Fund (HWPF). In addition, the result includes a £111m benefit arising from actions taken to reduce the market risk to the tax treatment of future shareholder transfers from the HWPF, as well as a £63m (2008: £98m) release of reserves following a review of our deferred annuity data. In February 2008 we reinsured £6.7bn of our UK immediate annuity liabilities to Canada Life International Re. This generated a benefit to EEV operating profit before tax of £119m which was reflected in the 2008 result. 2008 also included a charge of £108m in relation to the Pension Sterling Fund.

## IFRS results impacted by average market levels

IFRS normalised underlying profit excluding the impact of market movements on surplus assets and reserves in Canada was £298m (2008: £349m). Excluding our discontinued banking operations, this figure was £238m (2008: £323m). The decrease was due to lower management charge income (£66m) resulting from lower average market levels, partially offset by a reduction in operating costs of £18m from our ongoing efficiency programme. The profit is after expensing £86m of proposition and system development spend.

Marked to market value adjustments in respect of surplus assets, coupled with reserve movements, have reduced profit in Canada by £70m (2008: £143m). Under EEV the impact of these adjustments is treated as a non-operating item. Including the impact of these adjustments, normalised underlying profit was 11% higher at £228m (2008: £206m).

IFRS underlying profit before tax was 89% higher at £291m (2008: £154m) and includes a number of items which are not included in the normalised underlying profit figure. In 2009 this figure included a benefit of £63m (2008: £98m) relating to the release of reserves following a review of our deferred annuity data. In 2008 this figure was similarly affected by significant items including a £105m benefit arising from the reinsurance of UK immediate annuity liabilities, and respective charges of £102m and £124m in relation to the Pension Sterling Fund and a sub-fund of Standard Life Investments (Global Liquidity Funds) plc.

## Increased 2009 dividend

The Board have proposed a final dividend of 8.09p per share (2008: 7.70p) making a total of 12.24p for 2009 (2008: 11.77p), an increase of 4.0% (2008: 2.3%). The Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

## Stable balance sheet

Group embedded value of £6,435m (31 December 2008: £6,245m)[4], represents an embedded value per share of 288p (31 December 2008: 286p)[4]. IFRS equity excluding intangible assets and non-controlling interests was £3,351m (31 December 2008: £3,295m), representing 150p per share (31 December 2008: 151p). The increase in Group embedded value and IFRS equity during the year primarily reflects the profit for the year offset by an increase in the liabilities of the Group's defined benefit pension schemes and dividend payments made in 2009.

The Financial Groups Directive (FGD) surplus as at 31 December 2009 of £3.6bn has been relatively insensitive to market movements and remains largely unchanged from the previous year end position (31 December 2008: £3.5bn), with a year end solvency cover of 230% (31 December 2008: 219%)[9].

At 31 December 2009 the Group was classified as a 'financial conglomerate' as defined by the Financial Groups Directive (FGD). Following the sale of Standard Life Bank plc on 1 January 2010 the Group is now classified as an 'insurance group' and from this date the Group capital surplus will be calculated in accordance with the Insurance Groups Directive (IGD). The Group's capital surplus on an IGD basis is not expected to be materially different from the surplus on an FGD basis.

## Strong platform for profitable growth

We will continue to drive shareholder value through being a leading, customer-centric business, focused on long-term savings and investment propositions. This means finding, acquiring and retaining valuable customers for mutual and sustained financial benefit.

We see excellent prospects to drive greater value from all our businesses. In each of our markets, we believe we can leverage our positions to develop new growth opportunities and influence market development. Our ongoing investment to more fully understand the needs of our customers will drive the propositions we will develop for our customers. In doing this, we also help fulfil a growing need for providing long-term retirement and savings solutions.

Our strategic focus is to:

- **Build on our strength in our pension savings and corporate benefits markets** across all our businesses, delivering corporate benefits solutions to employers, and providing broader savings propositions to employees. We are excited about the opportunities in our core corporate markets, with total pensionable assets of £1.4 trillion and £0.6 trillion in the UK and Canada respectively.
- **Focus on the savings and investment needs of customers in our chosen segments**, which include £2.3 trillion of assets in the UK and £1.3 trillion of assets in Canada. We will achieve this by delivering propositions through a digitally enabled distribution strategy, with increased brand preference.
- **Expand the global reach of our investment management business** to become a high value-add investment manager, delivering superior performance over a wide range of products, asset classes and markets.
- **Maximise the value from our Joint Venture relationships in Asia** to further grow shareholder value, through building a strong strategic partnership in China and the opportunity to increase our stake in our Indian Joint Venture.

We will continue to invest in our trusted brand to generate valuable customer loyalty and a predisposition to buy from us. Advanced use of new technology will help us drive rapid innovation in our propositions and enable a market-leading, cost-efficient operation, fully supporting the regulatory changes that will be introduced under the UK Retail Distribution Review. Our recognised capabilities in accessing and communicating with customers, on both sales and service, and our outstanding relationships with intermediaries, will be core to our ongoing success.

Achieving all of this requires a nimble business that is quick to spot and seize growth opportunities, creates and refines attractive propositions that it gets to market quickly, and does all of this in a highly efficient and effective manner. To create that 'fit-for-future' business, we have initiated an internal transformation programme, which will drive performance improvement through putting our customers at the heart of our strategy, investing in our talent, and using technology to support the relationships with customers and distributors and deliver efficiency. We will also continue to manage risk actively to ensure that risk is fully rewarded and appropriate to our strategy.

In 2010 we are doubling the level of growth investment in our business and will spend more than £200m to further develop and market our leading corporate and retail propositions. This development programme, based on rigorously applied returns criteria, will include the launch of our Employee Wealth and Benefit Platform later in the year, and significant enhancements to our adviser propositions. We believe these will lead to a considerable increase in assets under administration and profits over the next 3 years.

In addition, we are announcing today that we will target a further £100m of efficiency savings by 2012. These savings, which will improve new business margins, will be achieved through transforming our operations to become lower cost and scalable, while maintaining the quality of customer service.

Standard Life is strongly positioned for profitable growth in the segments of the markets on which we focus.

For further information please contact:

### Institutional Equity Investors

| | |
|---|---|
| Gordon Aitken | 0131 245 6799 |
| Duncan Heath | 0131 245 4742 |
| Paul De'Ath | 0131 245 9893 |

### Retail Equity Investors

| | |
|---|---|
| Capita Registrars | 0845 113 0045 |

### Media

| | |
|---|---|
| Barry Cameron | 0131 245 6165/07712 486 463 |
| Nicola McGowan | 0131 245 4016/07872 191 341 |
| Paul Keeble | 020 7872 4481/07712 486 387 |
| Neil Bennett (Maitland) | 020 7379 5151/07900 000 777 |

### Debt Investors

| | |
|---|---|
| Andy Townsend | 0131 245 7260 |
| Scott Forrest | 0131 245 6045 |

### Newswires and online publications

A conference call will take place for newswires and online publications from 8.00-9.00am. Participants should dial +44 (0)1452 555566 and quote Standard Life Preliminary Results 2009. The conference ID number is 59435427. A replay facility will be available for 7 days. Investors and analysts should dial +44 (0)1452 550000. The pass code is 59435427#.

### Investors and Analysts

A presentation to investors and analysts will take place at 9:30am at UBS Ground Floor Conference Centre, 1 Finsbury Avenue, London. A live webcast of the presentation and the presentation slides will be available on the Group's website. In addition a replay will be available on this website later today.

There will also be a live listen only teleconference to the investor and analyst presentation at 9:30am. Investors and analysts should dial +44 (0)20 3059 5754. Callers should quote Standard Life Preliminary Results. A replay facility will be available for 14 days. Investors and analysts should dial +44 (0)121 2604861. The pass code is 1943675#.

## Notes to Editors:

1 Worldwide life and pensions net flows include net flows in respect of our Asia joint ventures and our Hong Kong subsidiary for the first time. Prior year figures have been restated accordingly.

2 Assets under administration (AUA) and net flows have been adjusted to exclude discontinued banking operations for both 2009 and 2008.

3 AUA are gross assets that the Group administers for customers, including both those managed by the Group and those placed with third party managers.

4 The Asia life and pensions operations have been included on an EEV basis for the first time. Comparative figures for 2008 have not been restated.

5 Core elements comprise new business contribution (NBC), expected return on in-force business, non-covered business profits and development costs for covered business other than those directly related to back book. Core EEV capital and cash generation reflects the after tax net worth impact of the core EEV result attributable to shareholders.

6 Certain items are included in both life and pensions and investment flows. Therefore, at Group level, an elimination adjustment is required to remove any duplication.

7 The only difference between IFRS normalised underlying profit and IFRS underlying profit for non-covered business arises within global investment management. Net negative fair value movements in respect of the liability remaining following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and the 'Contract for Differences' written in September 2008 which limited this liability for Standard Life Investments and fair value movements of the corresponding assets which were brought directly on to the statement of financial position, are included within IFRS underlying profit, but are excluded from IFRS normalised underlying profit.

8 The daily average level of the FTSE All share index was 15% lower over the twelve months to 31 December 2009 when compared to the same period in 2008. On the same basis the UK IPD All Property Index was 22% lower and the Sterling 5-10 Yr Corporate Securities Index was down 6%.

9 FGD surplus based on draft regulatory returns

10 The *Preliminary Results 2009* are available on the Financial Results page of the Standard Life website at **www.standardlife.com**

*Page intentionally left blank*

| Section | Contents | Page |
|---|---|---|
| **1** | **Business review** | **11** |
| 1.1 | Group overview | 12 |
| 1.2 | EEV – Group | 14 |
| 1.3 | IFRS – Group | 17 |
| 1.4 | Business segment performance | 19 |
| | 1.4.1 UK | 19 |
| | 1.4.2 Canada | 24 |
| | 1.4.3 Europe | 26 |
| | 1.4.4 Asia | 28 |
| | 1.4.5 Global investment management | 29 |
| 1.5 | Capital and cash generation | 31 |
| 1.6 | Risk management | 38 |
| 1.7 | Our customers | 41 |
| 1.8 | Our people | 43 |
| 1.9 | Basis of preparation | 44 |
| **2** | **European Embedded Value (EEV)** | **45** |
| | EEV primary statements | 46 |
| | EEV notes | 49 |
| **3** | **International Financial Reporting Standards (IFRS)** | **83** |
| | IFRS primary statements | 84 |
| | IFRS notes | 90 |
| **4** | **Supplementary information** | **115** |
| 4.1 | Group assets under administration and net flows | 116 |
| 4.2 | Exposure to investment property and financial assets | 118 |
| 4.3 | Fair value hierarchy of financial instruments | 121 |
| 4.4 | Total expenses and operating cost base | 123 |

*Page intentionally left blank*

# 1 Business review

## 1.1 Group overview

Our results are affected by external market forces, which can influence the Group's current performance and, to an extent, shape our future strategic direction.

### Industry overview

### Economic and market conditions

Performance across the industry has been affected by volatile financial markets and the global recession. Whilst financial market levels have shown some recovery recently, the economic environment continues to be challenging.

**Rising unemployment and reduced salary inflation**
Rising unemployment and negative economic growth have been reflected in lower average levels of salary increases across all industries and markets, as well as companies placing tighter controls on headcount. This reduced both the number of new corporate pension customers in the market and the level of their pension contributions.

The UK Retail Price Index, a key tool in determining annual salary rises, fell significantly towards the end of 2008 and spent most of 2009 in negative territory. This had an industry-wide adverse impact on increments into existing schemes such as group pensions.

**Lower market levels**
Despite rallies in equity markets in the second half of 2009, the average market values of assets were substantially lower than the previous year. For example, the average daily FTSE All-Share Index fell 15% between 2008 and 2009 and the UK IPD All Property Index was 22% lower over the same period. Combined with similar falls in other major world markets, this inevitably put downward pressure on our asset management revenues.

**Availability of credit**
The unprecedented volatility of global capital markets during the latter part of 2008 and throughout 2009, and the financial difficulty experienced by some major financial institutions, has attracted extensive media attention and heightened investors' concerns about the safety of their investments. Standard Life has robust and actively managed controls in place to ensure that we have access to sufficient liquidity to meet operating requirements during such periods of market uncertainty.

**UK Retail Price Index 2008/09***


**Movements in FTSE All-Share Index 2008/09**


Source: Thomson Reuters

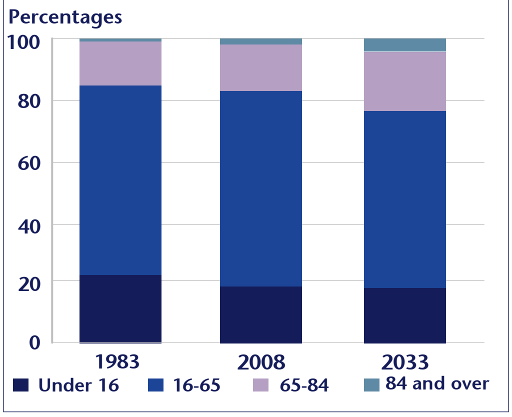
### Changing demographics

Demographics continue to have important ramifications in our key markets. They are defined by: an ageing population, with people living longer whilst managing more extensive debt; diminishing state and employer pension provision; an increasingly polarised distribution of wealth; and lower long-term birth rates. In the UK, the structure of the population is changing radically as life expectancy rapidly increases. By 2050 it is predicted that men could expect to live for a further 27 years and women for 28 years after reaching 65.

Ageing populations have dramatic implications for labour forces. For an economy to be sustainable, approximately 50% of the population has to be economically active. On current projections for the UK, this will only just be the case by 2050 when there will have been a 20% increase in the ratio of non-workers (dependents) to workers. This further emphasises the need for individuals to ensure that they have adequate pension provision.

Our ability to develop innovative long-term savings and investments products, such as self invested personal pension (SIPP) and Wrap, puts us in a strong position to support our customers in these challenges and encourage them to take a more active, flexible approach to their long-term financial planning.

**Population by age, UK, 1983, 2008 and 2033***




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

## Government legislation and regulatory environment

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

| | Description | Potential impact on Standard Life |
|---|---|---|
| **Market Consistent Embedded Value (MCEV)** | The Chief Financial Officers (CFO) Forum Market Consistent Embedded Value Principles©* (MCEV Principles) were issued by the CFO Forum on 4 June 2008 to replace the current EEV Principles and Additional Guidance and were designed to improve the transparency and comparability of embedded value reporting. The MCEV Principles were further amended on 20 October 2009 to reflect the inclusion of a liquidity premium. | The CFO Forum announced on 22 May 2009 that it believed that it was sensible to defer mandatory MCEV reporting for all member firms until 2011. On the publication of the revised MCEV Principles on 20 October 2009 it noted that it was continuing to perform further work to develop more detailed application guidance to increase consistency going forward. As a member of the CFO Forum, the Group will continue to participate in this work. |
| **Personal accounts** | From 2012, individuals who are not members of a company pension scheme will be automatically enrolled into low-cost personal accounts, but they will have the choice of opting out. Personal accounts are intended to solve the problems of low portability and high charges. They are intended to operate as a large, multi-employer occupational pension scheme and extend the benefits of employer schemes to those who currently don't have access to them. The government estimates that personal accounts could have between 6 and 10 million members with private pension savings of around £8bn a year, of which approximately 60% will be new savings. | The introduction of personal accounts will create opportunities for Standard Life, as well as some challenges. It is likely to lead to a much greater general awareness of the need for individuals to take responsibility for their future. We also anticipate that there will be opportunities to target employers who are looking to offer schemes that are significantly differentiated from personal accounts as part of their overall employee proposition. We are well placed to capitalise on these opportunities.<br>While personal accounts are likely to place downward pressure on management charge income, we will continue to develop value-adding propositions which meet our customers' needs and create value for shareholders. |
| **Retail Distribution Review** | The Retail Distribution Review (RDR) is designed to increase transparency in retail financial services and to raise professional standards. The review has significant implications for those providing retail financial advice and involves new examination standards applicable to all advisers. The objectives of the RDR are to:<br>• Improve the clarity with which firms describe their services and fees to consumers<br>• Address the potential for adviser remuneration to distort consumer outcomes<br>• Increase the professional standards of investment advisers | The retail market is undergoing substantial change with the RDR proposals being just one factor for consideration. We have been reviewing our strategy and plans incorporating our views on the RDR and assessing the likely impact for our business and the industry as a whole.<br>Our customer-centric, capital-lite approach means that we have made good progress in a number of areas and are well placed to meet the proposed changes to the market in terms of removal of commission, increased transparency and professionalism. We believe that platforms will play a major role in supporting firms of all shapes and sizes to meet the requirements of the RDR and again we are well placed in this respect. |
| **Solvency II** | Solvency II is a major European regulatory change initiative which is currently due to be implemented on 31 October 2012, although firms will be required to be ready well in advance of this date. Solvency II will affect risk and capital management, external reporting, supervision and business strategies of the European insurance industry. | We have been following the development of the new regime for many years and continue to be actively involved at industry and regulator level within the UK and Europe. Internally a formal development programme is in place to ensure Standard Life is ready in good time for the implementation of the new framework. |

* Stichting CFO Forum Foundation 2008.

## 1.2 EEV – Group

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

### EEV highlights

| | 2009 | 2008[1] | Movement |
|---|---|---|---|
| EEV operating profit before tax | **£919m** | £933m | (2%) |
| Return on embedded value[2] | **10.6%** | 10.9% | (0.3% points) |
| Diluted EEV operating EPS[2,3] | **29.1p** | 29.8p | (2%) |
| EEV profit/(loss) before tax | **£474m** | (£158m) | 400% |
| New business PVNBP | **£14,546m** | £15,679m | (7%) |
| Internal rate of return | **14%** | 16% | (2% points) |
| Discounted payback period | **9 years** | 8 years | (1 year) |
| EEV | **£6,435m** | £6,245m | 3% |
| EEV per share[4] | **288p** | 286p | 1% |

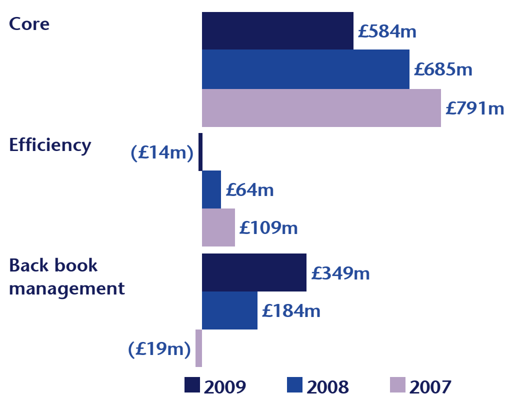
[1] 2009 Asia results have been prepared on an EEV basis for the first time. Prior to 2009 these were included on an IFRS basis. Comparatives have not been restated.
[2] Net of tax.
[3] Diluted EEV operating earnings per share (EPS) is based on the diluted weighted average number of shares of 2,203m (2008: 2,180m) and the EEV operating profit after tax of £640m (2008: £649m).
[4] EEV per share is based on the diluted closing number of shares of 2,237m (2008: 2,180m).

Please refer to Section 1.9 – Basis of preparation.

### EEV profit/(loss) before tax

EEV profit before tax of £474m (2008: loss £158m) includes an operating profit of £919m (2008: £933m) and a non-operating loss of £445m (2008: loss £1,091m). The equivalent after-tax results were £640m operating profit and £335m non-operating loss. Operating profit removes most of the investment variance within a reporting period but does reflect changes in investment conditions from period to period. Non-operating profits and losses are mainly market-driven and occur as a result of short-term investment performance being different from the long-term return anticipated in the opening EEV. Further details of the operating profit and non-operating loss are given below.

**EEV operating profit before tax £919m (2008: £933m, 2007: £881m)**

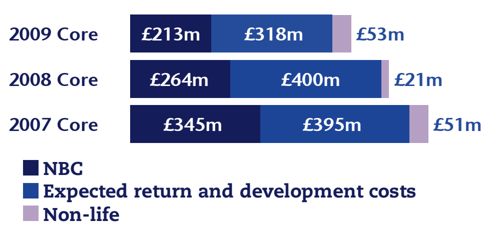



### EEV operating profit before tax – core, efficiency and back book management

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

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

**EEV operating profit before tax – core £584m (2008: £685m, 2007: £791m)**




The core element of our operating profit decreased by 15% to £584m (2008: £685m). Expected return from the Group's in-force business decreased by 13% to £375m (2008: £431m). This primarily reflected lower opening market returns. The EEV operating profit from non-covered business includes increased profits from Standard Life Bank and our healthcare business, offset by a fall in operating profits from our global investment management business and lower investment returns in the parent company. For further detail see Section 1.4 – Business segment performance.

## New business profitability

| | PVNBP £m | | NBC £m | | PVNBP margin %[1] | | IRR % | | Discounted payback (years) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| UK[2] | **10,180** | 11,267 | **139** | 199 | **1.4** | 1.8 | **16** | 18 | **8** | 7 |
| Canada | **2,460** | 2,240 | **46** | 34 | **1.9** | 1.5 | **14** | 17 | **10** | 8 |
| Europe[2] | **1,289** | 1,677 | **13** | 31 | **1.0** | 1.9 | **8** | 12 | **18** | 12 |
| Asia[3] | **617** | 495 | **15** | | **2.5** | | **12** | | **10** | |
| **Total** | **14,546** | 15,679 | **213** | 264 | **1.5** | 1.7 | **14** | 16 | **9** | 8 |

[1] PVNBP margins are calculated as the ratio of new business to PVNBP and are based on the underlying unrounded numbers.

[2] 2008 PVNBP, NBC, PVNBP margin, IRR and discounted payback for UK and Europe have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

[3] 2009 Asia results have been prepared on an EEV basis for the first time. Prior to 2009 these were included on an IFRS basis. Comparatives have not been restated.

New business profitability decreased by 19% to £213m and reflects the lower sales volumes during the year. The total internal rate of return (IRR) for the Group was 14% (2008: 16%) and the discounted payback period extended to 9 years (2008: 8 years).

We remain committed to our strategy of focusing on capital-efficient products which deliver high capital returns and fast recovery of investment. Please refer to Section 1.4 – Business segment performance for further discussion of new business profitability by business segment.

## Back book management

| | UK £m | Canada £m | Europe £m | Asia* £m | HWPF TVOG £m | 2009 Total £m | 2008 Total £m |
|---|---|---|---|---|---|---|---|
| Lapses | 70 | 34 | (25) | (6) | - | **73** | (39) |
| Mortality and morbidity | 9 | 22 | - | - | - | **31** | 55 |
| Tax | 27 | (5) | 8 | - | - | **30** | 76 |
| Management actions to reduce market risk in UK and HWPF TVOG | 111 | - | - | - | 143 | **254** | - |
| Other | 9 | (28) | (24) | 4 | - | **(39)** | (27) |
| UK annuity reinsurance | - | - | - | - | - | - | 119 |
| **Back book management** | **226** | **23** | **(41)** | **(2)** | **143** | **349** | 184 |

* 2009 Asia results have been prepared on an EEV basis for the first time. Prior to 2009 these were included on an IFRS basis. Comparatives have not been restated.

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

Reflecting our focus on the effective management of the existing business, back book management activities generated EEV operating profits of £349m (2008: £184m). During the year a number of management actions were taken to reduce market risk associated with the Heritage With Profits Fund (HWPF) which have generated back book profits. A profit of £143m arose from the impact of asset allocations and hedging arrangements which reduced the HWPF time value of options and guarantees (TVOG). A further benefit of £111m arose from actions taken to reduce the market risk to the tax treatment of future shareholder transfers from the HWPF.

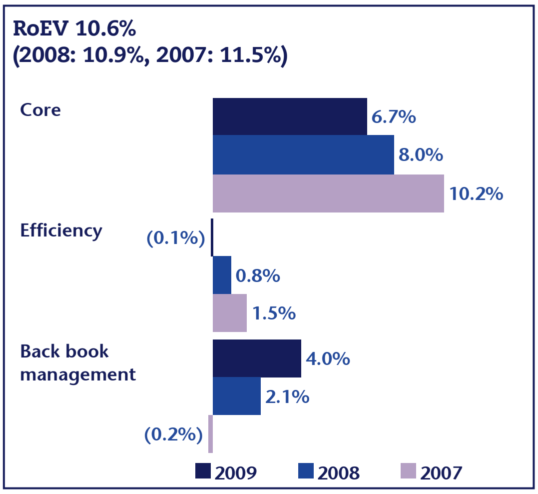
Total operating assumption changes in relation to lapses was positive £77m, compared to negative £61m in 2008. This was predominantly due to improved lapse experience in our UK individual pensions business. Improved lapse experience in our Canada group savings and retirement business was offset by adverse experience in our business in Europe.

The 2008 profit from back book management included a £119m gain from the reinsurance of £6.7bn of pre-demutualisation UK immediate annuity liabilities and a £108m cost in relation to the Pension Sterling Fund.

## 1.2 EEV – Group *continued*

### Return on embedded value (RoEV)

RoEV was 10.6% in 2009 compared to 10.9% in 2008. Core contributed 6.7% to total RoEV compared to 8.0% in 2008. This movement was primarily due to decreased NBC and expected return from existing business, which contributed 0.6% and 0.8% respectively to the decrease in total RoEV. 2009 back book management RoEV includes 3.0% from management actions to reduce market risk in the UK and the HWPF TVOG.



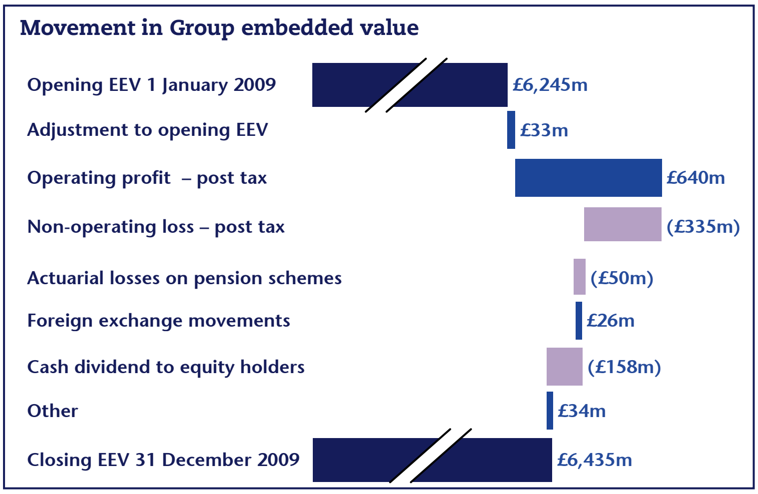

### EEV non-operating loss before tax

Total EEV non-operating loss before tax was £445m in 2009 (2008: loss £1,091m) and was mainly due to a £539m loss from economic assumption changes in covered business, which includes a £214m loss from the change in risk discount rates. Investment variance of £70m improved as a result of good performance in equities and corporate bonds, but this was offset by the increase in the fair value of subordinated debt liabilities and falls in Canada property values.

Included within restructuring and corporate transaction costs is £50m (2008: £45m) of costs incurred as part of our Continuous Improvement Programme. Volatility arising from adjustments for different accounting bases resulted in a gain of £107m (2008: loss £152m).

### Group embedded value

Group embedded value increased to £6,435m (2008: £6,245m), with a total operating profit movement of £640m after tax, only partially offset by total non-operating losses after tax of £335m and non-trading movements of negative £148m. The operating profit and non-operating profit are explained in this section of the Business review. Non-trading movements included the £158m cash dividend paid to equity holders. Other non-trading movements include positive exchange movements of £26m and actuarial losses of £50m in relation to the UK, Canada and Ireland pension schemes.




The closing EEV of £6,435m consists of £3,051m of net worth (free surplus and required capital) and £3,384m from the present value of in-force business (PVIF). The movement in total EEV of £190m consists of a movement in net worth of negative £141m and a movement in the PVIF of positive £331m.

The movements in EEV shareholder net assets are analysed in more detail in Section 1.5 – Capital and cash generation.

## 1.3 IFRS – Group

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

**IFRS highlights**

| | 2009 | 2008 | Movement |
|---|---|---|---|
| IFRS underlying profit before tax | **£291m** | £154m | 89% |
| IFRS profit after tax attributable to equity holders | **£213m** | £100m | 113% |
| Diluted IFRS underlying EPS[1] | **12.0p** | 11.7p | 3% |
| Dividend cover[2] | **1.0 times** | 1.0 times | - |
| IFRS tangible equity per share[3] | **150p** | 151p | (1%) |

[1] Diluted IFRS underlying EPS is based on 2,203m shares (2008: 2,180m) and the IFRS underlying profit after tax of £265m (2008: £254m).

[2] Dividend cover is calculated as IFRS underlying profit after tax and non-controlling interests for the year, divided by the dividend proposed in respect of this year.

[3] IFRS tangible equity per share is based on the diluted closing number of issued shares of 2,237m (2008: 2,180m) and tangible IFRS equity of £3,351m (2008: £3,295m). IFRS tangible equity excludes non-controlling interests and intangible assets.

Please refer to Section 1.9 – Basis of preparation.

### IFRS profit

IFRS profit for the year was £180m (2008: £17m). This comprises profit after tax attributable to equity holders of £213m (2008: £100m) and losses attributable to non-controlling interests of £33m (2008: loss £83m). The IFRS result included an 89% increase in underlying profit before tax from £154m to £291m as well as the impact of volatility excluded from the underlying profit. The increase in underlying profit before tax was primarily due to the reduced impact of market movements in Canada.

### IFRS underlying profit before tax

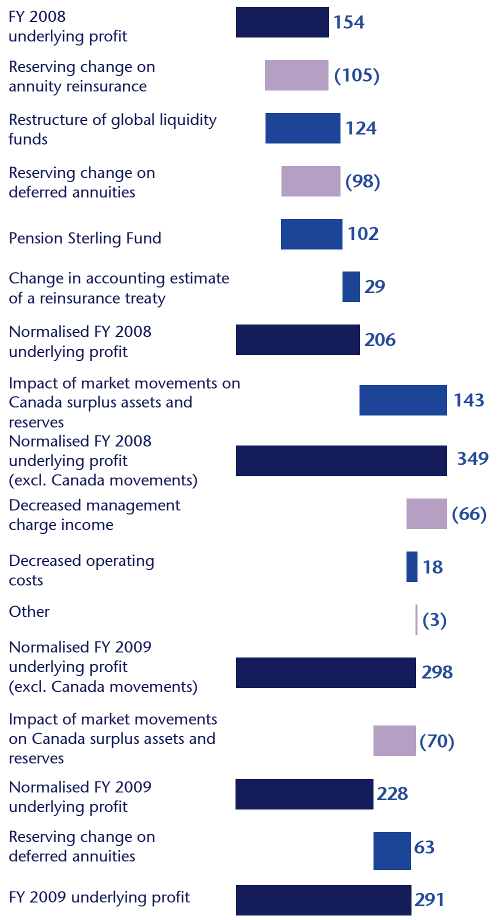
Our IFRS consolidated income statement which shows IFRS profit after tax attributable to equity holders, and the reconciliation to underlying profit are shown in the Group IFRS financial statements section of this report. We believe that the IFRS underlying profit before tax provides a more meaningful analysis of the underlying business performance.

### Movement in IFRS underlying profit

In 2008, underlying profit benefited from the inclusion of a £105m release of reserves following the reinsurance of £6.7bn of UK immediate annuities and a £98m release of reserves in relation to UK deferred annuity business. Offsetting these benefits was a £102m cash injection into the Pension Sterling Fund, a cost of £124m relating to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and a £29m charge relating to the reinsurance of certain contracts held by our business in Canada.

In 2009, underlying profit benefited from a £63m release of reserves in relation to UK deferred annuity business.

**Movement in IFRS underlying profit £m**




Excluding these items, the normalised underlying profit increased by 11% to £228m (2008: £206m) with profitability benefiting by £73m from the reduced impact of market movements in Canada. The impact of market uncertainty continues to be evident within our operations in Canada because of the way that life companies in Canada typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. A fall in investment property values has contributed to a reduction in surplus assets and an increase in policyholder liabilities, more than offsetting the positive impact of rising equity markets. The net effect has reduced normalised underlying profit in Canada by £70m in 2009 (2008: £143m). Excluding the impact of market movements in Canada, normalised underlying profit was £298m (2008: £349m). Operational efficiencies and strict control of expenditure have had a positive impact on profitability of £18m. Across the Group, management charge income decreased due to the impact of lower average asset values compared with 2008. This reduced profits by £66m.

## 1.3 IFRS – Group *continued*

### Segmental analysis of IFRS underlying profit

**UK**

Total IFRS underlying profit before tax within our UK business, comprising our UK life and pensions, healthcare, and savings and mortgages businesses, increased to £259m (2008: £238m).

UK life and pensions underlying profit before tax fell by 8% to £184m (2008: £201m). Normalised underlying profit decreased to £111m (2008: £173m) with income impacted by lower average asset values and interest rates.

Our savings and mortgages business delivered a robust performance, focusing on managing profitability whilst ensuring liquidity requirements were met. Underlying profit increased by 131% to £60m (2008: £26m).

Underlying profitability in our healthcare business increased to £15m (2008: £11m) primarily due to increased investment income and decreased operating costs.

**Canada**

Canada recorded an underlying loss of £7m (2008: loss £102m). This improvement compared to the prior year was driven by the recovery of equity and bond asset values. However, results in 2009 were adversely impacted by falling investment property valuations.

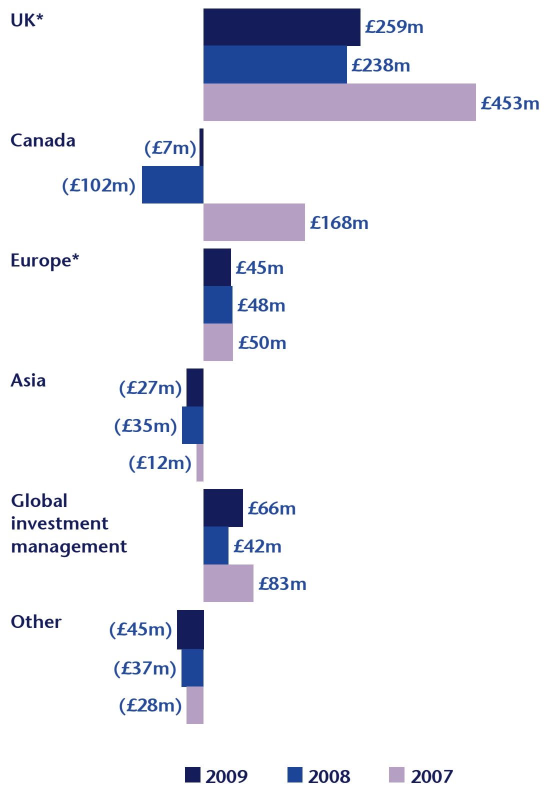
**Europe**

Europe's underlying profit fell to £45m (2008: £48m) with a reduction in German profitability due to the reducing transfer of profit to shareholders from the HWPF. This was partially offset by lower operating costs across the territories.

**Asia**

Asia's IFRS underlying loss of £27m (2008: loss £35m) reflects the continuing investment in developing the operations in the region.

**IFRS underlying profit before tax £291m (2008: £154m, 2007: £714m)**




* Comparatives have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

**Global investment management**

Despite the adverse effect of lower average asset values on revenue and profitability, IFRS underlying profit before tax in our global investment management business increased by 57% to £66m (2008: £42m). This was primarily due to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc in 2008.

**Other**

Group corporate centre costs remained steady at £50m (2008: £50m), reflecting continued cost control and 'other' decreased to £5m (2008: £13m), primarily due to reduced interest income in the parent company.

Please refer to Section 1.4 – Business segment performance for further detail on the IFRS underlying result for our businesses.

## 1.4 Business segment performance

### 1.4.1 UK

The UK business combines the UK life and pensions, savings and mortgages and healthcare businesses. Focusing on delivering customer-centric and capital-lite propositions, it has a strong and diversified distribution network, which puts it in a good position to grow assets under administration and generate sustainable profitable returns. On 1 January 2010 the sale of the savings and mortgages business to Barclays Bank PLC was completed.

### Life and pensions

The life and pensions business is one of the largest pensions, long-term savings and investments providers in the UK with £106bn of assets under administration. The business offers a broad range of insurance and investment wrappers, with particular strength in the accumulation market. The focus is on building this strength, drawing on customer insight to develop and invest in propositions that will secure profitable growth opportunities.

**Financial highlights**

| | 2009 | 2008[1] | Movement |
|---|---|---|---|
| Net flows | **£1,214m** | £848m | 43% |
| Assets under administration | **£105.6bn** | £94.8bn | 11% |
| New business PVNBP | **£10,180m** | £11,267m | (10%) |
| New business contribution | **£139m** | £199m | (30%) |
| Internal rate of return | **16%** | 18% | (2% points) |
| Discounted payback period | **8 years** | 7 years | (1 year) |
| EEV covered business operating profit before tax[2] | **£649m** | £669m | (3%) |
| EEV non-covered business operating loss before tax[3] | **(£18m)** | (£32m) | 44% |
| IFRS underlying profit before tax | **£184m** | £201m | (8%) |

[1] 2008 figures have been restated to exclude offshore bond business which is now reported within the Europe results. The impact of this is to adjust net flows by (£632m), assets under administration by (£1.0bn), new business PVNBP by (£661m), new business contribution by (£13m), discounted payback period by 1 year, EEV covered business operating profit by £1m and IFRS underlying profit before tax by £17m.

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

[3] Includes UK defined benefit pension scheme charge and non-covered Wrap platform result.

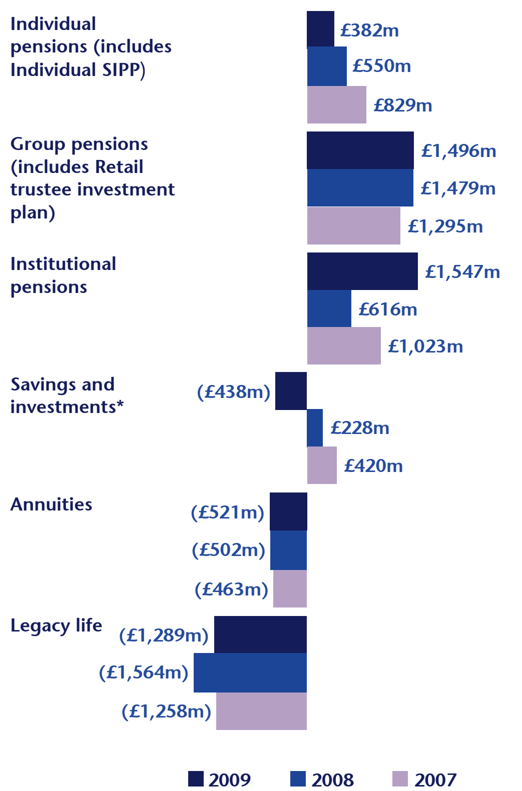
Please refer to Section 1.9 – Basis of preparation.

### Net flows

Net inflows for the year were 43% higher at £1,214m (2008: £848m). Individual pensions net inflows were £382m (2008: £550m). Within this, lower self invested personal pension (SIPP) net inflows of £1,761m (2008: £2,464m) were mainly due to a reduction in incoming transfer values, driven by lower average market values during 2009. There was also an increase in outflows, with customers making more use of the flexible drawdown and tax-free cash functionality of our SIPP product. The reduction in SIPP net inflows was partially offset by lower individual pensions net outflows of £1,379m (2008: £1,914m) due to a lower level of claims. Group pensions net inflows were £1,496m (2008: £1,479m), boosted by the £220m transfer from the British Telecom plc scheme (BT Scheme). Institutional pensions net inflows were £1,547m (2008: £616m), reflecting several large scheme contributions.

Savings and investments net outflows were £438m (2008: net inflow £228m). Within this, mutual funds net inflows were £795m (2008: £339m) driven by growth in customer numbers on our Wrap and Fundzone platforms. This was offset by higher onshore bond net outflows of £1,233m (2008: £111m) following our decision not to renew bulk investment bond deals written in 2008 at lower margins to secure distribution relationships. These deals generated net inflows of £597m in 2008 and led to net outflows of £581m in 2009. Net outflows for legacy life were £1,289m (2008: £1,564m), the majority of which is conventional with profit business and generates minimal shareholder margin.

**UK net flows £1,214m (2008: £848m, 2007: £1,895m)**




Graph excludes Protection (2009: £37m, 2008: £41m, 2007: £49m).

* Comparatives have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

# 1.4 Business segment performance *continued*

## 1.4.1 UK *continued*

### New business sales and profitability

PVNBP sales decreased by 10% to £10,180m (2008: £11,267m) with lower average market values during 2009 having an inevitable adverse impact on sales. New business contribution (NBC) decreased to £139m (2008: £199m), with a PVNBP margin of 1.4% (2008: 1.8%). The IRR decreased to 16% (2008: 18%), while the discounted payback period extended slightly to 8 years (2008: 7 years). Individual pensions PVNBP margin was adversely impacted by lower volumes and relatively flat acquisition expenses, while the higher annuity margin reflects a change in our pricing in response to market conditions. The mix of sales towards lower margin institutional pensions contributed to the reduction in overall PVNBP margin.

| | PVNBP £m[1] | | NBC £m[2] | | PVNBP margin %[3] | | IRR % | | Discounted payback (years) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Individual pensions | **3,366** | 4,334 | **7** | 56 | **0.2** | 1.3 | **7** | 16 | **18** | 8 |
| Group pensions | **2,662** | 2,600 | **34** | 55 | **1.3** | 2.1 | **10** | 13 | **14** | 12 |
| Institutional pensions | **2,296** | 1,826 | **25** | 20 | **1.1** | 1.1 | **>40** | >40 | **<3** | <3 |
| Savings and investments[4,5] | **1,406** | 2,029 | **(3)** | (7) | **(0.2)** | (0.3) | **5** | 6 | **n/a** | n/a |
| Annuities[6] | **448** | 471 | **76** | 74 | **17.1** | 15.8 | **Infinite** | Infinite | **-** | - |
| **UK Total** | **10,180** | 11,267 | **139** | 199 | **1.4** | 1.8 | **16** | 18 | **8** | 7 |

[1] Total PVNBP includes protection of £2m (2008: £7m).

[2] Total NBC includes protection of £nil (2008: £1m).

[3] PVNBP margins are calculated as the ratio of new business to PVNBP and are based on the underlying unrounded numbers.

[4] 2008 figures have been restated to exclude offshore bond business, which is now reported within the Europe results.

[5] Discounted payback period is not applicable due to new business loss.

[6] 2009 and 2008 discounted payback period is immediate.

### Business development

Our continued focus on capital-lite products was demonstrated by the launch of our tailored investment bond in June 2009, which offers a flexible transparent funded remuneration structure. We also continue to see good growth in our individual SIPP customer base with the total number of customer accounts increasing by 27% to 83,900 compared to 65,900 as at 31 December 2008.

The Wrap platform continued to grow as the number of customers and advisers using the platform increased further. At 31 December 2009, the number of Wrap customers increased to 31,600 from 16,900 at 31 December 2008, while the number of independent financial adviser (IFA) firms using the platform had grown to 583 compared to 409 at 31 December 2008. Total funds on the platform more than doubled to £3.6bn compared to £1.7bn as at 31 December 2008 and momentum is expected to continue.

Group pensions benefited from the successfully completed migration of the BT Scheme, which involved the transfer of around three quarters of the existing 18,000 scheme members to the new Standard Life scheme. Development work also continued on our enhanced trustee-based corporate proposition, which is due to launch in April 2010, and our corporate employee wealth plan, which will provide a compelling proposition for both employers and employees through an integrated savings and benefits platform. We believe the sustainability and flexibility of our corporate proposition, combined with the Standard Life Group’s financial strength allows us to win profitable new business.

In February 2010, we launched our Active Money Personal Pension, which has been developed to adapt to each customer’s changing financial needs during their lives. We are also working on opportunities in the long-term savings and investments market as part of the strategic relationship with Barclays UK Retail Banking (Barclays).

## Performance

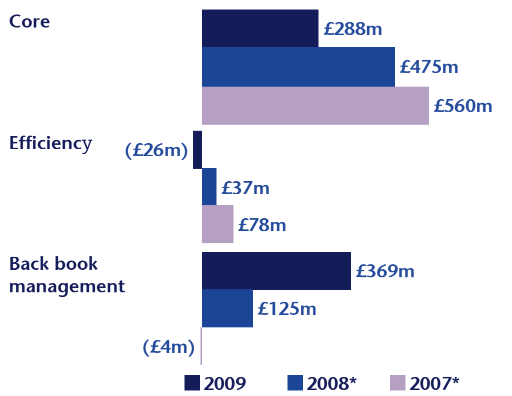
### EEV operating profit before tax

UK EEV operating profit including HWPF TVOG and non-covered business decreased slightly during the year to £631m (2008: £637m). Core profit of £288m (2008: £475m) decreased by £187m, mainly driven by a £60m fall in NBC, a lower unwind of in-force business due to lower markets and a lower risk discount rate. Changes in the allocation of investment related expenses resulted in a negative efficiency variance of £26m (2008: positive £37m).

During the year a number of management actions were taken to reduce market risk associated with the HWPF which have generated back book profits. A profit of £143m arose from the impact of asset allocations and hedging arrangements which reduced the HWPF TVOG. A further benefit of £111m arose from actions taken to reduce the market risk to the tax treatment of future shareholder transfers from the HWPF. In addition, the back book result benefited from a £63m (2008: £98m) release of reserves from the ongoing review of our deferred annuity data.

The overall impact of persistency experience variance and assumption changes was positive £70m (2008: negative £17m). The positive variance was primarily due to revised long-term assumptions on individual pensions, reflecting improved experience on our back book. Development costs of £18m (2008: £30m) mainly related to development of our group pension proposition, as well as implementing legislative changes.

**UK EEV operating profit before tax £631m (2008: £637m, 2007: £634m)**




* Comparatives have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

The 2008 result also included a £107m benefit following the reinsurance of UK immediate annuities and a £108m charge relating to the cash injection into the Pension Sterling Fund.

### IFRS underlying profit before tax

UK life and pensions IFRS underlying profit before tax was £184m (2008: £201m). The result includes a positive £17m (2008: negative £73m) impact of a recovery in the value of the underlying assets within the previously reported 'Contract for Differences' written in September 2008. A release of statutory reserves following the ongoing review of the deferred annuity data also contributed £63m (2008: £98m). The 2008 result included a positive £105m reserve movement following the reinsurance of UK immediate annuities, which was offset by a £102m charge relating to the cash injection into the Pension Sterling Fund.
The normalised underlying IFRS result of £111m (2008: £173m) was £62m lower than 2008. Although annual management charge income improved in the second half of the year as equity markets recovered, the result was adversely impacted by lower average market values and interest rates during 2009.

The underlying results exclude the impact of volatility arising from the accounting mismatch of subordinated liabilities being measured at amortised cost, while the associated assets are measured at fair value. They also exclude restructuring costs relating to the Continuous Improvement Programme.

# 1.4 Business segment performance *continued*

## 1.4.1 UK *continued*

### Savings and mortgages

The savings and mortgages business offered retail savings and mortgage products in the UK, via intermediaries and direct to customers, all through telephone and internet-based platforms. The ownership of Standard Life Bank plc was formally transferred to Barclays Bank PLC on 1 January 2010.

**Financial highlights**

| | 2009 | 2008 | Movement |
|---|---|---|---|
| Mortgages under management | **£7.7bn** | £9.7bn | (21%) |
| Gross lending | **£281m** | £1,101m | (74%) |
| Savings and deposits | **£5.8bn** | £5.0bn | 16% |
| IFRS underlying profit before tax | **£60m** | £26m | 131% |
| Return on equity after tax | **14.6%** | 6.1% | 8.5% points |
| Interest margin | **88bps** | 54bps | 34bps |
| Cost income ratio[1] | **32%** | 58% | 26% points |

[1] Cost income ratio is calculated as total operating expenses (excluding impairment charges) divided by total underlying income.

Please refer to Section 1.9 – Basis of preparation.

### New business

The savings book experienced strong growth of 16% to £5.8bn (2008: £5.0bn), with Individual Savings Accounts and business accounts performing well during 2009. SIPP and Wrap balances represent £1.9bn (2008: £1.5bn) of total savings balances.

Challenging credit and funding market conditions persisted during 2009, so the strategic focus remained on managing our mortgage exposure, with gross mortgage lending decreasing by 74% to £281m (2008: £1,101m). The whole UK mortgage market experienced significant reductions in gross lending during 2009 compared to previous years, with the Council of Mortgage Lenders (CML) reporting total gross lending of £144bn compared to £253bn in 2008.

### Funding

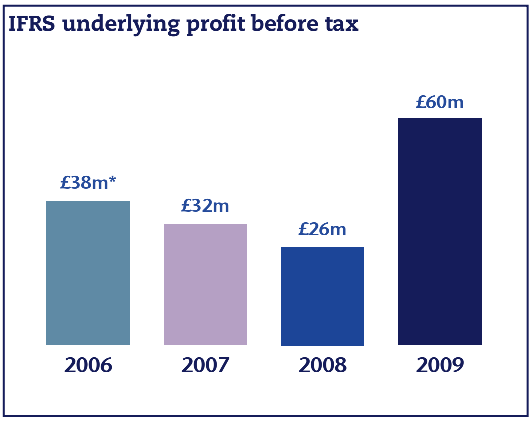
We remained well capitalised throughout 2009 due to our high quality mortgage book and continued access to a wide range of funding sources, with no draw down made on the committed facilities provided by our relationship banks. All regulatory liquidity and capital ratios remained within target ranges during the year.

### Performance

The savings and mortgages business delivered a robust performance, focusing on managing profitability whilst ensuring liquidity requirements were met. IFRS underlying profit before tax (excluding volatility in respect of non-qualifying economic hedges) increased to £60m (2008: £26m). This increase was primarily due to improved interest margins and lower administration expenses, partially offset by increased impairment charges during the year.

The growth in retail savings, combined with the reduction in wholesale funding and careful balance sheet management, drove an increase in interest margin to 88bps (2008: 54bps). The rise in interest margin, coupled with continued focus on cost efficiency, improved the cost income ratio to 32% (2008: 58%). As a result, return on equity improved to 14.6% (2008: 6.1%).

The mortgage portfolio continued to perform well despite the adverse economic conditions, with arrears figures remaining low in comparison to the CML average. Only 0.84% of total mortgages were three or more months in arrears or in repossession at the end of 2009, almost a third of the CML industry average of 2.51%, while the average indexed loan to value ratio remained stable at 46% (2008: 46%). Impairment charges increased to £8m in 2009 (2008: £5m), but net write-offs for 2009 were only £3m (2008: £1m).




* 2006 results are shown on a pro forma basis.

## Healthcare

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

### Financial highlights

| | 2009 | 2008 | Movement |
|---|---|---|---|
| New business | **£21m** | £25m | (16%) |
| In-force premium income | **£290m** | £295m | (2%) |
| IFRS underlying profit before tax | **£15m** | £11m | 36% |
| Underwriting profit | **£13m** | £12m | 8% |
| Return on equity after tax | **10.3%** | 8.6% | 1.7% points |
| Claims ratio | **68.9%** | 68.8% | (0.1% points) |

Please refer to Section 1.9 – Basis of preparation.

### New business

Overall new business sales decreased by 16% to £21m (2008: £25m) due to continuing adverse economic conditions. However, our sales performance in the final quarter demonstrated the positive impact of distribution improvements. In-force premium income dropped slightly from 2008 levels because of lower new business levels. Our strategic focus remained the acquisition of profitable business. This was supported by the launch of Personal Healthcare in June 2009 – a new retail product, which completes a powerful range of flexible solutions for individuals and businesses of all sizes. This new suite of products won the 2009 Health Insurance Award for Most Innovative Product.

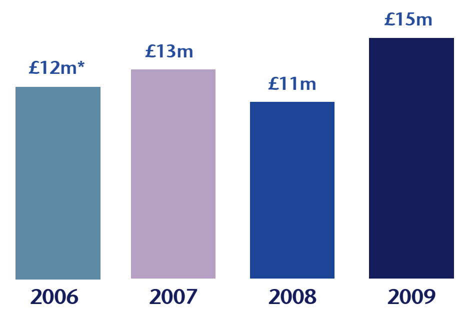
### Performance

IFRS underlying profit before tax was £15m (2008: £11m), before taking into account restructuring costs to deliver operational excellence. The £4m increase in IFRS underlying profit for 2009 was primarily due to increased investment income and decreased operating costs.

Strong underwriting discipline and rigorous expense control saw the underwriting profit increase by 8% to £13m despite the reduction of in-force premium income. The claims ratio was kept broadly in line with 2008 performance.

This strong business performance has helped to grow the annualised return on equity after tax by 1.7% points to 10.3% (2008: 8.6%).

**IFRS underlying profit before tax**




* 2006 results are shown on a pro forma basis.

# 1.4 Business segment performance *continued*

## 1.4.2 Canada

Standard Life Canada is a long-term savings and investments business offering a range of savings, retirement and insurance products. With a strong focus on the needs of its 1.3 million retail and corporate customers, the business continued to build client and distributor relationships and introduce innovative solutions to protect clients' assets.

### Financial highlights

| | 2009 | 2008 | Movement |
|---|---|---|---|
| Net flows | **£361m** | £340m | 6% |
| Assets under administration | **£21.3bn** | £18.0bn | 18% |
| New business PVNBP | **£2,460m** | £2,240m | 10% |
| New business contribution | **£46m** | £34m | 35% |
| Internal rate of return | **14%** | 17% | (3% points) |
| Discounted payback period | **10 years** | 8 years | (2 years) |
| EEV operating profit before tax | **£192m** | £215m | (11%) |
| IFRS underlying loss before tax | **(£7m)** | (£102m) | 93% |

Please refer to Section 1.9 – Basis of preparation.

### Net flows and new business sales

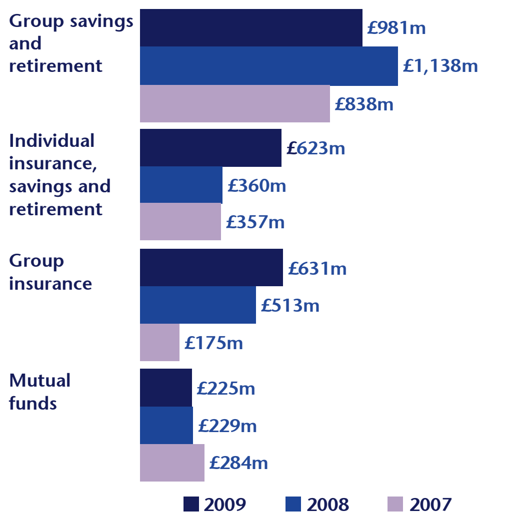
Net flows have decreased by 4% in constant currency to £361m (2008: £340m), primarily due to the inclusion of a large single premium of £297m in 2008. However, in 2009 net flows benefited from improving trends in the retail market.

Overall sales remained stable in constant currency at £2,460m (2008: £2,240m), whilst sales in our retail line, which includes individual insurance, savings and retirement and mutual funds, increased by 31% in constant currency to £848m (2008: £589m). This reflects a recent restructure in our sales function. In the second half of the year, sales benefited from an improvement in customer sentiment, following the recovery in equity markets. In group savings and retirement, sales in our core defined contribution offering increased by 18% in constant currency to £793m (2008: £612m), with a large win accounting for £240m. Overall group savings and retirement sales decreased by 22% in constant currency to £981m (2008: £1,138m), due to the distorting impact of a large defined benefit administration mandate secured in 2008. Group insurance sales increased by 12% in constant currency to £631m (2008: £513m), on the strength of an innovative disability offering, highlighted by a 20% increase in sales in that segment.

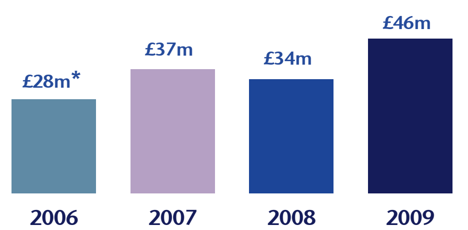
### New business profitability

New business contribution increased to £46m (2008: £34m) and PVNBP margins improved to 1.9% (2008: 1.5%), as a result of a more profitable sales mix in all lines. Internal rate of return decreased to 14% (2008: 17%) and the discounted payback period lengthened to 10 years (2008: 8 years), largely due to a market-led change in business mix towards higher strain products.

**Canada PVNBP sales £2,460m (2008: £2,240m, 2007: £1,654m)**




**Canada NBC**




* 2006 results are shown on a pro forma basis.

## Business development

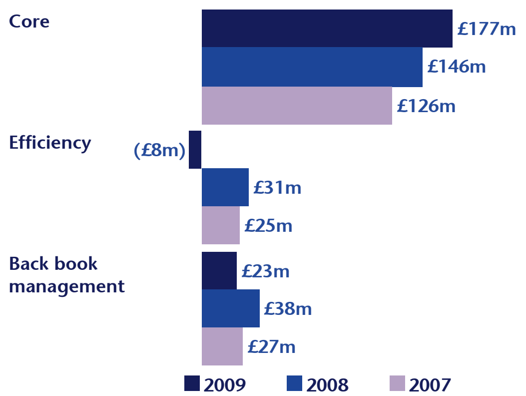
In line with our strategy to position ourselves as a long-term savings and investments business, we launched a new phase of our corporate advertising campaign. This used a new creative approach to demonstrate our expertise in risk management and superior capabilities as a manufacturer of investment products. We enhanced the investment programme and award-winning member communication plan of our group pensions platform, providing plan members with improved tools to manage their retirement needs. Our member and sponsor interactive websites were both recognised in 2009 through the winning of awards for marketing and communication excellence and for technological achievements. We launched our Monitored Avenue Portfolio Programme, an innovative investment solution designed to offer full governance support and investment monitoring aspects to plan sponsors and their advisers, addressing customer needs for investment risk management. In our group insurance line, we responded to sponsor needs with the launch at the end of 2009 of a cost-efficient flexible benefits solution and we intend to enhance this by introducing new products such as critical illness cover. In our retail line, we continue to expand our fund offering and have offered clients innovative fund portfolios which enable them to manage investment risk in a more proactive manner. In a recent industry survey, we received the highest recognition from advisers for our sales team, recognising the strength of our business consultancy model. This is a reflection of the progress we have made in improving our retail sales function and building solid distributor relationships.

## Performance

### EEV operating profit before tax

EEV operating profit before tax decreased by 19% in constant currency to £192m (2008: £215m). The core element accounted for £177m (2008: £146m), an increase of 10% in constant currency driven by an improvement in total expected return to £136m (2008: £113m). NBC increased to £46m (2008: £34m). The efficiency result amounted to a loss of £8m (2008: profit £31m), mainly due to higher unit costs in our investment funds resulting from lower average asset values than in 2008. Back book management delivered a profit of £23m (2008: £38m), largely because of improved lapse experience in group savings and retirement and improvements in annuitant mortality.

**Canada EEV operating profit before tax £192m (2008: £215m, 2007: £178m)**




### IFRS underlying loss before tax

Recovering capital markets significantly improved IFRS results, with an underlying loss before tax of £7m in 2009 (2008: loss £102m). The recovery in equity and bond prices reduced losses on assets supporting shareholder capital to £11m (2008: loss £43m) and enabled a release of reserves previously required in respect of policy guarantees of £32m (2008: charge £42m). This was partly offset by declines in investment property values, which led to a strengthening of policyholder liabilities due to lower anticipated cash flows from property assets. This amounted to £91m in 2009 (2008: £58m). A further charge of £34m was made to the reserves in respect of ceded reinsurance contracts (2008: £nil). The business maintained its good credit profile, experiencing no defaults in its corporate bond and mortgage loan portfolios, despite worsening credit experience in the market. The mortgage portfolio had an average loan to value ratio of 46% (2008: 44%). The value of mortgages where the loan to value ratio exceeded 70% amounted to just 5% of the mortgage portfolio.

# 1.4 Business segment performance *continued*

## 1.4.3 Europe

The operations in Europe consist of Standard Life Ireland, Standard Life Germany, which operates in both Germany and Austria, and Standard Life International, the offshore business based in Dublin. The European businesses offer high quality and customer-focused investment and pension solutions for individual and corporate clients. Standard Life Ireland celebrated its 175th anniversary in 2009 with a series of awareness-raising events.

**Financial highlights**

| | **2009**[1] | 2008[2] | Movement |
|---|---|---|---|
| Net flows | **£869m** | £1,252m | (31%) |
| Assets under administration | **£9.1bn** | £8.3bn | 10% |
| New business PVNBP | **£1,289m** | £1,677m | (23%) |
| New business contribution | **£13m** | £31m | (58%) |
| Internal rate of return | **8%** | 12% | (4% points) |
| Discounted payback period | **18 years** | 12 years | (6 years) |
| EEV covered business operating profit before tax | **£23m** | £68m | (66%) |
| EEV non-covered business operating loss before tax | **(£4m)** | - | - |
| IFRS underlying profit before tax | **£45m** | £48m | (6%) |

[1] The 2009 figures include offshore bonds that were previously reported within UK.

[2] The 2008 figures have been restated to reflect the inclusion of offshore bonds. The 2008 impact is: net inflows by £632m, AUA by £1.0bn, PVNBP by £661m, NBC by £13m, IRR by 1%, discounted payback period by (1 year), EEV operating profit before tax by (£1m) and IFRS underlying profit before tax by (£17m).

Please refer to Section 1.9 – Basis of preparation.

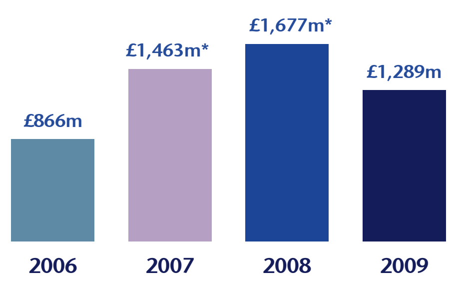
### Net flows and new business sales

Total net flows in Europe fell by 35% in constant currency to £869m with the strength of German gross inflows from regular premium business partly offsetting lower flows of offshore bonds. Total new business sales decreased by 29% in constant currency to £1,289m (2008: £1,677m).

In Germany, sales of £407m (2008: £603m) were 40% lower than 2008 in constant currency. This reflects weak consumer confidence and a continuing preference for German domestic life insurers, combined with a less pronounced fourth quarter sales uplift than in previous years.

In Ireland, domestic sales increased by 10% in constant currency to £512m (2008: £413m) due to the comprehensive choice and strength of the Synergy investment offering, with the option to invest in the Global Absolute Return Strategies (GARS) products managed by Standard Life Investments proving particularly popular with customers. Offshore bond sales were 44% lower at £370m (2008: £661m) due to weak economic conditions during the year.

**Europe PVNBP**




* 2008 and 2007 have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

### New business profitability

New business contribution in Europe decreased to £13m (2008: £31m) due to lower sales volumes in Germany and the offshore business. This was partially offset by an increase in Ireland due to higher sales and improved acquisition costs. The overall internal rate of return and discounted payback period deteriorated because of lower sales volumes which were not balanced by a proportionate reduction in the cost base in Germany and the offshore business.

### Business development

In Europe we remain focused on strengthening our existing operations and improving efficiency whilst responding to the difficult market conditions with innovative solutions for customers and distributors.

The investment range was enhanced by the addition of the GARS products from Standard Life Investments, which generated sales across various product lines in Germany and Ireland. The launch of the Pension Support Fund further strengthened the corporate pensions offering in Germany.

## Performance

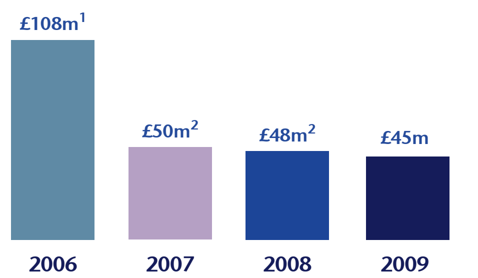
### EEV operating profit before tax

EEV operating profit before tax decreased by 75% in constant currency to £19m (2008: £68m). EEV operating profits in Germany and the offshore business were affected by lower sales and adverse persistency experience, but this was partially offset by increased profits in Ireland due to improved back book management which included an £8m profit from the successful agreement of prior year tax affairs. In addition, the 2008 result included a benefit of £12m arising from improved risk margins following the reinsurance of UK immediate annuities.

### IFRS underlying profit before tax

IFRS underlying profit before tax decreased by 19% in constant currency to £45m (2008: £48m) with Germany contributing £55m (2008: £62m) and Ireland recording a profit of £4m (2008: £3m). The result also includes losses of £14m (2008: loss £17m) primarily related to the offshore bond business. In Germany, the fall in profitability of 22% in constant currency was primarily due to the decreasing transfer of profit to shareholders from the HWPF in accordance with the Scheme of Demutualisation. This was partly offset by increasing profits from the post-demutualisation business. The offshore bond results improved due to increased charge income and a reduction in operating costs.

**Europe IFRS underlying profit before tax**




[1] 2006 results are shown on a pro forma basis.
[2] 2008 and 2007 have been restated to reflect the inclusion of offshore bonds within the Europe results. Prior to 2009 this was included within UK.

# 1.4 Business segment performance *continued*

## 1.4.4 Asia

Standard Life has a growing position in the Asia life and pensions market with joint venture companies in India and China and a wholly owned subsidiary in Hong Kong, each having good potential in their respective markets.

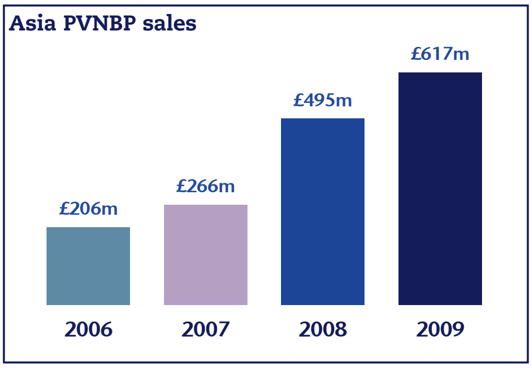
### Financial highlights

| | 2009 | 2008 | Movement |
|---|---|---|---|
| Net flows | **£223m** | £226m | (1%) |
| New business PVNBP | **£617m** | £495m | 25% |
| New business contribution[1] | **£15m** | | |
| Internal rate of return[1] | **12%** | | |
| Discounted payback period[1] | **10 years** | | |
| EEV covered business operating profit before tax[1] | **£6m** | | |
| EEV non-covered business operating loss before tax | **(£2m)** | | |
| IFRS underlying loss before tax | **(£27m)** | (£35m) | 23% |

[1] 2009 Asia results have been prepared on an EEV basis for the first time. Prior to 2009 these were included on an IFRS basis. Comparatives have not been restated.

Please refer to Section 1.9 – Basis of preparation.

### Net flows and new business sales




Net flows for the operations in Asia are being reported for the first time. These were broadly flat at £223m (2008: £226m). Growth in the Asian markets was adversely impacted by the effects of the global economic recession. As Asian equity markets have steadily recovered during 2009, consumer sentiment has improved. Despite challenging trading conditions, Asia continued to achieve growth, with sales up 13% in constant currency to £617m (2008: £495m).

The life and pensions market in India showed signs of recovery as the resilience of the equity markets increased consumer confidence and appetite for life insurance products. Sales in India were stable in constant currency at £360m (2008: £345m) as the business continued to focus on greater profitability.

In China, sales were 12% below 2008 in constant currency at £116m (2008: £109m). However, this reduction reflects a deliberate shift away from business with low profitability to a focus on increasing the proportion of regular premium business, which increased by 58%[2] compared to 2008 in constant currency. In addition, regulatory restrictions across the whole market constrained expansion into new cities during 2009.

Our Hong Kong operation continues to deliver strong growth with sales up 189% in constant currency to £141m (2008: £41m).

### Performance

#### EEV operating profit before tax

EEV operating profit before tax for covered business of £6m is reported for the first time in 2009. Within this, a new business contribution of £15m represents a margin of 2.5% of PVNBP. This is equivalent to a post-tax margin of 11.1% of annual premium equivalent. The new business contribution allows for the full costs of acquiring new business in 2009 whilst development costs of £14m reflect the further costs incurred for growing the business in future years.

#### IFRS underlying loss before tax

Asia IFRS underlying loss of £27m (2008: loss £35m) reflects the continuing investment in developing the operations in the region.

[2] Regular premiums in China of £3m for Group protection business have been reclassified to single premiums for the 12 months to 31 December 2008.

## 1.4.5 Global investment management

The focus at Standard Life Investments is to deliver superior investment performance, supported by exceptional client service. Standard Life Investments operates as a global team, with its investment process underpinned by its 'focus on change' philosophy, which has proved itself to be robust and repeatable in both good and bad market conditions. Over the 11 years since its inception, Standard Life Investments has delivered a strong track record of profitable organic growth, a trend which continued during 2009, despite the challenging market conditions.

**Financial highlights**

| | 2009 | 2008 | Movement |
|---|---|---|---|
| Third party assets under management (AUM) | **£56.9bn** | £45.5bn | 25% |
| Total assets under management | **£138.7bn** | £123.8bn | 12% |
| Third party gross inflows | **£9,747m** | £7,551m[1] | 29% |
| Third party net inflows | **£5,674m** | £3,395m | 67% |
| Earnings before interest and tax (EBIT) | **£80m** | £82m | (2%) |
| IFRS normalised underlying profit before tax[2] | **£75m** | £93m | (19%) |
| IFRS profit before tax | **£64m** | - | - |
| EBIT margin | **32%** | 30% | 2% points |

[1] Third party gross inflows for 2008 have been restated to the same basis as 2009 with UK Money Market outflows reported within gross inflows, leading to a reduction in 2008 third party gross inflows of £1,346m.

[2] IFRS normalised underlying profit before tax excludes costs of £9m (2008: £51m) associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc.

Please refer to Section 1.9 – Basis of preparation.

Standard Life Investments delivered a strong performance in 2009, against the background of volatile and dislocated markets. The strong sales momentum of past years continued, with a high proportion of new business from outside the UK. Strong inflows across our international markets resulted in a 67% increase in third party net inflows, driving the increase in third party AUM to the record level of £56.9bn (2008: £45.5bn). Revenue fell as a result of the weaker market conditions but this was offset by the increase in new business flows, increased profits from our joint venture in India and a tightly controlled cost base which together delivered EBIT of £80m (2008: £82m) and a record EBIT margin of 32%. Our continued focus on serving existing clients and driving sales to new clients through strong investment performance, product innovation, global distribution and high levels of customer service has paid off. Although the economic downturn may not be completely over, this robust performance means that Standard Life Investments is entering potentially more stable market conditions in very good shape.

### Financial market overview

The financial crisis continued to weigh heavily on the global economy in 2009. Despite the rally in equity markets during the second half of the year, average market values in 2009 were substantially lower than in 2008. The average daily FTSE All-Share Index, for example, fell 15% between the two years and this, combined with similar falls in other major world markets, inevitably put downward pressure on asset management revenues. We were able to mitigate the worst effects of the market falls and also maintained strong third party sales momentum across both institutional and retail customer segments.

### Investment performance

Investment performance was robust during 2009, including a significant improvement for UK equities and multi-asset portfolios, and we continued to deliver strong investment performance over the longer term. The money-weighted average active investment performance over all time periods – one, three, five and ten years – continues to be comfortably above median for our third party business. The strength of our investment process across a range of open-ended investment companies (OEICs) and unit trusts is demonstrated by the proportion of eligible and actively managed funds (19 out of 29) rated 'A' or above by Standard & Poor's.

The pipeline for institutional and retail business remains encouraging with fixed income and global absolute return strategies (GARS) products attracting a lot of interest, increasingly from outside the UK. There is also very positive demand for our mutual funds in the UK and for our SICAVs in continental Europe, and the retail product range was expanded in 2009 to include the Strategic Bond Fund, the UK Equity Recovery Fund and the European Equity Income Fund.

# 1.4 Business segment performance *continued*

## 1.4.5 Global investment management *continued*

### Net flows

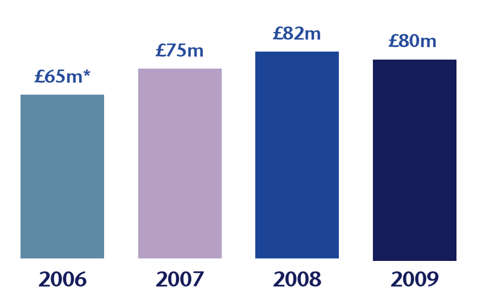
Standard Life Investments achieved third party net inflows of £5,674m (2008: £3,395m), a 67% increase and representing 13% of opening third party AUM. Over 80% of the third party net inflows came from outside the UK, further emphasising our growing global capability. Retail net inflows (UK mutual funds and SICAVs) rose significantly to £1,109m (2008: £123m). A notable number of new institutional clients were won in the UK and Europe during the year, increasing the institutional client base in these markets by 26%.

Strong inflows across our UK and international markets, and the recovery in market levels during the second half of 2009, drove a 25% increase in third party AUM to a record level of £56.9bn (31 December 2008: £45.5bn, 30 June 2009: £47.3bn). Third party AUM now represents 41% of total AUM compared with 37% at 31 December 2008. In-house AUM increased to £81.8bn (31 December 2008: £78.3bn, 30 June 2009: £74.3bn) with favourable market movements partly offset by outflows from the with profits business. As a result, total assets managed by Standard Life Investments stood at £138.7bn (31 December 2008: £123.8bn, 30 June 2009: £121.6bn).

### Performance

EBIT held up extremely well in the face of difficult trading conditions at £80m (2008: £82m). Revenue fell 8% as a result of the fall in average market values but there was a strong performance from our joint venture in India. Costs were tightly controlled whilst allowing for continued investment in the business to sustain our longer-term growth. These measures resulted in a record EBIT margin of 32% (2008: 30%) for the year.

**Earnings before interest and tax**




* 2006 results are shown on a pro forma basis.

IFRS normalised underlying profit before tax, which excludes all restructuring costs, was £75m (2008: £93m). The reduction was mainly due to lower interest rates on our cash balances and the cost of servicing a £30m subordinated loan, which was repaid in full before the end of 2009. IFRS profit before tax was £64m (2008: £nil). This reflected restructuring costs of £2m and a £9m net negative fair value movement in respect of the liability remaining following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and the 'Contact for Differences' written in September 2008 which limited the liability for Standard Life Investments. In 2008, the impact of restructuring this fund was negative £90m.

## 1.5 Capital and cash generation

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

### Capital and cash generation highlights

| | 2009 | 2008 | Movement |
|---|---|---|---|
| EEV operating profit capital and cash generation[1,2] | **£414m** | £423m | (2%) |
| Group capital surplus[3] | **£3.6bn** | £3.5bn | 3% |
| Group solvency cover[3] | **230%** | 219% | 11% points |
| Realistic working capital: Heritage With Profits Fund | **£0.6bn** | £0.5bn | 20% |
| EEV[2] | **£6,435m** | £6,245m | 3% |
| IFRS equity attributable to equity holders of Standard Life plc | **£3,457m** | £3,407m | 1% |

[1] Net of tax.

[2] 2009 Asia results have been prepared on an EEV basis for the first time. Prior to 2009 these were included on an IFRS basis. Comparatives have not been restated.

[3] 2009 based on draft regulatory returns. 2008 based on final regulatory returns.

Please refer to Section 1.9 – Basis of preparation.

### Group capital and cash generation

| | **2009** | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Free surplus movement £m** | **Required capital movement £m** | **Net worth movement £m** | Free surplus movement £m | Required capital movement £m | Net worth movement £m |
| Capital and cash generation from existing business | **567** | **(21)** | **546** | 546 | - | 546 |
| New business strain | **(252)** | **64** | **(188)** | (266) | 42 | (224) |
| **Covered business capital and cash generation from new business and expected return** | **315** | **43** | **358** | 280 | 42 | 322 |
| Covered business development expenses | **(32)** | **-** | **(32)** | (27) | - | (27) |
| Non-covered business core, capital and cash generation | **24** | **-** | **24** | 8 | - | 8 |
| Core | **307** | **43** | **350** | 261 | 42 | 303 |
| Efficiency | **(8)** | **1** | **(7)** | 9 | (2) | 7 |
| Back book management | **65** | **6** | **71** | 107 | 6 | 113 |
| **Operating profit capital and cash generation** | **364** | **50** | **414** | 377 | 46 | 423 |
| Capital and cash generation from non-operating items | **(388)** | **12** | **(376)** | (131) | 44 | (87) |
| **Total capital and cash generation** | **(24)** | **62** | **38** | 246 | 90 | 336 |

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

The Group's IFRS statement of cash flows is included in the IFRS Group financial statements section of this report. This statement combines cash flows relating to both policyholders and equity holders, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. An analysis of the movement in the EEV shareholders' net worth is representative of underlying shareholder capital and cash flow. Under existing EEV principles, we are also required to identify required capital for all covered business. Increases/(decreases) in required capital will not reduce the shareholders' net worth because no external cash flows are made, but will decrease/(increase) the free surplus.

## 1.5 Capital and cash generation *continued*

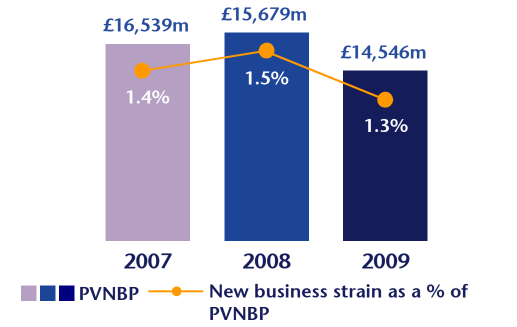
The analysis on the previous page highlights the impact of profit on free surplus and shareholders' net worth. This includes investment of shareholder capital in new business – or new business strain (NBS) – and the amount of capital and cash emerging from existing business. Including Asia on an EEV basis for the first time in the results for the 12 months to 31 December 2009, the NBS margin fell to 1.3% (2008: 1.5%), primarily due to planned reductions in sales of UK onshore bonds and management actions to reduce NBS. Excluding Asia, the NBS margin has fallen to 1.0%. Our covered business capital and cash flows from new business and expected return have increased to £358m (2008: £322m). This was due to the decrease in NBS described above. This has led to NBS being covered almost three times by capital and cash flows from existing business. In overall terms, our operating profit capital and cash generation was broadly unchanged at £414m (2008: £423m). This is discussed in further detail below.

We also analyse capital and cash generation into the three components that reflect the focus of our business effort – core, efficiency and back book management. Core and back book management were the main contributors to our capital and cash generation during the year. The core capital and cash flows of £350m (2008: £303m) primarily reflect robust capital and cash generation from new business and expected return, and after-tax profits from non-life operations, partially offset by development expenses.

The back book management capital and cash flows of £71m includes the benefit of the release of deferred annuity reserves in the UK. The decrease from 2008 reflects the impact of the reinsurance of the UK immediate annuities in 2008.

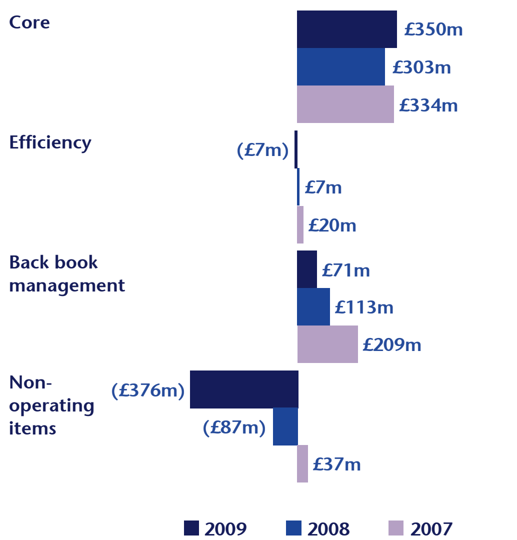
Non-operating capital and cash generation of negative £376m (2008: negative £87m) is driven by £414m of negative capital and cash generation (2008: positive £93m) in the life businesses. This included the impact of increases in the fair value of UK subordinated debt liabilities and falls in Canada property values.

**New business strain**




2008 and 2007 NBS margin is calculated excluding Asia. 2007 NBS margin has not been restated for Sigma mutual funds.

**Capital and cash generation £38m (2008: £336m, 2007: £600m)**




### Holding company capital and cash flows

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

| | 2009 £m | 2008 £m |
|---|---|---|
| **Opening capital 1 January** | **623** | 502 |
| Dividends received from subsidiaries | **190** | 436 |
| Additional investments in subsidiaries | **(20)** | (54) |
| Group corporate centre costs | **(50)** | (50) |
| Cash dividends paid to shareholders | **(158)** | (257) |
| Other | **17** | 46 |
| **Closing capital 31 December** | **602** | 623 |

The capital and cash held in the holding company is managed at a level to fund the Group's dividend obligations and strategic investments. During 2009, capital decreased by £21m, primarily as a result of reduced dividends received from subsidiaries. This was partially offset by the capital impact of a reduction in cash dividends paid to shareholders following the introduction of the Scrip dividend scheme. Standard Life plc's ability to pay dividends to shareholders is determined by the distributable reserves of the Company, which broadly comprise its retained earnings and special reserve. When determining the level of dividends, the Board must also consider the Group's future business plans, market conditions and regulatory solvency.

## Dividends

During the year, the Group paid the final dividend for 2008 of 7.7p per share, amounting to £168m and the 2009 interim dividend of 4.15p per share, amounting to £92m. In 2009 the previous dividend reinvestment plan (DRIP) was discontinued and a new Scrip dividend scheme introduced. The high take-up of this option reduced the capital required to pay the 2008 final dividend from £168m to £110m and the 2009 interim dividend from £92m to £48m. The Board proposes a final dividend of 8.09p per share, making a total of 12.24p (2008: 11.77p). This represents an increase of 4%, reflecting the solid progress made during the year. Looking forward, the Group will continue to apply its existing progressive dividend policy, taking account of market conditions and the Group's financial performance.

# Capital management

## Objectives and measures of Group capital

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

## Sustainable high quality returns for shareholders

| Effective risk management driving capital allocation | Distributable earnings and dividends | Growing shareholder value | Customer security and financial strength | Effective risk management supporting ongoing solvency |
|---|---|---|---|---|

| | IFRS | EEV | Regulatory capital |
|---|---|---|---|
| **Definition** | - Capital attributable to equity holders only<br>- Key performance metric for Group non-life companies<br>- Key determinant of distributable profits | - Capital attributable to equity holders only<br>- Key performance metric for Group life companies<br>- Robust embedded value underpins the financial strength of the Group | - Capital attributable to equity holders and policyholders<br>- Monitored globally and locally using relevant solvency measures<br>- Key determinant of distributable profits |
| **Highlight** | - IFRS equity attributable to equity holders:<br>2009: £3.5bn (2008: £3.4bn)<br>- IFRS dividend cover:<br>2009: 1.0 times (2008: 1.0 times) | - EEV operating capital and cash generation:<br>2009: £414m (2008: £423m)<br>- EEV new business strain:<br>2009: £188m (2008: £224m)<br>- EEV total equity:<br>2009: £6.4bn (2008: £6.2bn) | - Regulatory capital surplus:<br>2009: £3.6bn (2008: £3.5bn)<br>- Regulatory solvency cover:<br>2009: 230% (2008: 219%) |

## Financial Groups Directive

| | 2009 £bn | 2008 £bn |
|---|---|---|
| Shareholders' capital resources | **2.7** | 2.6 |
| Capital resources arising from subordinated debt | **2.1** | 2.2 |
| SLAL long-term business funds | **1.6** | 1.7 |
| FGD Group capital resources | **6.4** | 6.5 |
| FGD Group capital resource requirement | **(2.8)** | (3.0) |
| **FGD Group capital surplus** | **3.6** | 3.5 |
| **FGD Group solvency cover** | **230%** | 219% |

2009 figures above based on draft regulatory returns and 2008 based on final regulatory returns.

At 31 December 2009, the Group was classified as a 'financial conglomerate' as defined by the Financial Groups Directive (FGD), with the strength of our FGD surplus increasing by £0.1bn to £3.6bn. The Group capital resources remained broadly in line with the 2008 closing position, despite ongoing investment in the business. The quality of capital within the Group remains strong with only £0.8bn (31 December 2008: £0.8bn) and £0.7bn (31 December 2008: £0.7bn) of total Group capital resources classified as upper tier 2 and lower tier 2 respectively. Lower tier 2 capital contributes only 19% (31 December 2008: 20%) to the Group capital surplus and further illustrates the strength of our capital position.

## 1.5 Capital and cash generation *continued*

The FGD surplus remains largely insensitive to a further 30% fall in equities from the 31 December 2009 position, with the surplus estimated to reduce by approximately £0.6bn. A 100bps rise in yields is estimated to reduce the surplus by approximately £0.3bn.

Following the sale of Standard Life Bank plc on 1 January 2010 the Group is now classified as an 'insurance group' and from this date the Group capital surplus will be calculated in accordance with the Insurance Groups Directive (IGD). The Group's capital surplus on an IGD basis is not expected to be materially different from the surplus on an FGD basis.

### Analysis of movement in Group capital surplus

The following table illustrates the key movements in the regulatory capital surplus for the year ended 31 December 2009:

| | 2009 £bn | 2008 £bn |
|---|---|---|
| **Opening capital surplus** | **3.5** | 3.6 |
| Movement in capital resources of long-term business funds | - | (2.7) |
| Movement in capital resource requirements of long-term business funds | - | 2.7 |
| **Net movement in capital position of long-term business funds** | - | - |
| Movement in capital resources of shareholder funds: | | |
| Annuity reinsurance change | - | 0.1 |
| New business | **(0.1)** | (0.2) |
| Transfers from HWPF to shareholder funds | **0.3** | 0.4 |
| Dividend payments | **(0.2)** | (0.3) |
| Other factors | **(0.1)** | - |
| Movement in capital resource requirements of shareholder funds | **0.2** | (0.1) |
| **Closing capital surplus** | **3.6** | 3.5 |

The significant factors affecting the capital surplus during the year ended 31 December 2009 were:

Shareholder funds:

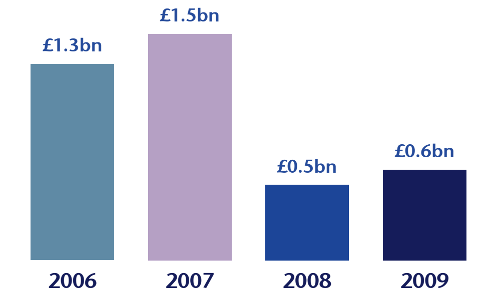
- Ongoing investment of shareholder capital in the Group through writing new business offset by the recourse cash flows emerging from pre-demutualisation business
- Payment of dividends to shareholders during the year

Long-term business funds:

- Impact of changing financial conditions on the capital resources and capital resource requirement of the HWPF and other long-term business funds

Group capital resources include the capital resources within the long-term business funds, but the FGD limits the amount that can be recognised to the level of the capital resources requirement for that fund. This resulted in a restriction of £0.1bn (31 December 2008: £1.3bn) and a net zero contribution to the Group capital surplus. In addition, capital resources amounting to £0.6bn within the shareholder fund are excluded from the Group capital surplus in order to remove capital which arises from intra-group arrangements.

**Residual estate of the HWPF**




The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), and its regulatory position reflects capital resources that include long-term business funds. SLAL's capital resources have decreased due to a number of factors including the costs of writing new business, the costs of paying regular and final bonuses and the payment of dividends. This has led to a decrease in solvency cover to 259% (31 December 2008: 274%). The capital resources of SLAL include the residual estate of approximately £0.6bn, an increase of £0.1bn from the level at 31 December 2008. The hedges we have in place continue to mitigate the impact of falls in equity markets on the residual estate. The impact of most other adverse asset movements would, in the first instance, be met by policyholders. There would be indirect impacts on shareholders via higher guarantee costs, and hence higher burnthrough cost. Shareholder exposure is also limited by the structure of the capital support mechanism set up at demutualisation, with shareholder support being obtained by encumbering the furthest out cash transfers from the HWPF to shareholders.

### Analysis of accrued transfers out of the HWPF

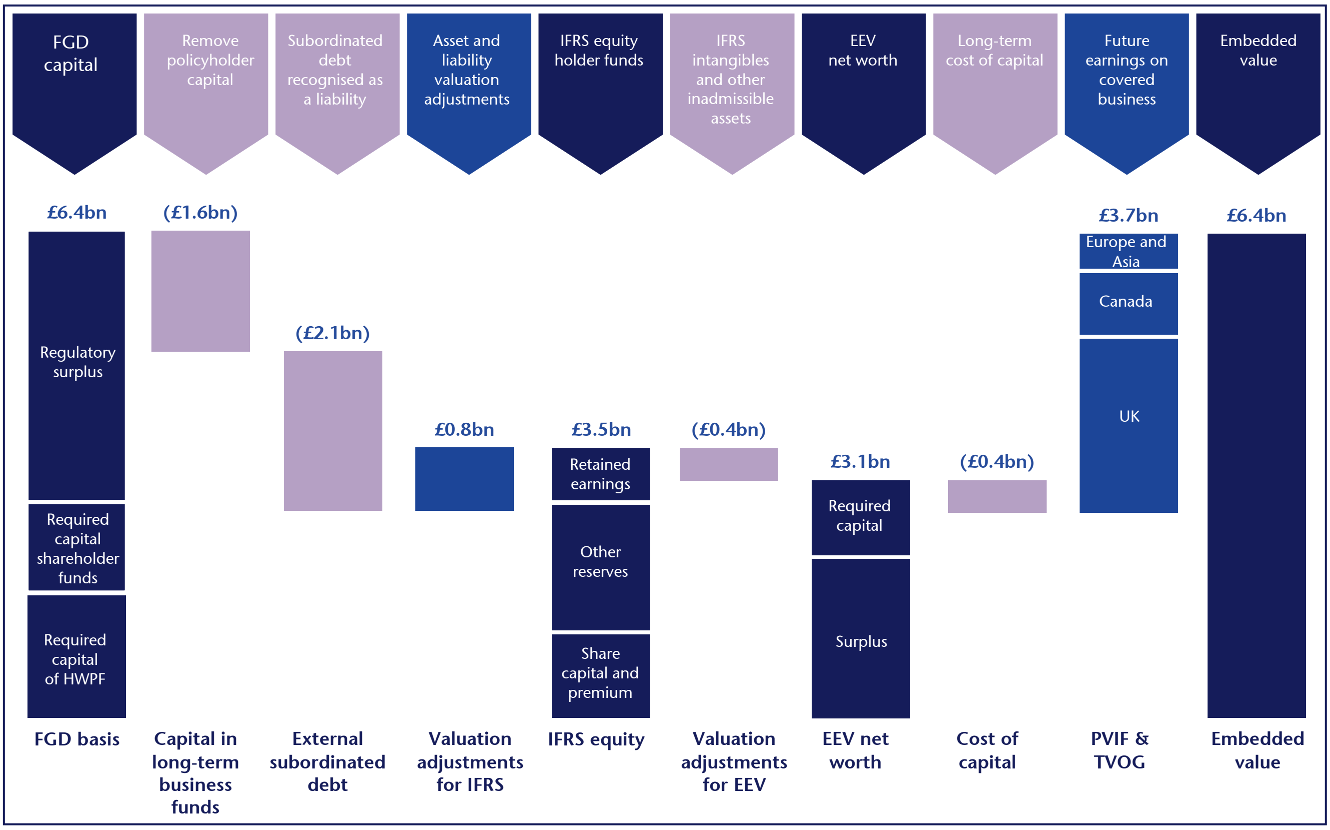
| | 2009 £m | 2008 £m |
|---|---|---|
| Recourse cash flows arising on UK and Irish unitised contracts | **191** | 243 |
| Recourse cash flows arising on UK and Irish non-unitised contracts | **65** | 124 |
| Additional expenses charged on German unitised with-profit contracts | **25** | 39 |
| Amount arising under a contingent loan agreement | **588** | - |
| **Transfer out of HWPF** | **869** | 406 |

In accordance with the Scheme of Demutualisation of the Standard Life Assurance Company (the Scheme), certain transfers are made out of the HWPF to the shareholder fund after the year end position is finalised. The recourse cash flows accruing in respect of UK and Irish unitised contracts fell to £191m (2008: £243m) primarily due to reduced management charge income on a lower average asset base. The German additional expense charge has reduced as the percentage allocation has fallen in accordance with the Scheme.

On 31 December 2009 Standard Life plc lent £588m to SLAL's HWPF under a contingent loan agreement (a contingent recourse cash flows loan, as defined under the Scheme). Simultaneously, the HWPF lent £588m to Standard Life plc under a limited recourse loan agreement. Under the Scheme this resulted in an obligation arising in the HWPF to transfer the loan proceeds received under the contingent loan agreement to the Shareholder Fund. However, the transfer of this amount has not been reflected in the FGD surplus or IFRS equity as the instrument held by the Shareholder Fund as a result of this transfer has cash flows which are contingent on the emergence of recourse cash flows within the HWPF. For further information on this arrangement, please refer to Notes 3.10 and 3.16 of the IFRS Group financial statements section of this report.

### Reconciliation of key capital measures

The following diagram illustrates the key differences between the regulatory, IFRS and EEV capital measures at 31 December 2009:



## 1.5 Capital and cash generation *continued*

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

- Shareholder capital, used to invest in the strategy of the Group, covers the capital requirements borne directly by shareholders and manages risk borne by shareholders
- Capital arising from the subordinated debt issued by the Group of £2.1bn at 31 December 2009, which is used to provide capital support to SLAL and Standard Life Bank
- A restricted amount of policyholder capital of £1.6bn at 31 December 2009, which matches the capital resource requirements of that business, and includes the HWPF

While the latter two elements provide capital support for the Group, they do not form part of the shareholders' regulatory capital. Shareholder capital can be measured under each of the Group's reporting bases – regulatory, IFRS equity and EEV net worth. Each of these is a comparable measure of the net assets attributable to equity holders of the Group. In some cases, the regulatory rules for valuing assets and liabilities differ from IFRS accounting rules, resulting in a valuation adjustment of £0.8bn.

Similarly, EEV recognises certain valuation adjustments to give the EEV net worth, resulting in an equivalent adjustment of £0.4bn to IFRS equity holder funds. The total EEV of the Group relates to the net worth adjusted for the cost of capital of £0.4bn and increased by the value of the present value of in-force business (PVIF) of £3.7bn to give the total EEV of £6.4bn at 31 December 2009.

### Capital management policy

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

### Debt, facilities and liquidity

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

- The Group uses subordinated debt to provide capital to the life assurance and banking businesses
- Further analysis of Group borrowings is provided in Note 3.11 – Borrowings of the IFRS Group financial statements section of this report
- Note 3.16 – Capital statement shows the external subordinated debt and the internal loans made across life and other operations.

### Bond default allowances

Shareholders are exposed to debt securities which back annuity liabilities in the UK and Europe and the liability in respect of longevity risk reinsured from SLAL's HWPF. These debt securities amount to £2.0bn and comprise £0.7bn of government and government backed bonds and £1.3bn of other corporate bonds. There were no defaults in respect of assets backing UK and European annuity liabilities in 2009. The average yield deduction to allow for future defaults within the valuation of liabilities has been broadly maintained at 31 December 2008 levels. Debt securities in Canadian non-segregated funds amount to £6.0bn, including £2.3bn of corporate bonds. There were no defaults within this portfolio of debt securities during 2009 and the allowance for future defaults within the valuation of liabilities has been maintained at 31 December 2008 levels.

### Financial assets valuation and exposures

**Asset-backed securities**

The Group's total investment (including third party funds) in the asset-backed securities markets across both short-term treasury instruments and long-term fixed interest instruments is approximately £5.1bn or 2.9% (31 December 2008: £5.3bn or 3.3%) of Group assets under administration (AUA). These are predominantly UK securities. Of the total of £5.1bn, £1.2bn relates to shareholder funds, of which £0.9bn is AAA rated. The Group has continued to actively manage its exposure to asset-backed securities.

**Shareholder asset exposures**

At 31 December 2009, shareholders had direct exposure to equity, debt securities and investment property of £10.6bn (2008: £9.6bn). This included exposure to equity securities of £0.5bn (2008: £0.4bn). The exposure to debt securities was £9.3bn (2008: £8.3bn) and consisted of government debt securities of £4.2bn (2008: £3.7bn), corporate bonds of £4.9bn (2008: £4.3bn) and other debt securities including supranationals of £0.2bn (2008: £0.3bn). The exposure to investment property amounted to £0.8bn (2008: £0.9bn). The total shareholder exposure to equity securities, debt securities and investment property of £10.6bn (2008: £9.6bn) includes £7.1bn (2008: £6.6bn) of assets held by non-segregated funds in Canada. The effective exposure of shareholders to assets of the non-segregated funds in Canada was significantly lower than £7.1bn (2008: £6.6bn). This is because changes in the value of assets are typically offset by changes in the value of the related liabilities. The shareholder exposure is limited to the net impact on the shareholder surplus and the value of any guarantees that may be triggered. In addition, shareholders had direct exposure to loans and receivables of £9.9bn (2008: £11.7bn), which included £7.5bn (2008: £9.5bn) in respect of the retail mortgage book of Standard Life Bank and £2.4bn (2008: £2.2bn) in respect of the commercial mortgage book of the business in Canada. Both mortgage books are deemed to be of very high quality. Please refer to Sections 1.4.1 – Business segment performance – UK and 1.4.2 – Business segment performance – Canada for further information in respect of the mortgage books.

### Credit ratings

External credit ratings agencies perform independent assessments of the financial strength of companies. The current insurer financial strength ratings for SLAL are A1/Stable and A+/Stable from Moody's and Standard & Poor's respectively. These ratings are unchanged from those reported in the *Interim results 2009*.

## 1.6 Risk management

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

### Risk management framework

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

The Group has recently established a 'Risk Hub' as a centralised area with specific responsibility for developing risk transfer solutions. This will further develop the Group's ability to proactively manage risk and lead to innovation in risk solutions.

### Key risks facing the Group

#### Market risk

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

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

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

Canada has exposure to equity and property risks as a consequence of direct holdings in such assets. These holdings have been acquired for a number of reasons, including duration matching and an expectation that such assets would increase returns to shareholders. As indicated in Section 1.4.2 – Business segment performance – Canada, variability in the values of these assets will be reflected in the financial results of the Canadian business unit.

**Market risk: Fixed interest**
Shareholder exposure to fixed interest risk arises from a number of sources, but is primarily attributable to asset liability mismatches in certain portfolios of liabilities. The extent of such mismatches has been reduced over the course of the year, most notably through improvements in cash flow matching of annuities written in the UK business post-demutualisation.

More generally, the Group's earnings have been adversely impacted by lower returns earned on working capital during 2009.

The IFRS underlying profit after tax for the UK business has been adversely impacted by the lower interest rates experienced in 2009.

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

Fixed interest risk also arises within Canada, primarily as a consequence of the difficulty in obtaining long-dated fixed income assets to match the long-term liability cash flow which gives rise to consequential reinvestment risk.

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

In Sterling terms, the principal risk arises from the Group's holdings in overseas subsidiaries, primarily Canada and Asia (including HDFC Standard Life and Heng An Standard Life). The UK business also has Euro exposure as a consequence of branch business undertaken in Ireland and Germany and its holding in Standard Life International Limited.

Other exposures arise largely as a consequence of holdings in overseas assets within business units and variances in charges taken from linked and similar funds.

### Credit risk

| | |
|---|---|
| **Definition** | The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of corporate bonds due to a widening of corporate bond spreads. |
| **Appetite** | The Group has an appetite for credit risk to the extent that acceptance of this risk optimises the Group risk adjusted return. However, the Group has limited appetite for significant losses arising from counterparty failures and will therefore establish robust risk limits which must be adhered to by Group companies. |

Shareholder exposure to credit risk arises from a number of sources, but is primarily attributable to asset liability mismatches in certain portfolios of liabilities. The extent of such mismatches has been reduced over the course of the year, most notably through improvements in cash flow matching of annuities written in the UK business post-demutualisation. Credit risk also arises from exposure to the value of asset backed securities, and to variances on swap spreads used to manage certain investment risks of the Group.

The UK business also bears credit risks associated with the previously disclosed ‘Contract for Differences’ between Standard Life Assurance Limited and Standard Life Investments. This has resulted in a recovery in the IFRS underlying profit before tax in 2009 due to improvements in the value of underlying assets.

In Canada, the main component of credit risk is the risk of a fall in value of corporate bonds and provincial government bonds due to a widening of credit spreads that is not reflected in a change in liability value.

In addition, all businesses have exposure to the risk of counterparty default, including exposures arising from cash and bond holdings and commercial mortgages (principally within Canada). All such portfolios continue to perform well despite adverse economic conditions.

### Demographic and expense risk

| | |
|---|---|
| **Definition** | The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected, which for the purpose of risk management includes liabilities of insurance and investment contracts. |
| **Appetite** | The Group has an appetite for such risks since we expect acceptance of the risk to be value additive. Appetites will be established to reflect planned business activities in line with the Group’s overall strategic objectives. |

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

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

This risk is controlled through business retention activities and regular monitoring of persistency experience, as well as through product design. Recent performance has been ahead of expectations, particularly in the UK business, resulting in a revision to long-term assumptions. For further information please refer to section 1.4.1 – Business segment performance – UK.

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

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

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

We have an active approach to the management of longevity risk and demographic and expense risks in general.

## 1.6 Risk management *continued*

### Liquidity risk

| | |
|---|---|
| **Definition** | The risk that businesses are unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive cost. |
| **Appetite** | The Group has no appetite to fail to meet its liabilities as they fall due. |

The Group manages and mitigates liquidity risk by employing a variety of techniques as appropriate, including:
- Maintenance of a portfolio of assets of appropriate duration to match liabilities
- Close monitoring and active anticipation of the level of withdrawals based on expected customer behaviour
- Central co-ordination and management of Group-wide contingency funding plans
- Central co-ordination of strategic planning and funding requirements
- Central monitoring, assessment and oversight of the investment of assets within the Group
- Maintenance of a portfolio (currently undrawn) of committed bank facilities

The Group also has the ability to invoke deferral terms on the majority of unit linked contracts. As at 31 December 2009, three of the funds under management were subject to deferral. The aggregate net asset value of these funds was £15m at 31 December 2009.

As a result of the policies and processes established with the objective of managing exposure to liquidity risk, the Group considers the extent of liquidity risk arising from its activities – with the exception of business written by Standard Life Bank plc – to be de-minimis. Standard Life Bank plc was sold to Barclays Bank PLC on 1 January 2010. For further information please refer to Note 3.18 – Events after the reporting period of the IFRS Group financial statements.

### Operational and strategic risks

| | |
|---|---|
| **Definition** | Operational risk is the risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.<br><br>Strategic risk is the risk associated with the robustness of the strategic planning process and the threats to the achievement of the strategy. |
| **Appetite** | The Group has an appetite for operational risks where exposures arise as a consequence of core strategic activity. However, the Group has limited appetite for large operational losses due to the likely related reputational damage and opportunity costs. The Group will seek to put effective controls in place to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits. |

Operational and strategic risk exposures are managed actively with action planning and progress monitoring in place. The operational risk processes and systems continue to be revised and enhanced, together with a substantial programme of education and skill improvements within the business.

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

### Reputational risk

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

## 1.7 Our customers

We are committed to driving shareholder value by becoming a leading, customer-centric business focused on long-term savings and investments. We believe we can derive strength and a competitive advantage from putting customers at the heart of our strategy, having an absolute focus on the end customer, understanding their needs and meeting these in a way that is mutually beneficial.

During 2010, we will continue to focus on finding, acquiring and retaining valuable customers for our mutual and sustained financial benefit in a way that works for them, our business partners and our shareholders. To support this, we will further develop our ever increasing understanding of current and potential customers' needs. This understanding enables us to ensure that our brand, service and product propositions are aligned with creating exceptional customer experiences.

### Building valuable customer relationships

We recognise that to drive value for our shareholders, we need to build valuable, long-term and mutually beneficial relationships with our customers.

This is why last year we took significant action on behalf of around 100,000 customers who had invested in our Pension Sterling Fund. When the fund did not perform in the way that some of our literature said it would, we fully compensated all those affected.

In 2009, we launched the Active Money SIPP aimed at the 'Baby Boomer' generation. Our research showed that these people are approaching retirement in a very different way to previous generations. They are far more interested in an active retirement, perhaps taking the opportunity to travel, or forging a second career by setting up a business of their own. This insight helps us to understand the types of product that customers want from us – in this case a flexible pension product, and helps us build those long-term relationships that are valuable to consumers, our company and to shareholders.

We are going to accelerate our efforts to build these valuable customer relationships in 2010. We intend to do this through refining what our brand stands for, and ensuring that our brand values are lived by our people and appeal to our customers.

We will continue to develop our ability to obtain distinctive and actionable insight about our customers. In early 2010, we launched the Active Money Personal Pension, a new product which responds directly to the needs of 28-40 year olds in the UK, which we have identified through rigorous research into this group of customers.

All of this will be delivered to customers via a multi-channel approach. In an increasingly complex world, customers require different ways of interacting with us and our business partners.

### Customer satisfaction

We continually monitor our relationship with our customers across our businesses:

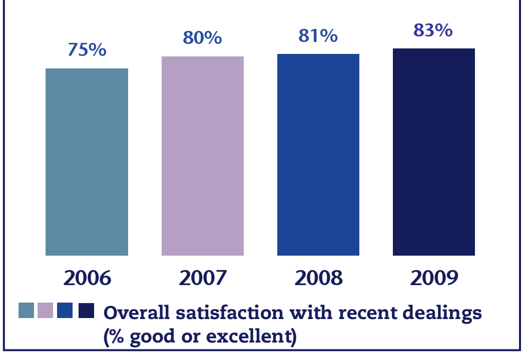
#### UK

We remain committed to building strong customer and adviser relationships and consider this to be the keystone of our drive to grow our assets under administration and generate sustainable profitable returns.

Our efforts to continuously improve the quality of services that we provide to our customers enable us to deliver market-leading customer service at low cost. Regular feedback from customers helps us to focus improvement activities on the elements of service our customers value most, and confirms that the relationship we share is improved as a consequence.

Despite the impact of unstable global market conditions upon investment performance, which has a considerable influence on overall service satisfaction, the feedback opposite illustrates that the long-term trend in service satisfaction is very positive.

**UK customer satisfaction**




Our focus on customers was recognised during the year with a range of awards including:

**Life and pensions**

- Corporate Adviser Awards:
  - Best Group Pension Provider
- Money Marketing Awards:
  - Company of the Year (tenth consecutive year)
  - Best Pension Provider (sixth consecutive year)

## 1.7 Our customers *continued*

- Financial Adviser Life & Pensions Awards:
  - Best Group Pensions Provider
  - SIPP and/or SSAS Provider of the Year (fourth consecutive year)
  - Best Income Drawdown Provider (third consecutive year)
  - Best Alternatively Secured Pension Provider (third consecutive year)
- Logica UK Platform Awards:
  - Platform of the Year
  - Best Platform Enabled SIPP Proposition

**Healthcare**
- Health Insurance Awards
  - Most Innovative Product

### Canada

High quality customer service is the basis of our growth strategy, which focuses on building retention and strong customer relationships. Our client retention level, based on internal methodology, was 94.8% in 2009 (2008: 94.6%). We continually invest in technology, training and processes to help us meet the service expectations of our customers. As part of this, we have enhanced web-based functionality across our group lines to ease administration of our products for both sponsors and participants. Our focus on customers was recognised during the year with a range of awards including:
- OCTAS finalist: Group Savings and Retirement Plan Sponsor VIP Room, recognising achievement in Quebec's information technology industry
- Lipper 2009 Best Fund in the one-year Canadian Neutral Balanced category: Standard Life's Moderate Portrait Portfolio Fund
- Insurance and Financial Communicators Association Awards:
  - Best of Show: Group Savings and Retirement VIP Room and Plan for Life Communications Programme
  - Award of Excellence: Group Savings and Retirement Pension Legislation Communication
  - Award of Excellence: Standard Life Mutual Funds Quarterly Review

### Europe

We are strongly committed to delivering exceptional customer service and always put our customers at the heart of our thinking. In 2009, we established a European customer insight team to help us respond to customer needs and continue growing our already high level of customer satisfaction. All customer insight activities are designed to build our understanding of our existing and future customers. This will help to establish better relationships with customers and develop customer-centric market-leading propositions, as well as keeping retention rates high.

### Asia

All Asia operations are committed to maintaining the highest level of customer service. This commitment to customer service was acknowledged during 2009 by various awards received by our operations throughout Asia including:
- Diamond EDGE 2009 – Enterprises Driving Growth and Excellence – Initiative – empowering financial consultants to access information for sales and customer servicing over the web
- Chief Information Officer (CIO) 100 – 'The Ingenious 100' – A customised workflow-based solution for recruitment and licensing of life insurance agents catering to the regulator guidelines

### Global investment management

Our business remains underpinned by our strong investment performance, delivered through the rigorous application of our 'focus on change' investment philosophy, and by our continuing commitment to very high levels of client service. High quality support by our client service teams, combined with strong investment performance from our fund management teams, has been recognised with 11 awards in 2009, including:
- Best Sterling Corporate Bond Fund – Morningstar Fund Awards
- 5-Star Award in Investment Category – FTAdviser Online Service Awards
- Fastest Growing Money Manager over CA$10 billion – Benefits Canada Award
- Winner, Global Fixed Income Fund (Unhedged Category) – Asian Investor Awards
- Winner, Sterling High Yield Bond Fund – Lipper Awards
- Winner, UK Smaller Companies Category - Moneywise Investment Trust Awards
- Top One Hundred Fund Manager of the Year (Harry Nimmo) – Citywire Awards
- Best UK Small Cap – Money Observer Investment Trust Awards

## 1.8 Our people

To become a more customer-focused business it is vital that we develop and harness the talents of our people and ensure that our people practices are both aligned and powerful in delivering change. In 2009, we began transforming our performance, talent and leadership practices to help strengthen the relationship that each individual employee has with our business. This is important because we believe that highly engaged people increase productivity and have a positive effect on profit and shareholder value.

During 2010 we will continue to focus on driving leadership capability, thereby ensuring our leaders are equipped to help our people grow and fulfil their potential.

### Employee engagement

Our annual survey showed that employee engagement continued to improve across all of our businesses. Our latest results increased to 3.99 out of 5 (2008: 3.91), putting us in the 55th percentile when measured against Gallup's global database. This improvement is encouraging and provides a good platform for implementing the key elements of our people strategy in 2010.

To further improve employee engagement, we need to use the fresh insight we gain each year to develop clear action plans that address the barriers our people identify. Doing this at both a team and corporate level supports our objective of being in the top performing quartile of the Gallup global employee engagement database by 2012.

All of our businesses recognise the importance of developing the skills and capabilities of our people in support of our business goals, whilst promoting a strong culture of integrity, honesty and treating individuals with respect.

**Employee engagement**

| | 2009 | 2008 |
|---|---|---|
| UK | **3.94** | 3.87 |
| Canada | **4.12** | 4.04 |
| Germany | **3.74** | 3.70 |
| Ireland | **3.89** | 3.83 |
| Investments | **4.07** | 4.00 |
| **Group*** | **3.99** | 3.91 |

* Including central Group functions

We are committed to ensuring that all our people understand, and have the opportunity to apply, their own unique skills and experience within their roles. Additionally, we support the engagement of our people through the way in which we select and develop our leaders, by promoting a working environment where feedback is given and received and by rewarding performance fairly and appropriately.

### Leadership and talent

A key priority for Standard Life is to ensure that we have the depth and flexibility of talent we need for the future, as well as powerful and consistent leadership at all levels of the organisation.

To this end, during 2009 we developed a bespoke leadership development framework that sets out our expectations of leaders. This is now being introduced progressively throughout our business, beginning with our most senior leaders. We are putting in place development processes and solutions tailored for leaders at each level, to support new and existing leaders in enhancing their leadership capabilities and behaviour.

We are also creating strong interventions to identify, assess and develop those with the potential to progress further in the organisation. These processes begin with our graduate intake and extend to our most senior leaders:

- Our graduate recruitment and development activities are critical in creating a sustainable supply of future professionals and leaders. In 2009, we recruited 43 graduates onto the different streams within the Standard Life graduate programme.
- For our senior leaders, we have an established process targeted at accelerating the development of those with executive potential. We currently have two groups (with a total of over 50 leaders) participating in this process.

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

## 1.9 Basis of preparation

### Overview

Our Business review for the period to 31 December 2009 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority (FSA). Under section 417 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair review of the business and a description of the principal risks and uncertainties facing the Group. Principal uncertainties are detailed in Section 1.1 – Group overview. Principal risks are detailed in Section 1.6 – Risk management. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Reporting statement: Operating and Financial Review (OFR) issued by the Accounting Standards Board (ASB).

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

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

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

### EEV and IFRS reporting

The financial results are prepared on both an EEV basis and an IFRS basis. All EU listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 by the Chief Financial Officers (CFO) Forum. The CFO Forum represents the chief financial officers of major European insurers, including Standard Life. EEV methodology has been applied to 'covered' business, which mainly comprises the Group's life and pensions business. Non-covered business is reported on an IFRS basis. The EEV financial results in Section 1.2 of the Business review, and in the EEV financial statements section of this report, have been prepared in accordance with the EEV methodology applied by the Group in Note 2.16 of the EEV financial statements section of this report for 2009, and in the relevant EEV methodology note included in the *Annual Report and Accounts 2008* in respect of the comparative period. The IFRS financial results in Section 1.3 of the Business review and in the IFRS Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies applied by the Group in Note 3.1 of the IFRS Group financial statements section of this report.

### EEV operating and IFRS underlying profit

The 2009 IFRS reconciliation of Group underlying profit to profit for the year, presented on page 86 of this report, presents profit before tax attributable to equity holders adjusted for non-operating items. The 2009 EEV consolidated income statement, on page 46 of this report, presents EEV profit showing both operating and non-operating items. In doing so, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group.

### Key differences between the EEV and IFRS bases

| EEV | IFRS |
|---|---|
| For new business, all profits expected to arise on the contract are recognised at the point of sale. Future profits are discounted to a present value using an appropriate discount rate over the lifetime of the contract.<br><br>Profit on in-force business is recognised with the unwind of the risk discount rate as future cash flows move one year nearer to realisation. Adjustments are also made to profit in order to reflect changes to current best estimate assumptions. | For new business, profits expected to arise on the contract in future years are not recognised. Not all acquisition costs are deferred and therefore the IFRS results recognise the initial cost or strain associated with writing long-term business.<br><br>Profit on in-force business is the statutory surplus for the year adjusted for the amortisation of deferred acquisition costs. |

# 2 European Embedded Value (EEV)

# EEV consolidated income statement

## For the year ended 31 December 2009

| | Notes | Continuing operations 2009 £m | Discontinued operations[1] 2009 £m | Total 2009 £m | Continuing operations 2008 £m | Discontinued operations[1] 2008 £m | Total 2008 £m |
|---|---|---|---|---|---|---|---|
| **Covered business** | | | | | | | |
| UK | | 506 | - | 506 | 658 | - | 658 |
| Canada | | 192 | - | 192 | 215 | - | 215 |
| Europe | | 23 | - | 23 | 68 | - | 68 |
| Asia | | 6 | - | 6 | (35) | - | (35) |
| HWPF TVOG | | 143 | - | 143 | 11 | - | 11 |
| **Covered business operating profit** | 2.2(a) | 870 | - | 870 | 917 | - | 917 |
| Global investment management[2] | 2.6(b) | 42 | - | 42 | 48 | - | 48 |
| UK | | (3) | 60 | 57 | (21) | 26 | 5 |
| Group corporate centre costs | | (50) | - | (50) | (50) | - | (50) |
| Other | 2.6(c) | - | - | - | 13 | - | 13 |
| **Non-covered business operating profit** | | (11) | 60 | 49 | (10) | 26 | 16 |
| **Operating profit before tax** | | 859 | 60 | 919 | 907 | 26 | 933 |
| **Non-operating items** | | | | | | | |
| Long-term investment return and tax variances | | 70 | - | 70 | (849) | - | (849) |
| Effect of economic assumption changes | | (539) | - | (539) | 48 | - | 48 |
| Impairment loss on discontinued banking operations | | - | (10) | (10) | - | - | - |
| Restructuring and corporate transaction expenses[3] | | (58) | (1) | (59) | (70) | (2) | (72) |
| Volatility arising on different asset and liability valuation bases | | - | 40 | 40 | (15) | (94) | (109) |
| Impairment of intangible assets | | - | (5) | (5) | - | - | - |
| Other non-operating items | | (9) | - | (9) | (51) | - | (51) |
| Consolidation adjustment for different accounting bases[4] | | 67 | - | 67 | (58) | - | (58) |
| **Profit/(loss) before tax** | | 390 | 84 | 474 | (88) | (70) | (158) |
| Tax attributable to: | | | | | | | |
| Operating profit | | (251) | (28) | (279) | (278) | (6) | (284) |
| Non-operating items | | 124 | (14) | 110 | 281 | 27 | 308 |
| **Profit/(loss) after tax** | | 263 | 42 | 305 | (85) | (49) | (134) |

1 The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and has therefore been classified as a discontinued operation. Refer to Note 2.1 – Basis of preparation.
2 Global investment management operating profit before tax is stated after excluding profits of £33m (2008: £45m) which have been generated by life and pensions business.
3 Refer to IFRS financial information Note 3.3 – Administrative expenses.
4 This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 2.16 – EEV methodology.

The presentation of the 2008 comparatives reflects the reclassification of Standard Life Bank as a discontinued operation.

# EEV earnings per share (EPS)

## For the year ended 31 December 2009

| | 2009 | 2008 |
|---|---|---|
| EEV operating profit after tax from continuing operations (£m)[1] | **608** | 629 |
| EEV operating profit after tax from discontinued operations (£m)[2] | **32** | 20 |
| **EEV operating profit after tax attributable to equity holders of Standard Life plc (£m)** | **640** | 649 |
| Weighted average number of ordinary shares in issue (millions) | **2,201** | 2,176 |
| Basic EPS (pence) from continuing operations | **27.6** | 28.9 |
| Basic EPS (pence) from discontinued operations | **1.5** | 0.9 |
| **Basic EPS (pence)** | **29.1** | 29.8 |
| Weighted average number of ordinary shares on a diluted basis (millions) | **2,203** | 2,180 |
| Diluted EPS (pence) from continuing operations | **27.6** | 28.9 |
| Diluted EPS (pence) from discontinued operations | **1.5** | 0.9 |
| **Diluted EPS (pence)** | **29.1** | 29.8 |

1 EEV operating profit before tax from continuing operations of £859m (2008: £907m) less attributed tax on operating profit from continuing operations of £251m (2008: £278m).

2 EEV operating profit before tax from discontinued operations of £60m (2008: £26m) less attributed tax on operating profit from discontinued operations of £28m (2008: £6m).

# EEV consolidated statement of comprehensive income

## For the year ended 31 December 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Profit/(loss) after tax** | | **305** | (134) |
| Less: Profit/(loss) after tax from discontinued operations | | **42** | (49) |
| Profit/(loss) from continuing operations | | **263** | (85) |
| Fair value gains on cash flow hedges[1] | | **1** | - |
| Actuarial (losses)/gains on defined benefit pension schemes[1] | | **(77)** | 161 |
| Exchange differences on translating foreign operations[2] | | **26** | 323 |
| Net investment hedge[1] | | **(12)** | (17) |
| Aggregate tax effect of items not recognised in income statement | | **27** | (53) |
| Other | | **13** | (3) |
| Other comprehensive (expense)/income for the period | | **(22)** | 411 |
| **Total comprehensive income for the period attributable to equity holders from continuing operations** | | **241** | 326 |
| Profit/(loss) after tax from discontinued operations | | **42** | (49) |
| Other comprehensive income/(expense) from discontinued operations[3] | | **8** | (27) |
| **Total comprehensive income/(expense) for the period attributable to equity holders from discontinued operations** | | **50** | (76) |
| **Total comprehensive income for the period attributable to equity holders** | 2.7 | **291** | 250 |

1 Consistent with the IFRS consolidated statement of comprehensive income for the year ended 31 December 2009.

2 Exchange differences primarily relate to: Canada £71m; Europe (£37m); and Asia (£14m).

3 Other comprehensive income from discontinued operations includes fair value gains on cash flow hedges of £11m (2008: losses of £38m) and aggregate equity holder tax effect of items not recognised in the income statement of negative £3m (2008: positive £11m).

The presentation of the 2008 comparatives reflects the reclassification of Standard Life Bank as a discontinued operation.

# EEV consolidated statement of financial position

## As at 31 December 2009

| | Notes | 31 December 2009 £m | 31 December 2008 £m |
|---|---|---|---|
| **Covered business** | | | |
| Free surplus | | **925** | 1,235 |
| Required capital | | **956** | 844 |
| **Net worth** | | **1,881** | 2,079 |
| Present value of in-force | | **3,775** | 3,345 |
| Cost of required capital | | **(391)** | (292) |
| **Total embedded value of covered business** | 2.2(c) | **5,265** | 5,132 |
| **Non-covered business** | | | |
| Global investment management | | **195** | 143 |
| UK | | **78** | 129 |
| Group corporate centre | | **389** | 417 |
| Other | | **255** | 255 |
| Discontinued operations | | **246** | 211 |
| **Total net assets of non-covered business** | 2.6(a) | **1,163** | 1,155 |
| Consolidation adjustment for different accounting bases[1] | | **7** | (42) |
| **Total Group embedded value** | 2.7 | **6,435** | 6,245 |
| **Equity** | | | |
| Share capital | | **224** | 218 |
| Share premium reserve | | **888** | 792 |
| Other reserves | | **1,660** | 1,623 |
| Retained earnings on an IFRS basis | | **685** | 774 |
| Additional retained earnings on an EEV basis | | **2,978** | 2,838 |
| **Total equity**[2] | | **6,435** | 6,245 |

1 This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 2.16 – EEV methodology.

2 Embedded value equity per share is 288p as at 31 December 2009 compared to 286p as at 31 December 2008, based on diluted share totals of 2,237m as at 31 December 2009 and 2,180m as at 31 December 2008.

The presentation of the 2008 comparatives reflects the reclassification of Standard Life Bank as a discontinued operation.

# Notes to the EEV financial information

## 2.1 Basis of preparation

The European Embedded Value (EEV) basis results have been prepared in accordance with the EEV Principles and Guidance issued in May 2004 by the CFO Forum of European Insurance Companies and the Additional Guidance issued in October 2005. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the cost of holding required capital and the value of free surplus. The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS), but the timing of recognition of profits is different.

EEV includes the net assets of the businesses that are owned by equity holders of Standard Life plc plus the present value of future profits expected to arise from in-force long-term insurance policies (PVIF) where these future profits are attributable to equity holders under the Scheme of Demutualisation (the Scheme) or from sales of new business since 10 July 2006.

The opening and closing EEV numbers, and therefore the profit arising in the period, for the covered business are determined on an after-tax basis. The tax assumptions are based upon the best estimate of the actual tax expected to arise. Profit before tax is derived by grossing up profit after tax at the long-term rate of corporation tax appropriate to each territory. While for some territories this rate does not equate to the actual effective rate of tax used in the calculation of after-tax profits, it provides a consistent grossing up basis upon which to compare results from one year to another and is in line with the Group's expectation of the rate of tax applicable to business sold after demutualisation.

A detailed description of EEV methodology is provided in Note 2.16. There have been no significant changes to EEV methodology from that adopted in the previous reporting period except as noted below.

### Covered business

A detailed description of EEV covered business is provided in Note 2.16 – EEV methodology.

The inclusion of Asia business for the first time on an EEV basis is reflected in the EEV results for the 12 months to 31 December 2009 with an opening adjustment of £33m, which captures the PVIF and cost of capital as at 1 January 2009 and removes any intangibles.

Prior to the 12 months to 31 December 2009, Asia was included on an IFRS basis. This business was previously immaterial in the context of both the Group embedded value and the Group EEV operating profit, and therefore the Group was not required to report Asia on an EEV basis. The EEV results for the 12 months to 31 December 2008 have not been restated.

## 2.1 Basis of preparation *continued*

### Segmentation

Under the EEV Principles and Guidance we are required to provide business classifications which are consistent with those used for the primary statements. In the IFRS financial statements the Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed, as required under IFRS 8 for the first time. The EEV segmentation has been prepared in a consistent manner, whilst also distinguishing between covered and non-covered business. The Heritage With Profits Fund time value of options and guarantees (HWPF TVOG) is disclosed separately in EEV, as explained in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement.

Within the IFRS segmental analysis, UK operations primarily comprise life and pensions business and healthcare business. We distinguish between covered and non-covered business within our EEV results. UK non-covered business is shown within Note 2.6 – Non-covered business.

The Europe segment within the IFRS financial statements includes the Germany and Ireland life and pensions businesses which are treated as covered business under EEV. The Ireland operations include the offshore bond business, which is sold by Standard Life International Limited (SLIL). Prior to the implementation of IFRS 8, the results for SLIL were included within the UK covered business under EEV. Comparative results for the 12 months to December 2008 have been restated for UK and Europe to reflect this change.

### Continuous Improvement Programme (CIP)

In March 2007, we announced our aim to reduce underlying costs by a further £100m by 2009. This cost efficiency target was achieved one year early. In March 2009, we announced the next phase of efficiency savings with a target of achieving a further £75m of annualised efficiency savings by the end of 2010. In the 12 months to 31 December 2009, £50m of costs have been incurred in progressing this initiative (12 months to 31 December 2008: £45m).

### Events after the reporting period

On 26 October 2009, the Group announced that it had entered into an agreement with Barclays Bank PLC to sell Standard Life Bank plc. The formal transfer took place on 1 January 2010, with an expected consideration of £245m, which is subject to adjustments resulting from the conclusion of the completion accounts of Standard Life Bank plc for the year ended 31 December 2009. The Group's decision to sell Standard Life Bank plc was primarily driven by the view that the growth of the volume of lending activity is no longer consistent with its long-term financial objectives.

As a result of entering into the disposal agreement, the assets and liabilities of Standard Life Bank plc were measured at fair value less costs to sell, and this has resulted in a loss of £10m being recognised in the year ended 31 December 2009.

Separately, the Group has agreed heads of terms to enter into a strategic agreement with Barclays UK Retail Banking to explore joint opportunities in the UK retail long-term savings and investments sector. The initial focus is expected to be on the development of a simplified pension product and, thereafter, both parties will continue to explore and develop further opportunities in this market.

As a result of a statutory pension fund valuation carried out under Section 75 of the Pensions Act 1995, a payment of £25m was made in January 2010 by Standard Life Bank plc to the Standard Life UK staff pension scheme. As part of the disposal agreement, a corresponding payment of £25m was made by Standard Life Assurance Limited to Standard Life Bank plc in January 2010.

To reflect the sale of Standard Life Bank plc, the banking business, which was previously included within UK non-covered, has now been classified as a discontinued operation. The presentation of the 2008 comparatives has been reclassified accordingly.

In January 2010, the FSA announced that it had fined Standard Life Assurance Limited £2.45m for serious systems and controls failings that resulted in the production of misleading marketing material for the Pension Sterling Fund. This amount has been recognised in the year ended 31 December 2009. A full and thorough review of existing literature has been conducted and a new improved process for new literature has been put in place.

## 2.2 Segmental analysis – covered business

### (a) Segmental EEV income statement

This note provides an analysis of EEV covered business as defined in Note 2.16 – EEV methodology.

| 12 months to 31 December 2009 | Notes | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|---|
| Contribution from new business | 2.3 | 139 | 46 | 13 | 15 | - | **213** |
| Contribution from in-force business: | | | | | | | |
| Expected return on existing business | | 204 | 132 | 34 | 5 | - | **375** |
| Experience variances | 2.4 | 148 | 4 | (19) | 1 | 143 | **277** |
| Operating assumption changes | 2.5 | 60 | 11 | 1 | (4) | - | **68** |
| Development expenses | | (18) | (6) | (9) | (14) | - | **(47)** |
| Expected return on free surplus | | (27) | 5 | 3 | 3 | - | **(16)** |
| **Operating profit before tax** | | **506** | **192** | **23** | **6** | **143** | **870** |
| Investment return and tax variances | | (8) | (31) | 35 | 12 | 62 | **70** |
| Effect of economic assumption changes | | (243) | (292) | (6) | (7) | 9 | **(539)** |
| Restructuring costs | | (34) | (1) | (8) | - | - | **(43)** |
| **Profit/(loss) before tax** | | **221** | **(132)** | **44** | **11** | **214** | **358** |
| Attributed tax | | (62) | 34 | (15) | - | (60) | **(103)** |
| **Profit/(loss) after tax** | | **159** | **(98)** | **29** | **11** | **154** | **255** |

| 12 months to 31 December 2008 | Notes | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|---|
| Contribution from new business | 2.3 | 199 | 34 | 31 | - | - | **264** |
| Contribution from in-force business: | | | | | | | |
| Expected return on existing business | | 289 | 109 | 33 | - | - | **431** |
| Experience variances | 2.4 | 16 | 47 | 1 | - | - | **64** |
| Operating assumption changes | 2.5 | 151 | 24 | 9 | - | 11 | **195** |
| Development expenses | | (30) | (3) | (9) | - | - | **(42)** |
| Expected return on free surplus | | 33 | 4 | 3 | (35) | - | **5** |
| **Operating profit/(loss) before tax** | | **658** | **215** | **68** | **(35)** | **11** | **917** |
| Investment return and tax variances | | (484) | (173) | (62) | - | (130) | **(849)** |
| Effect of economic assumption changes | | (69) | 236 | 11 | - | (130) | **48** |
| Restructuring costs | | (34) | (1) | (3) | - | - | **(38)** |
| **Profit/(loss) before tax** | | **71** | **277** | **14** | **(35)** | **(249)** | **78** |
| Attributed tax | | (20) | (75) | (5) | 1 | 70 | **(29)** |
| **Profit/(loss) after tax** | | **51** | **202** | **9** | **(34)** | **(179)** | **49** |

An analysis of profit after tax by territory is provided in Note 2.9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

## 2.2 Segmental analysis – covered business *continued*

### (a) Segmental EEV income statement *continued*

Operating profit before tax for covered business is calculated using the expected long-term investment return which is based on opening economic assumptions. Investment variances, the effect of economic assumption changes and other non-operating items are excluded from the operating profit for the period and are reported as part of the total EEV profit.

The results for the 12 months to 31 December 2009 include Asia on an EEV basis for the first time. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. Refer to Note 2.1 – Basis of preparation.

HWPF TVOG represents the time value of financial options and guarantees (TVOG) arising from the Heritage With Profits Fund (HWPF). Although the HWPF includes business written by the UK, Germany and Ireland, the Group manages the risk at an aggregate level. This is consistent with the Group's IFRS financial statements as disclosed in Note 39 – Risk management to the Group's *Annual Report and Accounts 2009*. The results for Canada and Asia include the cost of the Canada and Asia TVOG respectively, whilst the results for Europe include the cost of TVOG arising on business written outside of the HWPF in Germany.

The EEV operating profit before tax has been increased by £111m arising from the impact of the removal of the market risk to the tax treatment of future shareholder transfers from the HWPF (refer to Note 2.16 – EEV methodology), calculated on opening economic assumptions.

The reduction in the expected return on existing business in the UK is primarily due to lower opening PVIF and lower opening risk discount rates.

Development costs of £18m in the UK mainly relate to product development on the group pension proposition, and implementing legislative changes. The £14m of development costs in Asia reflect the costs of developing the business to build future growth and are in addition to the full allowance for acquisition costs that are included within the new business contribution (NBC).

The lower expected return on free surplus in the UK reflects lower expected returns on cash assets within free surplus, along with a higher expected increase in the value of subordinated debt liabilities relative to the expected return on the assets backing subordinated debt.

Profits within investment return and tax variances reflect the impact of favourable investment outcomes in the HWPF, which reduces the burnthrough risk, and in Europe. Investment gains in the UK were offset by increases in subordinated debt liabilities, whilst performance in Canada was adversely impacted by losses on property values. In the UK, improved modelling of our index-linked deferred annuities generated a profit of £59m, whilst revised tax modelling of UK tax due on profits from branches resulted in a loss of £47m.

Effect of economic assumption changes includes the effect of changes to risk discount rates of (£214m) (1 January to 31 December 2008: £277m), which are explained in Note 2.12 – Principal economic assumptions – deterministic calculations – covered business. The total UK loss of £243m includes (£76m) from the change in risk discount rates and (£60m) in respect of higher inflation assumptions. The total Canada loss of £292m includes (£116m) from the change in risk discount rates and (£66m) from the change in subordinated debt liability.

HWPF TVOG shows separate movements in investment variances and economic assumptions, whereas in practice, economic assumption changes are highly dependent on the same factors that give rise to investment variances, for example market yields. Therefore, the key consideration is the net effect of the two items rather than the individual items themselves. Further comments on the movement in TVOG are provided in Note 2.4 – Experience variances, and Note 2.10 – Time value of options and guarantees (TVOG).

Restructuring expenses primarily represent the covered business costs associated with the CIP as described in Note 2.1 – Basis of preparation.

## (b) Segmental analysis of movements in EEV

| 12 months to 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **Opening EEV** | **3,129** | **1,597** | **506** | **120** | **(220)** | **5,132** |
| Opening adjustments | - | - | - | 33 | - | **33** |
| **Opening adjusted EEV** | **3,129** | **1,597** | **506** | **153** | **(220)** | **5,165** |
| Profit/(loss) after tax | 159 | (98) | 29 | 11 | 154 | **255** |
| Internal capital transfers | (175) | (2) | (27) | 26 | - | **(178)** |
| Transfer back of surplus to Standard Life Investments | (19) | (3) | (2) | - | - | **(24)** |
| Transfer back of mutual funds net worth | 20 | (1) | - | - | - | **19** |
| Actuarial (losses)/gains on defined benefit pension schemes | - | (16) | 13 | - | - | **(3)** |
| Foreign exchange differences | - | 71 | (37) | (14) | - | **20** |
| Aggregate tax effect of items not recognised in income statement | - | 5 | - | - | - | **5** |
| Other | 6 | - | - | - | - | **6** |
| **Closing EEV** | **3,120** | **1,553** | **482** | **176** | **(66)** | **5,265** |

| 12 months to 31 December 2008 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **Opening EEV** | **3,574** | **1,276** | **349** | **86** | **(41)** | **5,244** |
| Opening adjustments | 32 | - | - | - | - | **32** |
| **Opening adjusted EEV** | **3,606** | **1,276** | **349** | **86** | **(41)** | **5,276** |
| Profit/(loss) after tax | 51 | 202 | 9 | (34) | (179) | **49** |
| Internal capital transfers | (506) | (40) | 49 | 20 | - | **(477)** |
| Transfer back of surplus to Standard Life Investments | (28) | (3) | (2) | - | - | **(33)** |
| Transfer back of mutual funds net worth | 17 | (1) | - | - | - | **16** |
| Actuarial gains/(losses) on defined benefit pension schemes | - | 12 | (10) | - | - | **2** |
| Foreign exchange differences | - | 154 | 110 | 36 | - | **300** |
| Aggregate tax effect of items not recognised in income statement | - | (3) | - | - | - | **(3)** |
| Other | (11) | - | 1 | 12 | - | **2** |
| **Closing EEV** | **3,129** | **1,597** | **506** | **120** | **(220)** | **5,132** |

Internal capital transfers mainly reflect dividend transfers to Standard Life plc.

Opening adjustments in Asia for the 12 months to 31 December 2009 reflect the inclusion of Asia on an EEV basis for the first time. This adjustment is explained in more detail in Note 2.1 – Basis of preparation. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis.

Opening adjustments in the UK for the 12 months to 31 December 2008 reflect the inclusion of Sigma mutual funds in covered business for the first time.

## 2.2 Segmental analysis – covered business *continued*

### (c) Segmental analysis of opening and closing EEV

| 12 months to 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **Analysis of EEV** | | | | | | |
| Free surplus | 899 | 154 | 62 | 62 | - | **1,177** |
| PVIF | 2,173 | 939 | 453 | 75 | (220) | **3,420** |
| Required capital | 95 | 737 | 12 | 17 | - | **861** |
| Cost of capital | (38) | (233) | (21) | (1) | - | **(293)** |
| **Opening adjusted EEV** | **3,129** | **1,597** | **506** | **153** | **(220)** | **5,165** |
| **Analysis of EEV** | | | | | | |
| Free surplus | 673 | 161 | 57 | 34 | - | **925** |
| PVIF | 2,359 | 937 | 423 | 122 | (66) | **3,775** |
| Required capital | 139 | 770 | 25 | 22 | - | **956** |
| Cost of capital | (51) | (315) | (23) | (2) | - | **(391)** |
| **Closing EEV** | **3,120** | **1,553** | **482** | **176** | **(66)** | **5,265** |

| 12 months to 31 December 2008 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **Analysis of EEV** | | | | | | |
| Free surplus | 966 | 168 | 17 | 86 | - | **1,237** |
| PVIF | 2,611 | 765 | 336 | - | (41) | **3,671** |
| Required capital | 63 | 611 | 6 | - | - | **680** |
| Cost of capital | (34) | (268) | (10) | - | - | **(312)** |
| **Opening adjusted EEV** | **3,606** | **1,276** | **349** | **86** | **(41)** | **5,276** |
| **Analysis of EEV** | | | | | | |
| Free surplus | 899 | 154 | 62 | 120 | - | **1,235** |
| PVIF | 2,173 | 939 | 453 | - | (220) | **3,345** |
| Required capital | 95 | 737 | 12 | - | - | **844** |
| Cost of capital | (38) | (233) | (21) | - | - | **(292)** |
| **Closing EEV** | **3,129** | **1,597** | **506** | **120** | **(220)** | **5,132** |

Opening adjusted EEV in Asia for the 12 months to 31 December 2009 reflects the inclusion of Asia on an EEV basis for the first time. The opening adjustment is explained in more detail in Note 2.1 – Basis of preparation. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis.

## 2.3 Analysis of new business contribution

The following table sets out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out in Note 2.16 – EEV methodology.

New business contribution (NBC) and the present value of new business premium (PVNBP) margins are shown after the effect of required capital.

| 12 months to 31 December 2009 | NBC £m | Single premiums £m | Annualised regular premiums £m | PVNBP[1] £m | PVNBP multiplier[2] | PVNBP margin[3] % |
|---|---|---|---|---|---|---|
| Individual pensions | 7 | 3,074 | 79 | 3,366 | 3.7 | 0.2 |
| Group pensions | 34 | 930 | 437 | 2,662 | 4.0 | 1.3 |
| Institutional pensions | 25 | 2,253 | 17 | 2,296 | 2.5 | 1.1 |
| Savings and investments[4] | (3) | 1,256 | 19 | 1,406 | 7.9 | (0.2) |
| Annuities | 76 | 448 | - | 448 | - | 17.1 |
| Protection | - | - | 1 | 2 | 2.0 | 11.9 |
| **UK** | **139** | **7,961** | **553** | **10,180** | **4.0** | **1.4** |
| Canada | 46 | 1,232 | 88 | 2,460 | 14.0 | 1.9 |
| Europe[4] | 13 | 875 | 38 | 1,289 | 10.9 | 1.0 |
| Asia | 15 | 70 | 118 | 617 | 4.6 | 2.5 |
| **Total covered business** | **213** | **10,138** | **797** | **14,546** | **5.5** | **1.5** |

| 12 months to 31 December 2008 | NBC £m | Single premiums £m | Annualised regular premiums £m | PVNBP £m | PVNBP multiplier[2] | PVNBP margin[3] % |
|---|---|---|---|---|---|---|
| Individual pensions | 56 | 3,939 | 103 | 4,334 | 3.8 | 1.3 |
| Group pensions | 55 | 992 | 437 | 2,600 | 3.7 | 2.1 |
| Institutional pensions | 20 | 1,667 | 67 | 1,826 | 2.4 | 1.1 |
| Savings and investments[4] | (7) | 1,958 | 10 | 2,029 | 7.1 | (0.3) |
| Annuities | 74 | 471 | - | 471 | - | 15.8 |
| Protection | 1 | - | 2 | 7 | 3.5 | 8.2 |
| **UK** | **199** | **9,027** | **619** | **11,267** | **3.6** | **1.8** |
| Canada | 34 | 1,154 | 79 | 2,240 | 13.7 | 1.5 |
| Europe[4] | 31 | 1,046 | 67 | 1,677 | 9.4 | 1.9 |
| Asia[5] | - | 93 | 107 | 495 | 3.8 | - |
| **Total covered business** | **264** | **11,320** | **872** | **15,679** | **5.0** | **1.7** |

1 The PVNBP new business sales are different from those in the full year new business press release issued on 3 February 2010 as they incorporate year end non-economic assumption changes.
2 The PVNBP multiplier is calculated as the total of PVNBP less single premiums, divided by annualised regular premiums.
3 PVNBP margins are calculated as the ratio of the value of new business to the present value of new business premiums and are based on the underlying unrounded numbers.
4 The offshore bonds business, previously included within UK savings and investments, is now included within Europe. Results for the 12 months to 31 December 2008 have been reclassified to reflect this change.
5 Regular premiums in China of £3m for Group protection business have been reclassified to single premiums for the 12 months to 31 December 2008.

The results for the 12 months to 31 December 2009 include Asia on an EEV basis for the first time. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. Refer to Note 2.1 – Basis of preparation.

## 2.4 Experience variances

| 12 months to 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| Lapses | 1 | - | (3) | (2) | - | **(4)** |
| Maintenance expenses | (8) | - | 5 | (1) | - | **(4)** |
| Mortality and morbidity | 2 | 18 | (1) | - | - | **19** |
| Tax | 26 | (5) | 8 | - | - | **29** |
| Other | 127 | (9) | (28) | 4 | 143 | **237** |
| **Total** | **148** | **4** | **(19)** | **1** | **143** | **277** |

Mortality profits in Canada arise from a release of annuity reserves following an exercise to validate the policy data.

Tax variances in the UK reflect favourable experience and increases to deferred tax assets, whilst the £8m profit in Europe mainly reflects the successful agreement of prior year tax affairs in Ireland.

'Other' UK variances include the £111m benefit from reduction in market risk referred to in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement, plus the EEV operating profit benefit from a £63m release of deferred annuity reserves (12 months to 31 December 2008: £98m), offset by £38m of modelling changes for life business. Within Europe, 'other' variances include £15m of modelling changes to expenses.

The £143m of HWPF TVOG 'other' variances primarily reflect the benefits of changes in asset allocations and hedging arrangements which reduced the HWPF burnthrough risk.

'Other' UK variances for the 12 months to 31 December 2008 includes the impact of the cash injection into the Pension Sterling Fund which resulted in a loss of £108m.

| 12 months to 31 December 2008 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| Lapses | 18 | - | 4 | - | - | **22** |
| Maintenance expenses | (8) | 3 | (2) | - | - | **(7)** |
| Mortality and morbidity | 2 | - | - | - | - | **2** |
| Tax | 40 | 38 | (4) | - | - | **74** |
| Other | (36) | 6 | 3 | - | - | **(27)** |
| **Total** | **16** | **47** | **1** | **-** | **-** | **64** |

The results for the 12 months to 31 December 2009 include Asia on an EEV basis for the first time. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. Refer to Note 2.1 – Basis of preparation.

## 2.5 Operating assumption changes

| 12 months to 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| Lapses | 69 | 34 | (22) | (4) | - | **77** |
| Maintenance expenses | (18) | (8) | 16 | - | - | **(10)** |
| Mortality and morbidity | 7 | 4 | 1 | - | - | **12** |
| Tax | 1 | - | - | - | - | **1** |
| Other | 1 | (19) | 6 | - | - | **(12)** |
| **Total** | **60** | **11** | **1** | **(4)** | **-** | **68** |

Positive lapse assumption changes in UK and Canada mainly arise from the improved persistency of pensions business. The £22m loss in Europe reflects higher paid up assumptions in Germany and higher lapse rates for offshore bond business.

The expense assumption loss in the UK predominantly reflects changes in expense allocation for investment related expenses. The gain of £16m in Europe mainly arises within Germany and Ireland.

The 'other' assumption change in Canada mainly relates to reductions in policy charges on existing business.

For the 12 months to 31 December 2008, £119m of 'other' operating assumption changes, consisting of £96m in the UK, £12m in Europe and £11m in HWPF TVOG, arose from the reinsurance of UK immediate annuity liabilities.

| 12 months to 31 December 2008 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| Lapses | (35) | (25) | (1) | - | - | **(61)** |
| Maintenance expenses | 45 | 28 | (2) | - | - | **71** |
| Mortality and morbidity | 46 | 4 | 3 | - | - | **53** |
| Tax | 2 | - | - | - | - | **2** |
| Other | 93 | 17 | 9 | - | 11 | **130** |
| **Total** | **151** | **24** | **9** | **-** | **11** | **195** |

The results for the 12 months to 31 December 2009 include Asia on an EEV basis for the first time. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. Refer to Note 2.1 – Basis of preparation.

## 2.6 Non-covered business

Non-covered business EEV operating profit is represented by IFRS normalised underlying profit* as adjusted for Standard Life Investments (global investment management) look through profits and the return on mutual funds which are recognised in covered business.

UK operations comprise primarily life and pensions business and the healthcare business. UK non-covered business is shown within this note and includes healthcare, UK non-covered mutual funds businesses and the non-covered UK pension scheme. The Group's banking business, Standard Life Bank, has been classified as a discontinued operation. Refer to Note 2.1 – Basis of preparation.

### (a) Segmental analysis – non-covered business

| 12 months to 31 December 2009 | Global investment management £m | UK £m | Discontinued operations £m | Other including Group corporate centre £m | Total non-covered business £m |
|---|---|---|---|---|---|
| **Opening EEV net assets** | **143** | **129** | **211** | **672** | **1,155** |
| Profit/(loss) after tax | 26 | (19) | 42 | (48) | **1** |
| Transfer back of net worth from covered business | 24 | (20) | - | 1 | **5** |
| Foreign exchange differences | 1 | - | - | 5 | **6** |
| Internal capital transfers | - | 38 | (15) | 155 | **178** |
| Distributions to equity holders | - | - | - | (260) | **(260)** |
| Other | 1 | (50) | 8 | 119 | **78** |
| **Closing EEV net assets** | **195** | **78** | **246** | **644** | **1,163** |

* The only difference between IFRS normalised underlying profit and IFRS underlying profit arises within global investment management, as described in Note 2.6(b) – Non-covered business – Global investment management EEV profits before tax.

## 2.6 Non-covered business *continued*

### (a) Segmental analysis – non-covered business *continued*

On 15 May 2009, the Group's equity holders approved the introduction of the Scrip dividend scheme, effective for the final 2008 dividend payment onwards. Investors taking part in the Scrip scheme receive their dividend entitlement in the form of new shares issued in lieu of cash dividends. For the 12 months ended 31 December 2009, dividends paid comprise £102m (12 months to 31 December 2008: £nil) settled by the issue of shares under the Scrip scheme, and £158m paid in cash (12 months to 31 December 2008: £257m).

'Other' movements in the UK EEV net assets predominantly relate to the UK non-covered pension scheme liability of £56m (12 months to 31 December 2008: £nil) and deferred tax liability of £6m (12 months to 31 December 2008: £23m).

'Other' movements in Other including Group corporate centre predominantly relate to the £102m issue of share capital other than in cash in relation to the Scrip dividend paid by Standard Life plc.

| 12 months to 31 December 2008 | Global investment management £m | UK £m | Discontinued operations £m | Other including Group corporate centre £m | Total non-covered business £m |
|---|---|---|---|---|---|
| **Opening EEV net assets** | **142** | **(8)** | **303** | **530** | **967** |
| Loss after tax | (35) | (26) | (49) | (31) | **(141)** |
| Transfer back of net worth from covered business | 33 | (17) | - | 1 | **17** |
| Foreign exchange differences | 2 | - | - | 21 | **23** |
| Internal capital transfers | - | 69 | (15) | 423 | **477** |
| Distributions to equity holders | - | - | - | (257) | **(257)** |
| Other | 1 | 111 | (28) | (15) | **69** |
| **Closing EEV net assets** | **143** | **129** | **211** | **672** | **1,155** |

The presentation of the 2008 comparatives reflects the reclassification of Standard Life Bank as a discontinued operation.

### (b) Global investment management EEV profits before tax

Global investment management profits are included in EEV on a look through basis. This means that the profits from global investment management generated from the life and pensions business are allocated to covered business. However, the excluded life and pensions profits include £19m (12 months to 31 December 2008: £20m) of profits relating to products which are actively marketed and sold to third parties through global investment management distribution channels. If these profits are added to the third party profits disclosed for non-covered business, there are £61m (12 months to 31 December 2008: £68m) of third party related profits for global investment management.

| | **12 months to 31 December 2009 £m** | 12 months to 31 December 2008 £m |
|---|---|---|
| Life and pensions look through profits before tax | **33** | 45 |
| Less: Third party related life and pensions profits before tax | **19** | 20 |
| **Life and pensions look through profits before tax excluding third party profits** | **14** | 25 |
| Third party related life and pensions profits before tax | **19** | 20 |
| Third party related profits before tax | **42** | 48 |
| **Total third party related profits before tax** | **61** | 68 |
| **Total EEV operating profit before tax** | **75** | 93 |
| Non-operating items[1] | **(11)** | (93) |
| **Total EEV profit before tax** | **64** | - |

[1] The non-operating loss items for the 12 months to 31 December 2009 include £9m net negative fair value movement in respect of the liability remaining following the restructuring of a sub-fund of the Standard Life Investments (Global Liquidity Funds) plc and the 'Contract for Differences' written in September 2008 which limited this liability for Standard Life Investments. The non-operating items for the 12 months to 31 December 2008 include total losses of £90m from the restructuring of the Global Liquidity Funds sub-fund. Of these total restructuring losses, £51m for the 12 months to 31 December 2008 relate to losses arising from the fair value movements of assets brought directly on to the statement of financial position. The losses for all periods relating to the non-life net negative fair value movement and the fair value movement of assets brought directly on to the statement of financial position are included within IFRS underlying profit but excluded from IFRS normalised underlying profit. Also included within non-operating items for the 12 months to 31 December 2009 are £2m of costs relating to the CIP programme and other restructuring costs (12 months to 31 December 2008: £3m).

### (c) Other EEV operating profits before tax

| | 12 months to 31 December 2009 £m | 12 months to 31 December 2008 £m |
|---|---|---|
| Canada non-life subsidiaries | (1) | 2 |
| Mutual funds transferred to covered business | (2) | (2) |
| Canada non-life subsidiaries excluding transfers to covered business | (3) | - |
| | | |
| Standard Life plc (expense)/income | (2) | 8 |
| Other | 5 | 5 |
| **Other non-covered business EEV operating profit before tax** | - | 13 |

Canada non-life subsidiaries are included within the Canada segment of the IFRS financial statements.

Included within 'other' are the head office costs relating to the Europe and Asia businesses. These costs are included within the Europe and Asia segments of the IFRS financial statements.

## 2.7 EEV reconciliation of movements in consolidated statement of financial position

| | 12 months to 31 December 2009 £m | 12 months to 31 December 2008 £m |
|---|---|---|
| **Opening EEV** | 6,245 | 6,211 |
| Opening adjustments | 33 | 32 |
| **Opening adjusted EEV** | 6,278 | 6,243 |
| | | |
| Total comprehensive income for the period attributable to equity holders | 291 | 250 |
| Distributions to equity holders | (260) | (257) |
| Issue of share capital other than in cash | 102 | 1 |
| Reserves credit for employee share-based payment schemes | 24 | 10 |
| Vested employee share-based payment schemes | - | (2) |
| **Closing EEV** | 6,435 | 6,245 |

The opening adjustment for the 12 months to 31 December 2009 relates to the inclusion of Asia on an EEV basis for the first time. The EEV results for the 12 months to 31 December 2008 have not been restated.

Opening adjustments in the full year 2008 relate to the transfer of Sigma mutual funds from non-covered to covered business.

## 2.8 Reconciliation of EEV net assets to IFRS net assets

| | 31 December 2009 £m | 31 December 2008 £m |
|---|---|---|
| **Net assets on an EEV basis** | 6,435 | 6,245 |
| | | |
| Present value of in-force life and pensions business net of cost of capital | (3,384) | (3,053) |
| **EEV net worth** | 3,051 | 3,192 |
| | | |
| Adjustment of long-term debt to market value | (101) | (434) |
| Canada marked to market | (49) | 58 |
| Deferred acquisition costs net of deferred income reserve | 358 | 354 |
| Deferred tax differences | 157 | 180 |
| Adjustment for share of joint ventures | 35 | - |
| Consolidation adjustment for different accounting bases[1] | (7) | 42 |
| Other | 13 | 15 |
| **Net assets attributable to equity holders on an IFRS basis** | 3,457 | 3,407 |

[1] This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 2.16 – EEV methodology.

Reconciling items are shown net of tax where appropriate.

## 2.9 Analysis of covered business EEV PVIF and net worth movements (net of tax)

### (a) Total

| 12 months to 31 December 2009 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **1,235** | **844** | **2,079** | **3,053** | **5,132** |
| Opening adjustments | (58) | 17 | (41) | 74 | **33** |
| **Opening adjusted EEV** | **1,177** | **861** | **2,038** | **3,127** | **5,165** |
| Contribution from new business | (252) | 64 | (188) | 346 | **158** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | (1) | 39 | 38 | 236 | **274** |
| Expected return transfer to net worth | 579 | (60) | 519 | (519) | - |
| Experience variances | 32 | 11 | 43 | 156 | **199** |
| Operating assumption changes | 41 | (4) | 37 | 7 | **44** |
| Development expenses | (36) | - | (36) | - | **(36)** |
| Expected return on free surplus | (11) | - | (11) | - | **(11)** |
| **Operating profit after tax** | **352** | **50** | **402** | **226** | **628** |
| Investment return and tax variances | (256) | 13 | (243) | 296 | **53** |
| Effect of economic assumption changes | (138) | (1) | (139) | (255) | **(394)** |
| Restructuring expenses | (32) | - | (32) | - | **(32)** |
| **Profit/(loss) after tax** | **(74)** | **62** | **(12)** | **267** | **255** |
| Internal capital transfers | (178) | - | (178) | - | **(178)** |
| Transfer back of surplus to Standard Life Investments | (24) | - | (24) | - | **(24)** |
| Transfer back of mutual funds net worth | 19 | - | 19 | - | **19** |
| Actuarial losses on defined benefit pension schemes | (3) | - | (3) | - | **(3)** |
| Foreign exchange differences | (3) | 33 | 30 | (10) | **20** |
| Aggregate tax effect of items not recognised in income statement | 5 | - | 5 | - | **5** |
| Other | 6 | - | 6 | - | **6** |
| **Closing EEV** | **925** | **956** | **1,881** | **3,384** | **5,265** |

For the 12 months to 31 December 2009, Asia is included within the covered business results for the first time on an EEV basis. This is reflected in the opening adjustment of £33m.

| 12 months to 31 December 2008 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **1,237** | **680** | **1,917** | **3,327** | **5,244** |
| Opening adjustments | - | - | - | 32 | **32** |
| **Opening adjusted EEV** | **1,237** | **680** | **1,917** | **3,359** | **5,276** |
| Contribution from new business | (266) | 42 | (224) | 413 | **189** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | (1) | 33 | 32 | 280 | **312** |
| Expected return transfer to net worth | 552 | (33) | 519 | (519) | **-** |
| Experience variances | 28 | (11) | 17 | 30 | **47** |
| Operating assumption changes | 102 | 15 | 117 | 22 | **139** |
| Development expenses | (30) | - | (30) | - | **(30)** |
| Expected return on free surplus | (5) | - | (5) | - | **(5)** |
| **Operating profit after tax** | **380** | **46** | **426** | **226** | **652** |
| Investment return and tax variances | 22 | 74 | 96 | (708) | **(612)** |
| Effect of economic assumption changes | 54 | (30) | 24 | 12 | **36** |
| Restructuring expenses | (27) | - | (27) | - | **(27)** |
| **Profit/(loss) after tax** | **429** | **90** | **519** | **(470)** | **49** |
| Internal capital transfers | (477) | - | (477) | - | **(477)** |
| Transfer back of surplus to Standard Life Investments | (33) | - | (33) | - | **(33)** |
| Transfer back of mutual funds net worth | 16 | - | 16 | - | **16** |
| Actuarial gains on defined benefit pension schemes | 2 | - | 2 | - | **2** |
| Foreign exchange differences | 62 | 74 | 136 | 164 | **300** |
| Aggregate tax effect of items not recognised in income statement | (3) | - | (3) | - | **(3)** |
| Other | 2 | - | 2 | - | **2** |
| **Closing EEV** | **1,235** | **844** | **2,079** | **3,053** | **5,132** |

The EEV results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. The IFRS opening and closing net assets for this business were included within the opening and closing free surplus, and the IFRS underlying loss after tax included within Expected return on free surplus.

## 2.9 Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

### (b) UK and HWPF TVOG

| 12 months to 31 December 2009 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **899** | **95** | **994** | **1,915** | **2,909** |
| Opening adjustments | - | - | - | - | - |
| **Opening adjusted EEV** | **899** | **95** | **994** | **1,915** | **2,909** |
| Contribution from new business | (109) | 21 | (88) | 188 | **100** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | (1) | 4 | 3 | 144 | **147** |
| Expected return transfer to net worth | 342 | (3) | 339 | (339) | - |
| Experience variances | 32 | 19 | 51 | 158 | **209** |
| Operating assumption changes | 19 | (1) | 18 | 24 | **42** |
| Development expenses | (13) | - | (13) | - | **(13)** |
| Expected return on free surplus | (19) | - | (19) | - | **(19)** |
| **Operating profit after tax** | **251** | **40** | **291** | **175** | **466** |
| Investment return and tax variances | (213) | 1 | (212) | 251 | **39** |
| Effect of economic assumption changes | (71) | 3 | (68) | (99) | **(167)** |
| Restructuring expenses | (25) | - | (25) | - | **(25)** |
| **Profit/(loss) after tax** | **(58)** | **44** | **(14)** | **327** | **313** |
| Internal capital transfers | (175) | - | (175) | - | **(175)** |
| Transfer back of surplus to Standard Life Investments | (19) | - | (19) | - | **(19)** |
| Transfer back of mutual funds net worth | 20 | - | 20 | - | **20** |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | - |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | 6 | - | 6 | - | **6** |
| **Closing EEV** | **673** | **139** | **812** | **2,242** | **3,054** |

| 12 months to 31 December 2008 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **966** | **63** | **1,029** | **2,504** | **3,533** |
| Opening adjustments | - | - | - | 32 | **32** |
| **Opening adjusted EEV** | **966** | **63** | **1,029** | **2,536** | **3,565** |
| Contribution from new business | (171) | 23 | (148) | 291 | **143** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | (1) | 3 | 2 | 206 | **208** |
| Expected return transfer to net worth | 381 | (1) | 380 | (380) | - |
| Experience variances | (2) | (5) | (7) | 19 | **12** |
| Operating assumption changes | 97 | 16 | 113 | 4 | **117** |
| Development expenses | (21) | - | (21) | - | **(21)** |
| Expected return on free surplus | 24 | - | 24 | - | **24** |
| **Operating profit after tax** | **307** | **36** | **343** | **140** | **483** |
| Investment return and tax variances | 179 | (4) | 175 | (618) | **(443)** |
| Effect of economic assumption changes | - | - | - | (143) | **(143)** |
| Restructuring expenses | (25) | - | (25) | - | **(25)** |
| **(Loss)/profit after tax** | **461** | **32** | **493** | **(621)** | **(128)** |
| Internal capital transfers | (506) | - | (506) | - | **(506)** |
| Transfer back of surplus to Standard Life Investments | (28) | - | (28) | - | **(28)** |
| Transfer back of mutual funds net worth | 17 | - | 17 | - | **17** |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | - |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | (11) | - | (11) | - | **(11)** |
| **Closing EEV** | **899** | **95** | **994** | **1,915** | **2,909** |

## 2.9 Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

### (c) Canada

| 12 months to 31 December 2009 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **154** | **737** | **891** | **706** | **1,597** |
| Opening adjustments | - | - | - | - | - |
| **Opening adjusted EEV** | **154** | **737** | **891** | **706** | **1,597** |
| Contribution from new business | (38) | 35 | (3) | 37 | **34** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | 34 | 34 | 64 | **98** |
| Expected return transfer to net worth | 132 | (60) | 72 | (72) | - |
| Experience variances | 14 | (14) | - | 3 | **3** |
| Operating assumption changes | 15 | (3) | 12 | (5) | **7** |
| Development expenses | (4) | - | (4) | - | **(4)** |
| Expected return on free surplus | 3 | - | 3 | - | **3** |
| **Operating profit/(loss) after tax** | **122** | **(8)** | **114** | **27** | **141** |
| Investment return and tax variances | (43) | 9 | (34) | 12 | **(22)** |
| Effect of economic assumption changes | (60) | (4) | (64) | (152) | **(216)** |
| Restructuring expenses | (1) | - | (1) | - | **(1)** |
| **(Loss)/profit after tax** | **18** | **(3)** | **15** | **(113)** | **(98)** |
| Internal capital transfers | (2) | - | (2) | - | **(2)** |
| Transfer back of surplus to Standard Life Investments | (3) | - | (3) | - | **(3)** |
| Transfer back of mutual funds net worth | (1) | - | (1) | - | **(1)** |
| Actuarial losses on defined benefit pension schemes | (16) | - | (16) | - | **(16)** |
| Foreign exchange differences | 6 | 36 | 42 | 29 | **71** |
| Aggregate tax effect of items not recognised in income statement | 5 | - | 5 | - | **5** |
| Other | - | - | - | - | - |
| **Closing EEV** | **161** | **770** | **931** | **622** | **1,553** |

| 12 months to 31 December 2008 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **168** | **611** | **779** | **497** | **1,276** |
| Opening adjustments | - | - | - | - | - |
| **Opening adjusted EEV** | **168** | **611** | **779** | **497** | **1,276** |
| Contribution from new business | (20) | 16 | (4) | 28 | **24** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | 30 | 30 | 50 | **80** |
| Expected return transfer to net worth | 98 | (33) | 65 | (65) | - |
| Experience variances | 36 | (6) | 30 | 5 | **35** |
| Operating assumption changes | (5) | (1) | (6) | 23 | **17** |
| Development expenses | (2) | - | (2) | - | **(2)** |
| Expected return on free surplus | 3 | - | 3 | - | **3** |
| **Operating profit after tax** | **110** | **6** | **116** | **41** | **157** |
| Investment return and tax variances | (156) | 79 | (77) | (49) | **(126)** |
| Effect of economic assumption changes | 52 | (30) | 22 | 150 | **172** |
| Restructuring expenses | (1) | - | (1) | - | **(1)** |
| **Profit after tax** | **5** | **55** | **60** | **142** | **202** |
| Internal capital transfers | (40) | - | (40) | - | **(40)** |
| Transfer back of surplus to Standard Life Investments | (3) | - | (3) | - | **(3)** |
| Transfer back of mutual funds net worth | (1) | - | (1) | - | **(1)** |
| Actuarial gains on defined benefit pension schemes | 12 | - | 12 | - | **12** |
| Foreign exchange differences | 16 | 71 | 87 | 67 | **154** |
| Aggregate tax effect of items not recognised in income statement | (3) | - | (3) | - | **(3)** |
| Other | - | - | - | - | - |
| **Closing EEV** | **154** | **737** | **891** | **706** | **1,597** |

## 2.9 Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued*

### (d) Europe and Asia

| 12 months to 31 December 2009 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **182** | **12** | **194** | **432** | **626** |
| Opening adjustments | (58) | 17 | (41) | 74 | **33** |
| **Opening adjusted EEV** | **124** | **29** | **153** | **506** | **659** |
| Contribution from new business | (105) | 8 | (97) | 121 | **24** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | 1 | 1 | 28 | **29** |
| Expected return transfer to net worth | 105 | 3 | 108 | (108) | - |
| Experience variances | (14) | 6 | (8) | (5) | **(13)** |
| Operating assumption changes | 7 | - | 7 | (12) | **(5)** |
| Development expenses | (19) | - | (19) | - | **(19)** |
| Expected return on free surplus | 5 | - | 5 | - | **5** |
| **Operating profit/(loss) after tax** | **(21)** | **18** | **(3)** | **24** | **21** |
| Investment return and tax variances | - | 3 | 3 | 33 | **36** |
| Effect of economic assumption changes | (7) | - | (7) | (4) | **(11)** |
| Restructuring expenses | (6) | - | (6) | - | **(6)** |
| **Profit/(loss) after tax** | **(34)** | **21** | **(13)** | **53** | **40** |
| Internal capital transfers | (1) | - | (1) | - | **(1)** |
| Transfer back of surplus to Standard Life Investments | (2) | - | (2) | - | **(2)** |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | 13 | - | 13 | - | **13** |
| Foreign exchange differences | (9) | (3) | (12) | (39) | **(51)** |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Closing EEV** | **91** | **47** | **138** | **520** | **658** |

For the 12 months to 31 December 2009, Asia is included within the covered business results for the first time on an EEV basis. This is reflected in the opening adjustment of £33m.

| 12 months to 31 December 2008 | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|---|---|---|---|---|---|
| **Opening EEV** | **103** | **6** | **109** | **326** | **435** |
| Opening adjustments | - | - | - | - | - |
| **Opening adjusted EEV** | **103** | **6** | **109** | **326** | **435** |
| Contribution from new business | (75) | 3 | (72) | 94 | **22** |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | - | - | 24 | **24** |
| Expected return transfer to net worth | 73 | 1 | 74 | (74) | - |
| Experience variances | (6) | - | (6) | 6 | - |
| Operating assumption changes | 10 | - | 10 | (5) | **5** |
| Development expenses | (7) | - | (7) | - | **(7)** |
| Expected return on free surplus | (32) | - | (32) | - | **(32)** |
| **Operating profit/(loss) after tax** | **(37)** | **4** | **(33)** | **45** | **12** |
| Investment return and tax variances | (1) | (1) | (2) | (41) | **(43)** |
| Effect of economic assumption changes | 2 | - | 2 | 5 | **7** |
| Restructuring expenses | (1) | - | (1) | - | **(1)** |
| **(Loss)/profit after tax** | **(37)** | **3** | **(34)** | **9** | **(25)** |
| Internal capital transfers | 69 | - | 69 | - | **69** |
| Transfer back of surplus to Standard Life Investments | (2) | - | (2) | - | **(2)** |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial losses on defined benefit pension schemes | (10) | - | (10) | - | **(10)** |
| Foreign exchange differences | 46 | 3 | 49 | 97 | **146** |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | 13 | - | 13 | - | **13** |
| **Closing EEV** | **182** | **12** | **194** | **432** | **626** |

The EEV results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis. The IFRS opening and closing net assets for this business were included within the opening and closing free surplus, and the IFRS underlying loss after tax included within Expected return on free surplus.

## 2.10 Time value of options and guarantees (TVOG)

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| UK and Europe HWPF | **(66)** | (220) |
| Canada | **(23)** | (30) |
| Europe other | **(4)** | (7) |
| Asia | **(13)** | - |
| **Total** | **(106)** | (257) |

The results for the 12 months to 31 December 2009 include Asia on an EEV basis for the first time. The results for the 12 months to 31 December 2008 have not been restated and include Asia on an IFRS basis, therefore no TVOG is shown.

The UK and Europe HWPF TVOG reflects the value of shareholder exposure to the policyholder guarantees within the HWPF. This has reduced significantly during 2009 due to the impact of changes in asset allocations, as described in Note 2.4 – Experience variances, and the overall favourable non-operating profit of £71m as shown in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement. The Asia TVOG is reported for the first time and reflects the value of guarantees and options within participating funds.

## 2.11 Market value of subordinated liabilities within covered business

| | **31 December 2009 £m** | 31 December 2008 £m |
|---|---|---|
| UK | **(1,682)** | (1,375) |
| Canada | **(244)** | (183) |
| **Total** | **(1,926)** | (1,558) |

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus shown in Note 2.2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV is net of these liabilities.

The increase in the value of the UK and Canada subordinated debt liabilities reflects the reduction in credit spreads during 2009. The impact of this movement has been to reduce non-operating profit in UK and Canada as shown in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement. For Canada, however, this has been offset by the Group EEV consolidation adjustment in respect of the Canada subordinated liability, as shown in the EEV consolidated income statement.

## 2.12 Principal economic assumptions – deterministic calculations – covered business

### (a) Gross investment returns and expense inflation

| At 31 December 2009 | UK % | Canada % | Europe % |
|---|---|---|---|
| **Gross investment returns** | | | |
| Risk free | **4.11** | **3.85** | **3.39** |
| Corporate bonds | **4.71*** | ** | **n/a** |
| Equities | **7.11** | **8.60** | **6.39** |
| Property | **6.11** | **8.60** | **5.39** |
| **Other** | | | |
| Expense inflation: | **3.97** | *** | |
| Germany | | | **2.62** |
| Ireland | | | **3.34** |

* Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 5.36% for annuities that are level or subject to fixed escalations and 4.11% for annuities where escalations are linked to a price index.
** Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.
***1.367% in 2009. The rate in subsequent years is based on a moving 30-year bond yield less a variable deduction.

| At 31 December 2008 | UK % | Canada % | Europe % |
|---|---|---|---|
| **Gross investment returns** | | | |
| Risk free | 3.42 | 3.07 | 2.95 |
| Corporate bonds | 5.09* | ** | n/a |
| Equities | 6.42 | 8.60 | 5.95 |
| Property | 5.42 | 8.60 | 4.95 |
| **Other** | | | |
| Expense inflation: | 2.57 | *** | |
| Germany | | | 1.27 |
| Ireland | | | 2.18 |

* Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 6.44% for annuities that are level or subject to fixed escalations and 3.42% for annuities where escalations are linked to a price index.
** Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.
***0.94% in 2008. The rate in subsequent years is based on a moving 30-year bond yield less a variable deduction.

## 2.12 Principal economic assumptions – deterministic calculations – covered business *continued*

### (b) Risk discount rates – in-force business

| At 31 December 2009 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|---|---|---|---|---|
| **Risk margin – in-force business** | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 1.80 | 1.50 | 2.50 | 1.80 | 1.50 |
| Non-market risk | 1.70 | 1.80 | 2.80 | 1.70 | 1.80 |
| **Total** | **3.50** | **3.30** | **5.30** | **3.50** | **3.30** |
| Cost of capital adjustment | - | (0.50) | (2.00) | - | (0.50) |
| **Risk margin after cost of capital adjustment** | **3.50** | **2.80** | **3.30** | **3.50** | **2.80** |
| **Risk discount rates – in-force business** | | | | | |
| Risk free | 4.11 | 4.11 | 3.85 | 3.39 | 3.39 |
| Risk margin | 3.50 | 2.80 | 3.30 | 3.50 | 2.80 |
| **Risk discount rate[1]** | **7.61** | **6.91** | **7.15** | **6.89** | **6.19** |

[1] Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 7.38% and 6.56% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

| At 31 December 2008 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|---|---|---|---|---|
| **Risk margin – in-force business** | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 2.00 | 1.70 | 2.80 | 2.00 | 1.70 |
| Non-market risk | 1.60 | 1.50 | 2.40 | 1.60 | 1.50 |
| **Total** | **3.60** | **3.20** | **5.20** | **3.60** | **3.20** |
| Cost of capital adjustment | - | (0.30) | (1.70) | - | (0.30) |
| **Risk margin after cost of capital adjustment** | **3.60** | **2.90** | **3.50** | **3.60** | **2.90** |
| **Risk discount rates – in-force business** | | | | | |
| Risk free | 3.42 | 3.42 | 3.07 | 2.95 | 2.95 |
| Risk margin | 3.60 | 2.90 | 3.50 | 3.60 | 2.90 |
| **Risk discount rate[1]** | **7.02** | **6.32** | **6.57** | **6.55** | **5.85** |

[1] Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 6.78% and 6.20% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

Changes in market risk margins generally arise from changes in the mix of business and asset allocations. The increases in non-market risk margins primarily arise from changes in the mix of business.

The impact of the changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement. The amounts within these totals that relate to changes in the risk discount rate are: for UK: loss £76m; for Europe: loss £15m; for Canada: loss £116m; and for Asia: loss £7m.

### (c) Risk discount rates – new business

| 12 months to 31 December 2009 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|---|---|---|---|---|
| **Risk margin – new business** | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 1.70 | 1.40 | 1.50 | 1.70 | 1.40 |
| Non-market risk | 0.50 | 1.80 | 1.90 | 0.50 | 1.80 |
| **Total** | **2.20** | **3.20** | **3.40** | **2.20** | **3.20** |
| Cost of capital adjustment | - | (0.40) | (0.20) | - | (0.40) |
| **Risk margin after cost of capital adjustment** | **2.20** | **2.80** | **3.20** | **2.20** | **2.80** |
| **Risk discount rates – new business** | | | | | |
| Risk free[1] | 3.42 | 3.42 | 3.07 | 2.95 | 2.95 |
| Risk margin | 2.20 | 2.80 | 3.20 | 2.20 | 2.80 |
| **Risk discount rate[2]** | **5.62** | **6.22** | **6.27** | **5.15** | **5.75** |

1 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2008.

2 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 6.11% and 5.83% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

| 12 months to 31 December 2008 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|---|---|---|---|---|
| **Risk margin – new business** | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 2.10 | 1.80 | 1.50 | 2.10 | 1.80 |
| Non-market risk | 0.40 | 1.50 | 1.90 | 0.40 | 1.50 |
| **Total** | **2.50** | **3.30** | **3.40** | **2.50** | **3.30** |
| Cost of capital adjustment | - | (0.40) | (0.50) | - | (0.40) |
| **Risk margin after cost of capital adjustment** | **2.50** | **2.90** | **2.90** | **2.50** | **2.90** |
| **Risk discount rates – new business** | | | | | |
| Risk free[1] | 4.58 | 4.58 | 4.04 | 4.33 | 4.33 |
| Risk margin | 2.50 | 2.90 | 2.90 | 2.50 | 2.90 |
| **Risk discount rate[2]** | **7.08** | **7.48** | **6.94** | **6.83** | **7.23** |

1 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2007.

2 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 7.41% and 7.29% respectively. The weighted average for Europe includes an allowance for SLIL which uses the same risk discount rate assumptions as UK business.

## 2.12 Principal economic assumptions – deterministic calculations – covered business *continued*

### (d) Asia

The Asia PVIF and cost of required capital is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. The risk free rates used were:

| | **31 December 2009 %** | 31 December 2008 % |
|---|---|---|
| India | **7.50** | 6.00 |
| China | **3.66** | 3.00 |
| Hong Kong | **2.45** | 1.97 |

As a result of this risk neutral approach there is no requirement to hold a market risk margin within the risk discount rate.

Non-market risk has been allowed for via a specific deduction to the PVIF, based on a non-market risk 'cost of capital' approach. This has reduced the PVIF at 31 December 2009 by £21m (31 December 2008: £15m). Similarly, the 2009 pre-tax NBC of £16m has been reduced by £12m as an allowance for non-market risk.

## 2.13 Principal economic assumptions – stochastic calculations

The level of the TVOG is generally calculated using a stochastic projection. This requires an economic scenario generator (ESG) which projects the relevant fund under a large number of different future economic scenarios. A detailed description of the methodology applied in the relevant funds is provided in Note 2.16 – EEV methodology.

### Characteristics of ESG used for HWPF TVOG calculations – UK and Europe

The ESG simulates future economic environments in a market consistent manner. The outputs of the ESG include:
- Cash account index
- Gross redemption yield term structure
- Equity total return index
- Property total return index
- Gilt total return index
- Corporate bond total return index
- Equity dividend yields
- Property rental yields
- Price inflation
- Earnings inflation

The ESG allows option-pricing techniques to be used to value the TVOG.

### Parameters used in ESG

**Cash and bond returns**
These variables are calibrated using the following instruments:
- Conventional government bond yields adjusted to allow for any 'convenience premium' associated with government bond prices
- A range of swaption prices

**Inflation**
This variable is calibrated using the yields obtained on inflation swaps.

**Equity returns**
The volatility of equity returns is calibrated to the market prices of a range of FTSE 100 and Dow Jones Euro Stoxx options.

**Property returns**

As there is no liquid property option market, a best estimate of property return volatility is used. The property volatility is estimated from adjusted Investment Property Databank UK data.

**Dividend and rental yields**
Dividend yields are derived from current market observable yields (FTSE All Stocks for UK and Euro Stoxx 50 for Europe) and a long-term best estimate.

Rental yields are derived from rental income on our actual portfolio of Property (with three month lag) and a long-term best estimate.

### Correlations

The principal correlations in the ESG are between equity, bond and property returns.

The average simulated internal economy correlations between the major asset classes are:
- Equity/property = 0.14
- Equity/bonds = 0.18
- Property/bonds = 0.1

The average simulated cross economy correlations between the major asset classes are:
- UK Equity/EU Equity = 0.82
- UK Equities/EU Bonds = 0.14
- UK Bonds/EU Equities = 0.17

Note 2.10 – Time value of options and guarantees (TVOG) also shows the value of TVOG in Canada, Europe and Asia, which are in addition to the HWPF TVOG. Where material, these values are also calculated using ESG similar to that used for the HWPF TVOG calculation.

## 2.14 Foreign exchange

A description of the approach to the currency translation for foreign entities is provided in Note 2.16 – EEV methodology.

The principal exchange rates applied are:

| Local currency: £ | **Closing 31 December 2009** | **Average to 31 December 2009** | Closing 31 December 2008 | Average to 31 December 2008 |
|---|---|---|---|---|
| Canada | **1.693** | **1.778** | 1.775 | 1.957 |
| Ireland | **1.126** | **1.118** | 1.034 | 1.259 |
| Germany | **1.126** | **1.118** | 1.034 | 1.259 |
| India | **75.148** | **75.388** | 70.049 | 80.063 |
| China | **11.025** | **10.649** | 9.810 | 12.896 |
| Hong Kong | **12.522** | **12.086** | 11.143 | 14.418 |

## 2.15 Sensitivity analysis – economic and non-economic assumptions

The tables below show the sensitivity of the embedded value and the new business contribution (NBC) to different scenarios.

The sensitivities tested were:

- 1% increase and decrease in the risk discount rates
- Interest rates 1% higher and lower than base case, with consequential changes in fixed interest asset values, reserving assumptions, risk discount rates and investment returns on equities and properties
- 10% fall in market value of equity and property assets (not applicable for NBC)
- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 p.a. would represent an expense assumption of £9 p.a.). Where there is a look through into service company expenses, the fee charged by the service company is unchanged while the underlying expense decreases
- 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% p.a. would represent a lapse rate of 4.5% p.a.)
- 5% decrease in both mortality and morbidity rates for annuitant and non-annuitant policies
- EEV results assuming only prescribed minimum capital (where economic capital has been used in the EEV calculations)

**Embedded value:**

| 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **Embedded value** | 3,120 | 1,553 | 482 | 176 | (66) | **5,265** |
| Risk discount rate +1% | (156) | (130) | (27) | (8) | - | **(321)** |
| Risk discount rate -1% | 180 | 160 | 31 | 9 | - | **380** |
| Interest returns +1% | (34) | 22 | - | 4 | 2 | **(6)** |
| Interest returns -1% | 47 | (47) | (2) | (3) | (45) | **(50)** |
| Fall in equity/property market values by 10% | (165) | (94) | (13) | (2) | (12) | **(286)** |
| Maintenance expenses -10% | 113 | 84 | 11 | 4 | - | **212** |
| Lapse rates -10% | 101 | 76 | 7 | 3 | (3) | **184** |
| Annuitant mortality -5% | (50) | (41) | (4) | - | - | **(95)** |
| Non-annuitant mortality -5% | 8 | 83 | - | 1 | (1) | **91** |
| Prescribed minimum capital | - | 64 | - | - | - | **64** |

The sensitivity of the Canada embedded value as shown above includes the effect of changes in the market value of the subordinated liability. Whilst Group EEV is adjusted for the different subordinated debt valuation bases used for covered and non-covered business as explained in Note 2.16 – EEV methodology, the impact of these sensitivities on the Group EEV consolidation adjustment is not included in this sensitivity analysis.

**New business contribution:**

| 12 months to 31 December 2009 | UK £m | Canada £m | Europe £m | Asia £m | HWPF TVOG £m | Total £m |
|---|---|---|---|---|---|---|
| **New business contribution** | 139 | 46 | 13 | 15 | - | **213** |
| Risk discount rate +1% | (21) | (9) | (4) | (3) | - | **(37)** |
| Risk discount rate -1% | 24 | 11 | 5 | 4 | - | **44** |
| Interest returns +1% | 34 | (5) | 1 | - | - | **30** |
| Interest returns -1% | (42) | 6 | (1) | - | - | **(37)** |
| Maintenance expenses -10% | 16 | 13 | 2 | 1 | - | **32** |
| Lapse rates -10% | 10 | 9 | 2 | 2 | - | **23** |
| Annuitant mortality -5% | (2) | (1) | - | - | - | **(3)** |
| Non-annuitant mortality -5% | - | 3 | - | - | - | **3** |
| Prescribed minimum capital | - | 2 | - | - | - | **2** |

Sensitivities to higher and lower assumed equity and property risk premiums in future investment earnings have not been calculated, as the effect of the risk premium is removed in setting the market risk margin in the risk discount rate.

The demographics sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change, and impacts may partially offset one another.

## 2.16 EEV methodology

### Covered business

For the purposes of EEV reporting, a distinction is drawn between covered business to which EEV methodology is applied and non-covered business where results and balances are based on those determined under IFRS and included in the IFRS financial statements, unless otherwise stated.

The Group's covered business is its life assurance and pensions businesses in the UK, Canada, Europe (Germany including Austria, and Ireland) and Asia, as well as the current and future profits and losses from Standard Life Investments arising on its management of funds relating to the life and pensions businesses.

UK covered business also includes:
- Non-insured self invested personal pension (SIPP) business
- Those elements of Wrap business that are contained within a long-term product wrapper i.e. bonds, SIPPs and mutual funds
- Mutual funds sold by the UK business

Canada covered business also includes mutual funds.

Europe covered business consists of:
- The Group's Germany branch of Standard Life Assurance Limited (SLAL)
- The Group's Ireland branch of SLAL
- The Group's offshore business, which is sold by Standard Life International Limited (SLIL)

Asia covered business consists of:
- The Group's share of results in the joint venture in India, HDFC Standard Life Insurance Company Limited, at 26% for the 12 months to 31 December 2009 (during the 12 months to 31 December 2008: 26%)
- The Group's share of results in the joint venture in China, Heng An Standard Life Insurance Company Limited, at 50% for the 12 months to 31 December 2009 (during the 12 months to 31 December 2008: 50%)
- The results of the Group's business in Hong Kong (Standard Life Asia Limited)

Cash flows emerging in the period on covered business that do not reside within a life and pensions company on a statutory basis are transferred back to the relevant non-covered entity for disclosure within their closing net assets. This treatment is applied to both the return from global investment management and the return on certain mutual funds included in covered business.

The Group's non-covered business mainly includes the business of Standard Life Bank, Standard Life Healthcare, Standard Life plc, the third party global investment management business of Standard Life Investments, the non-covered business of Standard Life Savings and other non-life and pensions entities.

Non-covered business EEV operating profit is represented by IFRS normalised underlying profit as adjusted for Standard Life Investments (global investment management) look through profits and the return on mutual funds which are recognised in covered business. The only difference between IFRS normalised underlying profit and IFRS underlying profit arises within global investment management as described in Note 2.6(b) – Non-covered business – Global investment management EEV profits before tax.

## 2.16 EEV methodology *continued*

### Value of in-force covered business

The value of future equity holders' cash flows is calculated for each material business unit on an after-tax basis, projected using best estimate future assumptions as described below.

Allowance is made for external reinsurance and reinsurance within the Group. The cash flows include the profits and losses arising in Group companies providing global investment management and other services where these relate to covered business. This is referred to as the 'look through' into service company expenses.

The projected cash flows are discounted to the valuation date using a risk discount rate which is intended to make sufficient allowance for the risks associated with the emergence of these cash flows, other than those risks allowed for elsewhere in the EEV calculations. In particular, a deduction is made from the present value of the best estimate cash flows to reflect the risks associated with the existence of financial options and guarantees, this deduction being assessed using stochastic techniques as described below.

### Free surplus

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date. In the UK, this comprises the market value of the assets in the equity holders' fund, plus the value of the equity holders' interests in the surplus of the long-term fund, after appropriate allowance for tax, less the required capital supporting the covered business.

For some assets and liabilities where market value is not the normal basis for accounting, as in Canada, the free surplus is restated to market value, adjusted as required to allow for the present value of any tax which would become payable if the assets were realised.

### Allowance for risk

Under the EEV Principles and Guidance, risks within the covered business are allowed for in the following ways:
- Application of risk discount rates to projected cash flows, which are derived by adding a risk margin to a risk free rate
- Holding of required capital for the covered business, determined by reference to both regulatory requirements and internal economic capital assessments
- Allowing for TVOG

### Risk discount rates

Under the EEV methodology, a risk discount rate is required to calculate the present value of expected future distributable profits as a single value at a particular date. The risk discount rate comprises a risk free rate which reflects the time value of money and a risk margin allowing for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes are not achieved.

Risk discount rates have been determined as the risk free government bond yield plus a risk margin. The risk margins have been determined for market risk and non-market risk separately. For market risk, we have opted for an approach whereby the risk margin is determined such that the PVIF (excluding the allowance for the TVOG) calculated using expected 'real world' asset returns equates with the PVIF calculated using 'risk neutral' investment returns and discount rates. In this way, the benefits of assuming higher than risk free returns on future cash flows are offset by using a higher discount rate. However, when returns above the risk free rate arise from the additional returns available from investing in illiquid assets, namely corporate bonds and mortgages, where they are matched to appropriate liabilities, these are not offset in determining the discount rate. Allowance has then been made for non-market risk by applying stress tests to the PVIF using our internal capital model, and quantifying an additional risk margin based on the results of the stress tests.

The main elements of non-market risk which are stress tested are lapse, mortality, expense and credit risk assumptions. Benefits of diversification between risk types are allowed for in deriving the risk margins in line with our internal capital model.

Separate risk discount rates have been calculated for in-force and new business and for the principal geographic segments (UK, Europe and Canada). Within the UK and Europe, separate risk margins are calculated for profits emerging on policies inside the HWPF (regardless of whether these profits emerge directly from the HWPF or by reassurance into other Group entities) and on policies that are in equity holder owned funds. For HWPF policies, there is a significant inter-Group reassurance agreement in respect of mortality surpluses on annuities, which are reassured out of the HWPF. The HWPF risk margin anticipates diversification benefits including the annuity mortality risk, since the overall capital structure also benefits from this diversification.

The risk margins are also reduced to allow for any cost of required capital (excluding double taxation cost) which is already reflected within the EEV.

Market risk margins are reviewed at each valuation date, allowing for changes in risk profile arising from movements in asset mix. Non-market risk margins are reviewed in detail once a year.

The values of the risk discount rates used for this reporting period are provided in Note 2.12 – Principal economic assumptions – deterministic calculations – covered business.

In Asia, the PVIF and cost of required capital is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. As a result, there is no need for an additional market risk margin in the discount rate. Non-market risk is deducted directly from the PVIF using a 'cost of capital' approach on the risk capital arising from the key sources of non-market risk. For the Asia business, this methodology would give a similar result to the methodology used in the UK, Europe and Canada since the calibration of a risk discount rate would have allowed for the market and non-market risks.

### Required capital

Required capital represents the amount of assets over and above those required to back the liabilities in respect of the covered business whose distribution to equity holders is restricted. As a minimum, this will represent the capital requirement of the local regulator.

The levels of required capital are reviewed in detail once a year.

We have set required capital to be the higher of regulatory capital and our own internally assessed risk-based capital requirement. In determining the required capital for the purposes of assessing EEV, the Group excludes any capital which is provided by the existing surplus in the HWPF, as this capital is provided by policyholders. Any required capital in excess of that provided by the existing surplus in the HWPF would need to be provided by assets in the equity holders' funds. As part of the annual assessment, projections of the expected surplus in the HWPF, on best estimate assumptions, are carried out to assess whether this is sufficient to cover the level of required capital in respect of the HWPF.

The levels of required capital in the current EEV calculations are therefore as follows:

- UK and Europe (business in HWPF) – no capital requirement in excess of statutory reserves or asset shares is valued in the EEV
- UK and Europe (business in equity holder owned funds) – 100% of EU minimum regulatory capital, which is higher in aggregate than Standard Life's internal risk-based capital requirement
- Canada – the level of required capital is taken as 150% of minimum continuing capital and surplus requirements (MCCSR)
- Asia – required capital is based on the local statutory capital requirements

The cost of required capital has been calculated using assumptions consistent with those used in the value of in-force (VIF) calculations.

### Time value of financial options and guarantees (TVOG)

The TVOG represents the potential additional cost to equity holders where a financial option exists which affects policyholder benefits and is exercisable at the option of the policyholder.

**UK and Europe – HWPF**

The main source of TVOG in the Group EEV arises from the HWPF. Under the terms of the Scheme, equity holder cash flows from the HWPF are held back if required to cover HWPF liabilities on the Financial Services Authority realistic or regulatory basis. This option for the UK, Germany and Ireland results in the loss of cash flows when the HWPF has insufficient assets to pay guaranteed policy benefits. The main options and guarantees within the HWPF in respect of UK and Europe business relate to with profits business and include minimum guaranteed rates of return.

The value of the TVOG arising from the HWPF at any point in time will be sensitive to:

- The level of the residual estate (working capital in the HWPF)
- Investment conditions in terms of bond yields, equity and property values, and implied market volatility
- The investment profile of the assets backing the applicable policies, the residual estate and non profit business in the fund at the time the TVOG is calculated

## 2.16 EEV methodology *continued*

The level of the TVOG has been calculated by a model which projects the HWPF under a large number of different future economic scenarios. Particular features of this calculation are:

- The projected economic scenarios and the methodology used to discount equity holder cash flows are based on market consistent assumptions
- The total cost includes an allowance for non-market risk
- Changes in policyholder behaviour are allowed for according to the particular economic scenario
- Changes in management actions, including the dynamic guarantee deductions, are allowed for according to the particular economic scenario, such actions being expected to be consistent with the way that the HWPF will be managed in future as described in the Scheme and in the Principles and Practices of Financial Management (PPFM)
- Each projection allows for the gradual release of the residual estate over time to policyholders where there are sufficient funds to do so

**UK and Europe**
Most with profits business written post demutualisation is managed in a number of new with profits funds. For the present reporting period, the only significant volumes of this type of new business have arisen in Germany. These policies have guarantees relating to benefits available on the policy maturity date. These guarantees increase each year with the addition of bonuses.

Equity holder assets are at risk if the resources of these with profits funds are insufficient to pay the guaranteed benefits. The level of the TVOG has been calculated using stochastic techniques. The TVOG has reduced both the NBC as well as the closing PVIF for Europe.

**Canada**
The main options and guarantees within the Canada business are in respect of minimum investment returns, guaranteed maturity and death benefits, and vested bonuses, which apply to certain investment and insurance contracts.

**Asia**
The TVOG in Asia arises from guarantees and options given to with profits business written in India and China.

### Other economic assumptions

The assumed investment returns reflect our estimates of expected returns on principal asset classes, and are, in general, based on market conditions at the date of calculation of the EEV.

The inflation rates assumed are, in general, based on the market implied long-term price inflation plus a margin to allow for salary inflation.

The Group's offshore business, which is sold by SLIL, is included within Europe results but has the same economic assumptions as UK covered business.

Details of the assumptions used for this reporting period are provided in Note 2.12 – Principal economic assumptions – deterministic calculations – covered business.

### Non-economic assumption changes

Non-economic assumptions for the main classes of business, including most expense assumptions, are reviewed on an annual basis.

### Expense assumptions

Expense assumptions on a per policy basis have been derived based on an analysis of management expenses performed by each business, and are split between acquisition and maintenance assumptions.

In determining future expenses in relation to covered business, no allowance has been made in the EEV or the NBC for any allocation of Group corporate centre costs.

Development expenses represent specific expenses incurred which are considered temporary in nature and are not expected to occur again.
Costs related to restructuring have been excluded from the EEV results where it has been agreed that these costs are to be met by the HWPF and therefore would not form part of the surplus cash flows.

Global investment management expenses are also allowed for, and the assumptions for these reflect the actual investment expenses of Standard Life Investments in providing global investment management services to the life and pensions business rather than the investment fees actually charged.

Restructuring expenses for covered and non-covered business include the current year cost of the Continuous Improvement Programme (CIP) and any additional restructuring expenses consistent with those identified in the IFRS underlying profit adjustments. The total restructuring expenses are included together with the cost of any corporate activity in restructuring and corporate transaction expenses.

Acquisition costs used within the calculation of the NBC reflect the full acquisition expenses incurred in writing new business in the period.

### Expenses – pension scheme deficits

Pension scheme deficits have been included in accordance with International Accounting Standard (IAS) 19 *Employee Benefits*. IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* was adopted by the Group from 1 January 2008. The interpretation provides guidance on assessing the limit in IAS 19 *Employee Benefits* on the amount of any surplus that can be recognised as an asset and explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The interpretation has been taken into consideration in determining the treatment of the surplus arising in respect of the UK defined benefit plan as at 31 December 2008.

### Other non-economic experience assumptions

Assumptions are made in respect of future levels of mortality, morbidity, premium terminations, option take-up, surrenders and withdrawals. The assumptions reflect our best estimates of the likely future experience, and are based on recent experience and relevant industry data, where available.

Annuitant mortality assumptions use a combination of base mortality rates, which are generally set by reference to recent experience, and expected future changes in mortality. The latter uses data provided by the Continuous Mortality Investigation Bureau in the UK and the Canadian Institute of Actuaries in Canada along with other company specific considerations.

Assumptions regarding option take-up, surrenders and withdrawals are assumed to vary, where appropriate, according to the investment scenario under consideration when deriving the TVOG, to reflect our best estimate of how policyholder behaviour may vary in such circumstances.

### New business

**Definition of new business**
New business includes new policies written during the period and some increments to existing policies.

For the UK, classification as new or existing business is determined as follows (using the approach used for the published new business figures):
- New recurrent single premium business is classified as new regular premium business to the extent that it is deemed likely to renew
- Department of Work and Pensions (DWP) rebates are deemed to be new single premiums
- Pensions vesting into annuity contracts under existing group defined benefits contracts are not included as new business
- Pensions vesting under other group contracts and individual pensions are included as new business
- Products substituted due to the exercise of standard contract terms are not deemed to be new business
- All increments and indexations to existing policies, including new members, and increments and indexations paid by existing members of group schemes, are deemed to be new business

## 2.16 EEV methodology *continued*

For Germany, new business comprises new contracts written into the equity holder owned funds during the period.

The new business contribution for Germany is calculated assuming a specific level of future premium indexation. Similarly, it is assumed that premiums on ‘Low Start’ policies increase at the end of the low start period.

For Ireland, new business is determined as follows:
- New contracts written during the period are included as new business
- New premiums on recurrent single premium contracts are included as new business
- Pensions vesting into annuity contracts under existing group defined benefits contracts are not included as new business
- Pensions vesting under other group contracts and individual pensions are included as new business
- All increments and indexations to existing policies, including new members, and increments and indexations paid by existing members of group schemes, are deemed to be new business

For Canada, business is deemed to be ‘new business’ if a contract has been issued during the reporting period. The new business contribution also includes the value of renewal premiums for a new contract, where the renewal premiums are (i) contractual, (ii) non-contractual but reasonably predictable, or (iii) recurrent single premiums that are pre-defined and reasonably predictable. The present value of future net income attributable to renewal premiums on existing group pension and savings contracts, including those from new members, is not included as new business. Since all deposits (new and renewal) in individual segregated funds business attract a new business/first year commission, this business is treated as new business for EEV purposes.

For Asia, the new business is defined as that arising from the sale of new contracts during the reporting period. The value of new business includes the value of expected renewals on those new contracts.

**New business contribution (NBC)**
The contribution generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business. NBC before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at other equivalent rates of tax for other countries. NBC is calculated as at the end of the reporting period.

The economic assumptions used are those at the start of the reporting period, and the non-economic assumptions are those at the end of the reporting period. An exception to this policy is annuity business in the UK and Ireland where, to ensure consistency between the economic assumptions used in the NBC and those used in pricing the business and in the calculation of mathematical reserves, the economic assumptions used are the average rates for each quarter during the reporting period, and the asset allocations are those used in the pricing basis.

**Present value of new business premiums (PVNBP)**
New business sales are expressed as the PVNBP. The PVNBP calculation is equal to total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate NBC, except that the PVNBP is discounted using the relevant opening risk free rate rather than the risk discount rate.

### Tax

The opening and closing EEV numbers for the covered business are determined on an after-tax basis. The tax assumptions used are based upon the best estimate of the actual tax expected to arise. Attributable tax and profit before tax are derived by grossing up profit after tax at the long-term rate of corporation tax appropriate to each territory. While for some territories this rate does not equate to the actual effective rate of tax used in the calculation of after-tax profits, it provides a consistent grossing up basis upon which to compare results from one year to another and is in line with the Group's expectation of the rate of tax applicable to new business.

During the year, a loan was made to the HWPF by Standard Life plc, repayment of which is contingent on the emergence of recourse cash flows and surplus in the HWPF ('contingent loan agreement'). A transfer to equity holders was then made to transfer the remaining unallocated surplus to equity holders without equity holder tax arising. As a result of this the market risk associated with unallocated surplus was reduced. Future transfers to equity holders from the HWPF will, in the first instance, take the form of repayments under the contingent loan agreement. Such transfers can be made without equity holder tax arising for a number of years. Over time the actual effective tax rate on these transfers to equity holders will move toward the standard rate of corporation tax. The impact of this on current year results is provided in Note 2.2(a) – Segmental analysis – covered business – Segmental EEV income statement.

For non-covered business, attributed tax is consistent with the IFRS financial statements, unless otherwise stated.

### Subordinated liabilities

The liabilities in respect of the UK subordinated guaranteed bonds and Mutual Assurance Capital Securities plus the subordinated debt issued by Canada form part of covered business and have been deducted at market value within the EEV. The Canada subordinated liability is owned by a non-covered subsidiary of the Group, where the asset is valued on an amortised cost basis. Total Group EEV has been adjusted to exclude the difference between the market value and the amortised cost value of the Canada subordinated liability.

For non-covered business, no adjustment is made to the IFRS valuation of debt.

### Foreign exchange

Embedded value and other items within the statement of financial position denominated in foreign currencies have been translated to Sterling using the appropriate closing exchange rates. NBC and other items within the income statement have been translated using the appropriate average exchange rates. Gains and losses arising from foreign exchange differences on consolidation are presented separately within the EEV consolidated statement of comprehensive income.

Details of the exchange rates applied are provided in Note 2.14 – Foreign exchange.

*Page intentionally left blank*

# 3 International Financial Reporting Standards (IFRS)

# Summary IFRS consolidated income statement

## For the year ended 31 December 2009

| | Notes | 2009 £m | Restated* 2008 £m |
|---|---|---|---|
| **Revenue** | | | |
| Gross earned premium | | **3,562** | 3,564 |
| Premium ceded to reinsurers | | **(95)** | (6,338) |
| **Net earned premium** | | **3,467** | (2,774) |
| Net investment return | | **13,174** | (14,162) |
| Fee and commission income | | **666** | 617 |
| Other income | | **128** | 93 |
| **Total net revenue** | | **17,435** | (16,226) |
| **Expenses** | | | |
| Claims and benefits paid | | **6,011** | 7,142 |
| Claim recoveries from reinsurers | | **(623)** | (571) |
| **Net insurance benefits and claims** | | **5,388** | 6,571 |
| Change in reinsurance assets | | **(942)** | (5,559) |
| Change in policyholder liabilities | | **9,978** | (18,112) |
| Expenses under arrangements with reinsurers | | **563** | 92 |
| Administrative expenses | 3.3 | **1,562** | 1,778 |
| Change in liability for third party interest in consolidated funds | | **323** | (598) |
| Finance costs | | **115** | 109 |
| **Total expenses** | | **16,987** | (15,719) |
| Share of (losses)/profits from associates and joint ventures | | **(29)** | 101 |
| **Profit/(loss) before tax** | | **419** | (406) |
| Tax expense/(credit) attributable to policyholders' returns | 3.4 | **299** | (334) |
| **Profit/(loss) before tax attributable to equity holders' profits** | | **120** | (72) |
| Total tax expense/(credit) | 3.4 | **281** | (472) |
| Less: Tax attributable to policyholders' returns | 3.4 | **(299)** | 334 |
| **Tax credit attributable to equity holders' profits** | 3.4 | **(18)** | (138) |
| **Profit for the year from continuing operations** | | **138** | 66 |
| Profit/(loss) for the year from discontinued operations | 3.5 | **42** | (49) |
| **Profit for the year** | | **180** | 17 |
| **Attributable to:** | | | |
| Equity holders of Standard Life plc | | **213** | 100 |
| Non-controlling interests | | **(33)** | (83) |
| | | **180** | 17 |
| **Earnings per share from continuing operations** | | | |
| Basic (pence per share) | 3.7 | **7.8** | 6.9 |
| Diluted (pence per share) | 3.7 | **7.8** | 6.9 |

* The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and has therefore been classified as a discontinued operation. Refer to Note 3.18 – Events after the reporting period. The presentation of the 2008 comparatives in certain primary statements and in the corresponding notes has been reclassified accordingly, as indicated.

# Summary IFRS consolidated statement of comprehensive income

## For the year ended 31 December 2009

| | Notes | 2009 £m | Restated 2008 £m |
|---|---|---|---|
| **Profit for the year** | | **180** | 17 |
| Less: (Profit)/loss from discontinued operations | 3.5 | **(42)** | 49 |
| Profit from continuing operations | | **138** | 66 |
| Fair value gains on cash flow hedges | | **1** | - |
| Actuarial (losses)/gains on defined benefit pension schemes | | **(77)** | 161 |
| Revaluation of land and buildings | | **(16)** | (58) |
| Net investment hedge | | **(12)** | (17) |
| Exchange differences on translating foreign operations | | **(65)** | 479 |
| Equity movements transferred to unallocated divisible surplus | | **104** | (236) |
| Equity movements attributable to third party interest in consolidated funds | | **-** | 22 |
| Share of other recognised income from associates and joint ventures | | **-** | 2 |
| Aggregate equity holder tax effect of items not recognised in income statement | | **28** | (53) |
| Other comprehensive (expense)/income for the year from continuing operations | | **(37)** | 300 |
| **Total comprehensive income for the year from continuing operations** | | **101** | 366 |
| | | | |
| Profit/(loss) from discontinued operations | 3.5 | **42** | (49) |
| Other comprehensive income/(expense) from discontinued operations | 3.5 | **8** | (27) |
| **Total comprehensive income/(expense) for the year from discontinued operations** | | **50** | (76) |
| | | | |
| **Total comprehensive income for the year** | | **151** | 290 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of Standard Life plc | | | |
| From continuing operations | | **134** | 449 |
| From discontinued operations | | **50** | (76) |
| Non-controlling interests | | | |
| From continuing operations | | **(33)** | (83) |
| | | **151** | 290 |

# IFRS pro forma reconciliation of Group underlying profit to profit for the year

## For the year ended 31 December 2009

| | Notes | Continuing operations 2009 £m | Discontinued operations 2009 £m | Total 2009 £m | Continuing operations 2008 £m | Discontinued operations 2008 £m | Total 2008 £m |
|---|---|---|---|---|---|---|---|
| **Underlying profit before tax attributable to equity holders of Standard Life plc** | | | | | | | |
| UK | | **199** | **60** | **259** | 212 | 26 | 238 |
| Canada | | **(7)** | - | **(7)** | (102) | - | (102) |
| Europe | | **45** | - | **45** | 48 | - | 48 |
| Asia | | **(27)** | - | **(27)** | (35) | - | (35) |
| Global investment management | | **66** | - | **66** | 42 | - | 42 |
| Other | | **(45)** | - | **(45)** | (37) | - | (37) |
| **Underlying profit before tax attributable to equity holders of Standard Life plc and adjusted items** | | **231** | **60** | **291** | 128 | 26 | 154 |
| Loss attributable to non-controlling interests | | **(33)** | - | **(33)** | (83) | - | (83) |
| **Underlying profit before tax attributable to equity holders and adjusted items** | | **198** | **60** | **258** | 45 | 26 | 71 |
| Adjusted for the following items: | | | | | | | |
| Volatility arising on different asset and liability valuation bases | 3.6 | **(18)** | **40** | **22** | (47) | (94) | (141) |
| Impairment of intangible assets | | **(2)** | **(5)** | **(7)** | - | - | - |
| Restructuring and corporate transaction expenses | 3.3 | **(58)** | **(1)** | **(59)** | (70) | (2) | (72) |
| Impairment loss on discontinued banking operations | 3.5 | - | **(10)** | **(10)** | - | - | - |
| **Profit/(loss) before tax attributable to equity holders' profits** | | **120** | **84** | **204** | (72) | (70) | (142) |
| Tax (expense)/credit attributable to: | | | | | | | |
| Underlying profit | | **2** | **(28)** | **(26)** | 106 | (6) | 100 |
| Adjusted items | | **16** | **(14)** | **2** | 32 | 27 | 59 |
| Total tax (expense)/credit attributable to equity holders' profits | | **18** | **(42)** | **(24)** | 138 | 21 | 159 |
| **Profit/(loss) for the year** | | **138** | **42** | **180** | 66 | (49) | 17 |

Underlying profit is calculated by adjusting the profit for the period for volatility that arises from different International Financial Reporting Standards (IFRS) measurement bases for liabilities and backing assets, volatility arising from derivatives that are part of economic hedges but do not qualify as hedge relationships under IFRS, restructuring costs, significant corporate transaction expenses, impairment of intangible assets and profit or loss arising on the disposal of a subsidiary, joint venture or associate. The Directors believe that, by eliminating this volatility from equity holder profits, they are presenting a more meaningful indication of the underlying business performance of the Group.

# Summary IFRS consolidated statement of financial position

## As at 31 December 2009

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | | **106** | 112 |
| Deferred acquisition costs | | **872** | 892 |
| Investments in associates and joint ventures | | **2,169** | 3,098 |
| Investment property | | **7,111** | 7,738 |
| Property, plant and equipment | | **161** | 740 |
| Reinsurance assets | | **7,032** | 6,076 |
| Loans and receivables | | **2,769** | 12,069 |
| Derivative financial assets | | **1,229** | 2,800 |
| Investment securities | | **106,181** | 90,716 |
| Other assets | | **2,152** | 2,687 |
| Cash and cash equivalents | | **7,436** | 10,052 |
| Assets of operations classified as held for sale | 3.17 | **9,395** | - |
| **Total assets** | | **146,613** | 136,980 |
| **Equity** | | | |
| Share capital | 3.9 | **224** | 218 |
| Share premium reserve | | **888** | 792 |
| Retained earnings | | **685** | 774 |
| Other reserves | | **1,660** | 1,623 |
| **Equity attributable to equity holders of Standard Life plc** | | **3,457** | 3,407 |
| Non-controlling interests | | **296** | 334 |
| **Total equity** | | **3,753** | 3,741 |
| **Liabilities** | | | |
| Non-participating contract liabilities | 3.10 | **85,892** | 71,908 |
| Participating contract liabilities | 3.10 | **32,352** | 34,163 |
| Deposits received from reinsurers | | **6,104** | 5,968 |
| Third party interest in consolidated funds | | **3,004** | 1,603 |
| Borrowings | 3.11 | **227** | 3,227 |
| Subordinated liabilities | | **1,832** | 2,204 |
| Deferred income | | **371** | 382 |
| Income tax liabilities | | **214** | 267 |
| Customer accounts related to banking activities and deposits by banks | | **-** | 6,991 |
| Derivative financial liabilities | | **797** | 1,348 |
| Other liabilities | | **2,924** | 5,178 |
| Liabilities of operations classified as held for sale | 3.17 | **9,143** | - |
| **Total liabilities** | | **142,860** | 133,239 |
| **Total equity and liabilities** | | **146,613** | 136,980 |

# Summary IFRS consolidated statement of changes in equity

## For the year ended 31 December 2009

| 2009 | Share capital £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** | **218** | **792** | **774** | **1,623** | **3,407** | **334** | **3,741** |
| Profit/(loss) for the year | - | - | 213 | - | 213 | (33) | **180** |
| Other comprehensive expense for the year | - | - | (50) | 21 | (29) | - | **(29)** |
| Total comprehensive income/(expense) for the year | - | - | 163 | 21 | 184 | (33) | **151** |
| Distributions to equity holders | - | - | (260) | - | (260) | - | **(260)** |
| Issue of share capital other than in cash | 6 | 96 | - | - | 102 | - | **102** |
| Reserves credit for employee share-based payment schemes | - | - | - | 24 | 24 | - | **24** |
| Transfer to retained earnings for vested employee share-based payment schemes | - | - | 8 | (8) | - | - | - |
| Other movements in non-controlling interests in the year | - | - | - | - | - | (5) | **(5)** |
| **31 December** | **224** | **888** | **685** | **1,660** | **3,457** | **296** | **3,753** |

| 2008 | Share capital £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** | **217** | **792** | **776** | **1,497** | **3,282** | **391** | **3,673** |
| Profit/(loss) for the year | - | - | 100 | - | 100 | (83) | **17** |
| Other comprehensive income for the year | - | - | 110 | 163 | 273 | - | **273** |
| Total comprehensive income/(expense) for the year | - | - | 210 | 163 | 373 | (83) | **290** |
| Distributions to equity holders | - | - | (220) | (37) | (257) | - | **(257)** |
| Issue of share capital other than in cash | 1 | - | - | - | 1 | - | **1** |
| Reserves credit for employee share-based payment schemes | - | - | - | 10 | 10 | - | **10** |
| Vested employee share-based payment schemes | - | - | - | (2) | (2) | - | **(2)** |
| Transfer to retained earnings for vested employee share-based payment schemes | - | - | 8 | (8) | - | - | - |
| Other movements in non-controlling interests in the year | - | - | - | - | - | 26 | **26** |
| **31 December** | **218** | **792** | **774** | **1,623** | **3,407** | **334** | **3,741** |

# Summary IFRS consolidated statement of cash flows

## For the year ended 31 December 2009

| | 2009<br>£m | 2008<br>£m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) before tax from continuing operations | **419** | (406) |
| Profit/(loss) before tax from discontinued operations | **84** | (70) |
| | **503** | (476) |
| Non-cash movements from operating activities | **256** | 377 |
| Net (increase)/decrease in operational assets | **(11,074)** | 14,386 |
| Net increase/(decrease) in operational liabilities | **8,838** | (11,604) |
| Taxation paid | **(239)** | (379) |
| **Net cash flows from operating activities** | **(1,716)** | 2,304 |
| **Cash flows from investing activities** | | |
| Net disposal/(acquisition) of property, plant and equipment | **41** | (138) |
| Acquisition of subsidiaries, net of cash acquired | **-** | (24) |
| Investments in associates and joint ventures | **(6)** | (16) |
| Other | **(16)** | (23) |
| **Net cash flows from investing activities** | **19** | (201) |
| **Cash flows from financing activities** | | |
| Proceeds from other borrowings | **11** | 64 |
| Repayment of other borrowings | **(19)** | (6) |
| Capital flows from/(to) non-controlling interests and third party interest in consolidated funds | **960** | (1,047) |
| Distributions paid to non-controlling interests | **(35)** | (33) |
| Interest paid | **(131)** | (138) |
| Ordinary dividends paid | **(158)** | (257) |
| **Net cash flows from financing activities** | **628** | (1,417) |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,069)** | 686 |
| Cash and cash equivalents at the beginning of the year | **9,951** | 9,120 |
| Effects of exchange rate changes on cash and cash equivalents | **(42)** | 145 |
| **Cash and cash equivalents at the end of the year** | **8,840** | 9,951 |
| **Supplemental disclosures on cash flow from operating activities** | | |
| Interest paid | **275** | 628 |
| Interest received | **3,003** | 3,666 |
| Dividends received | **1,266** | 1,649 |
| Rental income received on investment properties | **599** | 625 |

# Notes to the IFRS financial information

## 3.1 Accounting policies

### (a) Basis of preparation

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies as set out in the Group's Annual Report and Accounts for the year ended 31 December 2009 have been applied in the preparation of this preliminary announcement. The Group's accounting policies have not changed since the issue of the *Annual Report and Accounts 2008*, except as described below.

From 1 January 2009, the Group has adopted the requirements of the following new standards:

(i) IFRS 8 *Operating Segments*, which supersedes the disclosure requirements of IAS 14 *Segment Reporting*. In accordance with the provisions of the standard, comparatives have been restated. The standard has no financial impact but adoption has resulted in changes to the Group's segmental disclosures, including the reportable segments themselves. In compliance with the requirements of IFRS 8, the Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed.

(ii) IAS 1 (revised) *Presentation of Financial Statements*. The revised standard includes an option to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present both statements. The preliminary announcement has been prepared under the revised disclosure requirements and adoption has not had any financial impact thereon.

### (b) Preliminary announcement

The preliminary announcement for the year ended 31 December 2009 does not constitute statutory accounts as defined in Section 435 of the UK Companies Act 2006. PricewaterhouseCoopers LLP have audited the consolidated statutory accounts for the Group for the years ended 31 December 2008 and 31 December 2009 and their reports were unqualified and did not contain a statement under Section 498(2) or (3) of the UK Companies Act 2006. The Group's consolidated statutory accounts for the year ended 31 December 2008 have been filed with the Registrar of Companies. The Group's Annual Report and Accounts for the year ended 31 December 2009 will be available from 1 April 2010.

## 3.2 Segmental analysis

### (a) Basis of segmentation

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed and the way in which key financial information used by the Executive team to review performance is presented. The Group's reportable segments are as follows:

**UK**

UK operations primarily comprise life and pensions business and banking business. The life and pensions business provides a broad range of pensions, protection, savings and investment products to individual and corporate customers. The banking business provides a range of retail mortgage and deposit products via online and telephone operations. However, the Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 and has therefore been classified as a discontinued operation, refer to Note 3.18 – Events after the reporting period. Continuing UK operations also include healthcare business.

**Canada**

Canadian operations offer a broad range of pensions and savings products to individual and corporate customers in addition to commercial mortgage products.

**Europe**

The operations in Ireland, Germany and Austria provide life and pension products.

**Asia**

The Group has investments in joint ventures in India and China and a wholly owned subsidiary in Hong Kong. These businesses offer a range of life and pension products.

**Global investment management**
Investment management services are provided by global investment management operations to the Group's other reportable segments. Global investment management also provides a range of investment products for individuals and institutional customers through a number of different investment vehicles.

**Other**
This reportable segment primarily includes the Group corporate centre and the shared service centre.

### (b) Reportable segments – income statement, underlying profit and asset information

Income statement and asset information are presented by reportable segment in the tables below. As described beneath the pro forma reconciliation of Group underlying profit to profit for the year, underlying profit is considered to present an indication of the underlying business performance of the Group. Underlying profit is one of the key measures utilised by Group management in their evaluation of segmental performance and is therefore also presented by reportable segment.

## 3.2 Segmental analysis *continued*

### (b) Reportable segments – income statement, underlying profit and asset information *continued*

| 2009 | UK £m | Canada £m | Europe £m | Asia £m | Global investment management £m | Other £m | Elimination £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Net earned premium | 1,840 | 709 | 883 | 31 | 4 | - | - | **3,467** |
| Net investment return | 10,275 | 2,044 | 873 | 12 | - | 4 | (34) | **13,174** |
| Other segment income | 498 | 112 | 29 | 1 | 155 | 7 | (8) | **794** |
| Inter-segment revenue | 8 | 2 | (5) | - | 91 | 539 | (635) | - |
| **Total net revenue** | **12,621** | **2,867** | **1,780** | **44** | **250** | **550** | **(677)** | **17,435** |
| **Expenses** | | | | | | | | |
| Segment expenses | 12,109 | 2,833 | 1,737 | 44 | 200 | 603 | (654) | **16,872** |
| Finance costs | 120 | 13 | - | - | 5 | - | (23) | **115** |
| **Total expenses** | **12,229** | **2,846** | **1,737** | **44** | **205** | **603** | **(677)** | **16,987** |
| Share of (losses)/profits from associates and joint ventures | 7 | (29) | - | (27) | 19 | 1 | - | **(29)** |
| **Profit/(loss) before tax** | **399** | **(8)** | **43** | **(27)** | **64** | **(52)** | **-** | **419** |
| Tax attributable to policyholders' returns | 294 | - | 5 | - | - | - | - | **299** |
| Tax attributable to equity holders' profits | (51) | 33 | (3) | - | 13 | (10) | - | **(18)** |
| Profit/(loss) for the year from continuing operations | 156 | (41) | 41 | (27) | 51 | (42) | - | 138 |
| Profit for the year from discontinued operations | 42 | - | - | - | - | - | - | 42 |
| **Profit/(loss) for the year** | **198** | **(41)** | **41** | **(27)** | **51** | **(42)** | **-** | **180** |
| Loss attributable to non-controlling interests from continuing operations | 33 | - | - | - | - | - | - | **33** |
| **Profit/(loss) attributable to equity holders of Standard Life plc** | **231** | **(41)** | **41** | **(27)** | **51** | **(42)** | **-** | **213** |
| Reconciliation to Group underlying profit: | | | | | | | | |
| Tax (credit)/expense attributable to equity holders' profits: | | | | | | | | |
| From continuing operations | (51) | 33 | (3) | - | 13 | (10) | - | **(18)** |
| From discontinued operations | 42 | - | - | - | - | - | - | **42** |
| Adjustments to reconcile the Group underlying profit to profit for the year: | | | | | | | | |
| From continuing operations | 61 | 1 | 7 | - | 2 | 7 | - | **78** |
| From discontinued operations | (24) | - | - | - | - | - | - | **(24)** |
| Underlying profit/(loss) before tax attributable to equity holders of Standard Life plc and adjusted items: | | | | | | | | |
| From continuing operations | 199 | (7) | 45 | (27) | 66 | (45) | - | **231** |
| From discontinued operations | 60 | - | - | - | - | - | - | **60** |
| **Underlying profit/(loss) before tax attributable to equity holders of Standard Life plc and adjusted items** | **259** | **(7)** | **45** | **(27)** | **66** | **(45)** | **-** | **291** |
| **Other income included in the income statement is as follows:** | | | | | | | | |
| Interest income: | | | | | | | | |
| From continuing operations | 154 | 145 | 60 | - | 1 | 5 | - | **365** |
| From discontinued operations | 350 | - | - | - | - | - | - | **350** |
| **Other expenses included in the income statement include:** | | | | | | | | |
| Impairment losses recognised/(reversed): | | | | | | | | |
| From continuing operations | 30 | 4 | - | - | - | 7 | - | **41** |
| From discontinued operations | 19 | - | - | - | - | - | - | **19** |
| Amortisation of intangible assets[1] | 11 | 1 | 2 | - | - | 3 | - | **17** |
| Amortisation of deferred acquisition costs[1] | 116 | 12 | 45 | - | - | - | - | **173** |
| Depreciation of property, plant and equipment[1] | - | 2 | 1 | - | 1 | 6 | - | **10** |
| Interest expense: | | | | | | | | |
| From continuing operations | 132 | 19 | 2 | - | 5 | 116 | (139) | **135** |
| From discontinued operations | 238 | - | - | - | - | - | - | **238** |
| **Assets** | | | | | | | | |
| Segment assets | 114,042 | 20,423 | 9,441 | 75 | 506 | 796 | (839) | **144,444** |
| Investments in associates and joint ventures | 1,915 | 104 | - | 80 | 32 | 38 | - | **2,169** |
| **Total assets** | **115,957** | **20,527** | **9,441** | **155** | **538** | **834** | **(839)** | **146,613** |
| **Additions during the year[1]** | | | | | | | | |
| Intangible assets | 6 | 1 | 5 | - | - | 4 | - | **16** |
| Deferred acquisition costs | 105 | 14 | 63 | 19 | - | - | - | **201** |
| Property, plant and equipment | 1 | 2 | - | - | 1 | 9 | - | **13** |
| Investment properties | 348 | 4 | 13 | - | - | - | - | **365** |
| | **460** | **21** | **81** | **19** | **1** | **13** | **-** | **595** |

[1] All from continuing operations.

| 2008 | UK £m | Canada £m | Europe £m | Asia £m | Global investment management £m | Other £m | Elimination £m | Restated total £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Net earned premium | (4,289) | 649 | 846 | 16 | 4 | - | - | **(2,774)** |
| Net investment return | (11,737) | (1,260) | (1,070) | (15) | 12 | 1 | (93) | **(14,162)** |
| Other segment income | 443 | 109 | 24 | - | 162 | 6 | (34) | **710** |
| Inter-segment revenue | 21 | 1 | - | 3 | 105 | 560 | (690) | - |
| **Total net revenue** | **(15,562)** | **(501)** | **(200)** | **4** | **283** | **567** | **(817)** | **(16,226)** |
| **Expenses** | | | | | | | | |
| Segment expenses | (15,303) | (406) | (221) | 14 | 277 | 617 | (806) | **(15,828)** |
| Finance costs | 110 | 12 | - | - | 2 | (4) | (11) | **109** |
| **Total expenses** | **(15,193)** | **(394)** | **(221)** | **14** | **279** | **613** | **(817)** | **(15,719)** |
| Share of profits/(losses) from associates and joint ventures | 112 | 4 | 7 | (25) | (4) | 7 | - | **101** |
| **(Loss)/profit before tax** | **(257)** | **(103)** | **28** | **(35)** | **-** | **(39)** | **-** | **(406)** |
| Tax attributable to policyholders' returns | (317) | - | (17) | - | - | - | - | **(334)** |
| Tax attributable to equity holders' profits | (69) | (64) | 5 | - | 3 | (13) | - | **(138)** |
| Profit/(loss) for the year from continuing operations | 129 | (39) | 40 | (35) | (3) | (26) | - | **66** |
| Loss for the year from discontinued operations | (49) | - | - | - | - | - | - | **(49)** |
| **Profit/(loss) for the year** | **80** | **(39)** | **40** | **(35)** | **(3)** | **(26)** | **-** | **17** |
| Loss attributable to non-controlling interests from continuing operations | 83 | - | - | - | - | - | - | **83** |
| **Profit/(loss) attributable to equity holders of Standard Life plc** | **163** | **(39)** | **40** | **(35)** | **(3)** | **(26)** | **-** | **100** |
| Reconciliation to Group underlying profit: | | | | | | | | |
| Tax (credit)/expense attributable to equity holders' profits: | | | | | | | | |
| From continuing operations | (69) | (64) | 5 | - | 3 | (13) | - | **(138)** |
| From discontinued operations | (21) | - | - | - | - | - | - | **(21)** |
| Adjustments to reconcile the Group underlying profit to profit for the year: | | | | | | | | |
| From continuing operations | 69 | 1 | 3 | - | 42 | 2 | - | **117** |
| From discontinued operations | 96 | - | - | - | - | - | - | **96** |
| Underlying profit/(loss) before tax attributable to equity holders of Standard Life plc and adjusted items: | | | | | | | | |
| From continuing operations | 212 | (102) | 48 | (35) | 42 | (37) | - | **128** |
| From discontinued operations | 26 | - | - | - | - | - | - | **26** |
| **Underlying profit/(loss) before tax attributable to equity holders of Standard Life plc and adjusted items** | **238** | **(102)** | **48** | **(35)** | **42** | **(37)** | **-** | **154** |
| **Other income included in the income statement is as follows:** | | | | | | | | |
| Interest income: | | | | | | | | |
| From continuing operations | 491 | 142 | 25 | - | 9 | 11 | - | **678** |
| From discontinued operations | 700 | - | - | - | - | - | - | **700** |
| **Other expenses included in the income statement include:** | | | | | | | | |
| Impairment losses recognised/(reversed)[1] | 141 | 1 | - | - | - | - | - | **142** |
| Amortisation of intangible assets[1] | 7 | - | 2 | - | - | 1 | - | **10** |
| Amortisation of deferred acquisition costs[1] | 110 | 11 | 42 | - | 2 | - | - | **165** |
| Depreciation of property, plant and equipment[1] | - | 2 | 1 | - | - | 7 | - | **10** |
| Interest expense: | | | | | | | | |
| From continuing operations | 121 | 18 | 3 | - | 2 | 112 | (126) | **130** |
| From discontinued operations | 638 | - | - | - | - | - | - | **638** |
| **Assets** | | | | | | | | |
| Segment assets | 107,611 | 17,458 | 8,383 | 41 | 509 | 804 | (924) | **133,882** |
| Investments in associates and joint ventures | 2,569 | 127 | 202 | 107 | 15 | 78 | - | **3,098** |
| **Total assets** | **110,180** | **17,585** | **8,585** | **148** | **524** | **882** | **(924)** | **136,980** |
| **Additions during the year[1]** | | | | | | | | |
| Intangible assets | 13 | - | 4 | - | - | 9 | - | **26** |
| Deferred acquisition costs | 190 | 16 | 100 | - | - | - | - | **306** |
| Property, plant and equipment | 267 | 2 | 1 | - | 2 | 1 | - | **273** |
| Investment properties | 78 | 30 | 6 | - | - | - | - | **114** |
| | **548** | **48** | **111** | **-** | **2** | **10** | **-** | **719** |

[1] All from continuing operations.

## 3.2 Segmental analysis *continued*

### (b) Reportable segments – income statement, underlying profit and asset information *continued*

Inter-segment transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties. The allocation of total net revenue presented above is based on customer location and this basis is not materially different to geographical origin. The Group has a widely diversified policyholder base and is therefore not reliant on any individual customers. The Group utilises additional measures to assess the performance of each of the reportable segments, which are presented in the European Embedded Value information.

### (c) Non-current non-financial assets by geographical location

| | 2009 £m | 2008 £m |
|---|---|---|
| UK | **6,292** | 7,400 |
| Continental Europe | **51** | 48 |
| Canada | **1,035** | 1,141 |
| Asia | **-** | 1 |
| **Total** | **7,378** | 8,590 |

Non-current non-financial assets for this purpose consist of investment property, property, plant and equipment and intangible assets (excluding intangible assets arising from insurance or participating investment contracts).

## 3.3 Administrative expenses

| | Notes | 2009 £m | Restated 2008 £m |
|---|---|---|---|
| Restructuring and corporate transaction expenses | | **59** | 71 |
| Commission expenses | | **331** | 452 |
| Interest expenses | | **250** | 639 |
| Staff costs and other employee-related costs | | **599** | 606 |
| Acquisition costs deferred during the year | | **(201)** | (307) |
| Amortisation of deferred acquisition costs | | **173** | 165 |
| Impairment losses on deferred acquisition costs | | **33** | 1 |
| Other administrative expenses | | **608** | 835 |
| Total administrative expenses | | **1,852** | 2,462 |
| Less: administrative expenses from discontinued operations | 3.5 | **(290)** | (684) |
| **Administrative expenses** | | **1,562** | 1,778 |

Interest expense includes interest payable on customer accounts and other funding instruments within the banking operation of the Group. Interest expense of £123m (2008: £129m) in respect of subordinated liabilities is included within finance costs of which £8m (2008: £20m) relates to discontinued operations. For the year ended 31 December 2009, total interest expense is therefore £373m (2008: £768m).

Restructuring costs from continuing operations incurred during the year of £59m (2008: £71m) include £50m of expenses in relation to the Group's Continuous Improvement Programme (CIP) (2008: £44m) and other restructuring costs of £9m (2008: £3m) of which £5m (2008: £nil) relates to transaction costs in relation to the sale of Standard Life Bank plc. Restructuring costs for the year ended 31 December 2008 include £24m of costs associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. On 30 April 2008, Standard Life Investments (Global Liquidity Funds) plc restructured one of its sub-funds, changing the pricing structure from an amortised cost to marked to market basis. The total costs to the Group associated with the restructuring of the sub-fund at the date of the transaction were £39m, of which £24m are restructuring costs and £15m is recognised in net investment return since it reflects the difference between the amortised cost and marked to market value of assets recognised directly on the consolidated statement of financial position.

Of the restructuring costs from continuing operations of £59m, £58m (2008: £70m) is adjusted when determining underlying profit for the year, with the remaining £1m (2008: £1m) relating to CIP expenses incurred by the Heritage With Profits Fund. In addition, £1m (2008: £2m) of CIP costs were incurred by discontinued operations which is adjusted when determining the underlying profit from discontinued operations for the year.

Other administrative expenses in the year ended 31 December 2008 include £102m related to an expense incurred in respect of a unit linked fund, the Pension Sterling Fund. In January 2009, the value of units in that fund was reduced to reflect reductions in the market value of certain instruments held by the fund. In February 2009, in order to put customers invested in that fund back into the position they would have been before the valuation adjustment, the Group injected cash into the fund. The cost was accrued within other administrative expenses for the year ended 31 December 2008.

## 3.4 Tax expense/(credit)

The tax expense/(credit) is attributed as follows:

| | Notes | 2009 £m | Restated 2008 £m |
|---|---|---|---|
| Tax expense/(credit) attributable to policyholders' returns | | **299** | (334) |
| Tax credit attributable to equity holders' profits | | **(18)** | (138) |
| | | **281** | (472) |
| Tax expense/(credit) from discontinued operations | 3.5 | **42** | (21) |
| | | **323** | (493) |

The share of tax of associates and joint ventures is £9m (2008: £3m) and is included above the line 'Profit/(loss) before tax' in the summary consolidated income statement in 'Share of (losses)/profits from associates and joint ventures'.

The total tax expense is split as follows:

| | 2009 £m | Restated 2008 £m |
|---|---|---|
| **Income tax:** | | |
| UK | **162** | 253 |
| Double tax relief | **(1)** | (1) |
| Canada and international | **28** | 19 |
| Adjustment to tax credit in respect of prior years | **(3)** | (21) |
| **Total income tax** | **186** | 250 |
| **Deferred tax:** | | |
| Deferred tax expense/(credit) arising from the current period | **137** | (743) |
| **Total deferred tax** | **137** | (743) |
| **Total tax expense/(credit)** | **323** | (493) |
| Less income tax (expense)/credit attributable to discontinued operations | **(42)** | 21 |
| **Total income tax expense/(credit) attributable to continuing operations** | **281** | (472) |
| **Attributable to equity holders' profits** | **(18)** | (138) |

## 3.4 Tax expense/(credit) *continued*

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

| | 2009 £m | 2008 £m |
|---|---|---|
| Tax on actuarial (gains)/losses on defined benefit pension schemes | (27) | 50 |
| Revaluation of land and buildings | (1) | - |
| Other | - | 3 |
| Tax on fair value gains/(losses) on cash flow hedges attributable to discontinued operations | 3 | (11) |
| **Aggregate tax effect of items (credited)/debited directly to equity** | **(25)** | **42** |

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

## 3.5 Discontinued banking operations

The Group's banking business, Standard Life Bank plc, was sold on 1 January 2010 (refer to Note 3.18 – Events after the reporting period). It has therefore been classified as a discontinued operation and the assets and liabilities attributable to Standard Life Bank plc as at 31 December 2009 have been classified as held for sale.

The profit/(loss) included in the consolidated income statement in respect of the discontinued banking operations is as follows:

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| **Revenue** | | | |
| Net investment return | | 389 | 631 |
| Fee and commission income | | 4 | 5 |
| **Net revenue** | | **393** | **636** |
| **Expenses** | | | |
| Administrative expenses: | | | |
| Restructuring and corporate transaction expenses | 3.3 | 1 | 2 |
| Other administrative expenses | 3.3 | 290 | 684 |
| Total administrative expenses | | 291 | 686 |
| Finance costs | | 8 | 20 |
| **Expenses** | | **299** | **706** |
| Loss recognised on the measurement of the assets of disposal group | | (10) | - |
| **Profit/(loss) before tax** | | **84** | **(70)** |
| Tax expense/(credit) | 3.4 | 42 | (21) |
| **Total tax expense/(credit)** | | **42** | **(21)** |
| **Profit/(loss) for the year** | | **42** | **(49)** |

The comprehensive income included in the consolidated statement of comprehensive income in respect of the discontinued operations is as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Profit/(loss) for the year from discontinued operations | **42** | (49) |
| Fair value gains/(losses) on cash flow hedges | **11** | (38) |
| Aggregate equity holder tax effect of items not recognised in the income statement | **(3)** | 11 |
| Other comprehensive income/(expense) for the year from discontinued operations | **8** | (27) |
| **Total comprehensive income/(expense) for the year from discontinued operations** | **50** | (76) |

The analysis of assets and liabilities of the discontinued banking operations classified as held for sale as at 31 December 2009 is presented in Note 3.17 – Assets and liabilities of operations classified as held for sale.

## 3.6 Volatility arising on different asset and liability valuation bases

Group underlying profit has been adjusted in respect of volatility that arises from different IFRS measurement bases for liabilities and backing assets. The adjustment is analysed as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| **From continuing operations** | | |
| Measurement of subordinated liabilities and backing assets | **18** | 47 |
| **From discontinued operations** | | |
| Derivative volatility | **(40)** | 94 |
| **Total volatility arising on different asset and liability valuation bases** | **(22)** | 141 |

Derivative volatility comprises amounts in respect of volatility arising from derivatives that are part of economic hedges undertaken by Standard Life Bank that do not qualify as hedge relationships under IAS 39 *Financial Instruments: Recognition and Measurement*.

## 3.7 Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year is the weighted average number of shares in issue less the weighted average number of shares owned by employee share trusts that have not vested unconditionally to employees.

| | 2009 | 2008 |
|---|---|---|
| Profit from continuing operations (£m) | **171** | 149 |
| Profit/(loss) from discontinued operations (£m) | **42** | (49) |
| **Profit attributable to equity holders of Standard Life plc (£m)** | **213** | 100 |
| Weighted average number of ordinary shares in issue (millions) | **2,201** | 2,176 |
| Basic earnings per share from continuing operations (pence per share) | **7.8** | 6.9 |
| Basic earnings per share from discontinued operations (pence per share) | **1.9** | (2.3) |
| **Basic earnings per share (pence per share)** | **9.7** | 4.6 |

## 3.7 Earnings per share *continued*

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares – share awards and share options awarded to employees.

For share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2009 | 2008 |
|---|---|---|
| Profit from continuing operations (£m) | 171 | 149 |
| Profit/(loss) from discontinued operations (£m) | 42 | (49) |
| **Profit attributable to equity holders of Standard Life plc (£m)** | **213** | 100 |
| Weighted average number of ordinary shares for diluted earnings per share (millions) | 2,203 | 2,180 |
| Diluted earnings per share from continuing operations (pence per share) | 7.8 | 6.9 |
| Diluted earnings per share from discontinued operations (pence per share) | 1.9 | (2.3) |
| **Diluted earnings per share (pence per share)** | **9.7** | 4.6 |

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was 2 million (2008: 4 million). The effect of these dilutive potential ordinary shares did not impact the profit attributable to equity holders of the Company.

### (c) Alternative earnings per share

Earnings per share is also calculated based on the underlying profit before tax and certain non-operating items after tax as well as on the profit attributable to equity holders. The Directors believe that earnings per share based on underlying profit provides a better indication of operating performance.

| | 2009 £m | 2009 Per share p | 2008 £m | 2008 Per share p |
|---|---|---|---|---|
| **Underlying profit before tax attributable to equity holders** | **258** | **11.7** | 71 | 3.3 |
| Volatility arising on different asset and liability valuation bases | 22 | 1.0 | (141) | (6.5) |
| Impairment of intangible assets | (7) | (0.3) | - | - |
| Restructuring and corporate transaction expenses | (59) | (2.7) | (72) | (3.3) |
| Impairment loss on discontinued banking operations | (10) | (0.5) | - | - |
| **Profit/(loss) before tax attributable to equity holders' profits** | **204** | **9.2** | (142) | (6.5) |
| Tax (expense)/credit attributable to: | | | | |
| Underlying profit | (26) | (1.2) | 100 | 4.6 |
| Adjusted items | 2 | 0.1 | 59 | 2.7 |
| Loss attributable to non-controlling interests | 33 | 1.6 | 83 | 3.8 |
| **Profit attributable to equity holders of Standard Life plc** | **213** | **9.7** | 100 | 4.6 |

## 3.8 Dividends

The Company paid a final dividend of 7.7 pence per share (final 2007: 7.7 pence) totalling £168m in respect of the year ended 31 December 2008 on 29 May 2009 (final 2007: £168m) and an interim dividend of 4.15 pence per share (interim 2008: 4.07 pence) totalling £92m (interim 2008: £89m) in respect of the year ended 31 December 2009 on 16 November 2009.

Subsequent to 31 December 2009, the Directors have proposed a final dividend for the year ended 31 December 2009 of 8.09 pence per ordinary share, £181m in total. The dividend will be paid on 28 May 2010 to shareholders on the Company's register as at 19 March 2010, subject to approval at the Annual General Meeting on 14 May 2010. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2010.

On 15 May 2009, the Group's equity holders approved the introduction of the Scrip dividend scheme, effective for the final 2008 dividend payment onwards. Investors taking part in the Scrip scheme receive their dividend entitlement in the form of shares rather than cash. The distribution under Scrip is recorded as an appropriation of retained earnings. Dividends paid during the year ended 31 December 2009 comprise £102m settled by the issue of shares under the Scrip scheme and £158m paid in cash.

## 3.9 Issued share capital

The movement in the issued share capital of the Company during the year was:

| | 2009 Number | 2009 £m | 2008 Number | 2008 £m |
|---|---|---|---|---|
| **At 1 January** | **2,177,799,354** | **218** | 2,174,077,106 | 217 |
| Demutualisation shares | **449** | - | - | - |
| Shares issued in lieu of cash dividends | **55,018,211** | **6** | - | - |
| Shares issued in respect of employee share plans | **630,003** | - | 559,061 | - |
| Shares issued in respect of share options | **2,842,293** | - | 3,142,947 | 1 |
| Shares issued in respect of bonus issue | **1,847** | - | 20,240 | - |
| **At 31 December** | **2,236,292,157** | **224** | 2,177,799,354 | 218 |

The Scheme of Demutualisation sets a 10-year limit for those eligible members of The Standard Life Assurance Company (SLAC) who were not allocated shares at the date of demutualisation to claim their entitlements. During the year ended 31 December 2009, 449 ordinary shares were issued to eligible members in respect of their demutualisation entitlements (2008: nil).

The Group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any one year is £1,500. The Group offers to match the first £25 of shares bought each month. During the year ended 31 December 2009, the Company allotted 630,003 (2008: 559,061) ordinary shares to its employees under the share incentive plans.

The Group also operates a Long-Term Incentive Plan (LTIP) for executives and senior management. During the year ended 31 December 2009, 2,842,293 (2008: 3,142,947) ordinary shares were issued on exercise of share options in respect of the LTIP.

During the year ended 31 December 2009, the Group introduced a Scrip dividend scheme, and 55,018,211 shares have been issued in respect of dividends declared in the year.

As part of the offer on the demutualisation of SLAC and flotation of Standard Life plc, holders of demutualisation shares, employee shares or shares acquired in the preferential offer who retained their shares for a continuous period of one year from 10 July 2006 were entitled to one bonus share for every 20 shares. Equity holders who are entitled to bonus shares but were not allocated shares on 10 July 2007 have three years from 10 July 2007 to claim their entitlements. During the year ended 31 December 2009, a further 1,847 ordinary shares were issued to equity holders entitled to receive bonus shares (2008: 20,240 ordinary shares).

## 3.10 Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets

| | 2009 £m | 2008 £m |
|---|---|---|
| **Non-participating contract liabilities** | | |
| Non-participating insurance contracts | **22,164** | 19,635 |
| Non-participating investment contracts | **63,728** | 52,273 |
| | **85,892** | 71,908 |
| **Participating contract liabilities** | | |
| Participating insurance contracts | **16,568** | 17,625 |
| Participating investment contracts | **14,993** | 15,674 |
| Unallocated divisible surplus | **791** | 864 |
| | **32,352** | 34,163 |

Non-participating insurance contracts include £146m (2008: £160m) relating to Standard Life Healthcare and £3m (2008: £3m) relating to general insurance.

The Heritage With Profits Fund (HWPF) was established as part of the demutualisation transaction on 10 July 2006. Under the Scheme of Demutualisation (the Scheme) certain non-participating contracts were transferred to the HWPF. The present value of future profits (PVFP) on these non-participating contracts can be apportioned between the component related to contracts whose future cash flows under the Scheme are expected to be transferred out of the HWPF to equity holders, and the component related to contracts whose future cash flows will remain in the HWPF, to be applied either to meet amounts that may be charged to the HWPF under the Scheme or distributed over time as enhancements to final bonuses payable on the remaining policies invested in the fund.

These components are apportioned in arriving at the amount of participating contract liabilities and unallocated divisible surplus as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| Participating contract liabilities before apportionment | **31,269** | 32,413 |
| Apportionment of non-participating PVFP | **292** | 886 |
| | **31,561** | 33,299 |
| Participating insurance contracts | **16,568** | 17,625 |
| Participating investment contracts | **14,993** | 15,674 |
| **Participating contract liabilities after apportionment** | **31,561** | 33,299 |
| Unallocated divisible surplus before apportionment | **1,940** | 1,955 |
| Apportionment of non-participating PVFP | **(1,149)** | (1,091) |
| **Unallocated divisible surplus after apportionment** | **791** | 864 |

On 31 December 2009, Standard Life plc lent £588m to Standard Life Assurance Limited (SLAL) HWPF under a contingent loan agreement (a contingent recourse cash flows loan, as defined under the Scheme). Under the Scheme this resulted in an obligation arising in the HWPF to transfer the loan proceeds (the 'securitisation receipt') to the SLAL Shareholder Fund. The securitisation receipt will be transferred in March 2010. As a result of this transfer, the SLAL Shareholder Fund will hold a limited recourse loan issued by Standard Life plc. As the repayment of this limited recourse loan is contingent on the emergence of recourse cash flows and surplus in the HWPF, the obligation to transfer, and the subsequent transfer of, the securitisation receipt is not treated as an allocation to shareholders from the HWPF. Therefore the arrangement had no impact on equity holders' profits for the year. The purpose of the arrangement was to remove the market risk to the tax treatment of future shareholder transfers from the HWPF.

## (a) Insurance contract liabilities, participating investment contracts and reinsurance assets

The movement in insurance contract liabilities, participating investment contracts and reinsurance assets during 2009 was as follows:

| 2009 | Participating insurance contract liabilities £m | Non-participating insurance contract liabilities £m | Participating investment contract liabilities £m | Total insurance and participating contracts £m | Reinsurers' share of liabilities (reinsurance asset) £m | Net 2009 £m |
|---|---|---|---|---|---|---|
| **At 1 January** | **17,625** | **19,635** | **15,674** | **52,934** | **(6,076)** | **46,858** |
| Expected change | (627) | (379) | (828) | (1,834) | 184 | (1,650) |
| Methodology/modelling changes | (17) | (70) | (12) | (99) | (27) | (126) |
| Effect of changes in: | | | | | | |
| Economic assumptions | (311) | 1,759 | (268) | 1,180 | (1,117) | 63 |
| Non-economic assumptions | (22) | (90) | - | (112) | 52 | (60) |
| Effect of: | | | | | | |
| Economic experience | 205 | 586 | 133 | 924 | (25) | 899 |
| Non-economic experience | (21) | (324) | 272 | (73) | (4) | (77) |
| New business | 38 | 777 | 110 | 925 | (5) | 920 |
| **Total change in contract liabilities** | **(755)** | **2,259** | **(593)** | **911** | **(942)** | **(31)** |
| Foreign exchange adjustment | (302) | 276 | (88) | (114) | (14) | (128) |
| Change in unearned premium reserve | - | (6) | - | (6) | - | (6) |
| **At 31 December** | **16,568** | **22,164** | **14,993** | **53,725** | **(7,032)** | **46,693** |

Following demutualisation it is necessary to recognise within the participating liabilities the residual estate in the HWPF as a liability, since this will in due course be distributed to existing HWPF policyholders if it is not otherwise required to meet liabilities chargeable to the HWPF in accordance with the Scheme. The movement for the year therefore includes the movement in the residual estate.

Economic assumptions reflect changes in fixed income yields, leading to lower valuation rates on non-participating business and other market movements.

Non-economic experience changes in the year primarily represent higher than expected claims.

Economic experience changes in the year reflect higher than anticipated investment returns during the year.

## 3.10 Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets *continued*

### (a) Insurance contract liabilities, participating investment contracts and reinsurance assets *continued*

| 2008 | Participating insurance contract liabilities £m | Non-participating insurance contract liabilities £m | Participating investment contract liabilities £m | Total insurance and participating contracts £m | Reinsurers' share of liabilities (reinsurance asset) £m | Net 2008 £m |
|---|---|---|---|---|---|---|
| **At 1 January** | **19,446** | **20,980** | **17,491** | **57,917** | **(476)** | **57,441** |
| Annuity reinsurance impact | 49 | (1) | 64 | 112 | (6,573) | (6,461) |
| Expected change | (1,078) | (341) | (1,047) | (2,466) | 234 | (2,232) |
| Methodology/modelling changes | 93 | (73) | (117) | (97) | 51 | (46) |
| Effect of changes in: | | | | | | |
| Economic assumptions | 402 | (1,357) | 455 | (500) | 757 | 257 |
| Non-economic assumptions | (61) | 8 | (9) | (62) | (44) | (106) |
| Effect of: | | | | | | |
| Economic experience | (2,314) | (728) | (1,591) | (4,633) | 15 | (4,618) |
| Non-economic experience | 33 | (308) | 149 | (126) | 2 | (124) |
| New business | 45 | 706 | - | 751 | (1) | 750 |
| **Total change in contract liabilities** | **(2,831)** | **(2,094)** | **(2,096)** | **(7,021)** | **(5,559)** | **(12,580)** |
| Foreign exchange adjustment | 1,010 | 749 | 279 | 2,038 | (41) | 1,997 |
| **At 31 December** | **17,625** | **19,635** | **15,674** | **52,934** | **(6,076)** | **46,858** |

On 14 February 2008, Standard Life Assurance Limited (SLAL) entered into a reinsurance arrangement with Canada Life International Re in respect of certain annuity contracts. For the gross participating insurance and investment liabilities the impact of the annuity reinsurance transaction shown reflects the change in the residual estate, which therefore impacts the value of the planned enhancements (on an FSA realistic basis) included within these liabilities as covered by the Scheme. The increase in the reinsurance asset associated with the transaction represents the increase in the value of the reinsurance assets with external reinsurers due to this new arrangement.

### (b) Non-participating investment contract liabilities

The change in non-participating investment contract liabilities was as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| **At 1 January** | **52,273** | 58,762 |
| Contributions | **8,997** | 10,170 |
| Initial charges and reduced allocations | **(21)** | (50) |
| Account balances paid on surrender and other terminations in the year | **(6,682)** | (6,584) |
| Investment return credited and related benefits | **9,088** | (10,907) |
| Foreign exchange adjustment | **376** | 1,314 |
| Recurring management charges | **(303)** | (333) |
| Other | **-** | (99) |
| **At 31 December** | **63,728** | 52,273 |

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.

## 3.11 Borrowings

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| Certificates of deposit, commercial paper and medium term notes | | **816** | 573 |
| Securitisations – mortgage backed floating rate notes | | **1,967** | 2,411 |
| Bank overdrafts | | **87** | 101 |
| Other | | **140** | 142 |
| **Total borrowings** | | **3,010** | 3,227 |
| Less: Borrowings classified as held for sale | 3.17 | **(2,783)** | - |
| **Borrowings** | | **227** | 3,227 |

The amounts included in Certificates of deposit, commercial paper and medium term notes and Securitisations - mortgage backed floating rate notes are wholly attributable to Standard Life Bank and have been reclassified as held for sale. Refer to Note 3.18 – Events after the reporting period.

### (a) Certificates of deposit, commercial paper and medium term notes

The Group has issued certificates of deposit through its subsidiary Standard Life Bank plc (Standard Life Bank). The Group has also issued commercial paper and medium term notes through Standard Life Funding B.V. a wholly owned subsidiary of Standard Life Bank. Standard Life Bank has guaranteed the liabilities of its subsidiary in relation to the issuance of this debt. The guarantee is in respect of notes issued and is for a maximum of US$2bn and €4bn in relation to the US commercial paper and Euro commercial paper programmes respectively, and €4bn in respect of the medium term note programme. This guarantee is internal to the Group and is considered a financial guarantee contract under IAS 39 *Financial Instruments: Recognition and Measurement.*

On 11 February 2009, Standard Life Bank launched its Euro Medium Term Note programme under which it can issue debt, including debt covered by the Credit Guarantee Scheme (CGS). Under the terms of the CGS, HM Treasury guarantees specific bank and building society debt instruments issued during the period beginning from the announcement of the CGS (13 October 2008) and ending on 31 December 2009. On 18 February 2009, Standard Life Bank issued £500m of debt under the CGS.

| | Average interest rates | | Carrying amount | |
|---|---|---|---|---|
| | 2009 % | 2008 % | 2009 £m | 2008 £m |
| **Due within 1 year** | | | | |
| Standard Life Bank certificates of deposit – GBP | **0.91%** | 4.13% | **120** | 228 |
| Standard Life Funding B.V. commercial paper – GBP | **1.25%** | 6.20% | **75** | 144 |
| Standard Life Funding B.V. commercial paper – EUR | - | 5.26% | - | 84 |
| | | | **195** | 456 |
| **Due between 1 and 5 years** | | | | |
| Standard Life Bank medium term notes – GBP | **2.38%** | - | **513** | - |
| Standard Life Funding B.V. medium term notes – EUR | **0.97%** | - | **108** | - |
| | | | **621** | - |
| **Due after 5 years** | | | | |
| Standard Life Funding B.V. medium term notes – EUR | - | 4.10% | - | 117 |
| | | | - | 117 |
| **Total certificates of deposit, commercial paper and medium term notes** | | | **816** | 573 |

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

### (b) Securitisations – mortgage backed floating rate notes

Loans are issued by the Group, which are subject to securitisations. Under this arrangement, the beneficial interest in these mortgages is transferred to special purpose entities (SPEs). The issue of mortgage backed floating rate notes by the SPEs funded the purchase of the mortgages.

## 3.11 Borrowings *continued*

### (b) Securitisations – mortgage backed floating rate notes *continued*

Although the Group does not directly or indirectly own any of the share capital of the SPEs, the nature of these entities, which are in substance controlled by the Group, means that the Group retains substantially all of the risks and rewards of the securitised mortgages.

The Group is not obliged to support any losses suffered by the note holders and does not intend to provide such support. The notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective SPEs, including funds due from customers in respect of the securitised mortgages, are sufficient and that note holders have no recourse whatsoever to the Group. This has been clearly stated in the legal agreements with note holders.

The mortgage backed floating rate notes at year end are as follows:

| | Average interest rates | | Carrying amount | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **%** | % | **£m** | £m |
| Lothian Mortgages No. 3 plc – GBP – Maturity 2039 | **0.88%** | 6.47% | **626** | 730 |
| Lothian Mortgages No. 4 plc – EUR – Maturity 2040 | **0.83%** | 5.12% | **27** | 175 |
| Lothian Mortgages No. 4 plc – GBP – Maturity 2040 | **0.73%** | 6.25% | **563** | 571 |
| Lothian Mortgages Master Issuer plc – USD – Maturity 2028 | **-** | 0.61% | **-** | 59 |
| Lothian Mortgages Master Issuer plc – USD – Maturity 2050 | **0.40%** | 3.71% | **26** | 35 |
| Lothian Mortgages Master Issuer plc – EUR – Maturity 2050 | **0.86%** | 5.16% | **348** | 460 |
| Lothian Mortgages Master Issuer plc – GBP – Maturity 2050 | **0.75%** | 6.25% | **377** | 381 |
| **Total mortgage backed floating rate notes** | | | **1,967** | 2,411 |

## 3.12 Defined benefit and defined contribution plans

### (a) Analysis of amounts recognised in the income statement

The amounts recognised in the summary consolidated income statement for defined contribution and defined benefit schemes are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| Current service cost | **(53)** | (64) |
| Interest cost on benefit obligation | **(93)** | (91) |
| Expected return on plan assets | **91** | 88 |
| Past service cost | **1** | - |
| Gains on curtailment | **4** | - |
| **Expense recognised in the summary consolidated income statement** | **(50)** | (67) |

## (b) Analysis of amounts recognised in the summary consolidated statement of financial position

The present value of the defined benefit obligation less the fair value of gross scheme assets is as follows:

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | UK £m | Canada £m | Ireland £m | Total £m | UK £m | Canada £m | Ireland £m | Total £m |
| Present value of funded obligation | (1,700) | (135) | (43) | (1,878) | (1,309) | (105) | (62) | (1,476) |
| Present value of unfunded obligation | - | (41) | - | (41) | - | (32) | - | (32) |
| Fair value of plan assets | 1,644 | 144 | 48 | 1,836 | 1,462 | 123 | 44 | 1,629 |
| Adjustment for unrecognised past service costs | - | (6) | - | (6) | - | (5) | - | (5) |
| Surplus not recognised | - | - | - | - | (153) | - | - | (153) |
| **Net liability on the summary consolidated statement of financial position** | (56) | (38) | 5 | (89) | - | (19) | (18) | (37) |

The net liability is included in 'Other liabilities' in the summary consolidated statement of financial position. The Group also recognises a net liability of £5m (2008: £5m) arising from a scheme with a total defined benefit obligation of £5m (2008: £5m) administered for the benefit of employees in Germany, resulting in a net liability in the summary consolidated statement of financial position of £94m (2008: £42m).

The surplus which arose in respect of the UK scheme as at 31 December 2008 was not recognised as the Group did not consider that it had an unconditional right to a refund of contributions from the UK scheme, nor did the Group consider that it had the ability, under the guidance contained in IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* to anticipate a reduction in the level of future contributions that would enable the Group to recover this surplus.

## (c) Principal assumptions

The principal economic assumptions used in determining pension benefit obligation for the Group's plans are as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | UK % | Canada % | Ireland % | UK % | Canada % | Ireland % |
| Rate of increase in salaries | 4.80-5.80 | 3.50 | 3.50 | 4.35-5.35 | 3.50 | 4.83 |
| Rate of increase in pensions | 3.80 | 1.33 | 1.00 | 3.35 | 1.33 | 2.00 |
| Discount rate | 5.60 | 6.25 | 6.00 | 6.10 | 7.25 | 5.70 |
| Inflation assumption | 3.80 | 2.00 | 2.00 | 3.35 | 2.00 | 2.00 |
| Expected return on plan assets | 6.30 | 7.00 | 5.93 | 6.20 | 7.00 | 5.90 |

# 3.13 Contingencies

## (a) Legal proceedings and regulations

The Group, like other financial organisations, is subject to legal proceedings and complaints in the normal course of its business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the Directors do not believe that such proceedings (including litigations) will have a material effect on the results and financial position of the Group.

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied in material respects with local solvency and other regulations. Therefore, there are no contingencies in respect of these regulations.

## (b) Joint ventures and associates

The Group has entered into agreements to share in the assets and liabilities of joint venture and associate investments. The Directors do not anticipate any material losses from such investments, and the operations of such investments are not material in relation to the operations of the Group.

The Group's share of contingent liabilities of the joint ventures and associates is not significant in relation to the operations of the Group.

## 3.13 Contingencies *continued*

### (c) Issued share capital

The Scheme of Demutualisation sets a 10-year time limit, ending in 2016, for those eligible members of The Standard Life Assurance Company who were not allocated shares at the date of demutualisation to claim their entitlements. As future issues of these shares are dependent upon the actions of eligible members, it is not practical to estimate the financial effect of this potential obligation.

### (d) Guarantees

During the year ended 31 December 2007, the Company issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked to market value of the underlying assets of a sub-fund, should there be a need for Standard Life Investments (Global Liquidity Funds) plc to sell assets of the sub-fund at an amount below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £5m and was released during 2009 as it was no longer considered to be required.

### (e) Other

(i) In the ordinary course of business, Standard Life Trust Company enters into agreements which contain guarantee provisions for clearing system arrangements related to investment activities. Under such arrangements, the company, together with other participants in the clearing systems, may be required to guarantee certain obligations of a defaulting member. The guarantee provisions and amounts vary based upon the agreement. The company cannot estimate the amount, if any, that may be payable upon default. To facilitate its participation in the clearing system, Standard Life Trust Company has provided as security a bank credit facility up to a maximum of CA$84m.

(ii) Under the Financial Services Compensation Scheme (FSCS), which covers business conducted by firms authorised by the Financial Services Authority (FSA), consumers can claim compensation where a firm is unable to pay claims against it. These costs are levied on the industry by the FSCS with each firm's contribution calculated based on the tariff base of the relevant sub-class of financial activities it undertakes. Each sub-class meets the claims in their class up to an annual threshold. During 2008, FSCS involvement was triggered to protect deposits in several firms and maintain market confidence. At 31 December 2008, a provision was recognised in respect of Standard Life Bank in relation to potential compensation levies due under the FSCS based on FSA guidance issued to the British Bankers Association (BBA) on 31 December 2008 and subsequently updated on 4 February 2009. At 31 December 2008, this provision was intended to cover the management expense levies for 2008/09 and 2009/10 in relation to interest and other costs incurred on the loans taken out by the FSCS, to compensate savers with banks which defaulted during 2008. The FSA guidance issued to the BBA was further updated on 29 July 2009. During the year ended 31 December 2009, the 2008/09 management expense levy was settled, and the corresponding element of the provision that was recognised as at 31 December 2008 was released. The provision recognised as at 31 December 2009 is intended to cover the management expense levies for 2009/10 and 2010/11. Uncertainty exists over the total market FSCS levies and therefore the Standard Life Bank proportion to provide for, which will be dependent on the period of recovery, FSCS funding costs and potential capital write-offs.

A contingent liability also exists in relation to future FSCS levies, including the actual compensation costs due in relation to the banks which defaulted during 2008. As this liability cannot be reliably calculated and is dependent on a determination at some point in the future, the Group has not attempted to quantify this amount.

## 3.14 Commitments

### (a) Capital commitments

The Group's capital commitments as at 31 December are as follows:

| | **2009 £m** | 2008 £m |
|---|---|---|
| Authorised and contracted for but not provided and incurred: | | |
| Investment properties | **296** | 127 |
| Property, plant and equipment | - | 357 |
| Funding of associates | - | 1 |

Of the amounts above, £283m (2008: £115m) and £13m (2008: £12m) relates to the contractual obligations to purchase, construct or develop investment property and repair, maintain or enhance investment property respectively.

### (b) Unrecognised financial instruments

The following indicates the contractual amounts of the Group's unrecognised financial instruments that commit it to customers and third parties, as at 31 December:

| | 2009 £m | 2008 £m |
|---|---|---|
| Guarantees and standby letters of credit | **3** | 4 |
| Commitments to extend credit: | | |
| Original term to maturity of less than one year | **112** | 83 |
| Original term to maturity of more than one year | **1,859** | 2,165 |
| Other commitments | **715** | 964 |

Guarantees and letters of credit include guarantees in relation to the Group's Canadian operations. These guarantees are considered to be financial guarantee contracts under IAS 39 *Financial Instruments: Recognition and Measurement.*

Included in 'Other commitments' is £696m (2008: £942m) committed by certain subsidiaries which are not fully owned by the Group. These commitments are funded through (contractually agreed) additional investments in the subsidiary by the Group and the non-controlling interests. The levels of funding are not necessarily in line with the relevant percentage holdings.

The commitments to extend credit with an original term to maturity of more than one year are in respect of the Group's banking business, Standard Life Bank plc, which was sold on 1 January 2010. Refer to Note 3.18 – Events after the reporting period.

## 3.15 Related party transactions

### (a) Transactions with/from related parties

Transactions with related parties carried out by the Group were as follows:

| | 2009 £m | 2008 £m |
|---|---|---|
| **Sale to:** | | |
| Associates | **11,607** | 17,022 |
| Joint ventures | **2** | 3 |
| | **11,609** | 17,025 |
| **Purchase from:** | | |
| Associates | **10,907** | 17,095 |
| Joint ventures | **100** | 62 |
| | **11,007** | 17,157 |

Transactions with associates shown above relate primarily to the sales and purchases of holdings in investment funds managed by the Group.

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £528m (2008: £340m) invested in investment vehicles managed by the Group.

### (b) Transactions with key management personnel

All transactions between key management and the Group are on commercial terms which are equivalent to those available to all employees of the Group.

During the year ended 31 December 2009, the key management personnel contributed £11.1m (2008: £0.5m) to products sold by the Group.

## 3.16 Capital statement

The Group's capital position is analysed between UK regulated life business, overseas life operations and other activities. The UK regulated life business is analysed by the nature of the underlying funds and includes German and Irish business written by branches of UK regulated companies. Other activities comprise investment management, general insurance and Group corporate centre. Standard Life Bank plc is a subsidiary of Standard Life Assurance Limited (SLAL) and therefore its capital resources are included within life business equity holders' funds. The Group's capital position, based on draft regulatory returns, is set out below:

| | UK regulated life business | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2009** | **Heritage With Profits Fund* £m** | **Proprietary business funds £m** | **Life business equity holders' funds £m** | **Total UK regulated life business £m** | **Overseas life operations £m** | **Total life business £m** | **Other activities £m** | **Group total £m** |
| **Available capital resources** | | | | | | | | |
| **Equity holders' funds** | | | | | | | | |
| Held outside life assurance funds | - | - | 1,077 | 1,077 | 1,053 | 2,130 | 710 | **2,840** |
| Held within life assurance funds | - | 617 | - | 617 | - | 617 | - | **617** |
| **Equity attributable to ordinary equity holders of Standard Life plc** | **-** | **617** | **1,077** | **1,694** | **1,053** | **2,747** | **710** | **3,457** |
| **Unallocated divisible surplus** | **791** | **-** | **-** | **791** | **-** | **791** | **-** | **791** |
| **Other qualifying capital** | | | | | | | | |
| Subordinated liabilities | - | - | 265 | 265 | - | 265 | 1,846 | **2,111** |
| Internal subordinated liabilities | - | - | 1,876 | 1,876 | 236 | 2,112 | (2,112) | **-** |
| | **-** | **-** | **2,141** | **2,141** | **236** | **2,377** | **(266)** | **2,111** |
| **Adjustments onto regulatory basis** | | | | | | | | |
| Changes to the valuation of contract liabilities | 1,485 | 20 | - | 1,505 | (75) | 1,430 | - | **1,430** |
| Exclusion of deferred acquisition costs and other inadmissible assets | (143) | (496) | (484) | (1,123) | (87) | (1,210) | (119) | **(1,329)** |
| Exclusion of deferred income | 132 | 207 | - | 339 | (2) | 337 | - | **337** |
| Changes to the valuation of other assets and liabilities | (610) | (90) | 645 | (55) | 79 | 24 | 225 | **249** |
| | **864** | **(359)** | **161** | **666** | **(85)** | **581** | **106** | **687** |
| **Total available capital resources to meet regulatory requirement** | **1,655** | **258** | **3,379** | **5,292** | **1,204** | **6,496** | **550** | **7,046** |
| Analysed as follows: | | | | | | | | |
| Capital not subject to constraints | - | - | 3,112 | 3,112 | 422 | 3,534 | 432 | **3,966** |
| Capital subject to constraints | 1,655 | 258 | 267 | 2,180 | 782 | 2,962 | 118 | **3,080** |
| **Total available capital resources** | **1,655** | **258** | **3,379** | **5,292** | **1,204** | **6,496** | **550** | **7,046** |
| **Regulatory capital requirement** | | | | **2,040** | **666** | **2,706** | **81** | **2,787** |

* Capital resources amounting to £13m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column shown above.

| 2008 | Heritage With Profits Fund* £m | Proprietary business funds £m | Life business equity holders' funds £m | Total UK regulated life business £m | Overseas life operations £m | Total life business £m | Other activities £m | Group total £m |
|---|---|---|---|---|---|---|---|---|
| | UK regulated life business | | | | | | | |
| **Available capital resources** | | | | | | | | |
| **Equity holders' funds** | | | | | | | | |
| Held outside life assurance funds | - | - | 1,034 | 1,034 | 1,075 | 2,109 | 652 | **2,761** |
| Held within life assurance funds | - | 646 | - | 646 | - | 646 | - | **646** |
| **Equity attributable to ordinary equity holders of Standard Life plc** | **-** | **646** | **1,034** | **1,680** | **1,075** | **2,755** | **652** | **3,407** |
| **Unallocated divisible surplus** | **864** | **-** | **-** | **864** | **-** | **864** | **-** | **864** |
| **Other qualifying capital** | | | | | | | | |
| Subordinated liabilities | - | - | 266 | 266 | - | 266 | 1,938 | **2,204** |
| Internal subordinated liabilities | - | - | 2,000 | 2,000 | 225 | 2,225 | (2,225) | **-** |
| | **-** | **-** | **2,266** | **2,266** | **225** | **2,491** | **(287)** | **2,204** |
| **Adjustments onto regulatory basis** | | | | | | | | |
| Changes to the valuation of contract liabilities | 2,198 | 19 | - | 2,217 | 15 | 2,232 | - | **2,232** |
| Exclusion of deferred acquisition costs and other inadmissible assets | (162) | (511) | (517) | (1,190) | (52) | (1,242) | (64) | **(1,306)** |
| Exclusion of deferred income | 154 | 199 | - | 353 | 2 | 355 | - | **355** |
| Changes to the valuation of other assets and liabilities | (78) | (86) | (27) | (191) | (77) | (268) | 257 | **(11)** |
| | **2,112** | **(379)** | **(544)** | **1,189** | **(112)** | **1,077** | **193** | **1,270** |
| **Total available capital resources to meet regulatory requirement** | **2,976** | **267** | **2,756** | **5,999** | **1,188** | **7,187** | **558** | **7,745** |
| Analysed as follows: | | | | | | | | |
| Capital not subject to constraints | - | - | 2,380 | 2,380 | 436 | 2,816 | 424 | **3,240** |
| Capital subject to constraints | 2,976 | 267 | 376 | 3,619 | 752 | 4,371 | 134 | **4,505** |
| **Total available capital resources** | **2,976** | **267** | **2,756** | **5,999** | **1,188** | **7,187** | **558** | **7,745** |
| **Regulatory capital requirement** | | | | **2,186** | **685** | **2,871** | **83** | **2,954** |

* Capital resources amounting to £2m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column shown above.

## UK regulated life business

SLAL's regulatory solvency position is determined using the FSA's 'twin peaks' approach, which requires liabilities to be valued on both a realistic and a regulatory basis. The realistic basis removes some of the margins for prudence included in calculations under the regulatory basis. However, it requires discretionary benefits that are not considered under the regulatory basis, such as final bonuses, to be valued. The extent to which the realistic peak is more onerous than the regulatory peak increases the amount of the Capital Resources Requirements (CRR).

Based on draft regulatory returns at 31 December 2009, SLAL had available capital resources of £5.3bn (2008: £6.0bn) and a CRR of £2.0bn (2008: £2.2bn). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis however, the CRR reflects the higher value required as a result of the application of the realistic peak.

## 3.16 Capital statement *continued*

Capital subject to constraints for the UK regulated life business of £2.2bn at 31 December 2009 (2008: £3.6bn) represents capital resources held within long-term business funds, or, in relation to other regulated entities, the amount of the CRR.

Standard Life Bank is owned by SLAL and therefore its capital resources are included within life business equity holders' funds. Standard Life Bank's capital resources of £576m (2008: £541m) exceed its CRR of £246m (2008: £358m) by £330m (2008: £183m), and the excess can therefore be used to meet the requirements of the life assurance business.

**Overseas life operations**

Capital resources of £1,204m (2008: £1,188m) which relate mainly to operations in Canada, also include operations in Asia. The capital resources of the Canadian operations are based on local Generally Accepted Accounting Principles financial statements adjusted where necessary to reflect the fair value of assets with a corresponding adjustment to liabilities. The Canadian regulator sets the minimum required capital. It also requires certain assets to be held in trust to increase policyholder protection (vested assets). As a result of the combination of the capital requirement and vested assets, the overseas life capital subject to constraints amounted to £782m at 31 December 2009 (2008: £752m).

**Other activities**

At 31 December 2009, capital resources of £550m (2008: £558m) and capital subject to constraints of £118m (2008: £134m) relate to the Group's healthcare, investment management businesses and Group corporate centre activities.

**Intra-group transactions**

The Group, through subsidiaries and joint ventures, provides insurance and other financial services in the UK, Canada, India and China, and also through branches, provides such services in Ireland and Germany. With the exception of the requirements of the Scheme and the intra-group subordinated debt referred to below and the capital support mechanisms, there are no formal arrangements to provide capital to particular funds or business units. Any allocations of capital would need to be approved on a case-by-case basis by the Board.

SLAL has issued subordinated loans to the Company, which SLAL treats as capital for regulatory purposes. The Standard Life Assurance Company of Canada and Standard Life Investments Limited have issued subordinated debt of £236m (2008: £225m) and £12m (2008: £45m) respectively, to the Company. These amounts of subordinated debt are included within the capital resources of those businesses, but at Group level only subordinated debt issued to external parties is included in the Group's capital resources.

As referred to in Note 3.10, on 31 December 2009 Standard Life plc lent £588m to SLAL HWPF under a contingent loan agreement (a contingent RCF loan, as defined under the Scheme). Simultaneously, the HWPF lent £588m to Standard Life plc under a limited recourse loan agreement. Under the Scheme this resulted in an obligation arising in the HWPF to transfer the loan proceeds received under the contingent loan agreement (the securitisation receipt) to the Shareholder Fund. The securitisation receipt will be transferred in March 2010. The accrual of this future transfer is reflected in the capital statement as an increase in the capital of the SLAL Shareholder Fund and a reduction in the capital of the HWPF. However, immediately after that transfer of assets is made, the Shareholder Fund will lend the same amount to Standard Life plc under a second limited recourse loan agreement and these deposits will immediately be used to repay the first limited recourse loan from the HWPF to Standard Life plc. The net effect of these arrangements is that the admissible assets of the HWPF and the SLAL Shareholder Fund are unchanged. However, due to the fact that these arrangements are reported partly in 2009 and partly in 2010, the available capital resources of the HWPF and the UK life business shareholders' fund at 31 December 2009 appear artificially low and high respectively to the value of £588m.

**Group capital requirement**

The Group must also calculate a group solvency position under the Financial Groups Directive (FGD). The FGD calculation is a very prudent aggregate value for the Group's capital resources, because capital held within the long-term business funds of approximately £1.9bn (2008: £3.2bn) is restricted to the level of the CRR of those funds of approximately £1.6bn (2008: £1.7bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

The estimated FGD position at 31 December 2009 is shown in the Business review Section 1.5 – Capital and cash generation.

In respect of the Group's financial conglomerate reporting there were no breaches of regulatory capital requirements at any time during the year.

## Movements in capital

The movements in the total capital resources shown in the capital statement are set out below.

| 2009 | UK regulated life business: Heritage With Profits Fund £m | UK regulated life business: Proprietary business funds £m | UK regulated life business: Life business equity holders' funds £m | Total UK regulated life business £m | Overseas life operations £m | Total life business £m | Other activities £m | Group total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January** | **2,976** | **267** | **2,756** | **5,999** | **1,188** | **7,187** | **558** | **7,745** |
| Methodology/modelling changes | 113 | 12 | - | 125 | (38) | 87 | - | **87** |
| Change in assumptions used to measure life assurance contract liabilities and experience differences | 19 | 13 | - | 32 | 7 | 39 | - | **39** |
| New business | (20) | (117) | - | (137) | (26) | (163) | - | **(163)** |
| Investment surplus | (124) | 17 | 6 | (101) | 102 | 1 | - | **1** |
| Equity holder/inter-fund transfers | (869) | (63) | 932 | - | 16 | 16 | (16) | - |
| Dividend transfers | - | - | (173) | (173) | - | (173) | 15 | **(158)** |
| Other factors | (440) | 129 | (142) | (453) | (45) | (498) | (7) | **(505)** |
| **At 31 December** | **1,655** | **258** | **3,379** | **5,292** | **1,204** | **6,496** | **550** | **7,046** |

| 2008 | UK regulated life business: Heritage With Profits Fund £m | UK regulated life business: Proprietary business funds £m | UK regulated life business: Life business equity holders' funds £m | Total UK regulated life business £m | Overseas life operations £m | Total life business £m | Other activities £m | Group total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January** | **6,158** | **54** | **3,047** | **9,259** | **1,149** | **10,408** | **555** | **10,963** |
| Annuity reinsurance impact | 108 | 105 | - | 213 | - | 213 | - | **213** |
| Methodology/modelling changes | 120 | 18 | - | 138 | 15 | 153 | - | **153** |
| Change in assumptions used to measure life assurance contract liabilities and experience differences | 81 | 26 | - | 107 | (55) | 52 | - | **52** |
| Change in regulatory requirements | - | - | - | - | 15 | 15 | - | **15** |
| New business | (46) | (182) | - | (228) | (9) | (237) | - | **(237)** |
| Investment surplus | (2,374) | 74 | (165) | (2,465) | 43 | (2,422) | - | **(2,422)** |
| Equity holder/inter-fund transfers | (406) | 377 | 29 | - | 26 | 26 | (26) | - |
| Dividend transfers | - | - | (400) | (400) | (40) | (440) | 183 | **(257)** |
| Other factors | (665) | (205) | 245 | (625) | 44 | (581) | (154) | **(735)** |
| **At 31 December** | **2,976** | **267** | **2,756** | **5,999** | **1,188** | **7,187** | **558** | **7,745** |

The investment surplus arises from changes in market conditions and reflects the total returns earned on the assets compared with the valuation interest rates previously assumed. It also reflects the consequent change in liabilities as a result of the change in the yield currently available on the assets and therefore the current valuation interest rates.

Changes in assumptions used to measure contract liabilities have not had a significant impact on capital resources.

Equity holder/inter-fund transfers include the transfer of £844m (2008: £367m) from the HWPF to the Shareholder Fund in respect of the recourse cash flows for UK and Ireland and £25m (2008: £39m) to the Proprietary Business Funds (PBF) in relation to additional expenses charged on German unitised with profits business. In addition, £88m was transferred to the Shareholder Fund from the PBF. In 2008, £338m was transferred from the Shareholder Fund to the PBF.

## 3.17 Assets and liabilities of operations classified as held for sale

Assets and liabilities of operations classified as held for sale as presented in the consolidated statement of financial position are analysed as follows:

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| Assets of discontinued banking operations | 3.18 | **9,347** | - |
| Assets of newly acquired subsidiaries classified as held for sale | | **48** | - |
| **Assets of operations classified as held for sale** | | **9,395** | - |
| | | | |
| Liabilities of discontinued banking operations | 3.18 | **9,101** | - |
| Liabilities of newly acquired subsidiaries classified as held for sale | | **42** | - |
| **Liabilities of operations classified as held for sale** | | **9,143** | - |

### (a) Discontinued banking operations

The assets and liabilities of discontinued banking operations classified as held for sale as at 31 December 2009 are analysed as follows:

| | Notes | 2009 £m |
|---|---|---|
| **Assets** | | |
| Deferred tax assets | | **3** |
| Loans and receivables | | **7,464** |
| Derivative financial assets | | **139** |
| Investment securities | | **195** |
| Other assets | | **55** |
| Cash and cash equivalents | | **1,491** |
| **Assets of discontinued banking operations classified as held for sale** | | **9,347** |
| | | |
| **Liabilities** | | |
| Borrowings | 3.11 | **2,783** |
| Subordinated liabilities | | **279** |
| Income tax liabilities | | **2** |
| Customer accounts related to banking activities and deposits by banks | | **5,927** |
| Derivative financial liabilities | | **102** |
| Other liabilities | | **8** |
| **Liabilities of discontinued banking operations classified as held for sale** | | **9,101** |

### (b) Newly acquired subsidiaries classified as held for sale

The Group provides seed capital to newly established funds which may result in such funds becoming subsidiaries of the Group. Where the Group is actively seeking to reduce its investment in a subsidiary and it is considered highly probable that the Group will relinquish control of the subsidiary within 12 months of the original investment being made, the subsidiary is classified as held for sale. During the year, one fund (2008: none) was seeded in this manner, therefore the corresponding assets and liabilities of this fund have been classified as held for sale.

The assets of newly acquired subsidiaries classified as held for sale primarily comprise investment securities. The liabilities of newly acquired subsidiaries classified as held for sale primarily comprise third party interest in consolidated funds. No income or expense has been recognised in relation to newly acquired subsidiaries classified as held for sale. For the purpose of segmental analysis all newly acquired subsidiaries classified as held for sale have been included within the global investment management reportable segment.

## 3.18 Events after the reporting period

On 26 October 2009, the Group announced that it had entered into an agreement with Barclays Bank PLC to sell Standard Life Bank plc. The formal transfer took place on 1 January 2010, with an expected consideration of £245m, which is subject to adjustments resulting from the conclusion of the completion accounts of Standard Life Bank plc for the year ended 31 December 2009. The Group's decision to sell Standard Life Bank plc was primarily driven by the view that the growth of the volume of lending activity is no longer consistent with its long-term financial objectives.

As a result of entering into the disposal agreement, the assets and liabilities of Standard Life Bank plc were measured as at fair value less costs to sell, and this has resulted in a loss of £10m being recognised in the year ended 31 December 2009.

Separately, the Group has agreed heads of terms to enter into a strategic agreement with Barclays UK Retail Banking to explore joint opportunities in the UK retail long-term savings and investments sector. The initial focus is expected to be on the development of a simplified pension product and thereafter both parties will continue to explore and develop further opportunities in this market.

As a result of a statutory pension fund valuation carried out under Section 75 of the Pensions Act 1995, a payment of £25m was made in January 2010 by Standard Life Bank plc to the Standard Life UK staff pension scheme. As part of the disposal agreement, a corresponding payment of £25m was made by Standard Life Assurance Limited to Standard Life Bank plc in January 2010.

In January 2010, the FSA announced that it had fined Standard Life Assurance Limited £2.45m for serious systems and controls failings that resulted in the production of misleading marketing material for the Pension Sterling Fund. This amount has been recognised in the year ended 31 December 2009. A full and thorough review of existing literature has been conducted and a new improved process for new literature has been put in place.

*Page intentionally left blank*

# 4 Supplementary information

# Supplementary information

## 4.1 Group assets under administration and net flows

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

### Analysis of Group AUA
### For the year ended 31 December 2009

| | Opening at 1 January 2009 £bn | Gross inflows £bn | Redemptions £bn | Net flows £bn | Market and other movements £bn | Closing at 31 December 2009 £bn |
|---|---|---|---|---|---|---|
| **UK** | | | | | | |
| Individual SIPP[(a)] | 8.7 | 2.9 | (1.1) | 1.8 | 1.3 | 11.8 |
| Individual pensions | 20.7 | 0.9 | (2.3) | (1.4) | 3.0 | 22.3 |
| Group pensions[(a)] | 14.4 | 2.6 | (1.1) | 1.5 | 2.0 | 17.9 |
| Institutional pensions | 8.6 | 2.5 | (0.9) | 1.6 | 1.8 | 12.0 |
| **Pensions** | **52.4** | **8.9** | **(5.4)** | **3.5** | **8.1** | **64.0** |
| Investment bonds | 8.9 | 0.3 | (1.6) | (1.3) | 1.1 | 8.7 |
| Mutual funds[(b)] | 2.4 | 1.0 | (0.2) | 0.8 | 0.5 | 3.7 |
| **Savings and investments** | **11.3** | **1.3** | **(1.8)** | **(0.5)** | **1.6** | **12.4** |
| Annuities[(c)] | 11.9 | 0.6 | (1.1) | (0.5) | 1.7 | 13.1 |
| Legacy Life | 10.2 | 0.5 | (1.8) | (1.3) | 0.2 | 9.1 |
| Assets not backing products | 9.0 | - | - | - | (2.0) | 7.0 |
| **UK life and pensions[(d)]** | **94.8** | **11.3** | **(10.1)** | **1.2** | **9.6** | **105.6** |
| **Europe** | | | | | | |
| Ireland[(d)] | 4.7 | 1.0 | (0.8) | 0.2 | - | 4.9 |
| Germany | 3.6 | 0.8 | (0.1) | 0.7 | (0.1) | 4.2 |
| **Europe life and pensions** | **8.3** | **1.8** | **(0.9)** | **0.9** | **(0.1)** | **9.1** |
| **Canada** | | | | | | |
| Group savings and retirement | 9.8 | 1.3 | (1.0) | 0.3 | 1.8 | 11.9 |
| Individual insurance, savings and retirement | 5.9 | 0.7 | (0.7) | - | 0.8 | 6.7 |
| Group insurance | 0.4 | 0.4 | (0.3) | 0.1 | - | 0.5 |
| Mutual funds[(b)] | 1.2 | 0.2 | (0.2) | - | 0.2 | 1.4 |
| Assets not backing products | 0.7 | - | - | - | 0.1 | 0.8 |
| **Canada life and pensions** | **18.0** | **2.6** | **(2.2)** | **0.4** | **2.9** | **21.3** |
| **Asia life and pensions[(e)]** | **0.5** | **0.3** | **(0.1)** | **0.2** | **0.1** | **0.8** |
| **Total worldwide life and pensions** | **121.6** | **16.0** | **(13.3)** | **2.7** | **12.5** | **136.8** |
| **Non-life business** | **13.0** | **0.3** | **(2.3)** | **(2.0)** | **(0.1)** | **10.9** |
| **Standard Life Investments third party assets under management[(a)]** | **45.5** | **9.7** | **(4.0)** | **5.7** | **5.7** | **56.9** |
| Consolidation and elimination adjustments[(f)] | (23.3) | (3.8) | 1.9 | (1.9) | (1.8) | (27.0) |
| **Group assets under administration** | **156.8** | **22.2** | **(17.7)** | **4.5** | **16.3** | **177.6** |
| **Group assets under administration managed by:** | | | | | | |
| Standard Life Group entities | 138.5 | | | | | 152.4 |
| Other third party managers | 18.3 | | | | | 25.2 |
| **Total** | **156.8** | | | | | **177.6** |

(a) Included within non-insured SIPP is an element which is also included within UK mutual funds net flows in the third party Investment operations figures.
(b) The mutual funds net flows are also included within mutual funds net flows in the third party Investment operations figures.
(c) Annuities include assets deposited back with the Group as a result of the reinsurance of certain annuity contracts.
(d) The offshore bond business is shown within Ireland AUA in 2009. This was previously included within UK life and pensions. Opening balances for UK and Ireland have been restated by £1.0bn to reflect this.
(e) Includes net flows in respect of our Hong Kong subsidiary and Standard Life's share of the Asia Joint Ventures.
(f) In order to be consistent with the presentation of new business information, certain products are included in both life and pensions AUA and Investment operations. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

## Analysis of Group AUA
## For the year ended 31 December 2008

| | Opening at 1 January 2008 £bn | Gross inflows £bn | Redemptions £bn | Net flows £bn | Market and other movements £bn | Closing at 31 December 2008 £bn |
|---|---|---|---|---|---|---|
| **UK** | | | | | | |
| Individual SIPP[(a)] | 7.7 | 3.4 | (0.9) | 2.5 | (1.5) | 8.7 |
| Individual pensions | 26.0 | 1.2 | (3.1) | (1.9) | (3.4) | 20.7 |
| Group pensions[(a)] | 16.0 | 2.6 | (1.1) | 1.5 | (3.1) | 14.4 |
| Institutional pensions | 10.0 | 1.8 | (1.2) | 0.6 | (2.0) | 8.6 |
| **Pensions** | **59.7** | **9.0** | **(6.3)** | **2.7** | **(10.0)** | **52.4** |
| Investment bonds | 10.7 | 1.4 | (1.5) | (0.1) | (1.7) | 8.9 |
| Mutual funds[(b)] | 2.6 | 0.6 | (0.3) | 0.3 | (0.5) | 2.4 |
| **Savings and investments** | **13.3** | **2.0** | **(1.8)** | **0.2** | **(2.2)** | **11.3** |
| Annuities[(c)] | 13.0 | 0.6 | (1.1) | (0.5) | (0.6) | 11.9 |
| Legacy Life | 13.1 | 0.6 | (2.1) | (1.5) | (1.4) | 10.2 |
| Assets not backing products | 7.3 | - | - | - | 1.7 | 9.0 |
| **UK life and pensions[(d)]** | **106.4** | **12.2** | **(11.3)** | **0.9** | **(12.5)** | **94.8** |
| **Europe** | | | | | | |
| Ireland[(d)] | 3.9 | 1.1 | (0.6) | 0.5 | 0.3 | 4.7 |
| Germany | 2.5 | 0.8 | (0.1) | 0.7 | 0.4 | 3.6 |
| **Europe life and pensions** | **6.4** | **1.9** | **(0.7)** | **1.2** | **0.7** | **8.3** |
| **Canada** | | | | | | |
| Group savings and retirement | 9.6 | 1.5 | (1.1) | 0.4 | (0.2) | 9.8 |
| Individual insurance, savings and retirement | 5.6 | 0.4 | (0.6) | (0.2) | 0.5 | 5.9 |
| Group insurance | 0.3 | 0.3 | (0.2) | 0.1 | - | 0.4 |
| Mutual funds[(b)] | 1.5 | 0.2 | (0.2) | - | (0.3) | 1.2 |
| Assets not backing products | 0.9 | - | - | - | (0.2) | 0.7 |
| **Canada life and pensions** | **17.9** | **2.4** | **(2.1)** | **0.3** | **(0.2)** | **18.0** |
| **Asia life and pensions[(e)]** | **0.4** | **0.3** | **-** | **0.3** | **(0.2)** | **0.5** |
| **Total worldwide life and pensions** | **131.1** | **16.8** | **(14.1)** | **2.7** | **(12.2)** | **121.6** |
| **Non-life business** | **14.5** | **1.1** | **(2.7)** | **(1.6)** | **0.1** | **13.0** |
| **Standard Life Investments third party assets under management[(a)]** | **47.7** | **8.9** | **(5.5)** | **3.4** | **(5.6)** | **45.5** |
| Consolidation and elimination adjustments[(f)] | (24.3) | (4.1) | 2.3 | (1.8) | 2.8 | (23.3) |
| **Group assets under administration** | **169.0** | **22.7** | **(20.0)** | **2.7** | **(14.9)** | **156.8** |
| **Group assets under administration managed by:** | | | | | | |
| Standard Life Group entities | 158.2 | | | | | 138.5 |
| Other third party managers | 10.8 | | | | | 18.3 |
| **Total** | **169.0** | | | | | **156.8** |

(a) Included within non-insured SIPP is an element which is also included within UK mutual funds net flows in the third party Investment operations figures.
(b) The mutual funds net flows are also included within mutual funds net flows in the third party Investment operations figures.
(c) Annuities include assets deposited back with the Group as a result of the reinsurance of certain annuity contracts.
(d) The offshore bond business is shown within Ireland AUA in 2009. This was previously included within UK life and pensions. Opening balances for UK and Ireland have been restated to reflect this.
(e) Restated to include net flows in respect of our Hong Kong subsidiary and Standard Life's share of the Asia Joint Ventures.
(f) In order to be consistent with the presentation of new business information, certain products are included in both life and pensions AUA and Investment operations. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

## 4.2 Exposure to investment property and financial assets

### Group exposure to investment property and financial assets

The total Group exposure to investment property and financial assets has been segmented below based on the stakeholder sub-group with which the market and credit risk relating to those assets lies.

| 2009 | Exposure<br>Shareholder<br>£m | <br>Policyholder (participating)<br>£m | <br>Policyholder (unit linked)<br>£m | <br>TPICF and NCI*<br>£m | Total<br>£m |
|---|---|---|---|---|---|
| Investments in associates and joint ventures | 47 | 1,138 | 686 | 72 | **1,943** |
| Investment property | 776 | 2,314 | 3,279 | 742 | **7,111** |
| Equity securities | 479 | 8,151 | 40,759 | 1,469 | **50,858** |
| Debt securities | 9,339 | 30,208 | 15,095 | 876 | **55,518** |
| Loans and receivables | 9,876 | 211 | 146 | - | **10,233** |
| Other financial assets | 1,533 | 7,657 | 668 | 112 | **9,970** |
| Cash and cash equivalents | 4,106 | 904 | 3,727 | 190 | **8,927** |
| **Total** | **26,156** | **50,583** | **64,360** | **3,461** | **144,560** |

| 2008 | Exposure<br>Shareholder<br>£m | <br>Policyholder (participating)<br>£m | <br>Policyholder (unit linked)<br>£m | <br>TPICF and NCI*<br>£m | Total<br>£m |
|---|---|---|---|---|---|
| Investments in associates and joint ventures | 210 | 1,569 | 994 | 68 | **2,841** |
| Investment property | 856 | 3,344 | 3,186 | 352 | **7,738** |
| Equity securities | 413 | 7,806 | 30,452 | 1,078 | **39,749** |
| Debt securities | 8,272 | 28,880 | 13,442 | 373 | **50,967** |
| Loans and receivables | 11,670 | 250 | 149 | - | **12,069** |
| Other financial assets | 1,981 | 7,919 | 842 | 86 | **10,828** |
| Cash and cash equivalents | 3,518 | 3,173 | 3,221 | 140 | **10,052** |
| **Total** | **26,920** | **52,941** | **52,286** | **2,097** | **134,244** |

* Third party interest in consolidated funds and non-controlling interests.

### Shareholder exposure to investment property and financial assets

The total shareholder exposure to investment property and financial assets of £26.2bn (2008: £26.9bn) includes £10.1bn (2008: £9.2bn) of assets held by non-segregated funds of the Group's Canadian operations. The effective exposure of shareholders to assets of the non-segregated funds in Canada was significantly lower than the nominal level of exposure presented below because changes in the value of assets are typically accompanied by offsetting changes in the value of related liabilities. The shareholder exposure is limited to the net impact on the shareholder surplus and the value of any guarantees which may be triggered.

| | Canada non-segregated funds exposure | | Standard Life Bank exposure | | Other shareholder exposure | | Total shareholder exposure | |
|---|---|---|---|---|---|---|---|---|
| | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m | **2009 £m** | 2008 £m |
| Investments in associates and joint ventures | **17** | 15 | **-** | - | **30** | 195 | **47** | 210 |
| Investment property | **776** | 854 | **-** | - | **-** | 2 | **776** | 856 |
| Equity securities | **372** | 347 | **-** | - | **107** | 66 | **479** | 413 |
| Debt securities | **5,989** | 5,420 | **195** | 60 | **3,155** | 2,792 | **9,339** | 8,272 |
| Loans and receivables | **2,374** | 2,137 | **7,464** | 9,517 | **38** | 16 | **9,876** | 11,670 |
| Other financial assets | **458** | 435 | **194** | 376 | **881** | 1,170 | **1,533** | 1,981 |
| Cash and cash equivalents | **68** | 23 | **1,491** | 1,470 | **2,547** | 2,025 | **4,106** | 3,518 |
| **Total** | **10,054** | 9,231 | **9,344** | 11,423 | **6,758** | 6,266 | **26,156** | 26,920 |

Standard Life Bank exposure to financial assets consists primarily of exposure to a very high-quality retail mortgage book as well as highly rated short-term debt securities and cash and cash equivalents. Standard Life Bank was sold on 1 January 2010 and therefore the Group has no exposure to those assets after that date.

Shareholder exposure to debt securities excluding Canada non-segregated funds and Standard Life Bank consists primarily of debt securities backing annuity liabilities, subordinated debt liabilities and the stock lending programme. The increase in exposure can be attributed to new annuity business written in the period.

### Group exposure to debt securities

The Group's exposure to debt securities has been further analysed in the tables below. The high quality of the debt security portfolio has been maintained, with 57% of debt securities rated AAA (2008: 65%) and 95% (2008: 97%) being rated as investment grade.

| | Exposure | | | | |
|---|---|---|---|---|---|
| **2009** | **Shareholder £m** | **Policyholder (participating) £m** | **Policyholder (unit linked) £m** | **TPICF and NCI* £m** | **Total £m** |
| Government | 4,231 | 18,679 | 7,285 | 478 | **30,673** |
| Corporate – financial institutions | 2,484 | 7,929 | 4,824 | 220 | **15,457** |
| Corporate – other | 2,374 | 3,228 | 2,552 | 173 | **8,327** |
| Other | 250 | 372 | 434 | 5 | **1,061** |
| **Total** | **9,339** | **30,208** | **15,095** | **876** | **55,518** |

| | Exposure | | | | |
|---|---|---|---|---|---|
| **2008** | **Shareholder £m** | **Policyholder (participating) £m** | **Policyholder (unit linked) £m** | **TPICF and NCI* £m** | **Total £m** |
| Government | 3,682 | 18,990 | 6,165 | 144 | 28,981 |
| Corporate – financial institutions | 2,331 | 6,870 | 5,432 | 211 | 14,844 |
| Corporate – other | 1,940 | 2,110 | 1,397 | 14 | 5,461 |
| Other | 319 | 910 | 448 | 4 | 1,681 |
| **Total** | **8,272** | **28,880** | **13,442** | **373** | **50,967** |

* Third party interest in consolidated funds and non-controlling interests.

## 4.2 Exposure to investment property and financial assets *continued*

### Shareholder exposure to debt securities

Further details of the shareholder exposure to debt securities, including credit ratings, are presented below.

| | Credit rating | | | | | |
|---|---|---|---|---|---|---|
| **2009** | **AAA £m** | **AA £m** | **A £m** | **BBB £m** | **Below BBB or not rated £m** | **Total £m** |
| Government | 1,596 | 1,419 | 1,216 | - | - | **4,231** |
| Corporate – financial institutions | 787 | 532 | 679 | 70 | 416 | **2,484** |
| Corporate – other | 236 | 200 | 1,371 | 434 | 133 | **2,374** |
| Other | 155 | - | 11 | 11 | 73 | **250** |
| **Total** | **2,774** | **2,151** | **3,277** | **515** | **622** | **9,339** |

| | Credit rating | | | | | |
|---|---|---|---|---|---|---|
| 2008 | AAA £m | AA £m | A £m | BBB £m | Below BBB or not rated £m | Total £m |
| Government | 1,448 | 1,208 | 1,023 | - | 3 | **3,682** |
| Corporate – financial institutions | 1,116 | 431 | 634 | 89 | 61 | **2,331** |
| Corporate – other | 400 | 115 | 926 | 305 | 194 | **1,940** |
| Other | 259 | - | 49 | 11 | - | **319** |
| **Total** | **3,223** | **1,754** | **2,632** | **405** | **258** | **8,272** |

Debt securities classified as corporate include securities issued by corporate entities which carry government guarantees. Debt securities classified as other consist primarily of securities issued by supranational institutions.

### Shareholder exposure to loans and receivables

Shareholders are directly exposed to loans and receivables of £9.9bn (2008: £11.7bn) which comprise the Standard Life Bank retail mortgage book and the Canadian non-segregated funds commercial mortgage book. Both mortgage books are deemed to be of very high quality.

| | **2009 £m** | 2008 £m |
|---|---|---|
| Canada non-segregated funds commercial mortgage book | **2,374** | 2,137 |
| Standard Life Bank retail mortgage book | **7,464** | 9,517 |
| Other | **38** | 16 |
| **Total** | **9,876** | 11,670 |

The Canadian mortgage book has an average loan to value of 46% (2008: 44%), has no loans in arrears by three or more months and has experienced no impairments during 2009.

Standard Life Bank's high-quality mortgage portfolio continues to perform well despite the adverse economic conditions, with arrears figures remaining low in comparison to the Council of Mortgage Lenders' (CML) average. Only 0.84% (2008: 0.40%) of total mortgages were three or more months in arrears or in repossession at the end of 2009, almost a third of the CML industry average of 2.51% (2008: 2.09%). Impairment charges increased to £8m in 2009 (2008: £5m). However, net write-offs for 2009 were only £3m (2008: £1m).

## 4.3 Fair value hierarchy of financial instruments

To provide further information on the approach used to determine the fair value of certain financial assets and derivative financial liabilities measured as at fair value on the Group's IFRS statement of financial position, the fair value of these financial instruments has been categorised below to reflect the following fair value hierarchy:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities
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)

The amendment to IFRS 7 *Financial Instruments: Disclosures* which requires the presentation of a fair value hierarchy analysis and related disclosures was issued in March 2009. The implementation of these requirements has resulted in some reclassifications compared to the indicative fair value hierarchy information presented in the *Preliminary Results 2008*. The most significant reclassifications resulted in some government bonds being classified as level 2 rather than level 1 and some corporate bonds being classified as level 3 rather than level 2 on the basis that their valuation is based on a single broker indicative quote. The comparative figures in the following tables have been restated to reflect these revised classifications.

**Total**

| | Fair value hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | **2009** £m | Restated 2008 £m | **2009** £m | Restated 2008 £m | **2009** £m | Restated 2008 £m | **2009** £m | 2008 £m |
| Equity securities | **49,621** | 38,347 | **17** | 31 | **1,220** | 1,371 | **50,858** | 39,749 |
| Debt securities | **26,158** | 25,581 | **27,845** | 23,768 | **1,515** | 1,618 | **55,518** | 50,967 |
| Derivative financial assets | **398** | 507 | **970** | 2,293 | **-** | - | **1,368** | 2,800 |
| Derivative financial liabilities | **(81)** | (44) | **(818)** | (1,304) | **-** | - | **(899)** | (1,348) |
| **Total** | **76,096** | 64,391 | **28,014** | 24,788 | **2,735** | 2,989 | **106,845** | 92,168 |

Level 1 financial instruments principally include equity securities listed on a recognised exchange, certain government and supranational institution bonds and exchange traded futures and options.

Level 2 financial instruments principally include certain government bonds, listed or publicly quoted corporate bonds, commercial paper, certificates of deposit and derivative instruments which are not exchange traded. Corporate bonds have generally been classified as level 2 as the composite price provided by external pricing providers may include, as an input, quotes provided by some banks that are not based on actual transaction prices.

Level 3 financial instruments principally include unlisted equity securities, being predominantly interests in private equity funds, listed or publicly quoted corporate bonds for which prices are not available from external pricing providers or where such prices are considered to be stale (including some asset backed securities) or are based on single broker indicative quotes and unquoted bonds where credit spreads, being a significant input to the valuation technique, are obtained from a broker or estimated internally.

## 4.3 Fair value hierarchy of financial instruments *continued*

### Shareholder exposure

| | Fair Value Hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | 2008 £m |
| Equity securities | **469** | 399 | **-** | 5 | **10** | 9 | **479** | 413 |
| Debt securities | **747** | 733 | **7,843** | 6,969 | **749** | 570 | **9,339** | 8,272 |
| Derivative financial assets | **-** | - | **455** | 784 | **-** | - | **455** | 784 |
| Derivative financial liabilities | **-** | - | **(151)** | (230) | **-** | - | **(151)** | (230) |
| **Total** | **1,216** | 1,132 | **8,147** | 7,528 | **759** | 579 | **10,122** | 9,239 |

### Policyholder (participating) exposure

| | Fair Value Hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | 2008 £m |
| Equity securities | **7,527** | 7,092 | **-** | - | **624** | 714 | **8,151** | 7,806 |
| Debt securities | **19,029** | 19,588 | **10,729** | 8,880 | **450** | 412 | **30,208** | 28,880 |
| Derivative financial assets | **391** | 496 | **327** | 1,161 | **-** | - | **718** | 1,657 |
| Derivative financial liabilities | **(16)** | (29) | **(446)** | (560) | **-** | - | **(462)** | (589) |
| **Total** | **26,931** | 27,147 | **10,610** | 9,481 | **1,074** | 1,126 | **38,615** | 37,754 |

### Policyholder (unit linked) exposure

| | Fair Value Hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | 2008 £m |
| Equity securities | **40,679** | 30,338 | **17** | 26 | **63** | 88 | **40,759** | 30,452 |
| Debt securities | **5,899** | 5,114 | **8,893** | 7,717 | **303** | 611 | **15,095** | 13,442 |
| Derivative financial assets | **6** | 11 | **159** | 325 | **-** | - | **165** | 336 |
| Derivative financial liabilities | **(54)** | (14) | **(193)** | (448) | **-** | - | **(247)** | (462) |
| **Total** | **46,530** | 35,449 | **8,876** | 7,620 | **366** | 699 | **55,772** | 43,768 |

### Third party interest in consolidated funds and non-controlling interests exposure

| | Fair Value Hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | Restated 2008 £m | 2009 £m | 2008 £m |
| Equity securities | **946** | 518 | **-** | - | **523** | 560 | **1,469** | 1,078 |
| Debt securities | **483** | 146 | **380** | 202 | **13** | 25 | **876** | 373 |
| Derivative financial assets | **1** | - | **29** | 23 | **-** | - | **30** | 23 |
| Derivative financial liabilities | **(11)** | (1) | **(28)** | (66) | **-** | - | **(39)** | (67) |
| **Total** | **1,419** | 663 | **381** | 159 | **536** | 585 | **2,336** | 1,407 |

## 4.4 Total expenses and operating cost base

| | 2009 £m | 2008 £m |
|---|---|---|
| **Total expenses per IFRS income statement** | **16,987** | (15,719) |
| Total expenses attributable to savings and mortgages included within profit/(loss) for the year from discontinued operations | **299** | 706 |
| **Total expenses** | **17,286** | (15,013) |
| Less claims, commissions and changes in provisions and liabilities | **(15,078)** | 17,238 |
| Less IFRS adjustments and amortisation | **(1,171)** | (1,189) |
| Less finance costs | **(123)** | (129) |
| **Total operating cost base** | **914** | 907 |

### Movement in the operating cost base

| | £m |
|---|---|
| **Total opening operating cost base** | **907** |
| Inflation[1] | **21** |
| Foreign exchange impact[2] | **25** |
| Organic growth[3] | **(9)** |
| Efficiency savings[4] | **(47)** |
| Movement in one-off costs and investing for growth costs[5] | **17** |
| **Total closing operating cost base** | **914** |

[1] Notional level of inflation that would have impacted the operating cost base during the year. Blended rate used for staff and non-staff of 2.3% for 2009 (2008: 3.7%).

[2] Adjustment to opening cost base as a result of movement in the average exchange rate.

[3] Movement in the cost base implied by the growth of the organisation – annual premium income used as proxy for Standard Life Healthcare; a combination of PVNBP and policies in-force movements used for the life and pensions businesses; assets under management used for Standard Life Investments; and savings and mortgages account balances used for Standard Life Bank.

[4] Difference between the movement in the cost base implied by the organic growth calculation and the actual change that has taken place, plus realised savings from cost initiatives and other reductions.

[5] Movements in the operating cost base, which are specifically identifiable and relate to investing for growth, one-off items or the impact of acquisitions.

*Page intentionally left blank*

Printed by **RR Donnelley, London**

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 2009 (unless otherwise indicated).

This document has been published by Standard Life for information only. It is based on our understanding as at March 2010 and does not provide financial or legal advice.

Standard Life plc, registered in Scotland (SC286832), Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH. +44 (0)131 225 2552.

*Calls may be recorded/monitored and call charges may vary.* **www.standardlife.com**

UKPR09 0310 