Preliminary results 2012

Standard Life plc

Standard Life

The Preliminary results 2012 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.

Section	Contents	Page

Standard Life plc
Preliminary Results 2012
7 March 2013

Delivering substantial growth in profits and increasing dividends

Operating profit[1] increased by 65% with profit growth across all business units

- Fee based revenue increased to £1,271m (2011: £1,205m)
- Lower unit and absolute costs with acquisition costs of 156bps (2011: 169bps) and maintenance costs of 45bps (2011: 46bps)
- Operating profit before tax up 65% to £900m (2011: £544m) driven by a significant improvement in UK performance, and the continuing growth of Standard Life Investments, as well as previously announced management actions in Canada and UK
- IFRS profit after tax attributable to equity holders up 134% to £698m (2011: £298m)

Record assets under administration and Standard Life Investments third party assets under management

- Group assets under administration of £218.1bn (2011: £198.4bn)
- Long-term savings new business sales of £19.3bn (2011: £19.7bn)
- Long-term savings net inflows of £2.6bn[2] (2011: £4.0bn[2]) including gross inflows of £20.3bn[2] (2011: £20.6bn[2])
- Standard Life Investments third party net inflows of £6.1bn[2] (2011: £4.3bn[2]) including 62% from outside UK
- Standard Life Investments third party assets under management (AUM) of £83.0bn (2011: £71.8bn) with increasing asset class and geographic reach

Strong balance sheet and capital and cash generation up 68%

- EEV operating capital and cash generation 68% higher at £734m (2011: £438m)
- Issued £500m lower tier 2 subordinated debt in the UK and CA$400m lower tier 2 subordinated debt in Canada, taking advantage of strong demand from investors and improved pricing conditions
- IGD surplus of £4.1bn (2011: £3.1bn) remained relatively insensitive to market movements

Progressive dividend up 6.5%

- Final dividend up 6.5% to 9.80p, making a total of 14.70p for the year (2011: 13.80p)

Special dividend of 12.80p (£302m)

- Strong capital position supports special dividend of 12.80p (£302m)

David Nish, Chief Executive, commented:

"Standard Life has delivered a substantial increase in profitability and has a strong capital position supporting increased dividends for our shareholders.

We have been building strong positions in our core markets. In the UK we are ready to benefit from the significant changes to the market and the increased customer need for savings products. In Standard Life Investments we have one of the world's leading asset managers whose reach and scale is increasingly global. Canada is performing well under its new management team. In Asia we are building exciting businesses in our chosen markets which are full of potential, opening branches in Singapore and Dubai. Our Indian businesses go from strength to strength.

Standard Life has undergone considerable change over the past three years. As a result we now have significant opportunities for further strong and sustainable growth."

Financial Highlights

Key performance indicators

	2012 £m	2011 £m
Operating profit before tax	**900**	544
EEV operating profit before tax	**1,116**	989
EEV operating capital and cash generation	**734**	438
Assets under administration (£bn)	**218.1**	198.4
Net flows (£bn)	**5.0**	5.4

Operating profit

	2012 £m	2011 £m
By source		
Fee based revenue	**1,271**	1,205
Spread/risk margin	**505**	359
Total income	**1,776**	1,564
Acquisition expenses	**(292)**	(325)
Maintenance expenses	**(834)**	(800)
Group corporate centre costs	**(47)**	(50)
Capital management	**175**	74
Share of joint ventures' and associates' profit before tax	**26**	17
Other	**96**	64
Operating profit before tax	**900**	544
Diluted operating EPS	**32.4**	19.8
Diluted EPS	**29.5**	12.9

Business segment performance

		2012 £m		2011 £m
UK and Europe operating profit before tax		**419**		266
Retail – new fee business profit contribution[3]	54		10	
Retail – old fee business profit contribution[3]	179		186	
Corporate profit contribution[3]	88		49	
Spread/risk profit contribution[3]	94		66	
Indirect expenses and capital management	(129)		(155)	
Other	96		64	
UK operating profit before tax		**382**		220
Europe operating profit before tax		**37**		46
Standard Life Investments operating profit before tax		**145**		125
Canada operating profit before tax		**355**		187
Asia and Emerging Markets operating profit/(loss) before tax		**5**		(6)

Other financial highlights

	2012	2011
IGD surplus	**£4.1bn**	£3.1bn
Embedded value	**£8,138m**	£7,428m
Dividend per share	**14.70p**	13.80p
IFRS profit after tax attributable to equity holders of Standard Life plc	**£698m**	£298m

For more information please read Section 1.8 – Basis of preparation and the reconciliation of consolidated operating profit for the period in Section 2 of the Preliminary Results 2012.

Group performance

2012 has seen us achieve improvements in performance and deliver value for our customers and shareholders.

Group operating profit increased by 65% to £900m (2011: £544m). The result benefited from growth in fee based revenue reflecting both higher market levels and the demand for our fee based propositions. In the UK, we reduced both unit and absolute costs, spread/risk margin benefited from a 38% increase in gross inflows and we recognised £96m from a professional indemnity insurance claim. Operating profit in Canada benefited from assumption changes of £91m as well as the impact of specific management actions of £153m relating to the previously announced profit on disposal of real estate and the renegotiation of a reinsurance agreement as we de-risked our balance sheet. We are pursuing additional management actions in 2013 of approximately half the amount achieved in Canada in 2012. The 2011 result included a £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. IFRS profit after tax attributable to equity holders increased to £698m (2011: £298m).

Group assets under administration increased by 10% to £218.1bn while Standard Life Investments third party assets under management increased by 16% to £83.0bn. These record asset levels benefited from positive market movements and positive, although lower, net flows into our newer style fee based propositions. Notably, Standard Life Investments had another strong year with third party net inflows of £6.1bn (2011: £4.3bn) despite the loss of a single low revenue yield mandate of £1.8bn following a change in a client's pension scheme strategy.

EEV operating profit before tax increased by 13% to £1,116m, primarily driven by higher profit from back book management of £413m (2011: £170m) which benefited from management actions in UK and Canada. This increase was partly offset by lower expected return from existing business as a result of lower opening discount rates and higher efficiency gains in 2011 which included the benefit of actions to reduce current and future investment expenses.

EEV operating capital and cash generation has increased by 68% to £734m, including a higher contribution from back book management of £389m (2011: £82m) and lower new business strain.

The Board have proposed a final dividend of 9.80p per share (2011: 9.20p), an increase of 6.5%, making a total for the year of 14.70p (2011: 13.80p). The Board have also proposed a special dividend of 12.80p per share to be paid at the time of the final dividend. The Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

Business highlights

Our goal is to drive shareholder value through being a leading customer-centric business focused on long-term savings and investments propositions in our chosen markets. This is underpinned by a simple business model: maximising revenue, increasing assets and lowering unit costs whilst optimising the balance sheet to maximise returns for our shareholders.

During 2012 we've made good progress in each of our businesses. Growth in revenue reflects on-going customer demand for our propositions in what remains a challenging economic environment while continued work on reducing costs across the Group has enabled us to increase the operating leverage within the business, in turn driving a significant improvement in profitability.

Strong UK performance

- UK operating profit before tax, excluding £96m from a professional indemnity insurance claim in 2012 and pension scheme release of £64m in 2011, up 83% to £286m (2011: £156m)
- UK acquisition expenses improved to 133bps (2011: 144bps) and maintenance expenses improved to 31bps (2011: 34bps)
- The number of adviser firms on Wrap increased by 14% to 1,137 and our SIPP proposition continues to perform well with an 18% increase in customers and AUA up 17% to £19.6bn
- Successfully launched a Master Trust for employers in the UK, helping to secure a growing pipeline of corporate business with an increasing number of employers choosing Standard Life investment solutions
- MyFolio has attracted assets of £2.2bn since launch in October 2010 and Standard Life Wealth was recognised, in 2012, as the fastest growing provider of discretionary investment management services in the UK

Record Standard Life Investments third party funds under management

- Average fee revenue yield from third party business increased to 40bps (2011: 37bps)
- Standard Life Investments increased its distribution in the US through John Hancock Mutual Funds
- Continuation of strong investment performance over all key time periods

Strong operating profit result in Canada reflecting effective back book management

- Canada increased fee business net inflows by 32% and market share in both retail and corporate markets
- Expanded our range of mutual funds to help customers deal with low interest rates and market volatility
- Significantly expanded investment options for employers launching target date funds, revamping our Avenue portfolio products and expanding offering on our Quality & Choice investment platform

Continued progress in Asia and Emerging Markets

- Opened new branches in Singapore and Dubai to meet the needs of an internationally mobile workforce in those regions
- Increased distribution capability in China and increased share of the individual private market in India to 17%[4]
- JVs contributed £8m to operating profit before tax reflecting the progress made by HDFC Life in creating a leading and profitable insurance business in India, reinforcing its number two position in the individual private market

Outlook

Our UK business remains well positioned to benefit from regulatory, market and demographic changes. Our newer style propositions are gathering momentum with on-going demand for investment solutions from customers, their advisers and employers. The pipeline of corporate business secured but not yet transitioned continues to grow. Standard Life Investments remains focused on expanding its investment capabilities and geographic reach. Its pipeline of institutional business remains strong. Canada continues to build on momentum in its fee based propositions. Our Asia and Emerging Markets business is well positioned for growth in the attractive international markets in which it operates.

Overall, whilst the market remains competitive, our business model, propositions, distribution capability and strong balance sheet mean we are confident we can deliver on-going improvements in value for our customers and shareholders.

Business segment performance

UK and Europe[5]

Strategy

We continue to strengthen our leading long-term savings and investment business by providing high quality innovative propositions and investment solutions combined with strong customer service and a highly scalable business model. Our strong market positions, along with demographic and regulatory changes in the UK such as auto enrolment and RDR, provide us with significant opportunities to drive profitable growth across our business in UK and Europe.

Operating profit

	2012 £m	2011 £m
Fee based revenue	**831**	798
Spread/risk margin	**112**	78
Total income	**943**	876
Acquisition expenses	**(202)**	(226)
Maintenance expenses	**(461)**	(459)
Capital management	**43**	11
Other	**96**	64
Operating profit before tax	**419**	266

- Operating profit up 58% driven by a strong UK performance with all parts of the business contributing to growing profitability
- Includes £96m benefit in respect of the resolution of a professional indemnity insurance claim
- UK operating profit before tax, excluding £96m from a professional indemnity insurance claim in 2012 and pension scheme release of £64m in 2011, up 83% to £286m (2011: £156m)
- Total income up 8% reflecting strong growth in assets and improved annuities performance
- Ongoing reduction in unit costs: UK acquisition expenses 133bps (2011: 144bps); UK maintenance expenses 31bps (2011: 34bps)

AUA and flows

- Total AUA grew by £11.6bn or 9% to £143.4bn
- Robust fee based retail net inflows into higher margin propositions
- Positive net flows in Germany and Ireland
- Growing corporate pension pipeline and increased take-up of Standard Life investment solutions
- In 2012, Standard Life Wealth was recognised as the fastest growing provider of discretionary investment management services in the UK with AUA up 86% to £1.8bn
- MyFolio AUA up 142% to £2.2bn
- Annuity gross inflows up 38% to £632m

Operational highlights

- Delivered RDR-ready adviser and consultancy charging, providing adviser firms with leading levels of support throughout this transition
- Secured 137 new schemes and 118,500 employees joined our corporate pension schemes during the year
- Successfully launched our Corporate investment proposition and Master Trust
- Agreement with RBS Group to provide a proposition combining both our platform technology and range of risk-based investment solutions to their private banking clients
- Streamlined and increased our corporate pension enrolment and processing capacity

Standard Life Investments

Strategy

We remain very well positioned to deliver profitable growth. We are increasing our domestic and global presence and expertise across a range of asset classes while delivering consistently strong investment performance and strengthening relationships with our distribution partners. We also continue to leverage our investment expertise to maximise opportunities and revenues for the wider Group.

Operating profit

	2012 £m	2011 £m
Fee based revenue	**408**	368
Maintenance expenses	**(281)**	(258)
Share of joint ventures' and associates' profit before tax[6]	**18**	15
Operating profit before tax	**145**	125
Interest and exchange rate movements	**-**	1
Earnings before interest and tax (EBIT)	**145**	126

- Operating profit and EBIT increased by 16% and 15% respectively
- Fee based revenue up 11% driven by strong net flows, particularly into higher margin propositions
- Average fee revenue yield from third party business increased to 40bps (2011: 37bps)
- Maintenance expenses expressed as a proportion of average AUM remained unchanged at 17bps despite ongoing development of our investment capability and expanding distribution and geographic reach
- Share of profit of HDFC AMC, which remains the largest mutual fund company in India with AUM of £11.3bn, has been stated on a pre-tax basis for the first time

AUA and flows

- Third party AUM increased by £11.2bn or 16% to £83.0bn
- Third party net inflows of £6.1bn representing 8% of opening third party AUM
- Unbroken record of positive annual third party net flows since inception
- Overseas clients accounted for 62% of third party net inflows, with net flows from US of £1.8bn
- Increased institutional client base in UK and Europe by 5% and achieved number two position in UK retail market by net retail sales and a market share of 18%

Operational highlights

- Continued to deliver strong investment performance and our money weighted average for third party assets is well above median over all key time periods
- Increased Global Emerging Markets capability with the launch of equity and debt funds
- John Hancock GARS fund awarded US rookie fund of the year by the Wall Street Journal
- AUM across the MyFolio fund range of £2.2bn and agreement to provide risk-based funds to RBS Group private banking

Canada

Asia and Emerging Markets[5]

Strategy

We continue to grow our fee based business, capitalising on the opportunities created by demographic and market changes. We are achieving this through providing innovative retirement and investment solutions as well as leading levels of customer service. We continue to focus on maximising the value of our back book of spread business, improving its profitability, capital efficiency and risk exposure.

We are focused on delivering profitable growth through our two joint ventures, our offshore business and through the expansion of our retail savings and investments in Asia and the Middle East. The expansion into two new attractive international and offshore wealth management markets leaves us well placed to leverage our existing offshore capability. We continue to work with our joint venture partners on developing our businesses in India and China.

Operating profit

	2012 £m	2011 £m
Fee based revenue	**172**	166
Spread/risk margin	**393**	281
Total income	**565**	447
Acquisition expenses	**(79)**	(78)
Maintenance expenses	**(240)**	(220)
Capital management	**109**	38
Operating profit before tax	**355**	187

- Operating profit up 90% to £355m reflecting good operating performance, effective back book management and timely disposal of property assets
- Fee based revenue increased by 4% in constant currency as a result of higher AUA
- Spread/risk margin increased to £393m and included the impact of positive assumption changes of £91m, and £81m from previously announced specific management actions
- Capital management included gains of £72m from the previously announced specific management actions
- Increase in expenses reflected on-going investment in our propositions and growth of our business

	2012 £m	2011 £m
Fee based revenue	**54**	45
Acquisition expenses	**(11)**	(21)
Maintenance expenses	**(46)**	(32)
Total wholly owned	**(3)**	(8)
India and China JV businesses	**8**	2
Operating profit before tax/(loss)	**5**	(6)

- Operating profit up to £5m driven by progress from both wholly owned and joint venture businesses
- Fee based revenue in our wholly owned operations increased by 20% as a result of higher AUA in the period
- Higher profit from JV businesses reflects the progress made by HDFC Life in creating a leading and profitable insurance business in India, reinforcing its number two position in the individual private market

AUA and flows

- Total AUA increased by 7% to £27.8bn driven by net inflows into fee based propositions of £0.8bn and positive market movements which offset expected outflows from the spread/risk business
- Strong position in group segregated funds with fee based gross inflows up 14% to £1.9bn and net inflows of £500m
- Momentum in sales of retail segregated funds with market share up to 9.1% (2011: 6.7%) and net flows up 66% to £331m
- Increase in demand for mutual funds resulted in gross inflows up 27% in constant currency

- AUA in the wholly owned businesses increased by 32% to £3.3bn
- Net inflows in wholly owned businesses of £0.6bn represent 24% of opening AUA
- AUA in the joint ventures increased by 25% to £1.5bn, due to net inflows of £0.2bn and positive market movements partly offset by adverse impact of exchange rate movements

Operational highlights

- Created new fund options to meet customer needs in a low interest rate and volatile market environment
- Developed Pooled Registered Pension Plan solution and wider offering aimed at small and medium size employers
- Launched an Advisor Portal to support the needs of advisers
- Developed new strategic asset allocation options for employers, launching target date funds, revamping our Avenue portfolio products and expanding offering on our Quality & Choice investment platform

- Operating across the value chain by offering Standard Life Investment solutions including GARS and MyFolio on our International Bond, and exploring further opportunities for greater collaboration in Asia
- New proposition launched in Hong Kong to cater to the needs of internationally mobile clients while our offshore business launched RDR compliant versions of our propositions into the UK to access opportunities created through RDR
- Established presence in Singapore and Dubai, leveraging our existing capability and infrastructure
- Increased distribution capability in China and increased share of the individual private market in India to 17%[4]

For further information please contact:

Institutional Equity Investors

Lorraine Rees	0207 872 4124 / 07738 300 878
Jakub Rosochowski	0131 245 8028 / 07515 298 608

Retail Equity Investors

Capita Registrars	0845 113 0045

Media

Nicola McGowan	0131 245 4016 / 07872 191 341
Barry Cameron	0131 245 6165 / 07712 486 463
Susanna Voyle (Tulchan Communications)	020 7353 4200 / 07980 894 557

Debt Investors

Scott Forrest	0131 245 6045
Nick Mardon	0131 245 6371

Newswires and online publications

We will hold a conference call for newswires and online publications on 7 March at 06:50 (UK time) and a second media call at 08:30 (UK time). Participants should dial +44 (0)20 3059 8125 and quote Standard Life 2012 Preliminary Results. A replay facility will be available for both calls for seven days after the event. To access the replays please dial +44 (0)121 260 4861 and use pass code 7950284# for the 06:50 call and 8291090# for the 08:30 call.

Investors and Analysts

A presentation for investors and analysts will take place at 09:30 (UK time) at Deutsche Bank, Winchester House, 1 Great Winchester Street, London EC2N 2DB. There will also be a live webcast and teleconference at 09:30 (UK Time), both of which will have the facility to ask questions at the end of the formal presentation. Participants should dial +44 (0)20 3059 8125 and quote Standard Life 2012 Preliminary Results.

Notes to Editors:

1. Operating profit is IFRS profit before tax adjusted to remove the impact of market driven short-term fluctuations in investment return and economic assumptions, restructuring costs (including RDR and Solvency 2 restructuring programme), impairments of intangible assets, amortisation of intangible assets acquired in business combinations, profit or loss on the disposal of a subsidiary, joint venture or associate and other significant one-off items outside the control of management.
2. In order to be consistent with the presentation of new business information, certain products are included in both long-term savings and investments AUA and net flows. Refer to Supplementary information 4.5 – Group assets under administration and net flows for further information.
3. Profit contribution is defined as revenue less directly attributable expenses.
4. Share of individual private market for nine months to 31 December 2012.
5. The Germany and Ireland domestic businesses have now been combined with the UK to create UK and Europe. Asia and Emerging Markets includes Hong Kong, the offshore business in Ireland and the joint ventures in India and China.
6. The share of profit of HDFC Asset Management is included on a pre-tax basis for the first time. This change has contributed £5m to the increase in operating profit.

1 Business review

1.1 Chief Executive's overview

Objectives and strategy

Our strategic objectives and our performance against them are illustrated below. Find out more on how our businesses performed in Section 1.4 – Business segment performance. Our strategic objectives and ultimately our ability to generate value for our shareholders may be subject to financial and non-financial risks. Principal risks and our risk management approach are discussed in more detail in Section 1.5 – Risk management.

Our aspirations

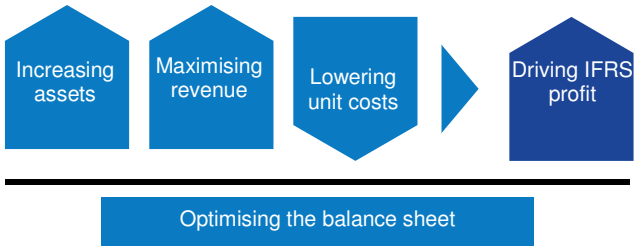
Success will be achieved by providing our customers with the confidence to look forward to a well planned financial future, as a result of the long-term savings and investments propositions we have provided.

Our goal

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

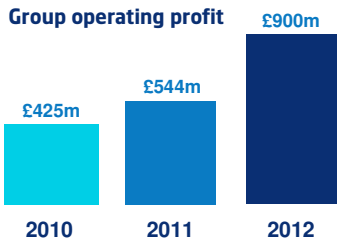
Our business model

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

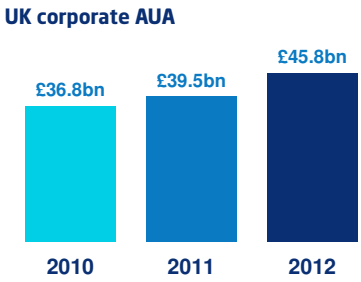


Group profitability

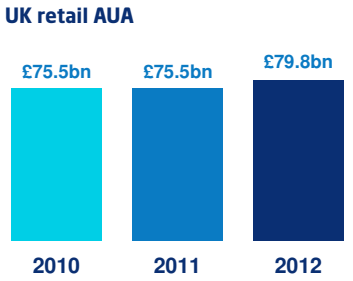
Operating profit before tax is the key performance indicator for the Group and increased by 65% to £900m. This benefited from higher fee revenue, cost control, management actions and the benefit in respect of a professional indemnity insurance claim. IFRS profit for the year was £727m (2011: £346m).



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

Our strategic objectives	Corporate: Building on strength in pension savings and corporate benefits
Our performance in 2012	 • In the UK, 118,500 new individuals joined our pension schemes in 2012 • In the UK, 137 new corporate schemes were won (2011: 167 corporate schemes) including our first Master Trust scheme with 24,000 members • Profit contribution from our UK corporate business increased by 80% to £88m (2011: £49m) • In Canada, group savings and retirement product enhancements and enhanced presence in key markets and channels, enabled us to win 135 new defined contribution accounts, increasing members to 572,000 (2011: 561,000)
Competitive advantages and market opportunities	• We are an industry-leading provider of workplace benefit solutions in the UK and our momentum in the corporate market continues • Auto enrolment is expected to increase levels of employee participation in the 35,000 UK schemes we administer for our clients • We remain well placed for introduction of Pooled Registered Pension Plans in Canada

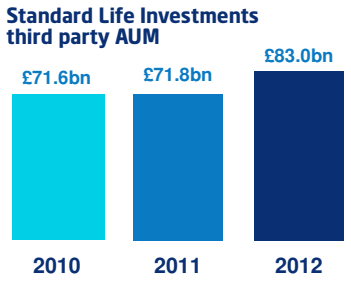
Retail: Focusing on the savings and investments needs of customers in our chosen segments



- Our wrap platform continued to attract new advisers and large financial institutions such as RBS Group
- In 2012, Standard Life Wealth was recognised as the fastest growing provider of discretionary investment management services in the UK
- Success of MyFolio risk based funds with assets of £2.2bn
- Our SIPP proposition continues to grow with a 18% increase in customers and AUA up 17% to £19.6bn (2011: £16.8bn)

- Launched RDR compliant solution ahead of regulatory deadline
- Investment in technology is delivering improved service for our customers. We will continue to leverage technology to deliver efficient, scalable and robust operations.
- Developing operations in Singapore and Dubai, further broadening our international presence

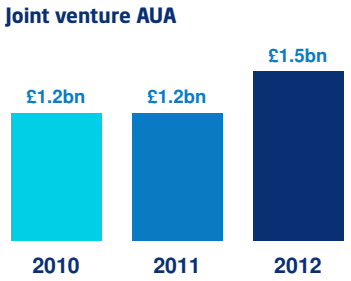
Expanding the global reach of our investment management business



- Standard Life Investments has continued to increase the proportion of third party net inflows coming from Europe and the US
- Increasing our global distribution reach through our expanded Boston office and inclusion on the John Hancock platform in the US
- Our suite of multi-asset funds have outperformed cash benchmarks over all key time periods since inception and assets were approximately £22bn at 31 December 2012
- Expanded range of high margin propositions including our global emerging markets capability

- Standard Life Investments continues to deliver strong investment performance over all key time periods and is well positioned across a diversified range of asset classes
- Continued global product innovation including multi-asset, global fixed income and real estate
- Opportunities for further global growth with strategic partners including Sumitomo Mitsui in Japan and John Hancock in the US

Maximising value from the joint venture relationships in Asia



- HDFC Life in India continues to perform well and has improved its market positioning and grown market share
- HDFC Life was the first private life insurer to launch unit linked pension plans under the new regulatory regime
- In China, Heng An Standard Life has increased market share in the foreign joint venture market
- HDFC Asset Management, our associate business remains the largest mutual fund provider in India with more than five million customers

- Increased scope for distribution of Standard Life Investments and HDFC Asset Management investment products
- Banks continue to gain share of distribution in India and we are well positioned due to our strong partnership with HDFC Bank
- Growing distribution capability in China

1.1 Chief Executive's overview *continued*

Market overview

Market conditions in 2012 remained difficult, with uncertainty around the future of the Eurozone and other economic factors continuing to impact consumer sentiment. However, we believe that our ongoing focus on increasing assets and improving the efficiency and scalability of our business will continue to drive improved returns for our shareholders.

Global financial market conditions remain fragile

- Despite signs of improvement in the UK economy, economic conditions remain uncertain
- UK economic growth remains fragile with the outlook revised downwards over the course of 2012. The impact of the Eurozone crisis on exports and the continued rationing of credit by UK banks contributing towards this.
- The credit rating of the UK was given a 'negative outlook' by the major credit rating agencies in 2012 and in February 2013 Moody's downgraded the UK to AA1 from a AAA rating
- The average daily FTSE All-Share Index rose by 1% between 2011 and 2012 with significant falls in June 2012, followed by a recovery in market levels in the second half of the year
- Canada continues to be impacted by the weakness in the global economy although the domestic economy is performing relatively well
- In Asia, economic policy has provided a safeguard from the worst of the financial crisis. However, economic growth has slowed compared to recent years as a reduction in demand from the Eurozone has impacted exports.

An uncertain economic backdrop impacting consumer sentiment

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

- UK inflation has fallen significantly from 2011 levels, however further increases in costs of energy and food have continued to put pressure on households
- Interest rates remained at historically low levels and austerity measures continue globally
- Unemployment in the UK reached a 15-month low in October 2012, however conditions in the employment market remain challenging and wage inflation remains subdued

Contributing to market insight

We regularly publish new insight and support for policy makers and industry stakeholders helping to promote and generate interest in issues relating to long-term savings. For example, in December 2012, against the backdrop of auto enrolment we published *Now we're nudging,* a follow up report to *Keep on nudging* published in October 2011, examining how the pension industry can ensure that defined contribution workplace pensions schemes deliver good outcomes for members including those who are automatically enrolled.

Our recommendations included:

- Providing clear and meaningful information to employees on pension charges and investment transaction costs, and the potential returns
- Reviewing the communications provided to individuals in the lead up to retirement, to ensure that they are being given the support needed to make the right decisions

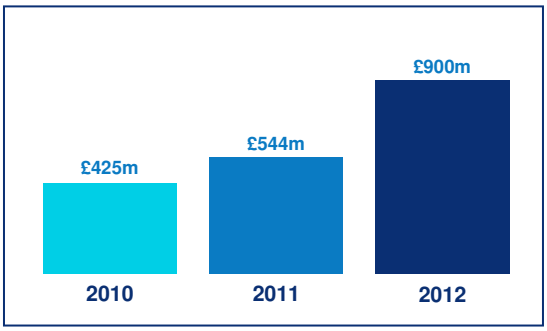
Government legislation

The key legislative and regulatory changes that will affect financial services companies and their potential impact on Standard Life are summarised below:

- The Retail Distribution Review (RDR) went live on 1 January 2013 and is designed to increase transparency in retail financial services and raise professional standards in the UK. The introduction of RDR and the resulting movement from commission to adviser charging has significantly increased the size of our accessible corporate market in the UK.
- The phased implementation of auto enrolment began in October 2012. Some of our larger employer customers were first to 'go live' with small and medium sized employers following over the next few years. Every employer in the UK will be required by law to offer to contribute to their workers' pensions. This represents an exciting opportunity to increase significantly the number of people saving for their retirement. We fully support the recently announced study into the workplace pensions market, which will help ensure that scheme members are receiving value for money, and is crucial to the success of auto enrolment.
- The Canadian Government introduced Pooled Registered Pension Plans (PRPP) in December 2012 which is similar to auto enrolment in the UK. Individual provinces have delayed implementing the PRPP. In the mean time, press and market coverage continues to help drive awareness amongst employees and employers of the greater need for long-term and retirement savings.
- In December 2012, a European Court of Justice ruling took effect that prevents firms from using gender as a factor in determining premiums and benefits in insurance contracts. We have implemented the appropriate changes to ensure that we comply with this ruling.
- Solvency 2 is a major European regulatory change initiative that should bring consistency to the way in which EU insurers manage capital and risk with the aim of enhancing protection for consumers. The timetable for implementation is now expected to be delayed until 1 January 2015 at the earliest.

1.2 Group key financial performance indicators

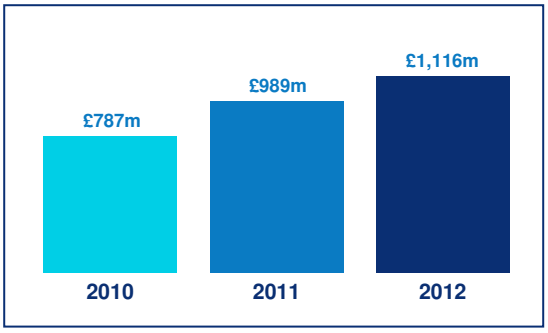
Group operating profit before tax



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

- Group operating profit before tax increased by 65% to £900m. The 2012 result included gains from property sales and a renegotiation of an existing reinsurance arrangement in Canada which contributed £153m together with a £96m benefit in respect of a professional indemnity insurance claim in the UK. The 2011 result included a £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme.
- Fee based revenue increased by £66m to £1,271m driven by higher average asset values and the continued shift towards higher margin products in Standard Life Investments

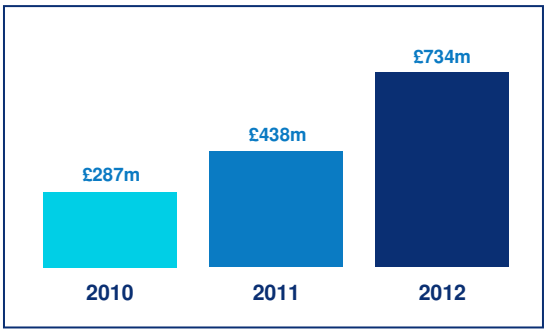
EEV operating profit before tax



European Embedded Value (EEV) operating profit measures our ability to effectively manage our existing book of business and to write profitable new business.

- EEV operating profit before tax increased by 13% to £1,116m
- Back book operating profit increased by £243m to £413m from management actions to enhance the value of the existing book of business and the benefit in respect of a professional indemnity insurance claim
- Core EEV operating profit of £697m was 5% lower than 2011, with a higher new business contribution and higher non-covered business profits offset by a lower expected return from existing business reflecting lower opening discount rates

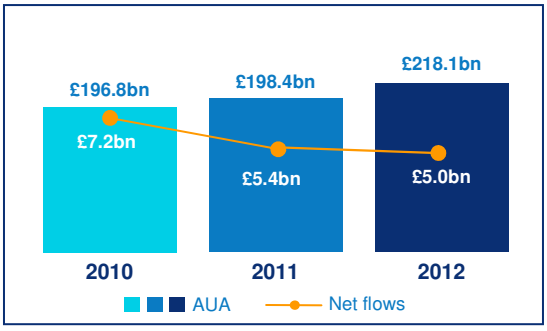
EEV operating capital and cash generation



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

- EEV operating capital and cash generation increased by 68% to £734m
- The increase was mainly due to a £307m rise in capital and cash generation from activities to manage our existing book, particularly from the businesses in UK and Canada
- Core operating capital and cash generation decreased by 4% to £348m, reflecting reduced capital and cash generation from existing business due to lower interest rates

Assets under administration and net flows



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

- Group AUA increased by 10% to £218.1bn driven by strong net flows in third party assets at Standard Life Investments and favourable market movements
- Record level of third party assets in Standard Life Investments of £83.0bn (2011: £71.8bn)
- Strong net inflows of £5.0bn against a backdrop of subdued consumer sentiment, ongoing economic uncertainty and increased commission-based competition prior to RDR

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

1.3 Chief Financial Officer's Group overview

Our financial results demonstrate our ability to deliver high quality returns for our shareholders. We continue to develop market-leading solutions that meet the changing needs of our customers and this has helped us grow the level of assets we administer. Details of our financial performance are highlighted below.

IFRS

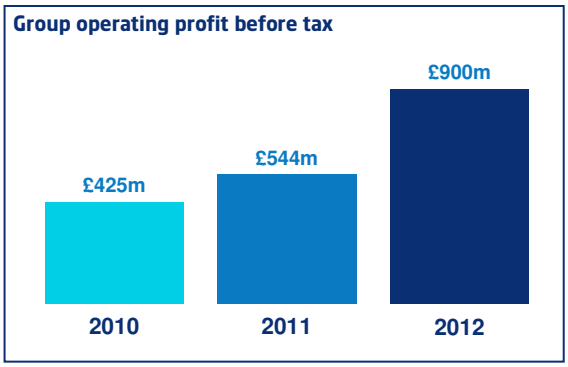
	2012	2011	Movement
Group operating profit before tax[1]	**£900m**	£544m	65%
IFRS profit after tax attributable to equity holders of Standard Life plc	**£698m**	£298m	134%
Group operating return on equity	**20.0%**	11.9%	8.1% points

IFRS profit

IFRS profit for the year was £727m (2011: £346m). This comprised profit after tax attributable to equity holders of £698m (2011: £298m) and profit attributable to non-controlling interests of £29m (2011: £48m). Operating profit before tax increased by 65% from £544m to £900m and non-operating losses before tax were £142m (2011: loss £214m).

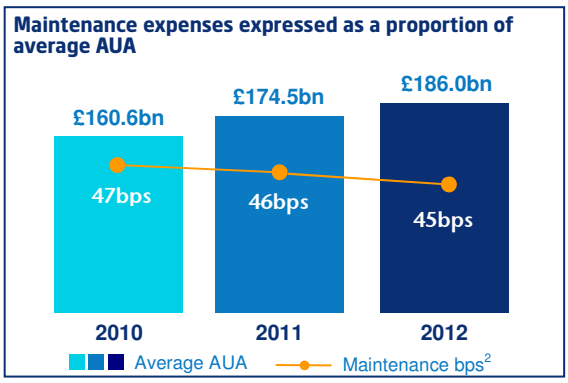
Group operating profit before tax

	2012 £m	2011 £m
Fee based revenue	**1,271**	1,205
Spread/risk margin	**505**	359
Total income	**1,776**	1,564
Acquisition expenses[2]	**(292)**	(325)
Maintenance expenses[2]	**(834)**	(800)
Group corporate centre costs[2]	**(47)**	(50)
Capital management	**175**	74
Share of joint ventures' and associates' profit before tax	**26**	17
Other	**96**	64
Group operating profit before tax	**900**	544



Group operating profit before tax increased by 65% to £900m. The key highlights are:

- **Fee based revenue** increased to £1,271m driven by higher average asset values and the demand for our higher margin propositions including those in Standard Life Investments and Standard Life Wealth
- **Spread/risk margin** increased by £146m to £505m and benefited from specific management actions in Canada which generated a total margin of £109m (2011: £88m). This included a gain of £81m from the reduction in actuarial liabilities arising from the property sales and the renegotiation of an existing reinsurance arrangement as well as £28m from enhancing the investment yields on assets. One-off actuarial reserving changes in Canada generated a gain of £91m compared to a loss of £57m in 2011. The 2012 actuarial reserving changes in Canada included favourable changes in mortality assumptions and revised investment allocations.
- **Acquisition expenses**[2] decreased to £292m due to further efficiency improvements and reduced investment spend. Expressed as a proportion of sales, acquisition expenses improved to 156bps (2011: 169bps).
- **Maintenance expenses**[2] increased to £834m reflecting further development of our businesses including Standard Life Investments and our operations in Asia. We have continued to see the benefit of our scalable business model with maintenance expenses expressed as a proportion of average AUA improving further to 45bps (2011: 46bps).
- **Group corporate centre costs**[2] decreased to £47m (2011: £50m)
- **Capital management** increased to £175m and included gains of £72m from property sales in Canada which backed shareholder surplus. There was also higher investment returns on shareholders' funds.



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

[2] Investment for transformation and growth has been allocated between acquisition expenses, maintenance expenses and group corporate centre costs. Comparatives have been restated.

- Our share of the life **joint venture** businesses in Asia contributed an operating profit before tax of £8m (2011: £2m), which reflects the progress made, particularly by HDFC Life, in creating a profitable insurance business in India. HDFC Asset Management, our associate business which is included in the results of Standard Life Investments, contributed £18m to profit in 2012 (2011: £15m).
- **Other** reflects a £96m benefit in our UK business in respect of a professional indemnity insurance claim made in relation to the Standard Life Pension Sterling Fund as previously announced. The 2011 result included a £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme.

Group operating return on equity

Return on equity measures our success in generating profit relative to our shareholder capital. Group operating return on equity increased to 20.0% (2011: 11.9%), benefiting from the significant growth in operating profit and also from a release of prior year tax provisions. Efficient use of shareholder funds is a key component of our business model and we will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

Group non-operating loss before tax

Group non-operating loss in 2012 was £142m (2011: loss £214m). Losses from short-term fluctuations in investment return and economic assumption were £29m in 2012 compared with losses of £139m in 2011. The losses in 2012 were mainly due to the impact of adverse movements in the yield curve in Canada. Non-operating restructuring and corporate transaction expenses of £109m (2011: £70m) relate to a number of business unit restructuring programmes, Solvency 2 and the RDR.

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

Group non-operating loss before tax

	2012 £m	2011 £m
Short-term fluctuations in investment return and economic assumption changes	**(29)**	(139)
Restructuring and corporate transaction expenses	**(109)**	(70)
Other operating profit adjustments	**(4)**	(5)
Group non-operating loss before tax	**(142)**	(214)

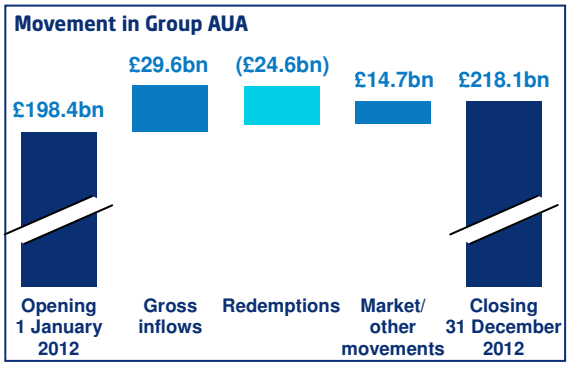
Assets under administration and new business

	2012	2011	Movement
Assets under administration	**£218.1bn**	£198.4bn	10%
Net flows	**£5.0bn**	£5.4bn	(7%)
Present value of new business premiums	**£19.3bn**	£19.7bn	(2%)
New business contribution	**£339m**	£335m	1%

Assets under administration and net flows

AUA increased by 10% to £218.1bn driven by a combination of net inflows across our businesses and positive market movements:

- Fee business AUA increased to £180.7bn (2011: £162.8bn) with 83% of total AUA now related to fee business
- Spread/risk business AUA increased to £25.7bn (2011: £25.2bn) due to positive market movements partially offset by £0.9bn of net outflows driven by scheduled annuity payments
- Total net flows of £5.0bn were strong, particularly into our newer fee based propositions. This was against a backdrop of subdued consumer sentiment, ongoing economic uncertainty, employers delaying implementation of corporate pension schemes ahead of the phased introduction of auto enrolment and increased commission-based competition prior to RDR.



1.3 Chief Financial Officer's Group overview *continued*

New business

	PVNBP		New business contribution		PVNBP margin		IRR		Undiscounted payback	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 %	2011 %	2012 %	2011 %	2012 years	2011 years
UK and Europe	14,167	15,105	261	225	1.8	1.5	18	16	6	6
Canada	3,584	2,928	45	73	1.3	2.5	8	16	11	7
Asia and Emerging Markets	1,542	1,705	33	37	2.2	2.2	13	12	7	7
Total	19,293	19,738	339	335	1.8	1.7	13	15	7	7

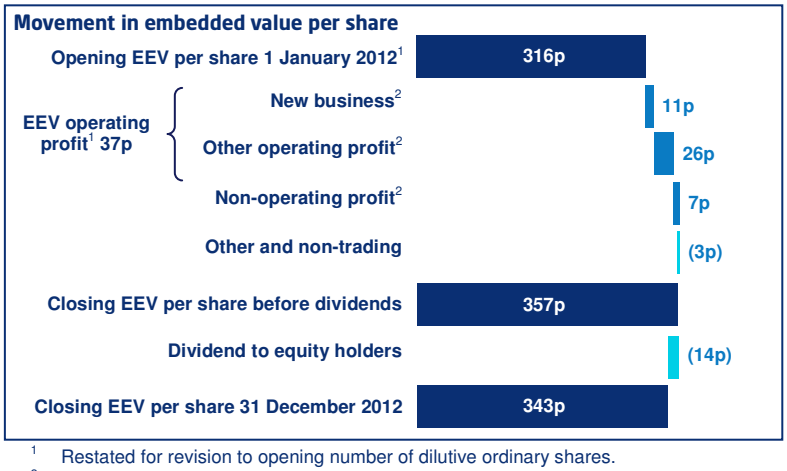
- Improved new business contribution reflected higher margins in our UK and Europe business, offset by lower margins in Canada
- Present value of new business premiums (PVNBP) for the Group totalled £19,293m and was 2% lower than 2011. UK and Europe sales fell by 6% against a backdrop of subdued customer sentiment and ongoing economic uncertainty.
- UK and Europe internal rate of return (IRR) rose to 18% (2011: 16%) but the low interest rate environment impacted the returns on business written in Canada, resulting in a lower total IRR for the Group of 13% (2011: 15%)

EEV

	2012	2011	Movement
EEV per share	343p	316p[1]	9%
EEV operating profit before tax	£1,116m	£989m	13%
EEV profit before tax	£1,334m	£526m	154%
Return on embedded value	12.4%	10.4%	2.0% points

Group embedded value

Group embedded value increased to £8,138m (2011: £7,428m) representing an EEV per share of 343p. EEV per share has increased by 41p before dividend distributions, including EEV operating profit after tax of £876m (37p per share). This resulted in a return on embedded value (RoEV) of 12.4%. EEV non-operating profit after tax was £176m (7p per share). The 3p reduction in EEV per share from other and non-trading items was mainly due to foreign exchange movements.



[1] Restated for revision to opening number of dilutive ordinary shares.
[2] Profits are shown net of tax.

EEV profit before tax

EEV profit before tax of £1,334m (2011: £526m) included operating profit of £1,116m (2011: £989m) and non-operating profit of £218m (2011: loss £463m).

EEV operating profit before tax

EEV operating profit before tax increased by 13%:

- Core profits decreased by 5% to £697m due to a £45m fall in the expected return from existing business, as a result of lower opening discount rates. This was partly mitigated by an increase of £4m in the value of new business. Core non-covered business generated an EEV operating profit of £16m (2011: £13m). This led to a core RoEV of 7.4% (2011: 7.6%).
- Profit from efficiency gains in 2011 included £50m of management actions to reduce current and future investment expenses in the UK
- EEV operating profit before tax from back book management of £413m (2011: £170m) included a profit of £453m from previously announced management actions. In the UK these consisted of asset strategy changes, improved actuarial modelling and the benefit in respect of a professional indemnity insurance claim. Management actions in Canada included the benefit of improved actuarial modelling and gains from the renegotiation of an existing reinsurance arrangement as well as gains from property disposals.

	EEV operating profit before tax		RoEV	
	2012 £m	2011 £m	2012 %	2011 %
Core	697	731	7.4	7.6
Efficiency	6	88	0.1	1.0
Back book management	413	170	4.9	1.8
Total	1,116	989	12.4	10.4

EEV non-operating profit before tax

Total EEV non-operating profit before tax of £218m (2011: loss £463m) included positive long-term investment return and tax variances of £498m (2011: £70m), which increased primarily due to higher than expected investment returns. The loss from economic assumption changes of £106m (2011: loss £500m) was mainly due to the use of lower projected investment returns, partly offset by profits from lower discount rates, and from changes to tax and inflation assumptions in the UK and Canada.

Restructuring costs of £114m (2011: £73m) primarily represent costs relating to a number of business unit restructuring programmes, Solvency 2 and the RDR. The adjustments for different accounting bases relating to the valuation of inter-Group subordinated debt resulted in a non-operating loss of £42m (2011: gain £58m).

Cash generation

	2012	2011	Movement
EEV operating capital and cash generation	**£734m**	£438m	68%

Group operating EEV capital and cash generation

Total EEV operating capital and cash generation increased by 68% to £734m (2011: £438m):

- Gross EEV operating capital and cash generation increased by £286m mainly as a result of increased capital and cash generation from back book management. New business strain decreased by 4% and as a percentage of PVNBP was unchanged at 1.1%.
- Core capital and cash generation was £14m lower than in 2011, with a £30m reduction in expected return partially offset by £10m lower new business strain and £5m higher core capital and cash generation from non-covered business
- Back book management capital and cash generation of £389m included profits from the renegotiation of an existing reinsurance arrangement and property disposals in Canada, post tax contribution from the UK pension scheme and the benefit in respect of a professional indemnity insurance claim in the UK

Coverage of gross EEV operating capital and cash compared to new business strain increased to 4.4 (2011: 2.9). Coverage of EEV operating capital and cash generation compared to the interim and final dividends declared increased to 2.1 (2011: 1.4).

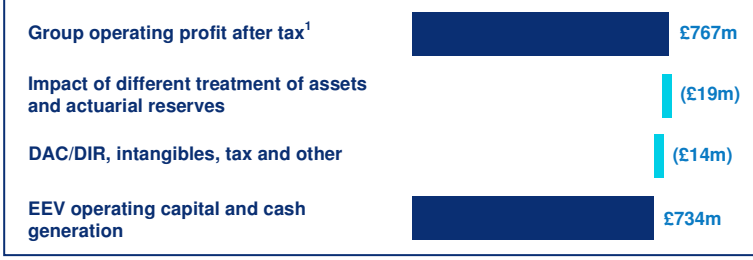
Group EEV operating capital and cash generation	2012 £m	2011 £m
UK and Europe	**532**	392
Canada	**366**	168
Asia and Emerging Markets	**42**	48
Non-covered	**10**	56
Gross EEV operating capital and cash generation	**950**	664
New business strain	**(216)**	(226)
EEV operating capital and cash generation	**734**	438
Analysed by:		
Core	**348**	362
Efficiency	**(3)**	(6)
Back book management	**389**	82
Total	**734**	438

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

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

- £19m negative impact from the difference in the treatment of assets and actuarial reserves
- £14m negative impact from the difference in the treatment of deferred acquisition costs (DAC)/deferred income reserve (DIR), intangibles, tax and other. Other includes the impact of different methodologies in respect of asset management charges. In EEV operating profit this income is included on an expected return basis but the actual charges are included in Group operating profit.

Reconciliation of Group operating profit to EEV operating capital and cash generation for the year ended 31 December 2012



[1] Group operating profit after tax consists of: Group operating profit before tax of £900m, tax on operating profit of (£124m) and share of joint ventures' and associates' tax expense of (£9m).

1.3 Chief Financial Officer's Group overview *continued*

Capital management

	2012	2011	Movement
IFRS equity attributable to equity holders of Standard Life plc	**£4,355m**	£3,961m	10%
EEV	**£8,138m**	£7,428m	10%
Group capital surplus[1]	**£4.1bn**	£3.1bn	32%

[1] 2012 based on estimated regulatory returns. 2011 based on final regulatory returns.

Group capital surplus

As part of our active capital management programme, we have taken advantage of favourable market conditions to optimise the capital position of the Group. We have issued £500m lower tier 2 subordinated debt and CA$400m of lower tier 2 subordinated debenture notes in Canada. This largely replaces the Euro denominated bonds that were redeemed during 2011 and 2012. We have also replaced the scrip dividend option with a dividend reinvestment plan (DRIP). These initiatives further optimise the financial structure of the Group and build on past actions to re-shape our balance sheet.

The Group capital surplus, calculated under the Insurance Groups Directive (IGD), increased to £4.1bn (2011: £3.1bn). The quality of our capital resources remains strong with £6.9bn (2011: £7.0bn) of core tier 1 capital.

Group capital surplus and solvency cover[2]	2012 £bn	2011 £bn	2010 £bn
Shareholders' capital resources	**3.3**	3.1	3.0
Capital resources arising from subordinated debt	**1.9**	1.1	1.8
SLAL long-term business funds	**2.8**	3.1	2.6
Group capital resources[3]	**8.0**	7.3	7.4
Group capital resource requirement	**(3.9)**	(4.2)	(3.6)
Group capital surplus	**4.1**	3.1	3.8
Group solvency cover	**204%**	173%	205%

[2] 2012 based on estimated regulatory returns. 2011 based on final regulatory returns.

[3] Net of restricted assets. 2012: £1.2bn (2011: £1.0bn, 2010: £1.4bn).

The Group capital surplus remains largely insensitive to a 30% fall in equities from the 31 December 2012 position, with the surplus estimated to reduce by approximately £0.3bn (2011: £0.2bn reduction). Following a 100bps rise in yields, the surplus would be expected to reduce by approximately £0.1bn (2011: £0.2bn reduction), while a 100bps fall in yields would be expected to reduce the surplus by approximately £0.4bn (2011: £0.2bn reduction).

Reconciliation of key capital measures

The following diagram illustrates the key differences between regulatory, IFRS and EEV capital measures at 31 December 2012:

Liquidity management and dividends

	2012	2011	Movement
Standard Life plc cash and readily realisable resources	**£1,064m**	£565m	88%
Full year dividend	**£346m**	£322m	7%
Special dividend	**£302m**	-	

Liquidity management

The Group maintains a strong liquidity position and this was shown in stress testing undertaken during 2012.

We undertake specific liquidity stress testing to ensure that we can withstand a scenario of significant falls in asset values combined with unprecedented levels of surrenders and claims.

We also maintain contingency funding plans across the Group to ensure that each business unit is prepared for a liquidity issue. As part of this contingency planning, Standard Life plc, the Group's ultimate holding company, maintains a £500m revolving credit facility with a syndicate of banks. The Group's revolving credit facility was undrawn at 31 December 2012. It was renewed on 5 March 2013 and is due to mature in March 2018.

Standard Life plc also holds substantial cash and readily realisable resources. At 31 December 2012, Standard Life plc held £1,064m (2011: £565m) of cash and short-term debt securities.

Standard Life plc cash and readily realisable resources	2012 £m	2011 £m
Opening 1 January	**565**	378
Dividends received from subsidiaries	**499**	499
Cash dividends paid to shareholders[1]	**(331)**	(162)
Additional investments in subsidiaries	**(131)**	(79)
Additional investments in associates and joint ventures	**(16)**	(20)
Issue of external subordinated liabilities	**497**	-
Other	**(19)**	(51)
Closing 31 December	**1,064**	565

[1] 2012 reflects the payment of the 2011 final dividend of £216m and the 2012 interim dividend of £115m. 2011 reflects the payment of the 2010 final cash dividend of £105m and the 2011 interim cash dividend of £57m.

Dividends

During 2012, Standard Life plc paid the final dividend for 2011 of 9.20p per share, amounting to £216m and the 2012 interim dividend of 4.90p per share amounting to £115m. We propose a final dividend of 9.80p per share making a total 14.70p (2011: 13.80p). This represents an increase of 6.5% per share. We will continue to apply our existing progressive dividend policy taking account of market conditions and our financial performance.

As a result of our strong capital position, we are proposing an additional return of capital to shareholders via a special dividend of 12.80p per share, amounting to £302m. This will be paid alongside the final dividend in May.

1.4 Business segment performance

1.4.1 UK and Europe

Financial highlights

	2012	2011	Movement
Operating profit before tax	**£419m**	£266m	58%
Operating return on equity	**27.8%**	15.6%	12.2% points
Assets under administration	**£143.4bn**	£131.8bn	9%
Net flows	**£1,485m**	£2,883m	(48%)
EEV covered business operating profit before tax	**£799m**	£550m	45%
EEV non-covered business operating profit before tax	**£41m**	£67m	(39%)

Market update

Over the last four years our industry has been preparing itself for the introduction of RDR and pension reform. Our investment in technology, propositions and investment solutions puts us in a unique position to capitalise on these changes. However, in 2012 the market in the UK continued to be impacted by an uncertain economic environment, the last opportunity for providers to pay commission and final preparations for implementation of the above changes. Together with the Government and the media, we have continued to focus on driving consumer and employer awareness of the need for pensions and other forms of long-term and retirement savings.

Much of the attention across our industry in 2012 was focused on the implementation of RDR. We ensured a smooth transition by introducing adviser charging on our Wrap platform before the end of 2012. We also provided extensive support to IFAs in transitioning their business models via threesixty, our intermediary support services business, as well as through their strong relationships with account managers and platform consultants. Our Wrap platform continued to attract both new advisers and large financial institutions such as the RBS Group and we welcome the removal of barriers to re-registration across platforms. Following renegotiations with fund management groups we are also able to offer our customers the benefit of some of the best rebates in the industry as well as market-leading investment solutions from Standard Life Investments and Standard Life Wealth.

The implementation of RDR also impacted the corporate pension landscape across the industry, with significantly increased levels of competition from commission payers. The quality of our workplace propositions, investment solutions, leading levels of customer service as well as the strength of relationships with employee benefit consultants and employers ensured a minimal impact on our business. The start of the phased introduction of auto enrolment in October 2012 led to high levels of enquiries from employers in our target market. Although net flows were lower than originally anticipated as employers delayed decision making until the second half of the year, we saw a significant increase in the pipeline of new business secured which will transition later in 2013 and 2014. We are also encouraged by the take up of our newly launched corporate investment proposition and investment solutions across our new business pipeline. We're ready to take advantage of the opportunities that auto enrolment and RDR will bring in 2013, driving further growth in our business by leading the industry in these areas.

We welcome the recently announced review of pension charges and believe it is a timely check-point as we begin auto enrolment. We simplified our charging structure, reducing charges to a single Annual Management Charge below 1% back in 2001, then led the way in removing mono charge commission in 2006. Both of these actions contributed significantly to the reduction in charges we have seen across the industry in recent years. We took a leading role in driving the recent announcement to improve disclosure of charges and we fully support this initiative.

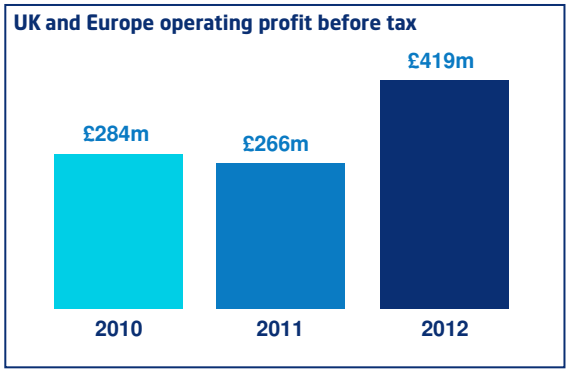
In Germany, efforts to reposition our brand saw us increase market share in the unit linked segment, while our business in Ireland continued to show resilience despite the impact on our customers of difficult economic conditions and austerity measures. Commission continues to play a role in both Germany and Ireland. However, we are beginning to see interest from advisers wishing to understand more about how we have managed to transform the way in which we do business in the UK and how we have supported IFAs in becoming new-model advisers.

Profitability

Operating profit before tax

	UK		Europe		UK and Europe	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Fee based revenue	**667**	625	**164**	173	**831**	798
Spread/risk margin	**107**	75	**5**	3	**112**	78
Total income	**774**	700	**169**	176	**943**	876
Acquisition expenses	**(174)**	(202)	**(28)**	(24)	**(202)**	(226)
Maintenance expenses	**(356)**	(352)	**(105)**	(107)	**(461)**	(459)
Capital management	**42**	10	**1**	1	**43**	11
Other	**96**	64	**-**	-	**96**	64
Operating profit before tax	**382**	220	**37**	46	**419**	266

UK and Europe operating profit before tax was £419m. Within this, UK operating profit increased by 74% to £382m, while the result for Europe of £37m was lower than in 2011.



The key movements in the **UK operating profit** from 2011 are:

- **Fee based revenue** increased by 7% predominantly driven by higher AUA as new style propositions continue to attract net inflows while older style propositions benefit from ongoing increments, market movements and retention activity. The average revenue yield on fee based business remained broadly stable at 72bps (2011: 73bps).
- **Spread/risk margin** increased to £107m due to a 38% increase in gross annuity inflows and the positive impact of investment strategy changes. The 2011 result included the impact of annuity reserve strengthening.
- **Acquisition expenses** of £174m are 14% lower than 2011 and expressed as a percentage of PVNBP improved to 133bps (2011: 144bps) reflecting both the scalability of the business model and absolute cost reductions
- **Maintenance expenses** increased by just £4m as we continue to benefit from our scalable business model and ongoing efforts to reduce our costs. Expressed as a proportion of average AUA, maintenance expenses improved to 31bps (2011: 34bps).
- **Capital management** generated a profit of £42m due to the improved funding position of the UK staff pension scheme in the year and the investment of shareholders' funds in higher yielding assets
- **Other** reflects a £96m benefit in respect of a professional indemnity insurance claim made in relation to the Standard Life Pension Sterling Fund as previously announced. The 2011 result included a £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme.

The **Europe operating profit** result was impacted by increased reserves held to cover new business in Germany and the impact of adverse currency movements, due to the strength of sterling against the euro.

UK profit contribution[1]

UK fee business profit contribution increased by 31% to £321m (2011: £245m), with notable increases in profit contribution from both retail new and corporate.

Newer style UK retail propositions saw continued momentum which, combined with the benefits from scalability, delivered more than five fold increase in profit contribution to £54m. This, together with the stable contribution from older style propositions, helped to drive an overall increase in retail fee based business contribution of 19% to £233m (2011: £196m).

Growth in AUA and efficiency improvements also helped to drive an 80% increase in profit contribution from our corporate business to £88m (2011: £49m).

Profit contribution from spread/risk products increased by 42% to £94m (2011: £66m). This was driven by higher annuity sales and reflected the success of our ongoing customer engagement programme. Profit contribution in 2012 also included the positive impact of investment strategy changes.

UK profit contribution[1]	**2012 £m**	2011 £m
Retail – new	**54**	10
Retail – old	**179**	186
Retail fee based business contribution	**233**	196
Corporate	**88**	49
Fee based business contribution	**321**	245
Spread/risk	**94**	66
UK profit contribution	**415**	311
Indirect expenses and capital management	**(129)**	(155)
Other	**96**	64
UK operating profit	**382**	220

[1] Profit contribution reflects the income and expenses directly attributable to each of the UK lines of business. It differs from operating profit due to the exclusion of indirect expenses, such as overheads, and capital management. Profit contribution in 2012 excludes £96m benefit from the professional indemnity insurance claim and 2011 excludes £64m benefit from the UK staff pension scheme.

1.4 Business segment performance *continued*

1.4.1 UK and Europe *continued*

EEV operating profit

UK and Europe EEV operating profit before tax increased by 36% to £840m (2011: £617m) including the positive result of management actions taken to reduce the risk exposures of the UK business. These management actions include asset strategy changes and modelling improvements, which have resulted in lower burnthrough costs and higher profits on annuities. The result also included the £96m benefit from the professional indemnity insurance claim.

Operating return on equity

UK and Europe operating return on equity increased by 12.2% points to 27.8%, reflecting a 68% increase in operating profit after tax to £402m (2011: £240m). The total UK and Europe operating return on equity includes a return of 32.5% for the UK business and 6.0% for the Europe business. In addition to the increase in operating profit before tax, the operating return on equity benefited from a release of deferred taxation due to a change in the regulatory valuation of the UK staff pension scheme and the transition to the new UK insurance tax regime.

Assets under administration and net flows

UK and Europe AUA grew by £11.6bn to £143.4bn in 2012. Fee based business AUA, which accounts for 84% of total AUA, increased by 10% to £121.1bn reflecting a combination of net inflows and positive market movements.

In the UK, net inflows into our new style retail propositions of £2.8bn (2011: £3.6bn), reflected robust gross inflows of £5.2bn (2011: £5.7bn). This was despite a backdrop of subdued consumer sentiment, ongoing economic uncertainty and increased commission-based competition prior to RDR.

Retention in our older style UK retail business has been encouraging with net outflows of £3.1bn (2011: £2.8bn) impacted by customers accelerating the purchase of annuities ahead of the implementation of the Gender Discrimination Directive on 21 December 2012. We continue to engage with customers with maturing policies who wish to continue to save or annuitise with us.

	Net flows		AUA	
	2012 £m	2011 £m	**2012 £bn**	2011 £bn
UK retail – new	**2,753**	3,593	**28.7**	23.7
UK retail – old	**(3,057)**	(2,807)	**31.7**	32.1
UK retail fee based business	**(304)**	786	**60.4**	55.8
UK corporate	**1,224**	2,024	**24.5**	22.0
UK retail and corporate fee based business	**920**	2,810	**84.9**	77.8
UK institutional pensions	**1,832**	1,414	**21.3**	17.5
UK conventional with profits	**(1,447)**	(1,448)	**4.1**	5.3
Europe fee based	**701**	768	**10.8**	9.3
Total fee based business	**2,006**	3,544	**121.1**	109.9
UK spread/risk	**(530)**	(651)	**15.3**	14.4
Europe spread/risk	**9**	(10)	**0.5**	0.5
Assets not backing products	**-**	-	**6.5**	7.0
Total UK and Europe	**1,485**	2,883	**143.4**	131.8

UK corporate pension net inflows, excluding trustee investment plan business of Standard Life Investments, of £1.2bn (2011: £2.0bn) demonstrate the strength of our corporate business at a time when employers were delaying decision making ahead of the phased introduction of auto enrolment. Net inflows into institutional pensions grew by 30% in the year to £1.8bn (2011: £1.4bn).

UK spread/risk business AUA increased to £15.3bn, as the positive impact of falling yields on debt securities was partially offset by overall net outflows driven by scheduled annuity payments. Gross inflows into annuities were 38% higher at £632m (2011: £459m) reflecting the success of our ongoing customer engagement programme which has helped to increase both the number of customers who choose to annuitise with us and the average annuity premium.

In our Europe business, fee based AUA grew by 16% to £10.8bn, driven by net inflows and favourable market movements. Net inflows decreased to £701m (2011: £768m) with higher redemptions in our German business reflecting economic uncertainty and lower consumer confidence.

New business performance

Total PVNBP sales of £14,167m (2011: £15,105m) were resilient against a backdrop of subdued consumer sentiment and ongoing economic uncertainty. Sales of corporate pensions have also been impacted by employers delaying decision-making prior to the phased introduction of auto enrolment and the last opportunity for some providers to secure business on a commission basis ahead of the implementation of RDR.

Delivering on our strategy

Our ability to maintain strong positions in each of our chosen markets is a testament to the significant effort and investment we have made, positioning ourselves across the value chain to provide market-leading solutions that meet the changing needs of our customers and their advisers.

We are in a unique position to support retail and corporate customers from the start of their investment journey to the end. This can be seen through:

- Support that Focus Solutions gives IFAs and large financial institutions in bringing them closer to their customers
- Business advice offered by threesixty in helping advisers deal with various aspects of compliance and creating RDR ready business models that will secure their long-term future
- Reliance that our customers can place on our Wrap platform giving advisers more time to focus on what really matters – their customers
- Comprehensive corporate offering catering to the varying needs of employers
- Retail and corporate investment solutions provided by Standard Life Investments via funds such as MyFolio, or by our discretionary fund manager, Standard Life Wealth

Our business is well positioned to benefit from market and regulatory changes ahead while technology, including our market-leading platform propositions, remains a key enabler for delivering lower unit costs which will allow us to realise the full potential of our scalable business model.

Our business model

Maximising revenue

Our business continues to benefit from our expertise across the value chain as we embed our wider investment solutions across our customer base:

- Our MyFolio risk based funds range, managed by Standard Life Investments, help make investing in funds simpler for our customers and has now attracted AUA of £2.2bn (2011: £0.9bn) and secured additional investment management margin for the Group
- In 2012, Standard Life Wealth was recognised as the fastest growing provider of discretionary investment management services in the UK and continues to show strong rates of organic growth, building a strong presence in the IFA market with assets on our higher margin propositions doubling over the last 12 months to £1.8bn. In February 2013, we entered into an agreement with Newton Management Limited to acquire its private client discretionary investment management division. This is expected to increase AUA by approximately £3.6bn and further accelerate growth of our discretionary investment management business.
- We have launched a suite of investment solutions for employers, building on the retail MyFolio proposition and expanding the MyFolio distribution into Ireland
- Our Passive Plus corporate investment solution has been chosen by the Independent Trustees as the default fund option for our newly launched Master Trust, and is being increasingly adopted across our growing pipeline of secured corporate business
- The successful launch of the Maxxellence Invest product in Germany has increased our share of the unit linked market

Increasing assets

Our retail business continues to grow, strengthening relationships with both new-model advisers and our direct customers:

- The number of adviser firms on our Wrap platform has increased by 14% to 1,137 firms and we continue to embed our Wrap platform with existing adviser firms
- By implementing adviser charging in October 2012 we ensured a smooth transition to RDR for our customers and their advisers and are positioned well to provide platform and risk based investment solutions to our customers, banks and other financial institutions
- Our recently announced agreement with the RBS Group will give RBS, NatWest and Ulster Bank private banking customers access via Wrap to a range of risk-based investment solutions managed by Standard Life Investments
- Our SIPP proposition continues to grow with an 18% increase in customers and AUA up 17% to £19.6bn (2011: £16.8bn)

Our corporate pension business continues to maintain momentum through its leading workplace savings solutions and by its strong links and existing relationships with corporate benefit consultants and employers:

- We won 137 new schemes (2011: 167 new schemes), securing a further 118,500 new employees in the year
- New schemes secured in 2012 included our first major Master Trust scheme which will result in an additional 24,000 members
- The phased introduction of auto enrolment is leading many employers to review their overall pension provision giving rise to higher levels of enquiries from employers and a growing pipeline of business in our target market
- We expect the introduction of auto enrolment to increase levels of employee participation in the 35,000 schemes we administer for our clients, resulting in 400,000 potential additional savers

Lowering unit costs

The inherent scalability of our business and extensive use of technology continue to be the key enablers in delivering lower unit costs. Initiatives undertaken to manage the acquisition and maintenance expenses of our business are now showing results:

- Acquisition expenses in the UK expressed as a proportion of PVNBP reduced to 133bps (2011: 144bps) as improvements in efficiency and absolute reductions in costs more than offset the impact of lower sales caused by the subdued economic conditions
- Maintenance expenses in the UK expressed as a proportion of average AUA reduced to 31bps (2011: 34bps). This reflected the scalability of our operations, improving efficiency of our processes and ongoing focus on cost control.
- The continued shift of customer interaction towards online and self servicing has helped to reduce our customer service full-time equivalent employees by approximately 20% since the start of 2010

1.4 Business segment performance *continued*

1.4.2 Standard Life Investments

Financial highlights

	2012	2011	Movement
Operating profit before tax	**£145m**	£125m	16%
Operating return on equity	**52.0%**	42.7%	9.3% points
Earnings before interest and tax (EBIT)[1]	**£145m**	£126m	15%
EBIT margin[1]	**36%**	34%	2% points
Third party assets under management (AUM)	**£83.0bn**	£71.8bn	16%
Total assets under management	**£167.7bn**	£154.9bn	8%
Third party net inflows	**£6.1bn**	£4.3bn	42%

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

Standard Life Investments delivered strong investment performance in 2012 and maintained its robust long-term performance track record. It generated excellent growth in assets, particularly into higher margin propositions. Third party AUM increased to £83.0bn (2011: £71.8bn). Total third party net inflows were £6.1bn (2011: £4.3bn) and included the impact of a significant, and expected, outflow of £1.8bn from a single low revenue yield mandate following a change in the client's pension scheme strategy. Excluding this outflow, third party net inflows accelerated by 84% to £7.9bn (2011: £4.3bn) representing 11% of opening third party AUM. Growth in AUM together with a shift to higher margin products drove an 11% increase in fee based revenue to £408m. Excluding a fee received in 2011 for the transfer of money market funds, revenue increased by 13%, EBIT by 22% to £145m, and EBIT margin by 3% points to 36%.

HDFC Asset Management, our associate business, remains the largest mutual fund provider in India and contributed £18m (2011: £15m) to EBIT. This is included in our results on a pre-tax basis for the first time.

Our 'Focus on Change' investment philosophy continues to drive the investment process that in 2012 delivered another year of strong performance with all funds ahead of benchmark. We also continued to take a leading role in governance and stewardship. Strong corporate governance along with responsible stewardship of a business' assets, employees, customers and environment have a fundamental impact on long-term investment returns. During 2012, we voted on 2,066 shareholder meetings and undertook 654 environmental, social and governance engagements, promoting high standards of governance and stewardship.

Market update

Despite some volatile market conditions in the first half of the year and significant macro-economic headwinds, the second half of 2012 saw improved investor confidence and increased risk appetite. Markets were assisted by action from global policy makers who undertook further quantitative easing in the UK and US, loosened monetary policy in China and Japan and supported debt issued by members of the Eurozone through the European Central Bank.

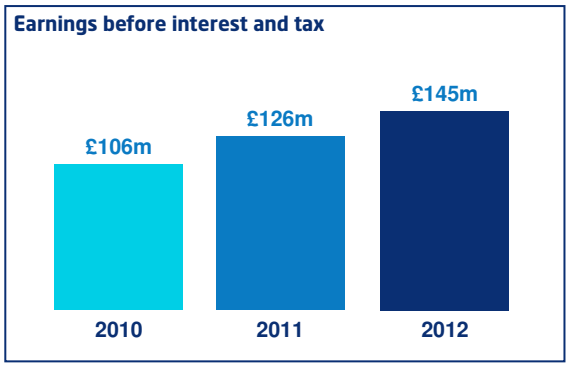
Equity markets responded positively and the FTSE All-Share Index increased by 8% during the year. However, the average daily values increased by just 1% compared to 2011. Flows across the industry tended to lag behind market sentiment improving towards the final quarter of the year as flows started to shift away from debt securities into equities.

Standard Life Investments had a very successful year against this backdrop, attracting flows mainly into higher margin products by providing investment solutions that satisfy changing client risk appetites.

Profitability

Operating profit before tax

	2012 £m	2011 £m
Fee based revenue	**408**	368
Maintenance expenses	**(281)**	(258)
Share of joint ventures' and associates' profit before tax	**18**	15
Standard Life Investments operating profit before tax	**145**	125
Interest and exchange rate movements	**-**	1
Earnings before interest and tax (EBIT)	**145**	126



Operating profit before tax increased by 16% to £145m. Revenue rose by 11% reflecting both the increased assets under management and the shift in mix towards higher margin products such as UK mutual funds and multi-asset investment solutions. The mix effect helped to increase the revenue yield on third party AUM to 40bps (2011: 37bps). The increase in expenses to £281m reflected the continued global expansion of our business. The inclusion of our share of profit of HDFC Asset Management on a pre-tax basis for the first time contributed £5m to the increase in operating profit before tax.

Operating return on equity

Operating return on equity increased to 52.0% (2011: 42.7%), reflecting the increased profitability of our business.

Investment performance

We continued to deliver strong investment performance over all key time periods with the money weighted average for third party assets well above median over three, five and ten years. Also, over the one year time period 91% of funds outperformed their benchmark. Our suite of multi-asset funds outperformed their cash benchmark over all key time periods since inception. In addition, the strength of our mutual funds proposition is demonstrated by two of our funds being in the top three best performing in 2012 across 2,883 open ended investment funds available in the UK and the proportion of eligible and actively managed funds (34 out of 44) rated 'Silver' or above by Standard & Poor's.

Assets under management and net flows

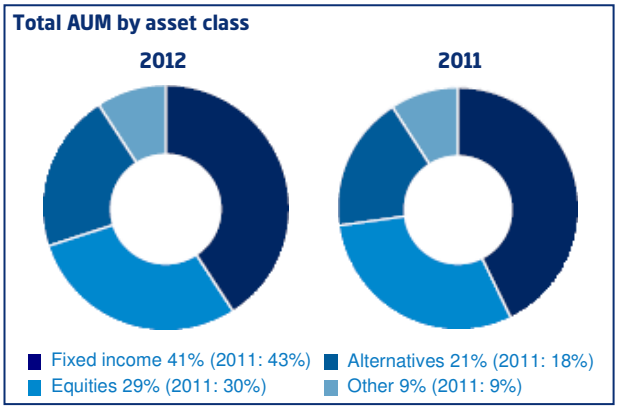
We remain focused on meeting the needs of existing clients and securing new business backed by consistently strong investment performance, ongoing product innovation, high levels of client service and an expanding global distribution capability. Third party net inflows increased by 84% to £7.9bn (2011: £4.3bn), after excluding the outflow of £1.8bn relating to the expected loss of a single low revenue yield mandate following a client's change of pension scheme strategy. Adjusted third party net inflows represent 11% of opening third party AUM and continued our unbroken record of positive annual net inflows since inception.

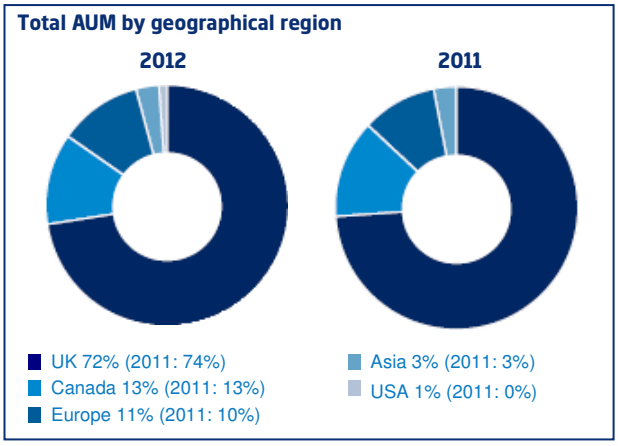
Our retention rates were some of the highest in the industry, with redemptions excluding the specific outflow referred to above at just 14% of opening AUM.

Third party AUM increased to a record £83.0bn (2011: £71.8bn) representing 49% of total AUM (2011: 46%). In-house AUM increased to £84.7bn (2011: £83.1bn) with favourable market movements more than offsetting scheduled outflows from the with profits business. As a result, total AUM reached a record £167.7bn (2011: £154.9bn).

Inflows during 2012 reflected the diverse nature of our product offering, our expanding global distribution capability and the increasingly international nature of our client base. In the UK and Europe we increased the institutional client base by 5%, while our success in the US in securing both significant institutional mandates from our expanded Boston office and wholesale distribution through the John Hancock platform resulted in net inflows increasing to £1.8bn (2011: £0.1bn).

Our UK wholesale retail business continued to perform well throughout 2012, despite some volatile market conditions. Net inflows into our range of UK mutual funds were up 56% to £2.5bn (2011: £1.6bn) and represented our highest ever market share of 4.7% (2011: 3.8%).





Our pipeline of institutional business remains strong with fixed income, real estate and multi-asset propositions continuing to attract a lot of interest, increasingly from outside the UK. There is also positive demand for our mutual funds in the UK and for our SICAV funds in continental Europe.

Delivering on our strategy

We remain very well positioned for ongoing profitable growth, increasing our global presence and expertise across a range of asset classes, diversifying our sources of revenue both geographically and by product category. At the same time we are delivering consistently strong investment performance.

During 2012 we further expanded our product range, with developments in alternative, multi-asset and emerging market products being of particular note. We also broadened the geographical diversity of our AUM with 62% (£3.8bn) of third party net inflows coming from outside the UK, including £1.8bn from the US.

We will continue to leverage our investment expertise to ensure we maximise the share of the value chain we can capture for the Group and continue to work closely with our strategic partners including Sumitomo Mitsui in Japan, HDFC in India and John Hancock in the US, while exploring and capitalising on further opportunities for growth elsewhere.

1.4 Business segment performance *continued*

1.4.2 Standard Life Investments *continued*

Our business model

Maximising revenue

- Sales of higher margin products resulted in an increase in the revenue yield on third party gross sales to 52bps (2011: 46bps) whilst the average revenue yield on overall third party assets increased to 40bps (2011: 37bps)
- Expanded our range of higher margin propositions including our global emerging markets capability through the launch of Global Emerging Markets Unconstrained SICAV, Global Emerging Markets Equity fund and the launch of an emerging markets debt fund and alternative capabilities in areas such as private equity and real estate
- Continue to collaborate across the Standard Life Group to maximise the Group's share of the value chain, for example our range of risk based funds is an integral part of a major distribution agreement secured with the RBS Group

Increasing assets

- Achieved record third party AUM of £83.0bn driven by a 42% increase in third party net inflows to £6.1bn, or 84%, excluding the £1.8bn outflow following a client's change in pension scheme strategy
- Our share of the wholesale market in the UK continues to grow increasing to 4.7% (2011: 3.8%), with UK mutual funds AUM now exceeding £13bn, representing 17% of third party assets
- Our market-leading range of MyFolio risk based funds, used extensively within our long-term savings and investments business, continues to be very popular with AUM of approximately £2.2bn
- Strong pipeline of new investment initiatives which positions us well to continue to meet the changing demands of our clients through new and innovative investment solutions

Lowering unit costs

- Maintenance expenses expressed as a proportion of average AUM remained unchanged at 17bps despite ongoing development of our investment capability and expanding distribution and geographic reach
- Ongoing control over costs, combined with expansion in revenue margins, has resulted in a 14% compound annual growth in EBIT over the last five years

1.4.3 Canada

Financial highlights

	2012	2011	Movement
Operating profit before tax	**£355m**	£187m	90%
Operating return on equity	**24.7%**	14.6%	10.1% points
Assets under administration	**£27.8bn**	£26.1bn	7%
Net flows	**£407m**	£253m	61%
EEV operating profit before tax	**£317m**	£324m	(2%)

Market update

Persistently low interest rates have significantly impacted the financial industry in Canada. This trend, together with changing demographics, increased personal debt and falling birth rates has emphasised the need for individuals to properly prepare and plan for their pension and retirement needs. We are well placed to take advantage of this evolving market environment, building on our demonstrated strengths in pensions and long-term savings and investments.

The shifting demographics in Canada have translated into a growing number of customers drawing down their assets. These clients were historically underserved by the financial industry whose focus had been the accumulation target market, particularly in the corporate pension market. As the 4th largest defined contribution provider in Canada we have worked closely with employers and employees to understand their needs and implement retirement transition services and solutions that will enable us to retain pension plan participants after retirement.

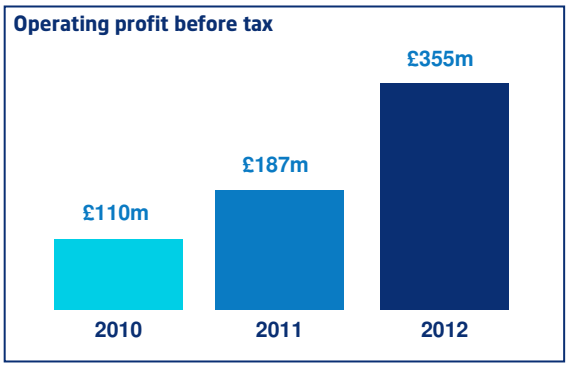
Low pension coverage and savings rates, coupled with an ageing population has led the Canadian government to introduce legislation aimed at increasing pension coverage, especially for employees of small and medium enterprises. Together with other industry groups, we have increased our efforts to encourage legislators to enact this new pension plan into law. In the meantime, we have developed our Pooled Registered Pension Plans solution and other solutions aimed at smaller plan sponsors.

The macro-economic environment has pushed consumers to a more conservative risk profile, with important assets held in short- term saving vehicles and fixed income funds. Given our strength in income oriented funds, we benefited from this behaviour. The volatile market environment along with increased pressure on capital management has led to changes in the insurance market, as life insurers moved away from capital intensive products. We are in a favourable position to take advantage of the evolving market by building on our strengths in long-term savings and investments propositions.

Profitability

Operating profit before tax

	2012 £m	2011 £m
Fee based revenue	**172**	166
Spread/risk margin	**393**	281
Total income	**565**	447
Acquisition expenses	**(79)**	(78)
Maintenance expenses	**(240)**	(220)
Capital management	**109**	38
Canada operating profit before tax	**355**	187



Operating profit before tax increased to £355m (2011: £187m) and included the impact of previously announced management actions.

The key highlights are:

- **Fee based revenue** increased by £6m mainly due to higher average AUA
- **Spread/risk margin** benefited from various management actions undertaken to increase profitability and de-risk our balance sheet, which more than offset the effects of the low interest rate environment. Management actions generated a total margin of £109m (2011: £88m). This included a gain of £81m from the reduction in actuarial liabilities arising from the property sales and the renegotiation of an existing reinsurance arrangement. This is in addition to the profit from the sale of properties of £72m included within capital management. Other management actions enhancing the investment yields on assets contributed £28m. One-off reserving changes generated a gain of £91m (2011: loss £57m), and included favourable changes in mortality assumptions and revised investment allocations in line with the long-term asset strategy.
- **Acquisition expenses** increased due to higher level of product and technology development spend and higher sales volumes
- **Maintenance expenses** increased by £20m, mainly due to the rise in AUA and the associated costs incurred to service and administer these assets. Maintenance expenses were also impacted by increased development spend. Maintenance expenses, as a proportion of average AUA, increased to 95bps (2011: 92bps).
- **Capital management** increased by £71m due to the £72m gains on property sales in H2 2012. These transactions demonstrate our focus on maximising shareholder value and also reduced our exposure to the property asset class.

1.4 Business segment performance continued

1.4.3 Canada *continued*

EEV operating profit

EEV operating profit before tax decreased by 2% in constant currency to £317m (2011: £324m) due to lower new business contribution, with margins adversely impacted by the low interest rate environment. This was partially offset by higher back book results which included the benefit of property disposals and modelling changes.

Operating return on equity

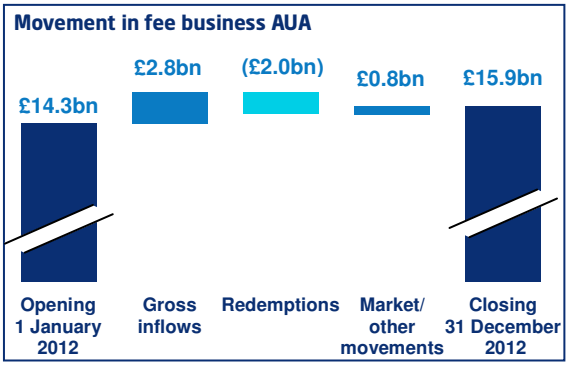
Operating return on equity increased to 24.7% (2011: 14.6%) consistent with higher operating profit. We continue to manage our capital position to generate sustainable returns and to maintain appropriate levels of regulatory capital.

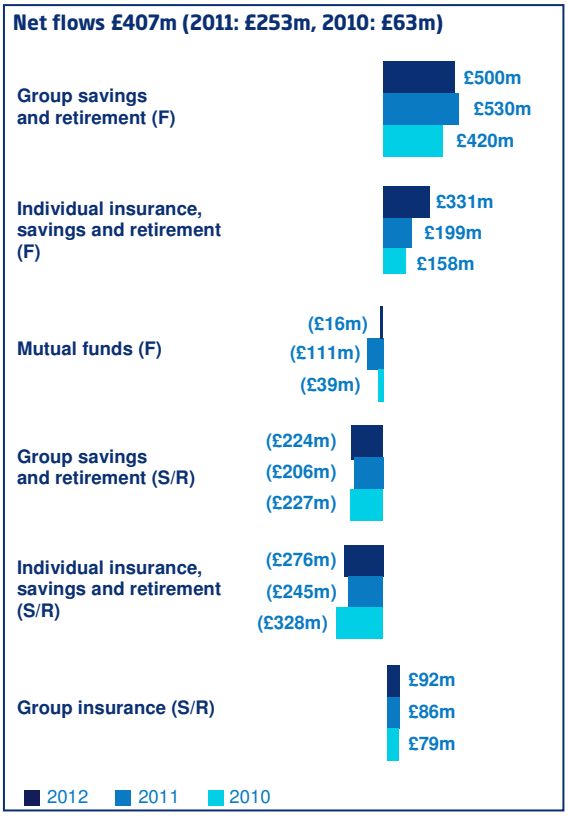
Assets under administration and net flows

AUA increased by £1.7bn to £27.8bn and net inflows increased by 61% in constant currency to £407m (2011: £253m).

Fee business AUA increased by 14% in constant currency to £15.9bn. This was driven by net inflows in group and individual segregated funds and positive market movements. Total net inflows from fee based business increased to £815m (2011: £618m). Group savings and retirement fee business net flows of £500m were 5% lower than 2011 in constant currency. Individual savings and retirement fee business net flows increased to £331m (2011: £199m), as a result of higher gross inflows in our retail segregated funds which increased by 24% in constant currency. Mutual funds net outflows improved to £16m (2011: £111m), with gross inflows rising by 27% in constant currency. Fee business gross flows were driven by strong new business performance, especially in retail.

Spread/risk AUA decreased to £9.9bn mainly due to lower gross inflows into term funds and annuities.





New business performance

PVNBP sales increased by 23% in constant currency to £3,584m (2011: £2,928m). This was led by group savings and retirement sales, which increased by 67% in constant currency due to our success in securing regular premium group business and also the impact of lower discount rates.

Excluding discontinued life insurance sales, retail sales increased by 13% in constant currency. In April 2012, we suspended new sales of the Ideal Income Series, our Guaranteed Lifetime Withdrawal Benefit product, in light of capital requirements and the low interest rate environment.

Delivering on our strategy

Our strategy is to differentiate our business by providing innovative retirement and investment solutions combined with a world-class customer experience. We launched our 'In the journey together' advertising campaign, showing customers that we understand their priorities and are confident we can offer value-added propositions throughout their journey with us.

We will deliver this strategy through:

- New CEO and renewed management team to drive improved performance as we focus on our expertise and opportunities in long-term savings and investments
- Top-ranked retail sales team in the market providing advisors with solutions and tools to bring them closer to their customers
- Comprehensive group savings and retirement offering catering to the varying needs of employers and helping plan members address their retirement needs

We will continue to leverage the strength of our customer solutions to sustain sales momentum in 2013, which marks our 180th anniversary in Canada. We are poised to take advantage of future market opportunities driven by evolving demographics, customer preferences and regulatory change.

Our business model

Maximising revenue

- The average revenue yield on our fee business decreased to 113bps (2011: 117bps), reflecting pricing conditions prevailing in our markets and also business mix
- The spread/risk margin reflects a range of management actions taken during the past year to improve the risk profile of our business while having a positive impact on both capital and operating profit. We have continued to de-risk the business and lowered future earnings sensitivity to market movements.

Increasing assets

- In our group savings and retirement line, we continue to develop and promote comprehensive strategic asset allocation options. Examples include the launch of target date funds, revamping our Avenue portfolio product and adding funds to our Quality & Choice Investment Program platform. We introduced a dedicated relationship team for our corporate customers and created a planning tool for plan members nearing retirement, with the aim of retaining and increasing AUA by providing customers with comprehensive tools and solutions to help them assess and meet their financial needs upon retirement.
- In our retail mutual funds line, we launched two new fixed income mutual funds, aimed at customers wanting to avoid low interest rates and high market volatility. We enhanced our segregated funds offering by launching our Signature 2.0 series, presenting investors with more options to adapt their portfolios to evolving market conditions.
- The strength of our retail sales force and adviser relationships, along with our enhanced investment fund offering led to improved sales and increased market share based on assets under management in our retail segregated funds
- We launched Advisor Portal, our dedicated adviser website for all lines of business to better meet the needs of our advisers by offering them a single point of entry for information on all of our products and services and facilitating access to timely and relevant content to help them grow their business

Lowering unit costs

Acquisition expenses as a proportion of PVNBP sales decreased to 220bps (2011: 266bps), driven by strong sales growth. Overall maintenance costs, as a proportion of average AUA increased to 95bps (2011: 92bps) reflecting increased development spend.

1.4 Business segment performance *continued*

1.4.4 Asia and Emerging Markets

Financial highlights – wholly owned

	2012	2011	Movement
Operating loss before tax	**(£3m)**	(£8m)	63%
Operating return on equity	**0.0%**	(6.1%)	6.1% points
Assets under administration	**£3.3bn**	£2.5bn	32%
Net flows	**£0.6bn**	£0.7bn	(14%)
EEV covered business operating (loss)/profit before tax	**(£4m)**	£9m	(144%)
EEV non-covered business operating loss before tax	**(£13m)**	(£8m)	(63%)

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

	2012	2011	Movement
Operating profit before tax	**£8m**	£2m	300%
Operating return on equity	**7.9%**	2.8%	5.1% points
Assets under administration	**£1.5bn**	£1.2bn	25%
Net flows	**£0.2bn**	£0.3bn	(33%)
EEV covered business operating profit before tax	**£18m**	£5m	260%

Market update

Our Asia and Emerging Markets business consists of wholly owned operations in Hong Kong, an offshore business based in Ireland, our newly created branches in Singapore and Dubai, and insurance joint ventures in India and China. Operating across a number of territories the business is subject to different market dynamics:

- The long-term savings and investments market in Hong Kong remained competitive. Our business delivered good performance, continuing to attract business from higher net worth customers resident in Hong Kong and the wider region, increasing our position in the market.
- The market disruption caused by the implementation of the RDR and increased competition from commission payers impacted the UK offshore bond market in which Standard Life International, our offshore business, operates. Our International bond proposition continued to perform well, gaining market share and winning a number of awards.
- In India, economic growth continued to slow, however at 5% of GDP it remains high by Western standards. While consumer sentiment remains subdued, many market commentators are expecting a pick up in growth in 2013. Penetration of insurance and savings products in India remains low. This provides our joint venture HDFC Life with an opportunity to continue to build on its record of growth, capitalising on its number two position in the private market in what has been a challenging regulatory environment.
- The Chinese economy remained affected by contraction in global demand for its products amongst Western economies. The insurance market continued to grow at a moderate rate with domestic players dominating. Our joint venture, Heng An Standard Life, increased market share in the foreign joint venture market, continuing to expand its distribution capability.

Profitability

Operating profit/(loss) before tax

Operating profit before tax increased to £5m driven by further progress in the wholly owned and joint venture businesses. The key highlights are:

- **Operating loss before tax of the wholly owned businesses** reduced to £3m due to growth in revenue
- **Fee based revenue** increased by 19% in constant currency resulting from a growing asset base
- Total **expenses** increased by 7% in constant currency to £57m reflecting the increased investment in development of new propositions including the expansion of our business into new regions through the opening of branches in Singapore and Dubai
- The **joint venture businesses** delivered an operating profit before tax of £8m (2011: £2m). This reflects the progress made by HDFC Life, in creating a leading and profitable insurance business in India which continues to grow its market share while improving its efficiency.

Operating profit/(loss) before tax	2012 £m	2011 £m
Fee based revenue	**54**	45
Acquisition expenses	**(11)**	(21)
Maintenance expenses	**(46)**	(32)
Total wholly owned	**(3)**	(8)
India and China JV businesses	**8**	2
Asia and Emerging Markets operating profit/(loss) before tax	**5**	(6)

EEV operating profit

Total EEV operating profit decreased to £1m from a profit of £6m in 2011. The wholly owned businesses recorded a total EEV operating loss of £17m (2011: profit £1m). The result was negatively impacted by lower new business sales, higher levels of investment as a result of expansion of our operations into new markets and adverse persistency experience in our Hong Kong

business which was caused by lower investor confidence. EEV operating profit in our joint venture businesses increased to £18m (2011: £5m) due to improved new business profitability and cost control.

Operating return on equity

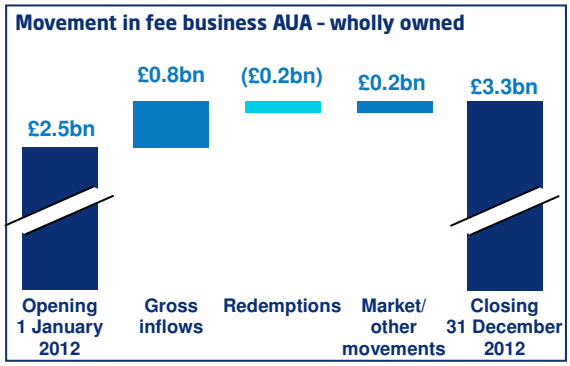
Operating return on equity for our total Asia and Emerging Markets operations increased to 4.0% (2011: negative return of 1.4%) driven by higher operating profit after tax and also the benefit of our Indian joint venture becoming capital self sufficient.

Assets under administration and net flows

AUA in the wholly owned businesses grew by 32% to £3.3bn (2011: £2.5bn) driven by robust net flows, representing 24% of opening AUA and favourable market and other movements.

Net flows in the wholly owned businesses were lower at £0.6bn (2011: £0.7bn) reflecting cautious consumer sentiment across the markets we operate in and also disruption ahead of the implementation of the RDR in the UK.

AUA in the joint venture businesses increased by 25% to £1.5bn (2011: £1.2bn) mainly due to net inflows of £0.2bn (2011: £0.3bn).



New business performance

PVNBP sales in the wholly owned businesses decreased by 16% in constant currency to £1,020m (2011: £1,205m), with a fall in both Hong Kong and UK offshore sales. In India, sales rose 19% in constant currency to £435m (2011: £414m) as HDFC Life increased its share of the individual private market to 17% (2011: 15%) by continuing to capitalise on the strength of its brand, distribution relationships and ability to respond to changing customer needs. In China, sales remained broadly stable at £87m (2011: £86m), with Heng An Standard Life increasing market share in the individual and bank channels in the foreign joint venture segment of the market.

Delivering on our strategy

Our business is focused on delivering profitable growth both from our existing operations as well as by extending our reach to attractive international and offshore wealth management markets, where we are well placed to leverage our existing offshore capability. Our increased focus on Asia is gaining traction, leading to further expansion of our retail investments business. In October 2012 we announced that we had established a branch in Singapore. Singapore is one of the top four financial centres globally and provides us with a significant and fast growing opportunity to access the South East Asia market. In November 2012, we announced the launch of our first office in Dubai, further broadening our international footprint in a high growth, high value emerging market.

We also aim to deliver profitable growth through maximising the value of our existing business in Hong Kong and also through developing our joint ventures. Our joint ventures in India and China continue to improve their financial performance and have gained market share. HDFC Life is well positioned to take advantage of the market opportunity and continues to be one of the leading private life insurance businesses in India.

Our business model

Maximising revenue

- Revenue increased by 19% in constant currency, with the average revenue yield on fee based business of 189bps (2011: 205bps) reflecting fast growth in assets combined with changes in business mix
- We are operating across the value chain by offering Standard Life Investment solutions including GARS and MyFolio on our International Bond, and exploring further opportunities for greater collaboration with Standard Life Investments in Asia

Increasing assets

- We continue to offer propositions that help our customers invest in volatile market conditions. In Hong Kong we launched Harvest Wealth to cater to the needs of internationally mobile clients while our offshore business in Ireland launched RDR compliant versions of our propositions to access the opportunities created through this regulatory change.
- Our offering continues to be developed to provide customers, and their intermediaries, propositions which fully address customers' needs. Our support to advisers and customers, along with our UK offshore proposition, were recognised at the International Adviser Awards during the year.
- We also opened new branches in Singapore and Dubai which will broaden our reach and provide access to new regional markets and customer segments
- In India, HDFC Life was the first private life insurer to launch unit linked pension plans under the new regulatory regime. Additionally, several new products were launched in 2012 including Immediate Annuity, Smart Woman and Health Assure Plan. Sales of online term product Click2Protect also continued to grow.

Lowering unit costs

- Total expenses increased to £57m (2011: £53m), reflecting the additional investment in our businesses and initial start-up costs associated with expanding our operations into Singapore and Dubai
- We continue in our efforts to drive efficiencies across all of the territories that we operate in and expect to benefit in the longer term by developing a scalable business

1.5 Risk management

Risk management is an integral part of the Group's corporate agenda. Our risk management strategy is to manage long-term value creation, cashflow and risk in a holistic manner in order to make informed decisions to create and protect value in the Group's activities. We are proactive in managing and understanding the risks to our objectives at every level of the Group and ensuring capital is delivered to areas where most value can be created for the risks taken. Find out more on the main risks we face below.

	Market risk	Credit risk
Definition	The risk that arises from the Group's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.	The risk of exposure to loss if a counterparty fails to perform its financial obligation, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of assets due to a widening of mortgage, bond and swap spreads.
Appetite	The Group has no appetite for market risk exposures except where they arise as a consequence of core strategic activity. Business units are expected to limit market risk exposures by matching the features of liabilities to features of assets. Exposures may be incurred where there is an overriding business need and specific appetites will be established as necessary.	The Group has an appetite for credit risk to the extent that acceptance of this risk optimises the Group risk-adjusted return. However, the Group has limited appetite for significant losses arising from counterparty failures and maintains robust risk limits which Group companies must adhere to.
Main sources of risk	**Equity and property risk** • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the funds are invested in equities and property • Burnthrough from the Heritage With Profits Fund (HWPF) and German With Profits Fund • Guarantees on segregated fund business in Canada **Fixed interest risk** • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in fixed interest assets • Burnthrough from the HWPF and German With Profits Fund • Insufficient long-dated fixed income assets to match the longest dated liabilities in Canada **Currency risk** • Exchange rate movements that reduce the value of overseas operations and profits generated by them • Changes in the value of future profits on unit linked funds and collective investment schemes where the underlying funds are invested in overseas assets	The Group is exposed to credit risk through: • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in corporate bonds • Burnthrough from the HWPF Credit risk also results from holding the following assets: • Corporate bonds held to back annuities written by SLAL post-demutualisation • Assets held to back the subordinated debt in SLAL, a proportion of which are asset backed securities that are held for historical reasons • Corporate bonds and commercial mortgages held in Canada to back annuities Other holdings of cash and cash equivalents, debt securities and the reinsurance of certain insurance liabilities to reinsurance counterparties also results in credit risk.
2012 summary	Concerns about sovereign debt levels in certain Eurozone countries have persisted leading to increased demand for safe haven assets. As a result, UK, German and Canadian yields have been low and are expected to remain low. In managing our market risks we have: • Undertaken further hedging to reduce our exposure to falling Euro yields • Taken advantage of market conditions to reduce our property exposure in Canada • Continued the dynamic hedging of guarantees provided for Canadian Segregated Funds • Monitored and managed the equity backing ratio of assets held within the HWPF • Reviewed and affirmed our hedging strategy in respect of the currency risk arising from our overseas operations	Credit concerns regarding debt issued by certain European sovereign states and banks have continued throughout 2012. We have responded to these concerns by: • Maintaining benchmarks for our fixed interest portfolios which exclude holdings in peripheral sovereign debt • Restricting holdings of cash and cash equivalents to banking counterparties that we assess to be of appropriate credit standing, taking into consideration both direct and indirect factors such as the potential impact of contagion risk on these banks We have introduced changes in our internal model for assessing the financial strength of banking counterparties to ensure we are aligned with the market's reduced expectations of state support. We have also continued to monitor potential downgrades of the UK sovereign by external rating agencies.

Demographic and expense risk	Liquidity risk	Operational and strategic risk
The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected. This includes liabilities of insurance and investment contracts.	The risk that the Group is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.	Operational risk is the risk of adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or external events. Strategic risk is the risk associated with the robustness of the planning process and threats to achieving our strategy.
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 has no appetite to fail to meet its liabilities as they fall due.	The Group has an appetite for operational risks where exposures arise due to core strategic activity. However, the Group will seek to put effective controls in place to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits.
Persistency • Changes in the value of future profits earned on unit linked funds and collective investment schemes in the UK and future recourse cash flow payments from the HWPF • Changes in the value of future profits earned in respect of Standard Life Investment's third party AUM and segregated fund business **Longevity** • Annuity contracts written by the UK and Canada where the current experience differs from that expected, more volatility of experience than expected, or the rate of improvement in mortality is greater than anticipated **Expense** • Changes in the value of future expected expenses • Shareholder is directly exposed to risk of expenses being above expectation	The Group is exposed to liquidity risk from the following sources: • The type of business that is written, the assets and liabilities arising from that business and how the assets are managed to meet those liabilities • Operational aspects of the business, for example the management of cash as it flows into our business as premiums and out of our business as claims and the payment of corporate cash flows including dividends, coupons and debt repayment • Potential liquidity issues in unit linked funds due to the underlying asset classes • The collateralisation of derivatives which results in cash volatility as the value of the derivative changes	The key operational and strategic themes affecting the Group are: • Ability to deliver the strategic plan • The significance of adverse global economic volatility • The impact of regulatory activity and change (e.g. RDR, Solvency 2) • Inadequate control environment internally and in relation to third parties • Potential Eurozone break up • Poor management of existing core processes • Potential loss of clients from adverse customer experiences • Ineffective arrangements with service providers and business partners • Ineffective management of information security • Insufficient capacity and capability to deliver change programmes and projects • Failure to attract, retain and develop talent
We continued to engage with advisers in the market to minimise the potential adverse impacts resulting from advisers seeking to move schemes in advance of RDR. We remain focused on developing propositions to increase the retention of funds when insurance and savings contracts reach maturity. We have continued to monitor emerging research into longevity, for example from the Office for National Statistics and the industry-wide Continuous Mortality Investigation, in order to inform our in-house view of likely future improvements in life expectancy. We have renegotiated the terms of certain reinsurance arrangements in Canada to assist with the management of our longevity risk.	We have continued to monitor the liquidity for various asset classes particularly in the context of developments in the financial markets. We have also continued to: • Centrally co-ordinate strategic planning and funding requirements • Maintain a portfolio of (currently undrawn) committed bank facilities • Maintain our Euro Medium Term Note Programme During the year we issued CA$400m subordinated debenture notes and £500m fixed rate subordinated notes.	We have continued to work on implementing appropriate processes and controls to prepare for regulatory changes. Concerns regarding the Eurozone have continued to present pressures and challenges for various operating processes and systems during the year. However, the controls embedded within the Group have ensured we have been able to avoid any serious losses or adverse consequences. In light of the ongoing concerns regarding the Eurozone we have undertaken further development of our operational plans to ensure we are well placed to respond, if required, to an exit from the Eurozone of one or more sovereigns. We continue to monitor developments regarding the constitutional arrangements for the UK and Europe given the potential impact these could have on our business.

1.6 Our customers

Understanding our customers, their needs today and in the future, helps drive what we do. We're constantly looking at what our customers tell us to see where we can make improvements to the experience we give them.

Knowing our customers

During 2012, we have worked to understand more about the changing needs of our customers across all the markets where we operate. We continued to use a variety of methods including research with our online customer community and direct feedback at events hosted by our senior leaders. We also did research in the United States to understand other companies' approaches to meeting customer needs. The aim of this was to build a more comprehensive picture of our customers that we could use to drive improvements in the products and services we offer them.

Keeping up to date

There were some important regulatory changes in 2012, which affected customers, our adviser partners and the wider industry. Some of the detail was quite complex, but we produced a range of straightforward communications for customers that explained how the changes may affect them. We also continued to provide comprehensive support to our adviser partners and employers so that they are ready to support their clients and employees through these changes too.

Online and mobile technology developments mean customers have even more access to information. We responded to this by improving the websites and platforms our customers use to access their details and their feedback led to a number of improvements to how we do business online. We introduced apps that let our customers access their Standard Life products on their smartphone or tablet, as well as new educational videos covering topics like with profits.

We also launched a new customer blog in the UK. The 'MoneyPlus' blog offers helpful information and expert opinion on a wide range of financial topics like, investing, planning for the future and current events on subjects like pensions and taxation. We will continue to develop the digital services we offer so we can keep adapting to how our customers want us to work with them.

Treating Customers Fairly

In developing products and services for our customers, our senior leaders are committed to following the Financial Services Authority's Treating Customers Fairly principles. We treat these principles as a minimum requirement and continue to invest in improving our customer processes so that we can exceed these outcomes. This includes our new customer conduct policy which was introduced during 2012.

Satisfied customers

We have redesigned the way the Group is structured so that it better meets our customers' needs and helps us build better relationships with them. Details on our individual businesses are included below.

UK and Europe

Our new customer focused organisation aligns our structure and roles around our customer's needs. We monitor our customers' thoughts and views of the service we give and one of the most informative measures is when we gather feedback on our service levels straight after we have interacted with them. Our average rating for 2012 for customer satisfaction in the UK was 4.86 out of 5 (2011: 4.85) and for intermediary satisfaction it was 4.77 out of 5 (2011: 4.74).

In 2012, our UK and Europe business was recognised with awards, including:

- 'Retirement Solutions Provider of the Year' at the Money Marketing Awards
- 'Bundled/Full Service Defined Contribution Provider of the Year' at the Professional Pension Awards
- Gold award for Direct Marketing effectiveness at the Marketing Society Star Awards
- 'European Pensions Communications Award' at the European Pensions Awards
- Awarded two five-star ratings for both the full Bespoke Discretionary Service and Managed Portfolio Services by independent financial research company Defaqto
- Standard Life Wealth was recognised twice in Citywire's 'Top 100 Brightest Wealth Stars' of 2012

Standard Life Investments

Our business remains committed to delivering strong investment performance, which we achieve through our 'focus on change' investment philosophy and high levels of client service. We monitor our clients' thoughts and views through our annual client survey. In 2012, 91% of our Institutional clients (2011: 84%) viewed us as a firm to be trusted and 85% (2011: N/A) perceived Standard Life Investments to be focused on long-term investing. High quality support by our client service teams, combined with strong investment performance from our fund management teams, has been recognised with many awards in 2012, including:

- Financial Adviser's special 'Best Investment Service Provider 1993-2011' award in recognition of long-term commitment to the IFA community over the last 19 years
- Our Global Absolute Return Strategies Fund winning the Absolute Return category at the Investment Week Fund Manager of the Year awards
- Standard Life Investments' Global Index Linked Bond Fund being highly commended in the global bond category of the Money Observer Fund Awards 2012
- Our UK Smaller Companies Fund and the Corporate Bond Fund making it on to S&P Capital IQ's winners list of the best funds with a decade-long track record
- John Hancock GARS fund was awarded the US rookie fund of the year in the Wall Street Journal

- Standard Life Investments collected the Investment Manager of the Year award at the Irish Pensions Awards
- A five-star award in the Investment category at the FTAdviser Online Service Awards, as voted for by IFAs, for the best website

Canada

We continue to invest in technology, training and processes to help us provide the level of service our customers need and expect. This includes continuing to improve how we do business with them online, making it easier for both sponsors and participants to administer our products.

Our customer focus has earned us a number of awards during 2012, including:

- Internet Advertising Competition award in the 'Best Mutual Fund Website' category from the Web Marketing Association, recognising Standard Life Mutual Funds' excellence in online advertising
- Environics Advisor Perception Study ranked Standard Life Canada first in adviser perception of segregated funds division, and second in adviser perception of overall company. We also ranked in the top three mutual fund wholesaling teams in Canada.
- Four Meritas socially responsible investment (SRI) funds offered to group savings and retirement clients or in retail segregated funds were among the Corporate Knights 2012 Responsible Investing Guide's top 10, recognising our fund performance and integration of SRI into the investment process. We are one of the few major insurers to offer SRIs in segregated funds, and the first to add SRI funds under managed portfolios in group savings and retirement plan offerings.
- IFCA Award of Excellence for the 2011/2012 RRSP Campaign for Group Savings and Retirement
- IFCA Honourable Mention for the 'Plan for life' advertising campaign to sponsors and advisers

Asia and Emerging Markets

In 2012, we actively managed our customer relationships and developed additional digital services which will add further customer value to our propositions.

All our operations in Asia and Emerging Markets are committed to maintaining the highest level of customer service. This commitment to customer service was acknowledged during 2012 with our businesses receiving three International Adviser Life Awards in 2012:

- 'Best for adviser/customer support' in the UK offshore category
- 'Best for adviser/customer support' in the Asia category, our first International Adviser award in Hong Kong
- 'Best regular premium investment product' in the UK offshore category for the recurrent single premium bond product

In addition, Standard Life Asia also won:

- Most Valuable Company award from MediaZone
- Outstanding achiever award in the ILAS provider category by Benchmark magazine

HDFC Life, our joint venture in India won various awards in 2012, including:

- 'Best Private Life Insurer' at CNBC TV18 Best Bank and Financial Institution Awards 2012
- For the second consecutive year, HDFC Life have received the Best Product Innovation Award at the Indian Insurance Awards 2012
- Golden Peacock Award for Product Innovation in 2012 awarded by Institute of Directors for 'Click2Buy' HDFC Life point of sales underwriting

1.7 Our people

We know how important our people are in helping achieve our vision and deliver on our strategy. We understand that highly engaged people are more productive and have a positive impact on profit and shareholder value. Our people have access to excellent development opportunities and we continue to use our employee insight to help us strengthen the relationship that each individual employee has with our business.

People strategy

Our people strategy covers four key themes:

- Strengthening our leadership – developing powerful, consistent leadership and identifying and growing tomorrow's leaders at all levels across the organisation
- Developing our organisational capability – building the people resources, capabilities and behaviours we need to support the business
- Transforming the way we work – designing and building an organisation that is fit for purpose and scalable for the future
- Building the environment we work in – defining and building the high performance culture we aspire to

Leadership and talent

We work to bring out the best in our people and enable everyone to fulfil their potential. Everyone is seen as talent and we understand the need to offer development and learning opportunities at all levels. To attract and retain the best talent for Standard Life, we appreciate the importance of providing great development and career opportunities for our people at all levels and across all geographic locations. With this in mind, the Group Development Framework was created to provide development experiences for people at all levels and up to the executive team level. Participation in the different elements is driven by business priorities and individual needs as agreed during performance and development conversations, which we encourage all our people to have.

Senior leadership group

Our aim is to have a sector leading leadership team. We continue to ensure all senior leaders have stretching and meaningful development plans. As a result, our succession cover for executive roles has been strengthened and we continue to increase the ratio of internal appointments into senior roles. We also provide access to external coaches and engage with accredited business schools on programmes which address development needs and business specific expertise. We also started to externally benchmark our top senior talent against the external market and will continue to do this in 2013.

Talent programmes

Our award-winning talent programmes for senior leaders, emerging leaders and graduates are part of our continued investment in creating strong leadership pipelines to support future growth. We work closely with external organisations, leveraging their skills and expertise in providing top class development for our best people.

Graduates

We have always recognised the importance of having a strong graduate programme and in 2012 we designed and launched our first group-wide graduate recruitment and development programme. The objectives of this programme are to increase the diversity of our graduates, provide a core development intervention and a single recruitment proposition. We will continue to recruit graduates across a number of different disciplines to provide a strong pipeline of talent.

Leadership development programme

One of our strategic priorities is to build leadership capability at all levels in the organisation. We have continued to run the Leadership Development Programme in 2012 which supports all our leaders in developing skills and greater self awareness to perform effectively within their current role. By the end of 2012, 700 people had taken part in our leadership development programmes.

Edinburgh Guarantee

We strongly believe that large organisations have a key role in addressing youth unemployment in the UK. We play a leading role in supporting the youth unemployment agenda in Edinburgh and have been working closely with Edinburgh council on offering work placements and skills development to school leavers, with 20 individuals taking part in 2012. The paid work placements provide work experience in teams across our business. Four interns secured permanent jobs and many others have had their contract extended and will be with us for longer. The programme includes structured development to help the young people build their skills and confidence and allows them the opportunity to work in teams across our business, getting real work experience which sets them up for their future career. We continue to build on this as part of our sustainability agenda and plan to recruit a further 32 individuals in 2013.

Engagement and well-being

Our employee survey measures how engaged our people are and how enabled they feel to do their job to the best of their ability. The results from this survey have helped us to agree three priority themes for improvement across the Group. These priority themes are called product advocacy, conditions in the job and performance management. Each theme was sponsored by a member of the Group executive team and specific actions have been taken to improve our engagement and enablement. 86% of our people completed the survey in 2012 and action planning on the results began in early 2013.

Well-being is a strategic priority and promoting a healthy work environment helps to encourage employee engagement. This leads to improved performance and better business results. We signed up for the 2012 Global Corporate Challenge, a 16 week healthy living and activity campaign. Over 2,000 employees from across the Group took part. At the end of the challenge, Standard Life was ranked 10th most active organisation globally out of the 1,200 that took part. In addition, all our businesses have clear wellbeing plans that include local activities to encourage healthy lifestyles.

Our performance culture

We reward our people when they perform well. We provide a reward framework that recognises excellent performance and provide choice and flexibility so our people can tailor their benefits package. We continued to embed a performance culture by making a clear link between performance and pay, built around our performance management framework. In 2012, we strengthened this message by introducing a flexible pay matrix to help with determining employees' salary awards. Salary awards are based on where an employee is positioned within their salary band and also on their performance rating. This provides a simple and transparent process which is easy to understand and enables us to continue building a strong performance culture that recognises and rewards high performance. We continue to ensure that performance becomes part of regular conversations between managers and employees across our business.

Diversity and inclusion

In 2012 we committed to a long-term Group diversity strategy with three themes called building awareness, attraction and development and retention. This strategy is aligned to our Group people strategy and reflects our values and what we stand for as an organisation. The diversity activities started in 2012 will contribute to the cultural shift in our working environment.

In 2012 the Women's Development Network was launched to employees in the UK. The network has grown in membership to over 350 people, running 11 development events since April 2012. The network has been directly supported by a number of our most senior leaders.

The diversity of our Board continues to demonstrate good practice. We have good representation of Board members from different nationalities and our gender representation is high. We were cited seventh of the FTSE 100 companies for gender representation in 2012. There are currently four women on our Board out of 12.

1.8 Basis of preparation

Overview

Our Business review for the year to 31 December 2012 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 – Chief Executive's overview. Principal risks are detailed in Section 1.5 – 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 (non-GAAP) measures, which have been used in the Business review, are useful for both management and investors and make it easier to understand our Group's performance.

The most important non-GAAP measures in the Business review include operating profit, European Embedded Value (EEV) operating profit and EEV operating capital and cash generation. All non-GAAP measures should be read together with the Group's IFRS consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows, which are presented in the Group financial statements section of this report.

Going concern

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

IFRS and EEV reporting

The financial results are prepared on both an IFRS basis and an EEV basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies. The IFRS financial results in the Business review and in the Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies in the Group's Annual Report and Accounts 2012. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 and the revised Interim Transitional Guidance issued in September 2012 by the Chief Financial Officers (CFO) Forum. The CFO Forum represents the chief financial officers of major European insurers, including Standard Life. EEV methodology has been applied to covered business, which mainly comprises the Group's long-term savings business. Non-covered business is reported on an IFRS basis. The EEV financial results in the Business review, and in the EEV financial information section of this report have been prepared in accordance with the EEV methodology in Note 17 of the EEV financial information section of this report for 2012, and in the relevant EEV methodology notes included in the Annual Report and Accounts 2011 in respect of the comparative period.

Group operating profit and EEV operating profit

The 2012 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 41 of this report, presents profit before tax attributable to equity holders adjusted for non-operating items. Further details on the calculation of Group operating profit is presented in the accounting policies section of this report – Note 2.1 (a) Basis of preparation. Group operating profit has not been audited by our independent auditors. The 2012 EEV consolidated income statement on page 70, presents EEV profit showing both operating and non-operating items. By presenting our results in this way, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group.

Forward-looking statements

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

IFRS consolidated income statement
For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Revenue			
Gross earned premium		**4,315**	3,343
Premium ceded to reinsurers		**(95)**	(98)
Net earned premium		**4,220**	3,245
Investment return		**13,982**	4,911
Fee and commission income		**906**	855
Other income		**77**	75
Total revenue		**19,185**	9,086
Expenses			
Claims and benefits paid		**6,562**	6,245
Claim recoveries from reinsurers		**(590)**	(620)
Net insurance benefits and claims		**5,972**	5,625
Change in reinsurance assets and liabilities	2.9	**44**	383
Change in insurance and participating liabilities	2.9	**1,339**	980
Change in investment contract liabilities	2.9	**7,718**	(757)
Change in unallocated divisible surplus	2.9	**(39)**	(87)
Expenses under arrangements with reinsurers		**656**	516
Administrative expenses			
Restructuring and corporate transaction expenses	2.3	**114**	72
Other administrative expenses		**1,574**	1,591
Total administrative expenses	2.3	**1,688**	1,663
Change in liability for third party interest in consolidated funds		**782**	103
Finance costs		**77**	116
Total expenses		**18,237**	8,542
Share of profit from associates and joint ventures		**48**	51
Profit before tax		**996**	595
Tax expense attributable to policyholders' returns	2.4	**218**	217
Profit before tax attributable to equity holders' profits		**778**	378
Total tax expense	2.4	**269**	249
Less: Tax attributable to policyholders' returns	2.4	**(218)**	(217)
Tax expense attributable to equity holders' profits	2.4	**51**	32
Profit for the year		**727**	346
Attributable to:			
Equity holders of Standard Life plc		**698**	298
Non-controlling interests		**29**	48
		727	346
Earnings per share			
Basic (pence per share)	2.5	**29.7**	13.0
Diluted (pence per share)	2.5	**29.5**	12.9

IFRS consolidated statement of comprehensive income
For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Profit for the year		**727**	346
Fair value losses on cash flow hedges		**(1)**	-
Actuarial (losses)/gains on defined benefit pension schemes		**(97)**	121
Effect of limit on defined benefit pension schemes' surpluses		**27**	(209)
Revaluation of land and buildings		**5**	(5)
Net investment hedge		**18**	13
Exchange differences on translating foreign operations		**(65)**	(53)
Equity movements transferred to unallocated divisible surplus	2.9	**11**	11
Aggregate equity holder tax effect of items recognised in comprehensive income	2.4	**102**	27
Other comprehensive income for the year		**-**	(95)
Total comprehensive income for the year		**727**	251
Attributable to:			
Equity holders of Standard Life plc		**698**	203
Non-controlling interests		**29**	48
		727	251

Pro forma reconciliation of consolidated operating profit to IFRS profit for the year

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Operating profit before tax			
UK and Europe		**419**	266
Standard Life Investments		**145**	125
Canada		**355**	187
Asia and Emerging Markets		**5**	(6)
Other		**(24)**	(28)
Operating profit before tax	2.2	**900**	544
Adjusted for the following items:			
Short-term fluctuations in investment return and economic assumption changes		**(29)**	(139)
Restructuring and corporate transaction expenses		**(109)**	(70)
Impairment of intangible assets		**-**	(5)
Other operating profit adjustments		**(4)**	-
Non-operating loss before tax	2.2	**(142)**	(214)
Share of joint ventures' and associates' tax expense[1]	2.2	**(9)**	-
Profit attributable to non-controlling interests	2.2	**29**	48
Profit before tax attributable to equity holders' profits		**778**	378
Tax (expense)/credit attributable to:			
Operating profit	2.2	**(124)**	(87)
Adjusted items	2.2	**73**	55
Total tax expense attributable to equity holders' profits		**(51)**	(32)
Profit for the year		**727**	346

[1] In 2011, tax of £11m included in the share of profits or losses from joint ventures and associates was charged to operating profit before tax.

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

IFRS consolidated statement of financial position
As at 31 December 2012

	Notes	2012 £m	2011 £m
Assets			
Intangible assets		**214**	200
Deferred acquisition costs		**904**	920
Investments in associates and joint ventures		**328**	326
Investment property	2.11	**8,565**	8,743
Property, plant and equipment		**156**	160
Pension and other post-retirement benefit assets	2.10	**339**	342
Deferred tax assets		**178**	210
Reinsurance assets	2.9	**6,912**	6,818
Loans	2.11	**3,299**	3,219
Derivative financial assets	2.11	**2,150**	2,212
Equity securities and interests in pooled investment funds	2.11	**65,812**	58,531
Debt securities	2.11	**73,301**	67,176
Receivables and other financial assets	2.11	**1,717**	1,851
Other assets		**284**	228
Cash and cash equivalents	2.11	**9,942**	9,187
Total assets		**174,101**	160,123
Equity			
Share capital	2.8(a)	**236**	235
Shares held by trusts	2.8(b)	**(7)**	(19)
Share premium reserve		**1,110**	1,110
Retained earnings		**1,437**	1,030
Other reserves		**1,579**	1,605
Equity attributable to equity holders of Standard Life plc		**4,355**	3,961
Non-controlling interests		**341**	358
Total equity		**4,696**	4,319
Liabilities			
Non-participating contract liabilities	2.9	**113,251**	102,558
Participating contract liabilities	2.9	**31,618**	32,553
Reinsurance liabilities	2.9	**381**	245
Deposits received from reinsurers		**6,136**	6,036
Third party interest in consolidated funds		**12,037**	8,428
Borrowings		**108**	170
Subordinated liabilities	2.17	**1,868**	1,186
Pension and other post-retirement benefit provisions	2.10	**135**	115
Deferred income		**352**	388
Deferred tax liabilities		**43**	145
Income tax liabilities		**150**	149
Derivative financial liabilities		**853**	1,102
Other financial liabilities		**2,323**	2,603
Other liabilities		**150**	126
Total liabilities		**169,405**	155,804
Total equity and liabilities		**174,101**	160,123

IFRS consolidated statement of changes in equity
For the year ended 31 December 2012

2012	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life plc £m	Non-controlling interests £m	Total equity £m
1 January		**235**	**(19)**	**1,110**	**1,030**	**1,605**	**3,961**	**358**	**4,319**
Profit for the year		-	-	-	698	-	698	29	**727**
Other comprehensive income for the year		-	-	-	32	(32)	-	-	**-**
Total comprehensive income for the year		**-**	**-**	**-**	**730**	**(32)**	**698**	**29**	**727**
Distributions to equity holders		-	-	-	(331)	-	(331)	-	**(331)**
Issue of share capital other than in cash	2.8	1	-	-	-	-	1	-	**1**
Reserves credit for employee share-based payment schemes		-	-	-	-	25	25	-	**25**
Transfer to retained earnings for vested employee share-based payment schemes		-	-	-	25	(25)	-	-	**-**
Shares acquired by employee trusts		-	(5)	-	-	-	(5)	-	**(5)**
Shares distributed by employee trusts		-	17	-	(17)	-	-	-	**-**
Other movements in non-controlling interests in the year		-	-	-	-	-	-	(46)	**(46)**
Aggregate tax effect of items recognised directly in equity	2.4	-	-	-	-	6	6	-	**6**
31 December		**236**	**(7)**	**1,110**	**1,437**	**1,579**	**4,355**	**341**	**4,696**

2011	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life plc £m	Non-controlling interests £m	Total equity £m
1 January		**228**	**(21)**	**976**	**1,094**	**1,626**	**3,903**	**335**	**4,238**
Profit for the year		-	-	-	298	-	298	48	346
Other comprehensive income for the year		-	-	-	(61)	(34)	(95)	-	(95)
Total comprehensive income for the year		**-**	**-**	**-**	**237**	**(34)**	**203**	**48**	**251**
Distributions to equity holders		-	-	-	(303)	-	(303)	-	(303)
Issue of share capital other than in cash	2.8	7	-	134	-	-	141	-	141
Reserves credit for employee share-based payment schemes		-	-	-	-	24	24	-	24
Transfer to retained earnings for vested employee share-based payment schemes		-	-	-	11	(11)	-	-	-
Shares acquired by employee trusts		-	(7)	-	-	-	(7)	-	(7)
Shares distributed by employee trusts		-	9	-	(9)	-	-	-	-
Other movements in non-controlling interests in the year		-	-	-	-	-	-	(25)	(25)
31 December		**235**	**(19)**	**1,110**	**1,030**	**1,605**	**3,961**	**358**	**4,319**

IFRS consolidated statement of cash flows
For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Profit before tax		**996**	595
Change in operating assets		**(14,319)**	(1,926)
Change in operating liabilities		**11,342**	4,026
Adjustment for non-cash movements in investment income		**(6)**	(28)
Change in unallocated divisible surplus		**(39)**	(87)
Non-cash and items relating to investing and financing activities		**84**	107
Taxation paid		**(284)**	(297)
Net cash flows from operating activities		**(2,226)**	2,390
Cash flows from investing activities			
Purchase of property, plant and equipment		**(18)**	(15)
Acquisition of subsidiaries net of cash acquired		**-**	(41)
Acquisition of investments in associates and joint ventures		**(16)**	(23)
Proceeds from sale of intangible assets		**-**	1
Purchase of intangible assets		**(38)**	(40)
Net cash flows from investing activities		**(72)**	(118)
Cash flows from financing activities			
Proceeds from other borrowings		**-**	5
Repayment of other borrowings		**(42)**	(35)
Proceeds from subordinated liabilities		**747**	-
Repayment of subordinated liabilities		**(50)**	(591)
Capital flows from third party interest in consolidated funds and non-controlling interests		**2,983**	2,177
Distributions paid to non-controlling interests		**(75)**	(65)
Shares acquired by trusts		**(5)**	(7)
Interest paid		**(77)**	(125)
Ordinary dividends paid	2.6	**(331)**	(162)
Net cash flows from financing activities		**3,150**	1,197
Net increase in cash and cash equivalents		**852**	3,469
Cash and cash equivalents at the beginning of the year		**9,125**	5,701
Effects of exchange rate changes on cash and cash equivalents		**(79)**	(45)
Cash and cash equivalents at the end of the year[1]		**9,898**	9,125
Supplemental disclosures on cash flows from operating activities			
Interest paid		**11**	11
Interest received		**2,694**	2,832
Dividends received		**1,822**	1,575
Rental income received on investment properties		**595**	634

[1] Comprises £9,942m (2011: £9,187m) of cash and cash equivalents and £44m (2011: £62m) of overdrafts which are reported in borrowings in the statement of financial position.

Notes to the IFRS financial information

2.1 Accounting policies

(a) Basis of preparation

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

The accounting policies as set out in the Group's Annual Report and Accounts for the year ended 31 December 2012 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 2011.

The Group has adopted the following amendments to IFRSs, International Accounting Standards (IAS) and interpretations which are effective from 1 January 2012 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Group's financial statements:

- Amendment to IFRS 1 *First time adoption of IFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendment to IFRS 7 *Financial instruments: Disclosures – Transfer of financial assets*

(b) Operating profit

The Group's chosen supplementary measure of performance is operating profit. Operating profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from operating profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from operating profit and is presented within profit before tax.

Operating profit also excludes the impact of the following items:

- Restructuring costs and significant corporate transaction expenses
- Impairment of intangible assets
- Profit or loss arising on the disposal of a subsidiary, joint venture or associate
- Amortisation of intangibles acquired in business combinations
- Items which are one-off in nature and outside the control of management and, which due to their size or nature, are not indicative of the long-term operating performance of the Group

(c) Preliminary announcement

The preliminary announcement for the year ended 31 December 2012 does not constitute statutory accounts as defined in Section 434 of the UK Companies Act 2006. PricewaterhouseCoopers LLP have audited the consolidated statutory accounts for the Group for the years ended 31 December 2011 and 31 December 2012 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 2011 have been filed with the Registrar of Companies. The Group's Annual Report and Accounts for the year ended 31 December 2012 will be available from 2 April 2013.

2.2 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. The Group's reportable segments are as follows:

UK and Europe
UK and Europe operations provide a broad range of pensions, protection, savings and investment products to individual and corporate customers in the UK, Germany, Austria and Ireland.

Standard Life Investments
Investment management services are provided by Standard Life Investments to the Group's other reportable segments. Standard Life Investments also provides a range of investment products for individuals and institutional customers through a number of different investment vehicles. This segment includes the Group's share of the results of HDFC Asset Management Company Limited.

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

Asia and Emerging Markets
The businesses included in Asia and Emerging Markets offer a range of life and pension products and comprise wholly owned operations in Ireland and Hong Kong and investments in joint ventures (JVs) in India and China.

Other
This primarily includes the group corporate centre and related activities.

(b) Reportable segments - group operating profit, revenue and asset information

IFRS 8 *Operating Segments* requires that the information presented in the financial statements is based on information provided to the 'Chief Operating Decision Maker'. The Chief Operating Decision Maker for the Group is the executive team.

The information used by the executive team to manage the business of the Group has evolved and the segmental analysis has been updated to reflect the financial information now reviewed by the executive team. The key performance metrics of the Group include operating profit and assets under administration (AUA), which are analysed in the tables that follow by reportable segment.

In June 2012, changes were announced in the way the Group manages its businesses. The domestic businesses in Germany and Ireland, previously reported in the International segment, have been combined with the UK to create UK and Europe. The other components of International now form Asia and Emerging Markets. These changes provide stronger focus in our chosen markets and will help drive further value in each of the markets in which the Group operates. The reportable segments have therefore been changed for the year ended 31 December 2012.

Comparative amounts have also been prepared on the same basis to allow more meaningful comparison with the prior year.

The Global investment management segment has been renamed Standard Life Investments.

Income statement and asset information is presented by reportable segment in the tables that follow.

(b)(i) Analysis of Group operating profit by segment

As described beneath the pro forma reconciliation of consolidated operating profit to IFRS profit for the year, operating profit is considered to present an indication of the long-term operating performance of the Group. Operating profit is the key measure utilised by the Group's management in their evaluation of segmental performance and is therefore also presented by reportable segment.

31 December 2012	Notes	UK and Europe £m	Standard Life Investments[1] £m	Canada £m	Asia and Emerging Markets £m	Other £m	Elimination £m	Total £m
Fee based revenue		831	408	172	54	-	(194)	**1,271**
Spread/risk margin		112	-	393	-	-	-	**505**
Total income		**943**	**408**	**565**	**54**	**-**	**(194)**	**1,776**
Acquisition expenses		(202)	-	(79)	(11)	-	-	**(292)**
Maintenance expenses		(461)	(281)	(240)	(46)	-	194	**(834)**
Group corporate centre costs		-	-	-	-	(47)	-	**(47)**
Capital management		43	-	109	-	23	-	**175**
Share of joint ventures' and associates' profit before tax[1]		-	18	-	8	-	-	**26**
Other		96	-	-	-	-	-	**96**
Operating profit/(loss) before tax		**419**	**145**	**355**	**5**	**(24)**	**-**	**900**
Tax on operating profit		(17)	(33)	(75)	3	(2)	-	**(124)**
Share of joint ventures' and associates' tax expense[2]		-	(5)	(4)	-	-	-	**(9)**
Operating profit/(loss) after tax		**402**	**107**	**276**	**8**	**(26)**	**-**	**767**
Adjusted for the following items:								
Short-term fluctuations in investment return and economic assumption changes	2.7	(4)	-	(19)	(1)	(5)	-	**(29)**
Restructuring and corporate transaction expenses	2.3	(93)	(3)	(3)	(3)	(7)	-	**(109)**
Impairment of intangible assets		-	-	-	-	-	-	**-**
Other operating profit adjustments		-	-	-	-	(4)	-	**(4)**
Total non-operating items		**(97)**	**(3)**	**(22)**	**(4)**	**(16)**	**-**	**(142)**
Tax on non-operating items		50	1	17	1	4	-	**73**
Profit for the year attributable to equity holders of Standard Life plc		**355**	**105**	**271**	**5**	**(38)**	**-**	**698**
Profit attributable to non-controlling interests								**29**
Profit for the year								**727**

1 The share of profit from HDFC Asset Management Company Limited is now reflected in share of joint ventures' and associates' profit before tax. This was previously included in fee based revenue. Share of joint ventures' and associates' profit before tax includes the Group's share of the results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

2 In 2011, tax of £11m included in the share of profits or losses from joint ventures and associates was charged to operating profit before tax.

Each operating segment reports total income as its measure of revenue in its analysis of operating profit. Fee based revenue consists of income generated primarily from asset management charges, premium based charges and transactional charges. Spread/risk margin reflects the margin earned on spread/risk business and includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes.

Eliminations relate to inter-segment transactions, which are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

The Group has a widely diversified policyholder base and is therefore not reliant on any individual customers.

2.2 Segmental analysis *continued*

(b) Reportable segments - group operating profit, revenue and asset information *continued*

(b)(i) Analysis of Group operating profit by segment *continued*

31 December 2011	Notes	UK and Europe £m	Standard Life Investments[1] £m	Canada £m	Asia and Emerging Markets £m	Other £m	Elimination £m	Total £m
Fee based revenue		798	368	166	45	-	(172)	**1,205**
Spread/risk margin		78	-	281	-	-	-	**359**
Total income		**876**	**368**	**447**	**45**	**-**	**(172)**	**1,564**
Acquisition expenses		(226)	-	(78)	(21)	-	-	**(325)**
Maintenance expenses		(459)	(258)	(220)	(32)	(3)	172	**(800)**
Group corporate centre costs		-	-	-	-	(50)	-	**(50)**
Capital management		11	-	38	-	25	-	**74**
Share of joint ventures' and associates' profit before tax[1]		-	15	-	2	-	-	**17**
Other		64	-	-	-	-	-	**64**
Operating profit/(loss) before tax		**266**	**125**	**187**	**(6)**	**(28)**	**-**	**544**
Tax on operating profit		(26)	(30)	(31)	2	(2)	-	**(87)**
Operating profit/(loss) after tax		**240**	**95**	**156**	**(4)**	**(30)**	**-**	**457**
Adjusted for the following items:								
Short-term fluctuations in investment return and economic assumption changes	2.7	(59)	1	(72)	-	(9)	-	**(139)**
Restructuring and corporate transaction expenses	2.3	(51)	(5)	(2)	(1)	(11)	-	**(70)**
Impairment of intangible assets		-	-	-	-	(5)	-	**(5)**
Other operating profit adjustments		-	-	-	-	-	-	**-**
Total non-operating items		**(110)**	**(4)**	**(74)**	**(1)**	**(25)**	**-**	**(214)**
Tax on non-operating items		29	1	19	-	6	-	**55**
Profit for the year attributable to equity holders of Standard Life plc		**159**	**92**	**101**	**(5)**	**(49)**	**-**	**298**
Profit attributable to non-controlling interests								**48**
Profit for the year								**346**

[1] The share of profit from HDFC Asset Management Company Limited is now reflected in share of joint ventures' and associates' profit before tax. This was previously included in fee based revenue. Share of joint ventures' and associates' profit before tax includes the Group's share of the results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

(b)(ii) Total income

The following table provides a reconciliation of total income, as presented in the analysis of Group operating profit by segment, to total revenue, as presented on the IFRS consolidated income statement:

	2012 £m	2011 £m
Fee based revenue	**1,271**	1,205
Spread/risk margin	**505**	359
Total income as presented in the analysis of Group operating profit by segment	**1,776**	1,564
Consolidation/policyholder adjustments	**279**	244
Tax movement attributable to policyholder returns	**218**	217
Net insurance benefits and claims	**5,972**	5,625
Change in reinsurance assets and liabilities	**44**	383
Change in insurance and participating liabilities	**1,339**	980
Investment return credited and related benefits on non-participating investment liabilities	**7,718**	(757)
Change in unallocated divisible surplus	**(39)**	(87)
Expenses under arrangements with reinsurers	**656**	516
Change in liability for third party interest in consolidated funds	**782**	103
Non-operating items	**(98)**	(168)
Other	**538**	466
Total revenue as presented on the IFRS consolidated income statement	**19,185**	9,086

Consolidation adjustments mainly relates to amounts attributable to third party interest in consolidated funds which are included in the IFRS consolidated income statement but excluded from total income. Non-operating items are the adjustments that relate to total income which reconcile operating profit to profit for the year as shown in the analysis of Group operating profit by segment in Note 2.2(b)(i).

(b)(iii) Total expenses

The following table provides a reconciliation of total operating expenses, as presented in the analysis of Group operating profit by segment, to total expenses, as presented on the IFRS consolidated income statement:

	2012 £m	2011 £m
Acquisition expenses	**292**	325
Maintenance expenses	**834**	800
Group corporate centre costs	**47**	50
Total operating expenses as presented in the analysis of Group operating profit by segment	**1,173**	1,175
Consolidation adjustments	**264**	224
Net insurance benefits and claims	**5,972**	5,625
Change in reinsurance assets and liabilities	**44**	383
Change in insurance and participating liabilities	**1,339**	980
Change in investment contract liabilities	**7,718**	(757)
Change in unallocated divisible surplus	**(39)**	(87)
Expenses under arrangements with reinsurers	**656**	516
Change in liability for third party interest in consolidated funds	**782**	103
Finance costs	**77**	116
Non-operating items	**113**	75
Other	**138**	189
Total expenses as presented on the IFRS consolidated income statement	**18,237**	8,542

Consolidation adjustments mainly relates to expenses attributable to third party interests in consolidated funds which are included in the total expenses consolidated income statement but excluded from total operating expenses. Finance costs are included in capital management in the analysis of Group operating profit by segment.

Non-operating items are the adjustments that relate to total expenses which reconcile operating profit to profit for the year as shown in the analysis of Group operating profit by segment in Note 2.2(b)(i).

(b)(iv) Analysis of assets under administration by segment

Group AUA presents a measure of the total assets of the Group including those administered on behalf of customers and institutional clients. AUA represents the IFRS gross assets of the Group adjusted to include third party AUA, which is not included in the IFRS consolidated statement of financial position. In addition, certain assets on the IFRS consolidated statement of financial position are excluded from the definition, including reinsurance assets, deferred acquisition costs and intangible assets.

As a long-term savings and investments business, AUA is a key driver of shareholder value and is consequently one of the key measures utilised by the executive team in their evaluation of segmental performance. AUA is therefore presented by reportable segment (in billions).

31 December 2012	UK and Europe £bn	Standard Life Investments £bn	Canada £bn	Asia and Emerging Markets £bn	Other £bn	Elimination[1] £bn	Total £bn
Assets under administration							
Fee based	121	83	16	4	-	(43)	**181**
Spread/risk	16	-	10	-	-	-	**26**
Assets not backing products in long-term savings business	6	-	2	-	-	-	**8**
Joint ventures	-	-	-	1	-	-	**1**
Other corporate assets	-	-	-	-	2	-	**2**
Total assets under administration	**143**	**83**	**28**	**5**	**2**	**(43)**	**218**
Third party AUA							**(65)**
Reinsurance assets							**7**
Deferred acquisition costs							**1**
Assets attributable to third party interest in consolidated funds and non-controlling interests							**13**
Other							**-**
Total assets per IFRS consolidated statement of financial position							**174**

[1] In order to be consistent with the presentation of new business information, certain products are included in both Standard Life Investments AUA and other segments. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

2.2 Segmental analysis *continued*

(b) Reportable segments - group operating profit, revenue and asset information *continued*

(b)(iv) Analysis of assets under administration by segment *continued*

The third party AUA adjustment mainly relates to the investment products element of third party funds under management and non-insured SIPP AUA which are not included in the IFRS consolidated statement of financial position. Assets attributable to third party interest in consolidated funds and non-controlling interests are included in the IFRS consolidated statement of financial position but excluded from Group's AUA.

31 December 2011	UK and Europe £bn	Standard Life Investments £bn	Canada £bn	Asia and Emerging Markets £bn	Other £bn	Elimination[1] £bn	Total £bn
Assets under administration							
Fee based	110	72	14	3	-	(36)	**163**
Spread/risk	15	-	10	-	-	-	**25**
Assets not backing products in long-term savings business	6	-	2	-	-	-	**8**
Joint ventures	-	-	-	1	-	-	**1**
Other corporate assets	-	-	-	-	2	(1)	**1**
Total assets under administration	**131**	**72**	**26**	**4**	**2**	**(37)**	**198**
Third party AUA							**(55)**
Reinsurance assets							**7**
Deferred acquisition costs							**1**
Assets attributable to third party interest in consolidated funds and non-controlling interests							**10**
Other							**(1)**
Total assets per IFRS consolidated statement of financial position							**160**

[1] In order to be consistent with the presentation of new business information, certain products are included in both Standard Life Investments AUA and other segments. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

(c) Total revenue by geographical location

Total revenue as presented on the IFRS consolidated income statement split by geographic location in which it was earned is as follows:

	2012 £m	2011 £m
UK	**12,540**	4,767
Canada	**3,363**	2,633
Rest of the world	**3,282**	1,686
Total	**19,185**	9,086

The revenue of the operating businesses is allocated based on customer location. The return on investment funds is allocated based on where funds are registered.

(d) Non-current non-financial assets by geographical location

	2012 £m	2011 £m
UK	**7,126**	7,242
Canada	**1,391**	1,413
Rest of the world	**418**	448
Total	**8,935**	9,103

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

2.3 Administrative expenses

	Notes	2012 £m	2011 £m
Restructuring and corporate transaction expenses		**114**	72
Interest expense		**17**	19
Commission expenses		**394**	393
Staff costs and other employee-related costs		**612**	569
Recovery under insurance claim	2.13	**(98)**	-
Other administrative expenses		**646**	656
		1,685	1, 709
Acquisition costs deferred during the year		**(202)**	(178)
Impairment of deferred acquisition costs		**3**	-
Amortisation of deferred acquisition costs		**180**	132
Release of deferred acquisition costs		**22**	-
Total administrative expenses		**1,688**	1,663

Included in staff costs and other employee related costs in 2011 is a credit of £64m resulting from a change in the basis of future pension discretionary increases in the UK staff pension scheme.

During the year to 31 December 2012, certain non-participating investment contracts were reclassified as non-participating insurance contracts due to a change in the benefits available under the contracts. As a result of the reclassification deferred income of £26m has been released and recognised in the consolidated income statement in fee and commission income. Deferred acquisition costs of £22m that were considered recovered by the fees that had previously been deferred have also been released, resulting in a net increase of £4m in profit before tax.

In addition to interest expense of £17m (2011: £19m), interest expense of £77m (2011: £116m) was incurred in respect of subordinated liabilities and £36m (2011: £42m) in respect of deposits from reinsurers. For the year ended 31 December 2012, total interest expense is £130m (2011: £177m).

Total restructuring costs incurred during the year were £114m (2011: £72m), relating to a number of business unit restructuring programmes, Solvency 2 and the Retail Distribution Review. Of the restructuring costs, £109m (2011: £70m) is adjusted when determining operating profit before tax, with the remaining £5m (2011: £2m) incurred by the Heritage With Profits Fund.

2.4 Tax expense

The tax expense is attributed as follows:

	2012 £m	2011 £m
Tax expense attributable to policyholders' returns	**218**	217
Tax expense attributable to equity holders' profits	**51**	32
Total tax expense	**269**	249

The Finance Act 2012 reduced the UK corporation tax rate to 23% with effect from 1 April 2013 and this rate has been applied in calculating the UK deferred tax position at 31 December 2012. The draft 2013 Finance Bill contains a provision to make a further 2% reduction in the UK rate of corporation tax which would result in the rate being 21% from 1 April 2014. These reductions have not been included in the calculation of deferred tax as they are subject to legislation being enacted in future years.

The new tax regime for UK life companies is effective from 1 January 2013. The basis of the regime will move from the FSA regulatory return to the statutory accounts. The deferred tax position of Standard Life Assurance Ltd (SLAL) has been updated to reflect the new regime. The transition to the new regime does not have a material impact on SLAL's deferred tax position.

The share of tax of associates and joint ventures is £9m (2011: £11m) and is included in profit before tax in the IFRS consolidated income statement in 'Share of profit from associates and joint ventures'.

2.4 Tax expense *continued*

The total tax expense is split as follows:

	2012 £m	2011 £m
Income tax:		
UK	**224**	269
Double tax relief	**(2)**	(2)
Overseas	**43**	31
Adjustment to tax expense in respect of prior years	**(32)**	12
Total income tax	**233**	310
Deferred tax:		
Deferred tax expense/(credit) arising from the current year	**36**	(61)
Total deferred tax	**36**	(61)
Total tax expense attributable to operations	**269**	249
Attributable to equity holders' profits	**51**	32

The adjustment to tax expense in respect of prior periods includes a current tax receivable amount of £37m of policyholder tax due to a correction made in a prior year tax return.

Unrecognised tax losses of £1m from previous years were used to reduce income tax expense (2011: £nil). Unrecognised losses and timing differences of £14m were used to reduce the deferred tax expense (2011: £12m).

Deferred tax of £26m (2011: £26m) has not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries.

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

	2012 £m	2011 £m
Tax credit on defined benefit pension schemes	**(102)**	(27)
Tax relating to each component of other comprehensive income	**(102)**	(27)

Tax relating to items taken directly to equity is as follows:

	2012 £m	2011 £m
Deferred tax on reserves for employee share-based payment shares	**(6)**	-
Tax relating to items taken directly to equity	**(6)**	-

2.5 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.

	2012	2011
Profit attributable to equity holders of Standard Life plc (£m)	**698**	298
Weighted average number of ordinary shares outstanding (millions)	**2,351**	2,301
Basic earnings per share (pence per share)	**29.7**	13.0

(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 be 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 could be issued, or purchased, assuming the exercise of the share options.

	2012	2011
Profit attributable to equity holders of Standard Life plc (£m)	**698**	298
Weighted average number of ordinary shares outstanding for diluted earnings per share (millions)[1]	**2,369**	2,314
Diluted earnings per share (pence per share)	**29.5**	12.9

[1] The number of ordinary shares outstanding at 31 December 2011 for diluted earnings per share has been restated following an amendment to the methodology used in the calculation of shares which have a dilutive effect. This restatement has no impact on diluted earnings per share.

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was 18 million (2011: 13 million).

(c) Alternative earnings per share

Earnings per share is also calculated based on operating profit before tax as well as on the profit attributable to equity holders. The Directors believe that earnings per share based on operating profit provides a better indication of the long-term operating business performance of the Group.

(c)(i) Basic alternative earnings per share

	2012 £m	2012 p per share	2011 £m	2011 p per share
Operating profit before tax	**900**	**38.3**	544	23.6
Short-term fluctuations in investment return and economic assumption changes	**(29)**	**(1.2)**	(139)	(6.0)
Restructuring and corporate transaction expenses	**(109)**	**(4.6)**	(70)	(3.1)
Impairment of intangible assets	**-**	**-**	(5)	(0.2)
Other operating profit adjustments	**(4)**	**(0.2)**	-	-
Non-operating loss before tax	**(142)**	**(6.0)**	(214)	(9.3)
Share of joint ventures' and associates' tax expense	**(9)**	**(0.4)**	-	-
Profit attributable to non-controlling interests	**29**	**1.2**	48	2.1
Profit before tax	**778**	**33.1**	378	16.4
Tax (expense)/credit attributable to:				
Operating profit	**(124)**	**(5.3)**	(87)	(3.7)
Adjusted items	**73**	**3.1**	55	2.4
Profit attributable to non-controlling interests	**(29)**	**(1.2)**	(48)	(2.1)
Profit attributable to equity holders of Standard Life plc	**698**	**29.7**	298	13.0

(c)(ii) Diluted alternative earnings per share

	2012 £m	2012 p per share	2011 £m	2011 p per share
Operating profit before tax	**900**	**38.0**	544	23.5
Short-term fluctuations in investment return and economic assumption changes	**(29)**	**(1.2)**	(139)	(6.0)
Restructuring and corporate transaction expenses	**(109)**	**(4.6)**	(70)	(3.1)
Impairment of intangible assets	**-**	**-**	(5)	(0.2)
Other operating profit adjustments	**(4)**	**(0.2)**	-	-
Non-operating loss before tax	**(142)**	**(6.0)**	(214)	(9.3)
Share of joint ventures' and associates' tax expense	**(9)**	**(0.4)**	-	-
Profit attributable to non-controlling interests	**29**	**1.2**	48	2.1
Profit before tax	**778**	**32.8**	378	16.3
Tax (expense)/credit attributable to:				
Operating profit	**(124)**	**(5.2)**	(87)	(3.7)
Adjusted items	**73**	**3.1**	55	2.4
Profit attributable to non-controlling interests	**(29)**	**(1.2)**	(48)	(2.1)
Profit attributable to equity holders of Standard Life plc	**698**	**29.5**	298	12.9

2.6 Dividends

The Company paid a final dividend of 9.20 pence per share (final 2010: 8.65 pence) totalling £216m in respect of the year ended 31 December 2011 on 31 May 2012 (final 2010: £197m) and an interim dividend of 4.90 pence per share (interim 2011: 4.60 pence) totalling £115m (interim 2011: £106m) in respect of the year ended 31 December 2012 on 14 November 2012.

Subsequent to 31 December 2012, the Directors have proposed a final dividend for the year ended 31 December 2012 of 9.80 pence per ordinary share, £231m in total. In addition, the Directors have proposed a special dividend of 12.80 pence per ordinary share, £302m in total. The dividends will be paid on 21 May 2013 to shareholders on the Company's register as at 5 April 2013, subject to approval at the Annual General Meeting on 14 May 2013. The dividends will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2013.

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

2.7 Short-term fluctuations in investment return and economic assumption changes

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

Operating profit is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from operating profit and are presented within profit before tax. As a result, the components of IFRS profit attributable to market movements and interest rate changes which give rise to variances between actual and expected investment returns, as well as the impact of changes in economic assumptions on equity holder liabilities, are excluded from operating profit and disclosed separately within the heading of short-term fluctuations in investment return and economic assumption changes.

The expected rates of return for debt securities, equity securities and property are determined separately for each of the Group's operations and are consistent with the expected rates of return as determined under the Group's published European Embedded Value (EEV) methodology. The expected rates of return for equity securities and property, with the exception of the Canadian operations, are determined based on the gilt spot rates of an appropriate duration plus an equity risk premium or property risk premium, respectively. The expected rates of return on equity securities and property for Canadian operations are determined by the Appointed Actuary in Canada.

The principal assumptions, as set at the start of the year, in respect of gross investment returns underlying the calculation of the expected investment return for equity securities and property are as follows:

	2012		2011	
	UK %	**Canada %**	UK %	Canada %
Equity securities	**4.93**	**8.60**	6.49	8.60
Property	**3.93**	**8.60**	5.49	8.60

In respect of debt securities at fair value through profit or loss, the expected rate of return is determined based on the average prospective yields for the debt securities actually held or, in respect of the Canadian operations, is determined by the Appointed Actuary in Canada. For debt securities classified as available-for-sale that support liabilities measured at amortised cost the expected rate of return is the effective interest rate adjusted for an allowance, established at initial recognition, for expected defaults. If debt securities classified as available-for-sale are sold, any gain or loss is amortised within the expected return over the period to the earlier of the maturity date of the sold debt security or the redemption date of the supported liability.

Gains and losses on foreign exchange are deemed to represent short-term fluctuations in investment return and economic assumption changes and thus are excluded from operating profit.

For the year ended 31 December 2012, short-term fluctuations in investment return and economic assumption changes were losses of £29m (2011: £139m). Short-term fluctuations in investment return relate principally to the investment volatility in Canada non-segregated funds and UK annuities, and in respect of the Group's subordinated liabilities and assets backing those liabilities.

2.8 Issued share capital and shares held by trusts

(a) Issued share capital

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

	2012 Number	2012 £m	2011 Number	2011 £m
At 1 January	**2,353,665,822**	**235**	2,283,019,841	228
Shares issued in lieu of cash dividends	**-**	**-**	70,138,459	7
Shares issued in respect of share incentive plans	**445,155**	**-**	507,364	-
Shares issued in respect of share options	**3,867,675**	**1**	158	-
At 31 December	**2,357,978,652**	**236**	2,353,665,822	235

As discussed in Note 2.6 – Dividends, no shares have been issued in respect of dividends during 2012 since the Scrip dividend scheme has been removed. In 2011, 70,138,459 shares were issued under the scheme.

The Group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any one year is £1,500. The Group offers to match the first £25 of shares bought each month. During the year ended 31 December 2012, the Company allotted 445,155 (2011: 507,364) ordinary shares to Group employees under the share incentive plans.

The Group also operates a Long-Term Incentive Plan (LTIP) for executives and senior management and a Sharesave (Save-as-you-earn) scheme for all eligible employees. During the year ended 31 December 2012, 3,832,753 (2011: nil) and 34,922 (2011: 158) ordinary shares were issued in relation to the LTIP and Sharesave schemes respectively.

(b) Shares held by trusts

The Employee Share Trust (EST) purchases and holds shares in the Company for delivery to employees under various employee share schemes. Shares purchased by the EST are presented as a deduction from equity in the IFRS consolidated statement of financial position. Share-based liabilities to employees may also be settled by the issue of new shares.

Shares held by trusts also include shares held by the Unclaimed Asset Trust (UAT). The shares held by the UAT are those not yet claimed by the eligible members of The Standard Life Assurance Company (SLAC) following its demutualisation on 10 July 2006.

Any corresponding obligation to deliver a fixed number of the Company's equity instruments to employees, or eligible members of SLAC, is offset within the shares held by trusts reserve.

The number of shares held by trusts at 31 December 2012, which were not offset by a corresponding obligation to deliver a fixed number of equity instruments, was 2,527,223 (2011: 10,879,286).

2.9 Insurance contracts, investment contracts and reinsurance contracts

	2012 £m	2011 £m
Non-participating insurance contract liabilities	**29,050**	25,051
Non-participating investment contract liabilities	**84,201**	77,507
Non-participating contract liabilities	**113,251**	102,558
Participating insurance contract liabilities	**15,919**	16,509
Participating investment contract liabilities	**14,993**	15,319
Unallocated divisible surplus	**706**	725
Participating contract liabilities	**31,618**	32,553

2.9 Insurance contracts, investment contracts and reinsurance contracts *continued*

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

2012	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	**16,509**	**25,051**	**15,319**	**56,879**	**(6,573)**	**50,306**
Expected change	(1,331)	(762)	(897)	(2,990)	310	(2,680)
Methodology/modelling changes	(18)	(165)	64	(119)	110	(9)
Effect of changes in:						
Economic assumptions	(49)	1,075	(105)	921	(451)	470
Non-economic assumptions	(7)	(100)	(38)	(145)	73	(72)
Effect of:						
Economic experience	928	548	644	2,120	(1)	2,119
Non-economic experience	56	(662)	(46)	(652)	3	(649)
New business	26	2,102	76	2,204	-	2,204
Total change in contract liabilities	**(395)**	**2,036**	**(302)**	**1,339**	**44**	**1,383**
Contract reclassification	-	2,182	-	2,182	-	2,182
Foreign exchange adjustment	(195)	(219)	(24)	(438)	(2)	(440)
At 31 December	**15,919**	**29,050**	**14,993**	**59,962**	**(6,531)**	**53,431**
Reinsurance assets					(6,912)	
Reinsurance liabilities					381	
					(6,531)	

Due to a change in the benefits available under certain contracts, £2,182m of non-participating investment contracts have been reclassified as non-participating insurance contracts during the year ended 31 December 2012. Refer to Note 2.3 – Administrative expenses. As the majority of the liability in respect of these contracts relates to the unit fund, the expected change for these contracts has been set to nil, with the full investment growth of £172m shown in economic experience and the value of claims included in non-economic experience.

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the year, changes in assumptions and, to a limited extent, improvements in modelling techniques.

Non-economic assumptions decrease of £72m (net of reinsurance) includes a decrease of £45m (net of reinsurance) in respect of participating business, which is primarily in respect of the best estimate non-economic assumptions used in calculating the value of future transfers to equity holders in respect of participating business in the HWPF.

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

The movement in insurance contract liabilities, participating investment contract liabilities and reinsurance contracts during 2011 was as follows:

2011	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	**17,357**	**23,564**	**15,329**	**56,250**	**(6,962)**	**49,288**
Expected change	(1,014)	(523)	(658)	(2,195)	301	(1,894)
Methodology/modelling changes	(11)	(7)	14	(4)	-	(4)
Effect of changes in:						
Economic assumptions	(37)	1,309	176	1,448	(292)	1,156
Non-economic assumptions	4	(245)	15	(226)	385	159
Effect of:						
Economic experience	325	595	438	1,358	(23)	1,335
Non-economic experience	38	(507)	(51)	(520)	18	(502)
New business	30	1,013	76	1,119	(6)	1,113
Total change in contract liabilities	**(665)**	**1,635**	**10**	**980**	**383**	**1,363**
Foreign exchange adjustment	(183)	(148)	(20)	(351)	6	(345)
At 31 December	**16,509**	**25,051**	**15,319**	**56,879**	**(6,573)**	**50,306**
Reinsurance assets					(6,818)	
Reinsurance liabilities					245	
					(6,573)	

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

	2012 £m	2011 £m
At 1 January	**77,507**	75,600
Contributions	**11,027**	11,904
Initial charges and reduced allocations	**(6)**	(7)
Account balances paid on surrender and other terminations in the year	**(9,062)**	(8,525)
Investment return credited and related benefits	**7,718**	(757)
Foreign exchange adjustment	**(406)**	(308)
Contract reclassification	**(2,182)**	-
Recurring management charges	**(395)**	(400)
At 31 December	**84,201**	77,507

The movement in the unallocated divisible surplus (UDS) was as follows:

	2012 £m	2011 £m
At 1 January	**725**	788
Change in UDS recognised in the income statement	**(39)**	(87)
Change in UDS not recognised in the income statement	**(11)**	(11)
Foreign exchange adjustment	**31**	35
At 31 December	**706**	725

2.10 Defined benefit and defined contribution plans

(a) Analysis of amounts recognised in the IFRS consolidated income statement

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

	2012 £m	2011 £m
Current service cost	**(64)**	(60)
Interest cost on benefit obligation	**(106)**	(107)
Expected return on plan assets	**150**	136
Past service cost	**(1)**	64
(Charge)/credit recognised in the IFRS consolidated income statement	**(21)**	33

Included in past service costs in 2011 was £64m resulting from a change in the basis of future pension discretionary increases in the UK staff pension scheme.

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

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

	2012				2011			
	UK £m	Canada £m	Ireland £m	Total £m	UK £m	Canada £m	Ireland £m	Total £m
Present value of funded obligation	**(2,121)**	**(233)**	**(69)**	**(2,423)**	(1,972)	(215)	(54)	(2,241)
Present value of unfunded obligation	**-**	**(70)**	**-**	**(70)**	-	(68)	-	(68)
Fair value of plan assets	**2,642**	**188**	**61**	**2,891**	2,519	179	58	2,756
Adjustment for unrecognised past service costs	**-**	**(5)**	**-**	**(5)**	-	(5)	-	(5)
Effect of limit on plan surpluses	**(182)**	**-**	**-**	**(182)**	(209)	-	-	(209)
Net asset/(liability) in the IFRS consolidated statement of financial position	**339**	**(120)**	**(8)**	**211**	**338**	**(109)**	**4**	**233**

The Group also recognises a net liability of £7m (2011: £6m) arising from a scheme with a total defined benefit obligation of £7m (2011: £6m) administered for the benefit of employees in Germany, resulting in a net asset, presented in the IFRS consolidated statement of financial position, of £204m (2011: £227m).

Under the guidance contained in IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* the UK scheme surplus is considered to be recoverable as a right to a refund exists. In measuring the economic benefit available as a refund at 31 December 2012, the surplus has been reduced by £182m to reflect the authorised surplus payments charge of 35% that would arise on a refund. When measuring the defined benefit asset at 31 December 2011, a component of the surplus amounting to £209m was not considered recoverable and therefore was not recognised.

(c) Principal assumptions

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

	2012			2011		
	UK %	Canada %	Ireland %	UK %	Canada %	Ireland %
Rate of increase in salaries	**5.30**	**3.50**	**3.50**	4.45-5.45	3.50	3.50
Rate of increase in pensions	**2.70**	**1.33**	**1.00**	2.85	1.33	1.00
Discount rate	**4.50**	**4.00**	**3.90**	4.60	4.50	5.10
Inflation assumption	**2.70-3.30**	**2.00**	**2.00**	2.85-3.45	2.00	2.00
Expected return on plan assets	**5.40**	**5.75**	**3.90**	5.45	5.75	4.00

2.11 Investment property and financial assets

The values of the Group's holdings of investment properties and financial assets are impacted by the Group's exposure to market and credit risk.

The Group's appetite for risk, the sources of these risks and specific actions taken to manage these risks are set out in Section 1.5 – Risk management of the Business review. In recent years, the focus of the Group's risk management activities has evolved. The information presented in this Note, including the 2011 comparative information, has been updated to reflect the current focus of activities.

The assets on the Group's statement of financial position can be split into four categories (risk segments) which give the shareholder different exposures to the risks outlined in the Business review.

These categories are:

Shareholder business
Shareholder business refers to the assets to which the shareholder is directly exposed. For the purposes of this information the shareholder refers to the equity holders of SL plc.

Participating business
Participating business refers to the assets of the participating funds of the life operations of the Group.

Unit linked and segregated funds
Unit linked and segregated funds refer to the assets of the UK and Europe unit linked funds, Canada segregated funds and, in respect of Asia and Emerging Markets, the linked business of Standard Life International Limited and Standard Life Asia Limited unit linked funds.

Third party interest in consolidated funds and non-controlling interests (TPICF and NCI)
Third party interest in consolidated funds and non-controlling interests refers to the assets recorded on the Group consolidated statement of financial position which belong to third parties. The Group controls the entities that own the assets but the Group does not own 100% of the equity or units of the relevant entities.

The total Group holding in investment property and financial assets has been presented below based on the risk segment.

31 December 2012	Shareholder business £m	Participating business £m	Unit linked and segregated funds £m	TPICF and NCI[1] £m	Total £m
Loans to associates and joint ventures	16	-	7	3	**26**
Investment property	521	2,048	4,701	1,295	**8,565**
Equity securities and interests in pooled investment funds	197	9,079	53,019	3,517	**65,812**
Debt securities	12,423	30,005	24,823	6,050	**73,301**
Loans	2,855	226	218	-	**3,299**
Derivative financial assets	63	1,106	681	300	**2,150**
Receivables and other financial assets	515	496	550	156	**1,717**
Cash and cash equivalents	1,537	1,494	5,461	1,450	**9,942**
Total	**18,127**	**44,454**	**89,460**	**12,771**	**164,812**

[1] Third party interest in consolidated funds and non-controlling interests.

31 December 2011	Shareholder business £m	Participating business £m	Unit linked and segregated funds £m	TPICF and NCI[1] £m	Total £m
Loans to associates and joint ventures	16	-	27	13	**56**
Investment property	741	2,271	4,418	1,313	**8,743**
Equity securities and interests in pooled investment funds	200	9,334	46,539	2,458	**58,531**
Debt securities	11,054	30,485	21,879	3,758	**67,176**
Loans	2,832	250	137	-	**3,219**
Derivative financial assets	250	1,016	723	223	**2,212**
Receivables and other financial assets	283	779	636	153	**1,851**
Cash and cash equivalents	1,077	1,665	5,122	1,323	**9,187**
Total	**16,453**	**45,800**	**79,481**	**9,241**	**150,975**

[1] Third party interest in consolidated funds and non-controlling interests.

The shareholder is exposed to the impact of market movements in property prices, interest rates and foreign exchange rates and the impact of movements in credit ratings on the value of assets held by the shareholder business. The shareholder is also exposed to the market and credit risk that the assets of the participating funds of the life operations of the Group are not sufficient to meet their obligations. In this situation, the shareholder would be exposed to the full shortfall in the funds.

No further analysis is provided on the assets of the remaining risk segments unit linked and segregated funds and TPICF and NCI. Assets of the unit linked and segregated funds are managed in accordance with the mandates of the particular funds and the financial risks of the assets are expected to be borne by the policyholder. The shareholder is not exposed to market and credit risk from assets in respect of TPICF and NCI since the financial risks of the assets are borne by third parties.

The tables which follow give further analysis of the assets of the shareholder and participating businesses, with further explanation of the market and credit risks that the shareholder is directly exposed to as a result of holding these assets, at the reporting date.

2.11 Investment property and financial assets *continued*

Investment properties

The Group is subject to property price risk due to changes in the value and return on holdings in investment properties. This risk arises from various direct and indirect holdings which are controlled through the use of portfolio limits.

The tables below analyse investment property held by the shareholder and participating businesses by country and sector.

Shareholder business

	Office		Industrial		Retail		Other		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Canada	**392**	612	**57**	57	**-**	-	**72**	72	**521**	741
Total	**392**	612	**57**	57	**-**	-	**72**	72	**521**	741

Participating business

	Office		Industrial		Retail		Other		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
UK	**560**	644	**264**	317	**962**	1,013	**-**	-	**1,786**	1,974
Canada	**50**	54	**20**	19	**5**	5	**13**	12	**88**	90
Belgium	**14**	32	**-**	-	**-**	-	**-**	-	**14**	32
France	**2**	2	**27**	30	**-**	-	**2**	-	**31**	32
Spain	**129**	143	**-**	-	**-**	-	**-**	-	**129**	143
Total	**755**	875	**311**	366	**967**	1,018	**15**	12	**2,048**	2,271

There is no exposure to residential property in the shareholder and participating businesses.

Equity securities

The Group is subject to equity price risk due to daily changes in the market value and returns in the holdings in its equity security portfolio. Exposure to equity securities are primarily managed through the use of investment mandates including constraints based on appropriate equity indices.

The following table analyses equity securities held by shareholder and participating businesses by country.

	Shareholder business		Participating business		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
UK	**19**	15	**4,553**	4,582	**4,572**	4,597
Canada	**105**	122	**204**	206	**309**	328
Australia	**1**	2	**32**	32	**33**	34
Austria	**-**	-	**11**	7	**11**	7
Belgium	**-**	-	**96**	77	**96**	77
Denmark	**1**	-	**102**	56	**103**	56
Finland	**-**	-	**30**	1	**30**	1
France	**2**	1	**500**	368	**502**	369
Germany	**1**	1	**395**	476	**396**	477
Greece	**-**	-	**1**	1	**1**	1
Ireland	**1**	-	**102**	123	**103**	123
Italy	**-**	-	**104**	94	**104**	94
Japan	**3**	2	**77**	81	**80**	83
Mexico	**-**	-	**5**	2	**5**	2
Netherlands	**1**	1	**336**	503	**337**	504
Norway	**-**	-	**53**	102	**53**	102
Portugal	**-**	-	**30**	40	**30**	40
Spain	**-**	-	**89**	166	**89**	166
Sweden	**1**	-	**221**	177	**222**	177
Switzerland	**1**	1	**391**	455	**392**	456
US	**30**	22	**1,525**	1,570	**1,555**	1,592
Other	**25**	24	**217**	209	**242**	233
Total	**191**	191	**9,074**	9,328	**9,265**	9,519

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £6m (2011: £9m) and the participating business has interests in pooled investment funds of £5m (2011: £6m).

Debt securities

The Group is exposed to interest rate risk and credit risk through its holdings in debt securities. The Group manages its exposure to debt securities by setting exposure limits by name of issuer, sector and credit rating.

At 31 December 2012, the total holding of debt securities was £73,301m (31 December 2011: £67,176m). At 31 December 2012, the total shareholder business holding of debt securities was £12,423m (31 December 2011: £11,054m), of which 96% (31 December 2011: 96%) was rated as investment grade. The total participating business holding of debt securities at 31 December 2012 was £30,005m (31 December 2011: £30,485m), of which 96% (31 December 2011: 96%) was rated as investment grade. This shows the high quality of the debt securities held.

The following tables show the shareholder and participating businesses' exposure to credit risk from debt securities analysed by credit rating and country.

Shareholder business

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
AAA	**1,281**	1,083	**144**	147	**126**	143	**155**	307	**161**	166	**1,867**	1,846
AA	**1,471**	1,172	**524**	723	**233**	374	**399**	352	**-**	-	**2,627**	2,621
A	**1,319**	1,383	**1,238**	893	**885**	746	**2,876**	2,191	**-**	-	**6,318**	5,213
BBB	**2**	-	**87**	70	**56**	75	**910**	704	**-**	-	**1,055**	849
Below BBB or not rated	**9**	5	**49**	41	**334**	308	**88**	97	**76**	74	**556**	525
Total	**4,082**	3,643	**2,042**	1,874	**1,634**	1,646	**4,428**	3,651	**237**	240	**12,423**	11,054

[1] Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other[2]		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
UK	**302**	384	**607**	514	**844**	824	**743**	512	**74**	74	**2,570**	2,308
Canada	**3,441**	3,225	**179**	240	**290**	288	**2,211**	2,124	**-**	-	**6,121**	5,877
Australia	**-**	-	**85**	12	**6**	5	**9**	1	**-**	-	**100**	18
Austria	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Belgium	**-**	-	**53**	1	**-**	-	**1**	1	**-**	-	**54**	2
Denmark	**-**	-	**5**	66	**-**	-	**6**	17	**-**	-	**11**	83
Finland	**-**	-	**-**	50	**-**	-	**1**	-	**-**	-	**1**	50
France	**-**	-	**228**	103	**4**	2	**402**	315	**-**	-	**634**	420
Germany	**315**	24	**114**	104	**22**	3	**208**	250	**-**	-	**659**	381
Greece	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Ireland	**-**	-	**-**	2	**10**	3	**2**	2	**-**	-	**12**	7
Italy	**-**	-	**33**	24	**2**	-	**52**	67	**-**	-	**87**	91
Japan	**2**	-	**70**	50	**18**	27	**21**	5	**-**	-	**111**	82
Mexico	**1**	-	**-**	-	**-**	-	**77**	43	**-**	-	**78**	43
Netherlands	**-**	-	**286**	182	**1**	1	**154**	15	**-**	-	**441**	198
Norway	**1**	-	**21**	52	**-**	-	**39**	31	**-**	-	**61**	83
Portugal	**-**	-	**-**	-	**-**	-	**-**	1	**-**	-	**-**	1
Spain	**-**	-	**9**	17	**-**	-	**39**	39	**-**	-	**48**	56
Sweden	**1**	-	**58**	97	**-**	-	**60**	28	**-**	-	**119**	125
Switzerland	**-**	-	**78**	129	**11**	11	**13**	12	**-**	-	**102**	152
US	**12**	7	**173**	228	**424**	482	**364**	182	**-**	-	**973**	899
Other	**7**	3	**43**	3	**2**	-	**26**	6	**163**	166	**241**	178
Total	**4,082**	3,643	**2,042**	1,874	**1,634**	1,646	**4,428**	3,651	**237**	240	**12,423**	11,054

[1] Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

[2] This balance primarily consists of securities held in supranationals.

2.11 Investment property and financial assets *continued*

Participating business

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
AAA	16,452	19,616	760	548	990	1,074	155	55	244	425	18,601	21,718
AA	2,070	344	494	679	1,084	826	297	262	-	-	3,945	2,111
A	131	120	1,643	1,607	1,732	1,261	1,195	1,210	-	-	4,701	4,198
BBB	4	-	313	351	448	362	763	597	-	-	1,528	1,310
Below BBB or not rated	4	-	223	263	586	506	417	379	-	-	1,230	1,148
Total	18,661	20,080	3,433	3,448	4,840	4,029	2,827	2,503	244	425	30,005	30,485

[1] Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other[2]		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
UK	13,401	16,326	1,167	1,121	3,149	2,751	1,082	1,079	-	-	18,799	21,277
Canada	396	401	23	-	49	44	59	53	-	-	527	498
Australia	1	65	180	187	95	62	21	23	-	-	297	337
Austria	364	225	27	-	-	66	3	1	-	-	394	292
Belgium	286	1	24	9	68	-	21	11	-	-	399	21
Denmark	6	6	33	48	-	1	58	37	-	-	97	92
Finland	203	218	45	133	25	-	13	2	-	-	286	353
France	1,287	876	324	210	257	92	435	394	-	-	2,303	1,572
Germany	1,988	1,338	356	512	126	161	221	178	-	-	2,691	2,189
Greece	-	-	-	-	-	-	4	2	-	-	4	2
Ireland	-	-	5	12	56	37	13	11	-	-	74	60
Italy	2	1	74	71	42	64	89	108	-	-	207	244
Japan	33	16	32	66	1	29	-	-	-	-	66	111
Mexico	-	1	-	-	-	-	61	34	-	-	61	35
Netherlands	474	374	398	303	223	137	42	107	-	-	1,137	921
Norway	142	82	133	64	14	54	63	20	-	-	352	220
Portugal	-	-	-	-	-	-	1	3	-	-	1	3
Spain	5	9	24	73	6	4	82	64	-	-	117	150
Sweden	68	71	189	108	11	10	31	13	-	-	299	202
Switzerland	-	-	19	170	29	64	12	12	-	-	60	246
US	5	69	318	336	437	312	310	206	-	-	1,070	923
Other	-	1	62	25	252	141	206	145	244	425	764	737
Total	18,661	20,080	3,433	3,448	4,840	4,029	2,827	2,503	244	425	30,005	30,485

[1] Government, Provincial and Municipal includes debt securities which are issued by or explicitly guaranteed by the national government. For Canada, this includes debt securities which are issued by or explicitly guaranteed by the Crown Corporations of the Government of Canada.
[2] This balance primarily consists of securities held in supranationals.

Loans

The Group is exposed to interest rate risk and credit risk from loans issued. The Group manages its exposure by setting portfolio limits by individual business unit. These limits specify the proportion of the value of total portfolio of mortgage loans and mortgage bonds that are represented by a single, or group of related counterparties, geographic area, employment status, or economic sector, risk rating and loan to value percentages.

The shareholder business holding of loans of £2,855m (2011: £2,832m) primarily comprises the Canadian non-segregated funds commercial mortgage book. This mortgage book is deemed to be of very high quality. The Canada mortgage book has an average loan to value of 39% (2011: 44%).

The participating business holding of loans of £226m (31 December 2011: £250m) primarily comprises of UK mortgages. These mortgage books are deemed to be of very high quality.

2.12 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 table below presents the Group's financial assets measured at fair value by level of the fair value hierarchy.

	Shareholder business		Participating business		Unit linked and segregated funds		TPICF and NCI[1]		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Level 1	**1,016**	744	**26,496**	28,810	**59,139**	53,426	**3,892**	2,582	**90,543**	85,562
Level 2	**10,672**	9,759	**12,776**	10,994	**19,113**	15,528	**5,600**	3,449	**48,161**	39,730
Level 3	**995**	1,001	**918**	1,031	**271**	187	**375**	408	**2,559**	2,627
Total financial assets at fair value	**12,683**	11,504	**40,190**	40,835	**78,523**	69,141	**9,867**	6,439	**141,263**	127,919

[1] Third party interest in consolidated funds and non-controlling interests.

The table below presents the Group's financial liabilities measured at fair value by level of the fair value hierarchy.

	Shareholder business		Participating business		Unit linked and segregated funds		TPICF and NCI[1]		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Level 1	**2**	2	**7**	86	**82**	257	**36**	89	**127**	434
Level 2	**21**	14	**41**	40	**82,067**	75,140	**12,232**	8,568	**94,361**	83,762
Level 3	**-**	-	**-**	-	**-**	-	**3**	7	**3**	7
Total financial liabilities at fair value	**23**	16	**48**	126	**82,149**	75,397	**12,271**	8,664	**94,491**	84,203

[1] Third party interest in consolidated funds and non-controlling interests.

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.

Shareholder business

The tables that follow present an analysis of the financial assets and financial liabilities held by the shareholder business measured at fair value, by level of the fair value hierarchy for each category.

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Financial assets								
Equity securities and interests in pooled investment funds	**182**	189	**3**	-	**12**	11	**197**	200
Debt securities	**834**	555	**10,606**	9,509	**983**	990	**12,423**	11,054
Derivative financial assets	**-**	-	**63**	250	**-**	-	**63**	250
Total	**1,016**	744	**10,672**	9,759	**995**	1,001	**12,683**	11,504

2.12 Fair value hierarchy of financial instruments *continued*

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Financial Liabilities								
Derivative financial liabilities	**2**	2	**21**	14	**-**	-	**23**	16
Total	**2**	2	**21**	14	**-**	-	**23**	16

The tables that follow present an analysis of the financial assets and financial liabilities held by the participating business measured at fair value, by level of the fair value hierarchy for each category.

Participating business

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Financial Assets								
Equity securities and interests in pooled investment funds	**8,380**	8,582	**-**	-	**699**	752	**9,079**	9,334
Debt securities	**17,701**	19,861	**12,085**	10,345	**219**	279	**30,005**	30,485
Derivative financial assets	**415**	367	**691**	649	**-**	-	**1,106**	1,016
Total	**26,496**	28,810	**12,776**	10,994	**918**	1,031	**40,190**	40,835

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Financial Liabilities								
Derivative financial liabilities	**7**	86	**41**	41	**-**	-	**48**	127
Total	**7**	86	**41**	41	**-**	-	**48**	127

2.13 Provisions and contingent liabilities

(a) Legal proceedings and regulations

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of Standard Life Assurance Limited (SLAL) in its claim against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. SLAL received a cash receipt of £98m including interest and reimbursement of legal fees.

An appeal was subsequently made by the insurers. Given that the judgment was under appeal, a risk existed that SLAL would be required to return the cash received or a portion of the cash received to the insurers and therefore, a provision was recognised by the Group in respect of the cash received.

On 18 December 2012, the Court of Appeal handed down a judgment upholding the decision of the Commercial Court, dismissing the insurers' appeal and finding in favour of SLAL. In addition, SLAL was awarded its costs in the appeal. In January 2013 SLAL received notification from the lawyers acting for the insurers that they would not seek leave to appeal to the Supreme Court.

The Group has released the provision in the consolidated financial statements for the year ended 31 December 2012.

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

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

(b) Issued share capital

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

(c) Other

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

2.14 Commitments

(a) Capital commitments

As at 31 December 2012 capital expenditure that was authorised and contracted for, but not provided and incurred, was £215m (2011: £275m) in respect of investment properties. Of this amount, £185m (2011: £248m) and £30m (2011: £27m) relates to the contractual obligations to purchase, construct or develop investment property and repair, maintain or enhance investment property respectively.

(b) Unrecognised financial instruments

The Group has committed the following unrecognised financial instruments to customers and third parties:

	2012 £m	2011 £m
Commitments to extend credit:		
Original term to maturity of one year or less	**42**	109
Original term to maturity of more than one year	**-**	3
Other commitments	**289**	273

Included in other commitments is £258m (2011: £257m) committed by certain subsidiaries which are not fully owned by the Group. These commitments are funded through contractually agreed additional investments in the subsidiary by the Group and the non-controlling interests. The levels of funding are not necessarily in line with the relevant percentage holdings.

(c) Operating lease commitments

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Not later than one year	**32**	29
Later than one year and no later than five years	**83**	93
Later than five years	**117**	120
Total operating lease commitments	**232**	242

2.15 Related party transactions

(a) Transactions with/from related parties

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

	2012 £m	2011 £m
Sale to:		
Associates	**13**	8,397
Joint ventures	**77**	51
Other related parties	**56**	57
	146	8,505
Purchase from:		
Associates	**-**	8,993
Joint ventures	**21**	24
	21	9,017

Sales to other related parties include management fees received from non-consolidated UK mutual funds managed by Standard Life Investments. Transactions with associates presented for the 12 months to 31 December 2011 relate primarily to purchases and sales of holdings in two sub-funds of the Standard Life (Global Liquidity Funds) plc (GLF). During the year ended 31 December 2011, these funds were restructured with the majority of the external holding in these funds transferred to a third party.

2.15 Related party transactions *continued*

(a) Transactions with/from related parties *continued*

The remaining assets were transferred to two new GLF sub-funds, which are subsidiaries of the Group. As a result of the restructure, the GLF sub-funds are no longer associates of the Group.

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £845m (2011: £739m) invested in investment vehicles managed by the Group.

(b) Transactions with key management personnel and their close family members

All transactions between the key management personnel and their close family members and the Group during the year are on commercial terms which are equivalent to those available to all employees of the Group.

During the year to 31 December 2012, the key management personnel and their close family members contributed £1.2m (2011: £4.2m) to products sold by the Group.

2.16 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 and group corporate centre. The Group's capital position, based on draft regulatory returns, is set out below:

	UK regulated life business							
2012	Heritage With Profits Fund[1] £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	-	-	794	794	1,675	2,469	783	**3,252**
Held within life assurance funds	-	1,103	-	1,103	-	1,103	-	**1,103**
Equity attributable to ordinary equity holders of Standard Life plc	**-**	**1,103**	**794**	**1,897**	**1,675**	**3,572**	**783**	**4,355**
Unallocated divisible surplus	**706**	**-**	**-**	**706**	**-**	**706**	**-**	**706**
Other sources of capital								
Subordinated liabilities	-	-	-	-	246	246	1,622	**1,868**
Internal subordinated liabilities	-	-	1,124	1,124	-	1,124	(1,124)	**-**
	-	**-**	**1,124**	**1,124**	**246**	**1,370**	**498**	**1,868**
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,288	(11)	-	3,277	-	3,277	-	**3,277**
Exclusion of deferred acquisition costs and other inadmissible assets	(71)	(666)	(59)	(796)	(173)	(969)	(132)	**(1,101)**
Exclusion of deferred income	84	255	-	339	(1)	338	-	**338**
Changes to the valuation of other assets and liabilities	-	(553)	(38)	(591)	85	(506)	259	**(247)**
	3,301	**(975)**	**(97)**	**2,229**	**(89)**	**2,140**	**127**	**2,267**
Total available capital resources to meet regulatory requirement	**4,007**	**128**	**1,821**	**5,956**	**1,832**	**7,788**	**1,408**	**9,196**
Analysed as follows:								
Capital not subject to constraints	-	-	1,785	1,785	859	2,644	1,320	**3,964**
Capital subject to constraints	4,007	128	36	4,171	973	5,144	88	**5,232**
Total available capital resources	**4,007**	**128**	**1,821**	**5,956**	**1,832**	**7,788**	**1,408**	**9,196**
Restricted assets within the long-term business fund								**(1,210)**
Regulatory capital resources								**7,986**
Regulatory capital resources requirement				**3,092**	**786**	**3,878**	**41**	**3,919**
Regulatory capital surplus								**4,067**

[1] Capital resources amounting to £39m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £872m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

2011	UK regulated life business							
	Heritage With Profits Fund[1] £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	-	-	849	849	1,176	2,025	1,029	**3,054**
Held within life assurance funds	-	907	-	907	-	907	-	**907**
Equity attributable to ordinary equity holders of Standard Life plc	**-**	**907**	**849**	**1,756**	**1,176**	**2,932**	**1,029**	**3,961**
Unallocated divisible surplus	**725**	**-**	**-**	**725**	**-**	**725**	**-**	**725**
Other sources of capital								
Subordinated liabilities	-	-	-	-	-	-	1,186	**1,186**
Internal subordinated liabilities	-	-	1,186	1,186	253	1,439	(1,439)	**-**
	-	**-**	**1,186**	**1,186**	**253**	**1,439**	**(253)**	**1,186**
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,409	2	-	3,411	-	3,411	-	**3,411**
Exclusion of deferred acquisition costs and other inadmissible assets	(89)	(657)	(62)	(808)	(92)	(900)	(96)	**(996)**
Exclusion of deferred income	98	248	-	346	(1)	345	-	**345**
Exclusion of non-qualifying subordinated liabilities	-	-	(54)	(54)	-	(54)	-	**(54)**
Changes to the valuation of other assets and liabilities	(22)	(311)	(232)	(565)	58	(507)	253	**(254)**
	3,396	**(718)**	**(348)**	**2,330**	**(35)**	**2,295**	**157**	**2,452**
Total available capital resources to meet regulatory requirement	**4,121**	**189**	**1,687**	**5,997**	**1,394**	**7,391**	**933**	**8,324**
Analysed as follows:								
Capital not subject to constraints	-	-	1,637	1,637	375	2,012	850	**2,862**
Capital subject to constraints	4,121	189	50	4,360	1,019	5,379	83	**5,462**
Total available capital resources	**4,121**	**189**	**1,687**	**5,997**	**1,394**	**7,391**	**933**	**8,324**
Restricted assets within the long-term business fund								**(999)**
Regulatory capital resources								**7,325**
Regulatory capital resources requirement				**3,426**	**776**	**4,202**	**37**	**4,239**
Regulatory capital surplus								**3,086**

[1] Capital resources amounting to £39m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £872m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

2.16 Capital statement *continued*

Movements in capital

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

2012	UK regulated life business							
	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
At 1 January	**4,121**	**189**	**1,687**	**5,997**	**1,394**	**7,391**	**933**	**8,324**
Methodology/modelling changes	520	12	-	532	8	540	-	**540**
Change in assumptions used to measure life assurance contract liabilities and experience differences	(24)	2	-	(22)	7	(15)	-	**(15)**
New business	(13)	(95)	-	(108)	(23)	(131)	-	**(131)**
Investment surplus	37	16	47	100	192	292	-	**292**
Equity holder/inter-fund transfers	(55)	(153)	208	-	147	147	(147)	**-**
Dividend transfers	-	-	(249)	(249)	(143)	(392)	61	**(331)**
Issue of external subordinated liabilities	-	-	-	-	246	246	498	**744**
Other factors	(579)	157	128	(294)	4	(290)	63	**(227)**
At 31 December	**4,007**	**128**	**1,821**	**5,956**	**1,832**	**7,788**	**1,408**	**9,196**

The increase to capital resources from methodology/modelling changes is primarily due to a change in the hypothecation of assets across contract liabilities within HWPF.

As outlined in Note 2.17 – Subordinated liabilities, Standard Life plc issued £500m fixed rate subordinated notes on 4 December 2012. The subordinated notes are unguaranteed and have a legal final maturity in December 2042 with the first call date on 4 December 2022. Standard Life Assurance Company of Canada (SLCC), a wholly owned subsidiary of the Company, issued CA$400m subordinated debenture notes on 21 September 2012 with a redemption date of 21 September 2022.

2011	UK regulated life business							
	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
At 1 January	**4,031**	**321**	**2,361**	**6,713**	**1,413**	**8,126**	**704**	**8,830**
Methodology/modelling changes	(79)	(1)	-	(80)	-	(80)	-	**(80)**
Change in assumptions used to measure life assurance contract liabilities and experience differences	(24)	3	-	(21)	(218)	(239)	-	**(239)**
New business	(11)	(121)	-	(132)	(20)	(152)	-	**(152)**
Investment surplus	913	(87)	71	897	162	1,059	-	**1,059**
Equity holder/inter-fund transfers	(68)	68	9	9	29	38	(38)	**-**
Dividend transfers	-	-	(300)	(300)	(110)	(410)	248	**(162)**
Redemption of subordinated liabilities	-	-	(604)	(604)	-	(604)	-	**(604)**
Other factors	(641)	6	150	(485)	138	(347)	19	**(328)**
At 31 December	**4,121**	**189**	**1,687**	**5,997**	**1,394**	**7,391**	**933**	**8,324**

UK regulated life business

Standard Life Assurance Limited's (SLAL) 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 2012, SLAL had available capital resources of £6.0bn (2011: £6.0bn) and a CRR of £3.1bn (2011: £3.4bn). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis. However, the CRR reflects the higher value required as a result of the application of the realistic peak.

Capital subject to constraints for the UK regulated life business of £4.2bn at 31 December 2012 (2011: £4.4bn) represents capital resources held within long-term business funds, or in relation to other regulated entities, the amount of the CRR.

Overseas life operations

Capital resources of £1,832m (2011: £1,394m), which relate mainly to operations in Canada, also include operations in Asia. The Canadian regulator sets the minimum required capital for the Canadian regulated entities. 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 £973m at 31 December 2012 (2011: £1,019m).

Other activities

At 31 December 2012, capital resources of £1,408m (2011: £933m) and capital subject to constraints of £88m (2011: £83m) relate to the Group's investment management businesses and group corporate centre activities.

Intra-group transactions

The Group, through subsidiaries and joint ventures, provides insurance and other financial services in the UK, Canada, Hong Kong, India and China. Through branches, the Group also provides such services in Ireland, Germany and Singapore. With the exception of the requirements of the Scheme, 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. SLCC had previously issued subordinated liabilities of £253m to the Company. These were repaid in full during 2012. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

In preparation for the implementation of Solvency 2, the business of Standard Life Investment Funds Limited was transferred to SLAL on 31 December 2011. The prior year Group capital position was not significantly impacted.

Group capital requirement

The Group must also calculate a group regulatory capital position under the Insurance Groups Directive (IGD). The IGD calculation is a prudent aggregate value for the Group's capital resources. The capital held within the long-term business funds of approximately £4.1bn (2011: £4.3bn) is restricted to the level of the CRR of those funds of approximately £3.1bn (2011: £3.4bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

On an IGD basis, the estimated regulatory capital position at 31 December 2012 is a surplus of £4.1bn (2011: £3.1bn). The increase in the estimated regulatory capital surplus is predominately due to the issue of £500m lower tier 2 subordinated debt by the Company and CA$400m of lower tier 2 subordinated debenture notes by Canada.

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

2.17 Subordinated liabilities

£500m subordinated notes were issued by the Company on 4 December 2012 pursuant to its EUR3,000,000,000 Euro Medium Term Note Programme dated 10 May 2012. The maturity date of the notes is 4 December 2042. Interest is payable each six months in arrears. The Company has the option to redeem the notes at par on 4 December 2022 and on every interest payment date thereafter until maturity. If the notes are not redeemed the interest rate payable will be reset on 4 December 2022 and on each fifth anniversary thereafter to 4.85% over the five year gilt rate. The notes are direct, unsecured obligations of the Company that rank subordinate to all senior creditors of the Company.

CA$400m subordinated debenture notes were issued by The Standard Life Assurance Company of Canada (SLCC) on 21 September 2012. The maturity date of the notes is 21 September 2022. SLCC has the option to redeem the notes at par on or after 21 September 2017. If the notes are not redeemed the interest rate payable will be reset each quarter to 2.1% over the three month CDOR rate payable quarterly in arrears. Interest is payable each six months in arrears up to 21 September 2017. The notes are direct, unsecured obligations of SLCC that rank subordinate to all policyholder liabilities and senior creditors of SLCC.

On 12 July 2012, the Company redeemed in full the outstanding principal of €62,780,000 Euro denominated 6.375% fixed/floating rate subordinated guarantee bonds due 2022.

2.18 Events after the reporting period

On 27 February 2013, the Group announced that it had entered into an agreement with Newton Management Limited to acquire its private client division with assets under management of £3.6bn. The consideration of up to £83.5m will be ultimately contingent on the value of assets under management transferred to, and retained by, the Group. The transaction is expected to complete within seven months subject to completion conditions being satisfied.

EEV consolidated income statement
For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Covered business			
UK and Europe		**799**	550
Canada		**317**	324
Asia and Emerging Markets		**14**	15
Covered business EEV operating profit	3.2(a)	**1,130**	889
UK and Europe		**41**	67
Standard Life Investments[1]	3.6(b)	**62**	69
Group corporate centre costs		**(47)**	(50)
Other	3.6(c)	**5**	14
Non-covered business EEV operating profit		**61**	100
Consolidation adjustment for different accounting bases[2]	3.11	**(75)**	-
EEV operating profit before tax		**1,116**	989
EEV non-operating items			
Long-term investment return and tax variances		**498**	70
Effect of economic assumption changes		**(106)**	(500)
Impairment of intangible assets		**-**	(5)
Restructuring costs		**(114)**	(73)
Other EEV non-operating items		**(18)**	(13)
Consolidation adjustment for different accounting bases[2]	3.11	**(42)**	58
EEV non-operating profit/(loss) before tax		**218**	(463)
EEV profit before tax		**1,334**	526
Tax attributable to:			
EEV operating profit		**(240)**	(265)
EEV non-operating items		**(42)**	108
Total EEV profit after tax		**1,052**	369

1 Standard Life Investments non-covered EEV operating profit of £62m (2011: £69m) represents operating profit of £145m (2011: £125m) after excluding profits of £83m (2011: £56m) which have been generated by life and pensions covered business. Standard Life Investments EEV operating profit therefore represents third party non-covered EEV operating profit. Refer to Note 3.6(b) – Standard Life Investments EEV operating profit before tax and Note 3.17 – EEV methodology.

2 This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 3.1 – Basis of preparation and Note 3.17 – EEV methodology.

EEV earnings per share (EPS)
For the year ended 31 December 2012

	2012	2011
EEV operating profit after tax (£m)[1]	**876**	724
Basic EPS (pence)	**37.3**	31.5
Weighted average number of ordinary shares in issue (millions)	**2,351**	2,301
Diluted EPS (pence)[2]	**37.0**	31.3
Weighted average number of ordinary shares on a diluted basis (millions)[2]	**2,369**	2,314

1 EEV operating profit before tax of £1,116m (2011: £989m) less attributed tax on EEV operating profit of £240m (2011: £265m).
2 2011 restated for revision to number of shares. Refer to the IFRS financial information Note 2.5 – Earnings per share.

EEV consolidated statement of comprehensive income
For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
EEV profit after tax		**1,052**	369
Fair value losses on cash flow hedges[1]		**(1)**	-
Actuarial (losses)/gains on defined benefit pension schemes[1]		**(97)**	121
Effect of limit on defined benefit pension schemes' surpluses[1]		**27**	(209)
Exchange differences on translating foreign operations[2]		**(86)**	(69)
Net investment hedge[1]		**18**	13
Aggregate equity holder tax effect of items recognised in comprehensive income[1]		**102**	27
Other		**(1)**	-
Other comprehensive expense for the year		**(38)**	(117)
Total comprehensive income for the year attributable to equity holders	3.7	**1,014**	252

1 Consistent with the IFRS consolidated statement of comprehensive income.
2 Exchange differences primarily relate to Canada (negative £51m), India (negative £15m) and Europe (negative £15m).

EEV consolidated statement of financial position
As at 31 December 2012

	Notes	31 December 2012 £m	31 December 2011 £m
Covered business			
Free surplus		**940**	651
Required capital		**1,348**	1,296
Net worth		**2,288**	1,947
Present value of in-force		**5,073**	4,423
Cost of required capital		**(648)**	(583)
Total embedded value of covered business	3.2(c)	**6,713**	5,787
Non-covered business			
UK and Europe		**514**	393
Standard Life Investments		**255**	256
Group corporate centre		**640**	650
Other		**16**	253
Total net assets of non-covered business	3.6(a)	**1,425**	1,552
Consolidation adjustment for different accounting bases[1]		**-**	89
Total Group embedded value	3.7	**8,138**	7,428
Equity			
Share capital		**236**	235
Shares held by trusts		**(7)**	(19)
Share premium reserve		**1,110**	1,110
Retained earnings on an IFRS basis		**1,437**	1,030
Other reserves		**1,579**	1,605
Additional retained earnings on an EEV basis		**3,783**	3,467
Total equity		**8,138**	7,428

[1] This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 3.17 – EEV methodology.

EEV per share
As at 31 December 2012

	31 December 2012	31 December 2011
Total Group embedded value (£m)	**8,138**	7,428
EEV per share (pence)[1]	**343**	316
Diluted closing number of ordinary shares in issue (millions)[1]	**2,373**	2,354

[1] 2011 restated for revision to number of shares. Refer to the IFRS financial information Note 2.5 – Earnings per share.

Notes to the EEV financial information

3.1 Basis of preparation

The European Embedded Value (EEV) basis results have been prepared in accordance with the EEV Principles and Guidance issued in May 2004 by the CFO Forum of European Insurance Companies and the Additional Guidance issued in October 2005 and the Revised Interim Transitional Guidance issued in September 2012. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the cost of holding required capital and the value of free surplus. The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS) but the timing of recognition of profits is different.

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

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

A detailed description of EEV methodology is provided in Note 3.17. There have been no significant changes to EEV methodology from that adopted in the previous reporting period, except as noted below. Events after the reporting period are described in Note 3.18.

Covered business

A detailed description of EEV covered business is provided in Note 3.17 – EEV methodology.

No allowance has been made for the change in reserving or required capital bases anticipated under Solvency 2. This approach is in accordance with the Revised Interim Transitional Guidance for Embedded Value Reporting issued by the CFO Forum in September 2012.

Segmentation

In June 2012, changes were announced in the way the Group will manage its businesses. German and Irish onshore businesses, previously reported in the International segment, have been combined with the UK to create UK and Europe. The other components of International now form Asia and Emerging Markets. The IFRS reportable segments have been changed for the year ended 31 December 2012, as explained in IFRS financial information Note 2.2(b) – Segmental analysis – Reportable segments.

EEV covered business segments have been amended and reflect the new IFRS reportable segments.

For EEV covered business, Heritage With Profits Fund Time Value of Options and Guarantees (HWPF TVOG) has previously been disclosed separately from UK and International segments, since an element of HWPF TVOG relates to German and Irish onshore business. HWPF TVOG is now included within the UK and Europe segment for EEV reporting.

EEV non-covered business segments have also been amended to change the UK segment to UK and Europe.

In order to be consistent with the revised IFRS reportable segment names, Global investment management has been renamed Standard Life Investments within the EEV financial information.

All comparative amounts have been restated to allow more meaningful comparison with the prior year. Group totals are not affected by these reclassifications.

Canada subordinated debt

As explained in Note 3.11 – Market value of subordinated liabilities within covered business, the Standard Life Assurance Company of Canada, which is included within EEV covered business, issued subordinated debenture notes on 21 September 2012.

During December 2012, subordinated liabilities which had previously been issued by Canada to a non-covered entity within the Group were fully redeemed. As a result of this redemption, the consolidation adjustment for different accounting bases in the EEV consolidated statement of financial position is no longer required and is therefore nil as at 31 December 2012. Refer to Note 3.11 for the impact of the redemption on the EEV consolidated income statement for the year ended 31 December 2012.

Group subordinated debt

As explained in Note 3.11 – Market value of subordinated liabilities within covered business, Standard Life plc issued subordinated debenture notes during December 2012. As explained in Note 3.17 – EEV Methodology, these new subordinated liabilities are held by a non-covered entity within the Group and are valued within EEV on an IFRS basis at amortised cost.

3.1 Basis of preparation *continued*

Assets designated as available-for-sale under IFRS

The Group has designated certain financial assets used to back subordinated liabilities and investment contract liabilities as available-for-sale (AFS) under IFRS accounting. As explained in Note 3.17 – EEV Methodology, where these assets are held by an EEV covered business entity and back investment contract liabilities that are accounted for under local solvency regulations on an amortised cost basis, then the assets are also included within EEV on an amortised cost basis. Where AFS assets are used to back subordinated liabilities that are accounted for at market value, they are included within EEV at market value.

Impact of UK budget changes announced on 21 March 2012

The Finance Act 2012 reduced the UK corporation tax rate to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. The reduction to 23% has been included within our best estimate assumptions for UK corporation tax as at 31 December 2012.

In the 2012 Autumn statement, the UK Government announced its intention to further reduce the rate of UK corporation tax to 21% in 2014. However, this reduction is subject to legislation being enacted in future years and, in accordance with our previous approach, has not been included within the best estimate assumptions as at 31 December 2012.

The new UK tax regime for UK life companies is effective from 1 January 2013. The basis of the regime will move from the FSA regulatory return to the statutory accounts. The deferred tax position of Standard Life Assurance Limited (SLAL) has been updated to reflect the new regime. The transition to the new regime does not have a material impact on SLAL's deferred tax position.

Legal claim

As described in the IFRS financial information Note 2.13 – Provisions and contingent liabilities, a judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of SLAL in its claim against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. SLAL received a cash receipt including interest and reimbursement of legal fees.

An appeal was subsequently made by the insurers. Given that the judgment was under appeal, a risk existed that SLAL would be required to return the cash received or a portion of the cash received to the insurers and therefore a provision was recognised by the Group in respect of the cash received.

On 18 December 2012, the Court of Appeal handed down a judgment upholding the decision of the Commercial Court, dismissing the insurers' appeal and finding in favour of SLAL. In addition, SLAL was awarded its costs in the appeal. In January 2013, SLAL received notification from the lawyers acting for the insurers that they would not seek leave to appeal to the Supreme Court. The Group has released the provision in the consolidated IFRS financial statements for the year ended 31 December 2012.

In the EEV financial statements for the year ended 31 December 2012, a benefit of £96m is included within UK and Europe other experience variances within EEV operating profit before tax in respect of the legal claim.

3.2 Segmental analysis – covered business

(a) Segmental EEV income statement

This Note provides an analysis of EEV covered business as defined in Note 3.17 – EEV methodology.

12 months to 31 December 2012	Notes	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Contribution from new business	3.3	261	45	33	**339**
Contribution from in-force business:					
Expected return on existing business		220	155	20	**395**
Experience variances	3.4	285	295	(10)	**570**
Operating assumption changes	3.5	56	(164)	(7)	**(115)**
Development expenses		(24)	(16)	(23)	**(63)**
Expected return on free surplus		1	2	1	**4**
EEV operating profit before tax		**799**	**317**	**14**	**1,130**
Investment return and tax variances		355	128	15	**498**
Effect of economic assumption changes		(235)	118	11	**(106)**
Restructuring costs		(99)	(2)	(2)	**(103)**
EEV profit before tax		**820**	**561**	**38**	**1,419**
EEV attributed tax		(189)	(135)	(4)	**(328)**
EEV profit after tax		**631**	**426**	**34**	**1,091**

(a) Segmental EEV income statement

An analysis of EEV profit after tax by territory is provided in Note 3.9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

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

The £4m higher contribution from new business primarily reflects a £36m increase from UK and Europe, offset by reductions of £28m in Canada and £4m in Asia and Emerging Markets. The overall PVNBP margin was broadly unchanged at 1.8% (2011: 1.7%).

The expected return on existing business of £395m is £45m lower than 2011, primarily due to lower opening risk discount rates.

Details of experience variances and operating assumption changes are provided in Note 3.4 – Experience variances and Note 3.5 – Operating assumption changes.

Development costs were £11m lower in total. The £18m reduction in UK and Europe is consistent with the overall reduction in UK operating expenses. The £5m increase in Asia and Emerging Markets development costs mainly arises from increased investment spend to expand our operations into new markets.

The £4m expected return on free surplus reflects the relatively low expected returns currently available on cash assets within free surplus. The figure is net of interest payments on subordinated debt liabilities.

Investment return and tax variances generated a total profit of £498m. Of this, the UK and Europe profit of £355m included a gain of £499m from higher than expected investment returns on annuity and unitised business and a £132m gain from lower TVOG in the HWPF and GWPF (German With Profits Fund). This was partly offset by a loss of £244m, in excess of the return that is included in the expected return on free surplus, arising from differences in movements of subordinated debt liabilities and the assets that are backing the subordinated debt. The £128m profit in Canada includes a £93m gain from increases in the value of surplus property assets.

Effect of economic assumption changes was an overall loss of £106m. Changes to the long-term corporation tax rate in the UK and the impact of the new UK life tax regime resulted in an overall profit of £40m. Refer to Note 3.1 – Basis of preparation. Similarly, a reduction in the assumed long-term tax rate in Canada generated a profit of £25m. Lower risk free rates were the main driver for both a profit of £279m from lower risk discount rates, which is explained in Note 3.13, and for a loss of £333m from the use of lower future assumed investment returns. In addition, changes to the inflation assumption in Canada created a loss of £103m.

Restructuring costs primarily represent the covered business costs associated with a number of restructuring programmes including Solvency 2 and the Retail Distribution Review. EEV restructuring costs include associated impacts on PVIF and cost of required capital.

12 months to 31 December 2011	Notes	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Contribution from new business	3.3	225	73	37	**335**
Contribution from in-force business:					
Expected return on existing business		276	144	20	**440**
Experience variances	3.4	36	118	(6)	**148**
Operating assumption changes	3.5	59	(8)	(18)	**33**
Development expenses		(42)	(14)	(18)	**(74)**
Expected return on free surplus		(4)	11	-	**7**
EEV operating profit before tax		**550**	**324**	**15**	**889**
Investment return and tax variances		44	41	(15)	**70**
Effect of economic assumption changes		(321)	(181)	2	**(500)**
Restructuring costs		(55)	(3)	(1)	**(59)**
EEV profit before tax		**218**	**181**	**1**	**400**
EEV attributed tax		(64)	(45)	-	**(109)**
EEV profit after tax		**154**	**136**	**1**	**291**

3.2 Segmental analysis – covered business *continued*

(b) Segmental analysis of movements in EEV

12 months to 31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Opening EEV	**3,733**	**1,712**	**342**	**5,787**
EEV profit after tax	631	426	34	**1,091**
Internal capital transfers	(257)	236	32	**11**
Transfer back of surplus to Standard Life Investments	(60)	(2)	-	**(62)**
Transfer back of mutual funds net worth	(3)	(3)	-	**(6)**
Actuarial losses on defined benefit pension schemes	(12)	(11)	-	**(23)**
Foreign exchange differences	(16)	(49)	(16)	**(81)**
Aggregate tax effect of items not recognised in income statement	-	4	-	**4**
Other	(7)	-	(1)	**(8)**
Closing EEV	**4,009**	**2,313**	**391**	**6,713**

12 months to 31 December 2011	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Opening EEV	**3,995**	**1,758**	**318**	**6,071**
EEV profit after tax	154	136	1	**291**
Internal capital transfers	(385)	(116)	43	**(458)**
Transfer back of surplus to Standard Life Investments	(39)	(2)	-	**(41)**
Transfer back of mutual funds net worth	19	(5)	-	**14**
Actuarial (losses)/gains on defined benefit pension schemes	8	(42)	-	**(34)**
Foreign exchange differences	(15)	(30)	(21)	**(66)**
Aggregate tax effect of items not recognised in income statement	-	12	-	**12**
Other	(4)	1	1	**(2)**
Closing EEV	**3,733**	**1,712**	**342**	**5,787**

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Analysis of EEV				
Free surplus	722	(103)	32	**651**
PVIF	2,919	1,229	275	**4,423**
Required capital	199	1,059	38	**1,296**
Cost of capital	(107)	(473)	(3)	**(583)**
Opening EEV	**3,733**	**1,712**	**342**	**5,787**
Analysis of EEV				
Free surplus	457	437	46	**940**
PVIF	3,418	1,351	304	**5,073**
Required capital	243	1,061	44	**1,348**
Cost of capital	(109)	(536)	(3)	**(648)**
Closing EEV	**4,009**	**2,313**	**391**	**6,713**

12 months to 31 December 2011	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Analysis of EEV				
Free surplus	960	226	16	**1,202**
PVIF	2,947	1,061	269	**4,277**
Required capital	182	813	36	**1,031**
Cost of capital	(94)	(342)	(3)	**(439)**
Opening EEV	**3,995**	**1,758**	**318**	**6,071**
Analysis of EEV				
Free surplus	722	(103)	32	**651**
PVIF	2,919	1,229	275	**4,423**
Required capital	199	1,059	38	**1,296**
Cost of capital	(107)	(473)	(3)	**(583)**
Closing EEV	**3,733**	**1,712**	**342**	**5,787**

3.3 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 3.17 – EEV methodology.

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

12 months to 31 December 2012	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier[1]	PVNBP margin[2] %
Individual pensions	F	5	3,085	78	3,347	3.4	0.1
Savings and investments	F	23	1,756	23	1,958	8.8	1.2
Annuities	S/R	71	462	-	462	-	15.3
Protection	S/R	-	-	-	1	-	15.8
Retail		**99**	**5,303**	**101**	**5,768**	**4.6**	**1.7**
Corporate pensions	F	51	892	535	3,397	4.7	1.5
Institutional pensions	F	99	3,896	2	3,897	0.5	2.5
Corporate		**150**	**4,788**	**537**	**7,294**	**4.7**	**2.1**
UK		**249**	**10,091**	**638**	**13,062**	**4.7**	**1.9**
Europe		12	637	40	1,105	11.7	1.1
UK and Europe		**261**	**10,728**	**678**	**14,167**	**5.1**	**1.8**
Fee	F	16	1,545	57	2,555	17.7	0.6
Spread/risk	S/R	29	208	52	1,029	15.8	2.8
Canada		**45**	**1,753**	**109**	**3,584**	**16.8**	**1.3**
Wholly owned	F	20	776	41	1,020	6.0	1.9
Joint ventures		13	76	104	522	4.3	2.6
Asia and Emerging Markets		**33**	**852**	**145**	**1,542**	**4.8**	**2.2**
Total covered business		**339**	**13,333**	**932**	**19,293**	**6.4**	**1.8**

1 The PVNBP multiplier is calculated as the total of PVNBP less single premiums, divided by annualised regular premiums.
2 PVNBP margins are calculated as the ratio of NBC to PVNBP and are based on the underlying unrounded numbers.

3.3 Analysis of new business contribution *continued*

12 months to 31 December 2011	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier[1]	PVNBP margin[2] %
Individual pensions	F	12	3,598	99	3,936	3.4	0.3
Savings and investments	F	15	1,973	24	2,151	7.4	0.7
Annuities	S/R	58	312	-	312	-	18.6
Protection	S/R	-	-	-	1	-	5.2
Retail		**85**	**5,883**	**123**	**6,400**	**4.2**	**1.3**
Corporate pensions	F	60	1,889	620	4,607	4.4	1.3
Institutional pensions	F	59	3,027	1	3,028	1.0	2.0
Corporate		**119**	**4,916**	**621**	**7,635**	**4.4**	**1.6**
UK		**204**	**10,799**	**744**	**14,035**	**4.3**	**1.5**
Europe		**21**	**658**	**37**	**1,070**	**11.1**	**1.9**
UK and Europe		**225**	**11,457**	**781**	**15,105**	**4.7**	**1.5**
Fee	F	38	1,216	33	1,695	14.5	2.2
Spread/risk	S/R	35	306	61	1,233	15.2	2.9
Canada		**73**	**1,522**	**94**	**2,928**	**15.0**	**2.5**
Wholly owned	F	30	909	49	1,205	6.0	2.5
Joint ventures		7	82	100	500	4.2	1.4
Asia and Emerging Markets		**37**	**991**	**149**	**1,705**	**4.8**	**2.2**
Total covered business		**335**	**13,970**	**1,024**	**19,738**	**5.6**	**1.7**

[1] The PVNBP multiplier is calculated as the total of PVNBP less single premiums, divided by annualised regular premiums.
[2] PVNBP margins are calculated as the ratio of NBC to PVNBP and are based on the underlying unrounded numbers.

3.4 Experience variances

12 months to 31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Lapses	(7)	-	(8)	**(15)**
Maintenance expenses	(6)	11	-	**5**
Mortality and morbidity	(5)	-	1	**(4)**
Tax	13	23	1	**37**
Other	290	261	(4)	**547**
Total	**285**	**295**	**(10)**	**570**

Canada expense variances of £11m reflect actual expenses being lower than expected.

Positive tax variances of £13m in UK and Europe and £23m in Canada arise from reconciliations to actual tax and changes in actuarial provisions.

The overall total of £547m of other variances includes £453m of gains from previously announced management actions. These consist of £96m in UK and Europe from the professional indemnity insurance claim; £119m variances in the HWPF TVOG primarily reflecting the benefit of asset strategy changes in the HWPF as well as improved modelling of German business; £90m in Canada from revised modelling of future cash flows, primarily for segregated fund business; and £148m in Canada from the sale of properties and a renegotiation of an existing reinsurance arrangement.

UK and Europe other variances also include a £67m profit from management actions that resulted in the use of higher investment returns for annuities.

For the 12 months to 31 December 2011, other UK variances include a profit of £50m from the impact of a management action to reduce current and future investment expenses. Other Canada variances mainly arise from the impact of management actions to enhance investment yields on assets.

12 months to 31 December 2011	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Lapses	(42)	-	(6)	**(48)**
Maintenance expenses	(5)	-	1	**(4)**
Mortality and morbidity	3	-	1	**4**
Tax	46	72	1	**119**
Other	34	46	(3)	**77**
Total	**36**	**118**	**(6)**	**148**

3.5 Operating assumption changes

12 months to 31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Lapses	(3)	(53)	(7)	**(63)**
Maintenance expenses	23	(22)	-	**1**
Mortality and morbidity	7	50	1	**58**
Tax	-	-	-	**-**
Other	29	(139)	(1)	**(111)**
Total	**56**	**(164)**	**(7)**	**(115)**

Canada lapse assumption losses of £53m arise from the impact of assuming higher surrenders within Group pension business, reflecting recent experience.

Expense assumption profits of £23m in UK and Europe and losses of £22m in Canada are mainly due to changes in investment related income and expenses.

The £50m gains from mortality assumption changes in Canada mainly relate to annuities, consistent with recent experience.

UK and Europe other assumption changes produced a profit of £29m. This included a £12m profit from a reduction in GWPF TVOG from revised operating assumptions, along with £14m from changes to UK valuation assumptions.

The adverse £139m other assumption changes in Canada include losses of £45m from the decision to impose a minimum inflation rate on expenses; £17m from a reduction in expected fee income from our existing group savings and retirement contracts; and £72m from assuming that we will earn lower fee income on the funds invested from future deposits.

For the 12 months to 31 December 2011, most of the £139m loss from mortality assumptions in Canada reflects the impact of revised industry-standard mortality improvement rates. The £57m other assumption changes in Canada includes a £109m profit from various changes in asset allocation strategies, including the benefits of management actions aimed at enhancing the investment yield on assets. This was partly offset by a loss of £62m from a reduction in expected fee income in our group savings and retirement products.

12 months to 31 December 2011	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Lapses	25	34	(12)	**47**
Maintenance expenses	5	40	(3)	**42**
Mortality and morbidity	(14)	(139)	-	**(153)**
Tax	1	-	-	**1**
Other	42	57	(3)	**96**
Total	**59**	**(8)**	**(18)**	**33**

3.6 Non-covered business

Non-covered business EEV operating profit is represented by operating profit[1] as adjusted for Standard Life Investments look through profits and the return on mutual funds which are recognised in covered business. Refer to Note 3.17 – EEV methodology.

(a) Segmental analysis – non-covered business

12 months to 31 December 2012	UK and Europe £m	Standard Life Investments £m	Other including group corporate centre £m	Total non-covered business £m
Opening EEV net assets	**393**	**256**	**903**	**1,552**
EEV profit/(loss) after tax	58	43	(51)	**50**
Transfer back of net worth from covered business	3	62	3	**68**
Foreign exchange differences	-	(3)	(2)	**(5)**
Internal capital transfers	(2)	(106)	97	**(11)**
Distributions to equity holders	-	-	(331)	**(331)**
Other	62	3	37	**102**
Closing EEV net assets	**514**	**255**	**656**	**1,425**

The transfer back of net worth from covered business represents the transfer of profits and losses in relation to the Group's investment management business, the UK mutual funds business (within UK and Europe non-covered, Standard Life Savings Limited) and the Canada mutual funds business (within other non-covered), necessary to reconcile the opening and closing EEV net assets. For further detail refer to Note 3.17 – EEV methodology – Transfer back of net worth from covered business.

The £62m other movement in the UK and Europe EEV net assets mainly relates to the change in the UK non-covered pension scheme of negative £44m (2011: negative £51m) and the associated deferred tax asset of positive £98m (2011: positive £15m). The £37m other movements in other including group corporate centre mainly relate to gains from the net investment hedge and the reserves credit for share-based payment schemes.

For the 12 months to 31 December 2011, the £164m other movements in other including group corporate centre predominantly relate to the £141m issue of share capital other than in cash in relation to the Scrip dividend paid by the Company.

The Company operated a Scrip dividend scheme for dividends paid until the end of 2011. Investors taking part in the Scrip scheme received their dividend entitlement in the form of new shares issued in lieu of cash dividends. For the 12 months ended 31 December 2011, dividends paid comprise £141m settled by the issue of shares under the Scrip scheme and £162m paid in cash.

12 months to 31 December 2011	UK and Europe £m	Standard Life Investments £m	Other including group corporate centre £m	Total non-covered business £m
Opening EEV net assets	**271**	**256**	**678**	**1,205**
EEV profit/(loss) after tax	37	51	(54)	**34**
Transfer back of net worth from covered business	(19)	41	5	**27**
Foreign exchange differences	-	(6)	3	**(3)**
Internal capital transfers	136	(88)	410	**458**
Distributions to equity holders	-	-	(303)	**(303)**
Other	(32)	2	164	**134**
Closing EEV net assets	**393**	**256**	**903**	**1,552**

[1] Refer to Note 2.1 (b) – Accounting policies – Operating profit in the IFRS financial information.

(b) Standard Life Investments EEV operating profit before tax

Standard Life Investments non-covered business profits are included in EEV on a look through basis. This means that the profits from Standard Life Investments which are generated from life and pensions business are allocated to covered business. Therefore, the difference between third party non-covered business EEV operating profit before tax of £62m (2011: £69m) and operating profit for the Standard Life Investment business of £145m (2011: £125m) is the profit allocated to covered business.

	12 months to 31 December 2012 £m	12 months to 31 December 2011 £m
Standard Life Investments third party non-covered business EEV operating profit before tax	**62**	69
Third party related covered business EEV operating profit before tax	**56**	32
Total third party business EEV operating profit before tax	**118**	101
Other covered business EEV operating profit before tax	**27**	24
Standard Life Investments operating profit before tax	**145**	125

Total Standard Life Investments EEV operating profit allocated to covered business of £83m (2011: £56m) consists of third party related covered business EEV operating profit of £56m (2011: £32m) and other covered business EEV operating profit of £27m (2011: £24m).

Third party related covered business EEV operating profits relate to products actively marketed and sold to third parties through Standard Life Investments distribution channels. If these profits are added to the Standard Life Investments third party non-covered business EEV operating profits of £62m (2011: £69m), there are £118m (2011: £101m) of total third party related profits for Standard Life Investments.

The proportion of Standard Life Investments operating profit before tax generated from third parties reflects new business flows into higher margin third party products and outflows from captive products.

(c) Other EEV operating profits before tax

	12 months to 31 December 2012 £m	12 months to 31 December 2011 £m
Canada non-life subsidiaries	**1**	6
Mutual funds transferred to covered business	**(6)**	(7)
Canada non-life subsidiaries excluding transfers to covered business	**(5)**	(1)
Standard Life plc income	**8**	6
Other	**2**	9
Other non-covered business EEV operating profit before tax	**5**	14

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 Asia and Emerging Markets businesses. These costs are included within the Asia and Emerging Markets segment of the IFRS financial statements.

3.7 EEV reconciliation of movements in consolidated statement of financial position

	12 months to 31 December 2012 £m	12 months to 31 December 2011 £m
Opening EEV	**7,428**	7,321
Total comprehensive income for the period attributable to equity holders	**1,014**	252
Distributions to equity holders	**(331)**	(303)
Issue of share capital other than in cash	**1**	141
Shares acquired by employee trusts	**(5)**	(7)
Reserves credit for employee share-based payment schemes	**25**	24
Aggregate tax effect of items recognised directly in equity	**6**	-
Closing EEV	**8,138**	7,428

3.8 Reconciliation of EEV net assets to IFRS net assets

	31 December 2012 £m	31 December 2011 £m
Net assets on an EEV basis	**8,138**	7,428
Present value of in-force life and pensions business net of cost of capital	**(4,425)**	(3,840)
EEV net worth	**3,713**	3,588
Adjustment of long-term debt to market value	**77**	(44)
Canada marked to market adjustment	**(19)**	(19)
Deferred acquisition costs net of deferred income reserve	**382**	350
Deferred tax differences	**129**	123
Adjustment for share of joint ventures	**22**	24
Consolidation adjustment for different accounting bases[1]	**-**	(89)
Other	**51**	28
Net assets attributable to equity holders on an IFRS basis	**4,355**	3,961

[1] This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 3.17 – EEV methodology.

Reconciling items are shown net of tax where appropriate.

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

(a) Total

12 months to 31 December 2012	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**651**	**1,296**	**1,947**	**3,840**	**5,787**
Contribution from new business	(325)	109	(216)	481	**265**
Contribution from in-force business:					
Expected return on existing business	(1)	43	42	263	**305**
Expected return transfer to net worth	634	(66)	568	(568)	**-**
Experience variances	360	(61)	299	134	**433**
Operating assumption changes	84	(3)	81	(172)	**(91)**
Development expenses	(53)	-	(53)	4	**(49)**
Expected return on free surplus	3	-	3	-	**3**
EEV operating profit after tax	**702**	**22**	**724**	**142**	**866**
Investment return and tax variances	22	11	33	353	**386**
Effect of economic assumption changes	(264)	46	(218)	136	**(82)**
Restructuring costs	(78)	-	(78)	(1)	**(79)**
EEV profit after tax	**382**	**79**	**461**	**630**	**1,091**
Internal capital transfers	11	-	11	-	**11**
Transfer back of surplus to Standard Life Investments	(62)	-	(62)	-	**(62)**
Transfer back of mutual funds net worth	(6)	-	(6)	-	**(6)**
Actuarial losses on defined benefit pension schemes	(23)	-	(23)	-	**(23)**
Foreign exchange differences	(9)	(27)	(36)	(45)	**(81)**
Aggregate tax effect of items not recognised in income statement	4	-	4	-	**4**
Other	(8)	-	(8)	-	**(8)**
Closing EEV	**940**	**1,348**	**2,288**	**4,425**	**6,713**

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**1,202**	**1,031**	**2,233**	**3,838**	**6,071**
Contribution from new business	(290)	64	(226)	484	**258**
Contribution from in-force business:					
Expected return on existing business	(1)	40	39	294	**333**
Expected return transfer to net worth	684	(85)	599	(599)	**-**
Experience variances	52	2	54	58	**112**
Operating assumption changes	(33)	2	(31)	49	**18**
Development expenses	(58)	-	(58)	-	**(58)**
Expected return on free surplus	5	-	5	-	**5**
EEV operating profit after tax	**359**	**23**	**382**	**286**	**668**
Investment return and tax variances	159	94	253	(206)	**47**
Effect of economic assumption changes	(512)	181	(331)	(50)	**(381)**
Restructuring costs	(41)	(17)	(58)	15	**(43)**
EEV profit/(loss) after tax	**(35)**	**281**	**246**	**45**	**291**
Internal capital transfers	(458)	-	(458)	-	**(458)**
Transfer back of surplus to Standard Life Investments	(41)	-	(41)	-	**(41)**
Transfer back of mutual funds net worth	14	-	14	-	**14**
Actuarial losses on defined benefit pension schemes	(34)	-	(34)	-	**(34)**
Foreign exchange differences	(6)	(17)	(23)	(43)	**(66)**
Aggregate tax effect of items not recognised in income statement	12	-	12	-	**12**
Other	(3)	1	(2)	-	**(2)**
Closing EEV	**651**	**1,296**	**1,947**	**3,840**	**5,787**

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

(b) UK and Europe *continued*

12 months to 31 December 2012	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**722**	**199**	**921**	**2,812**	**3,733**
Contribution from new business	(162)	24	(138)	340	**202**
Contribution from in-force business:					
Expected return on existing business	(1)	4	3	166	**169**
Expected return transfer to net worth	419	1	420	(420)	**-**
Experience variances	116	5	121	98	**219**
Operating assumption changes	10	-	10	30	**40**
Development expenses	(22)	-	(22)	4	**(18)**
EEV operating profit after tax	**360**	**34**	**394**	**218**	**612**
Investment return and tax variances	(40)	3	(37)	313	**276**
Effect of economic assumption changes	(170)	8	(162)	(19)	**(181)**
Restructuring costs	(75)	-	(75)	(1)	**(76)**
EEV profit after tax	**75**	**45**	**120**	**511**	**631**
Internal capital transfers	(257)	-	(257)	-	**(257)**
Transfer back of surplus to Standard Life Investments	(60)	-	(60)	-	**(60)**
Transfer back of mutual funds net worth	(3)	-	(3)	-	**(3)**
Actuarial losses on defined benefit pension schemes	(12)	-	(12)	-	**(12)**
Foreign exchange differences	(1)	(1)	(2)	(14)	**(16)**
Other	(7)	-	(7)	-	**(7)**
Closing EEV	**457**	**243**	**700**	**3,309**	**4,009**

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**960**	**182**	**1,142**	**2,853**	**3,995**
Contribution from new business	(175)	20	(155)	326	**171**
Contribution from in-force business:					
Expected return on existing business	(1)	6	5	201	**206**
Expected return transfer to net worth	450	-	450	(450)	**-**
Experience variances	(22)	1	(21)	50	**29**
Operating assumption changes	(8)	1	(7)	47	**40**
Development expenses	(32)	-	(32)	-	**(32)**
Expected return on free surplus	(3)	-	(3)	-	**(3)**
EEV operating profit after tax	**209**	**28**	**237**	**174**	**411**
Investment return and tax variances	223	(3)	220	(189)	**31**
Effect of economic assumption changes	(229)	10	(219)	(28)	**(247)**
Restructuring costs	(39)	(17)	(56)	15	**(41)**
EEV profit/(loss) after tax	**164**	**18**	**182**	**(28)**	**154**
Internal capital transfers	(385)	-	(385)	-	**(385)**
Transfer back of surplus to Standard Life Investments	(39)	-	(39)	-	**(39)**
Transfer back of mutual funds net worth	19	-	19	-	**19**
Actuarial gains on defined benefit pension schemes	8	-	8	-	**8**
Foreign exchange differences	(1)	(1)	(2)	(13)	**(15)**
Other	(4)	-	(4)	-	**(4)**
Closing EEV	**722**	**199**	**921**	**2,812**	**3,733**

(c) Canada

12 months to 31 December 2012	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**(103)**	**1,059**	**956**	**756**	**1,712**
Contribution from new business	(101)	76	(25)	60	**35**
Contribution from in-force business:					
Expected return on existing business	-	37	37	81	**118**
Expected return transfer to net worth	151	(67)	84	(84)	**-**
Experience variances	246	(62)	184	39	**223**
Operating assumption changes	74	(3)	71	(196)	**(125)**
Development expenses	(12)	-	(12)	-	**(12)**
Expected return on free surplus	2	-	2	-	**2**
EEV operating profit/(loss) after tax	**360**	**(19)**	**341**	**(100)**	**241**
Investment return and tax variances	59	7	66	31	**97**
Effect of economic assumption changes	(94)	38	(56)	146	**90**
Restructuring costs	(2)	-	(2)	-	**(2)**
EEV profit after tax	**323**	**26**	**349**	**77**	**426**
Internal capital transfers	236	-	236	-	**236**
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	**(2)**
Transfer back of mutual funds net worth	(3)	-	(3)	-	**(3)**
Actuarial losses on defined benefit pension schemes	(11)	-	(11)	-	**(11)**
Foreign exchange differences	(7)	(24)	(31)	(18)	**(49)**
Aggregate tax effect of items not recognised in income statement	4	-	4	-	**4**
Closing EEV	**437**	**1,061**	**1,498**	**815**	**2,313**

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**226**	**813**	**1,039**	**719**	**1,758**
Contribution from new business	(42)	36	(6)	61	**55**
Contribution from in-force business:					
Expected return on existing business	-	33	33	75	**108**
Expected return transfer to net worth	168	(85)	83	(83)	**-**
Experience variances	75	4	79	10	**89**
Operating assumption changes	(26)	1	(25)	19	**(6)**
Development expenses	(10)	-	(10)	-	**(10)**
Expected return on free surplus	8	-	8	-	**8**
EEV operating profit/(loss) after tax	**173**	**(11)**	**162**	**82**	**244**
Investment return and tax variances	(63)	99	36	(6)	**30**
Effect of economic assumption changes	(280)	171	(109)	(27)	**(136)**
Restructuring costs	(2)	-	(2)	-	**(2)**
EEV profit/(loss) after tax	**(172)**	**259**	**87**	**49**	**136**
Internal capital transfers	(116)	-	(116)	-	**(116)**
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	**(2)**
Transfer back of mutual funds net worth	(5)	-	(5)	-	**(5)**
Actuarial losses on defined benefit pension schemes	(42)	-	(42)	-	**(42)**
Foreign exchange differences	(5)	(13)	(18)	(12)	**(30)**
Aggregate tax effect of items not recognised in income statement	12	-	12	-	**12**
Other	1	-	1	-	**1**
Closing EEV	**(103)**	**1,059**	**956**	**756**	**1,712**

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

(d) Asia and Emerging Markets

12 months to 31 December 2012	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**32**	**38**	**70**	**272**	**342**
Contribution from new business	(62)	9	(53)	81	**28**
Contribution from in-force business:					
Expected return on existing business	-	2	2	16	**18**
Expected return transfer to net worth	64	-	64	(64)	**-**
Experience variances	(2)	(4)	(6)	(3)	**(9)**
Operating assumption changes	-	-	-	(6)	**(6)**
Development expenses	(19)	-	(19)	-	**(19)**
Expected return on free surplus	1	-	1	-	**1**
EEV operating profit/(loss) after tax	**(18)**	**7**	**(11)**	**24**	**13**
Investment return and tax variances	3	1	4	9	**13**
Effect of economic assumption changes	-	-	-	9	**9**
Restructuring costs	(1)	-	(1)	-	**(1)**
EEV profit/(loss) after tax	**(16)**	**8**	**(8)**	**42**	**34**
Internal capital transfers	32	-	32	-	**32**
Foreign exchange differences	(1)	(2)	(3)	(13)	**(16)**
Other	(1)	-	(1)	-	**(1)**
Closing EEV	**46**	**44**	**90**	**301**	**391**

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**16**	**36**	**52**	**266**	**318**
Contribution from new business	(73)	8	(65)	97	**32**
Contribution from in-force business:					
Expected return on existing business	-	1	1	18	**19**
Expected return transfer to net worth	66	-	66	(66)	**-**
Experience variances	(1)	(3)	(4)	(2)	**(6)**
Operating assumption changes	1	-	1	(17)	**(16)**
Development expenses	(16)	-	(16)	-	**(16)**
EEV operating profit/(loss) after tax	**(23)**	**6**	**(17)**	**30**	**13**
Investment return and tax variances	(1)	(2)	(3)	(11)	**(14)**
Effect of economic assumption changes	(3)	-	(3)	5	**2**
EEV profit/(loss) after tax	**(27)**	**4**	**(23)**	**24**	**1**
Internal capital transfers	43	-	43	-	**43**
Foreign exchange differences	-	(3)	(3)	(18)	**(21)**
Other	-	1	1	-	**1**
Closing EEV	**32**	**38**	**70**	**272**	**342**

3.10 Time value of options and guarantees (TVOG)

	31 December 2012 £m	31 December 2011 £m
UK and Europe	**(156)**	(280)
Canada	**(58)**	(29)
Asia and Emerging Markets	**(7)**	(12)
Total	**(221)**	(321)

The UK and Europe TVOG reflects the value of shareholder exposure to with profits policyholder guarantees. The total at 31 December 2012 comprises £137m for guarantees in the HWPF (2011: £251m) and £19m for guarantees in the GWPF (2011: £29m). The value of this exposure has reduced by £124m during 2012. This arose from a post-tax operating gain of £97m mainly from asset changes and modelling improvements, and favourable non-operating movements of £27m.

The increase in the Canada TVOG of £29m has mainly arisen within retail fee business and reflects the increased cost of guarantees from the business written in 2012.

3.11 Market value of subordinated liabilities within covered business

	31 December 2012 £m	31 December 2011 £m
UK and Europe	**(1,207)**	(1,005)
Canada	**(260)**	(341)
Total	**(1,467)**	(1,346)

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus shown in Note 3.2(c) – Segmental analysis – Covered business – Segmental analysis of opening and closing EEV is net of these liabilities.

UK and Europe subordinated liabilities include Euro denominated subordinated guaranteed bonds. The increase in UK and Europe subordinated liabilities mainly reflects reduced market yields during 2012.

The Standard Life Assurance Company of Canada issued subordinated debenture notes with a principal value of CA$400m on 21 September 2012, as described in Note 2.17 to the IFRS financial information. The EEV market value liability of this at 31 December 2012 was £260m.

Previously issued Canada subordinated liabilities with a face value of CA$400m were fully redeemed during December 2012. These had a market value liability at 31 December 2011 of £341m. Redeeming this liability at par generated a pre-tax profit of £75m within Canada's other operating variances. There is a fully offsetting £75m loss within other non-covered EEV operating profit before tax, reflecting the lower value received on redemption by Group non-covered business. In addition, this redemption also generated a pre-tax loss of £72m within Canada's other operating variances due to a loss of tax relief on interest payments. Market value fluctuations in 2012 up to the date of redemption led to an EEV non-operating loss before tax of £42m.

Standard Life plc issued £500m of Sterling subordinated notes during December 2012. These liabilities are included within EEV non-covered business at their IFRS valuation. For details of the Group subordinated liabilities refer to Note 2.17 to the IFRS financial information.

The impact of market value fluctuations in subordinated liabilities within covered business are reflected in non-operating profit as shown in Note 3.2(a) – Segmental EEV income statement.

3.12 PVIF monetisation profile

The following tables show the PVIF emergence on a discounted and undiscounted basis along with a reconciliation to the total closing PVIF and the PVIF net of cost of capital impact from new business.

(a) PVIF emergence

In-force business

	PVIF	Cash emerging during years (£m)				
At 31 December 2012	**£m**	**1-5**	**6-10**	**11-15**	**16-20**	**20+**
UK and Europe	5,494	1,806	1,246	857	570	1,015
Canada	4,488	522	500	457	428	2,581
Asia and Emerging Markets	445	195	109	63	38	40
Total undiscounted	**10,427**	**2,523**	**1,855**	**1,377**	**1,036**	**3,636**
Total discounted	**5,294**	**2,198**	**1,278**	**736**	**428**	**654**

3.12 PVIF monetisation profile *continued*

(a) PVIF emergence *continued*

New business

At 31 December 2012	PVIF £m	Cash emerging during years (£m) 1-5	6-10	11-15	16-20	20+
UK and Europe	537	167	117	87	62	104
Canada	253	25	39	32	28	129
Asia and Emerging Markets	117	57	26	14	10	10
Total undiscounted	**907**	**249**	**182**	**133**	**100**	**243**
Total discounted	**539**	**224**	**130**	**77**	**47**	**61**

(b) Reconciliation to closing PVIF

In-force business

At 31 December 2012	Reconciliation of discounted PVIF PVIF £m	TVOG £m	Total £m
UK and Europe	3,574	(156)	3,418
Canada	1,409	(58)	1,351
Asia and Emerging Markets	311	(7)	304
Total	**5,294**	**(221)**	**5,073**

See also Note 3.2(c) – Segmental analysis – covered business – Segmental analysis of opening and closing EEV.

New business

At 31 December 2012	Reconciliation of discounted PVIF PVIF £m	Cost of capital £m	TVOG £m	Total £m
UK and Europe	354	(12)	(2)	340
Canada	102	(12)	(30)	60
Asia and Emerging Markets	83	(1)	(1)	81
Total	**539**	**(25)**	**(33)**	**481**

See also Note 3.9 – Analysis of covered business EEV PVIF and net worth movements (net of tax).

As outlined in Note 3.1 – Basis of preparation, with the exception of changes arising from the introduction of a new UK life insurance tax regime, the Group's EEV results do not include any allowance for changes to the reserving or required capital bases anticipated under future reporting or regulatory regimes. The PVIF monetisation profile therefore excludes changes anticipated under Solvency 2.

3.13 Principal economic assumptions – deterministic calculations – covered business

(a) Gross investment returns and expense inflation

At 31 December 2012	UK HWPF/PBF[1] %	Europe HWPF/PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Gross investment returns					
Risk free	1.74	1.32	2.32	1.74	0.91
Corporate bonds	2.34[3]	n/a	[4]	n/a	1.66
Equities	4.74	4.32	8.60	4.74	3.91
Property	3.74	3.32	8.60	3.74	n/a
Other					
Expense inflation:	3.39		1.50[5]	3.39	2.50
Germany		1.87			
Ireland		2.84			

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.

2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.

3 Excludes corporate bond returns on annuities. For annuities in UK equity holder owned funds, the overall investment return, after allowing for assumed defaults, is 3.81% for annuities that are level or subject to fixed escalations and 3.06% for annuities where escalations are linked to a price index.

4 With the exception of AFS assets used to back investment contract liabilities at amortised cost, current holdings are assumed to yield in future years the earned rate for the year preceding the valuation and future reinvestments are assumed to be in a mixture of government and corporate bonds. For AFS assets used to back investment contract liabilities at amortised cost, yields are calculated at acquisition and subsequent changes are ignored.

5 1.50% in 2013. The rate in subsequent years is based on a moving 30-year bond yield less a 2% deduction, with a floor of 1.50%.

At 31 December 2011	UK HWPF/PBF[1] %	Europe HWPF/PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Gross investment returns					
Risk free	1.93	1.83	2.17	1.93	1.09
Corporate bonds	2.99[3]	n/a	[4]	n/a	3.41
Equities	4.93	4.83	8.60	4.93	4.09
Property	3.93	3.83	8.60	3.93	n/a
Other					
Expense inflation:	3.37		0.00[5]	3.37	2.50
Germany		1.85			
Ireland		2.74			

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.
3 Excludes corporate bond returns on annuities. For annuities in UK equity holder owned funds, the overall investment return, after allowing for assumed defaults, is 4.20% for annuities that are level or subject to fixed escalations and 2.73% for annuities where escalations are linked to a price index.
4 Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in a mixture of government and corporate bonds.
5 0.00% in 2012. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

(b) Risk discount rates – in-force business

At 31 December 2012	UK HWPF %	UK PBF[1] %	Europe HWPF %	Europe PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Risk margin – in-force business							
Risk margin before cost of capital adjustment:							
Market risk	1.90	1.80	0.70	1.30	4.00	1.60	1.40
Non-market risk	2.60	1.00	1.80	0.60	1.50	1.00	1.50
Total	**4.50**	**2.80**	**2.50**	**1.90**	**5.50**	**2.60**	**2.90**
Cost of capital adjustment	-	(0.50)	-	(0.60)	(1.60)	(0.20)	-
Risk margin after cost of capital adjustment	**4.50**	**2.30**	**2.50**	**1.30**	**3.90**	**2.40**	**2.90**
Risk discount rates – in-force business							
Risk free	1.74	1.74	1.32	1.32	2.32	1.74	0.91
Risk margin	4.50	2.30	2.50	1.30	3.90	2.40	2.90
Risk discount rate[3]	**6.24**	**4.04**	**3.82**	**2.62**	**6.22**	**4.14**	**3.81**

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.
3 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 5.03% and 3.09% respectively.

At 31 December 2011	UK HWPF %	UK PBF[1] %	Europe HWPF %	Europe PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Risk margin – in-force business							
Risk margin before cost of capital adjustment:							
Market risk	1.90	1.90	0.70	1.50	3.20	1.80	1.60
Non-market risk	2.60	0.90	1.30	0.80	3.50	0.70	1.50
Total	**4.50**	**2.80**	**2.00**	**2.30**	**6.70**	**2.50**	**3.10**
Cost of capital adjustment	-	(0.10)	-	(1.00)	(2.20)	(0.20)	-
Risk margin after cost of capital adjustment	**4.50**	**2.70**	**2.00**	**1.30**	**4.50**	**2.30**	**3.10**
Risk discount rates – in-force business							
Risk free	1.93	1.93	1.83	1.83	2.17	1.93	1.09
Risk margin	4.50	2.70	2.00	1.30	4.50	2.30	3.10
Risk discount rate[3]	**6.43**	**4.63**	**3.83**	**3.13**	**6.67**	**4.23**	**4.19**

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.
3 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 5.55% and 3.42% respectively.

Changes in market risk margins generally arise from changes in the mix of business and asset allocations.

3.13 Principal economic assumptions – deterministic calculations – covered business *continued*

(b) Risk discount rates – in-force business *continued*

In Canada, the 2012 risk margin also reflects the impact of the relative movements in the returns assumed on equities and property compared to risk free, as well as the changes in market risk resulting from the revised modelling of cash flows as described in Note 3.4 – Experience variances.

The increased market risk resulting from the revised modelling in Canada resulted in a 0.1% increase in the risk margin. This resulted in a loss of £32m which is included within the Canada operating experience variances as reported in Note 3.2(a) – Segmental analysis – covered business – Segmental EEV income statement.

The impact of the other changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 3.2(a). The amounts within these totals that relate to the changes in risk discount rate are for UK and Europe: profit £144m, for Canada: profit £135m.

(c) Risk discount rates – new business

12 months to 31 December 2012	UK HWPF %	UK PBF[1] %	Europe HWPF %	Europe PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Risk margin – new business							
Risk margin before cost of capital adjustment:							
Market risk	2.00	1.90	2.10	1.70	2.90	1.60	1.40
Non-market risk	0.50	1.10	1.20	0.60	0.80	0.60	1.50
Total	**2.50**	**3.00**	**3.30**	**2.30**	**3.70**	**2.20**	**2.90**
Cost of capital adjustment	-	(0.40)	-	(0.60)	(1.00)	(0.10)	-
Risk margin after cost of capital adjustment	**2.50**	**2.60**	**3.30**	**1.70**	**2.70**	**2.10**	**2.90**
Risk discount rates – new business							
Risk free[3]	1.93	1.93	1.83	1.83	2.17	1.93	1.09
Risk margin	2.50	2.60	3.30	1.70	2.70	2.10	2.90
Risk discount rate[4]	**4.43**	**4.53**	**5.13**	**3.53**	**4.87**	**4.03**	**3.99**

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.
3 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2011.
4 Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 4.52% and 3.60% respectively.

12 months to 31 December 2011	UK HWPF %	UK PBF[1] %	Europe HWPF %	Europe PBF[1] %	Canada %	SLIL[2] %	Hong Kong %
Risk margin – new business							
Risk margin before cost of capital adjustment:							
Market risk	2.00	2.10	1.80	1.90	1.10	1.70	1.40
Non-market risk	0.90	0.90	1.30	1.30	1.20	0.70	1.50
Total	**2.90**	**3.00**	**3.10**	**3.20**	**2.30**	**2.40**	**2.90**
Cost of capital adjustment	-	(0.20)	-	(2.00)	(0.30)	(0.20)	-
Risk margin after cost of capital adjustment	**2.90**	**2.80**	**3.10**	**1.20**	**2.00**	**2.20**	**2.90**
Risk discount rates – new business							
Risk free[3]	3.49	3.49	2.96	2.96	3.29	3.49	2.10
Risk margin	2.90	2.80	3.10	1.20	2.00	2.20	2.90
Risk discount rate[4]	**6.39**	**6.29**	**6.06**	**4.16**	**5.29**	**5.69**	**5.00**

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 SLIL denotes Standard Life International Limited, part of Asia and Emerging Markets.
3 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2010.
4 Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.30% and 4.19% respectively.

(d) Asia and Emerging Markets – joint ventures

The PVIF and cost of required capital of the Asian joint ventures are 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 2012 %	31 December 2011 %
India	**8.41**	8.55
China	**3.93**	3.89

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

Non-market risk has been allowed for via a specific deduction to PVIF, based on a non-market risk 'cost of capital' approach. This has reduced the PVIF of the India and China JV businesses at 31 December 2012 by £25m (31 December 2011: £25m). Similarly, the 2012 pre-tax NBC has been reduced by £6m (2011: £7m) as an allowance for non-market risk.

3.14 Principal economic assumptions – stochastic calculations

The level of TVOG is generally calculated using a stochastic projection. This requires an economic scenario generator (ESG) which projects the relevant fund under a large number of different future economic scenarios. A detailed description of the methodology applied in the relevant funds is provided in Note 3.17 – EEV methodology.

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

The ESG simulates future economic environments in a market-consistent manner. The outputs of the ESG include:

- Cash account index
- Gross redemption yield term structure
- Equity total return index
- Property total return index
- Gilt total return index
- Corporate bond total return index
- Equity dividend yields
- Property rental yields
- Price inflation
- Earnings inflation

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

Parameters used in ESG

Cash and bond returns
These variables are calibrated using government strips.

Inflation
This variable is calibrated based on the relationship between real and nominal yield curves.

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

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

Dividend and rental yields
Dividend yields are derived from current market observable yields (FTSE All Stocks for UK and Euro Stoxx 50 for Europe).

Rental yields are derived from rental income on our actual portfolio of property (with a three month lag).

3.14 Principal economic assumptions – stochastic calculations *continued*

Swaption-implied volatilities

The implied volatility is that required in order that the price of the option calculated via the Black Scholes Formula equals the market price of that option.

The model swaption-implied volatilities are set out in the following table (please note the different displayed Swap Terms for UK and Euro):

UK Sterling	31 December 2012 Swap term (years)		31 December 2011 Swap term (years)	
Option term (years)	10	15	10	15
10	17.1%	17.0%	19.1%	17.1%
15	15.3%	15.3%	17.7%	16.1%
20	14.1%	14.0%	16.0%	14.6%
25	13.1%	13.0%	14.6%	13.4%

Euro	31 December 2012 Swap term (years)		31 December 2011 Swap term (years)	
Option term (years)	15	20	15	20
10	18.9%	18.7%	20.2%	19.8%
15	18.7%	18.1%	19.4%	18.6%
20	17.4%	16.5%	17.6%	16.6%
25	16.0%	n/a	16.3%	n/a

Equity-implied volatilities

The implied volatility is that required in order that the price of the option calculated via the Black Scholes Formula equals the market price of that option.

The model equity-implied volatilities are set out in the following table:

UK equities Term (years)	31 December 2012	31 December 2011
10	26.1%	26.2%
15	26.4%	26.7%
20	26.8%	27.4%
25	27.7%	28.4%
European equities Term (years)		
10	24.2%	27.9%
15	24.1%	27.9%
20	24.6%	28.6%
25	24.8%	28.9%

Property-implied volatilities

The implied volatilities have been set as best estimate levels of volatility based on historic data.

For the UK and Europe, the model is calibrated to property-implied volatility of 15% for 31 December 2012 and 15% for 31 December 2011.

Note 3.10 – Time value of options and guarantees (TVOG) also shows the value of TVOG in Canada and Asia and Emerging Markets, which are in addition to the UK and Europe TVOG. Where material, these values are also calculated using ESG similar to that used for the HWPF and GWPF TVOG calculations, although market observed data is not always available at all durations.

3.15 Foreign exchange

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2012	Average to 31 December 2012	Closing 31 December 2011	Average to 31 December 2011
Canada	**1.619**	**1.591**	1.582	1.584
Europe	**1.233**	**1.231**	1.197	1.152
India	**89.061**	**84.877**	82.529	75.027
China	**10.127**	**10.017**	9.782	10.378
Hong Kong	**12.599**	**12.331**	12.070	12.499

3.16 Sensitivity analysis – economic and non-economic assumptions

The tables below show the sensitivity of the covered business embedded value and NBC to different scenarios.

Sensitivities tested were:

- 1% increase and decrease in risk discount rates
- Interest rates 1% higher and lower than base case, with consequential changes in fixed interest asset values, reserving assumptions, risk discount rates and investment returns on equities and properties
- 10% fall in market value of equity assets
- 10% fall in market value of property assets
- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 p.a. would represent an expense assumption of £9 p.a.). Where there is a look through into service company expenses, the fee charged by the service company is unchanged while the underlying expense decreases.
- 10% decrease in lapse rates (a 10% sensitivity on a base lapse assumption of 5% p.a. would represent a lapse rate of 4.5% p.a.)
- 5% decrease in both mortality and morbidity rates for annuitant and non-annuitant policies
- EEV results assuming only prescribed minimum capital (where economic capital has been used in the EEV calculations)

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. Demographic sensitivities 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.

Embedded value – covered business

31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
Embedded value	4,009	2,313	391	**6,713**
Risk discount rates +1%	(294)	(212)	(13)	**(519)**
Risk discount rates -1%	347	272	14	**633**
Interest returns +1%	24	29	1	**54**
Interest returns -1%	(85)	(85)	(4)	**(174)**
Fall in equity market values by 10%	(186)	(60)	(10)	**(256)**
Fall in property market values by 10%	(21)	(45)	(1)	**(67)**
Maintenance expenses -10%	151	111	5	**267**
Lapse rates -10%	131	39	10	**180**
Annuitant mortality -5%	(86)	(47)	-	**(133)**
Non-annuitant mortality -5%	12	37	2	**51**
Prescribed minimum capital	-	158	-	**158**

The UK and Europe sensitivity numbers above include the movement in HWPF and GWPF TVOG. The HWPF and GWPF TVOG movement has a material impact only under the interest returns sensitivities, where it contributes £68m under the interest returns +1% sensitivity and (£168m) under the interest returns -1% sensitivity. This is a reduced sensitivity movement compared to the HWPF and GWPF TVOG sensitivity for the year ended 31 December 2011, under which HWPF and GWPF TVOG contributed £111m under the interest returns +1% sensitivity and (£391m) under the interest returns -1% sensitivity. The reduction is due to the lower starting value of the HWPF and GWPF TVOG liability and the impact of asset strategy changes and improved modelling during 2012.

3.16 Sensitivity analysis – economic and non-economic assumptions *continued*

New business contribution

12 months to 31 December 2012	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total £m
New business contribution	261	45	33	**339**
Risk discount rates +1%	(33)	(21)	(4)	**(58)**
Risk discount rates -1%	40	26	5	**71**
Interest returns +1%	2	(10)	(1)	**(9)**
Interest returns -1%	(9)	14	-	**5**
Fall in equity market values by 10%	(22)	(10)	(1)	**(33)**
Fall in property market values by 10%	(3)	(1)	-	**(4)**
Maintenance expenses -10%	18	11	1	**30**
Lapse rates -10%	16	12	3	**31**
Annuitant mortality -5%	(4)	-	-	**(4)**
Non-annuitant mortality -5%	-	7	-	**7**
Prescribed minimum capital	-	5	-	**5**

The UK and Europe sensitivity numbers above include the movement in the GWPF TVOG. There is no new business in the HWPF TVOG. The GWPF TVOG movement has a material impact only under the interest returns sensitivities, where it contributes £2m under the Interest returns +1% sensitivity and (£10m) under the interest returns -1% sensitivity. The comparative GWPF TVOG sensitivity movements for the year ended 31 December 2011 were £1m under the interest returns +1% sensitivity and (£4m) under the interest returns -1% sensitivity.

3.17 EEV methodology

Covered business

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

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

UK and Europe 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
- The Group's Germany branch of Standard Life Assurance Limited (SLAL)
- The Group's Ireland branch of SLAL

Canada covered business also includes mutual funds.

Asia and Emerging Markets covered business consists of:

- The Group's offshore bond and International Offshore Savings and Investment business, which is sold by Standard Life International Limited (SLIL)
- The Group's business in Hong Kong (Standard Life (Asia) Limited)
- The Group's share of results in the JV in India, HDFC Standard Life Insurance Company Limited, at 26% for the 12 months to 31 December 2012 (2011: 26%)
- The Group's share of results in the JV in China, Heng An Standard Life Insurance Company Limited, at 50% for the 12 months to 31 December 2012 (2011: 50%)

Non-covered business

The Group's non-covered business predominantly consists of the third party business of Standard Life Investments, Standard Life plc, the non-covered business of Standard Life Savings Limited, other non-life and pensions entities and the Group's UK pension scheme.

Non-covered business EEV operating profit is represented by operating profit as adjusted for Standard Life Investments look through profits and the return on mutual funds which are recognised in covered business.

Segmentation

Under the EEV Principles and Guidance we are required to provide business classifications which are consistent with those used for the primary statements. In the IFRS financial statements the Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed, as required under IFRS 8. The EEV segmentation has been prepared in a consistent manner, whilst also distinguishing between covered and non-covered business.

Transfer back of net worth from covered business

Covered business includes the profits and losses arising from non-covered businesses providing investment management and other services to the Group's life and pensions businesses. As a result, the profits and losses on an IFRS basis have been removed from the relevant non-covered segments (Standard Life Investments, UK and Europe non-covered and other non-covered) and are instead included within the EEV results of the covered businesses.

The capitalised values of the future profits and losses from such service companies are included in the opening and closing embedded value for the relevant businesses, but the net assets remain within the relevant non-covered businesses. A transfer of profits from the covered business to the non-covered business is deemed to occur in order to reconcile the profits and losses arising in the financial period within each segment with the opening and closing EEV net assets.

Value of in-force covered business

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

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

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

Free surplus

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

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

Allowance for risk

Under the EEV Principles and Guidance, risks within the covered business are allowed for in the following ways:

- Application of risk discount rates to projected cash flows, which are derived by adding a risk margin to a risk free rate
- Holding of required capital for the covered business, determined by reference to both regulatory requirements and internal economic capital assessments
- Allowing for TVOG

Risk discount rates

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

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

3.17 EEV methodology *continued*

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

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

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

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

The values of the risk discount rates used for this reporting period are provided in Note 3.13 – Principal economic assumptions – deterministic calculations – covered business.

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

Required capital

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

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

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

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

- UK and Europe (business in HWPF) – no capital requirement in excess of statutory reserves or asset shares is valued in the EEV
- UK and Europe (business in equity holder owned funds) – 100% of EU minimum regulatory capital, which is higher in aggregate than Standard Life's internal risk-based capital requirement
- Canada – the level of required capital is taken as 170% of minimum continuing capital and surplus requirements (MCCSR)
- India, China and Hong Kong – required capital is based on the local statutory capital requirements

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

Time value of financial options and guarantees (TVOG)

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

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

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

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

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

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

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

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

An adjustment is made within free surplus to allow for the potential cost of a selection of guaranteed annuity benefits on unit linked and smoothed-managed business within Germany.

Canada
The main options and guarantees within the Canada business are in respect of minimum investment returns, guaranteed maturity and death benefits, and vested bonuses, which apply to certain investment and insurance contracts. TVOG has reduced both NBC and closing PVIF for Canada.

Asia and Emerging Markets
TVOG in the Asia businesses within Asia and Emerging Markets 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 Asia and Emerging Markets results but has the same other economic assumptions as UK covered business.

Details of the assumptions used for this reporting period are provided in Note 3.13 – Principal economic assumptions – deterministic calculations – covered business.

Non-economic assumption changes

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

3.17 EEV methodology *continued*

Expense assumptions

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

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

Development expenses represent specific expenses incurred which are considered temporary in nature and are not expected to occur again.

Costs related to restructuring have been excluded from the EEV results where it has been agreed that these costs are to be met by the HWPF and therefore would not form part of the surplus cash flows.

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

Restructuring costs are consistent with those identified in the Group operating profit adjustments. Refer to the IFRS financial information Note 2.3 – Administrative expenses for further detail. In addition, restructuring costs for covered business include associated impacts on PVIF and cost of required capital.

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

Expenses - pension schemes

Pension schemes have been included in accordance with International Accounting Standard (IAS) 19 *Employee Benefits* and IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements.*

Other non-economic experience assumptions

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

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

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

New business

Definition of new business

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

For the UK, classification as new or existing business is determined using the approach used for the published new business figures as follows:

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

For Germany, new business comprises new contracts written into the equity holder owned funds during the period (with the exception of vesting annuities for tax layer 1 deferred annuities sold before September 2009). NBC for Germany is calculated assuming a specific level of future premium indexation. Similarly, it is assumed that premiums on 'low start' policies increase at the end of the low start period.

For Ireland, new business is determined as follows:

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

For Canada, business is deemed to be new business if a contract has been issued during the reporting period. NBC also includes the value of renewal premiums for a new contract, where the renewal premiums are (i) contractual, (ii) non-contractual but reasonably predictable, or (iii) recurrent single premiums that are pre-defined and reasonably predictable.

The present value of future net income attributable to renewal premiums on existing group pension and savings contracts, including those from new members, is not included as new business. Since all deposits (new and renewal) in individual segregated funds business attract a new business/first year commission, this business is treated as new business for EEV purposes.

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

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

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

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

Tax

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

During 2009, a loan was made to the HWPF by the Company, repayment of which is contingent on the emergence of recourse cash flows and surplus in the HWPF (contingent loan agreement). A transfer to equity holders was then made to transfer the remaining unallocated surplus to equity holders without equity holder tax arising. As a result of this, the market risk associated with unallocated surplus was reduced. Future transfers to equity holders from the HWPF will, in the first instance, take the form of repayments under the contingent loan agreement. The actual effective tax rate on these transfers to equity holders will move towards the standard rate of corporation tax as the contingent loan reduces.

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

3.17 EEV methodology *continued*

Assets designated as available-for-sale under IFRS

The Group has designated certain financial assets used to back subordinated liabilities and investment contract liabilities as available-for-sale (AFS) under IFRS accounting.

Where AFS assets are held by an EEV covered business entity and these assets are used to back investment contract liabilities accounted for under local solvency regulations at amortised cost, then the assets are also included within EEV on an amortised cost basis and EEV operating profit reflects the long-term investment return on the assets calculated at acquisition.

Where AFS assets are held by an EEV covered business entity and these assets are used to back subordinated liabilities which are accounted for in EEV at market value, then the assets are also included within EEV on a market value basis. EEV operating profit reflects the long-term investment return on the assets and unrealised gains and losses are included within EEV non-operating profit.

Where AFS assets are held by an EEV non-covered entity, unrealised gains and losses do not impact EEV profit and are recorded within the EEV consolidated statement of comprehensive income.

Subordinated liabilities

The liabilities in respect of the UK subordinated debt plus the subordinated debt issued by Canada form part of covered business and have been deducted at market value within EEV.

For Canada, previously issued subordinated liabilities were owned by a non-covered subsidiary of the Group, where the asset was valued on an amortised cost basis. Total Group EEV was adjusted to exclude the difference between the market value and the amortised cost value. During the year ended 31 December 2012, the subordinated liability was fully redeemed and the consolidation adjustment for different accounting bases is therefore no longer required.

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 3.15 – Foreign exchange.

3.18 Events after the reporting period

On 27 February 2013, the Group announced that it had entered into an agreement with Newton Management Limited to acquire its private client division with assets under management of £3.6bn. The consideration of up to £83.5m will be ultimately contingent on the value of assets under management transferred to, and retained by, the Group. The transaction is expected to complete within seven months subject to completion conditions being satisfied.

Supplementary information

4.1 EEV and EEV operating profit

2012	Covered						
	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total non-covered £m	Group elimination £m	Total £m	Pence per share[1] p
Opening EEV	**3,733**	**1,712**	**342**	**1,552**	**89**	**7,428**	**316**
New business contribution	261	45	33	-	-	**339**	
Contribution from in-force business	538	272	(19)	-	-	**791**	
Non-covered business	-	-	-	61	(75)	**(14)**	
EEV operating profit/(loss) before tax	**799**	**317**	**14**	**61**	**(75)**	**1,116**	
Tax on EEV operating profit	(187)	(76)	(1)	6	18	**(240)**	
EEV operating profit/(loss) after tax	**612**	**241**	**13**	**67**	**(57)**	**876**	**37**
EEV non-operating profit/(loss) after tax	19	185	21	(17)	(32)	**176**	7
EEV profit/(loss) after tax	**631**	**426**	**34**	**50**	**(89)**	**1,052**	
Non-trading adjustments	(355)	175	15	(177)	-	**(342)**	
Closing EEV	**4,009**	**2,313**	**391**	**1,425**	**-**	**8,138**	**343**

[1] 2011 restated for revision to number of shares. Refer to the IFRS financial information Note 2.5 – Earnings per share.

2011	Covered						
	UK and Europe £m	Canada £m	Asia and Emerging Markets £m	Total non-covered £m	Group elimination £m	Total £m	Pence per share[1] p
Opening EEV	**3,995**	**1,758**	**318**	**1,205**	**45**	**7,321**	**322**
New business contribution	225	73	37	-	-	**335**	
Contribution from in-force business	325	251	(22)	-	-	**554**	
Non-covered business	-	-	-	100	-	**100**	
EEV operating profit before tax	**550**	**324**	**15**	**100**	**-**	**989**	
Tax on EEV operating profit	(139)	(80)	(2)	(44)	-	**(265)**	
EEV operating profit after tax	**411**	**244**	**13**	**56**	**-**	**724**	**31**
EEV non-operating (loss)/profit after tax	(257)	(108)	(12)	(22)	44	**(355)**	(15)
EEV profit after tax	**154**	**136**	**1**	**34**	**44**	**369**	
Non-trading adjustments	(416)	(182)	23	313	-	**(262)**	
Closing EEV	**3,733**	**1,712**	**342**	**1,552**	**89**	**7,428**	**316**

[1] 2011 restated for revision to number of shares. Refer to the IFRS financial information Note 2.5 – Earnings per share.

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

2012	UK and Europe £m	Standard Life Investments £m	Canada £m	Asia and Emerging Markets £m	Other £m	Total £m
Operating profit/(loss) before tax	**419**	**145**	**355**	**5**	**(24)**	**900**
Tax on operating profit	(17)	(38)	(79)	3	(2)	**(133)**
Operating profit/(loss) after tax[1]	**402**	**107**	**276**	**8**	**(26)**	**767**
Impact of different treatment of assets and actuarial reserves	(17)	-	-	(2)	-	**(19)**
DAC and DIR[2], intangibles, tax and other[3]	11	-	59	(27)	(57)	**(14)**
Look through to investment management	60	(62)	2	-	-	**-**
EEV operating capital and cash generation	**456**	**45**	**337**	**(21)**	**(83)**	**734**
EEV operating profit after tax – PVIF	218	-	(100)	24	-	**142**
EEV operating profit/(loss) after tax	**674**	**45**	**237**	**3**	**(83)**	**876**

1 Group operating profit after tax consists of: Group operating profit before tax of £900m, tax on operating profit of (£124m) and share of joint ventures' and associates' tax expense of (£9m).
2 Deferred acquisition costs (DAC) and deferred income reserve (DIR).
3 The £59m reconciling item in Canada includes £57m relating to the elimination of the consolidation adjustment for different accounting bases, following the redemption of inter-Group subordinated liabilities. There is an offsetting adjustment in other.

2011	UK and Europe £m	Standard Life Investments £m	Canada £m	Asia and Emerging Markets £m	Other £m	Total £m
Operating profit/(loss) before tax	**266**	**125**	**187**	**(6)**	**(28)**	**544**
Tax on operating profit	(26)	(30)	(31)	2	(2)	**(87)**
Operating profit/(loss) after tax	**240**	**95**	**156**	**(4)**	**(30)**	**457**
Impact of different treatment of assets and actuarial reserves	2	-	(11)	2	-	**(7)**
DAC and DIR[1], intangibles, tax and other	(2)	-	11	(21)	-	**(12)**
Look through to investment management	39	(41)	2	-	-	**-**
EEV operating capital and cash generation	**279**	**54**	**158**	**(23)**	**(30)**	**438**
EEV operating profit after tax – PVIF	174	-	82	30	-	**286**
EEV operating profit/(loss) after tax	**453**	**54**	**240**	**7**	**(30)**	**724**

1 Deferred acquisition costs (DAC) and deferred income reserve (DIR).

4.3 Group EEV capital and cash generation

2012	Free surplus movement £m	Required capital movement £m	EEV net worth movement £m
Capital and cash generation from existing business	636	(23)	613
New business strain	(325)	109	(216)
Covered business capital and cash generation from new business and expected return	**311**	**86**	**397**
Covered business development expenses	(49)	-	(49)
Core	262	86	348
Efficiency	(2)	(1)	(3)
Back book management	452	(63)	389
EEV operating capital and cash generation	**712**	**22**	**734**
Capital and cash generation from non-operating items	(369)	57	(312)
Total EEV capital and cash generation	**343**	**79**	**422**

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.

2011	Free surplus movement £m	Required capital movement £m	EEV net worth movement £m
Capital and cash generation from existing business	688	(45)	**643**
New business strain	(290)	64	**(226)**
Covered business capital and cash generation from new business and expected return	**398**	**19**	**417**
Covered business development expenses	(50)	-	**(50)**
Non-covered business core capital and cash generation	(5)	-	**(5)**
Core	343	19	**362**
Efficiency	(6)	-	**(6)**
Back book management	78	4	**82**
EEV operating capital and cash generation	**415**	**23**	**438**
Capital and cash generation from non-operating items	(372)	258	**(114)**
Total EEV capital and cash generation	**43**	**281**	**324**

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.

4.4 Reconciliation of key capital measures

	2012 £bn	2011 £bn	2010 £bn
IGD regulatory capital resources	**8.0**	7.3	7.4
Capital in long-term business funds	**(2.8)**	(3.1)	(2.6)
External subordinated liabilities	**(1.9)**	(1.1)	(1.8)
Valuation adjustments for IFRS	**1.1**	0.9	0.9
IFRS equity attributable to ordinary equity holders of Standard Life plc	**4.4**	4.0	3.9
Valuation adjustments for EEV	**(0.7)**	(0.4)	(0.4)
EEV net worth	**3.7**	3.6	3.5
Cost of required capital	**(0.7)**	(0.6)	(0.4)
PVIF and TVOG	**5.1**	4.4	4.2
Closing EEV	**8.1**	7.4	7.3

4.5 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, for example deferred acquisition costs, intangibles and reinsurance assets.

Group assets under administration (summary) 12 months ended 31 December 2012

	Opening AUA at 1 Jan 2012 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2012 £bn
Fee business						
UK retail new	23.7	5.2	(2.4)	2.8	2.2	28.7
UK retail old	32.1	0.8	(3.9)	(3.1)	2.7	31.7
UK retail	**55.8**	**6.0**	**(6.3)**	**(0.3)**	**4.9**	**60.4**
Corporate	22.0	3.0	(1.8)	1.2	1.3	24.5
UK retail and corporate	**77.8**	**9.0**	**(8.1)**	**0.9**	**6.2**	**84.9**
Institutional pensions	17.5	4.2	(2.4)	1.8	2.0	21.3
Conventional with profits	5.3	0.1	(1.5)	(1.4)	0.2	4.1
UK total	**100.6**	**13.3**	**(12.0)**	**1.3**	**8.4**	**110.3**
Europe	9.3	1.5	(0.8)	0.7	0.8	10.8
Standard Life Investments third party	71.8	17.6	(11.5)	6.1	5.1	83.0
Canada	14.3	2.8	(2.0)	0.8	0.8	15.9
Asia and Emerging Markets (wholly owned)	2.5	0.8	(0.2)	0.6	0.2	3.3
Consolidation/eliminations[1]	(35.7)	(8.4)	4.6	(3.8)	(3.1)	(42.6)
Total fee business	**162.8**	**27.6**	**(21.9)**	**5.7**	**12.2**	**180.7**
Spread/risk						
UK	14.4	0.7	(1.2)	(0.5)	1.4	15.3
Europe	0.5	-	-	-	-	0.5
Canada	10.3	0.9	(1.3)	(0.4)	-	9.9
Total spread/risk business	**25.2**	**1.6**	**(2.5)**	**(0.9)**	**1.4**	**25.7**
Assets not backing products in long-term savings business	8.5	-	-	-	-	8.5
Joint ventures	1.2	0.4	(0.2)	0.2	0.1	1.5
Other corporate assets	1.6	-	-	-	0.4	2.0
Other consolidation/eliminations[1]	(0.9)	-	-	-	0.6	(0.3)
Group assets under administration	**198.4**	**29.6**	**(24.6)**	**5.0**	**14.7**	**218.1**
Group assets under administration managed by:						
Standard Life Group entities	163.3					176.0
Other third party managers	35.1					42.1
Total	**198.4**					**218.1**

[1] 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.

Group assets under administration (summary)
12 months ended 31 December 2011

	Opening AUA at 1 Jan 2011 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2011 £bn
Fee business						
UK retail new	21.0	5.7	(2.0)	3.7	(1.0)	23.7
UK retail old	34.5	0.9	(3.7)	(2.8)	0.4	32.1
UK retail	**55.5**	**6.6**	**(5.7)**	**0.9**	**(0.6)**	**55.8**
Corporate	21.0	3.9	(1.9)	2.0	(1.0)	22.0
UK retail and corporate	**76.5**	**10.5**	**(7.6)**	**2.9**	**(1.6)**	**77.8**
Institutional pensions	15.8	3.2	(1.8)	1.4	0.3	17.5
Conventional with profits	6.6	0.2	(1.7)	(1.5)	0.2	5.3
UK total	**98.9**	**13.9**	**(11.1)**	**2.8**	**(1.1)**	**100.6**
Europe	8.7	1.5	(0.8)	0.7	(0.1)	9.3
Standard Life Investments third party	71.6	12.9	(8.6)	4.3	(4.1)	71.8
Canada	14.0	2.3	(1.7)	0.6	(0.3)	14.3
Asia and Emerging Markets (wholly owned)	1.9	1.0	(0.3)	0.7	(0.1)	2.5
Consolidation/eliminations[1]	(32.2)	(7.7)	4.7	(3.0)	(0.5)	(35.7)
Total fee business	**162.9**	**23.9**	**(17.8)**	**6.1**	**(6.2)**	**162.8**
Spread/risk						
UK	13.4	0.5	(1.2)	(0.7)	1.7	14.4
Europe	0.5	-	-	-	-	0.5
Canada	10.1	1.1	(1.4)	(0.3)	0.5	10.3
Total spread/risk business	**24.0**	**1.6**	**(2.6)**	**(1.0)**	**2.2**	**25.2**
Assets not backing products in long-term savings business	8.1	-	-	-	0.4	8.5
Joint ventures	1.2	0.4	(0.1)	0.3	(0.3)	1.2
Other corporate assets	1.4	-	-	-	0.2	1.6
Other consolidation/eliminations[1]	(0.8)	-	-	-	(0.1)	(0.9)
Group assets under administration	**196.8**	**25.9**	**(20.5)**	**5.4**	**(3.8)**	**198.4**
Group assets under administration managed by:						
Standard Life Group entities	164.0					163.3
Other third party managers	32.8					35.1
Total	**196.8**					**198.4**

[1] 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.

4.5 Group assets under administration and net flows *continued*

Group assets under administration
12 months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Opening AUA at 1 Jan 2012 £bn	Gross flows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2012 £bn
UK							
Individual SIPP	F	16.4	2.7	(1.9)	0.8	1.6	18.8
Other individual pensions	F	22.6	0.7	(2.5)	(1.8)	2.1	22.9
Investment bonds	F	7.6	0.2	(1.1)	(0.9)	0.5	7.2
Mutual funds	F	6.1	1.5	(0.4)	1.1	0.4	7.6
Legacy life (excluding conventional with profits)	F	2.2	0.1	(0.3)	(0.2)	0.1	2.1
Wealth	F	0.9	0.8	(0.1)	0.7	0.2	1.8
UK retail fee business		**55.8**	**6.0**	**(6.3)**	**(0.3)**	**4.9**	**60.4**
Corporate pensions	F	22.0	3.0	(1.8)	1.2	1.3	24.5
UK retail and corporate fee business		**77.8**	**9.0**	**(8.1)**	**0.9**	**6.2**	**84.9**
Institutional pensions	F	17.5	4.2	(2.4)	1.8	2.0	21.3
Conventional with profits	F	5.3	0.1	(1.5)	(1.4)	0.2	4.1
UK total fee business		**100.6**	**13.3**	**(12.0)**	**1.3**	**8.4**	**110.3**
Annuities	S/R	14.4	0.7	(1.2)	(0.5)	1.4	15.3
Assets not backing products		7.0	-	-	-	(0.5)	6.5
UK long-term savings		**122.0**	**14.0**	**(13.2)**	**0.8**	**9.3**	**132.1**
Europe							
Fee	F	9.3	1.5	(0.8)	0.7	0.8	10.8
Spread/risk	S/R	0.5	-	-	-	-	0.5
Europe long-term savings		**9.8**	**1.5**	**(0.8)**	**0.7**	**0.8**	**11.3**
UK and Europe long-term savings		**131.8**	**15.5**	**(14.0)**	**1.5**	**10.1**	**143.4**
Canada							
Fee	F	10.9	1.9	(1.4)	0.5	0.6	12.0
Spread/risk	S/R	3.8	0.2	(0.4)	(0.2)	-	3.6
Group savings and retirement		**14.7**	**2.1**	**(1.8)**	**0.3**	**0.6**	**15.6**
Fee	F	1.9	0.6	(0.3)	0.3	0.1	2.3
Spread/risk	S/R	5.9	0.2	(0.5)	(0.3)	0.1	5.7
Individual insurance, savings and retirement		**7.8**	**0.8**	**(0.8)**	**-**	**0.2**	**8.0**
Group insurance	S/R	0.6	0.5	(0.4)	0.1	(0.1)	0.6
Mutual funds	F	1.5	0.3	(0.3)	-	0.1	1.6
Assets not backing products		1.5	-	-	-	0.5	2.0
Canada long-term savings		**26.1**	**3.7**	**(3.3)**	**0.4**	**1.3**	**27.8**
Asia and Emerging Markets							
Wholly owned long-term savings	F	**2.5**	**0.8**	**(0.2)**	**0.6**	**0.2**	**3.3**
Joint ventures long-term savings		1.2	0.4	(0.2)	0.2	0.1	1.5
Asia and Emerging Markets long-term savings		**3.7**	**1.2**	**(0.4)**	**0.8**	**0.3**	**4.8**
Consolidation and elimination adjustments[1]		(0.2)	(0.1)	-	(0.1)	-	(0.3)
Total worldwide long-term savings		**161.4**	**20.3**	**(17.7)**	**2.6**	**11.7**	**175.7**
Other corporate assets		**1.6**	**-**	**-**	**-**	**0.4**	**2.0**
Standard Life Investments third party assets under management		**71.8**	**17.6**	**(11.5)**	**6.1**	**5.1**	**83.0**
Consolidation and elimination adjustments[2,3]		(36.4)	(8.3)	4.6	(3.7)	(2.5)	(42.6)
Group assets under administration		**198.4**	**29.6**	**(24.6)**	**5.0**	**14.7**	**218.1**

1 The consolidation adjustment eliminates amounts shown in both Wealth and Asia and Emerging Markets.

2 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.

3 Consolidation and elimination adjustments closing AUA includes Standard Life Investments third party insurance contracts of £31.4bn (31 December 2011: £26.7bn), UK mutual funds and other £8.9bn (31 December 2011: £6.8bn) and Canada mutual funds of £1.6bn (31 December 2011: £1.6bn).

Long-term savings operations net flows
12 months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Gross flows 12 months to 31 Dec 2012 £m	Redemptions 12 months to 31 Dec 2012 £m	Net flows 12 months to 31 Dec 2012 £m	Gross flows 12 months to 31 Dec 2011 £m	Redemptions 12 months to 31 Dec 2011 £m	Net flows 12 months to 31 Dec 2011 £m
UK							
Individual SIPP[1]	F	**2,723**	**(1,872)**	**851**	3,329	(1,596)	1,733
Other individual pensions	F	**699**	**(2,464)**	**(1,765)**	748	(2,371)	(1,623)
Investment bonds	F	**158**	**(1,154)**	**(996)**	203	(1,183)	(980)
Mutual funds[1]	F	**1,552**	**(456)**	**1,096**	1,790	(406)	1,384
Legacy life (excluding conventional with profits)	F	**108**	**(337)**	**(229)**	121	(255)	(134)
Wealth	F	**801**	**(62)**	**739**	453	(47)	406
UK retail fee business		**6,041**	**(6,345)**	**(304)**	6,644	(5,858)	786
Corporate pensions[1]	F	**2,971**	**(1,747)**	**1,224**	3,904	(1,880)	2,024
UK retail and corporate fee business		**9,012**	**(8,092)**	**920**	10,548	(7,738)	2,810
Institutional pensions	F	**4,199**	**(2,367)**	**1,832**	3,209	(1,795)	1,414
Conventional with profits	F	**129**	**(1,576)**	**(1,447)**	173	(1,621)	(1,448)
UK total fee business		**13,340**	**(12,035)**	**1,305**	13,930	(11,154)	2,776
Annuities	S/R	**632**	**(1,179)**	**(547)**	459	(1,134)	(675)
Protection	S/R	**67**	**(50)**	**17**	76	(52)	24
UK long-term savings		**14,039**	**(13,264)**	**775**	14,465	(12,340)	2,125
Europe							
Fee	F	**1,428**	**(727)**	**701**	1,496	(728)	768
Spread/risk	S/R	**41**	**(32)**	**9**	20	(30)	(10)
Europe long-term savings		**1,469**	**(759)**	**710**	1,516	(758)	758
UK and Europe long-term savings		**15,508**	**(14,023)**	**1,485**	15,981	(13,098)	2,883
Canada							
Fee	F	**1,852**	**(1,352)**	**500**	1,626	(1,096)	530
Spread/risk	S/R	**197**	**(421)**	**(224)**	229	(435)	(206)
Group savings and retirement		**2,049**	**(1,773)**	**276**	1,855	(1,531)	324
Fee	F	**668**	**(337)**	**331**	540	(341)	199
Spread/risk	S/R	**240**	**(516)**	**(276)**	312	(557)	(245)
Individual insurance, savings and retirement		**908**	**(853)**	**55**	852	(898)	(46)
Group insurance	S/R	**452**	**(360)**	**92**	442	(356)	86
Mutual funds[1]	F	**275**	**(291)**	**(16)**	218	(329)	(111)
Canada long-term savings		**3,684**	**(3,277)**	**407**	3,367	(3,114)	253
Asia and Emerging Markets							
Wholly owned long-term savings	F	**844**	**(239)**	**605**	970	(280)	690
Joint ventures long-term savings[2]		**410**	**(161)**	**249**	415	(140)	275
Asia and Emerging Markets long-term savings		**1,254**	**(400)**	**854**	1,385	(420)	965
Other consolidation/eliminations[3]		**(122)**	**9**	**(113)**	(85)	8	(77)
Total worldwide long-term savings		**20,324**	**(17,691)**	**2,633**	20,648	(16,624)	4,024

1 Mutual funds net flows are also included within mutual funds net flows in investment operations. In addition, non-insured SIPP mutual funds net flows included within individual SIPP and corporate pensions are also included within UK mutual funds net flows in investment operations.
2 Includes net flows in respect of Standard Life's share of the India and China JV businesses.
3 The consolidation adjustment eliminates amounts shown in both Wealth and Asia and Emerging Markets.

4.5 Group assets under administration and net flows *continued*

Long-term savings operations net flows
Three months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Gross flows 3 months to 31 Dec 2012 £m	Redemptions 3 months to 31 Dec 2012 £m	Net flows 3 months to 31 Dec 2012 £m	Gross flows 3 months to 31 Dec 2011 £m	Redemptions 3 months to 31 Dec 2011 £m	Net flows 3 months to 31 Dec 2011 £m
UK							
Individual SIPP[1]	F	**622**	**(507)**	**115**	687	(375)	312
Other individual pensions	F	**133**	**(706)**	**(573)**	140	(525)	(385)
Investment bonds	F	**43**	**(267)**	**(224)**	36	(291)	(255)
Mutual funds[1]	F	**398**	**(120)**	**278**	316	(101)	215
Legacy life (excluding conventional with profits)	F	**25**	**(81)**	**(56)**	29	(62)	(33)
Wealth	F	**190**	**(23)**	**167**	126	(14)	112
UK retail fee business		**1,411**	**(1,704)**	**(293)**	1,334	(1,368)	(34)
Corporate pensions[1]	F	**708**	**(512)**	**196**	771	(368)	403
UK retail and corporate fee business		**2,119**	**(2,216)**	**(97)**	2,105	(1,736)	369
Institutional pensions	F	**1,067**	**(855)**	**212**	746	(439)	307
Conventional with profits	F	**28**	**(436)**	**(408)**	39	(440)	(401)
UK total fee business		**3,214**	**(3,507)**	**(293)**	2,890	(2,615)	275
Annuities	S/R	**199**	**(295)**	**(96)**	119	(283)	(164)
Protection	S/R	**16**	**(11)**	**5**	19	(14)	5
UK long-term savings		**3,429**	**(3,813)**	**(384)**	3,028	(2,912)	116
Europe							
Fee	F	**443**	**(229)**	**214**	422	(258)	164
Spread/risk	S/R	**11**	**(8)**	**3**	7	(5)	2
Europe long-term savings		**454**	**(237)**	**217**	429	(263)	166
UK and Europe long-term savings		**3,883**	**(4,050)**	**(167)**	3,457	(3,175)	282
Canada							
Fee	F	**470**	**(353)**	**117**	427	(233)	194
Spread/risk	S/R	**51**	**(105)**	**(54)**	75	(107)	(32)
Group savings and retirement		**521**	**(458)**	**63**	502	(340)	162
Fee	F	**192**	**(97)**	**95**	146	(92)	54
Spread/risk	S/R	**60**	**(128)**	**(68)**	77	(146)	(69)
Individual insurance, savings and retirement		**252**	**(225)**	**27**	223	(238)	(15)
Group insurance	S/R	**116**	**(92)**	**24**	112	(89)	23
Mutual funds[1]	F	**69**	**(78)**	**(9)**	51	(75)	(24)
Canada long-term savings		**958**	**(853)**	**105**	888	(742)	146
Asia and Emerging Markets							
Wholly owned long-term savings	F	**238**	**(62)**	**176**	252	(98)	154
Joint ventures long-term savings[2]		**99**	**(45)**	**54**	99	(31)	68
Asia and Emerging Markets long-term savings		**337**	**(107)**	**230**	351	(129)	222
Other consolidation/eliminations[3]		**(24)**	**1**	**(23)**	(14)	3	(11)
Total worldwide long-term savings		**5,154**	**(5,009)**	**145**	4,682	(4,043)	639

1 Mutual funds net flows are also included within mutual funds net flows in investment operations. In addition, non-insured SIPP mutual funds net flows included within individual SIPP and corporate pensions are also included within UK mutual funds net flows in investment operations.
2 Includes net flows in respect of Standard Life's share of the India and China JV businesses.
3 The consolidation adjustment eliminates amounts shown in both Wealth and Asia and Emerging Markets.

Long-term savings operations net flows
15 months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Net flows				
		3 months to 31 Dec 2012 £m	3 months to 30 Sep 2012 £m	3 months to 30 Jun 2012 £m	3 months to 31 Mar 2012 £m	3 months to 31 Dec 2011 £m
UK						
Individual SIPP	F	**115**	171	198	367	312
Other individual pensions	F	**(573)**	(427)	(362)	(403)	(385)
Investment bonds	F	**(224)**	(244)	(247)	(281)	(255)
Mutual funds	F	**278**	265	271	282	215
Legacy life (excluding conventional with profits)	F	**(56)**	(70)	(57)	(46)	(33)
Wealth	F	**167**	182	205	185	112
UK retail fee business		**(293)**	(123)	8	104	(34)
Corporate pensions	F	**196**	265	392	371	403
UK retail and corporate fee business		**(97)**	142	400	475	369
Institutional pensions	F	**212**	740	141	739	307
Conventional with profits	F	**(408)**	(404)	(354)	(281)	(401)
UK total fee business		**(293)**	478	187	933	275
Annuities	S/R	**(96)**	(147)	(154)	(150)	(164)
Protection	S/R	**5**	3	7	2	5
UK long-term savings		**(384)**	334	40	785	116
Europe						
Fee	F	**214**	154	151	182	166
Spread/risk	S/R	**3**	-	(2)	8	-
Europe long-term savings		**217**	154	149	190	166
UK and Europe long-term savings		**(167)**	488	189	975	282
Canada						
Fee	F	**117**	292	102	(11)	194
Spread/risk	S/R	**(54)**	(57)	(52)	(61)	(32)
Group savings and retirement		**63**	235	50	(72)	162
Fee	F	**95**	52	88	96	54
Spread/risk	S/R	**(68)**	(65)	(68)	(75)	(69)
Individual insurance, savings and retirement		**27**	(13)	20	21	(15)
Group insurance	S/R	**24**	24	23	21	23
Mutual funds	F	**(9)**	-	(2)	(5)	(24)
Canada long-term savings		**105**	246	91	(35)	146
Asia and Emerging Markets						
Wholly owned long-term savings	F	**176**	151	155	123	154
Joint ventures long-term savings[1]		**54**	55	37	103	68
Asia and Emerging Markets long-term savings		**230**	206	192	226	222
Other consolidation/eliminations[2]		**(23)**	(26)	(20)	(44)	(11)
Total worldwide long-term savings		**145**	914	452	1,122	639

[1] Includes net flows in respect of Standard Life's share of the India and China JV businesses.
[2] The consolidation adjustment eliminates amounts shown in both Wealth and Asia and Emerging Markets.

4.5 Group assets under administration and net flows *continued*

Investment operations
12 months ended 31 December 2012

		Opening AUM at 1 Jan 2012 £m	Gross flows £m	Redemptions £m	Net flows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2012 £m
UK	Mutual funds[1]	10,810	5,029	(2,528)	2,501	980	3,481	14,291
	Private equity	3,310	117	(142)	(25)	(147)	(172)	3,138
	Segregated funds	13,248	388	(2,773)	(2,385)	1,520	(865)	12,383
	Pooled property funds	1,953	189	(5)	184	(121)	63	2,016
Total UK		**29,321**	**5,723**	**(5,448)**	**275**	**2,232**	**2,507**	**31,828**
Europe		5,316	2,950	(852)	2,098	547	2,645	7,961
Total UK and Europe		**34,637**	**8,673**	**(6,300)**	**2,373**	**2,779**	**5,152**	**39,789**
Canada	Mutual funds[1]	1,647	283	(343)	(60)	52	(8)	1,639
	Separate mandates	3,815	235	(1,216)	(981)	13	(968)	2,847
Total Canada		**5,462**	**518**	**(1,559)**	**(1,041)**	**65**	**(976)**	**4,486**
Asia and Emerging Markets								
	India[2]	2,711	454	-	454	141	595	3,306
	Other	1,009	2,030	(310)	1,720	106	1,826	2,835
Total Asia and Emerging Markets		**3,720**	**2,484**	**(310)**	**2,174**	**247**	**2,421**	**6,141**
Total worldwide investment products excluding money market and related funds		**43,819**	**11,675**	**(8,169)**	**3,506**	**3,091**	**6,597**	**50,416**
	UK money market funds[3]	52	-	-	-	(52)	(52)	-
	India cash funds[3]	1,222	(101)	-	(101)	75	(26)	1,196
Total worldwide investment products		**45,093**	**11,574**	**(8,169)**	**3,405**	**3,114**	**6,519**	**51,612**

Total third party assets under management comprise the investment business noted above together with third party insurance contracts. New business relating to third party insurance contracts is disclosed as insurance business for reporting purposes. An analysis of total third party AUM is shown below.

	Opening AUM at 1 Jan 2012 £m	Gross flows £m	Redemptions £m	Net flows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2012 £m
Third party investment products	45,093	11,574	(8,169)	3,405	3,114	6,519	51,612
Third party insurance contracts (new business classified as insurance products)	26,684	5,961	(3,308)	2,653	2,071	4,724	31,408
Total third party assets under management	**71,777**	**17,535**	**(11,477)**	**6,058**	**5,185**	**11,243**	**83,020**
UK money market funds and India cash funds[3]	1,274	(101)	-	(101)	23	(78)	1,196
Total third party assets under management excluding money market and related funds	**70,503**	**17,636**	**(11,477)**	**6,159**	**5,162**	**11,321**	**81,824**
Standard Life Investments – total assets under management	**154,876**						**167,723**

1 Included within mutual funds net flows are amounts also included within UK and Canada mutual funds, UK individual SIPP and UK corporate pensions long-term savings operations net flows and new business.

2 Asia and Emerging Markets gross inflows include India where, due to the nature of the Indian investment sales market, the new business is shown as the net of sales less redemptions. India cash funds are included as money market and related funds in the table.

3 Due to the nature of the UK money market funds and India cash funds, the flows are calculated using average net client balances. Other movements are derived as the difference between these average net inflows and the movement in the opening and closing AUM.

4 Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2012. Investment fund flows are translated at average exchange rates. Gains and losses arising from the translation of funds denominated in foreign currencies are included in the market and other movements column.

Investment operations
Three months ended 31 December 2012

		Opening AUM at 1 Oct 2012 £m	Gross flows £m	Redemptions £m	Net flows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2012 £m
UK	Mutual funds[1]	13,052	1,656	(672)	984	255	1,239	14,291
	Private equity	3,104	39	(26)	13	21	34	3,138
	Segregated funds	11,803	141	(85)	56	524	580	12,383
	Pooled property funds	1,919	124	(1)	123	(26)	97	2,016
Total UK		**29,878**	**1,960**	**(784)**	**1,176**	**774**	**1,950**	**31,828**
Europe		6,991	1,006	(333)	673	297	970	7,961
Total UK and Europe		**36,869**	**2,966**	**(1,117)**	**1,849**	**1,071**	**2,920**	**39,789**
Canada	Mutual funds[1]	1,666	69	(77)	(8)	(19)	(27)	1,639
	Separate mandates	2,938	88	(169)	(81)	(10)	(91)	2,847
Total Canada		**4,604**	**157**	**(246)**	**(89)**	**(29)**	**(118)**	**4,486**
Asia and Emerging Markets								
	India[2]	3,250	259	-	259	(203)	56	3,306
	Other	2,188	738	(123)	615	32	647	2,835
Total Asia and Emerging Markets		**5,438**	**997**	**(123)**	**874**	**(171)**	**703**	**6,141**
Total worldwide investment products excluding money market and related funds		**46,911**	**4,120**	**(1,486)**	**2,634**	**871**	**3,505**	**50,416**
	UK money market funds[3]	-	-	-	-	-	-	-
	India cash funds[3]	1,425	(259)	-	(259)	30	(229)	1,196
Total worldwide investment products		**48,336**	**3,861**	**(1,486)**	**2,375**	**901**	**3,276**	**51,612**

Total third party assets under management comprise the investment business noted above together with third party insurance contracts. New business relating to third party insurance contracts is disclosed as insurance business for reporting purposes. An analysis of total third party AUM is shown below.

	Opening AUM at 1 Oct 2012 £m	Gross flows £m	Redemptions £m	Net flows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2012 £m
Third party investment products	48,336	3,861	(1,486)	2,375	901	3,276	51,612
Third party insurance contracts (new business classified as insurance products)	30,452	1,498	(990)	508	448	956	31,408
Total third party assets under management	**78,788**	**5,359**	**(2,476)**	**2,883**	**1,349**	**4,232**	**83,020**
UK money market funds and India cash funds[3]	1,425	(259)	-	(259)	30	(229)	1,196
Total third party assets under management excluding money market and related funds	**77,363**	**5,618**	**(2,476)**	**3,142**	**1,319**	**4,461**	**81,824**
Standard Life Investments - total assets under management	**163,422**						**167,723**

1 Included within mutual funds net flows are amounts also included within UK and Canada mutual funds, UK individual SIPP and UK corporate pensions long-term savings operations net flows and new business.

2 Asia and Emerging Markets gross inflows include India where, due to the nature of the Indian investment sales market, the new business is shown as the net of sales less redemptions. India cash funds are included as money market and related funds in the table.

3 Due to the nature of the UK money market funds and India cash funds, the flows are calculated using average net client balances. Other movements are derived as the difference between these average net inflows and the movement in the opening and closing AUM.

4 Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2012. Investment fund flows are translated at average exchange rates. Gains and losses arising from the translation of funds denominated in foreign currencies are included in the market and other movements column.

4.6 Analysis of new business

Long-term savings operations new business
12 months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Single premiums 12 months to 31 Dec 2012 £m	Single premiums 12 months to 31 Dec 2011 £m	New regular premiums 12 months to 31 Dec 2012 £m	New regular premiums 12 months to 31 Dec 2011 £m	PVNBP[1] 12 months to 31 Dec 2012 £m	PVNBP[1] 12 months to 31 Dec 2011 £m	Change %	Change in constant currency %
UK									
Individual SIPP[2]	F	**2,782**	3,278	**61**	77	**3,007**	3,570	**(16%)**	**(16%)**
Other individual pensions	F	**303**	320	**17**	22	**340**	366	**(7%)**	**(7%)**
Investment bonds	F	**149**	179	**-**	-	**150**	179	**(16%)**	**(16%)**
Mutual funds[2]	F	**1,607**	1,794	**23**	24	**1,808**	1,972	**(8%)**	**(8%)**
UK retail fee business		**4,841**	5,571	**101**	123	**5,305**	6,087	**(13%)**	**(13%)**
Corporate pensions[2]	F	**892**	1,889	**535**	620	**3,397**	4,607	**(26%)**	**(26%)**
UK retail and corporate fee business		**5,733**	7,460	**636**	743	**8,702**	10,694	**(19%)**	**(19%)**
Institutional pensions	F	**3,896**	3,027	**2**	1	**3,897**	3,028	**29%**	**29%**
UK total fee business		**9,629**	10,487	**638**	744	**12,599**	13,722	**(8%)**	**(8%)**
Annuities	S/R	**462**	312	**-**	-	**462**	312	**48%**	**48%**
Protection	S/R	**-**	-	**-**	-	**1**	1	**-**	**-**
UK long-term savings		**10,091**	10,799	**638**	744	**13,062**	14,035	**(7%)**	**(7%)**
Europe									
Fee	F	**602**	629	**40**	37	**1,070**	1,041	**3%**	**10%**
Spread/risk	S/R	**35**	29	**-**	-	**35**	29	**21%**	**33%**
Europe long-term savings		**637**	658	**40**	37	**1,105**	1,070	**3%**	**10%**
UK and Europe long-term savings		**10,728**	11,457	**678**	781	**14,167**	15,105	**(6%)**	**(6%)**
Canada									
Fee	F	**602**	458	**57**	33	**1,612**	937	**72%**	**73%**
Spread/risk	S/R	**74**	99	**8**	4	**216**	164	**32%**	**33%**
Group savings and retirement		**676**	557	**65**	37	**1,828**	1,101	**66%**	**67%**
Fee	F	**668**	540	**-**	-	**668**	540	**24%**	**24%**
Spread/risk	S/R	**133**	203	**-**	4	**133**	243	**(45%)**	**(45%)**
Individual insurance, savings and retirement		**801**	743	**-**	4	**801**	783	**2%**	**3%**
Group insurance	S/R	**1**	4	**44**	53	**680**	826	**(18%)**	**(17%)**
Mutual funds[2]	F	**275**	218	**-**	-	**275**	218	**26%**	**27%**
Canada long-term savings		**1,753**	1,522	**109**	94	**3,584**	2,928	**22%**	**23%**
Asia and Emerging Markets									
Wholly owned long-term savings	F	**776**	909	**41**	49	**1,020**	1,205	**(15%)**	**(16%)**
India[3]		**33**	46	**94**	89	**435**	414	**5%**	**19%**
China[3]		**43**	36	**10**	11	**87**	86	**1%**	**(2%)**
Joint ventures long-term savings		**76**	82	**104**	100	**522**	500	**4%**	**15%**
Asia and Emerging Markets long-term savings		**852**	991	**145**	149	**1,542**	1,705	**(10%)**	**(7%)**
Total worldwide long-term savings		**13,333**	13,970	**932**	1,024	**19,293**	19,738	**(2%)**	**(2%)**

1 Present value of new business premiums (PVNBP) is the industry measure of insurance new business sales under the EEV methodology, calculated as 100% of single premiums plus the expected present value of new regular premiums.

2 Mutual funds new business is also included within mutual funds net flows in investment operations. In addition, non-insured SIPP mutual funds new business included within individual SIPP and corporate pensions is also included within UK mutual funds net flows in investment operations.

3 Standard Life's share of the joint venture company's new business.

4 New business gross sales for overseas operations are calculated using average exchange rates.

Long-term savings operations new business
Three months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	Single premiums		New regular premiums		PVNBP[1]			
		3 months to 31 Dec 2012 £m	3 months to 31 Dec 2011 £m	3 months to 31 Dec 2012 £m	3 months to 31 Dec 2011 £m	3 months to 31 Dec 2012 £m	3 months to 31 Dec 2011 £m	Change %	Change in constant currency %
UK									
Individual SIPP[2]	F	**623**	674	**11**	14	**666**	730	**(9%)**	**(9%)**
Other individual pensions	F	**40**	39	**4**	6	**49**	53	**(8%)**	**(8%)**
Investment bonds	F	**41**	31	**-**	-	**42**	31	**35%**	**35%**
Mutual funds[2]	F	**417**	339	**4**	4	**445**	376	**18%**	**18%**
UK retail fee business		**1,121**	1,083	**19**	24	**1,202**	1,190	**1%**	**1%**
Corporate pensions[2]	F	**174**	248	**112**	95	**690**	666	**4%**	**4%**
UK retail and corporate fee business		**1,295**	1,331	**131**	119	**1,892**	1,856	**2%**	**2%**
Institutional pensions	F	**919**	711	**2**	-	**919**	711	**29%**	**29%**
UK total fee business		**2,214**	2,042	**133**	119	**2,811**	2,567	**10%**	**10%**
Annuities	S/R	**156**	82	**-**	-	**156**	82	**90%**	**90%**
Protection	S/R	**-**	-	**-**	-	**-**	-	**-**	**-**
UK long-term savings		**2,370**	2,124	**133**	119	**2,967**	2,649	**12%**	**12%**
Europe									
Fee	F	**198**	173	**17**	14	**475**	347	**37%**	**45%**
Spread/risk	S/R	**10**	17	**-**	-	**10**	17	**(41%)**	**(32%)**
Europe long-term savings		**208**	190	**17**	14	**485**	364	**33%**	**42%**
UK and Europe long-term savings		**2,578**	2,314	**150**	133	**3,452**	3,013	**15%**	**15%**
Canada									
Fee	F	**154**	137	**17**	9	**419**	248	**69%**	**69%**
Spread/risk	S/R	**24**	41	**2**	-	**58**	54	**7%**	**12%**
Group savings and retirement		**178**	178	**19**	9	**477**	302	**58%**	**59%**
Fee	F	**192**	146	**-**	-	**192**	146	**32%**	**32%**
Spread/risk	S/R	**33**	49	**-**	-	**33**	53	**(38%)**	**(37%)**
Individual insurance, savings and retirement		**225**	195	**-**	-	**225**	199	**13%**	**14%**
Group insurance	S/R	**-**	1	**14**	10	**214**	145	**48%**	**49%**
Mutual funds[2]	F	**69**	51	**-**	-	**69**	51	**35%**	**39%**
Canada long-term savings		**472**	425	**33**	19	**985**	697	**41%**	**42%**
Asia and Emerging Markets									
Wholly owned long-term savings	F	**212**	227	**14**	13	**299**	316	**(5%)**	**(5%)**
India[3]		**6**	9	**25**	21	**111**	96	**16%**	**24%**
China[3]		**7**	8	**3**	3	**18**	20	**(10%)**	**(7%)**
Joint ventures long-term savings		**13**	17	**28**	24	**129**	116	**11%**	**19%**
Asia and Emerging Markets long-term savings		**225**	244	**42**	37	**428**	432	**(1%)**	**1%**
Total worldwide long-term savings		**3,275**	2,983	**225**	189	**4,865**	4,142	**17%**	**19%**

1 Present value of new business premiums (PVNBP) is the industry measure of insurance new business sales under the EEV methodology, calculated as 100% of single premiums plus the expected present value of new regular premiums. The PVNBP figures for the three months to 31 December 2012 and 31 December 2011 exclude the full impact of the year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was an increase in total PVNBP of £6m (2011: increase £91m).

2 Mutual funds new business is also included within mutual funds net flows in investment operations. In addition, non-insured SIPP mutual funds new business included within individual SIPP and corporate pensions is also included within UK mutual funds net flows in investment operations.

3 Standard Life's share of the joint venture company's new business.

4 New business gross sales for overseas operations are calculated using average exchange rates.

4.6 Analysis of new business *continued*

Long-term savings operations new business
15 months ended 31 December 2012

	Fee (F) – Spread/risk (S/R)	PVNBP				
		3 months to 31 Dec 2012[1] £m	3 months to 30 Sep 2012 £m	3 months to 30 Jun 2012 £m	3 months to 31 Mar 2012 £m	3 months to 31 Dec 2011[1] £m
UK						
Individual SIPP	F	**666**	668	777	892	730
Other individual pensions	F	**49**	66	132	94	53
Investment bonds	F	**42**	34	36	38	31
Mutual funds	F	**445**	427	462	454	376
UK retail fee business		**1,202**	1,195	1,407	1,478	1,190
Corporate pensions	F	**690**	635	1,058	937	666
UK retail and corporate fee business		**1,892**	1,830	2,465	2,415	1,856
Institutional pensions	F	**919**	1,025	848	1,105	711
UK total fee business		**2,811**	2,855	3,313	3,520	2,567
Annuities	S/R	**156**	106	100	100	82
Protection	S/R	**-**	-	1	-	-
UK long-term savings		**2,967**	2,961	3,414	3,620	2,649
Europe						
Fee	F	**475**	221	197	262	347
Spread/risk	S/R	**10**	8	6	11	17
Europe long-term savings		**485**	229	203	273	364
UK and Europe long-term savings		**3,452**	3,190	3,617	3,893	3,013
Canada						
Fee	F	**419**	421	573	199	248
Spread/risk	S/R	**58**	7	112	39	54
Group savings and retirement		**477**	428	685	238	302
Fee	F	**192**	123	166	187	146
Spread/risk	S/R	**33**	40	29	31	53
Individual insurance, savings and retirement		**225**	163	195	218	199
Group insurance	S/R	**214**	165	137	164	145
Mutual funds	F	**69**	63	66	77	51
Canada long-term savings		**985**	819	1,083	697	697
Asia and Emerging Markets						
Wholly owned long-term savings	F	**299**	227	248	255	316
India[2]		**111**	91	70	163	96
China[2]		**18**	18	19	32	20
Joint ventures long-term savings		**129**	109	89	195	116
Asia and Emerging Markets long-term savings		**428**	336	337	450	432
Total worldwide long-term savings		**4,865**	4,345	5,037	5,040	4,142

[1] The three month periods to 31 December 2012 and to 31 December 2011 exclude the full impact of year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was an increase in total PVNBP of £6m (2011: increase £91m).

[2] Amounts shown reflect Standard Life's share of the joint venture company's new business.

www.standardlife.com

Read our latest financial results
Our financial results are available online and on our iPad app at

standardlife.com/results

Alternatively use your smart phone to scan this QR code and view the latest financial results on your mobile.

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 2012 (unless otherwise indicated).

This document has been published by Standard Life for information only. It is based on our understanding as at March 2013 and does not provide financial or legal advice.

Standard Life plc is registered in Scotland (SC286832) at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

UKPR12 0313