STANDARD LIFE

Standard Life plc

Preliminary Results 2008

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

Standard Life Group

Press release

Standard Life plc
Preliminary Results 2008
12 March 2009

A solid performance in difficult market conditions

Operating profit resilient in difficult markets

- EEV operating profit before tax up 6% to £933m (2007: £881m), generating a return on embedded value of 10.9% (2007: 11.5%) after making provision for customer payments to the Pension Sterling Fund

Cash flow robust with strong coverage of new business strain

- Core capital and cash generation after tax £303m (2007: £334m)
- Full year dividend of 11.77p, representing 2.3% growth

Balance sheet strength maintained

- Group Embedded Value per share of 286p (2007: 285p) stable in the face of challenging markets
- IFRS equity per share excluding intangible assets and minority interests of 151p (2007: 148p), with IFRS profit after tax attributable to equity holders of £100m (2007: £465m)
- Financial Groups Directive surplus of £3.3bn (2007: £3.4bn) after allowing for the payment of the final dividend

Efficiency target achieved

- Annual efficiency target of £100m cost savings achieved one year early, and a further target of £75m set

Group Chief Executive Sir Sandy Crombie said:

"Standard Life has delivered a solid performance in 2008, against a backdrop of the challenging economic conditions in which we have been operating.

"We have announced good profits, healthy capital and cash generation, and have achieved efficiency improvements a year ahead of target. Our capital position is among the strongest in the industry and is relatively resilient in the event of further deterioration in market conditions.

"Whilst we are pleased with this performance, our culture of continuous improvement is underlined by the next phase of efficiency savings we have set for the business today. A further £75m of annual savings are planned by the end of 2010 by driving further operational excellence, which also underpins our market-leading service to customers.

"With the outlook for world financial markets remaining difficult, we will continue to follow our proven conservative strategy, with a focus on driving efficiencies while pursuing growth to an extent consistent with the prevailing conditions and our limited appetite for capital exposure."

Unless otherwise stated, all comparisons are in Sterling and are with the twelve months ended 31 December 2007.

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EEV Operating Profit

	2008 £m	2007 £m
Covered business by region		
UK	657	606
Canada	215	178
Europe	69	26
Asia Pacific	(35)	(12)
HWPF TVOG	11	42
Covered business operating profit	**917**	**840**
Covered business by source		
New business contribution	264	345
In-force business		
expected return on existing business	431	401
experience variance	64	(48)
assumption changes	195	148
Other covered	(37)	(6)
Total covered business operating profit	**917**	**840**
Investment management	48	48
Banking	26	32
Healthcare	11	13
Group Corporate Centre costs	(50)	(57)
Other non-covered business	(19)	5
Operating profit before tax	**933**	**881**
Tax on operating profit	(284)	(264)
Operating profit after tax	**649**	**617**
(Loss)/profit after tax	**(134)**	**587**
Diluted EEV operating EPS	**29.8p**	**28.3p**

IFRS underlying profit

	2008 £m	2007 £m
Life and pensions by region		
UK	184	395
Canada	(102)	168
Europe	65	63
Asia Pacific	(35)	(12)
Total life and pensions underlying profit	**112**	**614**
Investment management	42	83
Banking	26	32
Healthcare	11	13
Group Corporate Centre costs	(50)	(57)
Other	13	29
Total underlying profit before tax	**154**	**714**
Tax on underlying profit	100	11
Underlying profit after tax	**254**	**725**
Profit attributable to equity holders after tax	**100**	**465**
Diluted IFRS underlying EPS	**11.7p**	**33.3p**

For more information please refer to the Basis of preparation in Section 1.9 and the IFRS pro forma reconciliation of Group underlying profit to profit for the period in Section 3 of the Preliminary Results 2008.

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Assets under administration

Standard Life is an asset managing business and net flows and assets under administration (AUA) are key drivers of shareholder value. AUA are gross assets that the Group administers for customers, including both those managed by the Group and those placed with third party managers.

At the end of December 2008 the Group had total assets under administration of £156.8bn (2007: £169.0bn). Positive net flows of £2.4bn across the Group included life and pensions net inflows of £2.4bn and third party investment management net inflows of £3.4bn. Consolidation adjustments[1] amounted to £1.8bn. We have managed our gross mortgage exposure within our banking operation during the current period of difficult credit market conditions, with gross mortgages under management reducing from £11.3bn to £9.7bn, a net outflow of £1.6bn during the course of the year.

Falling equity, property and fixed interest security values have reduced assets under administration by £14.6bn during 2008. This equates to 9% of opening assets under administration and compares favourably with the reduction in financial markets over the same period.

Strong growth in operating profits

EEV operating profit before tax, excluding the impact of the cash injection into the Pension Sterling Fund announced on 11 February 2009, increased by 18% to £1,041m (2007: £881m), delivering a return on embedded value (RoEV) of 12.3% (2007: 11.5%). This is ahead of the guidance given in our Q4 new business results announcement on 28 January 2009. Including the impact of the cash injection into the Pension Sterling Fund, EEV operating profit before tax increased by 6% to £933m, delivering an RoEV of 10.9%.

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

	Breakdown of EEV		Breakdown of RoEV Operating profit (£m)	
	2008	2007	2008	2007
Core	8.0%	10.2%	685	791
Efficiency	0.8%	1.5%	64	109
Back book management	2.1%	(0.2%)	184	(19)
RoEV	10.9%	11.5%	933	881

Core return

Core return comprises new business contribution, expected return, development costs for covered business[2] and normalised IFRS underlying profit for non-covered business[3,4].

Core EEV operating profit before tax was 13% lower at £685m (2007: £791m) delivering a core RoEV of 8.0% (2007: 10.2%). This has been principally driven by new business contribution, which was 23% lower at £264m (2007: £345m), due to reduced sales volumes and changes to our business mix against challenging markets. Our key new business metrics of internal rate of return (IRR) and discounted payback period were 16% (2007: 19%) and 8 years (2007: 8 years) respectively, the slight decrease in IRR having been driven by reduced asset values and product mix. The continued relative strength of these metrics reflects the benefit of our capital-lite approach.

We have continued to invest in our market leading SIPP and Wrap propositions in the UK and our fast growing Asian operations. This has led to an increase in development expenses and IFRS losses for our Asia Pacific operations, the impact of which has been partly offset by a further reduction in Group Corporate Centre costs to £50m (2007: £57m).

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Continued drive for efficiency

Efficiency comprises covered business maintenance expense variances and assumption changes. In 2008 efficiency savings contributed 0.8% to our RoEV (2007: 1.5%).

In March 2007 we announced the Continuous Improvement Programme to reduce underlying costs by £100m by the end of 2009. During 2008 we have built on the strong performance achieved in 2007, with the continued integration of UK financial services. This has enabled us to deliver the full £100m of efficiency savings one year early. The efficiency savings achieved in 2008 have been reflected in a £64m benefit to embedded value operating profit (2007: £109m).

Following the early delivery of the Continuous Improvement Programme benefits we are announcing today the next phase of efficiency savings. This has a target of achieving a further £75m of annual efficiency savings over the next two years through operational excellence.

Active back book management

We remain committed to driving increased value from the management of our back book. This category includes all non-expense related operating variances and assumption changes for covered business plus those development costs directly related to back book management initiatives and, for non-covered business, specific costs attributed to back book management. During the year, back book management generated an operating profit before tax of £184m (2007: loss of £19m), delivering a back book management RoEV of 2.1% (2007: (0.2%)).

In February 2008 we reinsured £6.7bn of our UK immediate annuity liabilities to Canada Life International Re. This generated a one-off benefit to EEV operating profit before tax of £119m. Other positive factors within the back book management result include a £96m EEV profit from the release of deferred annuity reserves in the UK (2007: £191m[5]) following an ongoing review of annuity data, as well as experience variances and operating assumption changes in respect of tax, mortality and morbidity. Offsetting these positive factors, we have made modest revisions to lapse and paid up assumptions, relating to UK pension and Canadian products in light of more difficult economic conditions. In the UK, a strengthening of paid up assumptions reflects the decision of a number of customers to defer payment into their pension schemes during the current volatile market conditions, with assumptions regarding longer-term lapse trends remaining broadly unchanged. Overall, lapse-related experience variances and assumption changes have reduced embedded value operating profit by £39m.

As announced on 11 February 2009, we have made a cash injection into the Pension Sterling Fund to reverse a 4.8% valuation adjustment relating to 2008 mark to market movements that was made to the fund earlier in 2009. This injection, which has been reflected as a £108m[6] charge within "other" experience variances, was made in light of feedback from customers and key business partners and our own review of the fund information we provided, and is consistent with our ongoing commitment to treat customers fairly.

Capital and cash generation

Overall, operating capital and cash generation amounted to £423m (2007: £563m).

Core capital and cash generation was 9% lower at £303m (2007: £334m). Capital and cash generation from new business and the expected return from existing covered business have remained largely unchanged at £322m (2007: £324m), despite the tough economic environment and the cash impact of accelerated reserve releases in 2007. This demonstrates the resilience of our capital-lite approach to writing new business, with capital and cash generated from existing business comfortably covering new business strain by more than two times. The impact of these factors has been offset by increased development expenses in respect of our covered businesses and lower returns from cash held by Group.

Capital and cash generated from efficiency savings amounted to £7m (2007: £20m). Capital and cash generated from back book management amounted to £113m (2007: £209m). This principally reflects the reinsurance of UK immediate annuity liabilities in February 2008 and a reserve release in respect of UK deferred annuities. These positive factors have been partly offset by the £78m post tax impact of the cash injection into the Pension Sterling Fund that we announced in February 2009.

After allowing for adverse investment variances and other non-operating items in the period, total EEV capital and cash generation was £336m (2007: £600m).

The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

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IFRS

Normalised underlying profit excluding the impact of market volatility on Canadian surplus assets and reserves was £349m (2007: £432m). As highlighted in our Q4 2008 new business press release on 28 January, our IFRS profitability has been adversely affected by the weakness and volatility of investment markets during 2008. The impact of this volatility has been significant within our Canadian operations due to the way Canadian life companies typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. Mark to market value adjustments in respect of surplus assets, coupled with reserve increases in respect of tax and guarantees have reduced Canadian normalised underlying profit by £187m compared with the prior year. Under EEV this volatility is treated as a non-operating item.

Including the impact of this volatility normalised underlying profit was £206m (2007: £476m). Within this, the UK life and pensions profit was £156m (2007: £122m). Other items impacting normalised underlying profit include bond impairments and defaults of £32m, lower management charges due to reduced asset values, and increased new business development costs incurred in respect of our growing Asian franchises.

IFRS underlying profit before tax of £154m (2007: £714m) is after a number of one-off items which are not included in the normalised underlying profit figure. In 2007 these included reserve releases of £138m in respect of PS06/14 and £143m in respect of deferred annuities as well as a strengthening of mortality reserves amounting to £137m. In 2008 these included a £105m benefit arising from the reinsurance of UK immediate annuity liabilities, the impact of which was more than offset by the £102m cash injection into the Pension Sterling Fund and total charges of £124m arising from the restructure of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and subsequent mark to market movements in associated asset backed securities[7].

Balance sheet strength

Despite falling financial markets Group Embedded Value has increased marginally to £6,245m (31 December 2007: £6,211m), representing an embedded value per share of 286p (31 December 2007: 285p). IFRS equity excluding intangible assets and minority interests has increased to £3,295m (31 December 2007: £3,213m), representing 151p per share (31 December 2007: 148p).

The Financial Groups Directive (FGD) surplus of £3.5bn as at 31 December 2008 (31 December 2007: £3.6bn) has been largely insensitive to market movements, with a year end solvency cover of 218% (31 December 2007: 166%). The relative insensitivity of the FGD surplus reflects the unique structure of the Group post demutualisation as well as the impact of the hedges we have put in place. FGD solvency is largely insensitive to a further 30% fall in equity markets from the position at the end of December, with the surplus maintained at £3.3bn. In the event of a 40% fall in markets from the year end position our FGD surplus would remain strong at £2.9bn. At the end of February 2009 the FGD surplus was estimated to be £3.4bn. After allowing for the payment of the final dividend, our year end FGD surplus would be £3.3bn (2007: £3.4bn).

The Heritage With Profits Fund (HWPF) residual estate amounted to £0.5bn as at 31 December 2008 (31 December 2007: £1.5bn). The reduction in the estate over the year largely reflects both the direct and indirect effects of movements in corporate debt, property and equity markets, the impact of which has been exaggerated by technical changes in the way that realistic liabilities are calculated. The impact on the residual estate of further falls in equity markets continues to be mitigated by the hedges we have in place. The impact of most other adverse asset movements would, in the first instance, be met by policyholders with indirect impacts on shareholders via higher guarantee costs, and hence higher burnthrough cost. Shareholder exposure is also limited by the structure of the capital support mechanism set up at demutualisation, with shareholder support being obtained by withholding the furthest out cash transfers from the HWPF to shareholders. At the end of February 2009 the HWPF residual estate was estimated to be £0.3bn.

Shareholders are exposed to debt securities which back annuity liabilities in the UK and Europe and the liability in respect of longevity risk reinsured from the HWPF. These debt securities amount to £1.5bn and comprise £0.8bn of government and government backed bonds and £0.7bn of other corporate bonds. There were no defaults on the debt securities in this portfolio in 2008, however in light of the economic conditions the provision for future defaults within the valuation of liabilities has been increased to £40m (31 December 2007: £20m), representing a weighted average default assumption into perpetuity for corporate bonds of 87bps (31 December 2007: c37bps).

Debt securities in Canadian non-segregated funds amount to £5.4bn, including £2.2bn of corporate bonds. There were no defaults within this portfolio of debt securities during 2008. We have maintained our Canadian corporate bond default assumption at 36bps while the average quality of the portfolio has increased from A to A+. The overall provision for defaults on bonds in the portfolio amounts to £90m (31 December 2007: £71m).

Standard Life's total investment (including third party funds) in the asset backed securities markets across both short-term treasury instruments and long-term fixed interest is approximately £5.3bn or 3.3% (31 December 2007: £7.7bn or 4.6%) of Group assets under administration, predominantly in UK securities. Of the total of £5.3bn, £1.3bn relates to shareholder funds, of which £1.2bn is AAA rated. The overall level of asset backed securities has reduced compared to 31 December 2007 as a result of a number of securities reaching maturity and also due to market movements. The Group has continued actively to manage its exposure to asset backed securities and the portfolio remains a high quality credit portfolio with no direct exposures to the US mortgage market, minimal exposure to leveraged structures, no current direct exposure to Monolines and very modest exposure to credit within a Monoline wrapper. Following the restructure of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, shareholder funds have a total exposure of £83m (31 December 2007: £27m) to assets within a Monoline wrapper or leveraged structures, representing 0.3% (31 December 2007: 0.1%) of shareholder financial assets.

Outlook

The economic environment continues to be very challenging and the outlook for markets remains uncertain.

While market conditions mean that the outlook for retail savings is likely to remain subdued, we continue to see opportunities in the profitable markets in which we operate, including group pensions and fixed income investment mandates.

As an asset managing business our revenues will inevitably be impacted by lower financial market levels. Our ongoing focus on efficiency will help mitigate the impact of this on profitability. In 2009 the Group will benefit from expense efficiencies achieved during the last year and will make a start on the next phase of delivering operational excellence, targeting a total of £75m of annual efficiency savings by 2010.

In these conditions Standard Life will continue to pursue a capital-lite strategy and to operate conservatively, ensuring that balance sheet strength and cash generation remain priorities.

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For further information please contact:

Institutional Equity Investors

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

Retail Equity Investors

Computershare	0845 113 0045

Media

Barry Cameron	0131 245 6165/07712 486 463
Nicola McGowan	0131 245 4016/07872 191 341
Paul Keeble	0207 872 4481/07712 486 387
Neil Bennett (Maitland)	0207 379 5151/07900 000 777

Debt Investors

Andy Townsend	0131 245 7260
Alan Coutts	0131 245 0201

Newswires and online publications

A conference call will take place for newswires and online publications from 8.00-9.00am. Participants should dial +44 (0)207 162 0025 and quote Standard Life Preliminary Results 2008. The conference ID number is 827548.

Investors and Analysts

A presentation to investors and analysts will take place at 9.30am at Merrill Lynch Financial Centre, 2 King Edward Street, London. A live webcast of the presentation and the presentation slides will be available on the Group's website. In addition a replay will be available on this website later today.

There will also be a live listen only teleconference to the investor and analyst presentation at 9.30am. Investors in the UK should dial 0844 493674, and overseas investors should call +44 (0)145 256 2717. Callers should quote Standard Life Preliminary Results 2008. The conference ID number is 86267817. A replay facility will be available until 25 March 2009. UK investors should call 0800 953 1533, and overseas investors should dial +44 1452 55 00 00. The pass code is 86267817#.

Notes to Editors:

1. Certain products are included in both life and pensions and investment flows. Therefore, at a Group level, an elimination adjustment is required to remove any duplication.
2. Excludes development costs directly related to back book management initiatives.
3. The only difference between IFRS normalised underlying profit and IFRS underlying profit for non-covered business arises within investment management. Fair value movements of assets brought directly on to the balance sheet following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, are included within IFRS underlying profit, but are excluded from IFRS normalised underlying profit.
4. Excludes specific costs attributable to back book management.
5. In 2007 back book management profits included a £191m benefit from improved data modelling for UK deferred annuities.
6. The £108m charge to embedded value operating profit arising from the cash injection into the Pension Sterling Fund is the pre-tax equivalent of the £78m post-tax charge disclosed in our RNS dated 11 February 2009, grossed up at a rate of 28%.
7. In our Interim Management Statement released on 30 April 2008 we reported that the expected net of tax impact of the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc would be £37m. This represented the after tax effect of £62m restructuring costs less the £10m guarantee already provided for by Standard Life plc as at 31 December 2007. Since 30 April 2008 an additional £101m cost has been recognised representing the fair value movements for the period to 31 December 2008. The total cost to the Group of £163m has been recognised in our investment management business (£90m) and in our UK life and pensions business (£73m). Of the total cost of £163m, £124m has been reflected within the 2008 underlying IFRS result. The cash cost to the Group was £24m before tax (£17m after tax) with the balance of the cost being due to marked-to-market movements.

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1 Business review

1.1 Group overview

Financial highlights

	2008	2007	Movement
Life and pensions net flows[1]	**£2,440m**	£2,769m	(12%)
New business PVNBP[1,2,3]	**£15,679m**	£16,539m	(5%)
New business contribution	**£264m**	£345m	(23%)
EEV operating profit before tax	**£933m**	£881m	6%
Return on embedded value[4]	**10.9%**	11.5%	(0.6% points)
Diluted EEV operating EPS[4]	**29.8p**	28.3p	5%
IFRS underlying profit before tax	**£154m**	£714m	(78%)
IFRS profit after tax attributable to equity holders	**£100m**	£465m	(78%)
EEV	**£6,245m**	£6,211m	1%
Group assets under administration	**£156.8bn**	£169.0bn	(7%)
Group capital surplus[5]	**£3.5bn**	£3.6bn	(3%)
EEV operating profit capital and cash generation[4]	**£423m**	£563m	(25%)
Full year dividend per share	**11.77p**	11.50p	2.3%

[1] 2007 net flows and present value of new business premiums (PVNBP) have been restated to reflect the inclusion of Sigma mutual funds. The 2008 net outflow impact is £217m (2007: £250m outflow). The 2008 PVNBP impact is £88m (2007: £116m).

[2] The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009, as they incorporate year end non-economic assumption changes.

[3] The Group PVNBP percentage change figures include percentage change figures for India, which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007 and 2008.

[4] Net of tax.

[5] Based on draft regulatory returns.

Please refer to Section 1.9 – Basis of preparation.

Standard Life has produced a solid performance during 2008 despite the unprecedented market turbulence which has impacted the global financial services industry. We also witnessed unparalleled intervention by governments around the world to help support the global banking system and to protect savers and investors. These conditions have resulted in both a significant reduction in asset values and reduced consumer confidence. Our strategy and capital structure have resulted in a balance sheet that is both strong and resilient.

Financial performance

Present value of new business premiums (PVNBP) decreased by 5% to £15,679m (2007: £16,539m). Despite lower sales and associated new business contribution (NBC), we achieved increased European Embedded Value (EEV) operating profits of £933m (2007: £881m) and a return on embedded value (RoEV) of 10.9% (2007: 11.5%). The increase in operating profit was due to strong gains from our management of the back book.

Worldwide life and pensions net flows for 2008 were £2,440m (2007: £2,769m), with the strong growth in our international operations partly offsetting the impact of continued difficult market conditions in the UK. Total Group assets under administration (AUA) reduced by 7% to £156.8bn (2007: £169.0bn). This reduction compares favourably with the fall in financial markets over the same period.

International Financial Reporting Standards (IFRS) underlying profit before tax fell by 78% to £154m (2007: £714m). Excluding significant one-off transactions in both years, IFRS normalised underlying profit before tax fell by 57% to £206m (2007: £476m). The reduction is primarily due to the weakness and volatility of investment markets during 2008. The impact of this volatility has been significant within our Canadian operations due to the way that Canadian life companies typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. IFRS profit after tax attributable to equity holders fell by 78% to £100m (2007: £465m).

Our recently announced cash injection to the Pension Sterling Fund of approximately £100m has impacted profits in 2008. We strongly believe that the action we have taken was the right thing to do, and it reflects the importance that we attach to the long-term relationships we have with customers and business partners.

The Group capital surplus remained broadly unchanged at £3.5bn, compared to £3.6bn at 31 December 2007, despite the adverse market conditions. This demonstrates the robustness of our capital position and its relatively low sensitivity to market volatility. The insensitivity of the capital surplus reflects the structure of the Group post-demutualisation and the strategy for managing the risks of the Heritage With Profits Fund (HWPF). The strength of our capital position is further highlighted by Standard & Poor's upgrading the credit rating for Standard Life Assurance Limited to A/Positive from A/Stable in May 2008 and then raising it again in February 2009 to A+/Stable.

Cash generation has remained strong in volatile markets and although there was a reduction in operating profit capital and cash generation from £563m to £423m, this included the impact of the cash injection to the Pension Sterling Fund. Core capital and cash generation of £303m fell only £31m from 2007 levels, despite the volatile markets. New business strain (NBS) continued to be comfortably covered more than two times by capital and cash generation from existing business. We have continued our focus on selling capital-lite products, to generate profitable new business without committing high levels of capital. This strategy aims to deliver high returns on investment to support business growth.

We have remained focused on achieving operational excellence and efficiency during a time of economic uncertainty. We announced our Continuous Improvement Programme in 2007 and promised to deliver £100m of efficiencies by the end of 2009. In 2008 we met the £100m target one year earlier than planned, and exceeded it by £3m. An analysis of our operating cost base and efficiency savings compared with our cost saving commitments over the past two years is included in Section 4.3. Following the successful completion of this programme we have now launched the next phase of efficiency savings. This has a target of achieving a further £75m of efficiency savings over the next two years. In addition, in 2008 we achieved a further £7m reduction in Group Corporate Centre costs.

The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance. Dividend cover in 2008 of 1.0 times compares to 2.9 times for total dividends paid in respect of 2007.

Acquisition of Vebnet (Holdings) plc

On 10 October 2008, Standard Life made an unconditional offer to acquire 100% of the issued share capital of Vebnet (Holdings) plc (Vebnet) for a cash consideration of £26m. Vebnet has a well established position in the UK employee benefits and online reward market and has developed business activities in Europe and Asia. At 31 December 2008, Vebnet had 182 corporate clients and 340,393 employee users of its flexible benefits proposition. The transaction is consistent with Standard Life's strategy to accelerate the development of its corporate business through strengthening its customer base, opening up new routes to market and developing its existing product range.

Outlook

The economic environment continues to be very challenging and the outlook for the markets remains uncertain.

While market conditions mean that the outlook for retail savings is likely to remain subdued, we continue to see opportunities in the profitable markets in which we operate, including group pensions and fixed income investment mandates.

As an asset managing business our revenues will inevitably be impacted by lower financial market levels. Our ongoing focus on efficiency will help mitigate the impact of this on profitability. In 2009 the Group will benefit from expense efficiencies achieved during the last year and will make a start on the next phase of delivering operational excellence, targeting a total of £75m of annual efficiency savings by 2010.

In these conditions, Standard Life will continue to pursue a capital-lite strategy and to operate conservatively, ensuring that balance sheet strength and cash generation remain priorities.

1.2 New business sales and profitability

New business highlights

	2008	2007	Movement
Net flows[1]	**£2,440m**	£2,769m	(12%)
New business PVNBP[1,2]	**£15,679m**	£16,539m	(5%)
New business APE[2,3]	**£2,007m**	£2,006m	(1%)
Investment – third party net new business	**£3,395m**	£7,944m	(57%)
New business contribution	**£264m**	£345m	(23%)
Internal rate of return	**16%**	19%	(3% points)
Discounted payback period	**8 years**	8 years	-

[1] 2007 net flows and present value of new business premiums (PVNBP) have been restated to reflect the inclusion of Sigma mutual funds. The 2008 net outflow impact is £217m (2007: £250m outflow). The 2008 PVNBP impact is £88m (2007: £116m).

[2] The percentage change figures include percentage change figures for India, which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007 and 2008.

[3] 2007 APE has been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is £9m (2007: £12m).

Please refer to Section 1.9 – Basis of preparation.

Net flows

Group assets under administration as at 31 December 2008 were £156.8bn compared to £169.0bn at 31 December 2007. The reduction is mainly due to a fall in asset values following adverse market movements during the year. As a result of the challenging economic conditions in which we have been operating, total life and pensions net inflows (excluding Asia Pacific) decreased by 12% to £2,440m and third party investment management net new business amounted to £3,395m.

New business sales

The Group's new business performance has delivered a 5% decrease in life and pensions PVNBP sales to £15,679m (2007: £16,539m).

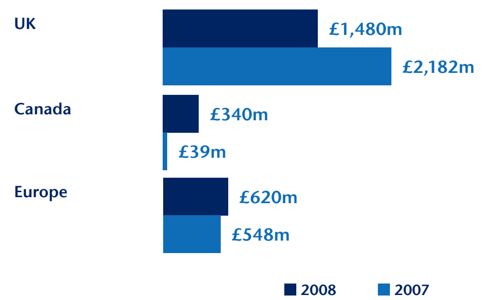
UK life and pensions sales at £11,928m were 11% lower than the prior year (2007: £13,440m) with sales impacted by negative market movements on incoming transfer values and lower consumer confidence. Gross lending in our banking business reduced to £1.1bn (2007: £3.7bn). This was driven by a number of strategic measures to manage liquidity and is in line with many of our competitors. Our healthcare sales rose by 14% to £25m (2007: £22m).

PVNBP sales in Canada increased by 23% in constant currency to £2,240m (2007: £1,654m) and reflect the continued repositioning of the business.

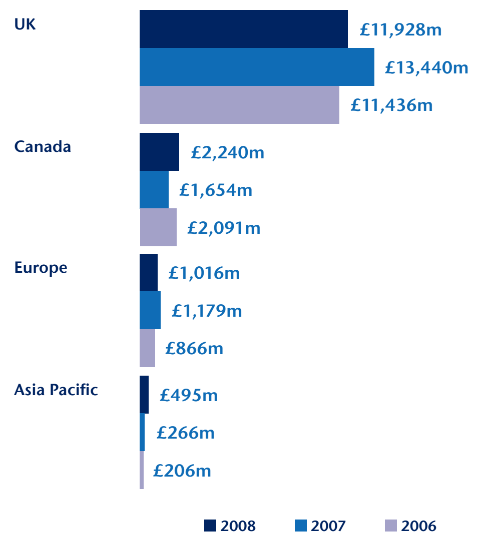
In Europe, PVNBP sales decreased by 26% in constant currency to £1,016m (2007: £1,179m). Our business in Ireland continues to be affected by the volatile Irish equity and property markets. In Germany, customer uncertainty in the face of market volatilty negatively impacted sales. Conditions were further exacerbated by changes in German insurance contract law which reduced new business volumes.

Operations in Asia continued to have attractive growth potential. PVNBP sales increased by 17%[2] in constant currency as branch expansion and agency recruitment continued in our joint ventures in China and India.

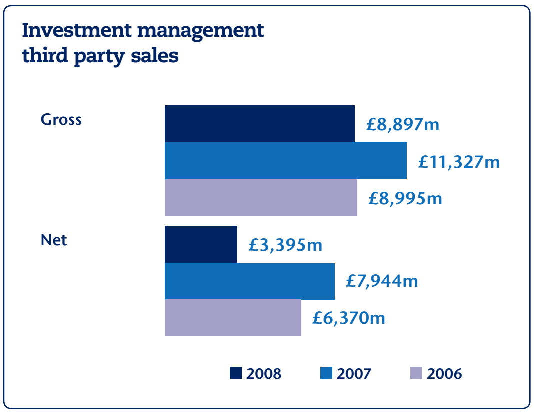
Worldwide Group net flows £2,440m (2007: £2,769m)



Worldwide Group PVNBP sales £15,679m (2007: £16,539m, 2006: £14,599m)



Against a backdrop of difficult markets, investment management sales of third party gross new business decreased by 21% and net new business by 57%. Excluding volatile flows into our money market funds, third party net inflows were £4,741m (2007: £6,853m). Third party assets under management (AUM) decreased by 5% to £45.5bn (2007: £47.7bn). Excluding the impact of the reinsurance of UK immediate annuities which resulted in £6.7bn of funds outflow, total AUM decreased by 9% during 2008. This reduction compares favourably with the fall in financial markets during the period.



	NBC £m		PVNBP margin %		IRR %		Discounted payback (years)	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
UK	**212**	282	**1.8**	2.1	**18**	20	**8**	7
Canada	**34**	37	**1.5**	2.3	**17**	23	**8**	5
Europe	**18**	26	**1.8**	2.2	**11**	11	**13**	13
Total	**264**	345	**1.7**	2.1	**16**	19	**8**	8

New business profitability

New business profitability has been impacted by the adverse market conditions. New business contribution (NBC) decreased by 23% to £264m. The total internal rate of return (IRR) for the Group was 16% (2007: 19%) and the discounted payback period remained at eight years. We remain committed to our strategy of focusing on capital-lite products which deliver high capital returns and fast recovery of investment.

In the UK, NBC fell by 25% to £212m (2007: £282m) due to lower sales volumes and a reduction in margins resulting from sales mix including larger transactions secured at low margins. The UK IRR decreased from 20% to 18% for the full product range and the payback period has extended from seven to eight years.

In Canada, NBC decreased by 8% to £34m. PVNBP margin and IRR reduced from 2007 levels and payback period increased. These trends were mainly due to lower margin sales required in the current market and an increase in acquisition costs incurred as part of the strategy to reposition the business.

In Europe, NBC reflects lower sales due to the particularly difficult market conditions in Ireland and customer uncertainty in the face of market volatility in Germany, which was exacerbated by their recent contractual law changes. IRR and payback period were maintained at prior year levels.

Further analysis of the individual segment results can be found in Section 1.5 – Business segment performance.

1.3 EEV – Group

EEV highlights

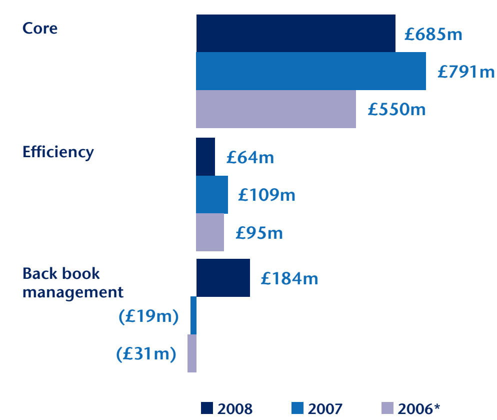
	2008	2007	Movement
EEV operating profit before tax	**£933m**	£881m	6%
Return on embedded value	**10.9%**	11.5%	(0.6% points)
Diluted EEV operating EPS	**29.8p**	28.3p	5%
EEV (loss)/profit before tax	**(£158m)**	£838m	(119%)
EEV	**£6,245m**	£6,211m	1%

Please refer to Section 1.9 – Basis of preparation.

EEV profit before tax

The EEV consolidated income statement, in the supplementary EEV financial statements section of this report, presents the total EEV result showing both operating and non-operating items. Total EEV loss before tax of £158m (2007: £838m profit) arose as a result of the reduction in non-operating profits. This fall was driven by the significant market volatility during the year and in particular lower than expected investment returns. We believe that EEV operating profit (before non-operating items) provides a more meaningful indication of the underlying performance of the Group. Non-operating profits and losses are mainly market driven and occur as a result of short-term investment performance being different from the long-term return anticipated in the opening EEV. Further details on the operating profit and non-operating loss are given below.

EEV operating profit before tax £933m (2007: £881m, 2006: £614m)



* 2006 results are shown on a pro forma basis.

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

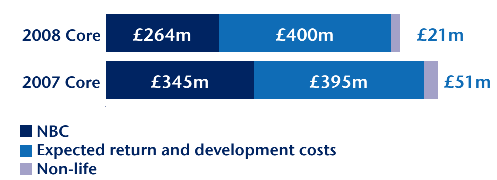
We analyse our EEV profits by three components that reflect the focus of our business effort – core, efficiency and back book management.

Core

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

The core element of our operating profit decreased by 13% to £685m (2007: £791m). The fall primarily reflected the adverse impact of market conditions on NBC which decreased by £81m. Expected return from the Group's in-force business increased by 7% to £431m (2007: £401m). £16m of this increase was due to favourable exchange rate movements.

EEV operating profit before tax – core £685m (2007: £791m)



There were losses in our Asia Pacific business of £35m (2007: £12m) on an IFRS basis reflecting the continuing increase in operational activity. The operating profits of our investment management and healthcare businesses remained resilient in the face of tough market conditions. However, banking profits were impacted and fell by £6m compared to 2007, predominantly due to lower interest margins.

NBC is covered in detail in Section 1.2 – New business sales and profitability, while non-covered business is analysed in the segmental analysis of EEV operating profit and is discussed in greater detail in the relevant business segment sections of this report.

Efficiency

These gains reflect our continued focus on cost control and have contributed towards the achievement of our 2008 expense targets.

Back book management

EEV operating profit before tax from back book management has increased significantly from a loss of £19m in 2007 to a profit of £184m for 2008.

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

Total variances from lapse experience and assumption changes were negative £39m, an improvement of £210m compared to 2007, which reflected increased lapse activity following A-day. In our UK business, a £17m loss from lapses was primarily due to a strengthening of paid up assumptions across our UK pension business, as customers postponed payments into their pension scheme during the current volatile market conditions. Lapse experience for onshore bonds was in line with long-term assumptions and was favourable compared to our short-term provision for unit linked onshore bonds established at the end of 2007. In Canada, assumptions were strengthened to reflect overall deteriorating economic conditions.

	UK £m	Canada £m	Europe £m	HWPF TVOG £m	**2008 Total £m**	2007 Total £m
Lapses	(17)	(25)	3	-	**(39)**	(249)
Mortality and morbidity	49	4	2	-	**55**	(95)
Tax	38	38	-	-	**76**	56
Deferred annuities	96	-	-	-	**96**	191
UK annuity reassurance	96	-	12	11	**119**	-
Pension Sterling Fund	(108)	-	-	-	**(108)**	-
Other	(32)	21	(4)	-	**(15)**	78
Back book management	**122**	**38**	**13**	**11**	**184**	**(19)**

Positive mortality and morbidity experience variances and assumption changes of £55m represent an improvement of £150m on 2007 and primarily reflects the adoption of updated assumptions for UK assurance and annuity business.

During the year, we made £96m of EEV profit from the release of provisions held in the UK deferred annuity business. This release was made possible following a further review of our annuity data in 2008. This compares with £191m of EEV profit from improved deferred UK annuity data modelling in 2007.

As reported in our 2008 *Interim results*, during the year we reinsured £6.7bn of pre-demutualisation UK immediate annuity liabilities. This represents a significant step in reducing shareholders' exposure to annuitant mortality risk and contributed £119m towards the EEV operating profit before tax. The additional profit arose mainly due to the impact of lower risk discount rates arising from the reduction in longevity risk.

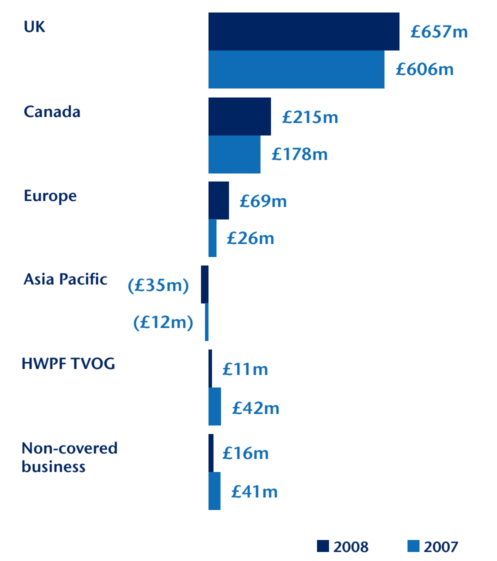
On 11 February 2009, we announced that we would be making an immediate cash injection into the Pension Sterling Fund to reinstate the value of customers' units following an earlier decision to reduce the value of units to take account of market movements in the underlying assets. The cost of this on an EEV basis was £108m before tax and represents the £78m after tax charge included in the original announcement grossed up at a rate of 28%.

EEV operating profit before tax – by segment

Against volatile market conditions, EEV operating profit before tax increased by 6% to £933m (2007: £881m).

Our UK life and pensions business, excluding Heritage With Profits Fund time value of options and guarantees (HWPF TVOG), accounted for the majority of the £52m increase in total Group EEV operating profit. This was primarily due to back book management gains which included £96m of profits from the reinsurance of UK immediate annuities, a £260m improvement in lapse experience and assumption changes and £47m gains from mortality assumption changes (2007: negative £52m). These positive movements were partially offset by a £108m before tax charge for the Pension Sterling Fund payment and a £70m decrease in NBC. In addition, £96m of EEV profit resulted from the release of provisions in relation to UK deferred annuities during 2008, compared with £191m EEV profit in 2007 from improved deferred annuity data modelling.

EEV operating profit before tax £933m (2007: £881m)



1.3 EEV – Group *continued*

Operating profit for Canada increased by £37m to £215m. This increase included higher than expected returns from in-force business, within which £13m of the £21m increase was due to favourable exchange rate movements. Positive tax experience gains of £38m compared to £25m in 2007 represent a benefit from previously unclaimed tax assets. Operating assumption changes were positive £24m (2007: £21m) and included efficiency gains and positive modelling changes offset by negative lapse assumptions of £25m to reflect overall deteriorating economic conditions. NBC was £3m less than 2007.

Europe EEV operating profit increased by 127% in constant currency, despite an £8m decrease in NBC. Lapse assumption changes of negative £1m in 2008, compared to negative £22m in 2007, when Irish lapse assumption changes were made to align to long-term assumptions. A £12m assumption change impact was as a result of improved risk margins following the reinsurance of UK immediate annuities. Expected return on existing business also increased by £7m, £3m of which was due to favourable exchange rates.

Losses in our Asia Pacific business on an IFRS basis reflect continued market expansion.

HWPF TVOG produced an £11m increase in back book operating profits, which was predominantly due to the benefit arising from reinsurance of UK immediate annuities.

The operating profit from our non-life and pensions operations was £16m (2007: £41m). This result reflects resilient operating results from our investment management and healthcare businesses despite the adverse market conditions. Operating profit for the investment management business excludes the non-operating loss related to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. Our banking business operating profits fell by £6m, which predominantly reflected lower interest margins. Other non-covered business includes operating losses which reflect lower investment returns in money market funds in Standard Life plc.

Further comments on the operating profits of each of the businesses noted above are provided in Section 1.5 – Business segment performance.

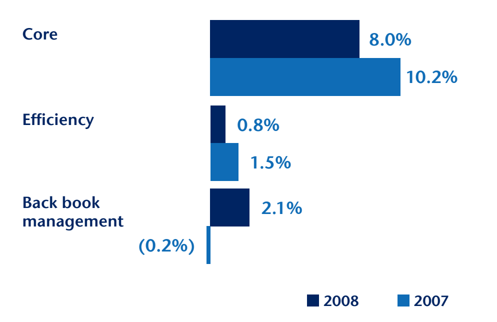
EEV operating profit after tax

EEV operating profit after tax increased by 5% to £649m (2007: £617m). The attributable tax rate was 30% in 2008 (2007: 30%).

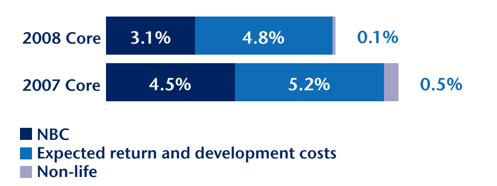
Return on embedded value (RoEV)

RoEV was 10.9% in 2008 compared to 11.5% in 2007. Back book management contributed 2.1% to total RoEV compared to negative 0.2% in 2007. This movement in back book management RoEV was primarily driven by an improvement in lapse variances and assumption changes which contributed 3.0%. In addition, the reinsurance of UK immediate annuities contributed 1.5% to the movement in back book management RoEV. These increases were partially offset by the charge to the Pension Sterling Fund which had a negative impact of 1.4%, and a smaller contribution from UK deferred annuities.

Return on embedded value 10.9% (2007: 11.5%)



Return on embedded value – core 8.0% (2007: 10.2%)



Diluted EEV operating earnings per share (EPS)

The diluted EEV operating EPS grew from 28.3p in 2007 to 29.8p in 2008. The basic EEV operating EPS also increased from 28.9p in 2007 to 29.8p in 2008. These positive movements were largely driven by the 5% improvement in operating profit after tax compared to 2007. EPS is based on operating profit after tax and on 2,176m shares for basic EPS (2007: 2,138m) and 2,180m shares for diluted EPS (2007: 2,177m).

EEV non-operating loss

Total non-operating loss was £1,091m in 2008 (2007: loss £43m), an increase of £1,048m from 2007, primarily reflecting lower than expected investment returns arising from the volatile markets during the year. Our life and pensions businesses produced a non-operating loss of £839m (2007: profit £4m). This included long-term investment variances of negative £849m (2007: negative £17m) and economic assumption changes of positive £48m (2007: positive £27m).

Non-life non-operating losses include £90m of total losses borne by our investment management business in relation to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. Total investment management losses in relation to this sub-fund include a £51m loss relating to the fair value movements of assets brought directly onto the balance sheet prior to 23 September 2008. On 23 September 2008, a contract was signed between Standard Life Investments and

UK life and pensions which transferred future market risk on part of this sub-fund to UK life and pensions in exchange for a risk premium. Under this agreement a further loss of £73m is included within investment return and tax variances within covered business.

Included within restructuring and corporate transactions costs is £45m incurred under our Continuous Improvement Programme. Volatility arising on different asset and liability valuation bases includes unrealised fair value losses on derivatives of £94m (2007: loss £39m) in respect of non-qualifying economic hedges in our banking business.

Non-operating loss after tax

The non-operating loss after tax was £783m (2007: loss £30m). The attributed tax rate in 2008 was 28% compared to 30% in 2007.

EEV (loss)/profit after tax

Profit after tax fell from £587m in 2007 to a loss after tax of £134m in 2008.

Reconciliation of EEV

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Group EEV £m
Opening	**2,204**	**680**	**2,884**	**3,327**	**6,211**
Adjustment to opening EEV	-	-	**-**	32	**32**
Operating capital and cash generation	377	46	**423**	-	**423**
Non-operating capital and cash generation	(131)	44	**(87)**	-	**(87)**
PVIF income statement	-	-	**-**	(470)	**(470)**
(Loss)/profit after tax	**246**	**90**	**336**	**(470)**	**(134)**
Dividends	(257)	-	**(257)**	-	**(257)**
Other non-trading movements	155	74	**229**	164	**393**
Closing	**2,348**	**844**	**3,192**	**3,053**	**6,245**

Group embedded value

Overall, our Group embedded value remained broadly unchanged at £6,245m. Before taking into account dividends paid to shareholders, other non-trading movements and the adjustment to opening EEV, Group embedded value decreased by £134m, of which positive £423m was from operating capital and cash generation and negative £87m was from non-operating capital and cash generation. Core capital and cash generation of £303m represents a £31m decrease from 2007 under tough market conditions. Efficiency capital and cash generation contributed £7m. Capital and cash generation from back book management of £113m was largely as a result of the reinsurance of UK immediate annuities and release of provisions in relation to UK deferred annuities, offset by a charge for the Pension Sterling Fund.

This is discussed in more detail in Section 1.7 – Capital and cash generation.

Before taking into account other non-trading movements, the present value of the in-force (PVIF) business net of cost of capital has decreased by £470m predominantly due to an expected return of negative £239m and adverse investment return and tax variances of £708m, offset by an increase from NBC written in the year of £413m.

Included within the PVIF net of cost of capital is the TVOG for the Group. This includes the UK and Europe HWPF TVOG which reflects the value of the shareholder exposure to the policyholder guarantees within the HWPF. This has increased significantly during 2008 to £220m from £41m for 2007, primarily due to adverse market movements. TVOG in Canada and Europe has also increased due to adverse market movements.

The HWPF is discussed in more detail in Section 1.7 – Capital and cash generation.

The net worth of our Group has increased from £2,884m to £3,192m due to resilient operating capital and cash generation. PVIF net of cost of capital has decreased from £3,327m to £3,053m, largely due to the impact of adverse market movements, giving a small increase in Group EEV from £6,211m to £6,245m.

1.4 IFRS – Group

IFRS highlights

	2008	2007	Movement
IFRS underlying profit before tax	**£154m**	£714m	(78%)
IFRS profit after tax attributable to equity holders	**£100m**	£465m	(78%)
Diluted IFRS underlying EPS [1]	**11.7p**	33.3p	(65%)
Dividend cover [2]	**1.0 times**	2.9 times	(66%)

[1] Diluted IFRS underlying EPS is based on 2,180m shares (2007: 2,177m shares) and the IFRS underlying profit after tax of Standard Life plc of £254m (2007: £725m).

[2] Dividend cover is calculated as IFRS underlying profit after tax and minority interest for the year divided by the full year dividend.

Please refer to Section 1.9 – Basis of preparation.

IFRS profit

IFRS profit for the year was £17m (2007: £576m). This comprises profit after tax attributable to equity holders of £100m (2007: £465m) and losses attributable to minority interest of £83m (2007: profit £111m). The IFRS result included a 78% decrease in underlying profit before tax from £714m to £154m as well as the impact of a number of volatile items not included within the underlying profit. The decrease in underlying profit before tax was due to a lower value of one-off items benefiting the result in 2008 compared to 2007 and the impact of volatile markets in the period, and is explained in more detail below.

IFRS underlying profit before tax

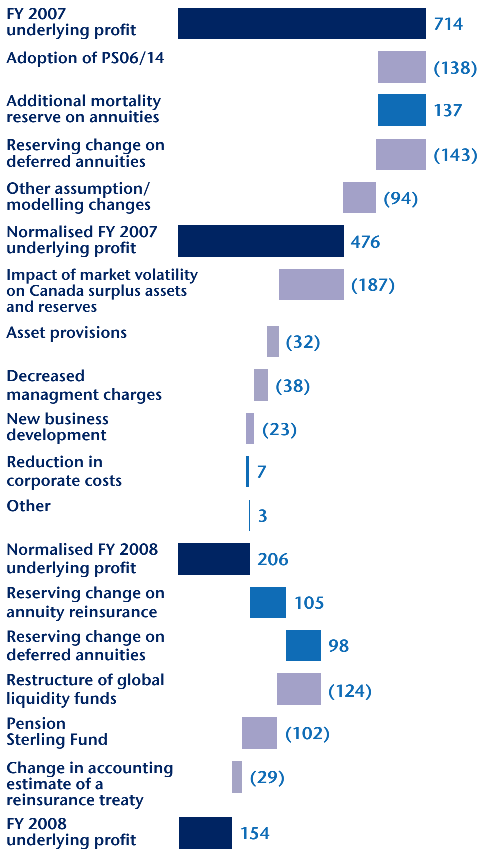
Our IFRS statutory income statement, which shows IFRS profit after tax attributable to equity holders and the reconciliation to underlying profit is shown in the Group IFRS financial statements section of this report. We believe that the IFRS profit before tax adjusted for non-operating items provides a more meaningful analysis of the underlying business performance.

Movement in IFRS underlying profit

Underlying profit has been adversely impacted by the unprecedented market conditions and includes certain items which are one-off in nature. In 2007 these items increased underlying profit by £238m and included a reserving change on deferred annuities, additional mortality reserves on annuity business, a release of reserves relating to the adoption of the FSA's Policy Statement PS06/14 and other assumption/modelling changes.

For 2008, the one-off items totalled a charge of £52m. These included a £105m release of reserves following the reinsurance of £6.7bn of UK immediate annuities, as announced in February 2008, and a £98m release of reserves in relation to deferred annuity business. Offsetting these one-off benefits was a £102m cash injection into the Pension Sterling Fund and a charge of £29m recognised during the year relating to the reinsurance of certain contracts held by our business in Canada. In addition, as reported in April 2008, we also restructured a sub-fund of Standard Life Investments (Global Liquidity Funds) plc during the year. The total cost of this to the Group was £163m[3]. Of the total costs, £124m related to the fair value movement on assets brought directly onto the balance sheet, and this is included in the underlying profit for the year.

Movement in IFRS underlying profit £m



[3] In our *Interim Management Statement* released on 30 April 2008, we reported that the expected net of tax impact of the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc would be £37m. This represented the after tax effect of £62m restructuring costs less the £10m guarantee already provided for by Standard Life plc as at 31 December 2007. Since 30 April 2008, an additional £101m cost has been recognised representing further fair value movements for the period to 31 December 2008. The total cost to the Group of £163m has been recognised in our investment management business (£90m) and in our UK life and pensions business (£73m). The cash cost to the Group was £24m before tax (£17m after tax) with the balance of the cost being due to marked-to-market movements.

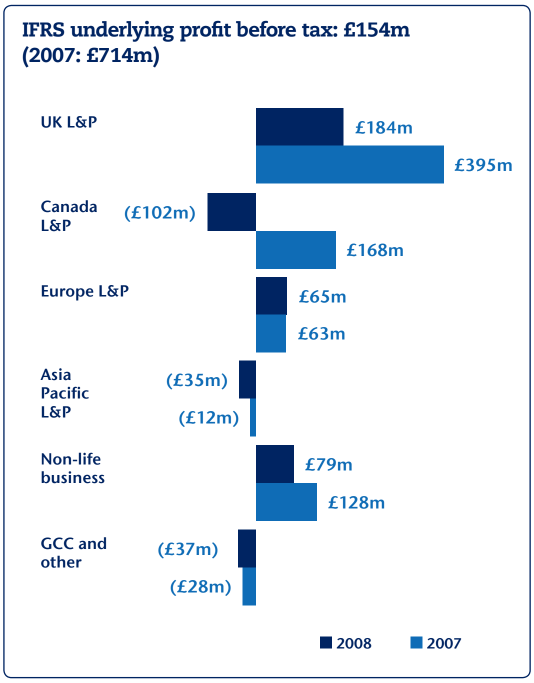
Prior to 23 September 2008, all fair value risk associated with the assets taken directly onto the balance sheet in connection with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc was borne by our investment management business. On 23 September 2008, a contract was signed between Standard Life Investments and UK life and pensions which transferred future market risk on part of this sub-fund to UK life and pensions in exchange for a risk premium. Losses of £51m prior to the contract being signed have been recognised in our investment management business and since then losses of £73m have been recognised in our UK life and pensions business.

Excluding the one-off transactions noted above, the normalised underlying profit decreased by 57% to £206m (2007: £476m) with profitability being significantly impacted by the weakness and volatility of investment markets during 2008. The impact of this volatility has been significant within our Canadian operations due to the way that Canadian life companies typically structure non-segregated funds, with assets backing both policyholder liabilities and the shareholder surplus. Marked-to-market value adjustments in respect of surplus assets coupled with reserve increases in respect of tax and guarantees have reduced Canadian normalised underlying profit by £187m compared with the prior year. In the UK, bond impairments and defaults resulted in investment related losses of £32m. Management charges decreased by £38m due to a fall in asset values and profitability was further impacted by increased new business development costs of £23m. Operational efficiencies and strict control of expenditure in the Group Corporate Centre (GCC) had a positive impact on profitability of £7m.

Segmental analysis of IFRS underlying profit

Total life and pensions

Total life and pensions underlying profit before tax decreased by 82% to £112m (2007: £614m). UK life and pensions underlying profit before tax fell by 53% to £184m (2007: £395m). Excluding one-offs in both periods, profit increased by £34m to £156m (2007: £122m). Canada recorded an underlying loss of £102m driven by investment losses and reserve increases resulting from rising bond yields and equity market volatility. Europe underlying profit increased by 3% to £65m (2007: £63m). The life and pensions result also included a £35m underlying loss for the Asia Pacific business as we continue to invest in its development.



Non-life business

Profits from our non-life businesses fell by 38% to £79m (2007: £128m). The decrease was primarily due to the £51m fair value adjustment related to the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, which impacted the results of the investment management business. Excluding this impact and despite the market turbulence, the normalised IFRS underlying result for the investment management business increased by 12% to £93m (2007: £83m) due to solid revenue growth and tight cost control.

Like many of our competitors, the profitability of our banking business was affected by the significant level of dislocation in financial markets. Underlying profit within our banking business reduced by 19% to £26m (2007: £32m). The underlying result excludes unrealised fair value losses on derivatives of £94m (2007: loss £39m) in respect of non-qualifying economic hedges.

Underlying profitability in our healthcare business decreased to £11m (2007: £13m) with an increase in earned premiums being offset by lower investment income.

Group Corporate Centre costs and other

GCC costs reduced by £7m to £50m (2007: £57m) reflecting continued operational efficiency and 'other' decreased by £16m to £13m (2007: £29m), primarily due to lower return on investments in money market funds held by Standard Life plc.

Please see Section 1.5 – Business segment performance for further detail on the IFRS underlying result for our businesses.

1.5 Business segment performance

1.5.1 UK financial services

UK financial services (UKFS) investment and capital management policies have resulted in a balance sheet that is both strong and resilient despite the market turbulence experienced during the year. The combining of UK life and pensions, savings and mortgages, and healthcare businesses in 2007 has allowed the bringing together of capabilities across these lines of business to maximise efficiencies within the core UK market. Due to the innovative product set, reputation for customer service, and strong distribution relationships the UK business is well placed to benefit from the recovery in financial markets and the wider economy.

Life and pensions

UK life and pensions is one of the largest pension, long-term savings and investment providers in the UK with £96bn of assets under administration. The UK business offers a broad range of insurance and investment wrappers, with particular strength in the accumulation market. In 2008, further developments were made to the existing Wrap platform and self invested personal pension (SIPP) product range, including increasing on-line functionality for customers. Further developments will continue to be made to the award-winning products and innovative propositions to ensure that they remain relevant to customers' lives and their changing financial needs.

Key performance indicators

	2008	2007	Movement
Net flows[1]	**£1,480m**	£2,182m	(32%)
New business PVNBP[1,2]	**£11,928m**	£13,440m	(11%)
New business APE[1]	**£1,588m**	£1,675m	(5%)
New business contribution	**£212m**	£282m	(25%)
Internal rate of return	**18%**	20%	(2% points)
Discounted payback period	**8 years**	7 years	(1 year)
EEV covered business operating profit before tax[3]	**£668m**	£648m	3%
EEV non-covered business operating loss before tax[4]	**(£32m)**	(£24m)	(33%)
IFRS underlying profit before tax	**£184m**	£395m	(53%)

1 The 2008 figures include Sigma mutual funds. The 2007 figures have been restated to reflect the inclusion of Sigma mutual funds. The 2008 impact is: PVNBP of £88m, APE of £9m and net outflows of £217m. The 2007 impact is: PVNBP of £116m, APE of £12m and net outflows of £252m.

2 The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

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

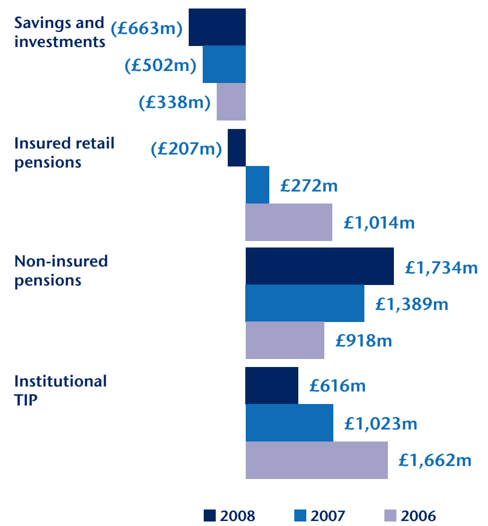
4 Includes UK defined benefit pension scheme charge and Wrap platform result.

Please refer to Section 1.9 – Basis of preparation.

Net flows

Net flows for the year were 32% lower at £1,480m (2007: £2,182m). Insured and non-insured pension flows were 8% lower. Institutional trustee investment plan (TIP) net inflows fell by £407m to £616m in 2008 (2007: £1,023m). Savings and investments net outflows of £663m were £161m higher than last year (2007: £502m), mainly due to lower investment bond inflows following the capital gains tax (CGT) changes introduced earlier in the year, and the impact of market uncertainty. This was partially offset by strong offshore bond inflows which increased by £345m to £632m compared to 2007.

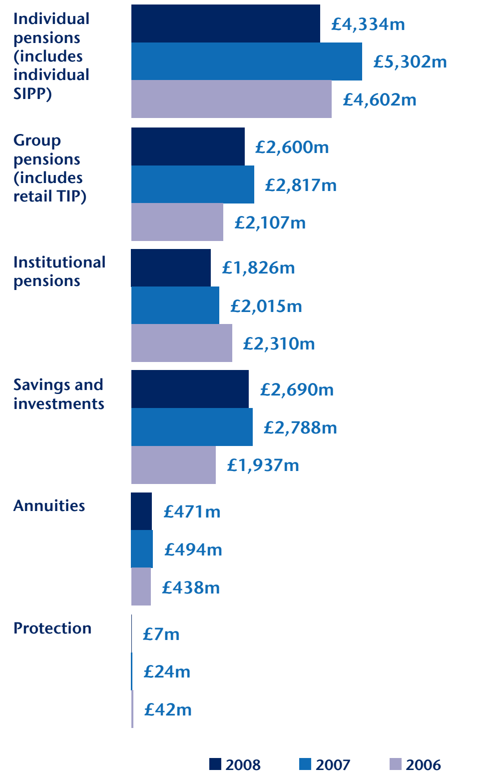
UK net flows £1,480m (2007: £2,182m, 2006: £3,256m)



New business sales

Total PVNBP sales were £11,928m (2007: £13,440m) a fall of 11%. Individual pensions, which includes SIPPs and increments to existing policies, decreased by 18% to £4,334m (2007: £5,302m). Within this, individual SIPP sales were £3,719m (2007: £4,536m), a fall of 18% driven by a strong comparative in 2007 and the impact of negative market movements on incoming transfer values, however, during the year we increased SIPP customer numbers by over 19,000 (2007: 21,000). Group pensions sales including retail TIP, fell by 8% to £2,600m (2007: £2,817m) reflecting lower asset values and increment levels, however, the number of scheme members increased by 20,000 during the year. Savings and investments sales decreased by 4% to £2,690m (2007: £2,788m). Within this, offshore bond sales increased by £377m to £661m (2007: £284m), due to the success of our International portfolio bond. This was offset by lower onshore bond sales, which fell by 29% to £1,298m (2007: £1,824m) due to CGT changes introduced earlier in the year, and ongoing market uncertainty. Mutual funds sales increased by 8% to £731m (2007: £680m). Protection was closed to new business at the end of 2007, with 2008 sales representing pipeline business in place at the end of 2007.

UK new business sales £11,928m (2007: £13,440m, 2006: £11,436m)



New business profitability

	NBC £m		PVNBP margin %		IRR %		Discounted payback (years)	
	2008	2007	**2008**	2007[1]	**2008**	2007	**2008**	2007
Individual pensions	**56**	123	**1.3**	2.3	**16**	29	**8**	5
Group pensions	**55**	60	**2.1**	2.1	**13**	14	**12**	12
Institutional pensions	**20**	17	**1.1**	0.8	**>40**	>40	**<3**	<3
Savings and investments	**6**	34	**0.2**	1.3	**8**	11	**24**	12
Annuities	**74**	54	**15.8**	11.0	**Infinite**	Infinite	**Immediate**	Immediate
Protection	**1**	(6)	**8.2**	(23.7)	*****	*	*****	*
UK Total	**212**	282	**1.8**	2.1	**18**	20	**8**	7

* Discontinued

[1] 2007 PVNBP margin has not been restated to include Sigma mutual funds.

Throughout 2008, we continued to focus on profitable areas of the market where our brand and customer service give us sustainable competitive advantage. New business contribution (NBC) decreased to £212m (2007: £282m), with a new business margin of 1.8% (2007: 2.1%), which was mainly driven by lower sales during the year. Overall the internal rate of return (IRR) reduced to 18% (2007: 20%) and the discounted payback period was marginally extended to eight years (2007: seven years). New business profitability by product is analysed as follows:

Individual pensions (SIPPs and increments on existing policies): NBC fell to £56m (2007: £123m), while the PVNBP margin decreased from 2.3% to 1.3%. This was due to lower SIPP sales during the year particularly as a result of lower transfer values. The overall IRR on individual pensions reduced to 16% (2007: 29%), and the discounted payback period extended to eight years (2007: five years).

1.5 Business segment performance *continued*

1.5.1 UK financial services *continued*

Group pensions: NBC fell to £55m (2007: £60m) while PVNBP margin remained stable at 2.1% (2007: 2.1%) with payback remaining in line with 2007 at 12 years and IRR falling marginally to 13% (2007: 14%).

Institutional pensions: NBC increased to £20m (2007: £17m) and the margin increased to 1.1% (2007: 0.8%). This was due to improved modelling of the margin, including looking through to the margins earned by our investment management business. As the capital requirements of this business are small, the IRR is very high at over 40% (2007: >40%) and the payback period is less than three years (2007: <three years).

Savings and investments: NBC was £6m (2007: £34m), with a reduced margin of 0.2% compared to 1.3% in 2007. Overall IRR on savings and investments was 8% in 2008 (2007: 11%), with a payback period of 24 years (2007: 12 years). The fall in margin, payback period and IRR was mainly due to lower onshore bond sales and lower margin bulk deals as previously reported. This was partially offset by an increase in offshore bond margin which benefited from an increase in the scale of our offshore bond operations. We have taken action to improve PVNBP margin on our onshore bond and will launch a new capital-lite onshore bond in 2009.

Annuities: NBC was £74m in 2008, significantly up on the 2007 figure of £54m, due to an improved margin of 15.8% in 2008 compared to 11.0% in 2007. The rise in bond yields has been the main contributor to the increase in PVNBP margin. We have not recognised any additional margin in respect of the further widening of bond spreads in the second half of 2008. On our EEV NBC assumptions our annuity business is cash generative.

Protection: Protection was closed to new business at the end of 2007. The NBC in 2008 reflects the contribution from existing pipeline business at the end of 2007.

Business development

One of our driving strengths in becoming a leading asset managing business has been our ability to react to changing UK market dynamics through our customer propositions. In the current market conditions consumers are seeking solutions that will provide financial security both before and after retirement.

During the year we have developed our e-commerce capabilities with SIPP online, which enables Independent Financial Advisers (IFAs) to submit SIPP applications online. We have also continued to invest in the development of our Wrap and Fundzone operations to ensure that we are able to continue capitalising on opportunities for growth and efficiency. At the same time, our current platforms have allowed our customers to make the most of market developments by making it easier for them to transfer monies from protected rights. We continue to work on developing a variable annuity proposition but are waiting for market conditions to improve before launching.

Our strength in the corporate pensions market is demonstrated by several recent large scheme wins. We recently announced that we were successful in securing the British Telecom plc scheme. This involves the transition of 20,000 employees currently in a trust based defined contribution scheme to a tailored Corporate self invested personal pension plan (CSIPP). We believe this scheme sets a new benchmark for group contract based schemes, and demonstrates the strength of our offering within the corporate pension marketplace.

Our offering will also be further enhanced through our acquisition of Vebnet, which has a well established position within the UK flexible employee benefits and online reward market. This acquisition is part of our strategic vision to strengthen our position within the rapidly evolving employee flexible benefits market. Vebnet brings an added layer of choice and flexibility to Standard Life's existing and future propositions, while enabling us to further develop our platform internationally.

Performance

Capital efficiency

As reported in our 2008 *Interim Results*, we reinsured £6.7bn of immediate annuity liabilities, more than half of the total annuity book of £12bn. The transaction substantially reduces longevity risk, while providing a significant increase to embedded value. It also generated a release of cash, creating a release of capital, which allows us to keep investing in profitable growth. We anticipate further improvement in our capital position in the medium term as we continue to move towards less capital-intensive products such as non-guaranteed unit linked business.

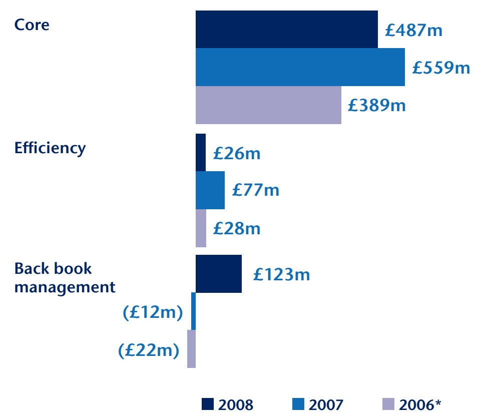
Wrap and Fundzone

As at 31 December 2008, we had 16,900 Wrap customers compared to 8,100 at 31 December 2007 and the number of IFA firms using the platform had grown to 409 compared to 209 at 31 December 2007. With total funds on the platform increasing to £1.8bn compared to £1.1bn as at 31 December 2007, we expect momentum in Wrap and Fundzone to continue building through 2009 and beyond.

EEV operating profit before tax

UK EEV operating profit including HWPF TVOG and non-covered business increased by 2% during the year to £636m (2007: £624m). Core profit of £487m was the main contributor to operating profit in the year and comprised NBC, expected return on in-force business, non-covered business losses and new business development costs. The main driver of the £72m reduction in Core compared to 2007 was a fall in NBC of £70m. Efficiency contributed £26m (2007: £77m) to operating profit which was generated from ongoing cost control and efficiencies. Back book management of £123m (2007: negative £12m) was boosted by a £107m one-off positive impact as a result of the reduction in risk discount rate following the reinsurance of £6.7bn of UK immediate annuities. The £107m benefit is stated after sharing the benefits of the transaction with the with profits policyholders. An allowance has also been made for the loss of look-through margins in Standard Life Investments in respect of covered business. In addition, an EEV operating profit benefit of £96m (2007: £191m) arising from a review of our deferred annuity data in 2008, was offset by a charge of £108m on an EEV basis in relation to the recently announced cash injection into the Pension Sterling Fund.

UK EEV operating profit before tax £636m (2007: £624m, 2006: £395m)



* 2006 results are shown on a pro forma basis.

Overall the result of persistency experience variance and assumption changes was negative £17m. The negative impact is primarily due to a strengthening of paid up assumptions across the pensions book, including the anticipated impact of lower levels of customer contributions into their pension during the current volatile market conditions. Lapse experience on onshore bonds was in line with long-term assumptions and was favourable compared to our short-term provision for unit linked onshore bonds established at the end of 2007.

In 2008, development costs were £33m compared to £11m in 2007. The increase in development costs is due to investments in pensions, bonds and Wrap, including technology enhancements to SIPP online, the development of our variable annuity proposition and implementing legislation changes.

IFRS underlying profit before tax

UK life and pensions IFRS underlying profit before tax was £184m (2007: £395m). As outlined in Section 1.4 – IFRS – Group, included in the result is a £73m adverse impact following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. In addition, the result also includes a £102m charge for the recently announced cash injection into the Pension Sterling Fund. The result in 2008 also includes two positive one-off items, being a £98m (2007: £143m) release of reserves in relation to deferred annuity business and a £105m reserve release following the £6.7bn reinsurance of UK immediate annuities. The 2007 result also benefited from a reserve release of £136m due to the one-off impact of adopting the FSA's Policy Statement PS06/14, and was reduced by other reserve changes of £6m. Excluding one-off operating items, the normalised underlying IFRS profit was £156m (2007: £122m), an increase of £34m.

The results exclude the impact of volatility, which arises due to the accounting mismatch of subordinated liabilities being measured at amortised cost, while the associated assets are measured at fair value, and restructuring costs relating to the Continuous Improvement Programme.

1.5 Business segment performance *continued*

1.5.1 UK financial services *continued*

Savings and mortgages

The savings and mortgages business offers retail savings and mortgage products in the UK, via intermediaries and also direct to customers, all through telephone and internet-based platforms. The focus during 2008 has been on managing liquidity and the size of the mortgage book appropriately in response to ongoing volatile market conditions.

Key performance indicators

	2008	2007	Movement
Mortgages under management	**£9.7bn**	£11.3bn	(14%)
Gross lending	**£1.1bn**	£3.7bn	(70%)
Savings and deposits	**£5.0bn**	£4.6bn	9%
IFRS underlying profit before tax	**£26m**	£32m	(19%)
Return on equity after tax	**6.1%**	6.6%	(0.5% points)
Interest margin	**54bps**	60bps	(6bps)
Cost income ratio[1]	**58%**	60%	2% points

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

Please refer to Section 1.9 – Basis of preparation.

New business

Savings balances increased by 9% to £5.0bn (2007: £4.6bn) with SIPP and Wrap balances growing to £1.5bn (2007: £0.6bn). Our savings business benefited from the uncertain stock markets, as customers choosing to hold cash over other assets took advantage of our competitive products.

Competition in the UK mortgage market declined during 2008 due to the continuing effects of the global credit crisis, which has driven up costs of funding, resulting in reduced availability of mortgage products as lenders look to control their level of mortgage exposure. The market also came under pressure from falling house prices and rising unemployment as the economy began to slow down. As a result, gross lending reduced to £1.1bn (2007: £3.7bn) as we focused on strategic measures to reduce liquidity risk and manage profitability in response to market conditions. This strategy was in line with many mortgage lenders, with gross lending across the entire industry reducing by 30% to £256bn in 2008 (2007: £364bn), according to the Council of Mortgage Lenders (CML).

Funding

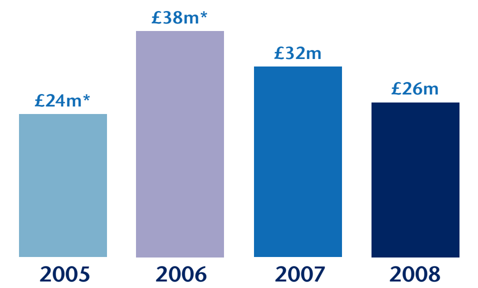
We remain well capitalised with a high quality mortgage book and have access to a range of funding sources. We have actively reduced our funding requirements during 2008 and did not draw down on any committed facilities. All regulatory liquidity and capital ratios remained within target ranges during the year. £1.8bn of maturities within the Lothian securitisation programme were successfully refinanced during 2008 with no further securitisation maturities until 2011.

We continue to look to diversify our funding base, launching a 5bn Euro covered bond programme on 9 July 2008. To date £2.1bn of covered bonds have been issued, all bonds being retained on the balance sheet for use as collateral in funding operations. Subsequent to the year end we received approval as an eligible institution under the UK Government 2008 Credit Guarantee Scheme which provides for HM Treasury to guarantee specific debt instruments issued by banks and building societies. In February 2009, we launched our Euro Medium Term Note programme and issued £500m of AAA rated debt covered by the Credit Guarantee Scheme.

Performance

Our savings and mortgage business produced a resilient performance in a year of adverse market conditions, with the priority being to manage profitability whilst ensuring liquidity requirements were met. IFRS underlying profit before tax (excluding volatility in respect of non-qualifying economic hedges) decreased by 19% to £26m (2007: £32m). Return on equity in 2008 was 6.1% (2007: 6.6%), with our ability to achieve our 15% target continuing to be impacted by the effects of the credit crisis.

IFRS underlying profit before tax



* 2005 and 2006 results are shown on a pro forma basis.

In line with many of our competitors, adverse funding conditions have reduced interest margins, which fell to 54 basis points in 2008 (2007: 60 basis points), although careful balance sheet management helped mitigate this impact. Cost income ratio improved in 2008 to 58% (2007: 60%) due to efficiency gains which led to reductions in operational expenses.

Despite deteriorating economic conditions, characterised by reduced consumer confidence, rising unemployment and falling house prices, we continue to maintain a high quality mortgage portfolio, with arrears figures low in comparison to the CML average. Only 0.40% of total mortgages were three or more months in arrears or in repossession at the end of 2008, less than a fifth of the CML industry average of 2.09%. Although impairment charges increased to £4.5m in 2008 (2007: £0.1m credit), net write-offs for 2008 were only £0.7m (2007: £0.2m), further testament to the high quality of our mortgage portfolio.

Healthcare

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

Key performance indicators

	2008	2007	Movement
New business	**£25m**	£22m	14%
In-force premium income	**£295m**	£284m	4%
IFRS underlying profit before tax	**£11m**	£13m	(15%)
Underwriting profit	**£12m**	£2m	500%
Return on equity after tax	**8.6%**	7.7%	0.9% points
Claims ratio	**68.8%**	70.8%	2.0% points

Please refer to Section 1.9 – Basis of preparation.

New business

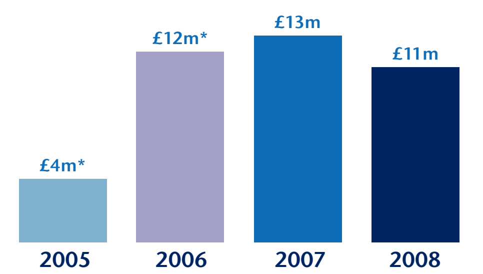
Our overall new business sales increased by 14% to £25m (2007: £22m), while in-force premium income increased to £295m (2007: £284m) despite the impact of adverse economic conditions. This was achieved whilst adhering to our strategy of writing only profitable business. Building on our developments in 2007 we launched a new modular product for Small and Medium Enterprises (SMEs). This allowed sales to our SME and corporate customers to grow by 28% compared to 2007, offsetting lower individual new business sales.

Performance

IFRS underlying profit before tax was £11m (2007: £13m), before taking into account one-off costs relating to integration of the PMI business acquired from FirstAssist in 2006, and project costs associated with the development of a new computer system. The £2m fall in IFRS underlying profit for the year was due to poor investment returns, where abnormal market conditions in the second half of the year led to reductions in the market value of investments in money market funds.

The significant increase in underwriting profit compared to 2007 was due to improvements in the claims ratio and an increase in earned premium. Return on equity for 2008 was 8.6% (2007: 7.7%).

IFRS underlying profit before tax



* 2005 and 2006 results are shown on a pro forma basis.

UK financial services operational efficiencies

We have worked hard through our Continuous Improvement Programme to grow our business and control costs across UKFS. This has made us more efficient, generated additional productivity savings in 2008 and allowed us to reduce headcount during the year. We will continue to focus on realising productivity gains across UKFS in 2009.

UK financial services looking ahead

In the year ahead our customers are likely to be affected by tough economic conditions, while financial market volatility will continue to impact transfer values for customers consolidating their existing assets into our individual SIPP and group pension schemes. We expect the UK savings and mortgages market to continue to be impacted by reduced mortgage funding liquidity, and the healthcare market to continue to be impacted by tough economic conditions.

However, our market leading proposition within the group pensions marketplace, and our award-winning individual SIPP, combined with our Wrap platform, will allow us to take advantage when markets and the wider economy recovers. We will continue to focus on writing profitable business across UKFS and on providing first class customer service while maximising the opportunities from having a combined operating model. This will allow us to generate profitable returns in the markets in which we operate.

1.5 Business segment performance *continued*

1.5.2 Canada

Standard Life Canada demonstrated a continued resilience in the face of challenging market conditions, keeping the emphasis on growth across its range of savings, retirement and insurance products. A commitment to operational and capital efficiency remained a key feature in achieving these results within the context of the distressed capital markets in the second half of 2008. Standard Life Canada currently has £18bn of assets under administration. In 2008, Canada held a series of events to commemorate the 175th anniversary of the business and to further strengthen the brand.

Key performance indicators

	2008	2007	Movement
Net flows	**£340m**	£39m	772%
New business PVNBP[1]	**£2,240m**	£1,654m	35%
New business APE	**£195m**	£157m	24%
New business contribution	**£34m**	£37m	(8%)
Internal rate of return	**17%**	23%	(6% points)
Discounted payback period	**8 years**	5 years	(3 years)
EEV operating profit before tax	**£215m**	£178m	21%
IFRS underlying (loss)/profit before tax	**(£102m)**	£168m	(161%)

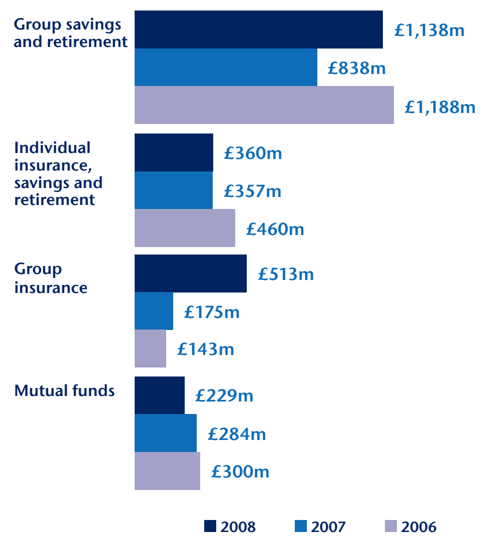
1 The new business PVNBP sales are different from those previously published in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

Please refer to Section 1.9 – Basis of preparation.

Net flows and new business sales

Net flows have increased eightfold in constant currency to £340m (2007: £39m). This was underpinned by strong sales growth following the successful repositioning of the business, and higher inflows across group savings and retirement products, which exceeded scheduled annuity payments.

Canada PVNBP sales £2,240m (2007: £1,654m, 2006: £2,091m)

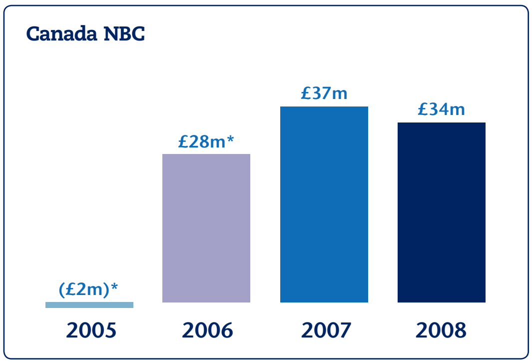


PVNBP sales increased by 23% in constant currency to £2,240m (2007: £1,654m). Group savings and retirement sales increased by 24% in constant currency to £1,138m, despite aggressive competition within the market. We strengthened our leadership in our core target market segment of mid-to-large defined contribution business with various enhancements to our offering, highlighting our investment programme, servicing capabilities and operating platform. Sales of mid-to-large defined contribution business represented more than half of total group savings and retirement sales, and were up 62% in constant currency to £612m. Members in our defined contributions plans increased by 6% to more than 587,000. This includes our successful retention of policyholders who have transferred out of a group scheme into our roll-over programme, Standard Life Advantage, with an increase of 16% to 71,000 members. The increase in PVNBP sales was also driven by a large defined benefit administration mandate secured in the second quarter. The constant currency reduction in individual insurance, savings and retirement sales reflects the difficult market conditions for retail investment funds. Sales of mutual funds were severely impacted by the volatile equity markets, and decreased 27% in constant currency. In group insurance, sales volumes increased by 168% in constant currency, largely due to modelling changes regarding renewal assumptions. Excluding these changes, sales increased by 29% in constant currency, reflecting the continued success of our differentiated value proposition in the disability insurance segment. Sales in this core segment of long-term disability insurance increased by 164%[2] in constant currency, including £26m in sales of Consultaction, our innovative capital-free disability and absence management consulting product.

2 APE basis.

New business profitability

New business contribution (NBC) decreased to £34m (2007: £37m) and PVNBP margins were 1.5%, down from 2.3% in 2007. This is consistent with our strategy to price products more competitively where we are still able to attain an attractive internal rate of return (IRR). The large defined benefit mandate mentioned previously was secured at a low margin with an IRR of 23%. Overall IRR reduced to 17% (2007: 23%) and the payback period extended to eight years (2007: five years), due largely to higher acquisition expenses incurred as a result of our efforts to improve market visibility and re-start growth.



* 2005 and 2006 results are shown on a pro forma basis.

Business development

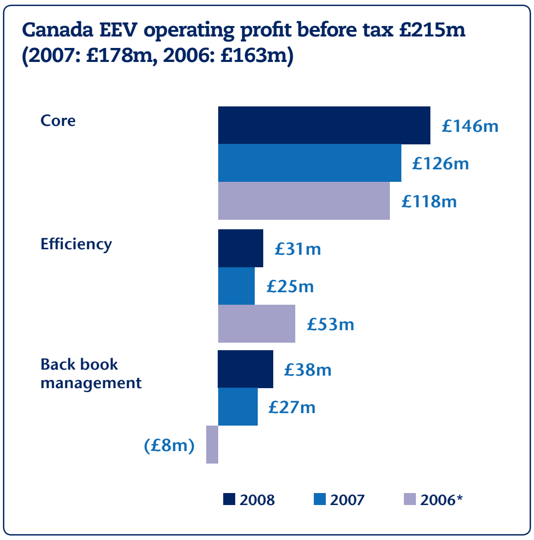
We have set out to increase our distribution and sales capabilities, most notably in our retail line, and strengthen our corporate visibility in Canada, while maintaining our commitment to product innovation and profitability. We have made investments in staff and training and increased our sales force since the end of 2007. Most of the impact of this enhanced capability in our retail line was counteracted by the adverse market conditions. Our visibility campaign was successful, with enhanced presence in media across Canada. Our global design studio again delivered top quality and innovative material, highlighted by three Insurance and Financial Communicators Association awards for the quality of our media and print campaigns.

We continued to enhance our group savings and retirement offering with new product features, better customer service and improved transactional capabilities, including electronic solutions. We refined our client strategy and approach and were able to maintain a good retention rate of assets and clients, despite the volatile market conditions. Our new leading-edge website, which helps members manage their retirement assets and gives sponsors one-stop access to information and self-service, was another strong enabler of growth and client retention. We have entered into an alliance with a distributor to offer creditor insurance, reinforcing our traditional group insurance products. We actively pursue cross-selling initiatives within our group lines and delivered further sales during the year. We expanded our retail offering with new funds, and further leveraged our global fund management expertise by introducing new international funds in the Canadian marketplace. We also leveraged our recognised institutional fund management expertise by positioning it within our retail market proposition, introducing marketing tools that enhance the interaction between our fund management experts and our sales force and distributors. This increased collaboration will enable us to bolster the positioning of our funds in a crowded marketplace. Investment management performance was solid in 2008, with close to 70% of our retail funds ranking in the top two quartiles for one year returns[1].

Performance

EEV operating profit before tax

EEV operating profit before tax amounted to £215m (2007: £178m). In constant currency, EEV operating profit before tax increased by 10%, with increases in all operating profit elements. The core element accounted for £146m compared to £126m in 2007, an increase of 6% in constant currency. This was driven by an improvement in total expected return of £22m to £113m (2007: £91m). This increase was offset by a £3m decrease in NBC to £34m (2007: £37m). The efficiency result amounted to a gain of £31m (2007: £25m). The back book management operating result was a gain of £38m (2007: £27m). Positive changes from tax management of £38m and modelling and assumption changes in group insurance of £27m were offset by a £25m charge to operating assumptions to prudently safeguard against overall deteriorating economic conditions.



* 2006 results are shown on a pro forma basis.

[1] Comparatives based on Morningstar Canada database.

1.5 Business segment performance *continued*

1.5.2 Canada *continued*

IFRS underlying profit before tax

IFRS underlying profit before tax decreased by 161% to a loss of £102m (2007: profit £168m), largely driven by investment losses resulting from unfavourable bond returns in line with rising bond yields and equity market volatility. Whereas most losses from assets supporting policyholder liabilities are offset by corresponding changes to those liabilities, volatility on assets supporting shareholder capital directly impacts earnings, and such losses totalled £43m (2007: gains of £44m). We have and will continue to take action to reduce volatility from our balance sheet. Equity and interest related charges due to policy guarantees and a strengthening of policyholder liabilities because of lower asset values, amounting to £42m and £58m respectively, were also recognised as a result of the challenging financial conditions. IFRS underlying profit before tax was further impacted by a one-off increase in policyholder liabilities of £29m in relation to a reinsurance treaty. Other movements included a fall in fee income related to lower asset values, increased investment in relation to re-starting growth and other reserving increases in 2008. The business had no material exposure to troubled US financial institutions and faced no asset-backed commercial paper or sub-prime issues.

Looking ahead

Investment was made in 2008 to enhance our corporate visibility and position ourselves as a leader in the retirement market. While we expect all our product lines to be impacted by the weakening economy, our numerous product improvements in group savings and retirement and continued strong push into the disability segment in group insurance provides a stronger position for growth. We maintain an active pipeline and the business recently secured a large defined contribution mandate expected to transition in the second quarter of 2009. In group insurance, our disability risk management differentiated value proposition is recognised by the industry and will position us favourably to win market share with plan sponsors as they seek to contain employee costs in the current economic context. Retail markets are expected to remain challenging for the foreseeable future.

1.5.3 Europe

The operations in Europe consist of Standard Life Ireland and Standard Life Germany, which operates in both Germany and Austria. The European businesses offer a range of investment and pension solutions and currently have £7bn of assets under administration. 2008 has been a difficult trading year for new business but back book efficiencies have significantly improved EEV operating profit. Looking forward, the European businesses intend to strengthen operations by repositioning distribution in existing markets and then expanding into new markets, exploiting the opportunities presented by changing regulations and the growing demand for wealth management solutions across Europe.

Key performance indicators

	2008	2007	Movement
Net flows	**£620m**	£548m	13%
New business PVNBP	**£1,016m**	£1,179m	(14%)
New business APE	**£106m**	£125m	(15%)
New business contribution	**£18m**	£26m	(31%)
Internal rate of return	**11%**	11%	-
Discounted payback period	**13 years**	13 years	-
EEV operating profit before tax	**£69m**	£26m	165%
IFRS underlying profit before tax	**£65m**	£63m	3%

Please refer to Section 1.9 – Basis of preparation.

Net flows and new business sales

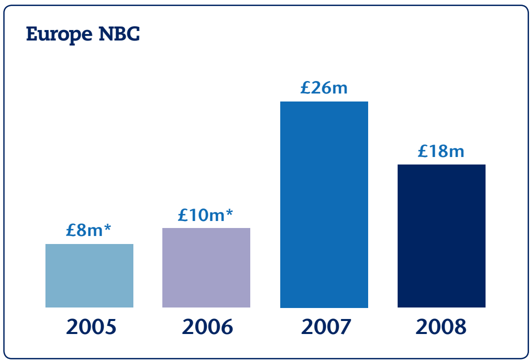
Total net flows for 2008 in Europe have fallen slightly in constant currency with the strength of German gross inflows offsetting the weakness in the Irish market during the first three quarters of the year. Total new business sales in Europe decreased by 26% in constant currency to £1,016m (2007: £1,179m).

In Germany, PVNBP sales of £602m (2007: £722m) were 28% lower than 2007 in constant currency. The German market was adversely impacted by customer uncertainty in the face of market volatility and exacerbated by changes in insurance contract regulations at the beginning of 2008 and the mid-year introduction of transparency rules. This has resulted in poor market sentiment and a lower than normal peak in sales volumes at year end.

PVNBP sales in Ireland fell 22% in constant currency to £414m (2007: £457m). The Irish market had an extremely difficult year with total market sales down 30% including trustee investment plan (TIP) business and single premium sales down 48%. Based on a number of new product launches, we reversed the trend in the market in the last quarter by achieving an increase of 38% (excluding TIP business) relative to Q4 2007. We also strengthened our position in the single premium pensions market.

New business profitability

New business contribution in Europe fell in 2008. However, overall internal rate of return (IRR) and discounted payback period remained in line with 2007. In Germany, the IRR remained stable with stronger underlying profitability compensating for reduced sales volumes. The IRR in Ireland has increased reflecting improved capital efficiency.



* 2005 and 2006 results are shown on a pro forma basis.

1.5 Business segment performance *continued*

1.5.3 Europe *continued*

Business development

Across Europe we are focused on strengthening our existing operations and improving efficiency while also responding to the difficult market conditions with innovative solutions for customers and distributors.

In Germany, we have a pipeline of planned product enhancements that will increase the capital efficiency of the business while also strengthening our position in the corporate and wealth management markets.

In Ireland, the continued development of our self investment Synergy product range, particularly our extensive deposit options, has now positioned our platform as the most comprehensive in this space.

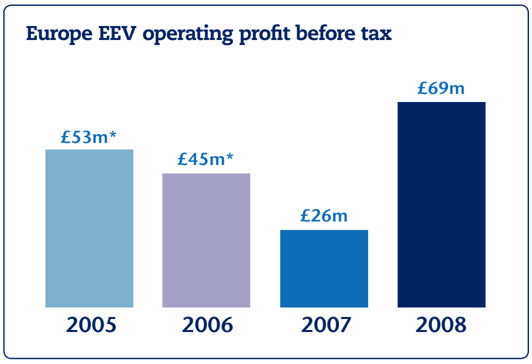
Performance

EEV operating profit before tax

EEV operating profit before tax increased by 127% in constant currency to £69m (2007: £26m), despite the impact of lower new business levels. This was mainly due to active back book management in both Germany and Ireland, with notable efficiency and persistency improvements.

IFRS underlying profit before tax

IFRS underlying profit before tax decreased by 11% in constant currency to £65m (2007: £63m) with Germany contributing £62m (2007: £56m) and Ireland contributing £3m (2007: £7m). The small constant currency reduction in Germany was primarily due to the pre-determined decreasing transfer of profit to shareholders from the Heritage With Profits Fund being largely offset by increased profits emerging from the post-demutualisation business. In Ireland, the IFRS result benefited from lower strain as a result of lower new business sales but was also impacted by reduced revenue due to investment market performance.



* 2005 and 2006 results are shown on a pro forma basis.

Looking ahead

Market and economic conditions in Europe continue to be challenging and we expect this will put pressure on sales during 2009. Until confidence is restored in investment markets we expect sales to be lower in both Germany and Ireland. Despite this, we believe assets under administration will continue to grow due to strong inflows from our in-force book in Germany.

In the short term, we are transforming our European operations into an asset managing business. This means launching new products, re-engineering our current product range to improve capital efficiency, aggressively managing our cost base and continuing to offer innovative solutions to the individual wealth management and corporate markets. We expect growth to be delayed while the business is transformed and new propositions are established.

In the medium and longer term, prospects for Europe are good. We are well positioned to build on our strength in distribution, market leading platform propositions and range of investment solutions to grow in both existing and new markets.

1.5.4 Asia Pacific

Standard Life has a growing position in the Asia Pacific life and pensions market with joint venture companies in India and China and a wholly owned subsidiary in Hong Kong all showing good levels of sales growth.

Key performance indicators

	2008	2007	Movement
New business PVNBP[1]	**£495m**	£266m	24%
New business APE[1]	**£118m**	£49m	57%
IFRS underlying loss before tax	**(£35m)**	(£12m)	(192%)

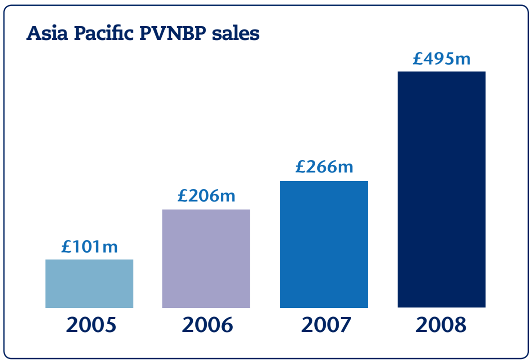
[1] The percentage change figures include percentage change figures for India which are computed based on the movement in the new business of HDFC Standard Life Insurance Company Limited as a whole to avoid distortion due to changes in the Group's shareholding in the joint venture during 2007.

Please refer to Section 1.9 – Basis of preparation.

New business

Despite difficult trading conditions towards the end of the year, Asia continued to achieve good growth, with total PVNBP sales up 17%[1] in constant currency terms to £495m (2007: £266m). APE sales were up 49%[1] in constant currency to £118m (2007: £49m).

In India, HDFC Standard Life Insurance Company Limited (HDFC SL) delivered good results with PVNBP of £345m (2007: £187m), growth of 4%[1] in constant currency terms. APE sales were up 40%[1] in constant currency to £93m (2007: £38m). The number of financial consultants appointed by the joint venture has increased by approximately 70,000 during the year to 202,000 (31 December 2007: 132,000) and the number of branches increased by 70 to 606 (31 December 2007: 536).



In China, Heng An Standard Life Insurance Company Limited (HASL) performed well with PVNBP up by 69% in constant currency terms compared to 2007. This reflects strong growth in group products, bank distribution and continued business expansion in major cities within existing provinces. HASL is now in 25 cities, across 7 provinces, after establishing a presence in a further 11 cities during the year.

Performance

Asia Pacific IFRS underlying loss at £35m (2007: £12m) was higher than the prior year as we continued to invest in developing and expanding operations in this region. We expect our investment in strategic growth to have a continued impact on the IFRS underlying result.

Looking ahead

We expect that the global economic recession will have an impact on markets in general and hence affect our Asian businesses. As the economies in India and China are still growing and insurance penetration is low, we believe there is still attractive growth potential for us.

In India, we will continue to drive growth through the individual sales channel and also aim to penetrate other channels. However, we expect alternative channel volumes to decrease as banks set up their own insurance companies. We will also continue to drive efficiencies as products and processes become more established.

In China, HASL plans to increase the strength and scale of its business by continuing to expand into new cities. We expect to diversify distribution channels further and to continue to penetrate the group pensions market.

Growth in our Hong Kong business will be driven by strong relationships with key brokers and strong product and marketing support.

1.5 Business segment performance *continued*

1.5.5 Investment management

The focus at Standard Life Investments is to deliver superior investment performance, supported by an exceptional client experience. Standard Life Investments operates as a global team, with its investment process underpinned by its 'focus on change' philosophy which has proved itself to be robust and repeatable in both good and bad market conditions. Over the past 10 years since its inception, Standard Life Investments has delivered a strong track record of profitable organic growth, a trend which continued in 2008 despite the very difficult market conditions.

Key performance indicators

	2008	2007	Movement
Third party assets under management (AUM)	**£45.5bn**	£47.7bn	(5%)
Total assets under management	**£123.8bn**	£143.4bn	(14%)
Third party gross new business	**£8,897m**	£11,327m	(21%)
Third party net new business	**£3,395m**	£7,944m	(57%)
Earnings before interest and tax (EBIT)	**£82m**	£75m	9%
IFRS normalised underlying profit before tax[1]	**£93m**	£83m	12%
IFRS profit before tax	**-**	£100m	(100%)
EBIT margin	**30%**	30%	-

[1] IFRS normalised underlying profit before tax excludes all costs associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, including £51m within the Group's IFRS underlying profit statement in the Group IFRS financial statements section of this report.

Please refer to Section 1.9 – Basis of preparation.

Standard Life Investments delivered a strong underlying performance in 2008, against a background of extremely volatile and dislocated markets. The sales momentum of past years continued in 2008 with solid net sales of third party business largely offsetting the very substantial fall in market values. Revenue grew by 7%, the average revenue yield continued to strengthen and costs were held flat against 2007. EBIT grew by 9% to £82m and a strong EBIT margin of 30% was maintained. We have focused throughout the year on maintaining high levels of customer service and protecting existing relationships while managing our current revenue streams and cost base very tightly. We have also continued to invest in building our capabilities, particularly in global equities, global fixed income, global property and global absolute return strategies, in order to build future revenue streams and emerge stronger from the current downturn. Our IFRS profit before tax was impacted by a one-off decision to restructure a sub-fund of Standard Life Investments (Global Liquidity Funds) plc at a total cost of £90m. The business broke even at the pre-tax level after this charge.

Financial market overview

During 2008, the UK industry experienced substantial net outflows of funds. As in previous market downturns, this was particularly felt at the retail end of the market. Standard Life Investments' business model, with around 80% of third party AUM coming from institutional clients, has provided substantial protection against the worst impacts of the current market conditions. Outflows across the business were broadly comparable to 2007 and no major institutional clients were lost. Revenue levels were therefore maintained and strengthened at a time when others are expected to have experienced substantial falls.

Investment performance

Despite a dip in short-term UK equity performance due to market volatility, we continued to deliver good investment performance over the longer term. The money-weighted average investment performance over three, five and ten year periods continues to be comfortably above median and remains a key driver of our strong institutional sales and pipeline of new business. The strength of our investment process across a range of open-ended investment companies (OEICs) and unit trusts is demonstrated by the high proportion of eligible and actively managed funds (19 out of 25) rated 'A' or above by Standard & Poor's, including the complete range of eligible fixed income OEIC funds.

Net flows and new business

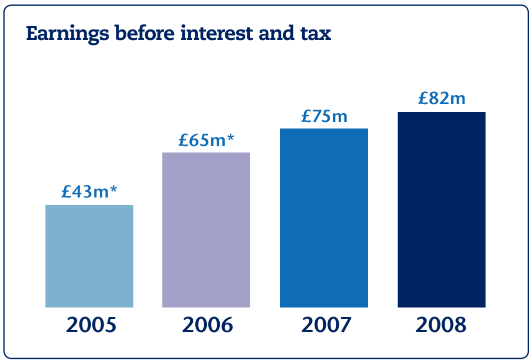
Standard Life Investments has performed well during 2008 despite the economic uncertainty, with third party net new business sales of £3,395m (2007: £7,944m). Excluding volatile flows into our money market funds, third party net inflows were £4,741m (2007: £6,853m), representing 11% of opening third party AUM excluding money market funds. Strong sales were recorded for segregated business and private equity through institutional channels. Retail sales were relatively flat for the year, a considerable achievement when the market as a whole has experienced substantial net outflows.

Third party AUM remained resilient in the face of extremely volatile markets, decreasing by just 5% to £45.5bn (2007: £47.7bn). In-house AUM fell by 18% to £78.3bn (2007: £95.7bn) due to a combination of adverse market movements, continuing outflows from with profits business and the reinsurance of £6.7bn of UK immediate annuities by the Group in order to reduce the long-term risk borne by shareholders.

As a result, total assets managed by Standard Life Investments decreased by 14% to £123.8bn (2007: £143.4bn).

Performance

Financial performance was robust in 2008, despite the difficult trading conditions with EBIT up 9% to £82m (2007: £75m). Revenue growth remained solid despite the impact of reduced AUM from lower markets, the reinsurance of UK immediate annuity liabilities and the challenging economic environment. Total revenue rose 7% (£17m) to £270m driven by new business sales, increased penetration of high margin products such as global absolute return strategies and a revision to of certain management fees applied to in-house assets. Costs were tightly managed throughout the year and were held flat compared to the prior year at £184m (2007: £184m). We were, however, still able to continue to invest in key areas of the business to sustain our longer term growth.



* 2005 and 2006 results are shown on a pro forma basis.

IFRS normalised underlying profit before tax increased by 12% to £93m (2007: £83m). This excludes all restructuring costs, principally those associated with the one-off restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc. The total impact of the restructuring on Standard Life Investments' IFRS profit before tax in 2008 was a charge of £90m. This consists of restructuring costs of £39m, representing a cash injection into the funds, and a marked-to-market adjustment of £51m, representing the fair value movements of assets brought on to the Group's balance sheet following the restructuring. Our IFRS profit before tax was £nil (2007: £100m).

Looking ahead

We expect 2009 to be challenging for all players in the industry, including Standard Life Investments. Equity markets are down substantially year on year, and unless there is a marked and rapid recovery, this will impact our revenue streams during 2009. On the other hand, we continue to see a good volume of requests for proposals and our pipeline of confirmed third party new business is strong, driven substantially by institutional funds with opportunities skewed towards fixed interest and liability driven investment mandates, due to the current market conditions.

Against this background we will continue to pursue our strategy of increasing the diversity of our earnings by growing our capability in selected product areas and increasing our global reach. We will also maintain tight control over our costs to drive further efficiencies and allow for necessary investment to support future growth.

We remain confident in the solid underlying performance of the business.

1.6 Group assets under administration

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 balance sheet. In addition, certain assets are excluded from the definition, for example deferred acquisition costs, intangibles and reinsurance assets.

Analysis of Group AUA

For the year ended 31 December 2008

	Opening at 1 January 2008 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market/other movements £bn	Closing at 31 December 2008 £bn
UK[1]	106.7	12.8	(11.3)	1.5	(12.4)	95.8
Europe	6.1	1.2	(0.6)	0.6	0.6	7.3
Canada	17.9	2.4	(2.1)	0.3	(0.2)	18.0
Asia Pacific	0.4	-	-	-	0.1	0.5
Total worldwide life and pensions	**131.1**	**16.4**	**(14.0)**	**2.4**	**(11.9)**	**121.6**
Banking	13.1	1.1	(2.7)	(1.6)	(0.2)	11.3
Other businesses	1.4	-	-	-	0.3	1.7
Standard Life Investments third party assets under management (AUM)	47.7	8.9	(5.5)	3.4	(5.6)	45.5
Group adjustments[1,2]	(24.3)	(4.1)	2.3	(1.8)	2.8	(23.3)
Group assets under administration	**169.0**	**22.3**	**(19.9)**	**2.4**	**(14.6)**	**156.8**
Group assets under administration managed by:						
Standard Life Group entities	158.2					138.5
Other third party managers	10.8					18.3
Total	**169.0**					**156.8**

1 The opening balance has been restated to reflect the inclusion of Sigma mutual funds.

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.

During the year, positive net flows of £2.4bn were offset by negative market/other movements of £14.6bn due to falling equity, property and fixed interest security values. As a result Group AUA fell by 7% to £156.8bn. Positive net flows were achieved in each of the life and pensions territories. However, worldwide life and pensions AUA fell by £9.5bn due to the adverse market movements experienced in 2008. Third party AUM remained resilient in the face of extremely volatile equity markets with a fall of just 5%. AUA in our banking business fell by £1.8bn reflecting measures taken to manage our mortgage exposure during difficult market conditions. The UK immediate annuity reinsurance transaction resulted in £6.7bn of assets being reinsured to Canada Life. This transaction reduced AUA managed by Group entities and correspondingly increased AUA managed by other third party managers.

A more detailed analysis of AUA and net flows is presented in Section 4.1.

1.7 Capital and cash generation

Capital and cash generation highlights

	2008	2007	Movement
EEV operating profit capital and cash generation[1]	**£423m**	£563m	(25%)
Group capital surplus[2]	**£3.5bn**	£3.6bn	(3%)
Group solvency cover[2]	**218%**	166%	52% points
Realistic working capital: Heritage With Profits Fund	**£0.5bn**	£1.5bn	(67%)
EEV	**£6,245m**	£6,211m	1%
IFRS equity attributable to equity holders of Standard Life plc	**£3,407m**	£3,282m	4%

[1] Net of tax.

[2] Based on draft regulatory returns.

Please refer to Section 1.9 – Basis of preparation.

Group capital and cash generation

The Group's IFRS cash flow statement, included in the Group IFRS consolidated financial statements section of this report, shows that our net cash inflows from operating activities were £2,304m (2007: £2,828m). This statement combines cash flows relating to both policyholders and equity holders, but the practical management of cash within the Group maintains a distinction between the two, as well as taking into account regulatory and other restrictions on availability and transferability of capital. As a result, we analyse cash flow within the Group on a number of additional bases, and take the view that an analysis of the movement in the EEV shareholders' net worth is more representative of underlying shareholder capital and cash flow than the IFRS cash flow statement. Under existing EEV principles, we are also required to identify required capital for all covered business. Increases/(decreases) in required capital will not reduce the shareholders' net worth because no external cash flows are made, but will decrease/(increase) the free surplus.

		2008			2007	
	Free surplus movement £m	Required capital movement £m	Net worth movement £m	Free surplus movement £m	Required capital movement £m	Net worth movement £m
New business strain	(266)	42	**(224)**	(272)	47	(225)
Capital and cash generation from existing business	546	-	**546**	561	(12)	549
Covered business capital and cash generation from new business and expected return	**280**	**42**	**322**	289	35	324
Covered business development expenses	(27)	-	**(27)**	(16)	-	(16)
Non-covered business core, capital and cash generation	8	-	**8**	26	-	26
Core	261	42	**303**	299	35	334
Efficiency	9	(2)	**7**	22	(2)	20
Back book management	107	6	**113**	200	9	209
Operating profit capital and cash generation	**377**	**46**	**423**	521	42	563
Capital and cash generation from non-operating items	(131)	44	**(87)**	45	(8)	37
Total capital and cash generation	**246**	**90**	**336**	566	34	600

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

1.7 Capital and cash generation *continued*

The analysis on the previous page highlights the most significant influences on free surplus and shareholders' net worth, including investment of shareholder capital in new business, or new business strain (NBS) and the amount of capital and cash emerging from existing business. Our covered business capital and cash flows from new business and expected return have remained stable during a year of economic volatility at £322m (2007: £324m). NBS is covered two times by capital and cash flow from existing business. In overall terms, our operating profit capital and cash generation decreased from £563m to £423m.

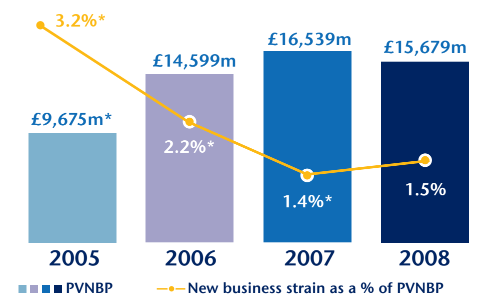
We also analyse capital and cash generation by three components that reflect the focus of our business effort – core, efficiency and back book management. Core and back book management were the main contributors to our capital and cash generation during the year. The core capital and cash flows of £303m, primarily reflect robust capital and cash generation from new business and expected return, and after-tax profits from non-life operations, partially offset by development expenses. The back book management capital and cash flows of £113m largely arise from the impact of the UK immediate annuities reinsurance and profits from the release of provisions in relation to UK deferred annuities, partially offset by the charge in relation to the Pension Sterling Fund. Capital and cash generation from efficiency of £7m represent ongoing cost control and efficiencies.

Non-operating capital and cash generation of negative £87m (2007: positive £37m) is driven by £138m of non-operating losses in the non-life businesses and includes unrealised fair value losses on derivatives, losses relating to restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc and non-life restructuring costs. Life business non-operating capital and cash generation remained positive at £93m (2007: £70m) and reflected net worth investment variances and assumption changes after negative £27m of restructuring expenses (2007: negative £4m). Non-operating capital and cash generation also includes an after-tax Group consolidation adjustment for the Canadian subordinated liability of negative £42m.

Holding company capital and cash flows

In addition to the movement in capital and cash on an EEV basis, the following summary has been provided to show an analysis of holding company cash flows and capital, in relation to the Group's holding company, Standard Life plc. The capital position is based on the Company balance sheet, excluding its investments in operating subsidiaries.

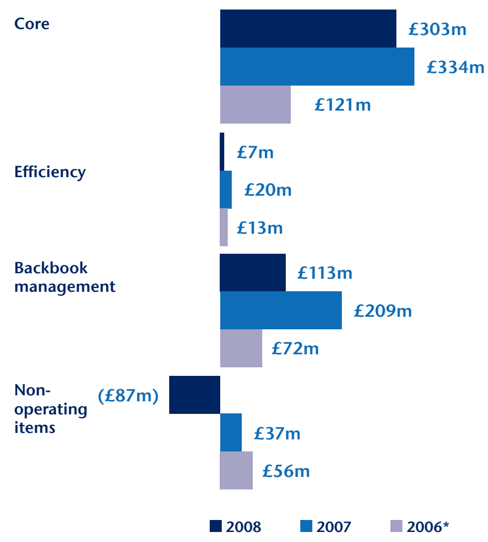
New business strain



New business strain margin is calculated excluding Asia Pacific.

* New business strain margin for 2005 and 2006 and PVNBP sales for 2005 have not been restated to include mutual funds sales as covered business. 2007 new business strain margin has not been restated to include Sigma mutual funds.

Capital and cash generation £336m (2007: £600m, 2006: £262m)



* 2006 results are shown on a pro forma basis.

	2008 £m	2007 £m
Opening capital 1 January	**502**	555
Dividends received from subsidiaries	**436**	273
Additional investments in subsidiaries	**(54)**	(168)
Group Corporate Centre costs	**(50)**	(57)
Dividends paid to shareholders	**(257)**	(197)
Other	**46**	96
Closing capital 31 December	**623**	502

The capital and cash held in the holding company is managed at a level to fund the dividend obligations and strategic investments of the Group. During 2008, Standard Life plc's capital, excluding its investment in subsidiaries, increased by £121m, primarily as a result of receiving £436m of dividends from subsidiaries offset by dividends paid to shareholders of £257m and a further investment in subsidiaries of £54m.

Standard Life plc's ability to pay dividends to shareholders is determined by the distributable reserves of the Company which broadly comprise its retained earnings and special reserve. The Board must also consider the Group's future business plans, market conditions and regulatory solvency when determining the level of dividends.

Dividends

During the year, the Group paid the final dividend for 2007 of 7.70p per share, amounting to £168m, and the 2008 interim dividend of 4.07p per share, amounting to £89m. The Board proposes a final dividend of 7.70p per share, making a total of 11.77p for 2008, an increase of 2.3%. This reflects the solid progress made during the year. Looking forward the Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group's financial performance.

Capital management

Objectives and measures of Group capital

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

Sustainable high quality returns for shareholders

Effective risk management driving capital allocation

Distributable earnings and dividends

Growing shareholder value

Customer security and financial strength

Effective risk management supporting ongoing solvency

	IFRS	EEV	Regulatory capital
Definition	• Capital attributable to equity holders only • Key performance metric for Group non-life companies • Key determinant of distributable profits	• Capital attributable to equity holders only • Key performance metric for Group life companies • Robust embedded value underpins the financial strength of the Group	• Capital attributable to equity holders and policyholders • Monitored globally and locally using relevant solvency measures • Key determinant of distributable profits
Highlight	• IFRS equity attributable to equity holders of Standard Life plc: 2008: £3.4bn (2007: £3.3bn) • IFRS dividend cover: 2008: 1.0 times (2007: 2.9 times)	• EEV operating capital and cash generation: 2008: £423m (2007: £563m) • EEV new business strain: 2008: £224m (2007: £225m) • EEV total equity: 2008: £6.2bn (2007: £6.2bn)	• Regulatory capital surplus: 2008: £3.5bn (2007: £3.6bn) • Regulatory solvency cover: 2008: 218% (2007: 166%)

Financial Groups Directive

	2008 £bn	2007 £bn
Shareholders' capital resources	**2.6**	2.9
Capital resources arising from subordinated debt	**2.2**	1.9
SLAL long-term business funds	**1.7**	4.4
FGD Group capital resources	**6.5**	9.2
FGD Group capital resource requirement	**(3.0)**	(5.6)
FGD Group capital surplus	**3.5**	3.6
FGD Group solvency cover	**218%**	166%

2008 figures above based on draft regulatory returns.

The Group is classified as a 'financial conglomerate' as defined by the Financial Groups Directive (FGD). The FGD surplus has only decreased by £0.1bn during the year, reflecting the insensitivity to equity market movements which suffered global falls in 2008. This insensitivity of the FGD surplus reflects the structure of the Group post-demutualisation and the strategy for managing the risks of the Heritage With Profits Fund (HWPF). Group capital resources decreased mainly because of ongoing investment in the business and negative market movements during the year which reduced the capital resources of the HWPF. However, this was offset by a corresponding reduction to the capital resource requirements of the HWPF. As the Group capital resource requirement has decreased by a greater relative percentage than the change in capital resources, the overall Group solvency cover has increased from 166% at 31 December 2007 to approximately 218%. After allowing for payment of the final dividend of £168m (2007: £168m), our year end FGD surplus would be £3.3bn (2007: £3.4bn).

1.7 Capital and cash generation *continued*

Analysis of movement in Group capital surplus

The following table illustrates the key movements in the regulatory capital surplus for the year ended 31 December 2008:

	2008 £bn	2007 £bn
Opening capital surplus	**3.6**	3.4
Movement in capital resources of long-term business funds	**(2.7)**	0.8
Movement in capital resource requirements of long-term business funds	**2.7**	(0.8)
Net movement in capital surplus of long-term business funds	**-**	-
Movement in capital resources of shareholder funds:		
Annuity reinsurance change	**0.1**	-
New business	**(0.2)**	(0.3)
Transfers from HWPF to shareholder funds	**0.4**	0.7
Dividend payments	**(0.3)**	(0.2)
Other factors	**-**	0.3
Movement in capital resource requirements of shareholder funds	**(0.1)**	(0.3)
Closing capital surplus	**3.5**	3.6

The significant factors affecting the capital surplus were:

Shareholder funds:

- The Group reinsured £6.7bn of pre-demutualisation UK immediate annuities in February 2008. The benefits of this included a release of cash from reserves in 2008 and a reduction in the Individual Capital Assessment (ICA) capital requirements
- Ongoing investment of shareholder capital in the business through writing new business offset by the recourse cash flows emerging from pre-demutualisation business
- Profits earned by the non-life operations included within other factors above
- Payment of £257m of dividends to shareholders during the year

Long-term business funds:

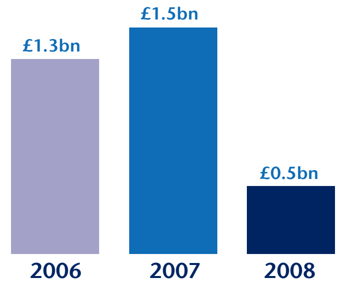
- Impact of changing financial conditions on the capital resources and capital resource requirement of the HWPF

The FGD limits the amount of capital that can be recognised in Group capital resources, where that capital is held by a UK long-term business fund. This limits the capital resources within a long-term business fund to the level of the capital resource requirement for that fund and results in a restriction of approximately £1.3bn at 31 December 2008 (31 December 2007: £1.8bn).

The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), and its regulatory position reflects capital resources including long-term business funds. While SLAL's capital resources have decreased, the solvency cover has increased to approximately 274% from 190% due to a relative decrease in the capital requirements of the HWPF, as explained previously.

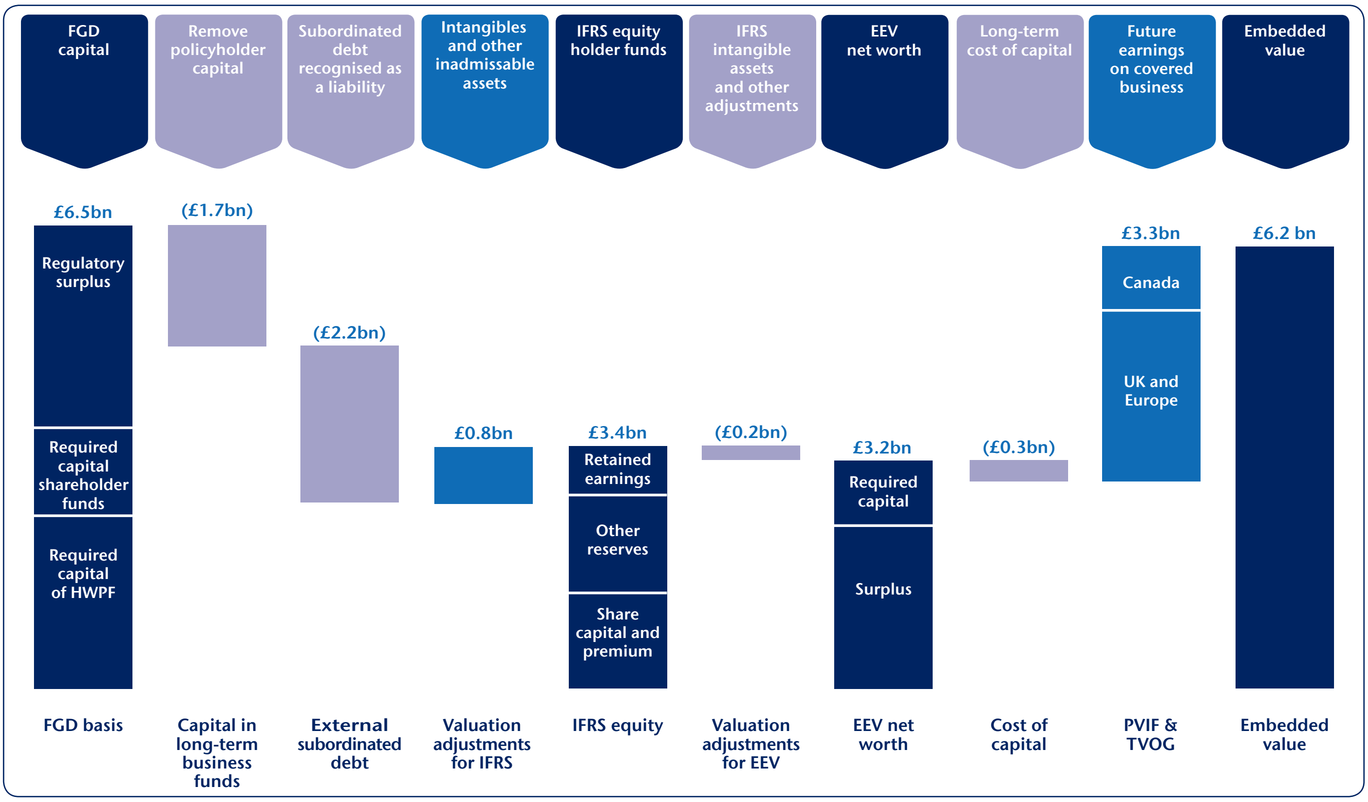
The capital resources of SLAL include the residual estate of approximately £0.5bn (31 December 2007: £1.5bn). The reduction in the estate over the year largely reflects both the direct and indirect effects of movements in corporate debt, property and equity markets, the impact of which has been exaggerated by technical changes in the way that realistic liabilities are calculated. The impact on the residual estate of further falls in equity markets continues to be mitigated by the hedges we have in place. The impact of most other adverse asset movements would, in the first instance, be met by policyholders with indirect impacts on shareholders via higher guarantee costs, and hence higher burnthrough cost. Shareholder exposure is also limited by the structure of the capital support mechanism set up at demutualisation, with shareholder support being obtained by withholding the furthest out cash transfers from the HWPF to shareholders.

Residual estate of the HWPF



Reconciliation of key capital measures

The following diagram illustrates the key differences between the regulatory, IFRS and EEV capital measures at 31 December 2008:



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

- Shareholder capital, used to invest in the strategy of the Group, covers the capital requirements borne directly by shareholders and manages risk borne by shareholders
- Capital arising from the subordinated debt issued by the Group, amounting to £2.2bn at 31 December 2008, which is used to provide capital support to SLAL and Standard Life Bank
- A restricted amount of policyholder capital (£1.7bn at 31 December 2008), which matches the capital resource requirements of that business, and includes the HWPF

While these latter two elements provide capital support for the Group, they do not form part of the shareholders' regulatory capital. Shareholder capital can be measured under each of the Group's reporting bases – regulatory, IFRS equity and EEV net worth. Each of these is a comparable measure of the net assets attributable to equity holders of the Group. In some cases, the regulatory rules for valuing assets and liabilities differ from IFRS accounting rules, resulting in a valuation adjustment of £0.8bn. Similarly, the EEV balance sheet recognises certain valuation adjustments to give the EEV net worth, resulting in an equivalent adjustment of £0.2bn to IFRS equity holder funds. The total EEV of the Group relates to the net worth adjusted for the cost of capital of £0.3bn and increased by the value of the present value of in-force business (PVIF) of £3.3bn to give the total EEV of £6.2bn at 31 December 2008.

Capital management policy

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

1.7 Capital and cash generation *continued*

Debt, facilities and liquidity

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

- The Group uses subordinated debt to provide capital to our life assurance and banking businesses
- Further analysis of Group borrowings is provided in Note 3.10 – Borrowings
- Note 3.12 – Capital statement shows the external subordinated debt and internal loans made across life and other operations

The Group has robust plans in place to ensure that it has access to sufficient liquidity to meet operating requirements during the current market uncertainty.

Following the second maturity from the Lothian securitisation programme on 24 October 2008, there are no securitisation maturities until 2011. Our banking operation remains well capitalised with a very high quality mortgage book, has access to a range of funding sources and has actively reduced its funding requirements during the year.

Bond default allowances

Shareholders are exposed to debt securities which back annuity liabilities in the UK and Europe and the liability in respect of longevity risk reinsured from SLAL's HWPF. These debt securities amount to £1.5bn and comprise £0.8bn of government and government backed bonds and £0.7bn of other corporate bonds. There were no defaults on the debt securities in this portfolio in 2008, however in light of the economic conditions the provision for future defaults within the valuation of liabilities has been increased to £40m (31 December 2007: £20m), representing a weighted average default assumption into perpetuity for corporate bonds of 87bps (31 December 2007: c37bps).

Debt securities in Canadian non-segregated funds amount to £5.4bn, including £2.2bn of corporate bonds. There were no defaults within this portfolio of debt securities during 2008. We have maintained our Canadian corporate bond default assumption at 36bps while the average quality of the portfolio has increased from A to A+. The overall provision for defaults on bonds in the portfolio amounts to £90m (31 December 2007: £71m).

Financial assets valuation and exposures

Asset-backed securities

Standard Life's total investment (including third party funds) in the asset-backed securities markets across both short-term treasury instruments and long-term fixed interest is approximately £5.3bn or 3.3% (31 December 2007: £7.7bn or 4.6%) of Group assets under administration (AUA), predominantly in UK securities. Of the total of £5.3bn, £1.3bn relates to shareholder funds, of which £1.2bn is AAA rated. The overall level of asset-backed securities has reduced compared to 31 December 2007 as a result of a number of securities reaching maturity and also due to market movements. The Group has continued to actively manage its exposure to asset-backed securities and the portfolio remains a high quality credit portfolio with no direct exposures to the US mortgage market, minimal exposure to leveraged structures, no current direct exposure to Monolines and very modest exposure to credit within a Monoline wrapper. Following the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc, shareholder funds now have a total exposure of £83m (31 December 2007: £27m) to assets within a Monoline wrapper or leveraged structures, representing 0.3% (31 December 2007: 0.1%) of shareholder financial assets.

Shareholder asset exposures

At 31 December 2008, shareholders had direct exposure to equity, debt securities and investment property of £9.6bn. This included exposure to equity securities of £0.4bn. The exposure to debt securities was £8.3bn and consisted of government debt securities of £3.7bn, corporate bonds of £4.3bn and other debt securities including supranationals of £0.3bn. The exposure to investment property amounted to £0.9bn.

The total shareholder exposure to equity securities, debt securities and investment property of £9.6bn includes £6.6bn of assets held by non-segregated funds in Canada. The effective exposure of shareholders to the assets of the non-segregated funds in Canada was significantly lower than £6.6bn because changes in the value of assets are typically offset by a change in the value of the related liabilities. The shareholder exposure is limited to the net impact on the shareholder surplus and the value of any guarantees which may be triggered.

In addition, shareholders had direct exposure to loans and receivables of £11.7bn which included £9.5bn in respect of the retail mortgage book of Standard Life Bank and £2.2bn in respect of the commercial mortgage book of the business in Canada. Both mortgage books are deemed to be of very high quality. For further information on the Standard Life Bank mortgage book see Section 1.5.1. The mortgage book in Canada had an average loan to value ratio of 44%, the value of mortgages where the loan to value ratio exceeded 70% amounted to just £31m and there were no mortgages three or more months in arrears or in repossession at the end of 2008.

Further analysis of the Group's financial assets including shareholder exposure is shown in Section 4.2 – Fair value hierarchy of financial instruments.

Credit ratings

External credit ratings agencies perform independent assessments of the financial strength of companies. The current insurer financial strength ratings for SLAL are A1/Stable and A+/Stable from Moody's and Standard & Poor's respectively. The only changes from the position at 31 December 2007 was the Standard & Poor's outlook, which was raised to A/Positive from A/Stable in May 2008 and then raised again to A+/Stable in February 2009. The change in the credit rating was in part due to the strength of the capital position.

1.8 Risk management

Risk management is an integral part of the Group's corporate agenda. We have developed and embedded an Enterprise Risk Management framework that enables the risks of the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically.

The strength of the Group's framework was recognised by Standard & Poor's in April 2008 when we received an 'adequate with positive trend' rating from the agency.

Over the course of 2008, the Group has further enhanced its framework, addressing and strengthening all the key elements and aligning it with external best practice models.

Risks facing the Group are:

Risk type	Key risks	Key risk controls
Demographic and expense The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected, which for the purpose of risk management includes liabilities of insurance and investment contracts.	• Longevity • Persistency • Morbidity/mortality (assurances) • Expenses	• Regular reviews of experience • Reinsurance and risk transfer • Business planning process • Specified underwriting limits • Testing of claim values, reinsurance recoveries, and the survival of annuitants
Credit The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of corporate bonds due to a widening of corporate bond spreads.	• Counterparty/bond default • Spread widening • Concentration of exposure	• Regular monitoring of risk exposures to ensure that risks remain within approved risk appetite • Specific limits on counterparty exposure, based on credit rating, approved by the Group Board • Group companies establish and maintain adequate controls to manage exposure within these specified limits
Market The risk that arises from the Group's exposure to market movements which could result in the value of income, or value of financial assets and liabilities, or cash flows relating to these, fluctuating by differing amounts.	• Equity and property risk • Interest rate risk • Foreign currency risk	• Investment benchmarks, and risk tolerances around these benchmarks, set regularly for each major liability based on the nature of that liability to ensure that risk remains within Group's appetite • Regular monitoring of asset mixes and the exposure of Group companies to market risk to ensure that they remain within the above tolerances • Limits for foreign currency set by the Group Board
Liquidity The risk that businesses are unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive costs.	• Diversification of funding sources • Quality of funding sources • Depth and liquidity of particular markets	• Businesses maintain contingency funding plans which operate on a continuous basis and are fully documented • Regular monitoring against forecast data, accompanied by cash flow scenarios • Regular monitoring of exposure to liquidity risk to ensure they remain within agreed tolerances
Operational The risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.	• Fraud or irregularities • Regulatory or legal • Customer treatment • Business interruption • Supplier failure • Planning • Process execution • People, e.g. loss of key people	• Regular risk assessment to identify the potential cause of the risk • The transfer, acceptance, reduction or transfer of risk within risk appetite

1.9 Basis of preparation

Overview

Our Business review for the period to 31 December 2008 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 and DTR 4.1.8, the Group is required to provide a fair review of the business and a description of the principal risks facing the Group. Principal risks are detailed in Section 1.8 – Risk management. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Reporting statement: Operating and Financial Review (OFR) issued by the Accounting Standards Board (ASB).

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

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

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

EEV and IFRS reporting

The financial results are prepared on both an EEV basis and an IFRS basis. All EU listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies and is designed to give a more accurate reflection of the performance of long-term savings business. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 by the CFO forum. The CFO forum represents the chief financial officers of major European insurers, including Standard Life. EEV methodology has been applied to 'covered' business, which mainly comprises the Group's life and pensions business. Non-covered business is reported on an IFRS basis. The EEV financial results in Section 1.3 of the Business review and in the EEV financial statements section of this report have been prepared in accordance with the EEV methodology applied by the Group in Note 2.16 of the EEV financial statements section of this report for 2008, and in the relevant EEV methodology note included in the 2007 *Annual Report and Accounts* in respect of the comparative period. The IFRS financial results in Section 1.4 of the Business review and in the IFRS Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies in Note 3.1.

EEV operating and IFRS underlying profit

The segmental analysis of IFRS underlying profit before tax presents profit before tax attributable to equity holders adjusted for non-operating items. The 2008 EEV consolidated income statement presents EEV profit showing both operating and non-operating items. In doing so, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group. The 2008 EEV consolidated income statement and the 2008 IFRS reconciliation of Group underlying profit to profit before tax are presented in the relevant financial statements sections of this report.

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2 European Embedded Value (EEV)

EEV consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Covered business			
UK		**657**	606
Canada		**215**	178
Europe		**69**	26
Asia Pacific		**(35)**	(12)
HWPF TVOG		**11**	42
Covered business operating profit	2.2(a)	**917**	840
Investment management[1]	2.6(b)	**48**	48
Banking		**26**	32
Healthcare		**11**	13
Group Corporate Centre costs		**(50)**	(57)
Other	2.6(c)	**(19)**	5
Non-covered business operating profit		**16**	41
Operating profit before tax		**933**	881
Non-operating items			
Long-term investment return and tax variances		**(849)**	(17)
Effect of economic assumption changes		**48**	27
Restructuring and corporate transaction expenses[2]		**(72)**	(31)
Volatility arising on different asset and liability valuation bases		**(109)**	(39)
Other non-operating items		**(51)**	17
Consolidation adjustment for different accounting bases[3]		**(58)**	-
(Loss)/profit before tax		**(158)**	838
Attributed tax		**24**	(251)
(Loss)/profit after tax		**(134)**	587

[1] Investment management operating profit before tax is stated after excluding profits of £45m (2007: £35m) which have been generated by life and pensions business.
[2] Refer to IFRS financial information Note 3.8 – Restructuring and corporate transaction expenses.
[3] This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 2.1 – Basis of preparation.

EEV earnings per share (EPS)

For the year ended 31 December 2008

	2008	2007
EEV operating profit after tax attributable to equity holders of Standard Life plc (£m)[1]	**649**	617
Basic EPS (pence)	**29.8**	28.9
Weighted average number of ordinary shares in issue (millions)	**2,176**	2,138
Diluted EPS (pence)	**29.8**	28.3
Weighted average number of ordinary shares on a diluted basis (millions)[2]	**2,180**	2,177

[1] EEV operating profit before tax of £933m (2007: £881m) less attributed tax on operating profit of £284m (2007: £264m).

[2] Includes the full dilutive effect of bonus shares committed to at the time of the demutualisation of The Standard Life Assurance Company (SLAC) and the flotation of Standard Life plc and share awards and share options.

EEV consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Fair value losses on cash flow hedges[1]		**(38)**	(6)
Actuarial gains/(losses) on defined benefit pension schemes[1]		**161**	(3)
Exchange differences on translating foreign operations[2]		**323**	191
Aggregate tax effect of items not recognised in income statement[1]		**(42)**	(1)
Net investment hedge[1]		**(17)**	-
Other		**(3)**	6
Net income not recognised in income statement		**384**	187
(Loss)/profit after tax		**(134)**	587
Total recognised income for the period attributable to equity holders	2.7	**250**	774

[1] Consistent with the IFRS consolidated statement of recognised income and expense for the year ended 31 December 2008.

[2] Exchange differences primarily relate to Canada: £154m and Europe: £110m.

EEV consolidated balance sheet

As at 31 December 2008

	Notes	31 December 2008 £m	31 December 2007 £m
Covered business			
Free surplus		**1,235**	1,237
Required capital		**844**	680
Net worth		**2,079**	1,917
Present value of in-force		**3,345**	3,639
Cost of required capital		**(292)**	(312)
Total embedded value of covered business	2.2(c)	**5,132**	5,244
Non-covered business			
Investment management		**143**	142
Banking		**211**	303
Healthcare		**100**	95
Group Corporate Centre		**417**	513
Other		**307**	49
UK pension scheme deficit		**(23)**	(135)
Total net assets of non-covered business	2.6(a)	**1,155**	967
Consolidation adjustment for different accounting bases[2]		**(42)**	-
Total Group embedded value	2.7	**6,245**	6,211
Equity			
Share capital		**218**	217
Share premium reserve		**792**	792
Other reserves		**1,623**	1,497
Retained earnings on an IFRS basis		**774**	776
Additional retained earnings on an EEV basis		**2,838**	2,929
Total equity[1]		**6,245**	6,211

[1] Embedded value equity per share is 286p as at 31 December 2008 compared to 285p as at 31 December 2007 based on diluted share totals of 2,180m as at 31 December 2008 and 2,177m as at 31 December 2007.

[2] This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 2.1 – Basis of preparation.

Notes to the EEV financial information

2.1 Basis of preparation

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

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

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

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

Covered business

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

Covered business in the 2007 published results was expanded to include certain mutual funds sold in the UK and Canada and are therefore reflected in the comparative results. Covered business has been further expanded in 2008 to include all Sigma mutual funds, previously sold and administered by our Investments business.

The inclusion of this Sigma mutual funds business within covered business is reflected in the EEV results with an opening adjustment of £32m (£32m for covered business and £nil for non-covered business), capturing the PVIF as at 1 January 2008 within covered business and removing any related intangibles, e.g. deferred acquisition costs, from the opening net assets of non-covered business. The movement in the EEV of those mutual funds is reflected in the covered business EEV movement with changes in net worth transferred back to non-covered business for inclusion in their closing net asset position. No covered business movement for Sigma mutual funds has been included within the comparative results for the 12 months to 31 December 2007.

Non-covered business

EEV operating profit for the 12 months to 31 December 2008 is defined as IFRS normalised underlying profit.[1,2] In 2007 EEV operating profit was defined as IFRS underlying profit.[1] For the 12 months to 31 December 2007, IFRS underlying profit and IFRS normalised underlying profit for non-covered business were the same.

Continuous Improvement Programme (CIP)

In March 2007, we announced our aim to reduce underlying costs by a further £100m by 2009. This cost efficiency target has now been achieved one year early. In 2008, £45m (2007: £9m) of costs associated with progressing this initiative have been incurred in restructuring and corporate transactions.

UK annuity reinsurance

On 14 February 2008, Standard Life Assurance Limited entered into a reinsurance treaty with Canada Life International Re in respect of part of its UK immediate annuity liabilities. As a result of this transaction, EEV operating profit before tax increased by £119m. An analysis of this profit is shown in Note 2.2(a).

[1] As adjusted for Standard Life Investments look through profits and the return on certain mutual funds which are recognised in covered business.

[2] The only difference between IFRS normalised underlying profit and IFRS underlying profit arises within investment management, as described in Note 2.6(b).

2.1 Basis of preparation *continued*

Pension Sterling Fund

On 11 February 2009, we announced that we would make immediate payments for the benefit of all customers who invested in the Pension Sterling Fund and had been affected by the 4.8% fall in unit price arising from the valuation adjustment. The effect of the immediate cash injection into the fund has been reflected in the EEV results for the year to 31 December 2008, and results in a pre-tax charge of £108m against EEV operating profit before tax.

Group EEV consolidation assumptions in respect of Canadian subordinated debt

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

The market value of the subordinated liability in Canada has reduced over 2008 as a result of significant increases in credit spreads, offset in part from foreign exchange movements. This has produced a covered business pre-tax profit of £58m within the 2008 effect of economic assumption changes shown in Note 2.2(a) for Canada. This subordinated debt is owned by a non-covered subsidiary of the Group, where the asset is valued on an amortised cost basis. No profit has arisen within the year within non-covered business from changes in the value of this asset. Group EEV profit has been adjusted by £58m pre-tax, £42m post-tax to remove this profit from different accounting bases, as shown on the EEV consolidated income statement.

Total closing Group EEV has also been adjusted to exclude the £42m difference between the market value and the amortised cost value of the Canadian subordinated liability, as shown in the EEV consolidated balance sheet.

There is no restatement of the results for the 12 months to 31 December 2007.

2.2 Segmental analysis – covered business

(a) Segmental EEV income statement

12 months to 31 December 2008	Notes	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Contribution from new business	2.3	212	34	18	-	-	**264**
Contribution from in-force business:							
Expected return on existing business		290	109	32	-	-	**431**
Experience variances	2.4	13	47	4	-	-	**64**
Operating assumption changes	2.5	142	24	18	-	11	**195**
Development expenses		(33)	(3)	(6)	-	-	**(42)**
Expected return on free surplus		33	4	3	(35)	-	**5**
Operating profit/(loss) before tax		**657**	**215**	**69**	**(35)**	**11**	**917**
Investment return and tax variances		(491)	(173)	(55)	-	(130)	**(849)**
Effect of economic assumption changes		(69)	236	11	-	(130)	**48**
Restructuring expenses		(34)	(1)	(3)	-	-	**(38)**
Profit/(loss) before tax		**63**	**277**	**22**	**(35)**	**(249)**	**78**
Attributed tax		(18)	(75)	(7)	1	70	**(29)**
Profit/(loss) after tax		**45**	**202**	**15**	**(34)**	**(179)**	**49**

12 months to 31 December 2007	Notes	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Contribution from new business	2.3	282	37	26	-	-	**345**
Contribution from in-force business:							
Expected return on existing business		288	88	25	-	-	**401**
Experience variances	2.4	(116)	31	(5)	-	42	**(48)**
Operating assumption changes	2.5	139	21	(12)	-	-	**148**
Development expenses		(11)	(2)	(9)	-	-	**(22)**
Expected return on free surplus		24	3	1	(12)	-	**16**
Operating profit/(loss) before tax		**606**	**178**	**26**	**(12)**	**42**	**840**
Investment return and tax variances		(105)	80	(10)	-	18	**(17)**
Effect of economic assumption changes		(56)	71	-	-	12	**27**
Restructuring expenses		(6)	-	-	-	-	**(6)**
Profit/(loss) before tax		**439**	**329**	**16**	**(12)**	**72**	**844**
Attributed tax		(123)	(92)	(5)	1	(21)	**(240)**
Profit/(loss) after tax		**316**	**237**	**11**	**(11)**	**51**	**604**

An analysis of profit after tax by territory is provided in Note 2.9.

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

HWPF TVOG represents the time value of financial options and guarantees (TVOG) arising from the Heritage With Profits Fund (HWPF). Although this fund includes business written by the UK, Germany and Ireland, it is managed at a combined level by the UK financial services business and is shown separately in this analysis. The results for Canada include the cost of the Canadian TVOG, and the results for Europe include the cost of TVOG arising on business written outside of the HWPF in Germany.

The principal effect of determining the pre-tax results using the long-term rate of tax compared to the actual effective rate is to decrease the effect of economic assumption changes by £71m – UK: £69m, Europe: £2m (2007: £67m – UK: £65m, Europe: £2m), arising from the impact of investment related changes in the value of the tax effects that have been assumed to arise as a result of funding HWPF transfers out of unallocated surplus.

The reinsurance of part of the UK immediate annuity liabilities as described in Note 2.1 has led to an operating profit before tax of £119m. This is included in the segmental EEV income statement within operating assumption changes. The major source of this profit arises from a reduction in the risk of adverse changes in future annuitant mortality experience which was reflected in the UK and Europe HWPF non-market risk margins within the risk discount rates, as described in Note 2.12. This produced an operating profit before tax of £129m (£117m in UK, £12m in Europe). In addition, a profit of £11m arose from the consequential reduction in HWPF TVOG due to the reduction in the allowance for credit risk and the change in the HWPF working capital. The impact on future margins and solvency costs in the UK was negative £30m, with other UK benefits from the transaction generating £9m of profit.

The increase in the expected return on existing business has been due in part to favourable exchange rate movements, arising from the use of average exchange rates for the reporting period. This accounts for £13m of the £21m increase in Canada, and for £3m of the total £7m increase in Europe.

Effect of economic assumption changes include the effect of changes to risk discount rates of £277m (2007: (£132m)), which are explained in Note 2.12, and a gain of £22m in 2008 from the impact of changes to the assumed long-term tax rate in Canada. Further comments on the movement in the market value of subordinated liabilities are provided in Note 2.11. Investment return and tax variances for the UK includes a loss of £73m arising from losses in the contract between UK life and pensions and Standard Life Investments arising from the restructuring of Standard Life Investments (Global Liquidity Funds) plc.

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

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

2.2 Segmental analysis – covered business *continued*

(b) Segmental analysis of movements in EEV

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Opening EEV	**3,588**	**1,276**	**335**	**86**	**(41)**	**5,244**
Opening adjustments	32	-	-	-	-	**32**
Opening adjusted EEV	**3,620**	**1,276**	**335**	**86**	**(41)**	**5,276**
Profit/(loss) after tax	45	202	15	(34)	(179)	**49**
Internal capital transfers	(470)	(40)	13	20	-	**(477)**
Transfer back of surplus to Standard Life Investments	(28)	(3)	(2)	-	-	**(33)**
Transfer back of mutual funds net worth	17	(1)	-	-	-	**16**
Actuarial gains on defined benefit pension schemes	-	12	(10)	-	-	**2**
Foreign exchange differences	-	154	110	36	-	**300**
Aggregate tax effect of items not recognised in income statement	-	(3)	-	-	-	**(3)**
Other	(10)	-	-	12	-	**2**
Closing EEV	**3,174**	**1,597**	**461**	**120**	**(220)**	**5,132**

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

Opening adjustments in the UK, for the 12 months to 31 December 2008, reflect the inclusion of Sigma UKFS mutual funds in covered business for the first time. These funds were previously included in non-covered business and are in addition to the UK and Canada mutual funds included in covered business for the first time in the 2007 published results. This adjustment is explained in more detail in Note 2.1 – Basis of preparation.

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Opening EEV	**3,370**	**901**	**271**	**49**	**(92)**	**4,499**
Opening adjustments	-	32	-	-	-	**32**
Opening adjusted EEV	**3,370**	**933**	**271**	**49**	**(92)**	**4,531**
Profit/(loss) after tax	316	237	11	(11)	51	**604**
Internal capital transfers	(93)	(63)	21	46	-	**(89)**
Transfer back of surplus to Standard Life Investments	(23)	(2)	-	-	-	**(25)**
Transfer back of mutual funds net worth	15	(4)	-	-	-	**11**
Actuarial gains on defined benefit pension schemes	-	14	5	-	-	**19**
Foreign exchange differences	-	164	26	3	-	**193**
Aggregate tax effect of items not recognised in income statement	-	(3)	-	-	-	**(3)**
Other	3	-	1	(1)	-	**3**
Closing EEV	**3,588**	**1,276**	**335**	**86**	**(41)**	**5,244**

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

Opening adjustments in the UK and Canada reflect the inclusion of certain mutual funds in covered business as explained in Note 2.1 – Basis of preparation.

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Analysis of EEV						
Free surplus	970	168	13	86	-	**1,237**
PVIF	2,621	765	326	-	(41)	**3,671**
Required capital	63	611	6	-	-	**680**
Cost of capital	(34)	(268)	(10)	-	-	**(312)**
Opening adjusted EEV	**3,620**	**1,276**	**335**	**86**	**(41)**	**5,276**
Analysis of EEV						
Free surplus	909	154	52	120	-	**1,235**
PVIF	2,208	939	418	-	(220)	**3,345**
Required capital	95	737	12	-	-	**844**
Cost of capital	(38)	(233)	(21)	-	-	**(292)**
Closing EEV	**3,174**	**1,597**	**461**	**120**	**(220)**	**5,132**

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Analysis of EEV						
Free surplus	656	24	(9)	49	-	**720**
PVIF	2,693	633	278	-	(92)	**3,512**
Required capital	32	526	4	-	-	**562**
Cost of capital	(11)	(250)	(2)	-	-	**(263)**
Opening adjusted EEV	**3,370**	**933**	**271**	**49**	**(92)**	**4,531**
Analysis of EEV						
Free surplus	970	168	13	86	-	**1,237**
PVIF	2,589	765	326	-	(41)	**3,639**
Required capital	63	611	6	-	-	**680**
Cost of capital	(34)	(268)	(10)	-	-	**(312)**
Closing EEV	**3,588**	**1,276**	**335**	**86**	**(41)**	**5,244**

2.3 Analysis of new business contribution

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

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 2008	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP[1] £m	PVNBP multiplier[3]	PVNBP margin[2] %
Individual pensions	56	3,939	103	4,334	3.8	1.3
Group pensions	55	992	437	2,600	3.7	2.1
Institutional pensions	20	1,667	67	1,826	2.4	1.1
Savings and investments[4]	6	2,619	10	2,690	7.1	0.2
Annuities	74	471	-	471	-	15.8
Protection	1	-	2	7	3.5	8.2
UK	**212**	**9,688**	**619**	**11,928**	**3.6**	**1.8**
Canada	34	1,154	79	2,240	13.7	1.5
Europe	18	385	67	1,016	9.4	1.8
Asia Pacific	-	90	110	495	3.7	-
Total covered business	**264**	**11,317**	**875**	**15,679**	**5.0**	**1.7**

12 months to 31 December 2007	NBC[5] £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier[3]	PVNBP margin[2] %
Individual pensions	123	4,803	108	5,302	4.6	2.3
Group pensions	60	975	447	2,891	4.1	2.1
Institutional pensions	17	2,015	-	1,941	-	0.8
Savings and investments[4]	34	2,724	14	2,788	4.6	1.3
Annuities	54	494	-	494	-	11.0
Protection	(6)	-	4	24	-	(23.7)
UK	**282**	**11,011**	**573**	**13,440**	**4.2**	**2.1**
Canada	37	977	59	1,654	11.5	2.3
Europe	26	436	81	1,179	9.2	2.2
Asia Pacific	-	64	42	266	4.8	-
Total covered business	**345**	**12,488**	**755**	**16,539**	**5.4**	**2.1**

1 The PVNBP new business sales are different from those in the full year new business press release issued on 28 January 2009 as they incorporate year end non-economic assumption changes.

2 PVNBP margins are calculated as the ratio of the value of new business to the present value of new business premiums and are based on the underlying unrounded numbers.

3 The PVNBP multiplier is calculated as the total of PVNBP less single premiums divided by annualised regular premiums.

4 Single premiums and PVNBP for UK savings and investments for the 12 months to 31 December 2008 include £88m attributable to the inclusion of Sigma mutual funds. Single premiums and PVNBP for UK savings and investments for 2007 have been restated to include £116m for Sigma mutual funds.

5 2007 NBC does not include any contribution from Sigma mutual funds.

2.4 Experience variances

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	18	-	4	-	**22**
Maintenance expenses	(10)	3	-	-	**(7)**
Mortality and morbidity	2	-	-	-	**2**
Tax	36	38	-	-	**74**
Other	(33)	6	-	-	**(27)**
Total	**13**	**47**	**4**	**-**	**64**

Lapse variances in the UK of £18m include the impact of favourable experience of onshore bonds compared to the short-term provision established at the end of 2007.

Lapse variances in Europe mainly arise from favourable experience in pension business in Ireland.

The adverse expense variance in the UK relates to certain newer products where product volumes are expected to grow rapidly. Expense overrun provisions have been set up as explained in Note 2.5 – Operating assumption changes.

UK tax variances reflect the benefit of ongoing tax management plus favourable tax variances from the further release of deferred annuity provisions.

Tax variances in Canada mainly arise from previously unclaimed tax assets.

'Other' UK variances include the benefit from the release of the provision held on the deferred annuity book, and the impact of the cash injection into the Pension Sterling Fund. The deferred annuity release has produced an EEV operating profit before tax of £96m, consisting of an increase to free surplus due to reserve releases of £98m, and PVIF and cost of capital decreases of £2m. The cash injection into the Pension Sterling Fund has resulted in an EEV operating loss of £108m (equivalent to a post-tax EEV operating loss of £78m), which reflects the cost of the cash injection plus associated tax impacts.

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	(28)	-	(2)	-	**(30)**
Maintenance expenses	8	2	(1)	-	**9**
Mortality and morbidity	5	-	-	-	**5**
Tax	9	25	(4)	-	**30**
Other	(110)	4	2	42	**(62)**
Total	**(116)**	**31**	**(5)**	**42**	**(48)**

2.5 Operating assumption changes

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	(35)	(25)	(1)	-	**(61)**
Maintenance expenses	36	28	7	-	**71**
Mortality and morbidity	47	4	2	-	**53**
Tax	2	-	-	-	**2**
Other	92	17	10	11	**130**
Total	**142**	**24**	**18**	**11**	**195**

The UK lapse assumption change of (£35m) was primarily due to a strengthening of paid up assumptions across the pensions book, including the anticipated impact of customers postponing payments into their pension schemes during current volatile market conditions.

Lapse assumption changes in Canada were increased to prudently safeguard against overall deteriorating economic conditions.

All territories have made significant profits from expense assumption changes, reflecting the impact of expense savings related to CIP and other initiatives. UK and Europe expenses include productivity gains which have been anticipated and include expense overruns of £16m for UK and £4m for Europe to reflect expected growth in volume of certain newer products.

UK gains from mortality and morbidity assumption changes arise from the adoption of updated assumptions for assurance and annuity business.

£119m of the ‘Other’ operating assumption changes, consisting of £96m in the UK, £12m in Europe and £11m in HWPF TVOG, arise from the impact of the UK annuity reassurance, as described in Note 2.2(a).

Most of the ‘Other’ assumption changes in Canada relate to modelling and assumption changes for group insurance business.

12 months to 31 December 2007	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
Lapses	(249)	52	(22)	-	**(219)**
Maintenance expenses	69	23	8	-	**100**
Mortality and morbidity	(52)	(48)	-	-	**(100)**
Tax	26	-	-	-	**26**
Other	345	(6)	2	-	**341**
Total	**139**	**21**	**(12)**	**-**	**148**

2.6 Non-covered business

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

(a) Segmental analysis – non-covered business

12 months to 31 December 2008	Investment management £m	Banking £m	Healthcare £m	Other including Group Corporate Centre £m	UK pension scheme deficit £m	Total non-covered business £m
Opening EEV net assets	**142**	**303**	**95**	**562**	**(135)**	**967**
Opening adjustments	-	-	-	-	-	**-**
Opening adjusted EEV	**142**	**303**	**95**	**562**	**(135)**	**967**
(Loss)/profit after tax	(35)	(49)	5	(43)	(19)	**(141)**
Transfer back of net worth from covered business	33	-	-	(16)	-	**17**
Foreign exchange differences	2	-	-	21	-	**23**
Internal capital transfers	-	(15)	-	472	20	**477**
Distributions to equity holders	-	-	-	(257)	-	**(257)**
Other	1	(28)	-	(15)	111	**69**
Closing EEV net assets	**143**	**211**	**100**	**724**	**(23)**	**1,155**

The Group's defined benefit pension scheme is included within non-covered business on an IFRS basis and is accounted for under IAS 19. IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* provides guidance on the interpretation of the requirements contained in IAS 19. Under this guidance, the Group has restricted the recognition of the pension surplus as at 31 December 2008. This is reflected in the total Group embedded value. The (£23m) under UK pension scheme deficit represents the deferred tax liability on the restricted pension surplus. This compares to (£135m) which reflects the pension deficit net of tax as at 31 December 2007.

12 months to 31 December 2007	Investment management £m	Banking £m	Healthcare £m	Other including Group Corporate Centre £m	UK pension scheme deficit £m	Total non-covered business £m
Opening EEV net assets	**150**	**355**	**118**	**626**	**(140)**	**1,109**
Opening adjustments	-	-	-	(13)	-	**(13)**
Opening adjusted EEV	**150**	**355**	**118**	**613**	**(140)**	**1,096**
(Loss)/profit after tax	49	(8)	5	(70)	7	**(17)**
Transfer back of net worth from covered business	25	-	-	(11)	-	**14**
Foreign exchange differences	-	-	-	(2)	-	**(2)**
Internal capital transfers	(82)	(40)	(28)	219	20	**89**
Distributions to equity holders	-	-	-	(197)	-	**(197)**
Other	-	(4)	-	10	(22)	**(16)**
Closing EEV net assets	**142**	**303**	**95**	**562**	**(135)**	**967**

Opening adjustments relate to the elimination of £13m of opening deferred acquisition costs in respect of those UK financial services (UKFS) and Canada mutual funds transferred to covered business in 2007.

2.6 Non-covered business *continued*

(b) Investment management EEV profits before tax

Investment management profits are included in EEV on a look through basis. This means that the profits from investment management generated from the life and pensions business are allocated to covered business. However, the excluded life and pension profits include £20m (12 months to 31 December 2007: £13m) of profits relating to products which are actively marketed and sold to third parties through investment management distribution channels. If these profits are added to the third party profits disclosed for non-covered business there are £68m (12 months to 31 December 2007: £61m) of third party related profits for investment management.

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Life and pensions look through profits before tax[1]	**45**	35
Third party related life and pensions losses before tax	**(20)**	(13)
Life and pensions look through profits before tax excluding third party profits	**25**	22
Third party related life and pensions profits before tax	**20**	13
Third party related profits before tax	**48**	48
Total third party related profits before tax	**68**	61
Total EEV operating profit before tax	**93**	83
Non-operating items[2]	**(93)**	17
Total EEV profit before tax	**-**	100

[1] Included within life and pensions look through profits before tax is £14m of profits in relation to some Sigma mutual funds business, which is now sold and administered through our UKFS Standard Life Savings business and which has been included for the first time as covered business within the 2008 UK life and pensions EEV. Previously, this Sigma mutual funds business was non-covered business and was sold and administered through our Investment business.

[2] The £93m non-operating loss item for the 12 months to 31 December 2008 includes a loss of £90m from the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc as described in Note3.8 of the IFRS financial information. This consists of a loss of £51m, relating to the fair value movements of assets brought directly on to the balance sheet, which is included within IFRS underlying profit but which has been excluded from IFRS normalised underlying profit, and a loss of £39m which has been excluded from IFRS underlying profit. £3m relates to CIP.

(c) Other EEV operating profits before tax

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Canada non-life subsidiaries	**2**	4
Mutual funds transferred to covered business	**(2)**	(4)
Canada non-life subsidiaries excluding transfers to covered business	**-**	-
Standard Life Savings Limited	**(41)**	(50)
Mutual funds transferred to covered business	**24**	25
Standard Life Savings excluding transfers to covered business	**(17)**	(25)
Standard Life plc income	**8**	33
Other	**(10)**	(3)
Other non-covered business EEV operating (loss)/profit before tax	**(19)**	5

All figures shown are IFRS underlying profits.

Standard Life Savings Limited is the company that writes the UK mutual funds business included within covered business.

The covered business results for the 12 months to 31 December 2008 include some Sigma mutual funds business sold by the UK financial services business, which was previously sold and administered through our Investment business. There is no restatement of the results for the 12 months to 31 December 2007 and this adjustment is explained in more detail in Note 2.1 – Basis of preparation. A detailed description of EEV covered business is provided within the EEV methodology in Note 2.16.

'Other' primarily represents the operating loss related to the UK pension scheme.

2.7 EEV – reconciliation of movements in consolidated balance sheet

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Opening EEV	6,211	5,608
Opening adjustments	32	19
Opening adjusted EEV	**6,243**	**5,627**
Total recognised income for the period	250	774
Distributions to equity holders	(257)	(197)
Issue of share capital other than in cash	1	7
Capitalisation of share premium account	-	(7)
Reserves credit for employee share-based payment schemes	10	12
Vested employee share-based payment schemes	(2)	(5)
Closing EEV	**6,245**	**6,211**

Opening adjustments relate to the transfer of mutual funds from non-covered to covered business. These adjustments impacted the opening PVIF in covered business by £32m (2007: £32m) and the opening net assets in non-covered business by £nil (2007: (£13m)).

2.8 Reconciliation of EEV net assets to IFRS net assets

	12 months to 31 December 2008 £m	12 months to 31 December 2007 £m
Net assets on an EEV basis	**6,245**	**6,211**
Present value of in-force life and pensions business net of cost of capital	(3,053)	(3,327)
EEV net worth	**3,192**	**2,884**
Adjustment of long-term debt to market value	(434)	(4)
Canadian marked-to-market	58	112
Deferred acquisition costs net of deferred income reserve	354	245
Consolidation adjustment for different accounting basis[1]	42	-
Other	195	45
Net assets on an IFRS basis	**3,407**	**3,282**

[1] This adjustment reflects the removal of accounting differences for the Canadian subordinated liability as explained in Note 2.1 – Basis of preparation.

Reconciling items are shown net of tax where appropriate.

'Other' predominantly relates to deferred tax differences of £180m and the capitalisation of software development costs of £19m.

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

(a) Total

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

Asia Pacific is included within covered business on an IFRS basis, with the IFRS opening and closing net assets for this business included within the opening and closing EEV free surplus, and the IFRS underlying loss after tax included within expected return on free surplus.

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**720**	**562**	**1,282**	**3,217**	**4,499**
Opening adjustments	-	-	-	32	**32**
Opening adjusted EEV	**720**	**562**	**1,282**	**3,249**	**4,531**
Contribution from new business	(272)	47	(225)	473	**248**
Contribution from in-force business:					
Expected return on existing business	-	26	26	262	**288**
Expected return transfer to net worth	552	(38)	514	(514)	**-**
Experience variances	6	3	9	(44)	**(35)**
Operating assumption changes	226	4	230	(123)	**107**
Development expenses	(16)	-	(16)	-	**(16)**
Expected return on free surplus	9	-	9	-	**9**
Operating profit after tax	**505**	**42**	**547**	**54**	**601**
Investment return and tax variances	7	3	10	(22)	**(12)**
Effect of economic assumption changes	75	(11)	64	(45)	**19**
Restructuring expenses	(4)	-	(4)	-	**(4)**
Profit/(loss) after tax	**583**	**34**	**617**	**(13)**	**604**
Internal capital transfers	(89)	-	(89)	-	**(89)**
Transfer back of surplus to Standard Life Investments	(25)	-	(25)	-	**(25)**
Transfer back of mutual funds net worth	11	-	11	-	**11**
Actuarial gains on defined benefit pension schemes	19	-	19	-	**19**
Foreign exchange differences	18	84	102	91	**193**
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	**(3)**
Other	3	-	3	-	**3**
Closing EEV	**1,237**	**680**	**1,917**	**3,327**	**5,244**

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

(b) UK and HWPF TVOG

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**970**	**63**	**1,033**	**2,514**	**3,547**
Opening adjustments	-	-	-	32	**32**
Opening adjusted EEV	**970**	**63**	**1,033**	**2,546**	**3,579**
Contribution from new business	(188)	23	(165)	317	**152**
Contribution from in-force business:					
Expected return on existing business	(1)	3	2	207	**209**
Expected return transfer to net worth	383	(1)	382	(382)	**-**
Experience variances	(10)	(5)	(15)	25	**10**
Operating assumption changes	94	16	110	-	**110**
Development expenses	(24)	-	(24)	-	**(24)**
Expected return on free surplus	24	-	24	-	**24**
Operating profit after tax	**278**	**36**	**314**	**167**	**481**
Investment return and tax variances	178	(4)	174	(620)	**(446)**
Effect of economic assumption changes	(1)	-	(1)	(143)	**(144)**
Restructuring expenses	(25)	-	(25)	-	**(25)**
(Loss)/profit after tax	**430**	**32**	**462**	**(596)**	**(134)**
Internal capital transfers	(470)	-	(470)	-	**(470)**
Transfer back of surplus to Standard Life Investments	(28)	-	(28)	-	**(28)**
Transfer back of mutual funds net worth	17	-	17	-	**17**
Actuarial gains on defined benefit pension schemes	-	-	-	-	**-**
Foreign exchange differences	-	-	-	-	**-**
Aggregate tax effect of items not recognised in income statement	-	-	-	-	**-**
Other	(10)	-	(10)	-	**(10)**
Closing EEV	**909**	**95**	**1,004**	**1,950**	**2,954**

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**656**	**32**	**688**	**2,590**	**3,278**
Opening adjustments	-	-	-	-	**-**
Opening adjusted EEV	**656**	**32**	**688**	**2,590**	**3,278**
Contribution from new business	(197)	27	(170)	373	**203**
Contribution from in-force business:					
Expected return on existing business	-	1	1	206	**207**
Expected return transfer to net worth	392	(1)	391	(391)	**-**
Experience variances	(1)	(2)	(3)	(51)	**(54)**
Operating assumption changes	264	4	268	(168)	**100**
Development expenses	(8)	-	(8)	-	**(8)**
Expected return on free surplus	18	-	18	-	**18**
Operating profit/(loss) after tax	**468**	**29**	**497**	**(31)**	**466**
Investment return and tax variances	(43)	1	(42)	(21)	**(63)**
Effect of economic assumption changes	(9)	1	(8)	(24)	**(32)**
Restructuring expenses	(4)	-	(4)	-	**(4)**
Profit/(loss) after tax	**412**	**31**	**443**	**(76)**	**367**
Internal capital transfers	(93)	-	(93)	-	**(93)**
Transfer back of surplus to Standard Life Investments	(23)	-	(23)	-	**(23)**
Transfer back of mutual funds net worth	15	-	15	-	**15**
Actuarial gains on defined benefit pension schemes	-	-	-	-	**-**
Foreign exchange differences	-	-	-	-	**-**
Aggregate tax effect of items not recognised in income statement	-	-	-	-	**-**
Other	3	-	3	-	**3**
Closing EEV	**970**	**63**	**1,033**	**2,514**	**3,547**

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

(c) Canada

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

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**24**	**526**	**550**	**351**	**901**
Opening adjustments	-	-	-	32	**32**
Opening adjusted EEV	**24**	**526**	**550**	**383**	**933**
Contribution from new business	(13)	17	4	23	**27**
Contribution from in-force business:					
Expected return on existing business	-	25	25	38	**63**
Expected return transfer to net worth	93	(35)	58	(58)	**-**
Experience variances	16	4	20	2	**22**
Operating assumption changes	(43)	-	(43)	58	**15**
Development expenses	(1)	-	(1)	-	**(1)**
Expected return on free surplus	2	-	2	-	**2**
Operating profit after tax	**54**	**11**	**65**	**63**	**128**
Investment return and tax variances	51	2	53	5	**58**
Effect of economic assumption changes	82	(12)	70	(19)	**51**
Restructuring expenses	-	-	-	-	**-**
Profit after tax	**187**	**1**	**188**	**49**	**237**
Internal capital transfers	(63)	-	(63)	-	**(63)**
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	**(2)**
Transfer back of mutual funds net worth	(4)	-	(4)	-	**(4)**
Actuarial gains on defined benefit pension schemes	14	-	14	-	**14**
Foreign exchange differences	15	84	99	65	**164**
Aggregate tax effect of items not recognised in income statement	(3)	-	(3)	-	**(3)**
Other	-	-	-	-	**-**
Closing EEV	**168**	**611**	**779**	**497**	**1,276**

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

(d) Europe and Asia Pacific

12 months to 31 December 2008	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**99**	**6**	**105**	**316**	**421**
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	**99**	**6**	**105**	**316**	**421**
Contribution from new business	(58)	3	(55)	68	**13**
Contribution from in-force business:					
Expected return on existing business	-	-	-	23	**23**
Expected return transfer to net worth	71	1	72	(72)	**-**
Experience variances	2	-	2	-	**2**
Operating assumption changes	13	-	13	(1)	**12**
Development expenses	(4)	-	(4)	-	**(4)**
Expected return on free surplus	(32)	-	(32)	-	**(32)**
Operating profit/(loss) after tax	**(8)**	**4**	**(4)**	**18**	**14**
Investment return and tax variances	-	(1)	(1)	(39)	**(40)**
Effect of economic assumption changes	3	-	3	5	**8**
Restructuring expenses	(1)	-	(1)	-	**(1)**
(Loss)/profit after tax	**(6)**	**3**	**(3)**	**(16)**	**(19)**
Internal capital transfers	33	-	33	-	**33**
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	**(2)**
Transfer back of mutual funds net worth	-	-	-	-	**-**
Actuarial losses on defined benefit pension schemes	(10)	-	(10)	-	**(10)**
Foreign exchange differences	46	3	49	97	**146**
Aggregate tax effect of items not recognised in income statement	-	-	-	-	**-**
Other	12	-	12	-	**12**
Closing EEV	**172**	**12**	**184**	**397**	**581**

Asia Pacific is included within covered business on an IFRS basis, with the IFRS opening and closing net assets for this business included within the opening and closing EEV free surplus, and the IFRS underlying loss after tax included within expected return on free surplus.

12 months to 31 December 2007	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	40	4	44	276	320
Opening adjustments	-	-	-	-	-
Opening adjusted EEV	40	4	44	276	320
Contribution from new business	(62)	3	(59)	77	18
Contribution from in-force business:					
Expected return on existing business	-	-	-	18	18
Expected return transfer to net worth	67	(2)	65	(65)	-
Experience variances	(9)	1	(8)	5	(3)
Operating assumption changes	5	-	5	(13)	(8)
Development expenses	(7)	-	(7)	-	(7)
Expected return on free surplus	(11)	-	(11)	-	(11)
Operating profit/(loss) after tax	(17)	2	(15)	22	7
Investment return and tax variances	(1)	-	(1)	(6)	(7)
Effect of economic assumption changes	2	-	2	(2)	-
Restructuring expenses	-	-	-	-	-
Profit/(loss) after tax	(16)	2	(14)	14	-
Internal capital transfers	67	-	67	-	67
Transfer back of surplus to Standard Life Investments	-	-	-	-	-
Transfer back of mutual funds net worth	-	-	-	-	-
Actuarial gains on defined benefit pension schemes	5	-	5	-	5
Foreign exchange differences	3	-	3	26	29
Aggregate tax effect of items not recognised in income statement	-	-	-	-	-
Other	-	-	-	-	-
Closing EEV	99	6	105	316	421

2.10 Time value of options and guarantees (TVOG)

	31 December 2008 £m	31 December 2007 £m
UK and Europe HWPF	**(220)**	(41)
Canada	**(30)**	(13)
Europe – other	**(7)**	(2)
Total	**(257)**	(56)

The UK and Europe HWPF TVOG reflects the value of shareholder exposure to the policyholder guarantees within the HWPF. This has increased significantly during 2008, primarily due to adverse market movements. This has arisen from both the significantly lower than expected investment returns earned during 2008, and the impact of changes to long-term investment assumptions, in particular from the use of lower risk free rates and higher implied volatilities.

Adverse investment experience and changes in economic assumptions have also resulted in increases to TVOG in Canada and Europe.

2.11 Market value of subordinated liabilities within covered business

	31 December 2008 £m	31 December 2007 £m
UK	**(1,375)**	(1,643)
Canada	**(183)**	(207)
Total	**(1,558)**	(1,850)

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

The market value of the subordinated liabilities in the UK and Canada has reduced over 2008 as a result of significant increases in credit spreads, offset in part from foreign exchange movements.

The fall in the market value of the Canadian subordinated liability has produced a pre-tax profit of £58m within the 2008 effect of economic assumption changes shown in Note 2.2(a). This has been offset by the Group EEV consolidation adjustment in respect of Canadian subordinated liability, as shown in the EEV consolidated income statement.

2.12 Principal economic assumptions – deterministic calculations – covered business

(a) Gross investment returns and expense inflation

At 31 December 2008	UK %	Canada %	Europe %
Gross investment returns			
Risk free	3.42	3.07	2.95
Corporate bonds	5.09[3]	[1]	n/a
Equities	6.42	8.60	5.95
Property	5.42	8.60	4.95
Other			
Expense inflation:	2.57	[2]	
Germany			1.27
Ireland			2.18

[1] Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.

[2] 0.94% in 2008. The rate in subsequent years is based on a moving 30 year bond yield less a variable deduction.

[3] Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 6.44% for annuities that are level or subject to fixed escalations and 3.42% for annuities where escalations are linked to a price index.

At 31 December 2007	UK %	Canada %	Europe %
Gross investment returns			
Risk free	4.58	4.04	4.33
Corporate bonds	5.56[3]	[1]	n/a
Equities	7.58	8.60	7.33
Property	6.58	8.60	6.33
Other			
Expense inflation:	4.07	[2]	
Germany			2.69
Ireland			3.80

[1] Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.

[2] 1.64% in 2007. The rate in subsequent years is based on a moving 30 year bond yield less a variable deduction.

[3] Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 5.53% for annuities that are level or subject to fixed escalations and 4.58% for annuities where escalations are linked to a price index.

(b) Risk discount rates – in-force business

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

[1] Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 3.4% and 3.2% respectively.

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

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

At 31 December 2007	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
Risk margin – in-force business					
Risk margin before cost of capital adjustment:					
Market risk	2.00	2.00	2.10	2.00	2.00
Non-market risk	1.60	1.20	2.20	1.60	1.20
Total	**3.60**	**3.20**	**4.30**	**3.60**	**3.20**
Cost of capital adjustment	-	(0.30)	(1.40)	-	(0.30)
Risk margin after cost of capital adjustment	**3.60**	**2.90**	**2.90**	**3.60**	**2.90**
Risk discount rates – in-force business					
Risk free	4.58	4.58	4.04	4.33	4.33
Risk margin[1]	3.60	2.90	2.90	3.60	2.90
Risk discount rate	**8.18**	**7.48**	**6.94**	**7.93**	**7.23**

[1] Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 3.5% and 3.3% respectively.

Changes in market risk margins generally arise from changes in asset allocation, product mix and reserving changes.

The UK and Europe HWPF non-market risk margin has remained at 1.60%. However, this consists of two separate movements. As reported in the Interim Results for 2008, the reinsurance of the UK annuity liabilities led to a 0.70% reduction in the non-market risk margin. The impact of this reduction in the risk discount rate was a profit of £129m which is reported through UK and Europe 'Other' operating assumption changes, as described in Notes 2.2(a) and 2.5, reflecting the EEV benefit of the reduced non-market risk that has arisen from this transaction. As part of the year end calibration, the UK and Europe HWPF non-market risk margin increased by 0.70% due to changes in persistency risk assumptions and also from changes in business mix. The impact of this 0.70% increase in the risk discount rate is included within the effect of economic assumption changes, as shown in Note 2.2(a).

The increases in the non-market risk margin for UK and Europe equity holder owned funds mainly arise from changes in persistency risk assumptions, whilst the 0.20% increase in Canada arises from changes in business mix.

Apart from the reduction arising from the reinsurance of UK annuity liabilities, the impact of the other changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 2.2(a). The amounts within these totals that relate to the changes in risk discount rates are for UK: profit £172m, for Europe: profit £31m and for Canada: profit £74m.

(c) Risk discount rates – new business

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

[1] As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2007.
[2] Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.8% and 2.9% respectively.

12 months to 31 December 2007	UK HWPF %	UK equity holder owned funds %	Canada %	Europe HWPF %	Europe equity holder owned funds %
Risk margin – new business					
Risk margin before cost of capital adjustment:					
Market risk	2.10	2.00	1.80	2.10	2.00
Non-market risk	0.40	1.20	2.20	0.40	1.20
Total	**2.50**	**3.20**	**4.00**	**2.50**	**3.20**
Cost of capital adjustment	-	(0.30)	(1.10)	-	(0.30)
Risk margin after cost of capital adjustment	**2.50**	**2.90**	**2.90**	**2.50**	**2.90**
Risk discount rates – new business					
Risk free[1]	4.83	4.83	4.11	3.95	3.95
Risk margin[2]	2.50	2.90	2.90	2.50	2.90
Risk discount rate	**7.33**	**7.73**	**7.01**	**6.45**	**6.85**

[1] As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2006.
[2] Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.8% and 2.9% respectively.

2.13 Principal economic assumptions – stochastic calculations

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

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

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

- Cash returns
- Bond returns
- Inflation
- Equity returns
- Property returns
- Dividend yields
- Rental yields

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

Parameters used in ESG

Cash and bond returns
These variables are calibrated using the following instruments:

- Conventional government bond yields adjusted to allow for any 'convenience premium' associated with government bond prices
- A range of swaption prices

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

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

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

Dividend and rental yields
As market consistent estimates for dividend and rental yields cannot be derived from liquid market instruments, best estimates are used.

Correlations

The principal correlations in the ESG are between equity, bond and property returns. These correlations are targeted to be of the following order:

- Equity/property = 0.2
- Equity/bonds = 0.2
- Property/bonds = 0.1

2.14 Foreign exchange

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

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2008	Average to 31 December 2008	Closing 31 December 2007	Average to 31 December 2007
Canada	**1.775**	**1.957**	1.965	2.148
Ireland	**1.034**	**1.259**	1.362	1.459
Germany	**1.034**	**1.259**	1.362	1.459
India	**70.049**	**80.063**	78.460	82.831
China	**9.810**	**12.896**	14.540	15.214
Hong Kong	**11.143**	**14.418**	15.521	15.616

2.15 Sensitivity analysis – economic and non-economic assumptions

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

The sensitivities tested were:

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

Embedded value:

31 December 2008	UK £m	Canada £m	Europe £m	Asia Pacific £m	HWPF TVOG £m	Total £m
Embedded value	3,174	1,597	461	120	(220)	**5,132**
Risk discount rate +1%	(151)	(151)	(26)	-	-	**(328)**
Risk discount rate -1%	173	190	31	-	-	**394**
Interest returns +1%	72	45	(2)	-	41	**156**
Interest returns - 1%	(80)	(78)	(2)	-	(138)	**(298)**
Fall in equity / property market values by 10%	(112)	(92)	(13)	-	(8)	**(225)**
Maintenance expenses -10%	95	90	13	-	6	**204**
Lapse rates -10%	98	86	5	-	(20)	**169**
Annuitant mortality -5%	(44)	(41)	(5)	-	-	**(90)**
Non-annuitant mortality -5%	9	34	1	-	1	**45**
Prescribed minimum capital	-	70	-	-	-	**70**

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

As explained in Note 2.16, Asia Pacific is not reported on an embedded value basis. Since the embedded value has been included at the IFRS value, no embedded value sensitivities are produced.

As a result of the UK annuity reinsurance transaction, the exposure of our UK business to changes in annuitant mortality is significantly reduced. Therefore, the impact of a 5% decrease in mortality for annuitant policies is reduced from (£100m) as reported in our 2007 *Annual Report and Accounts* to (£44m).

The sensitivity of the Canada embedded value as shown above includes the effect of changes in the market value of the subordinated liability. Whilst Group EEV is adjusted for the different subordinated debt valuation bases used for covered and non-covered business as explained in Note 2.1, the impact of these sensitivities on the Group EEV consolidation adjustment is not included in this sensitivity analysis.

New business contribution:

12 months to 31 December 2008	UK £m	Canada £m	Europe £m	HWPF TVOG £m	Total £m
New business contribution	212	34	18	-	**264**
Risk discount rate +1%	(24)	(6)	(5)	-	**(35)**
Risk discount rate -1%	28	7	6	-	**41**
Interest returns +1%	34	(2)	(1)	-	**31**
Interest returns - 1%	(42)	2	-	-	**(40)**
Maintenance expenses -10%	13	9	2	-	**24**
Lapse rates -10%	11	7	1	-	**19**
Annuitant mortality -5%	(3)	-	-	-	**(3)**
Non-annuitant mortality -5%	-	6	-	-	**6**
Prescribed minimum capital	-	1	-	-	**1**

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

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

2.16 EEV methodology

Covered business

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

The Group's covered business is its life assurance and pensions businesses in the UK, Canada, Europe (Germany including Austria, and Ireland) and Asia Pacific, 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. As Asia Pacific is not material in the context of both the Group embedded value and the Group EEV operating profit, EEV Principles and Guidance do not require them to be reported on an embedded value basis. They have therefore been included at their IFRS value which is consistent with the IFRS primary statements. This IFRS value should not be interpreted as a proxy for their embedded value.

UK covered business also includes:

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

Canada covered business also includes mutual funds.

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

Asia Pacific covered business consists of:

- The Group's share of results in the joint venture, HDFC Standard Life Insurance Company Limited (during 2008: 26%; 2007: started the year at 17.4% and ended the year at 26% shareholding)
- The Group's share of results in the joint venture, Heng An Standard Life Insurance Company Limited (during 2008: 50%; during 2007: 50% shareholding)
- The results of the Group's business in Hong Kong (Standard Life Asia), along with an allocation of costs attributable to the Asia Pacific Development head office

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

Value of in-force covered business

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

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

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

Free surplus

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

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

Allowance for risk

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

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

Risk discount rates

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

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

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

2.16 EEV methodology *continued*

Risk discount rates *continued*

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

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

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

The values of the risk discount rates used for this reporting period are provided in Note 2.12.

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.

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 purposes of assessing EEV, we exclude any required 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' fund. Projections show that the surplus in the HWPF is expected, on best estimate assumptions, to cover this level of required capital at the valuation date and in future years.

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

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

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

Time value of financial options and guarantees (TVOG)

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

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

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

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

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

- The projected economic scenarios and the methodology used to discount equity holder cash flows are based on market consistent assumptions
- The total cost includes an allowance for non-market risk
- Changes in policyholder behaviour are allowed for according to the particular economic scenario

- Changes in management actions, including the dynamic guarantee deductions, are allowed for according to the particular economic scenario, such actions being expected to be consistent with the way that the HWPF will be managed in future as described in the Scheme and in the Principles and Practices of Financial Management (PPFM)
- Each projection allows for the gradual release of the residual estate over time to policyholders where there are sufficient funds to do so

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

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

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

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.

Details of the assumptions used for this reporting period are provided in Note 2.12.

Non-economic assumption changes

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

Expense assumptions

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

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

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

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

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 business rather than the investment fees actually charged.

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

Expenses – pension scheme deficits

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

2.16 EEV methodology *continued*

Other non-economic experience assumptions

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

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

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

New business

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

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

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

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

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

For Ireland, new business comprises:

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

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

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

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

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

Tax

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

Transfers to equity holders from the HWPF will, in the first instance, be funded from unallocated surplus. The profit after tax result is stated after allowing for this and takes into account the risk of markets moving adversely in the future which would reduce the amount that can be transferred to equity holders from the unallocated surplus. These transfers can be made without equity holder tax arising for a number of years. Over time the actual effective tax rate on these transfers will move toward the standard rate of corporation tax.

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

Subordinated liabilities

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

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

Foreign exchange

Embedded value and other balance sheet items denominated in foreign currencies have been translated to sterling using the appropriate closing exchange rates. NBC and other profit and loss account items have been translated using average exchange rates. Gains and losses arising from foreign exchange differences on consolidation are presented separately within the EEV consolidated statement of recognised income and expense.

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

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3 International Financial Reporting Standards (IFRS)

Summary IFRS consolidated income statement

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Revenue			
Gross earned premiums		**3,564**	3,732
Premiums ceded to reinsurers	3.9	**(6,338)**	(86)
Net earned premium		**(2,774)**	3,646
Net investment return		**(13,531)**	5,803
Fee and commission income		**622**	593
Other income		**93**	71
Total net revenue		**(15,590)**	10,113
Expenses			
Claims and benefits paid		**7,142**	7,598
Claim recoveries from reinsurers		**(571)**	(66)
Net insurance benefits and claims		**6,571**	7,532
Change in reinsurance assets		**(5,559)**	311
Change in policyholder liabilities		**(18,112)**	(510)
Expenses under arrangements with reinsurers		**92**	-
Administrative expenses	3.3	**2,464**	2,297
Change in liability for third party interest in consolidated funds		**(598)**	(78)
Finance costs		**129**	122
Total expenses		**(15,013)**	9,674
Share of profits from associates and joint ventures		**101**	181
(Loss)/profit before tax		**(476)**	620
Tax (credit)/expense attributable to policyholders' returns	3.4	**(334)**	111
(Loss)/profit before tax attributable to equity holders' profits		**(142)**	509
Total tax (credit)/expense	3.4	**(493)**	44
Less: Tax attributable to policyholders' returns	3.4	**334**	(111)
Tax credit attributable to equity holders' profits	3.4	**(159)**	(67)
Profit for the year		**17**	576
Attributable to:			
Equity holders of Standard Life plc		**100**	465
Minority interest		**(83)**	111
		17	576
Earnings per share			
Basic (pence per share)	3.6	**4.6**	21.7
Diluted (pence per share)	3.6	**4.6**	21.4

IFRS pro forma reconciliation of Group underlying profit to profit for the period

For the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Underlying profit before tax attributable to equity holders of Standard Life plc			
Life and pensions			
UK		**184**	395
Canada		**(102)**	168
Europe		**65**	63
Other		**(35)**	(12)
Total life and pensions		**112**	614
Investment management		**42**	83
Banking		**26**	32
Healthcare		**11**	13
Other		**(37)**	(28)
Underlying profit before tax attributable to equity holders of Standard Life plc and adjusted items		**154**	714
(Loss)/profit attributable to minority interest		**(83)**	111
Underlying profit before tax attributable to equity holders and adjusted items		**71**	825
Adjusted for the following items:			
Volatility arising on different asset and liability valuation bases	3.5	**(141)**	(302)
Restructuring and corporate transaction expenses	3.3	**(72)**	(31)
Profit on part disposal of associate		**-**	17
(Loss)/profit before tax attributable to equity holders' profits		**(142)**	509
Tax credit attributable to:			
Underlying profit		**100**	11
Adjusted items		**59**	56
Total tax credit attributable to equity holders' profits		**159**	67
Profit for the year		**17**	576

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

Summary IFRS consolidated balance sheet

As at 31 December 2008

	Notes	2008 £m	2007 £m
Assets			
Intangible assets		**112**	69
Deferred acquisition costs		**892**	693
Investments in associates and joint ventures		**3,098**	4,146
Investment property		**7,738**	10,646
Property, plant and equipment		**740**	870
Reinsurance assets		**6,076**	476
Loans and receivables		**12,069**	13,056
Investment securities		**90,716**	102,304
Derivative financial assets		**2,800**	520
Other assets		**2,687**	1,865
Cash and cash equivalents		**10,052**	9,335
Total assets		**136,980**	143,980
Equity			
Share capital		**218**	217
Share premium reserve		**792**	792
Retained earnings		**774**	776
Other reserves		**1,623**	1,497
Capital and reserves attributable to equity holders of Standard Life plc		**3,407**	3,282
Minority interest		**334**	391
Total equity		**3,741**	3,673
Liabilities			
Non-participating contract liabilities	3.8	**71,908**	79,742
Participating contract liabilities	3.8	**34,163**	37,888
Deposits received from reinsurers		**5,968**	53
Third party interest in consolidated funds		**1,603**	1,501
Borrowings	3.10	**3,227**	6,118
Subordinated liabilities		**2,204**	1,908
Deferred income		**382**	340
Income tax liabilities		**267**	732
Customer accounts related to banking activities and deposits by banks		**6,991**	6,080
Derivative financial liabilities		**1,348**	642
Other liabilities		**5,178**	5,303
Total liabilities		**133,239**	140,307
Total equity and liabilities		**136,980**	143,980

Summary IFRS consolidated statement of recognised income and expense

For the year ended 31 December 2008

	2008 £m	2007 £m
Fair value losses on cash flow hedges	**(38)**	(6)
Actuarial gains/(losses) on defined benefit pension schemes	**161**	(3)
Revaluation of land and buildings	**(58)**	(26)
Net investment hedge	**(17)**	-
Exchange differences on translating foreign operations	**479**	175
Equity movements transferred to the unallocated divisible surplus	**(236)**	(11)
Equity movements attributable to third party interest in consolidated funds	**22**	-
Share of other recognised income from associates and joint ventures	**2**	-
Aggregate equity holder tax effect of items not recognised in income statement	**(42)**	-
Net income not recognised in income statement	**273**	129
Profit for the year	**17**	576
Total recognised income for the year	**290**	705
Attributable to:		
Equity holders of Standard Life plc	**373**	594
Minority interest	**(83)**	111
	290	705

The movements in equity are summarised below:

	2008 £m	2007 £m
Equity at 1 January	**3,673**	3,185
Total recognised income for the year	**290**	705
Distributions to equity holders	**(257)**	(197)
Issue of share capital other than in cash	**1**	7
Capitalisation of share premium account	**-**	(7)
Reserves credit for employee share-based payment schemes	**10**	12
Vested employee share-based payment scheme	**(2)**	(5)
Change in minority interest in the year	**26**	(27)
Equity at 31 December	**3,741**	3,673

Summary IFRS consolidated cash flow statement

For the year ended 31 December 2008

	2008 £m	2007 £m
Cash flows from operating activities		
(Loss)/profit before tax	**(476)**	620
Non-cash movements from operating activities	**377**	47
Net decrease/(increase) in operational assets	**14,386**	(2,212)
Net (decrease)/increase in operational liabilities	**(11,604)**	4,696
Taxation paid	**(379)**	(323)
Net cash flows from operating activities	**2,304**	2,828
Cash flows from investing activities		
Net acquisition of property, plant and equipment	**(138)**	(68)
Acquisition of subsidiaries, net of cash acquired	**(24)**	-
Investments in associates and joint ventures	**(16)**	(9)
Other	**(23)**	(17)
Net cash flows from investing activities	**(201)**	(94)
Cash flows from financing activities		
Proceeds from other borrowings	**64**	36
Repayment of other borrowings	**(6)**	(28)
Capital contributions from minority interest and third party interest in consolidated funds	**(1,047)**	495
Interest paid	**(138)**	(134)
Distributions paid to minority interest	**(33)**	(31)
Ordinary dividends paid	**(257)**	(197)
Net cash flows from financing activities	**(1,417)**	141
Net increase in cash and cash equivalents	**686**	2,875
Cash and cash equivalents at the beginning of the year	**9,120**	6,194
Effects of exchange rate changes on cash and cash equivalents	**145**	51
Cash and cash equivalents at the end of the year	**9,951**	9,120
Supplemental disclosures on cash flow from operating activities		
Interest paid	**628**	630
Interest received	**3,666**	3,581
Dividends received	**1,649**	1,464
Rental income received on investment properties	**625**	615

Notes to the IFRS financial information

3.1 Accounting policies

(a) Basis of preparation

The preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 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 2008 have been applied in the preparation of this preliminary announcement.

(b) Preliminary announcement

The preliminary announcement for the year ended 31 December 2008 does not constitute statutory accounts as defined in Section 240 of the UK Companies Act 1985. PricewaterhouseCoopers LLP have audited the consolidated statutory accounts for the Group for the years ended 31 December 2007 and 31 December 2008 and their reports were unqualified and did not contain a statement under Section 237(2) or (3) of the UK Companies Act 1985. The Group's consolidated statutory accounts for the year ended 31 December 2007 have been filed with the Registrar of Companies. The Group's *Annual Report and Accounts* for the year ended 31 December 2008 will be available from 2 April 2009.

3.2 Segmental analysis

(a) Primary reporting format – business segments

The Group is managed and organised into five (2007: five) reportable business segments:

Life and pensions
Life and pensions offers a broad range of pensions, protection, savings and investment products to individual and corporate customers. Within these product classes are executive and group pension products, pooled pension funds and income protection products.

Healthcare
Healthcare primarily provides insurance cover to customers for medical expenses, accident and sickness.

Investment management
Investment management provides a range of investment products for individuals and institutional customers through a number of different investment vehicles such as mutual funds, limited partnerships and investment trusts. Asset classes offered via these vehicles include equities, bonds, cash and property. Segregated investment mandates are also provided to large investors. Investment management services are provided to other business segments.

Banking
Banking offers a range of retail mortgage and deposit products via online and telephone operations.

Other
Other includes primarily the Group Corporate Centre and the Shared Service Centre.

3.2 Segmental analysis *continued*

(i) Segmental income statement

12 months to 31 December 2008	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Revenue from external customers							
Net earned premium	(3,051)	273	4	-	-	-	**(2,774)**
Net investment return	(14,081)	(4)	12	630	1	(89)	**(13,531)**
Other segment income	541	2	162	5	5	-	**715**
Total revenue from external customers	**(16,591)**	**271**	**178**	**635**	**6**	**(89)**	**(15,590)**
Inter-segment revenue	10	3	105	1	560	(679)	**-**
Total segment revenue	**(16,581)**	**274**	**283**	**636**	**566**	**(768)**	**(15,590)**
Expenses							
Segment expenses	(16,230)	267	277	686	617	(759)	**(15,142)**
Finance costs	120	-	2	20	(4)	(9)	**129**
Total segment expenses	**(16,110)**	**267**	**279**	**706**	**613**	**(768)**	**(15,013)**
Share of profits from associates and joint ventures	98	-	(4)	-	7	-	**101**
Segment result for the year	**(373)**	**7**	**-**	**(70)**	**(40)**	**-**	**(476)**
Tax credit attributable to policyholders' returns							**(334)**
Tax credit attributable to equity holders' profits							**(159)**
Profit for the year							**17**
Other items included in the income statement are:							
Impairment losses recognised	138	-	-	4	-	-	**142**
Amortisation of intangible assets	9	-	-	-	1	-	**10**
Amortisation of deferred acquisition costs	133	30	2	-	-	-	**165**
Depreciation of property, plant and equipment	4	-	-	-	6	-	**10**

12 months to 31 December 2007	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Revenue from external customers							
Net earned premium	3,377	264	5	-	-	-	**3,646**
Net investment return	5,068	-	27	699	9	-	**5,803**
Other segment income	498	3	153	7	3	-	**664**
Total revenue from external customers	**8,943**	**267**	**185**	**706**	**12**	**-**	**10,113**
Inter-segment revenue	54	-	102	1	453	(610)	**-**
Total segment revenue	**8,997**	**267**	**287**	**707**	**465**	**(610)**	**10,113**
Expenses							
Segment expenses	8,451	269	192	689	543	(592)	**9,552**
Finance costs	114	-	1	25	-	(18)	**122**
Total segment expenses	**8,565**	**269**	**193**	**714**	**543**	**(610)**	**9,674**
Share of profits from associates and joint ventures	161	10	6	-	4	-	**181**
Segment result for the year	**593**	**8**	**100**	**(7)**	**(74)**	**-**	**620**
Tax expense attributable to policyholders' returns							**111**
Tax credit attributable to equity holders' profits							**(67)**
Profit for the year							**576**
Other items included in the income statement are:							
Impairment losses recognised	16	-	-	-	-	-	**16**
Amortisation of intangible assets	8	-	-	-	-	-	**8**
Amortisation of deferred acquisition costs	99	34	2	-	-	-	**135**
Depreciation of property, plant and equipment	3	1	-	-	5	-	**9**

There has been a reallocation of inter-segment revenue and expense between Investment management and life and pensions from that published in the consolidated financial statements for the year ended 31 December 2007. There has been no change to each segment's results for the year.

3.2 Segmental analysis *continued*

(i) Segmental income statement *continued*

Inter-segment transfers are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

The Scheme of Demutualisation of The Standard Life Assurance Company (the Scheme) provides that certain recourse cash flows arising in the Heritage With Profits Fund (HWPF) on specified blocks of UK and Irish business may be transferred out of that fund and thus accrue to the ultimate benefit of equity holders in the Company. Under the Scheme such transfers are subject to certain constraints in order to protect policyholders. If the recourse cash flows result in a negative amount, then the shareholder fund will make a transfer to the HWPF of at least that negative amount. The Scheme also provides for additional expenses to be charged by the Proprietary Business Fund (PBF) to the HWPF in respect of German branch business.

The expected future value of the defined cash flows on UK and Irish participating contracts is recognised as a reduction in the measurement of participating contract liabilities or in the unallocated divisible surplus. As these recourse cash flows arise they are no longer included in the measurement of participating contract liabilities or the unallocated divisible surplus and thus contribute to equity holder profit.

The expected future value of the recourse cash flows on UK and Irish non-participating contracts is not recognised either in the measurement of non-participating liabilities or in the unallocated divisible surplus. For regulatory reporting purposes the realistic valuation includes an adjustment to reflect the expected future value of cash flows due to equity holders. This is excluded from the International Financial Reporting Standards (IFRS) valuation. As these defined cash flows arise they contribute to equity holder profit.

The expected future value of the additional expenses to be charged on German unitised with profits contracts is recognised as a liability within the unallocated divisible surplus. As these additional expenses are charged they are no longer included in the measurement of the unallocated divisible surplus and thus contribute to equity holder profit.

In the year ended 31 December 2008 the recourse cash flows resulted in a positive amount (2007: positive), the transfer of which out of the HWPF was not subject to any constraint.

The life and pensions segment profit comprises the following:

	2008 £m	2007 £m
Recourse cash flows arising on UK and Irish unitised contracts	**243**	378
Recourse cash flows arising on UK and Irish non-unitised contracts	**124**	296
Additional expenses charged on German unitised with profits contracts	**39**	59
Transfer out of HWPF	**406**	733
Life and pensions operations outside the HWPF	**(779)**	(140)
Life and pensions segment result for the year	**(373)**	593

The life and pensions segment result is shown before deduction of tax attributable to policyholders' returns of (£334m) (2007: £111m).

(ii) Segmental balance sheet

At 31 December 2008	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Assets							
Segment assets	121,660	268	458	11,441	798	(1,296)	**133,329**
Investments in associates and joint ventures	2,895	3	15	-	185	-	**3,098**
Total segment assets	**124,555**	**271**	**473**	**11,441**	**983**	**(1,296)**	**136,427**
Unallocated assets							**553**
Total assets							**136,980**
Liabilities							
Segment liabilities	122,263	174	370	11,261	200	(1,296)	**132,972**
Total segment liabilities	**122,263**	**174**	**370**	**11,261**	**200**	**(1,296)**	**132,972**
Unallocated liabilities							**267**
Total liabilities							**133,239**
Equity							
Share capital and reserves							**3,407**
Minority interest							**334**
Total equity							**3,741**
Total equity and liabilities							**136,980**
Capital expenditure incurred during the year on:							
Intangible assets	11	6	-	-	9	-	**26**
Deferred acquisition costs	275	31	-	-	-	-	**306**
Property, plant and equipment	270	-	2	-	1	-	**273**

3.2 Segmental analysis *continued*

(ii) Segmental balance sheet *continued*

At 31 December 2007	Life and pensions £m	Healthcare £m	Investment management £m	Banking £m	Other £m	Elimination £m	Total £m
Assets							
Segment assets	126,460	186	313	13,226	435	(977)	**139,643**
Investments in associates and joint ventures	3,740	106	45	-	255	-	**4,146**
Total segment assets	**130,200**	**292**	**358**	**13,226**	**690**	**(977)**	**143,789**
Unallocated assets							**191**
Total assets							**143,980**
Liabilities							
Segment liabilities	127,016	203	210	12,917	204	(975)	**139,575**
Total segment liabilities	**127,016**	**203**	**210**	**12,917**	**204**	**(975)**	**139,575**
Unallocated liabilities							**732**
Total liabilities							**140,307**
Equity							
Share capital and reserves							**3,282**
Minority interest							**391**
Total equity							**3,673**
Total equity and liabilities							**143,980**
Capital expenditure incurred during the year on:							
Intangible assets	10	6	-	1	-	-	**17**
Deferred acquisition costs	331	34	-	-	-	-	**365**
Property, plant and equipment	216	-	-	-	17	-	**233**

(b) Secondary reporting format – geographical segments

The geographical segments are the United Kingdom, Canada and international operations, which includes all other geographic regions.

Revenues are allocated based on the country in which the contracts are issued or products are sold. Total assets and capital expenditure are allocated based on where the contracts or products to which they relate are issued or sold.

	Segment revenue from external customers £m	Segment assets £m	Capital expenditure on intangible assets, deferred acquisition costs and property, plant and equipment £m
At 31 December 2008			
United Kingdom	(15,741)	111,060	481
Canada	(502)	16,306	18
International	653	9,061	106
Unallocated items	-	553	-
Total	**(15,590)**	**136,980**	**605**
At 31 December 2007			
United Kingdom	7,926	121,588	485
Canada	1,453	15,849	15
International	734	6,352	115
Unallocated items	-	191	-
Total	**10,113**	**143,980**	**615**

3.3 Administrative expenses

	2008 £m	2007 £m
Commission expenses	**452**	503
Interest expenses	**639**	663
Staff costs and other employee related costs	**606**	566
Restructuring and corporate transaction expenses	**73**	31
Other administrative expenses	**694**	534
Total administrative expenses	**2,464**	2,297

Restructuring costs incurred during the year of £73m (2007: £31m) include £24m of costs associated with the restructuring of a sub-fund of Standard Life Investments (Global Liquidity Funds) plc (see below). In addition, restructuring costs include £46m of expenses in relation to the Group's Continuous Improvement Programme (CIP), mainly in relation to consultancy costs and process improvement projects (2007: £9m) and other restructuring costs of £3m (2007: £4m). The restructuring cost for the year ended 31 December 2007 also includes £18m relating to the proposed acquisition of Resolution plc.

Of the total restructuring costs of £73m, £72m (2007: £31m) is adjusted when determining underlying profit for the year, with the remaining £1m (2007: £nil) relating to CIP expenses incurred by the Heritage With Profits Fund.

On 30 April 2008 Standard Life Investments (Global Liquidity Funds) plc restructured one of its sub-funds, changing the pricing structure from an amortised cost to marked-to-market basis. The total costs to the Group associated with the restructuring of the sub-fund at the date of the transaction were £39m, of which £24m are restructuring costs and £15m is recognised in net investment return since it reflects the difference between the amortised cost and marked-to-market value of assets brought directly on to the Group balance sheet.

During the year ended 31 December 2007 the Company had issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked-to-market value of the underlying assets of two sub-funds, should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £60m and a provision of £10m was recognised in the year ended 31 December 2007. As a result of the restructuring, the guarantee was replaced by a revised agreement in respect of the other sub-fund with a maximum guarantee of £5m.

Other administrative expenses include £102m (2007: £nil) related to an expense incurred in respect of a unit linked fund, the Pension Sterling Fund. In January 2009 the value of units in that fund was reduced to reflect reductions in the market value of certain instruments held by the fund. In February 2009, in order to put customers invested in that fund back into the position they would have been before the valuation adjustment, the Group injected cash into the fund. As the circumstances that led to the cash injection had been in existence prior to the year end, the cost has been accrued within other administrative expenses for the year ended 31 December 2008.

3.4 Tax (credit)/expense

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

	2008 £m	2007 £m
Tax (credit)/expense attributable to policyholders' returns	**(334)**	111
Tax (credit)/expense attributable to equity holders' profits	**(159)**	(67)
	(493)	44

The share of tax of associates and joint ventures is £3m (2007: £4m) and is included above the line '(Loss)/profit before tax' in the consolidated income statement in 'Share of profits from associates and joint ventures'.

The total tax expense is split as follows:

	2008 £m	2007 £m
Current tax:		
United Kingdom	**253**	295
Double tax relief	**(1)**	(41)
Canada and international	**19**	22
Adjustment to tax credit in respect of prior years	**(21)**	(3)
Total current tax	**250**	273
Deferred tax:		
Deferred tax credit arising from the current period	**(743)**	(229)
Total deferred tax	**(743)**	(229)
Total tax (credit)/expense	**(493)**	44
Attributable to equity holders' profits	**(159)**	(67)

3.5 Volatility arising on different asset and liability valuation bases

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

	2008 £m	2007 £m
Measurement of investment contract liabilities and backing assets	**-**	163
Measurement of subordinated liabilities and backing assets	**47**	100
Derivative volatility	**94**	39
	141	302

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

3.6 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.

	2008	2007
Profit attributable to equity holders of Standard Life plc (£m)	100	465
Weighted average number of ordinary shares in issue (millions)	2,176	2,138
Basic earnings per share (pence per share)	**4.6**	21.7

(b) Diluted earnings per share

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

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

As part of the offer on the flotation of the Company, holders of demutualisation shares, employee shares or shares acquired in the preferential offer who held such shares for a continuous period of one year were eligible to receive, at the end of that one year period, one bonus share for every 20 shares retained. The number of bonus shares included as dilutive potential shares for the period 10 July 2006 to 9 July 2007 is based on the actual number issued on 10 July 2007.

	2008	2007
Profit attributable to equity holders of Standard Life plc (£m)	100	465
Weighted average number of ordinary shares for diluted earnings per share (millions)	2,180	2,177
Diluted earnings per share (pence per share)	**4.6**	21.4

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was 4 million (2007: 3 million). The effect of these dilutive potential ordinary shares did not impact the profit attributable to equity holders of the Company.

In 2007, the dilutive effect of the bonus shares included in the weighted average number of ordinary shares above was 36 million.

3.6 Earnings per share *continued*

(c) Alternative earnings per share

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

	2008 £m	2008 Per share p	2007 £m	2007 Per share p
Underlying profit before tax attributable to equity holders	**71**	**3.3**	825	38.6
Volatility arising on different asset and liability valuation bases	**(141)**	**(6.5)**	(302)	(14.1)
Restructuring and corporate transaction expenses	**(72)**	**(3.3)**	(31)	(1.4)
Profit on part disposal of associate	**-**	**-**	17	0.7
(Loss)/profit before tax attributable to equity holders' profits	**(142)**	**(6.5)**	509	23.8
Tax credit attributable to:				
Underlying profit	**100**	**4.6**	11	0.5
Adjusted items	**59**	**2.7**	56	2.6
Loss/(profit) attributable to minority interest	**83**	**3.8**	(111)	(5.2)
Profit attributable to equity holders of Standard Life plc	**100**	**4.6**	465	21.7

3.7 Dividends

The Company paid a final dividend of 7.70 pence per share (final 2006: 5.4 pence) totalling £168m in respect of the year ended 31 December 2007 on 30 May 2008 (final 2006: £114m) and an interim dividend of 4.07 pence per share (interim 2007: 3.80 pence) totalling £89m (interim 2007: £83m) in respect of the year ended 31 December 2008 on 28 November 2008.

Subsequent to 31 December 2008, the Directors have proposed a dividend for the year ended 31 December 2008 of 7.70 pence per ordinary share, £168m in total. The dividend will be paid on 29 May 2009, subject to approval at the Annual General Meeting on 15 May 2009. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2009.

3.8 Insurance contract liabilities, non-participating investment contract liabilities, participating investment contract liabilities and reinsurance assets

	Notes	2008 £m	2007 £m
Non-participating contract liabilities			
Non-participating insurance contracts	3.8(a)	**19,635**	20,980
Non-participating investment contracts	3.8(b)	**52,273**	58,762
		71,908	79,742
Participating contract liabilities			
Participating insurance contracts	3.8(a)	**17,625**	19,446
Participating investment contracts	3.8(a)	**15,674**	17,491
Unallocated divisible surplus		**864**	951
		34,163	37,888

Non-participating insurance contracts include £160m (2007: £161m) relating to Standard Life Healthcare and £3m (2007: £3m) relating to general insurance, conventional term assurances (Lifetime Protection Series), life contingent annuities, Perspecta Universal Life in Canada, and a small amount of linked Homeplan business.

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

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

	2008 £m	2007 £m
Participating contract liabilities before apportionment	**32,413**	37,117
Apportionment of non-participating PVFP	**886**	(180)
	33,299	36,937
Participating insurance contracts	**17,625**	19,446
Participating investment contracts	**15,674**	17,491
Participating contract liabilities after apportionment	**33,299**	36,937
Unallocated divisible surplus before apportionment	**1,955**	2,373
Apportionment of non-participating PVFP	**(1,091)**	(1,422)
Unallocated divisible surplus after apportionment	**864**	951

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

The movement in insurance contract liabilities, participating investment contracts and reinsurance assets during 2008 was as follows:

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

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

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

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

Standard Life Assurance Limited (SLAL) entered into a reinsurance arrangement with Canada Life International Re on 14 February 2008 in respect of certain annuity contracts. For the gross participating insurance and investment liabilities the impact of the annuity reinsurance transaction shown reflects the change in the residual estate which therefore impacts the value of the planned enhancements (on an FSA realistic basis) included within these liabilities as covered by the Scheme. The increase in the reinsurance asset associated with the transaction represents the increase in the value of the reinsurance assets with external reinsurers due to this new arrangement. Refer to Note 3.9 for further detail on this transaction.

Due to a change in the estimate of the amount required to compensate the HWPF for tax payable on certain income items participating contract liabilities reduced by £75m, which is reflected within the change in non-economic assumptions above. There was a related increase of £14m in the tax expense attributable to equity holders' profits.

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

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

	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurers' share of liabilities (reinsurance asset) £m	Net 2007 £m
At 1 January 2007	**20,225**	**20,202**	**18,563**	**58,990**	**(740)**	**58,250**
Expected change	(480)	(332)	(731)	(1,543)	2	(1,541)
Methodology/modelling changes	(72)	(29)	38	(63)	5	(58)
Effect of changes in:						
Economic assumptions	(60)	(94)	74	(80)	(9)	(89)
Non-economic assumptions	87	(267)	69	(111)	318	207
Effect of:						
Economic experience	(2)	42	(37)	3	(5)	(2)
Non-economic experience	(623)	(290)	(728)	(1,641)	5	(1,636)
New business	60	885	154	1,099	(5)	1,094
Total change in contract liabilities	**(1,090)**	**(85)**	**(1,161)**	**(2,336)**	**311**	**(2,025)**
Foreign exchange adjustment	311	858	89	1,258	(47)	1,211
Change in unearned premium reserve	-	5	-	5	-	5
At 31 December 2007	**19,446**	**20,980**	**17,491**	**57,917**	**(476)**	**57,441**

(b) Non-participating investment contracts liabilities

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

	2008 £m	2007 £m
At 1 January	**58,762**	50,931
Contributions	**10,170**	11,517
Initial charges and reduced allocations	**(50)**	(67)
Account balances paid on surrender and other terminations in the year	**(6,584)**	(6,685)
Investment return credited and related benefits	**(10,907)**	2,073
Foreign exchange adjustment	**1,314**	1,333
Recurring management charges	**(333)**	(344)
Other	**(99)**	4
At 31 December	**52,273**	58,762

Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

3.9 Annuity reinsurance

On 14 February 2008 Standard Life Assurance Limited (SLAL), a wholly owned subsidiary of the Company, reinsured a portfolio of annuity contracts held within its Heritage With Profits Fund (HWPF) with Canada Life International Re (the reinsurer), a reinsurer not related to the Company.

Prior to this SLAL had transferred the longevity risk in respect of these contracts to Standard Life Investment Funds (SLIF), a wholly owned subsidiary of SLAL, by a reinsurance agreement. SLIF had in turn retroceded certain of its obligations under this reinsurance agreement back to SLAL's Proprietary Business Fund (PBF) by a separate reinsurance agreement. On 14 February 2008 SLAL recaptured from SLIF its obligations in respect of the annuity contracts which were then reinsured to the reinsurer. The amount payable by SLIF to the HWPF related to this recapture was determined such that the economic benefits arising from entering into the reinsurance agreement with the reinsurer were shared equally between the HWPF and the Company.

In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium of £6.3bn (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. The liability to repay the deposit is presented in 'Deposits received from reinsurers'. In respect of this arrangement SLAL holds a ring fenced pool of assets. These assets are presented in the relevant balance sheet line items. The value of these assets is periodically compared to the amount of the required reserves for the reinsured liabilities. Any excess or shortfall in the value of the assets is then paid to or made up by the reinsurer by way of repayment of deposit or the making of a further deposit when required under the reinsurance treaty. The treaty also contains the requirement for the payment or receipt of Premium Adjustments, a term defined in the treaty, to ensure that the investment risk on the ring fenced pool of assets falls on the reinsurer. They are calculated periodically under the treaty as the difference between the value of the ring fenced assets and the deposit amount. If the Premium Adjustment is payable to the reinsurer, the reinsurer is required to deposit a corresponding amount into the deposit. If the Premium Adjustment is payable to SLAL a corresponding amount is repaid from the deposit. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

'Expenses under arrangements with reinsurers' includes interest on the deposit payable to the reinsurer using the effective interest method, and Premium Adjustments receivable in the period. Accrued interest and accrued Premium Adjustments are presented in 'Deposits received from reinsurers'.

At 31 December 2008 a reinsurance asset of £5.6bn and a deposit liability of £6.0bn arising from this transaction were recognised.

The impact of this transaction at the transaction date was to increase profit before tax by £105m, being the release of the component of the liability for reinsured contracts held outside the HWPF offset by the payment to the HWPF from SLIF under the recapture arrangements.

3.10 Borrowings

	Notes	2008 £m	2007 £m
Certificates of deposit, commercial paper and medium term notes	3.10(a)	**573**	1,843
Securitisations – mortgage backed floating rate notes	3.10(b)	**2,411**	3,983
Bank overdrafts		**101**	215
Other		**142**	77
Total borrowings		**3,227**	6,118

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

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

	Average interest rates		Carrying amount	
	2008 %	2007 %	**2008 £m**	2007 £m
Due within 1 year				
Standard Life Bank certificates of deposit – GBP	**4.13%**	6.28%	**228**	989
Standard Life Bank certificates of deposit – EUR	-	4.77%	-	60
Standard Life Funding B.V. commercial paper – GBP	**6.20%**	6.61%	**144**	240
Standard Life Funding B.V. commercial paper – USD	-	5.51%	-	139
Standard Life Funding B.V. commercial paper – EUR	**5.26%**	4.99%	**84**	313
Standard Life Funding B.V. medium term notes – GBP	-	6.56%	-	9
			456	1,750
Due between 1 and 5 years				
Standard Life Funding B.V. medium term notes – GBP	-	6.38%	-	4
			-	4
Due after 5 years				
Standard Life Funding B.V. medium term notes – EUR	**4.10%**	5.03%	**117**	89
			117	89
Total certificate of deposits, commercial paper and medium term notes			**573**	1,843

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

(b) Securitisations – mortgage backed floating rate notes

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

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

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

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

	Average interest rates		Carrying amount	
	2008	2007	**2008**	2007
	%	%	**£m**	£m
Lothian Mortgages No. 1 plc – USD – Maturity 2017	-	5.49%	-	79
Lothian Mortgages No. 1 plc – GBP – Maturity 2035	-	6.85%	-	572
Lothian Mortgages No. 2 plc – GBP – Maturity 2038	-	6.69%	-	202
Lothian Mortgages No. 2 plc – USD – Maturity 2038	-	5.53%	-	34
Lothian Mortgages No. 2 plc – EUR – Maturity 2038	-	5.10%	-	559
Lothian Mortgages No. 3 plc – USD – Maturity 2019	-	5.36%	-	38
Lothian Mortgages No. 3 plc – GBP – Maturity 2039	**6.47%**	6.71%	**730**	789
Lothian Mortgages No. 4 plc – EUR – Maturity 2040	**5.12%**	4.81%	**175**	263
Lothian Mortgages No. 4 plc – GBP – Maturity 2040	**6.25%**	6.56%	**571**	571
Lothian Mortgages Master Issuer plc – USD – Maturity 2028	**0.61%**	5.05%	**59**	122
Lothian Mortgages Master Issuer plc – USD - Maturity 2050	**3.71%**	5.31%	**35**	25
Lothian Mortgages Master Issuer plc – EUR – Maturity 2050	**5.16%**	4.85%	**460**	348
Lothian Mortgages Master Issuer plc – GBP – Maturity 2050	**6.25%**	6.58%	**381**	381
Total mortgages backed floating rate notes			**2,411**	3,983

3.11 Contingencies

(a) Legal proceedings and regulations

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

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

(b) Joint ventures and associates

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

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

(c) Issued share capital

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

(d) Guarantees

During the year ended 31 December 2007 the Company issued a guarantee to Standard Life Investments (Global Liquidity Funds) plc to cover the difference between amortised cost and marked-to-market value of the underlying assets of a sub-fund, should there be a need to sell assets below amortised cost to meet investor withdrawals. The guarantee was for a maximum of £60m. During the year a sub-fund was restructured as referred to in Note 3.3 and this guarantee was replaced by a revised agreement with a maximum guarantee of £5m in respect of another sub-fund.

3.11 Contingencies *continued*

(e) Other

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

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

A contingent liability also exists in relation to future FSCS levies, including the actual compensation costs due in relation to the banks which defaulted during 2008. As this liability cannot be reliably calculated and is dependent on a determination at some point in the future, the Group has not attempted to quantify this amount. The Group will continue to monitor this position and a provision will be made if and when a determinable outflow becomes probable in relation to this liability.

3.12 Capital statement

Capital management policies and risk management objectives

Capital can be measured on a number of different bases, which are set out in the Business review Section 1.7– Capital and cash generation. The capital statement shows capital based on definitions used for regulatory reporting purposes.

Managing capital is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Group, and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Board considers our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the Financial Services Authority (FSA).

There are two primary objectives of capital management within the Group. The first objective is to ensure that capital is, and will continue to be, adequate to maintain the required level of safety and stability of the Group and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the Group's regulatory solvency position. The second objective is to create shareholder value by driving profit attributable to equity holders, principally measured by the Group's European Embedded Value.

The capital management policy forms one pillar of the Group's overall management framework. Most notably, it operates alongside, and complements, the strategic investment policy and the Group risk policy. By integrating policies in this way, the Group is working towards a capital management framework that robustly links the process of capital allocation, value creation and risk management.

The capital requirements of each business unit are routinely forecast on a periodic basis, and the requirements are assessed against both forecast available capital and local regulatory capital requirements. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. The capital planning process is the responsibility of the Group Finance Director. Capital plans are ultimately subject to approval by the Board.

Regulatory capital

The Group operates in a number of geographical regions, and local regulators, primarily the FSA, specify rules and guidance for the minimum level of capital required to meet local requirements. The Group has not breached any regulatory capital requirements at any time during the year.

The FSA requires all insurance companies and financial conglomerates to maintain capital resources in excess of their capital resources requirement (CRR). Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital. Certain items that are classified as liabilities under IAS 32 *Financial Instruments: Disclosure and Presentation* are treated as capital under the regulatory basis. For the Group this applies to its subordinated guaranteed bonds, subordinated notes and mutual assurance capital securities. The CRR represents the total of the individual capital resources requirements (ICRR) of each regulated company in the Group.

In addition to the requirement to maintain capital resources in excess of its CRR, the FSA requires that each regulated company in the Group identifies the major risks it faces and, if appropriate, quantifies the amount and type of capital it believes is appropriate to mitigate those risks. This individual capital assessment (ICA) reflects each company's view of the adequacy of its capital resources.

There are many factors which affect the Group's capital resources. The determination of the liabilities includes various assumptions including potential changes in market conditions and the actions management might take as a result of those changes. Changes in market conditions and other variables have the potential to significantly affect the capital position. Poor investment returns could depress capital resources, but this could be mitigated by changing the asset portfolio and by the level of bonuses declared. Future annuitant mortality could be significantly different from that assumed in the calculation of the liabilities. European Union developments on solvency requirements could also have a significant impact on the future capital position.

Capital structure

The Group is classified as a financial conglomerate by the FSA by virtue of its significant regulated activities including insurance, investment management and banking operations. The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), which undertakes life assurance and pension business principally in the UK, Ireland and Germany.

The majority of life assurance and pensions business undertaken by UK regulated entities is written within long-term business funds within each regulated company. These long-term business funds are distinct from the equity holders' funds. Business written prior to demutualisation, and the increments to that business, are written in the Heritage With Profits Fund (HWPF). Business written after demutualisation is written in the other long-term business funds, principally the Proprietary Business Funds (PBF).

The HWPF's capital resources of £2,974m at 31 December 2008 (2007: £6,157m) and future surplus arising can be used to provide support for the HWPF, enhance payments to with profits policyholders or, in relation to the recourse cash flows, transfer defined amounts out of the fund to accrue to the benefit of equity holders. Additional restrictions are placed on the HWPF by the Scheme of Demutualisation (the Scheme), which provides that the recourse cash flows will be subject to a solvency test which prevents transfers of the recourse cash flows if, as a result of the transfer, the HWPF would have a realistic deficit or would have a regulatory surplus below the level which the board of SLAL considers necessary to declare bonuses in accordance with reasonable benefit expectations of with profits policyholders without creating a regulatory deficit.

Any surplus within the PBF is attributable to equity holders. Capital within the PBF may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund and any further restrictions imposed by the Scheme.

Capital statement

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

3.12 Capital statement *continued*

2008	UK regulated life business: Heritage With Profits Fund* £m	UK regulated life business: Proprietary business funds £m	UK regulated life business: Life business shareholders' 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								
Shareholders' funds								
Held outside life assurance funds	-	-	1,034	1,034	1,075	2,109	652	**2,761**
Held within life assurance funds	-	646	-	646	-	646	-	**646**
Equity attributable to ordinary equity holders of Standard Life plc	**-**	**646**	**1,034**	**1,680**	**1,075**	**2,755**	**652**	**3,407**
Unallocated divisible surplus	**864**	**-**	**-**	**864**	**-**	**864**	**-**	**864**
Other qualifying capital								
Subordinated liabilities	-	-	266	266	-	266	1,938	**2,204**
Internal subordinated liabilities	-	-	2,000	2,000	225	2,225	(2,225)	**-**
	-	**-**	**2,266**	**2,266**	**225**	**2,491**	**(287)**	**2,204**
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	2,198	19	-	2,217	15	2,232	-	**2,232**
Exclusion of deferred acquisition costs and other inadmissible assets	(162)	(511)	(517)	(1,190)	(52)	(1,242)	(64)	**(1,306)**
Exclusion of deferred income	154	199	-	353	2	355	-	**355**
Changes to the valuation of other assets and liabilities	(78)	(86)	(27)	(191)	(77)	(268)	257	**(11)**
	2,112	**(379)**	**(544)**	**1,189**	**(112)**	**1,077**	**193**	**1,270**
Total available capital resources to meet regulatory requirement	**2,976**	**267**	**2,756**	**5,999**	**1,188**	**7,187**	**558**	**7,745**
Analysed as follows:								
Capital not subject to constraints	-	-	2,380	2,380	436	2,816	424	**3,240**
Capital subject to constraints	2,976	267	376	3,619	752	4,371	134	**4,505**
Total available capital resources	**2,976**	**267**	**2,756**	**5,999**	**1,188**	**7,187**	**558**	**7,745**
Regulatory capital requirement				**2,186**	**685**	**2,871**	**83**	**2,954**
Analysis of contract liabilities								
Participating								
Insurance contracts	17,087	-	-	17,087	538	17,625	-	**17,625**
Investment contracts	15,669	-	-	15,669	5	15,674	-	**15,674**
Total participating contract liabilities	**32,756**	**-**	**-**	**32,756**	**543**	**33,299**	**-**	**33,299**
Unit linked								
Insurance contracts	1,141	22	-	1,163	1,142	2,305	-	**2,305**
Investment contracts	29,784	13,335	-	43,119	6,684	49,803	-	**49,803**
Total unit linked liabilities	**30,925**	**13,357**	**-**	**44,282**	**7,826**	**52,108**	**-**	**52,108**
Other non-participating								
Insurance contracts	10,549	1,725	-	12,274	4,893	17,167	163	**17,330**
Investment contracts	19	290	-	309	2,161	2,470	-	**2,470**
Total other non-participating liabilities	**10,568**	**2,015**	**-**	**12,583**	**7,054**	**19,637**	**163**	**19,800**
Total contract liabilities	**74,249**	**15,372**	**-**	**89,621**	**15,423**	**105,044**	**163**	**105,207**

* Capital resources amounting to £2m (2007: £1m) in respect of other with profits funds are disclosed within the Heritage With Profits fund column shown above.

Participating contract liabilities amounting to £238m (2007: £115m) relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

2007	UK regulated life business: Heritage With Profits Fund* £m	UK regulated life business: Proprietary business funds £m	UK regulated life business: Life business shareholders' 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								
Shareholders' funds								
Held outside life assurance funds	-	-	1,479	1,479	1,017	2,496	555	**3,051**
Held within life assurance funds	-	231	-	231	-	231	-	**231**
Equity attributable to ordinary equity holders of Standard Life plc	**-**	**231**	**1,479**	**1,710**	**1,017**	**2,727**	**555**	**3,282**
Unallocated divisible surplus	951	-	-	951	-	951	-	**951**
Other qualifying capital								
Subordinated liabilities	-	-	265	265	-	265	1,643	**1,908**
Internal subordinated liabilities	-	-	1,651	1,651	204	1,855	(1,855)	**-**
	-	**-**	**1,916**	**1,916**	**204**	**2,120**	**(212)**	**1,908**
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	5,228	39	-	5,267	(99)	5,168	-	**5,168**
Exclusion of deferred acquisition costs and other inadmissible assets	(180)	(432)	(275)	(887)	(56)	(943)	(21)	**(964)**
Exclusion of deferred income	173	140	-	313	-	313	-	**313**
Changes to the valuation of other assets and liabilities	(14)	76	(73)	(11)	83	72	233	**305**
	5,207	**(177)**	**(348)**	**4,682**	**(72)**	**4,610**	**212**	**4,822**
Total available capital resources to meet regulatory requirement	**6,158**	**54**	**3,047**	**9,259**	**1,149**	**10,408**	**555**	**10,963**
Analysed as follows:								
Capital not subject to constraints	-	-	2,670	2,670	579	3,249	439	**3,688**
Capital subject to constraints	6,158	54	377	6,589	570	7,159	116	**7,275**
Total available capital resources	**6,158**	**54**	**3,047**	**9,259**	**1,149**	**10,408**	**555**	**10,963**
Regulatory capital requirement				**4,872**	**580**	**5,452**	**82**	**5,534**
Analysis of contract liabilities								
Participating								
Insurance contracts	18,919	-	-	18,919	527	19,446	-	**19,446**
Investment contracts	17,486	-	-	17,486	5	17,491	-	**17,491**
Total participating contract liabilities	**36,405**	**-**	**-**	**36,405**	**532**	**36,937**	**-**	**36,937**
Unit linked								
Insurance contracts	1,522	15	-	1,537	1,352	2,889	-	**2,889**
Investment contracts	38,636	11,125	-	49,761	6,732	56,493	-	**56,493**
Total unit linked liabilities	**40,158**	**11,140**	**-**	**51,298**	**8,084**	**59,382**	**-**	**59,382**
Other non-participating								
Insurance contracts	12,302	1,266	-	13,568	4,349	17,917	174	**18,091**
Investment contracts	51	289	-	340	1,929	2,269	-	**2,269**
Total other non-participating liabilities	**12,353**	**1,555**	**-**	**13,908**	**6,278**	**20,186**	**174**	**20,360**
Total contract liabilities	**88,916**	**12,695**	**-**	**101,611**	**14,894**	**116,505**	**174**	**116,679**

* Capital resources amounting to £2m (2007: £1m) in respect of other with profits funds are disclosed within the Heritage With Profits Fund column shown above.

Participating contract liabilities amounting to £238m (2007: £115m) relating to the new with profits funds created at demutualisation are disclosed within the the Heritage With Profits Fund column.

3.12 Capital statement *continued*

UK regulated life business

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

Based on draft regulatory returns at 31 December 2008, SLAL had available capital resources of £6.0bn (2007: £9.3bn) and a CRR of £2.2bn (2007: £4.9bn). The capital resources shown in the capital statement are based on the value of assets and liabilities valued on a regulatory basis, however, the CRR reflects the higher value required as a result of the application of the realistic peak.

Capital subject to constraints for the UK regulated life business of £3.6bn at 31 December 2008 (2007: £6.6bn) represents capital resources held within long-term business funds, or, in relation to other regulated entities, the amount of the CRR.

Standard Life Bank is owned by SLAL and therefore its capital resources are included within life business shareholders' funds. Standard Life Bank's capital resources of £541m (2007: £489m) exceed its CRR of £358m (2007: £363m) by £183m (2007: £126m), and the excess can therefore be used to meet the requirements of the life assurance business.

Overseas life operations

Capital resources of £1,188m (2007: £1,149m) which relate mainly to operations in Canada, also include operations in the Asia Pacific region. The capital resources of the Canadian operations are based on local Generally Accepted Accounting Principles (GAAP) financial statements adjusted where necessary to reflect the fair value of assets with a corresponding adjustment to liabilities. The Canadian regulator sets the minimum required capital. It also requires certain assets to be held in trust to increase policyholder protection (vested assets). As a result of the combination of the capital requirement and vested assets, the overseas life capital subject to constraints amounted to £752m at 31 December 2008 (2007: £570m).

Other activities

At 31 December 2008, capital resources of £558m (2007: £555m) and capital subject to constraints of £134m (2007: £116m) relate to the Group's healthcare, investment management businesses and Group Corporate Centre activities.

Intra-group transactions

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

SLAL has issued subordinated loans to the Company, which SLAL treats as capital for regulatory purposes. The Standard Life Assurance Company of Canada and Standard Life Investments Limited have issued subordinated debt of £225m (2007: £204m) and £45m (2007: £15m) respectively, to the Company. These amounts of subordinated debt are included within the capital resources of those businesses, but at Group level only subordinated debt issued to external parties is included in the Group's capital resources.

Group capital requirement

The Group must also calculate a group solvency position under the Financial Groups Directive (FGD). The FGD calculation is a very prudent aggregate value for the Group's capital resources, because capital held within the long-term business funds of approximately £3.2bn (2007: £6.2bn) is restricted to the level of the CRR of those funds of approximately £1.7bn (2007: £4.4bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

The estimated FGD position at 31 December 2008 is shown in the Business review Section 1.7 – Capital and cash generation.

Movements in capital

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

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

2007	UK regulated life business: Heritage With Profits Fund £m	UK regulated life business: Proprietary business funds £m	UK regulated life business: Life business shareholders' 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 2007	**5,881**	**99**	**2,825**	**8,805**	**780**	**9,585**	**658**	**10,243**
Methodology/modelling changes	137	(6)	-	131	111	242	-	**242**
Change in assumptions used to measure life assurance contract liabilities and experience differences	331	(88)	-	243	2	245	-	**245**
Change in regulatory requirements	138	5	-	143	-	143	-	**143**
New business	(47)	(224)	-	(271)	(46)	(317)	-	**(317)**
Investment surplus	848	50	(93)	805	44	849	-	**849**
Shareholder/inter-fund transfers	(733)	268	465	-	74	74	(74)	**-**
Dividend transfers	-	-	(100)	(100)	(63)	(163)	(34)	**(197)**
Other factors	(397)	(50)	(50)	(497)	247	(250)	5	**(245)**
At 31 December 2007	**6,158**	**54**	**3,047**	**9,259**	**1,149**	**10,408**	**555**	**10,963**

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

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

Shareholder/inter-fund transfers include the transfer of £367m (2007: £674m) from the HWPF to the Shareholder Fund in respect of the recourse cash flows for UK and Ireland and £39m (2007: £59m) to the PBF in relation to additional expenses charged on German unitised with profits business. In addition, £338m (2007: £209m) was transferred from the Shareholder Fund to the PBF.

3.13 Event after the balance sheet date

On 13 October 2008 the UK Government announced the details of the 2008 Credit Guarantee Scheme for UK incorporated banks and building societies debt issuance. The Credit Guarantee Scheme forms part of the Government's measures to ensure the stability of the financial system. The Credit Guarantee Scheme provides for HM Treasury to guarantee specific bank and building society debt instruments issued during the period beginning from the announcement of the Credit Guarantee Scheme and ending on 31 December 2009. Debt instruments which are guaranteed under the Credit Guarantee Scheme are required to have a maturity not exceeding three years. Standard Life Bank has applied and become an eligible institution under the Credit Guarantee Scheme. On 11 February 2009 Standard Life Bank launched its Euro Medium Term Note programme under which it can issue debt, including debt covered by the Credit Guarantee Scheme. On 18 February 2009 the Group issued £500m of debt under the Credit Guarantee Scheme, maturing on 25 February 2011, for use in ongoing funding and liquidity management.

4 Supplementary information

Supplementary information

4.1 Group assets under administration and net flows

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

Analysis of Group AUA
For the year ended 31 December 2008

	Opening at 1 January 2008 £m	Gross inflows £m	Redemptions £m	Net flows £m	Market/other movements £m	Closing at 31 December 2008 £m
UK						
Insured pensions – institutional	10.0	1.8	(1.2)	0.6	(2.0)	8.6
Insured pensions – other [(a)]	59.4	5.5	(5.7)	(0.2)	(8.3)	50.9
Non-insured pensions [(b)]	3.3	2.1	(0.4)	1.7	(0.1)	4.9
Total pensions	**72.7**	**9.4**	**(7.3)**	**2.1**	**(10.4)**	**64.4**
Life products	23.8	2.0	(3.6)	(1.6)	(3.1)	19.1
Offshore bonds	0.3	0.7	(0.1)	0.6	-	0.9
Mutual funds [(c)] [(d)]	2.6	0.7	(0.3)	0.4	(0.5)	2.5
Total savings and investments	**26.7**	**3.4**	**(4.0)**	**(0.6)**	**(3.6)**	**22.5**
Assets not backing products	7.3	-	-	-	1.6	8.9
UK life and pensions	**106.7**	**12.8**	**(11.3)**	**1.5**	**(12.4)**	**95.8**
Europe						
Ireland	3.6	0.4	(0.5)	(0.1)	0.2	3.7
Germany	2.5	0.8	(0.1)	0.7	0.4	3.6
Europe life and pensions	**6.1**	**1.2**	**(0.6)**	**0.6**	**0.6**	**7.3**
Canada						
Group savings and retirement	9.6	1.5	(1.1)	0.4	(0.2)	9.8
Individual insurance, savings and retirement	5.6	0.4	(0.6)	(0.2)	0.5	5.9
Group insurance	0.3	0.3	(0.2)	0.1	-	0.4
Mutual funds [(d)]	1.5	0.2	(0.2)	-	(0.3)	1.2
Assets not backing products	0.9	-	-	-	(0.2)	0.7
Canada life and pensions	**17.9**	**2.4**	**(2.1)**	**0.3**	**(0.2)**	**18.0**
Asia Pacific life and pensions	**0.4**	**-**	**-**	**-**	**0.1**	**0.5**
Total worldwide life and pensions	**131.1**	**16.4**	**(14.0)**	**2.4**	**(11.9)**	**121.6**
Banking [(e)]	13.1	1.1	(2.7)	(1.6)	(0.2)	11.3
Investment management	0.4	-	-	-	0.1	0.5
Healthcare	0.3	-	-	-	-	0.3
Other	0.7	-	-	-	0.2	0.9
Total other businesses	**14.5**	**1.1**	**(2.7)**	**(1.6)**	**0.1**	**13.0**
Standard Life Investments third party assets under management [(b)]	**47.7**	**8.9**	**(5.5)**	**3.4**	**(5.6)**	**45.5**
Consolidation and elimination adjustments [(c)] [(f)]	(24.3)	(4.1)	2.3	(1.8)	2.8	(23.3)
Group assets under administration	**169.0**	**22.3**	**(19.9)**	**2.4**	**(14.6)**	**156.8**
Group assets under administration managed by:						
Standard Life Group entities	158.2					138.5
Other third party managers	10.8					18.3
Total	**169.0**					**156.8**

(a) Insured pensions – other includes assets deposited back with the Group as a result of the reinsurance of certain annuity contracts during the period.

(b) Non-insurance element of SIPP is also included within UK mutual funds net flows in third party Investment management new business shown in Section 1.5.5.

(c) The opening balance has been restated to reflect the inclusion of Sigma mutual funds.

(d) The mutual funds net flows are also included within mutual funds net flows in third party Investment management new business shown in Section 1.5.5.

(e) Flows in relation to the banking business related to new mortgages issued and mortgage repayments and redemptions.

(f) In order to be consistent with the presentation of new business information certain products are included in both life and pensions AUA and investment operations. Therefore, at a Group level an elimination adjustment is required to remove any duplication, in addition to other necessary consolidation adjustments.

4.2 Fair value hierarchy of financial instruments

To provide further information on the approach used to determine the fair value of financial assets and derivative financial liabilities measured at fair value on the Group's IFRS balance sheet, the fair value of these financial instruments has been categorised below on an indicative basis to reflect the following fair value hierarchy.

Level 1: fair values measured using quoted prices in active markets for the same instrument (i.e. without modification or repackaging)

Level 2: fair values measured using quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data

Level 3: fair values measured using valuation techniques for which any significant input is not based on observable market data

	Fair value hierarchy			
Total – 2008	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Equity securities	38,369	-	1,380	**39,749**
Debt securities	30,311	19,338	1,318	**50,967**
Derivative financial assets	507	2,283	10	**2,800**
Derivative financial liabilities	(44)	(1,304)	-	**(1,348)**
Total	**69,143**	**20,317**	**2,708**	**92,168**

Level 1 financial instruments principally include equity instruments listed on a recognised exchange, government and certain supranational institution bonds and exchange traded futures and options.

Level 2 financial instruments principally include listed corporate bonds, commercial paper, certificates of deposit and derivative instruments which are not exchange traded with the exception of credit default swaps. Corporate bonds have generally been classified as Level 2 as the composite price provided by third party 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 instruments, being predominantly interests in private equity funds, listed corporate bonds for which prices are not available from third party pricing providers or where such prices are considered to be stale (including some asset backed securities), unquoted bonds where credit spreads, being a significant input to the valuation technique, are obtained from a broker or estimated internally and credit default swaps.

	Fair value hierarchy			
Shareholder exposure – 2008	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Equity securities	399	-	14	**413**
Debt securities	3,983	3,969	320	**8,272**
Derivative financial assets	-	784	-	**784**
Derivative financial liabilities	-	(230)	-	**(230)**
Total	**4,382**	**4,523**	**334**	**9,239**

4.2 Fair value hierarchy of financial instruments *continued*

Policyholder (unit-linked) exposure – 2008	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equity securities	30,359	-	93	**30,452**
Debt securities	6,594	6,286	562	**13,442**
Derivative financial assets	11	324	1	**336**
Derivative financial liabilities	(14)	(448)	-	**(462)**
Total	**36,950**	**6,162**	**656**	**43,768**

Policyholder (participating) exposure – 2008	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equity securities	7,092	-	714	**7,806**
Debt securities	19,588	8,880	412	**28,880**
Derivative financial assets	496	1,152	9	**1,657**
Derivative financial liabilities	(29)	(560)	-	**(589)**
Total	**27,147**	**9,472**	**1,135**	**37,754**

Third party interests in consolidated funds and minority interest exposure – 2008	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equity securities	519	-	559	**1,078**
Debt securities	146	203	24	**373**
Derivative financial assets	-	23	-	**23**
Derivative financial liabilities	(1)	(66)	-	**(67)**
Total	**664**	**160**	**583**	**1,407**

4.3 Total expenses and operating cost base

	2008 £m	2006 £m
Total expenses per IFRS income statement	**(15,013)**	14,751
Less claims, commissions and changes in provisions and liabilities	**17,238**	(12,844)
Less IFRS adjustments and amortisation	**(1,189)**	(879)
Less finance costs	**(129)**	(114)
Total operating cost base	**907**	914
Less areas not participating in Continuous Improvement Programme (CIP) (Canada, Europe, Asia Pacific, Standard Life Investments, Standard Life Wealth)	**(406)**	(352)
Less one-off costs incurred in 2008 in respect of previous years	**(6)**	-
Less income from CIP initiatives	**(10)**	-
	485	562

Movement in the operating cost base

	£m
Total opening operating cost base 2006	**562**
2 years inflation[1]	34
Organic growth[2]	21
Efficiency savings[3]	(151)
Movement in one-off costs and investing for growth costs[4]	19
Total closing operating cost base 2008	**485**

[1] Notional level of inflation that would have impacted the operating cost base during the year. Blended rate used for staff and non-staff of 3.7% for 2008 (2007: 4.3%) (less any inflation allowed for in 'organic growth').

[2] Increase in the cost base implied by the growth of the organisation – annual premium income used as proxy for Standard Life Healthcare; a combination of PVNBP and policies in force movements used for the life and pensions businesses.

[3] Difference between the growth in the cost base implied by the organic growth calculation and the actual change that has taken place plus realised savings from cost initiatives and other reductions.

[4] Movements in the operating cost base which are specifically identifiable and relate to investing for growth or the impact of acquisitions.

Comparison of efficiency savings against commitments	Commitment £m	Total cumulative efficiency savings 2007/2008 £m	**Amount over achieved £m**
CIP	100	103	**3**
Group Corporate Centre	31	32	**1**
UK life and pensions	15	16	**1**
Total	146	151	**5**

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Standard Life plc, registered in Scotland (SC286832), Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH. +44 (0)131 225 2552.

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