Preliminary Results 2011

Standard Life plc

Standard Life

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Standard Life plc
Preliminary Results 2011
13 March 2012

Increased operating profits and cash flow delivered in challenging market conditions

Continuing growth in assets and strong net flows

- Long-term savings new business sales up 7% to £19.7bn (2010: £18.5bn)
- Long-term savings net inflows of £4.0bn[1] (2010: £4.7bn[1])
- Standard Life Investments third party net inflows of £4.3bn[1,2] (2010: £5.7bn[1,2]) and third party assets under management (AUM) of £71.8bn (2010: £67.7bn[2])
- Group assets under administration of £198.4bn (2010: £192.9bn[2])

Operating profit[3] increased by 28%

- Including fee based revenue up 8% to £1,223m (2010: £1,131m)
- Lower unit costs with acquisition expenses of 140bps (2010: 149bps) and maintenance expenses of 41bps (2010: 42bps)
- Operating profit before tax from continuing operations up 28% to £544m (2010: £425m)
- IFRS profit after tax attributable to equity holders of £298m (2010: £432m) lower largely due to year end financial market levels

Capital and cash generation increased by 53%, dividend up 6.2% and strong capital position

- EEV operating capital and cash generation 53% higher at £438m (2010: £287m)
- Final dividend up 6.4% to 9.20p, resulting in total dividend for 2011 up 6.2% to 13.80p
- IGD surplus of £3.1bn (2010: £3.8bn) following successful tender for €687m of lower tier two subordinated liabilities

Delivering for our customers

- Now over 1,000 adviser firms on Wrap with platform assets reaching £11.4bn
- Continued growth of MyFolio with assets now exceeding £1.0bn and launch of suite of income funds
- HDFC Asset Management Company is the largest mutual fund company in India with AUM of £9.8bn

David Nish, Chief Executive, commented:

"Today's results again demonstrate that we are well on track to transform the operational and financial performance of Standard Life.

"We have delivered increased operating profits and cash flow while investing to strengthen our market positions. We have developed innovative propositions to respond to the changing needs of our customers and their advisers, ensuring we are well positioned to benefit from market changes and the new regulatory environment.

"In the year ahead, we expect to see the work that we have done as part of the transformation programme reinforce our clear leading positions in our chosen markets.

"While the economic backdrop remains uncertain, we are confident that the strong capital position of the Group, the demand for our attractive customer propositions and the continued improvements in operational and capital efficiency mean that we are well on track to achieve an ongoing improvement in financial performance."

Unless otherwise stated, all comparisons are in Sterling and are for the 12 months ended 31 December 2010.

IFRS results

	2011 £m	2010 £m
By source		
Fee based revenue	**1,223**	1,131
Spread/risk margin	**356**	370
Total income	**1,579**	1,501
Acquisition expenses	**(270)**	(267)
Maintenance expenses	**(723)**	(673)
Investment for transformation and growth	**(137)**	(149)
Group corporate centre costs	**(45)**	(50)
Capital management	**74**	27
India and China JV businesses	**2**	(23)
Change in UK pension scheme liabilities[4]	**64**	59
Operating profit before tax from continuing operations	**544**	425
By segment		
UK	**220**	234
Global investment management	**125**	103
Canada	**187**	110
International	**40**	15
Other	**(28)**	(37)
Operating profit before tax from continuing operations	**544**	425
Tax on operating profit	**(87)**	(89)
Operating profit after tax from continuing operations	**457**	336
Diluted operating EPS from continuing operations	**19.8p**	15.0p
IFRS profit attributable to equity holders after tax	**298**	432
Diluted EPS from continuing operations	**12.9p**	18.3p

EEV results

	2011 £m	2010 £m
Covered business by source		
New business contribution	**335**	308
Contribution from in-force business	**621**	530
Other covered	**(67)**	(67)
Covered business EEV operating profit	**889**	771
Non-covered business		
Global investment management	**69**	33
Other non-covered and corporate costs	**31**	(17)
Non-covered business EEV operating profit	**100**	16
EEV operating profit before tax from continuing operations	**989**	787
Tax on EEV operating profit	**(265)**	(249)
EEV operating profit after tax from continuing operations	**724**	538
Diluted EEV operating EPS from continuing operations	**31.4p**	23.9p
EEV profit after tax	**369**	816

For more information please read Section 1.8 – Basis of preparation and the reconciliation of consolidated operating profit for the period in Section 2 of the Preliminary Results 2011

Delivering on our strategy

We are well on track to transform the operating and financial performance of Standard Life as we continue to focus on meeting the long-term savings and investment needs of our customers. We have launched a number of propositions to build on the leading market positions we have across the Group and are making progress in increasing the scalability and operational efficiency of our businesses through technology, process improvement and external sourcing arrangements.

We have a simple business model: increasing assets, maximising revenues, reducing unit costs and driving increased cash profitability. Assets under administration grew to £198.4bn and fee based revenue increased by 8%. We continued to invest to transform and grow our business while increasing operating profit. We have delivered a further £45m of cost efficiencies in the period and continue to drive operational efficiency in all our businesses. Operating profit before tax increased by 28% to £544m (2010: £425m) driven by significant profit improvements across the Group and in our newer UK fee based business. The result benefited from the remaining £64m gain (2010: £59m) resulting from the change in the basis of future pension increases in the UK staff pension scheme.

Standard Life continues to have a strong capital position, with an IGD surplus of £3.1bn (2010: £3.8bn) reflecting the successful tender for €687m of lower tier two subordinated liabilities. In the last few years we have significantly de-risked our business and this, combined with our capital-lite business model, means we believe we are well placed to operate in the currently proposed Solvency 2 environment, although there remains significant uncertainty about the final outcome of this regulatory change. We have removed the Scrip dividend option from the 2011 final dividend and we will continue to look for opportunities to drive our capital efficiency and improve return on equity.

In the year ahead, we expect to see the work that we have done as part of the transformation programme reinforce our clear leading positions in our chosen markets ensuring we are well on track to achieve an ongoing improvement in financial performance.

Increased assets under administration

Assets under administration	1 Jan 2011	Gross inflows	Redemptions	Net inflows	Market and other movements[7]	31 Dec 2011
Fee business[5] (£bn)	163.4	23.9	(17.8)	6.1	(6.2)	163.3
Spread/risk business (£bn)	23.5	1.6	(2.6)	(1.0)	2.2	24.7
Other[6] (£bn)	9.9	0.4	(0.1)	0.3	0.2	10.4
Group AUA (£bn)	**196.8**	**25.9**	**(20.5)**	**5.4**	**(3.8)**	**198.4**

After allowing for the transfer of UK money market funds, following our decision to exit this sector, Group assets under administration increased from £192.9bn[2] to £198.4bn. This increase was driven by strong, though lower, flows into our newer fee based propositions, which were offset by negative market movements in our fee business. Notably, Standard Life Investments had another strong year with third party net inflows of £4.3bn[1] in what has been a difficult year for the investment management sector.

Operating profit increased by 28%

Operating profit before tax from continuing operations was 28% higher at £544m and 31% higher at £480m (2010: £366m) excluding the impact of the UK staff pension scheme release.

Revenues from fee business were 8% higher at £1,223m and now make up 77% of total income (2010: 75%). The remaining 23% (2010: 25%) of total income is a margin on spread/risk business. The increase in the spread/risk margin in our Canada business included the positive impact of specific management actions designed to enhance investment yields on assets, including a gain on sale of a significant property, as well as reserving changes from revisions to investment allocations offset by the impact of strengthened mortality assumptions. The increase in spread/risk margin in Canada was offset by a reduction in the UK spread/risk margin which fell as a result of annuity reserve strengthening in 2011 and the non-recurrence of a benefit from changes in investment strategy and reserve releases in 2010. In total these resulted in the spread/risk margin being 4% lower at £356m (2010: £370m).

Acquisition expenses, the costs we incur in writing new business, were up 1% to £270m largely driven by higher costs in our International business. However, as a proportion of sales, acquisition expenses fell from 149bps to 140bps for Group, and from 133bps to 120bps in the UK. Maintenance expenses, the ongoing costs we incur in servicing and administering customer policies, were 7% higher at £723m largely due to growth in our global investment management business and the acquisition of Focus Solutions. Maintenance expenses expressed as a proportion of average AUA were down to 41bps (2010: 42bps) at Group level and 33bps (2010: 34bps) in the UK. This continues the positive trend and demonstrates the scalability of our business.

IFRS profit after tax attributable to equity holders of £298m (2010: £432m) included a loss on short-term fluctuations in investment return and economic assumption changes of £139m (2010: profit £157m) largely driven by year end financial market levels.

EEV operating capital and cash generation increased by 53%

Gross EEV operating capital and cash generation increased by 26% to £749m (2010: £596m) driven by higher contributions from our covered businesses in Canada and International as well as increased profits from global investment management and the improved funding position of the UK pension scheme.

EEV operating capital and cash generation from continuing operations increased by 53% to £438m (2010: £287m), reflecting the increase in gross capital and cash generation which has been used to fund the largely fixed new business strain of £226m (2010: £220m) and lower investment for transformation and growth spend of £85m (2010: £89m).

EEV operating profit increased by 26%

Total EEV operating profit (EVOP) from continuing operations increased by 26% to £989m (2010: £787m). Within this, core EVOP was 16% higher at £731m (2010: £629m), due to higher new business contribution (NBC) of £335m (2010: £308m), increased expected return on existing business and higher profits from global investment management.

The new business contribution (NBC) of £335m generated an NBC margin of 1.7% (2010: 1.7%) and an IRR of 15% (2010: 17%), primarily reflecting higher margins on UK institutional pensions and Canada group insurance business which have been offset by lower margins in our joint venture businesses following the impact of industry-wide regulatory changes in India.

Efficiency operating profit of £88m (2010: £132m) reflects the impact of a management action within the UK business to reduce current and future investment expenses as well as positive assumption changes mainly in Canada. The positive expense assumptions reflect the reduction in the ongoing expenses of managing our covered business and the growth in business volumes.

Back book management operating profit of £170m (2010: £26m) includes the remaining £64m (2010: £59m) benefit following the change in the basis of future pension increases in the UK staff pension scheme as well as the impact of tax variances and management actions in Canada to enhance investment yields on assets.

Increased operating profit while investing for transformation and growth

We have previously said that we were targeting £100m of annual margin improvement by 2012 to be achieved through greater efficiency as well as improved asset mix and higher inflows to Standard Life Investments. As at 31 December 2011, we have delivered £79m of efficiency savings, including £45m of savings in 2011, with further savings delivered since the start of 2012. In addition we continue to see increased revenues from our fee based products through strong flows into higher margin propositions and Standard Life Investments.

During 2011 we expensed £137m (2010: £149m) in our transformation and growth programme, with a combination of new customer and adviser propositions launched, investment in our underlying technology to support our growth and the one-off costs related to our new brand and visual identity. Our total investment in transformation and growth, including capitalised development spend and capital injections into our India and China JV businesses, was £196m (2010: £201m). We invested £23m in our JV businesses (2010: £16m).

As we have previously stated, we expect our total investment in transformation and growth (including capitalised investment expenditure and capital injections into the joint venture businesses) to decline modestly in 2012.

Strong balance sheet

The strong capital position of the Group is evidenced by our balance sheet which continues to be robust on both an embedded value and IFRS basis despite the recent volatility in financial markets. Our IGD surplus stands at £3.1bn (2010: £3.8bn) reflecting our decision to successfully tender for €687m of the lower tier two subordinated liabilities. Direct shareholder exposure to debt issued by governments and banks in Greece, Ireland, Italy, Portugal and Spain equates to less than £50m. Our capital and cash generation continues to be strong.

Our embedded value increased to £7,428m (2010: £7,321m) representing an embedded value per share of 317p (2010: 322p). IFRS equity excluding intangible assets and non-controlling interests was £3,761m (31 December 2010: £3,768m), representing 160p per share (2010: 166p). The change in IFRS equity, excluding intangible assets and non-controlling interests, relates primarily to profit for the period attributable to equity holders of £298m offset by the cash impacts of the dividend, net actuarial losses on defined benefit pension schemes, capitalised investment expenditure and the purchase of Focus Solutions.

Increase in dividend and commitment to progressive policy

The Board have proposed a final dividend of 9.20p per share (2010: 8.65p). This makes a total of 13.80p (2010: 13.00p) for the year, an increase of 6.2%. Following the Board’s decision to remove the Scrip option a Dividend Reinvestment Plan (DRIP) alternative will be offered in 2012, commencing with the final dividend for 2011. The Group will continue to apply its existing progressive dividend policy taking account of market conditions and the Group’s financial performance.

Outlook

Our confidence in our ability to deliver sustainable growth is underpinned by the results we have delivered today. We also remain confident that the underlying demographic and regulatory trends in our key markets, and our customers' demand for our propositions, will drive our future growth.

We continue to drive down unit costs having delivered £79m of efficiency savings towards our £100m margin improvement target which we are on track to achieve in the first half of 2012.

In the UK, we are entering a period of unprecedented change and potential for growth of our business. With the Retail Distribution Review (RDR) less than a year away, our retail business has scale and momentum and is ideally positioned to continue to drive asset growth through our leading platform propositions. The quality of our corporate pension offerings together with the opportunities created by the RDR and pensions reform for increased individual savings will provide us with an increased flow of new business over the medium to long term.

Our business in Canada is well positioned to benefit from the ongoing shift from defined benefit to defined contribution pension provision. Our International business will continue to benefit from the strength of our offshore bond proposition and ongoing progress in our joint ventures but may continue to be affected by the impact of economic uncertainty in Europe.

The prospects for Standard Life Investments remain strong. The business is well positioned across a diversified range of asset classes and provides the investment solutions expertise which continues to allow the Group to capture a greater proportion of the platform value chain and third party assets.

The uncertain economic backdrop and its effect on consumer confidence have impacted new business volumes since the start of the year against a strong start to last year. However, we see significant opportunities in all of our chosen markets and are confident that the investments we are making will lead to continued strong growth in assets together with further improvements in efficiency. We expect to continue to drive an ongoing improvement in financial performance.

UK

Continuing to build on our advantage in our chosen markets

	1 Jan 2011	Gross inflows	Redemptions	Net inflows	Market and other movements	31 Dec 2011
UK fee business (£bn)	76.5	10.5	(7.6)	2.9	(1.6)	77.8
Institutional pensions (£bn)	15.8	3.2	(1.8)	1.4	0.3	17.5
Conventional with profits (excl. annuities) (£bn)	6.6	0.2	(1.7)	(1.5)	0.2	5.3
UK fee business total AUA	**98.9**	**13.9**	**(11.1)**	**2.8**	**(1.1)**	**100.6**
Spread/risk business AUA (£bn)	13.4	0.5	(1.2)	(0.7)	1.7	14.4
Total AUA backing products (£bn)	**112.3**	**14.4**	**(12.3)**	**2.1**	**0.6**	**115.0**
Fee business revenue (bps)	77					73

UK fee business AUA grew by 2% to £100.6bn, reflecting a continuation of good flows which were partly offset by negative market movements in the second half of the year. Fee business net inflows, into our core retail and corporate pension propositions, increased by 37% to £2.9bn, while new business sales were up 8% to £14.0bn, driven by success of our core propositions. The average revenue yield across our UK fee business was 73bps reflecting the impact of changes in product mix.

Retail business with scale, momentum and market leading propositions

Our retail business continues to be very well positioned for growth by providing IFAs and direct customers with the propositions, tools and service they value. We are focused on meeting the needs of “new model” IFAs who are best placed to prosper in the new market environment we are entering. Developing solutions for both them and their clients has allowed us to grow our intermediary market share without incurring the cost of commission on new business while maintaining our leading position. Our acquisition of Focus Solutions, along with threesixty Services, provides Standard Life with a unique ability to support advisers in developing business models compliant with RDR, and beyond, in a very efficient way. Providing further evidence of our continued progress, Standard Life, once again, won ‘Company of the Year’ and ‘Best SIPP Provider’ at the Money Marketing Financial Services Awards.

Our award-winning platforms continue to attract customers, advisers and assets, as we further enhance the features and usability of our proposition. Collectively, our platforms account for 196,800 customers with total assets under administration of £11.4bn. At 31 December 2011 we had 999 (2010: 820) adviser firms on the Wrap platform signing up our 1,000th adviser firm shortly into the new year. We continue to embed the Wrap platform with existing adviser firms resulting in the average AUA per firm rising to £8.5m (2010: £7.4m) despite a 7% decrease in the FTSE All-Share Index during the year.

Total SIPP customers increased to 134,200, an increase of 25% over the year. Our SIPP proposition continues to perform well as we maintain our impressive market share, helping to increase AUA by 10% to £16.4bn (2010: £14.9bn).

Standard Life Wealth continues to build a strong presence in the IFA market with the launch of a Managed Portfolio Service, achieving over £1bn of AUA shortly into the new year.

UK spread/risk business AUA increased to £14.4bn, reflecting falling yields on debt securities which were partly offset by overall net outflows driven by scheduled annuity payments. Gross inflows into annuities were 7% lower at £459m (2010: £491m) reflecting much higher annuity inflows in the first quarter of 2010 ahead of the increase in the minimum retirement age, and the continued impact of actions we have taken to increase sales in the second half of 2011.

Corporate business positioned for growth from market and regulatory trends

Corporate pension gross inflows, excluding Trustee Investment Plan (TIP) business of Standard Life Investments, were up 30% to £3.9bn (2010: £3.0bn), while net inflows increased by 43% to £2.0bn (2010: £1.4bn).

We have continued to build on our momentum, winning 167 new schemes (2010: 182 schemes) while 66,000 new employees joined schemes implemented in 2011 (2010: 46,000 employees).

We have now streamlined our approach to implementation of Lifelens, our market-leading fully integrated pension and employee benefit solution. We expect the next wave of clients to transition throughout 2012 following the successful implementation of Lifelens for Standard Chartered Bank in the first quarter of this year.

We continue to build strong relationships with employers and corporate benefit consultants and are working with them to deliver the most comprehensive benefit solution to auto enrolment ahead of the launch in the third quarter of 2012. Combining the quality of our propositions with the high levels of customer service we offer, means we are well positioned for both pensions reform and RDR. We are working on our existing pipeline of schemes and are seeing strong levels of enquiries which will drive further growth in our business in the second half of this year.

Continuing profitable growth in our fee business

	2011 £m	2010 £m
Fee based revenue	**625**	593
Spread/risk margin	**75**	148
Total income	**700**	741
Acquisition expenses	**(169)**	(172)
Maintenance expenses	**(332)**	(312)
Investment for transformation and growth	**(53)**	(61)
Capital management	**10**	(21)
Other	**64**	59
UK operating profit before tax from continuing operations	**220**	234

Operating profit before tax in the UK business amounted to £220m (2010: £234m). The continued growth in our fee based business resulted in a 5% increase in fee revenue to £625m, although revenues were impacted by significantly lower equity market levels in the second half of the year. This was offset by a reduction in the spread/risk margin which fell by £73m as a result of annuity reserve strengthening in 2011 and a £30m benefit from changes in investment strategy and reserve releases in 2010.

Acquisition expenses fell by £3m to £169m. Maintenance expenses included revenue passed to Standard Life Investments in respect of TIP of £62m (2010: £48m) and maintenance expenses of newly acquired Focus Solutions of £15m with other maintenance expenses lower at £255m (2010: £264m).

Capital management improved due to investment of shareholder funds in higher yielding asset classes and the improved funding position of the UK staff pension scheme. Other comprises the remaining £64m (2010: £59m) benefit following the change in the basis of future pension increases in the UK staff pension scheme.

Lowering the unit costs of our operations

Technology continues to be a key enabler in our drive to lower unit costs. We have undertaken a number of initiatives to manage the acquisition and maintenance expenses of our business and these are beginning to show results. Acquisition expenses expressed as a proportion of PVNBP fell by 10% to 120bps (2010: 133bps) despite the difficult market conditions in the second half of the year. Maintenance expenses expressed as a proportion of average AUA fell to 33bps (2010: 34bps) reflecting the scalability of our operations.

We are lowering unit costs by improving existing propositions and processes, reusing core components across our retail and corporate channels. Offerings such as Lifelens have been designed to be scalable by making greater use of online technologies and direct links to employers, and their employees, increasing self-servicing. Our market-leading adviser portal, Adviserzone, has seen usage double, with the number of users, online quotations and individual adviser firm customisations increasing all the time. We have continued to grow our business while maintaining leading levels of customer service against an improving cost base. The number of full-time equivalent customer service employees fell by 15% since the start of 2010. We have implemented two significant sourcing agreements which will help to reduce both the risk of delivery and overall costs of future IT development.

While these improving trends and opportunities demonstrate the potential for greater operational leverage, we have more to deliver as we continue to transform our business.

Global investment management

Growth in net flows into higher margin products

Third party assets	1 Jan 2011	Gross inflows	Redemptions	Net inflows	Market and other movements	31 Dec 2011
Fee business (£bn)	71.6	12.9	(8.6)	4.3	(4.1)	71.8
Fee business excl. Global Liquidity Funds (£bn)	67.7	12.9	(8.6)	4.3	(0.2)	71.8
Fee business revenue (bps)	35					37

Assets under management (AUM) in our third party fee business reached a record year end level of £71.8bn (2010: £71.6bn) driven by strong net inflows which were partly offset by the transfer of £3.9bn of Global Liquidity Funds and the impact of negative market movements.

We have continued to see strong demand for Global Absolute Return Strategies (GARS) propositions, both in the UK and overseas, with AUM at 31 December 2011 in excess of £13bn. The MyFolio family of risk-based portfolios, which we have recently expanded to include two new suites of Multi Manager Income and Managed Income funds, has proved popular with UK retail clients and has now attracted over £1.0bn of assets since launch. UK wholesale net inflows and SICAV sales have remained robust at £2.1bn (2010: £2.8bn) despite a downturn in consumer confidence during the second half of the year.

Net inflows in North America have shown positive growth with Canadian sales up 33% to £553m.

We continued to make progress in increasing our global presence. Our award-winning GARS fund has been made available, for the first time, to retail as well as institutional investors in the US via John Hancock Mutual Funds. We have also entered into an agreement with Swedish banking group Länsförsäkringar to distribute our GARS fund to investors in Sweden.

The average revenue yield across our third party business has increased to 37bps (2010: 35bps), excluding the fee received from the transfer of UK money market funds, reflecting our success in attracting higher revenue margin business.

Increased EBIT margin and operating profit before tax

	2011 £m	2010 £m
Fee based revenue	**383**	331
Maintenance expenses	**(227)**	(194)
Investment for transformation and growth	**(31)**	(34)
Global investment management operating profit before tax	**125**	103
EBIT margin[2]	**34%**	33%

Operating profit before tax increased by 21% to £125m (2010: £103m). Revenue increased by 16% to £383m driven by strong flows into higher margin products, such as GARS and UK mutual funds, and included a fee received following the transfer of UK money market funds.

Operating costs were tightly controlled while allowing us to accelerate the expansion of our business in our chosen markets. Earnings before interest and tax (EBIT) margin[2] increased by 1% to 34%.

Continuing to deliver robust investment performance

Although investment conditions have been difficult, longer term investment performance continues to be robust, with the money weighted average for third party assets well above median over three, five and ten years. Our fixed interest funds have performed well over the twelve months to 31 December 2011 with the Global Index Linked Fund top percentile and the AAA Income Fund top decile. The strength of our mutual fund and unit trust range is demonstrated by the proportion of actively managed funds (22 out of 29) rated 'A' or above by Standard & Poor's in the UK.

Canada

Continued growth in fee business and group insurance sales

	1 Jan 2011	Gross inflows	Redemptions	Net inflows	Market and other movements	31 Dec 2011
Fee business AUA (£bn)	14.0	2.3	(1.7)	0.6	(0.3)	14.3
Spread/risk business AUA (£bn)	10.1	1.1	(1.4)	(0.3)	0.5	10.3
Total AUA backing products (£bn)	**24.1**	**3.4**	**(3.1)**	**0.3**	**0.2**	**24.6**
Fee business revenue (bps)	118					117

Fee business AUA in Canada has increased by 3%[8] to £14.3bn driven by net inflows which were partly offset by negative market movements. Strong sales and market share growth in our retail segregated funds were offset by an increase in mutual fund net outflows. Group savings fee business net inflows of £530m were 25%[8] higher (2010: £420m) and included net inflows in to our core defined contribution proposition which increased by 18%[8], benefiting from higher renewal flows.

The average revenue yield on fee business decreased slightly to 117bps (2010: 118bps).

Within Canada spread/risk business, the Group insurance and disability management business continues to perform well with PVNBP sales up 34%[8] to £826m and strong growth in market share benefiting from large mandates. A large part of these sales consisted of future renewal premiums and as such had a marginal impact on inflows. AUA has increased to £10.3bn driven by market movements partly offset by scheduled outflows in our annuity back book.

We continue to enhance our propositions for both corporate and retail customers. The launch of a stock and options feature and the introduction of the Standard Life Investments GARS proposition to our Quality & Choice investment programme support our market positioning as a provider of comprehensive solutions in benefits and pension management. The addition of a trust capability to our SLX platform enabled us to secure key accounts. In the retail space we launched Ideal Income Segregated Funds which help our customers protect their assets against risks in their retirement. In addition we announced an alliance with Qtrade Financial Group, an online brokerage platform and investment dealer, which will enhance our distribution capabilities.

Increase in operating profit before tax

	2011 £m	2010 £m
Fee based revenue	**166**	150
Spread/risk margin	**281**	222
Total income	**447**	372
Acquisition expenses	**(61)**	(64)
Maintenance expenses	**(201)**	(193)
Investment for transformation and growth	**(36)**	(35)
Capital management	**38**	30
Canada operating profit before tax	**187**	110

Operating profit before tax in our Canada business increased by 70% to £187m.

The spread/risk margin included the positive impact of specific management actions designed to enhance investment yields on assets, including a gain on sale of a significant property, as well as one off reserving changes from revisions to investment allocations offset by the impact of strengthened mortality assumptions.

Fee based revenue increased by 11%. The decrease in acquisition costs was primarily due to lower commission charges while the increases in maintenance expenses and capital management were mainly due to the rise in AUA.

International

Continued growth in sales with improved performance from joint venture businesses

	1 Jan 2011	Gross inflows	Redemptions	Net inflows	Market and other movements	31 Dec 2011
Wholly owned fee business AUA (£bn)	11.1	2.5	(1.1)	1.4	(0.2)	12.3
India and China JV businesses AUA (£bn)	1.2	0.4	(0.1)	0.3	(0.3)	1.2
Fee business revenue (bps)	212					186

Fee business AUA across our wholly owned International operations increased by 11% to £12.3bn, driven by record net inflows of £1.4bn. New business sales increased by 18% to £2.3bn, with sales growth across all of our wholly owned operations.

Net inflows in Ireland increased by 15% to £0.8bn despite the effects of increased competition and the impact of austerity measures such as the pension levy. We continued to enhance our offshore bond proposition, launching a recurring single premium bond. Our International Bond which exceeded £2bn in AUA, continues to grow. Net inflows in Hong Kong increased by 80% reflecting ongoing demand for our Harvest propositions. The average revenue yield across International wholly owned businesses was lower at 186bps (2010: 212bps), reflecting the charging structure of legacy business and the change in asset mix across International territories.

Net flows in the India and China joint venture businesses increased to £275m (2010: £254m), a strong result given the regulatory changes introduced in India in the second half of 2010. HDFC Life performed strongly, increasing market share and securing second place in the private sector overall.

Increase in operating profit before tax

	2011 £m	2010 £m
Fee based revenue	**221**	212
Acquisition expenses	**(40)**	(31)
Maintenance expenses	**(132)**	(129)
Investment for transformation and growth	**(12)**	(15)
Capital management	**1**	1
Total wholly owned	**38**	38
India and China JV businesses	**2**	(23)
International operating profit before tax	**40**	15

International operating profit before tax more than doubled to £40m. Our joint venture in India, HDFC Life, has achieved profitability and is nearing capital self sufficiency. We continue to make progress in China. Profit from the wholly owned businesses remained strong at £38m.

Higher average AUA resulted in an increase in revenue while higher acquisition expenses reflected growth in sales. The increase in maintenance expenses was due to our growing back book.

Supplementary information - analysis of operating profit by segment

Year ended 31 December 2011	UK £m	Global investment management[9] £m	Canada £m	International £m	Other £m	Elimination £m	Total £m
Fee based revenue	625	383	166	221	-	(172)	**1,223**
Spread/risk margin	75	-	281	-	-	-	**356**
Total income	**700**	**383**	**447**	**221**	**-**	**(172)**	**1,579**
Acquisition expenses	(169)	-	(61)	(40)	-	-	**(270)**
Maintenance expenses	(332)	(227)	(201)	(132)	(3)	172	**(723)**
Investment for transformation and growth	(53)	(31)	(36)	(12)	(5)	-	**(137)**
Group corporate centre costs	-	-	-	-	(45)	-	**(45)**
Capital management	10	-	38	1	25	-	**74**
India and China JV businesses	-	-	-	2	-	-	**2**
Other	64	-	-	-	-	-	**64**
Operating profit/(loss) before tax from continuing operations	**220**	**125**	**187**	**40**	**(28)**	**-**	**544**

Year ended 31 December 2010	UK £m	Global investment management[9] £m	Canada £m	International £m	Other £m	Elimination £m	Total £m
Fee based revenue	593	331	150	212	-	(155)	**1,131**
Spread/risk margin	148	-	222	-	-	-	**370**
Total income	**741**	**331**	**372**	**212**	**-**	**(155)**	**1,501**
Acquisition expenses	(172)	-	(64)	(31)	-	-	**(267)**
Maintenance expenses	(312)	(194)	(193)	(129)	-	155	**(673)**
Investment for transformation and growth	(61)	(34)	(35)	(15)	(4)	-	**(149)**
Group corporate centre costs	-	-	-	-	(50)	-	**(50)**
Capital management	(21)	-	30	1	17	-	**27**
India and China JV businesses	-	-	-	(23)	-	-	**(23)**
Other	59	-	-	-	-	-	**59**
Operating profit/(loss) before tax from continuing operations	234	103	110	15	(37)	-	**425**

For further information please contact:

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Capita Registrars	0845 113 0045

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Debt Investors

Scott Forrest	0131 245 6045
Nick Mardon	0131 245 6371

Newswires and online publications

We will hold a conference call for newswires and online publications from 07:30 (UK time) on 13 March 2012. Participants should dial +44 (0)1452 555566 and quote Standard Life Preliminary Results 2011. The conference ID number is 54886447. A replay facility will be available for seven days. To access the replay please dial +44 (0)1452 550000. The pass code is 54886447#.

Investors and Analysts

A presentation for investors and analysts will take place at 9:30am at J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA. 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 the website later today.

There will also be a live listen-only teleconference of the investor and analyst presentation at 9:30am. Investors and analysts should dial +44 (0)20 3059 8125. Callers should quote Standard Life Preliminary Results 2011. A replay facility will be available for fourteen days. Investors and analysts should dial +44 (0)121 260 4861. The pass code is 1182010#.

Notes to Editors:

1. In order to be consistent with the presentation of new business information, certain products are included in both long-term savings and investments AUA and net flows. Refer to Supplementary information 4.4 - Group assets under administration and net flows for further information.
2. Adjusted to exclude the impact of the transfer of Standard Life Investments Global Liquidity Funds plc.
3. Operating profit is IFRS profit before tax from continuing operations adjusted to remove the impact of market driven short-term fluctuations in investment return and economic assumptions, restructuring costs (including the Solvency 2 restructuring programme), impairments of intangible assets, amortisation of intangible assets acquired in business combinations, profit or loss on the disposal of a subsidiary, joint venture or associate and other significant one-off items outside the control of management.
4. Change in pension scheme liabilities reflects a change in the basis of future pension increases in the UK staff pension scheme.
5. Standard Life Wealth has been disclosed separately for the first time in 2011 and includes some assets previously reported as 'Other'.
6. Other assets included within AUA of £10.4bn (2010: £9.9bn) comprise assets not backing products, joint ventures, non-life assets and consolidation / elimination adjustments.
7. Comprises market and other movements including the transfer of our UK money market funds following our decision to exit this sector of the industry.
8. On a constant currency basis.
9. Global investment management fee based revenue includes share of profits from HDFC Asset Management Company Limited.

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Section	Contents	Page

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1 Business review

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Business review

1.1 Chief Executive's overview

"Our results in 2011 again demonstrate that we are well on track to transform the operational and financial performance of Standard Life. We have delivered increased operating profits and cash flow while investing to strengthen our market positions. We have developed innovative propositions to respond to the changing needs of our customers and their advisers, ensuring we are well positioned to benefit from market changes and the new regulatory environment."
David Nish, Chief Executive

Driving a sustainable business

We made significant progress in building a strong platform for sustainable, profitable growth and are seeing the benefits of the investment we have made in our business. We have launched a number of innovative propositions to respond to the changing needs of our customers and their advisers. I'm very grateful to our employees for their hard work, against challenging conditions, to deliver in the past year.

Growing our business

We've increased the pace and agility with which we are delivering on our strategy. There is more to do but we are in a good place to make that happen.

We set our key strategic priorities in March 2010 with the aim of transforming the business over the three years to 2012. This required an increased level of investment in order to grow our business. As we move into the final year of our transformation we are well on track to achieve an ongoing improvement in profitability and performance. Some highlights are:

Delivering performance across the Group

- In the UK, there has been continued momentum in our fee based propositions with technology and scalability of platforms driving efficiency
- Global investment management continued its excellent record of strong and profitable growth in 2011
- In Canada, our fee based propositions are growing and we continue to drive value from our existing spread/risk business
- In International, we are rapidly growing the Hong Kong and offshore businesses and will expand into new markets

Building on our market-leading propositions that benefit advisers, customers and Standard Life

- Transformed our Adviserzone service in February 2011, introducing new market-leading features
- Launched a new online stocks and shares ISA which has helped simplify investment options for our customers
- Increased use of guided architecture which provides simple and easy investment choices to meet the needs of customers and advisers
- UK corporate sales momentum continued with 167 new schemes (2010: 182 new schemes), while 66,000 new employees joined schemes implemented in 2011 (2010: 46,000 employees)
- Standard Life Wealth continues to build a strong presence in the IFA market with the launch of the Managed Portfolio Service, and now has over £1bn of assets under administration (AUA)
- Enhanced our distribution in Canada through an agreement with Qtrade Financial Group, an online brokerage and investment dealer

Expanding the global reach of our investment management business

- Assets in our Global Absolute Returns Strategies (GARS) fund now total over £13bn and it has outperformed its LIBOR benchmark over all key time periods since inception
- Our agreement with John Hancock Financial gives the GARS fund access to the United States market and allows us to work with a leading distributor
- Our strategic alliance with Chuo Mitsui Asset Trust and Banking Company, one of the largest trust banks in Japan, provides our customers with direct access to expertise in the management of Japanese equity funds

Maximising the value from our joint venture relationships in Asia

- Performance across our joint venture businesses in Asia has been strong in 2011, with net flows increasing by 8%
- HDFC Life performed well, increasing market share and securing second place in the Indian private sector overall
- HDFC Asset Management, in which we have a 40% share, is the largest mutual fund company in India
- In China, Heng An has a new management team in place and a revamped strategy focused on driving business performance

Transforming our business

The second year of our transformation in 2011 saw us deliver more of the changes required to prepare our business for 2012 and beyond. These changes are already delivering benefits, making our business more agile, adaptable and efficient. We remain focused on maximising the generation of cash profit to support our progressive dividend policy and to create the capacity to reinvest in growing our business.

1.1 Chief Executive's overview *continued*

Objectives and strategy

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

Our aspirations

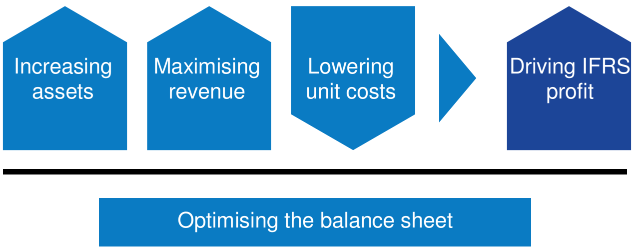
Success will be achieved by providing our customers with the confidence to look forward to a well-planned financial future, as a result of the long-term savings and investments propositions we have provided.

Our goal

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

Our business model

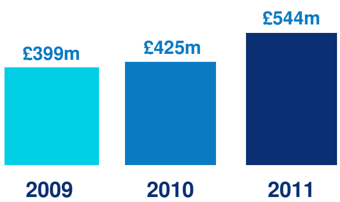
Our strategy is underpinned by a simple business model. Find out more about the strategy of our individual businesses and how they contribute to our business model in Section 1.4 – Business segment performance.



Group profitability

Operating profit before tax is a key performance indicator for the Group and has increased in 2011 to £544m due to continued growth in fee revenue and improving cost efficiency.

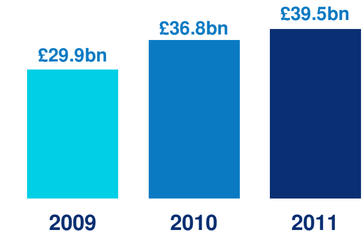
Group operating profit



IFRS profit for the year has fallen to £346m (2010: £493m) due to the impact of short-term fluctuations in investment return.

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

Our strategic objectives	**Building on our strengths in our pension savings and corporate benefits markets**
	We are a leading corporate pensions provider in the UK and Canada, with a strong brand and competitive positioning in these markets. We remain confident that these markets provide a significant growth opportunity for us.
Our performance in 2011	**UK corporate AUA**



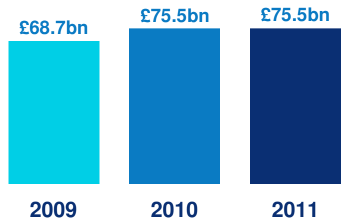
- In the UK, we grew our share of the corporate benefits market to 19.1% (2010: 17.0%)
- Our UK business also won 167 new corporate schemes (2010: 182 new schemes) and enquiries more than doubled during 2011
- In Canada, group savings and retirement product enhancements enabled us to win 204 new defined contribution accounts, increasing members to 561,000 (2010: 537,000 members)

Competitive advantages Where we will create and leverage distinctive capabilities	**Brand**
	Technology
	Customer and distributor insight
	Investment performance

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

We see many opportunities in our retail markets, where we are focusing on the savings and investments needs of individual customers in our chosen segments. We continue to build on our track record for innovation and strength in distribution.

UK retail AUA

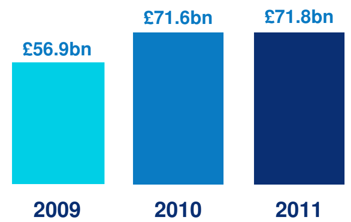


- We continued to build on the success of our Wrap platform with approximately 1,000 firms using our platform. We delivered enhanced functionality which focused on reducing risk and costs in adviser businesses.
- We launched new propositions such as an online stocks and shares ISA and online mutual funds
- Our retail IFA market share in 2011 was 14.9% (2010: 14.6%)

Expanding the global reach of our investment management business

The strength of the Group is enhanced by the excellent investment performance record of Standard Life Investments. Our focus remains on sustaining that level of performance and on building an investment platform that can support our growth ambitions.

Global investment management third party AUM

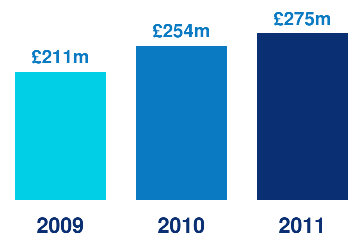


- Our global investment management business continued its excellent record of strong and profitable growth
- Our GARS fund has outperformed its LIBOR benchmark over all key time periods since inception and assets in the fund now exceed £13bn
- We have entered into an agreement with John Hancock Financial giving the GARS fund access to the United States market and allowing us to work with a leading distributor to help deliver potential for our global clients

Maximising value from the joint venture relationships in Asia

We manage these businesses with a view to maximising their long-term value. The operations in China and India give us the opportunity to participate in sizeable markets with major growth potential.

Joint venture net flows



- The Indian joint venture has improved its market positioning and grown market share
- In China, we have a new management team in place under the leadership of a new general manager. A revamped strategic plan is currently being implemented and we will continue to extend our distribution network and enhance business quality and effectiveness.

Our new repositioned brand was launched across the Group in 2011. The brand is more than just a new look – it's about the way we work and the experiences we create for our customers. It's also about the unique combination of capabilities we have, including the strong distributor relationships that differentiates us strongly from competitors.

Investment in technology is delivering improved digital experiences and service for our customers. We will continue to leverage technology to deliver efficient, scalable and robust operations.

Putting customers at the heart of our business means we need to keep listening to them, developing our understanding of their needs and challenges. We also continue to ensure that we maintain high levels of customer service and distributor support.

We continue to deliver robust long-term investment performance. Standard Life Investments is well positioned across a diversified range of asset classes.

1.1 Chief Executive's overview *continued*

Market overview

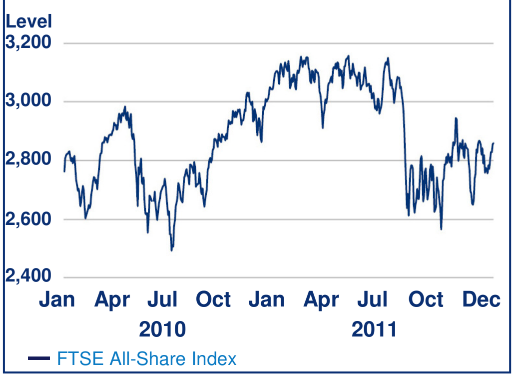
Market conditions have been tough during 2011, however we remain confident that our future growth will be driven by our customers' demand for our propositions and the underlying demographic and regulatory trends in our key markets. In the short term, volatile conditions in global financial markets and economic uncertainty mean that operating conditions will continue to be challenging.

Continued volatility in global financial markets

The financial markets in which we operate are being impacted by factors including:

- The risk of sovereign debt default within the European Union member states
- The downgrade of the credit ratings of a number of countries as a result of the European sovereign debt crisis
- Stagnated global growth and the downward revisions to growth forecasts in a number of major economies
- A shift towards lower-risk assets as investors try to reduce their exposure to volatile equity markets both in the UK and abroad. To illustrate this volatility, the FTSE All-Share Index closed at a high of 3,161 points and a low of 2,558 points during 2011, a significant trading range.

Movements in FTSE All-Share Index 2010/11



An uncertain economic backdrop

Other economic factors are also impacting the markets in which we operate. Some of the factors impacting our markets include:

- High inflation in the UK, fuelled by increases in both the standard rate of VAT to 20% and energy prices, is putting a squeeze on households' real incomes
- Wage inflation remains subdued and the low level of global economic growth has led to stagnation in employment markets
- Sustained levels of low interest rates and the potential for further quantitative easing
- Austerity measures to reduce high levels of government borrowing raise the possibility of further erosion of pension tax breaks

Changing demographics

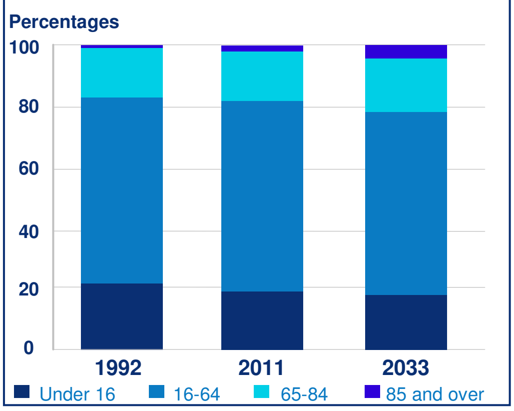
Changing demographics continue to impact our key markets. The changes include: an ageing population, with people living longer whilst managing more extensive debt; diminishing state and employer pension provision; an increasing wealth gap between the rich and poor; and lower long-term birth rates.

In the UK market, the structure of the population is changing as life expectancy rapidly increases. In 2011, 17% of the population were aged 65 and over and this is expected to increase to 23% by 2033. This emphasises the need for individuals to ensure that they have adequate pension provision to fund their retirement.

The UK Government is making changes to increase the proportion of the population saving for retirement, including auto enrolment and the introduction of the National Employment Savings Trust (NEST). We believe that these steps will increase contributions to private pensions and that we are well placed to benefit from these changes.

The Canadian Government is expected to introduce the Pooled Registered Pension Plans, opening a new market to pension providers. We are one of the largest defined contribution pension providers in Canada and are developing our plans for this new market.

Population by age, UK, 1992, 2011 and 2033



Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0.

Contributing to market insight

We regularly publish new insight and support to policy makers and industry stakeholders to help stimulate long-term savings. In October 2011, we published the results of a research project undertaken with the assistance of experts in behavioural economics. The aim of *Keep on nudging – making the most of auto enrolment* was to identify how we can maximise the potential of workplace savings to help those on low-to-moderate incomes save for retirement.

The current economic climate presents many challenges. Yet our research found that the majority of people are still keen to prioritise saving, particularly when they are helped to understand what it means to them, both now and in the future. We believe that, working together, employers, the long-term savings industry and the government can realise the full potential of auto enrolment.

Government legislation and industry regulation

There are currently a number of legislative and regulatory changes that will affect financial services companies. The key initiatives and their potential impact on Standard Life are set out below:

	Description	Potential impact on Standard Life
Retail Distribution Review	The Retail Distribution Review (RDR) is designed to increase transparency in retail financial services and to raise professional standards in the UK. The regulations from the RDR come into effect at the start of 2013. This affects distribution of both retail investment products and corporate pensions, in areas such as advice provision, professionalism, adviser charging and platform rules.	Our strategy is specifically focused on the post-RDR world, both in ensuring that we comply with the regulation and more so in capturing the long-term strategic advantage. We provide high value fee based propositions and investment solutions for our customers and intermediaries and therefore we do not rely on paying commission to promote our propositions. The ban on commission that will come as part of the RDR will significantly increase the size of our accessible corporate market in the UK.
Auto enrolment and National Employment Savings Trust	Auto enrolment will become mandatory from October 2012 and will require all eligible workers to be automatically enrolled into a qualifying pension scheme. At the same time, the UK Government is putting in place the National Employment Savings Trust (NEST). This is an entry-level company sponsored defined contribution pension scheme and will require a minimum level of contributions. These combined changes are expected to bring an extra seven million adults into pension savings for the first time, with an estimated £6bn of additional annual contributions.	As a provider of quality corporate pension schemes, we welcome the introduction of auto enrolment in 2012. We expect to benefit from auto enrolment from both more scheme wins, as employers look to offer their employees a tailored solution and also through increased participation in our current schemes as employees decide not to opt out. NEST is targeted at employers with employees on low-to-moderate incomes. Many employers will be looking for greater flexibility when setting up a pension scheme, so we do not consider NEST to be a major threat to our corporate pension business.
Pooled Registered Pension Plans	The Canadian Government is expected to introduce Pooled Registered Pension Plans (PRPP), since only around 40% of Canadians have a private corporate pension arrangement. The PRPP is the Canadian version of a government-sponsored auto enrolment plan.	We are one of the largest defined contribution (DC) pension providers in Canada and are already developing our plans for this new and potentially very large market.
Solvency 2	Solvency 2 is a major European regulatory change initiative that brings consistency to how EU insurers manage capital and risk with the aim of protecting consumers. We expect the new rules to 'go live' on 1 January 2014 for firms, although this is still subject to some uncertainty. All firms will have to calculate their capital requirements based on the risks they manage and disclose this to regulators and the market. Taking on risk enables insurance companies to offer valuable customer propositions and deliver good shareholder returns.	We have been following the development of the new regime for many years and are actively involved in industry and regulatory discussions within the UK and Europe. We set up our Solvency 2 Programme in January 2010 to help us manage the transition. The Programme is making good progress and we are well prepared for the implementation of Solvency 2.
UK life insurance tax regime	The 2011 Budget announced significant changes to the UK life insurance tax regime. From 1 January 2013, the basis of the regime will move from the FSA regulatory return to the statutory accounts. The draft Finance Bill 2012 was issued by HMRC on 6 December 2011 for consultation and is expected to be enacted during the summer of 2012.	We are actively engaged in the ongoing consultation process with HMRC. There is still uncertainty regarding the final detail of the new regime provisions, including the impact of the transition to the new tax regime. Therefore, we consider that it is too early in the consultation process to be certain about the impact.
Gender differentiation	From 21 December 2012, a European Court of Justice ruling will take effect that prevents using gender as a factor in determining premiums and benefits in insurance contracts.	We currently use gender as a risk factor in calculating premiums and benefits for a number of our products. We are working to ensure that we implement the appropriate changes so that our business complies with the ruling. We do not currently anticipate a significant impact on our results.

1.1 Chief Executive's overview *continued*

Serving our customers

Our customers are at the very core of everything we do, so we'll continue to concentrate on bringing our transformation to life for them and giving them the services and support they need to make it easier to deal with us.

New technologies play an increasingly important role in the way we operate and grow our business. We're continuing to invest in our technology to ensure we deliver a competitive advantage through a scalable model that lowers the cost of attracting and serving customers. We have recently developed a new online ISA and re-launched our Adviserzone platform to give our customers more control over their finances.

Our repositioned brand and visual identity will continue to enhance the way that we communicate with our customers. They are also a major part of delivering even clearer communications to our customers so that they can plan for their financial future with confidence and optimism. The feedback from our customers and the industry has been very positive.

Developing our people

A number of key appointments have been made to further strengthen our senior management team. This includes the promotion of Paul Matthews to Chief Executive of the UK business in June 2011 and Charles Guay joined us in February 2012 as the new Chief Executive of our business in Canada.

We can achieve our goals more efficiently by making sure we keep attracting new talent and developing our own people. Our investment in developing talent, in particular in leadership development, is key to our continued success. The next phase of our talent management programme will continue to develop our current leaders and help tomorrow's leaders grow.

Investing in our people helps guarantee our continued success. We encourage and reward high performance right across the Group. We are expanding this further, strengthening the link between individual performance and reward, so our people become more accountable for the contribution they make to our success.

Better and more efficient communication has helped us increase our understanding of what we can do to help our people develop themselves. Our staff engagement survey, InterAction, provided a huge amount of insight and from it we have identified areas to focus our attention. These areas of focus are centred around our people, to help them grow and further their careers at Standard Life.

Looking forward

Our confidence in our ability to deliver sustainable growth is underpinned by the results we have delivered in 2011. We also remain confident that the underlying demographic and regulatory trends in our key markets, and our customers' demand for our propositions, will drive our future growth.

We continue to drive down unit costs having delivered £79m of efficiency savings towards our £100m margin improvement target which we are on track to achieve in the first half of 2012.

In the UK, we are entering a period of unprecedented change and potential for growth of our business. With the RDR less than a year away, our retail business has scale and momentum and is ideally positioned to continue to drive asset growth through our leading platform propositions. The quality of our corporate pension offerings together with the opportunities created by the RDR and pensions reform for increased individual savings will provide us with an increased flow of new business over the medium to long term.

Our business in Canada is well positioned to benefit from the ongoing shift from defined benefit to defined contribution pension provision. Our International business will continue to benefit from the strength of our offshore bond proposition and ongoing progress in our joint ventures but may continue to be affected by the impact of economic uncertainty in Europe.

The prospects for Standard Life Investments remain strong. The business is well positioned across a diversified range of asset classes and provides the investment solutions expertise which continues to allow the Group to capture a greater proportion of the platform value chain and third party assets.

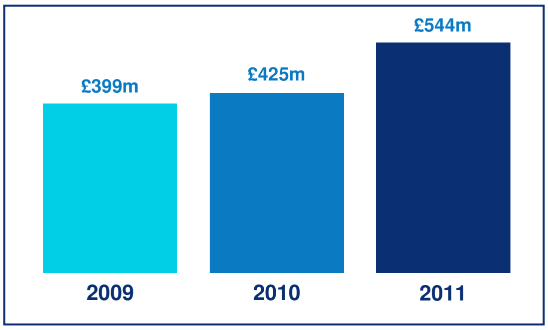
The uncertain economic backdrop and its effect on consumer confidence have impacted new business volumes since the start of 2012 against a strong start to 2011. However, we see significant opportunities in all our chosen markets and are confident that the investments we are making will lead to continued strong growth in assets together with further improvements in efficiency and we expect to continue to drive an ongoing improvement in financial performance.

David Nish, Chief Executive

1.2 Group performance

Key financial performance indicators

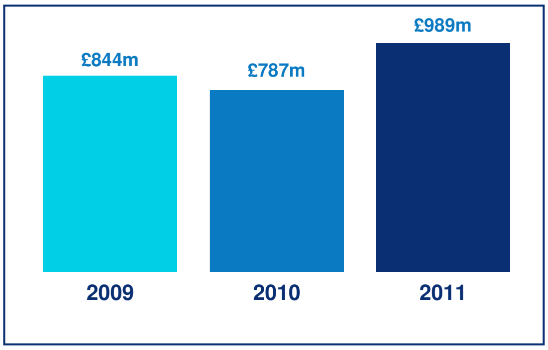
Group operating profit before tax



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

- Group operating profit before tax increased by 28% to £544m
- Fee based revenue increased by 8% to £1,223m
- Operating profit in 2011 included the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.
- Acquisition expenses expressed as a proportion of sales and maintenance expenses as a proportion of average AUA improved to 140bps and 41bps respectively, demonstrating the scalability of our business

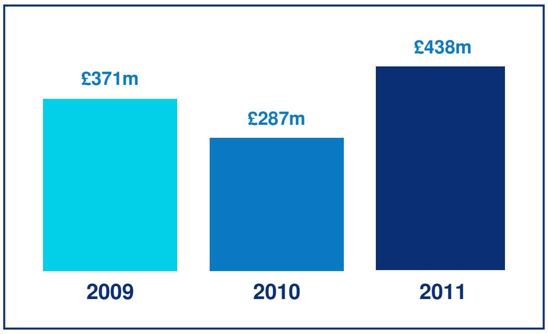
EEV operating profit before tax



EEV operating profitability measures our ability to effectively manage our existing book of business and to write profitable new business.

- EEV operating profit before tax rose by 26% to £989m
- This included a 16% increase in core EEV operating profit, which was due to increased new business profitability and expected returns on existing business. There was also higher profits from global investment management.
- New business contribution up 9% to £335m due to higher sales volumes in the UK and increased margins in our businesses in the UK and Canada

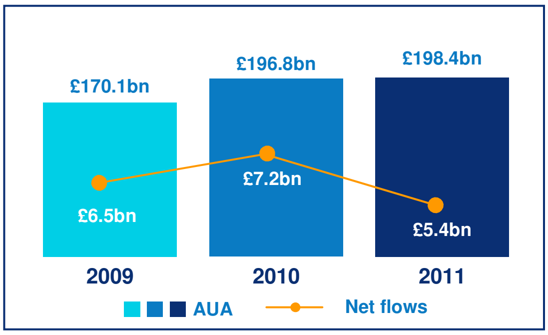
EEV operating capital and cash generation



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

- EEV operating capital and cash generation increased by 53% to £438m
- This increase in 2011 was mainly due to higher capital and cash from increased non-covered profits and activities to manage our existing book, particularly in Canada

Assets under administration and net flows



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

- Total Group AUA increased by 1% to £198.4bn driven by good, although lower, flows into our newer fee based products. This was partially offset by the external transfer of our UK money market funds of approximately £4bn.
- Net flows reduced to £5.4bn, impacted by difficult market conditions across the Group and higher outflows in older style propositions in the UK
- Launched in October 2010, our MyFolio fund range is growing rapidly and now has assets of approximately £1bn

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

1.3 Chief Financial Officer's overview

"We operate a simple business model which focuses on increasing assets, maximising revenue, lowering unit costs and optimising the balance sheet. In 2011, we continued to invest in the future, increase the quantity and quality of the assets we administer on behalf of our customers as well as managing down our costs. This will help us to meet our strategic objectives of driving sustainable, high quality returns for our shareholders. I believe we are well placed to deliver increased profits and cash flow in the future."
Jackie Hunt, Chief Financial Officer

IFRS - Group

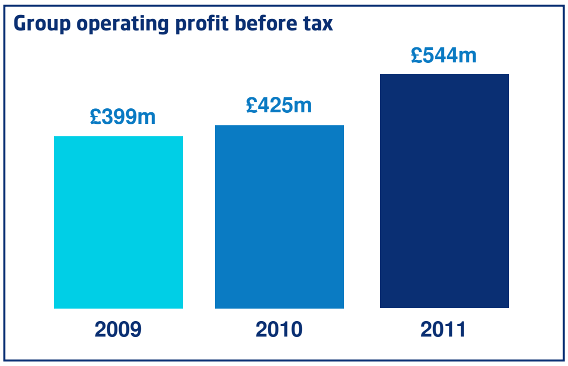
	2011	2010	Movement
Group operating profit before tax from continuing operations[1,2]	**£544m**	£425m	28%
IFRS profit after tax attributable to equity holders of Standard Life plc	**£298m**	£432m	(31%)
Group operating return on equity	**11.9%**	10.0%	1.9% points

IFRS profit

IFRS profit for the year was £346m (2010: £493m). This comprised profit after tax attributable to equity holders of £298m (2010: £432m) and profit attributable to non-controlling interests of £48m (2010: £61m). The IFRS result included a 28% increase in operating profit before tax from continuing operations from £425m to £544m. Non-operating losses were £214m (2010: profit £85m).

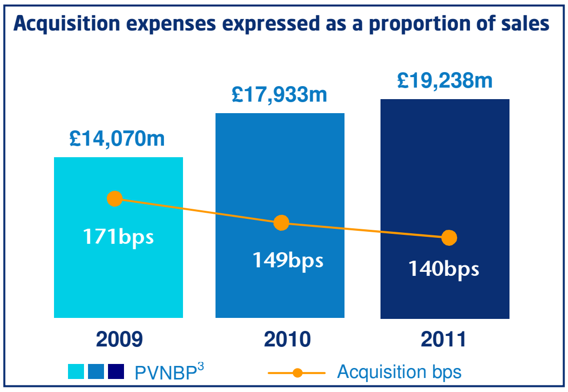
Group operating profit before tax from continuing operations

	2011 £m	2010 £m
Fee based revenue	**1,223**	1,131
Spread/risk margin	**356**	370
Total income	**1,579**	1,501
Acquisition expenses	**(270)**	(267)
Maintenance expenses	**(723)**	(673)
Investment for transformation and growth	**(137)**	(149)
Group corporate centre costs	**(45)**	(50)
Capital management	**74**	27
India and China JV businesses	**2**	(23)
Other	**64**	59
Group operating profit before tax from continuing operations	**544**	425



Group operating profit before tax increased to £544m. The key highlights are:

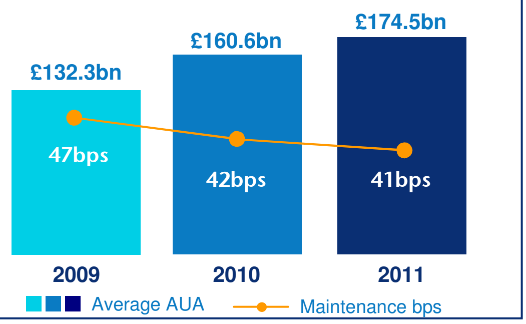
- **Fee based revenue**, which mainly relates to asset management charges, increased by 8% to £1,223m. This was due to the strong level of net inflows, higher average asset values and the shift to higher margin products in our global investment management business.
- **Spread/risk margin** mainly relates to the margin on our UK annuity business and the annuity and universal life business in Canada. Overall spread/risk margin reduced by £14m, impacted by losses from operating assumptions and one-off reserving changes of £70m (2010: profit £17m). This was partially offset by management actions in Canada of £88m (2010: £32m).
- **Acquisition expenses** are the costs we incur in writing new business. Acquisition expenses were broadly maintained at £270m despite the strong growth in sales volumes. Acquisition expenses expressed as a proportion of sales improved to 140bps (2010: 149bps).



[1] Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.
[2] Operating profit is IFRS profit before tax adjusted to remove the impact of short-term market driven fluctuations in investment return and economic assumptions, restructuring costs (including the Solvency 2 programme), impairment of intangible assets, amortisation of intangible assets acquired in business combinations, profit or loss on the disposal of a subsidiary, joint venture or associate and other significant one-off items outside the control of management.
[3] PVNBP excludes India and China joint venture businesses.

- **Maintenance expenses** mainly relate to the ongoing costs that we incur to service and administer customer policies. Maintenance expenses increased to £723m in 2011 due to further development of the business and expressed as a proportion of average AUA improved to 41bps (2010: 42bps).
- **Investment for transformation and growth** costs included in operating profit before tax decreased in 2011 to £137m. We have continued to invest for future growth in the business with a number of customer propositions launched during the year.
- **Total group corporate centre costs** including investment for transformation and growth decreased to £50m (2010: £54m). Investment for transformation and growth was £5m (2010: £4m).
- **Capital management** increased to £74m due to the investment of shareholders' funds in higher yielding assets and the improved funding position of our UK staff pension scheme
- The **joint ventures** in Asia contributed an operating profit before tax of £2m (2010: loss £23m) to the Group, which reflects their positive progression and our ongoing investment to support their development
- **Other** relates to the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.

Maintenance expenses expressed as a proportion of average AUA



The improvement in both acquisition and maintenance expense trends demonstrates the scalability of our business. We continue to lower unit costs both by growing assets and improving existing propositions and processes to make better use of automation and self servicing.

We previously said that we were targeting £100m of annual margin improvement by 2012 to be achieved through greater efficiency, improved asset mix and increasing flows to our global investment management business. In 2011, we achieved further cost efficiencies of £45m. We have now achieved total efficiency savings of £79m in relation to this 2012 target and also increased revenues from our fee based products resulting from strong flows into higher margin propositions in global investment management. Further efforts to reduce costs continue to be implemented and we expect additional efficiency savings to be delivered in 2012.

Investment for transformation and growth

We have continued to invest to transform and grow the business:

- Investment spend included in Group operating profit before tax decreased to £137m in 2011
- A number of customer propositions were launched or enhanced during the period and continued investment was made to improve operational effectiveness
- The total amount invested in 2011 was £196m (2010: £201m). This includes additional investment in the India and China joint venture businesses and also capitalised investment spend that does not impact profitability in 2011.

Investment for transformation and growth

	2011 £m	2010 £m
Investment in operating cost base	137	149
Investment capitalised	36	36
Additional investment in joint venture businesses	23	16
Total investment for transformation and growth	**196**	201

Group operating return on equity

A key component of our business model is to optimise the use of our balance sheet. We are now including return on equity as a financial metric that measures our success in generating profitability relative to our shareholder capital. Group operating return on equity increased to 11.9% (2010: 10.0%) benefiting from the growth in operating profit. This measures Group operating profit after tax expressed as a percentage of the opening IFRS equity, adjusted for cash dividends paid. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

Group non-operating (loss)/profit before tax from continuing operations

Group non-operating loss was £214m compared with a profit of £85m in 2010. Short-term fluctuations in investment return and economic assumptions produced non-operating losses of £139m in 2011 compared with gains of £157m in 2010. Losses in 2011 of £139m were mainly due to the widening of credit spreads which impacted the annuity business in the UK and losses in Canada due to adverse movements in the Canadian Government bond yield curve. This was partially offset by investment returns on shareholder assets in the UK and Canada. Non-operating restructuring and corporate transaction expenses of £70m (2010: £71m) relate to a number of restructuring programmes including Solvency 2.

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

Group non-operating (loss)/profit before tax from continuing operations

	2011 £m	2010 £m
Short-term fluctuations in investment return and economic assumption changes	(139)	157
Restructuring and corporate transaction expenses	(70)	(71)
Other operating profit adjustments	(5)	(1)
Group non-operating (loss)/profit before tax from continuing operations	**(214)**	85

1.3 Chief Financial Officer's overview *continued*

Assets under administration and new business – Group

	2011	2010	Movement
Assets under administration	**£198.4bn**	£196.8bn	1%
Net flows	**£5.4bn**	£7.2bn	(25%)
Present value of new business premiums	**£19,738m**	£18,483m	7%
New business contribution	**£335m**	£308m	9%

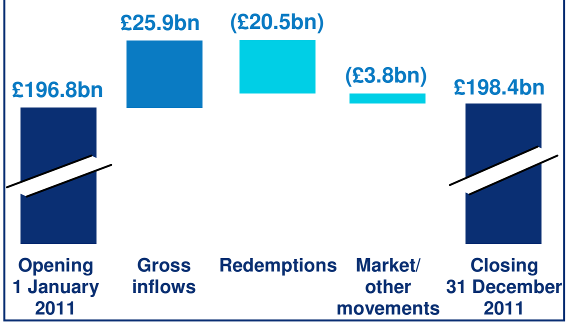
Assets under administration and net flows

There was a good level of demand for our innovative products and services. However, market conditions were volatile and net inflows decreased to £5.4bn. Our relatively resilient asset mix partly mitigated the impact of volatile market conditions on assets under administration (AUA).

There was a 1% increase in AUA to £198.4bn:

- The increase in AUA was driven by continuing strong flows, particularly into our newer fee based propositions and our third party investment management business. This was offset by the external transfer of approximately £4bn of our UK money market funds following our decision to exit this sector of the industry.
- Of the total AUA, 82% (2010: 83%) related to fee business
- Fee business AUA was maintained at £163.3bn (2010: £163.4bn[1]) with net flows of £6.1bn (2010: £7.9bn) partially offset by the UK money market funds transfer
- Spread/risk business AUA increased by 5% to £24.7bn due to positive market movements, offsetting the £1.0bn (2010: £1.0bn) of net outflows

Movement in Group AUA



[1] Opening Fee AUA includes an adjustment to include all Standard Life Wealth AUA for the first time.

New business

	PVNBP £m		New business contribution £m		PVNBP margin %		IRR %		Undiscounted payback (years)	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
UK	**14,035**	12,956	**204**	173	**1.5**	1.3	**18**	18	**6**	6
Canada	**2,928**	3,048	**73**	68	**2.5**	2.2	**16**	24	**7**	6
International	**2,775**	2,479	**58**	67	**2.1**	2.7	**11**	14	**8**	6
Total	**19,738**	18,483	**335**	308	**1.7**	1.7	**15**	17	**7**	6

- Improved new business profitability was due to higher sales volumes in the UK and increased margins in our UK and Canada businesses
- Present value of new business premiums (PVNBP) for the Group totalled £19,738m and was 7% higher than in 2010
- Total internal rate of return (IRR) for the Group of 15% (2010: 17%) was adversely impacted by capital and legislative changes in Canada and reduced margins in International

Find out more about AUA and new business for each of our businesses in Section 1.4 – Business segment performance

EEV – Group

	2011	2010	Movement
EEV per share	**317p**	322p	(2%)
EEV operating profit before tax from continuing operations	**£989m**	£787m[1]	26%
EEV profit before tax	**£526m**	£1,152m	(54%)
Return on embedded value from continuing operations	**10.4%**	8.7%[1]	1.7% points

[1] Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

Group embedded value

Group embedded value increased to £7,428m (2010: £7,321m) representing an EEV per share of 317p. EEV per share has increased by 8p before dividend distributions, including EEV operating profit from continuing operations after tax of £724m (31p per share). This resulted in a return on embedded value (RoEV) of 10.4%. EEV non-operating loss from continuing operations after tax was £355m (loss of 15p per share). The next page provides more detail on the EEV operating and non-operating results on a before tax basis. The 8p reduction in EEV per share from other and non-trading items is mainly due to negative foreign exchange movements of £69m and £61m of after tax actuarial losses on the Group's pension schemes.

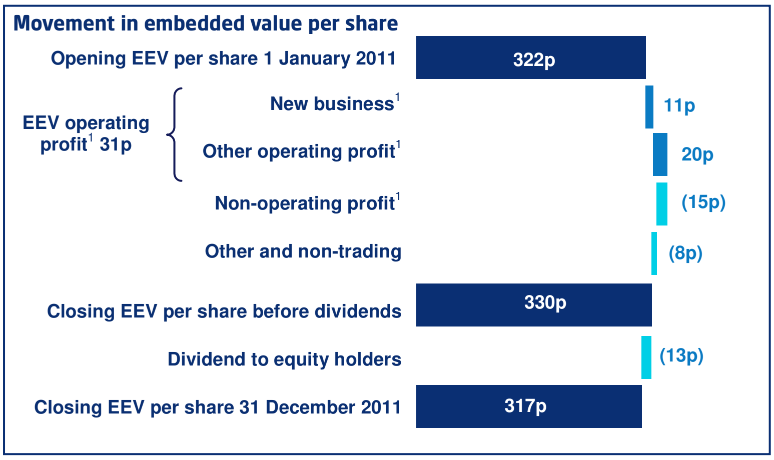
The closing EEV of £7,428m consists of:

- £3,588m of net worth or shareholder net assets
- £3,840m from the present value of in-force business (PVIF) net of the cost of required capital

The increase in total EEV of £107m consists of:

- Movement in net worth of positive £105m
- Movement in the PVIF of positive £2m

The 1% increase in EEV was more than offset by a 3% increase in the diluted closing number of ordinary shares, resulting in the overall EEV per share falling by 5p.



[1] Profits are shown net of tax.

EEV profit

EEV profit before tax of £526m (2010: £1,152m) includes:

- EEV operating profit from continuing operations of £989m (2010: £787m)
- EEV non-operating loss from continuing operations of £463m (2010: profit £348m). EEV profit from discontinued operations was £nil before tax (2010: profit £17m).

EEV operating profit before tax from continuing operations

EEV operating profit from continuing operations increased by 26%:

	EEV operating profit before tax 2011 £m	2010 £m	RoEV 2011 %	2010 %
Core	**731**	629	**7.6**	7.2
Efficiency	**88**	132	**1.0**	1.6
Back book management	**170**	26	**1.8**	(0.1)
Total	**989**	787	**10.4**	8.7

- Core profits increased by 16% to £731m due to the new business we sold, an improved expected return from our existing business and higher profits from global investment management. This also drove an increase in our core RoEV from 7.2% to 7.6%. New business contribution increased by 9% to £335m (2010: £308m). Expected return on our existing business increased by 4% to £440m (2010: £422m).
- Core non-covered business produced an EEV operating profit of £13m (2010: loss £37m). This increase was mainly due to higher profit from global investment management.
- Profit from efficiency gains primarily related to £40m in positive expense assumption changes in Canada and £50m from management actions to reduce current and future investment expenses in the UK. The positive expense assumptions reflect the reduction in the ongoing expenses of managing our covered business and the growth in business volumes.
- EEV operating profit from back book management of £170m included the remaining operating profit gain of £64m from the change in the UK pension scheme, in addition to the initial £59m benefit recognised in 2010. Tax variances and management actions in Canada to enhance investment yields on assets have also increased back book EEV operating profits in 2011.

EEV non-operating (loss)/profit before tax from continuing operations

Total EEV non-operating loss before tax from continuing operations of £463m (2010: profit £348m) included losses caused by increased burnthrough costs totalling £272m in the HWPF and the new German with profits funds. Other losses arose from lower than expected investment returns earned in 2011 for UK unitised business which generated a loss of £237m. Reductions in risk free rates led to losses from lower projected investment returns, partly offset by gains from lower discount rates.

Restructuring costs of £73m (2010: £71m) primarily represent costs incurred relating to a number of restructuring programmes including Solvency 2. Volatility arising from adjustments for different accounting bases resulted in a gain of £58m (2010: £51m).

Capital and cash generation – Group

	2011	2010	Movement
EEV operating capital and cash generation from continuing operations	**£438m**	£287m[1]	53%
Group capital surplus[2]	**£3.1bn**	£3.8bn	(18%)
EEV	**£7,428m**	£7,321m	1%
IFRS equity attributable to equity holders of Standard Life plc	**£3,961m**	£3,903m	1%

[1] Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.
[2] 2011 based on estimated regulatory returns. 2010 based on final regulatory returns.

1.3 Chief Financial Officer's overview *continued*

Group EEV capital and cash generation

Capital and cash generation enables the Group to invest in new business and profitable growth opportunities. Gross EEV operating capital and cash generation before investment in new business and investment for transformation and growth spend was £749m (2010: £596m).

	2011 £m	2010 £m
UK	364	372
Canada	188	128
International	114	97
Non-covered	83	(1)
Gross EEV operating capital and cash generation from continuing operations	**749**	596
New business strain	(226)	(220)
Investment for transformation and growth	(85)	(89)
EEV operating capital and cash generation from continuing operations	**438**	287
Dividend declared (£m)	323	295
Coverage of gross EEV operating capital and cash to new business strain	**3.3**	2.7
Coverage of EEV operating capital and cash to dividend declared	**1.4**	1.0

Coverage of EEV operating capital and cash to dividend was 1.4 compared to 1.0 for 2010.

	2011 Free surplus movement £m	2011 Required capital movement £m	2011 Net worth movement £m	2010 Free surplus movement £m	2010 Required capital movement £m	2010 Net worth movement £m
Capital and cash generation from existing business	688	(45)	643	626	(22)	604
New business strain	(290)	64	(226)	(265)	45	(220)
Covered business capital and cash generation from new business and expected return	**398**	**19**	**417**	361	23	384
Covered business development expenses	(50)	-	(50)	(48)	-	(48)
Non-covered business core capital and cash generation	(5)	-	(5)	(47)	-	(47)
Core	343	19	362	266	23	289
Efficiency	(6)	-	(6)	(12)	-	(12)
Back book management	78	4	82	66	(56)	10
EEV operating capital and cash generation from continuing operations	**415**	**23**	**438**	320	(33)	287
Capital and cash generation from non-operating items	(372)	258	(114)	93	41	134
Total EEV capital and cash generation from continuing operations	**43**	**281**	**324**	413	8	421
EEV capital and cash generation from discontinued operations	-	-	-	20	-	20
Total EEV capital and cash generation	**43**	**281**	**324**	433	8	441

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

Total capital and cash generation was £324m (2010: £441m). The reduction mainly reflects negative non-operating items in 2011. In overall terms, our EEV operating capital and cash generation from continuing operations has increased to £438m:

- Capital and cash generation from existing business increased by £39m reflecting the higher opening in-force business values
- Non-covered business core capital and cash generation was £42m higher compared to 2010 mainly due to increased profit from our global investment management business
- Back book management contributed an additional £72m in 2011, including the benefits from post tax profits on the UK pension scheme and tax variances and management actions to enhance investment yields in Canada

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

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

- £7m negative impact from the difference in the treatment of assets and actuarial reserves
- £12m negative impact from the difference in the treatment of deferred acquisition costs (DAC)/deferred income recognition (DIR), intangibles, tax and other. Other includes the impact of different methodologies in respect of expected income. In EEV operating profit this income is included on an expected return basis but the actual fees are included in Group operating profit.

Reconciliation of Group operating profit to EEV operating capital and cash generation for the year ended 31 December 2011

Holding company capital and cash flows

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

Holding company capital and cash flows	2011 £m	2010 £m
Opening capital 1 January	**665**	602
Dividends received from subsidiaries	**498**	286
Additional investments in subsidiaries	**(91)**	(75)
Group corporate centre costs	**(50)**	(54)
Cash dividends paid to shareholders	**(162)**	(186)
Other	**12**	92
Closing capital 31 December	**872**	665

Dividends

During the year, we paid the final dividend for 2010 of 8.65p per share, amounting to £197m and the 2011 interim dividend amounting to £106m. The Scrip dividend scheme reduced the cash required to pay the 2010 final dividend from £197m to £105m and the 2011 interim dividend from £106m to £57m. We propose a final dividend of 9.20p per share, making a total of 13.80p (2010: 13.00p). This represents an increase of 6.2%, reflecting the solid progress made during the year. Following the removal of the scrip dividend option, a dividend reinvestment plan (DRIP) scheme has been made available for the final 2011 dividend. We will continue to apply our existing progressive dividend policy taking account of market conditions and our financial performance.

Capital management

Capital management is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Group and ensuring capital is deployed so that the risk/return is optimised in a manner consistent with the expectations of our stakeholders. This requires a clear understanding of the drivers of capital requirements and therefore capital management is a critical component in the strategic planning process and the ongoing running of the business.

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 therefore provide an appropriate degree of security to our key stakeholders. This aspect is measured by the Group's regulatory solvency position. The second objective is to create equity holder value by driving profit attributable to equity holders.

Capital is measured and managed on both regulatory capital metrics and on internal economic capital metrics. Risk appetites are set on an economic basis and the potential impact of business decisions on positions versus these appetites forms a key part of the decision making process.

Credit ratings

External credit rating agencies perform independent assessments of the financial strength of companies. The current insurer financial strength ratings for Standard Life Assurance Limited (SLAL) are A1/Stable and A+/Stable from Moody's and Standard & Poor's respectively. There were no changes to these ratings in 2011. The Standard Life Assurance Company of Canada has a separate rating from Standard & Poor's and was upgraded in June 2011 from A/Stable to A+/Stable.

1.3 Chief Financial Officer's overview *continued*

Group capital surplus

The Group capital surplus decreased by £0.7bn to £3.1bn. This is mainly due to the successful tender undertaken in September 2011 in respect of £0.6bn of Euro denominated lower tier 2 subordinated debt. Our capital surplus has remained robust despite the volatility in equity and debt markets. The quality of our capital resources remains strong with £7.0bn (2010: £6.4bn) of core tier 1 capital.

Group capital resources include the capital resources within the long-term business funds but the Insurance Groups Directive (IGD) limits the amount that can be recognised to the level of the capital resources requirement for that fund. This resulted in a restriction of £1.0bn (2010: £1.4bn) and a net zero contribution to the Group capital surplus from the long-term business funds.

The IGD surplus remains largely insensitive to a further 30% fall in equities from the 31 December 2011 position, with the surplus estimated to reduce by approximately £0.2bn. A 100bps rise in yields is estimated to reduce the surplus by approximately £0.2bn.

Group capital surplus and solvency cover	2011 £bn	2010 £bn
Shareholders' capital resources	3.1	3.0
Capital resources arising from subordinated debt	1.1	1.8
SLAL long-term business funds	3.1	2.6
Group capital resources	7.3	7.4
Group capital resource requirement	(4.2)	(3.6)
Group capital surplus	**3.1**	3.8
Group solvency cover	**173%**	205%

2011 figures above based on estimated regulatory returns. 2010 based on final regulatory returns.

Liquidity management

Liquidity management is the ongoing process of determining the correct asset mix for each business through balancing the interconnected needs of matching the liability profile with appropriate assets, maintaining sufficient cash resources to meet unexpected demands and achieving an appropriate yield on assets.

The Group's liquidity and capital management policy governs the level of liquidity that each business unit holds and the objective is to ensure that sufficient liquidity exists across the business to withstand extreme stresses.

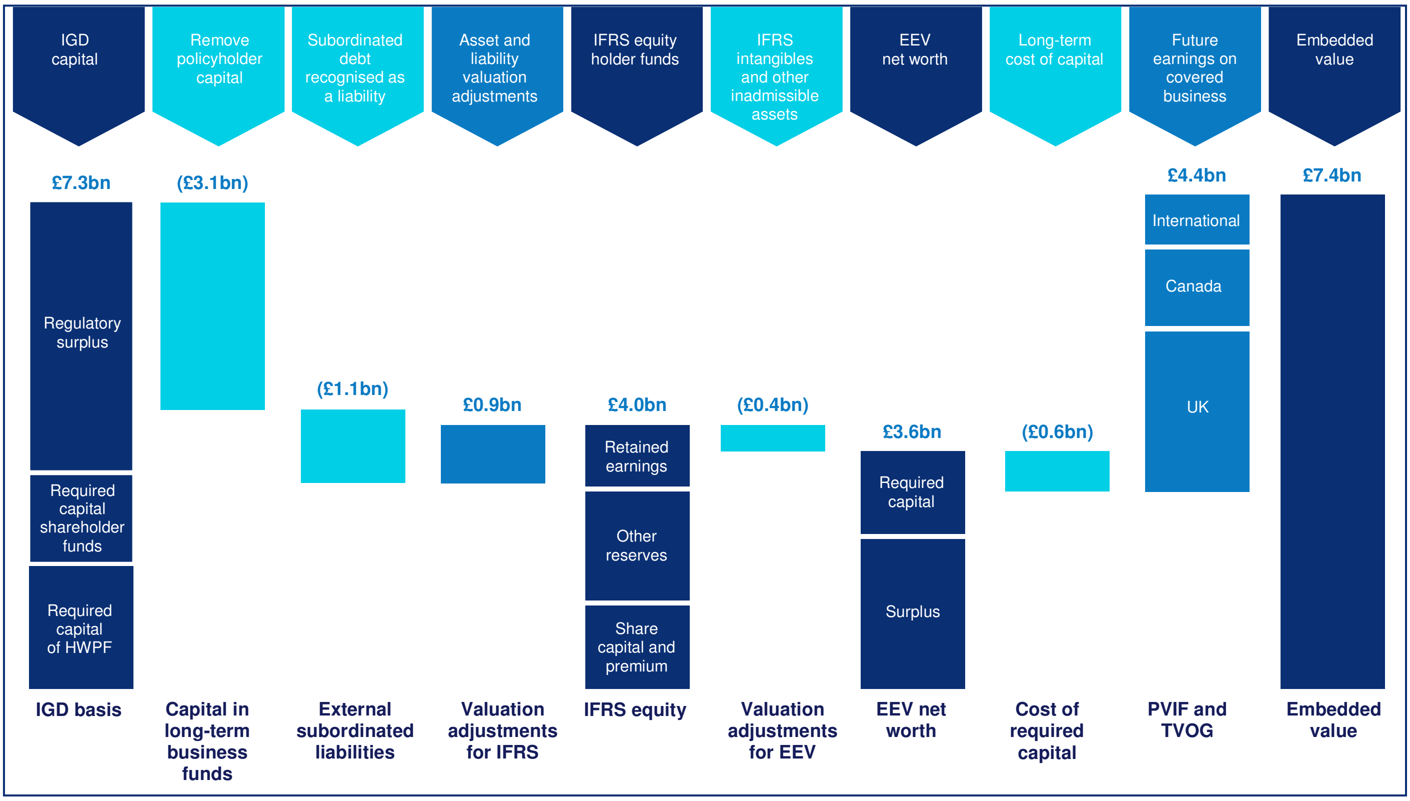
In addition to the substantial cash and readily realisable resources held within each business unit, the ultimate holding company, Standard Life plc, held £0.6bn of cash and short-term debt securities as at 31 December 2011, an increase of £0.2bn from the 2010 year end. The stress testing undertaken during 2011 shows that Standard Life maintains a strong liquidity position.

We undertake specific liquidity stress testing to ensure that we can withstand a scenario of significant falls in asset values combined with unprecedented levels of surrenders and claims. The stress testing methodology has been updated for recent events in the Eurozone.

We also maintain contingency funding plans across the business to ensure that each business unit is prepared for a liquidity issue. As part of this contingency planning, Standard Life plc has a £0.5bn revolving credit facility with a maturity date of 31 December 2013 and this was undrawn as at 31 December 2011.

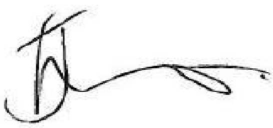
Reconciliation of key capital measures

The following diagram illustrates the key differences between regulatory, IFRS and EEV capital measures at 31 December 2011:



Looking forward

We delivered increased operating profitability and cash in 2011. Our investment programme and transformation are on track and the successful implementation of our strategy is starting to show in an improved financial performance. We are well placed for a post-RDR, auto enrolment and Solvency 2 environment, and we expect to continue to drive an ongoing improvement in financial performance.



Jackie Hunt, Chief Financial Officer

1.4 Business segment performance

Business segment overview

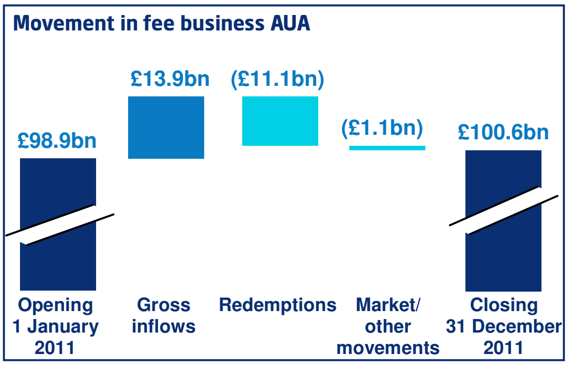
Our performance across the Group demonstrates our commitment to meeting our objectives and delivering on our strategy highlighted in Section 1.1 – Chief Executive's overview.

UK

Strategy

We believe that the UK is an exciting market with great potential for our business. Our strong market position provides significant opportunities for us to drive profitable growth within long-term savings and investments.

AUA and flows



- Total AUA grew by £2.8bn to £122.0bn in 2011
- Core retail fee business net inflows grew by 19% to £839m
- Core corporate pension net inflows increased by 46% to £2,024m reflecting strong growth
- MyFolio is growing rapidly and now has assets of approximately £1bn
- Standard Life Wealth continues to grow with assets of approximately £1bn

Operating profit

	2011 £m	2010 £m
Fee based revenue	625	593
Spread/risk margin	75	148
Total income	700	741
Acquisition expenses	(169)	(172)
Maintenance expenses	(332)	(312)
Investment for transformation and growth	(53)	(61)
Capital management	10	(21)
Other	64	59
Operating profit before tax	220	234

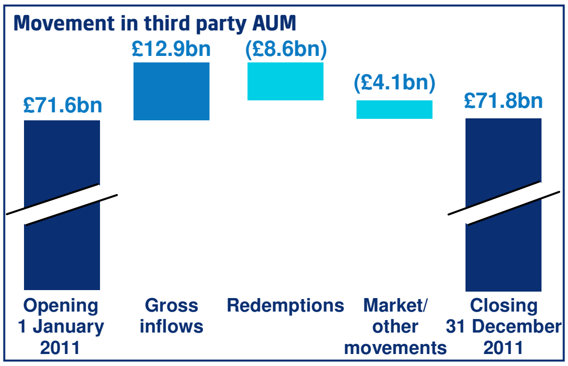
- Fee based revenue increased by 5% due to strong growth in AUA
- Spread/risk margin fell in 2011 to £75m with 2010 benefiting from a reserve release of £30m
- Maintenance expenses increased mainly due to the impact of recently acquired businesses, but as a percentage of AUA improved to 33bps
- Other comprises the remaining £64m (2010: £59m) benefit following the change in the basis of future pension increases in the UK staff pension scheme

Global investment management

Strategy

We will continue to expand our capability in order to deliver a wide range of solutions for clients that help diversify our revenue and profitability. Changes in the market environment will continue to provide many new opportunities.

AUA and flows



- We achieved third party net inflows of £4.3bn, continuing our unbroken record of positive inflows over the last eight years
- A notable number of new institutional clients were won in the UK and Europe during the year
- The external transfer of the money market funds of approximately £4bn is included within market/other movements
- Third party AUM increased to a year end record of £71.8bn

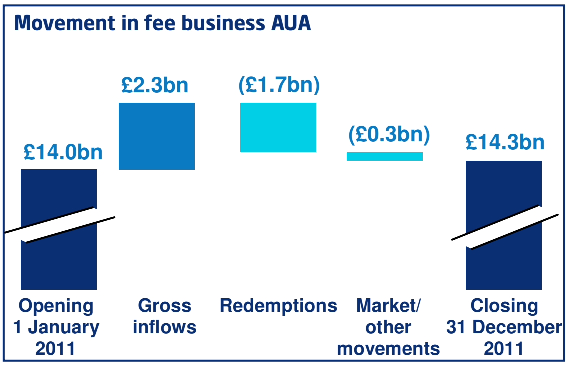
Operating profit

	2011 £m	2010 £m
Fee based revenue	383	331
Maintenance expenses	(227)	(194)
Investment for transformation and growth	(31)	(34)
Operating profit before tax	125	103
Interest and exchange rate movements	1	3
Earnings before interest and tax (EBIT)	126	106

- Operating profit before tax up to £125m
- Revenue rose by 16% driven by strong third party new business flows mainly into higher margin products, such as GARS and UK mutual funds
- Average fee revenue yield from third party business increased to 37bps from 35bps
- Maintenance expenses increased mainly due to higher employee numbers to support growth. Compared to total average AUM maintenance expenses were controlled at 15bps (2010: 13bps).

Canada

We will continue to differentiate our business by providing innovative retirement and investment solutions combined with a world-class customer experience. We continue to actively promote ourselves as a long-term savings and investments business in our chosen markets.



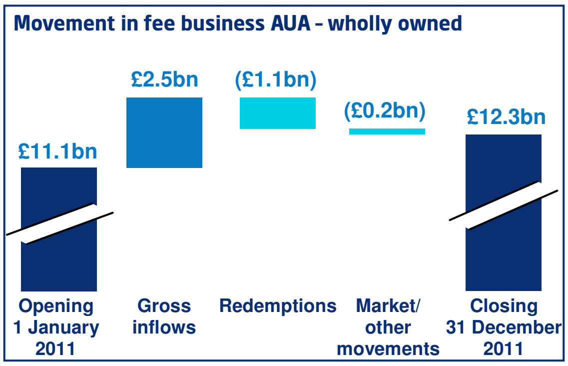
- Fee based AUA increased by £0.3bn due to strong net flows despite negative market movements
- Fee business accounts for 55% of total AUA
- Group savings and retirement net inflows improved to £0.3bn
- Spread/risk net outflows improved from £0.4bn to £0.3bn due to higher annuity sales and lower redemptions

	2011 £m	2010 £m
Fee based revenue	166	150
Spread/risk margin	281	222
Total income	447	372
Acquisition expenses	(61)	(64)
Maintenance expenses	(201)	(193)
Investment for transformation and growth	(36)	(35)
Capital management	38	30
Operating profit before tax	187	110

- Fee based revenue benefited from an increase in management charge income from higher AUA
- Spread/risk margin increased to £281m due to the impact of specific management actions designed to enhance the investment yields on assets
- Decrease in acquisition costs primarily due to lower commission charges
- Increase in maintenance expenses to £201m mainly due to the rise in AUA

International

Our strategy is to deliver profitable growth by expanding our operations in attractive international and offshore wealth management markets. We will also continue to maximise the value in our existing wholly owned businesses and to develop the joint venture businesses.



- AUA in the wholly owned businesses grew by £1.2bn driven by high net inflows despite weak markets
- In the offshore business in Ireland, net flows were up 26% due to high retail inflows
- Hong Kong net flows were up 87% in constant currency
- Strong net flows in the Ireland domestic business and Germany but lower than prior year due to difficult economic conditions

	2011 £m	2010 £m
Fee based revenue	221	212
Acquisition expenses	(40)	(31)
Maintenance expenses	(132)	(129)
Investment for transformation and growth	(12)	(15)
Capital management	1	1
Total wholly owned	38	38
India and China JV businesses	2	(23)
Operating profit before tax	40	15

- Operating profit before tax increased from £15m to £40m driven by the progress of the JV businesses
- Operating profit before tax of the wholly owned businesses was maintained at £38m
- Fee based revenue increased by 4% to £221m from the growing asset base
- Acquisition expenses increased to £40m in line with new business growth and market initiatives

1.4 Business segment performance *continued*

1.4.1 UK

"We are a major provider of long-term savings and investment solutions in the UK market. Our 2011 performance shows continued momentum in all our market segments. The enhancements to our market-leading platforms, propositions and investment solutions allied to the forthcoming pensions reform and Retail Distribution Review brings unprecedented opportunities for us to grow our business, strengthening our relationships with customers and advisers whilst also driving efficiency."
Paul Matthews, UK Chief Executive

Financial highlights

	2011	2010	Movement
Operating profit before tax from continuing operations	**£220m**	£234m[1]	(6%)
Operating return on equity	**15.5%**	17.4%	(1.9% points)
Assets under administration	**£122.0bn**	£119.2bn	2%
Net flows	**£2,125m**	£2,997m	(29%)
EEV covered business operating profit before tax	**£461m**	£428m	8%
EEV non-covered business operating profit before tax from continuing operations	**£67m**	£28m[1]	139%

[1] Continuing operations exclude Standard Life Healthcare Limited, which was sold on 31 July 2010.

Market update

The UK market is in a period of unprecedented change, driven by customer demand as well as economic, regulatory and technological trends which are creating exciting opportunities and challenges for both change and growth.

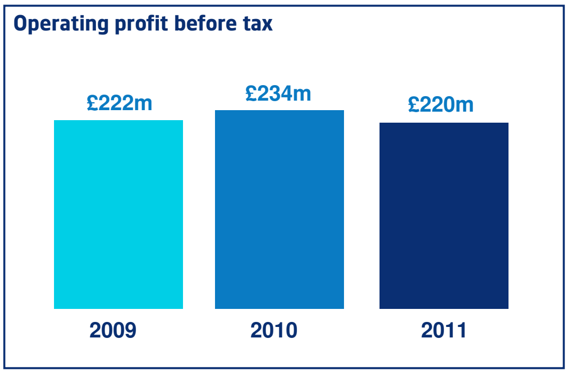
2011 saw economic uncertainty and volatility return to the forefront of UK financial markets, resulting in a more cautious sentiment amongst our customers and the industry. We demonstrated our continued momentum and resilience by retaining our number one position in both our retail and corporate markets as customers, advisers and employers continued to rely on a brand that they can trust.

Our regulatory environment is changing. The RDR and pensions reform will completely transform the nature, scale and profitability of our marketplace. These changes will significantly increase the market available to Standard Life by stopping payment of commission on new sales and by increasing the number of employees investing in pensions through auto enrolment. These changes are causing customers, financial advisers and employers to seek holistic solutions to manage their risk whilst reducing their administrative burden. Our suite of investment solutions and market-leading platform propositions means we are well placed to support our retail and corporate customers, advisers and intermediaries through this industry transition.

Our customer campaigns, including our retirement roadshows and customer mailings, together with government and media focus on pensions and saving for retirement, is driving increased consumer awareness. The growth and usage of the internet and technology has increased usage of our sites by consumers, driving engagement and efficiency. The UK has an ageing population with people now seeking more flexible retirement solutions. We are well placed to benefit from these changes through the continued development of our investment solutions and platform innovations.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	**625**	593
Spread/risk margin	**75**	148
Total income	**700**	741
Acquisition expenses	**(169)**	(172)
Maintenance expenses	**(332)**	(312)
Investment for transformation and growth	**(53)**	(61)
Capital management	**10**	(21)
Other	**64**	59
UK operating profit before tax from continuing operations	**220**	234



UK operating profit before tax was £220m. The key movements from 2010 are:

- **Fee based revenue** increased by 5% due mainly to higher AUA, with Wrap assets alone up 36% since 2010 as a result of strong growth in net inflows and the impact of recently acquired companies. The average revenue yield on fee business decreased to 73bps (2010: 77bps) mainly due to business mix.

- **Spread/risk margin** reduced by £73m as a result of annuity reserve strengthening in 2011. 2010 benefited from investment strategy changes, partially offset by a mortality assumption change which together contributed £30m to the result. 2010 annuity volumes also benefited from a change in retirement age legislation.
- **Acquisition expenses** of £169m are 2% lower than 2010, despite new business levels increasing by 8%. As a percentage of PVNBP, acquisition expenses improved significantly to 120bps (2010: 133bps).
- **Maintenance expenses** increased mainly because of the impact of recently acquired businesses including Focus Solutions. We are continuing to see the benefits of our scalable business model, with maintenance expenses expressed as a proportion of average AUA falling to 33bps (2010: 34bps).
- **Investment for transformation and growth** decreased to £53m as a number of key customer propositions launched during the year including our direct channel's online stocks and shares ISA and our corporate Wrap portal, Lifelens
- **Capital management** improved from a loss of £21m in 2010 to a profit of £10m due to the investment of shareholders' funds in higher yielding assets and the improved funding position of our UK staff pension scheme
- **Other** reflects the remaining £64m benefit following the change in the basis of future pension increases in the UK staff pension scheme. The initial benefit recognised in 2010 was £59m.

UK EEV operating profit, including HWPF time value of options and guarantees and non-covered business, increased by 16% to £528m (2010: £456m).

Operating return on equity

UK operating return on equity reduced to 15.5%. Although operating profit after tax of £204m was 3% higher than 2010, return on equity fell by 1.9% points as a result of the combined effects of the asset position of our UK staff pension scheme and the impact of higher market values of investments at the start of 2011.

Assets under administration and net flows

AUA grew by £2.8bn to £122.0bn in 2011. Fee based business, which accounts for 82% of AUA, increased by 2% to £100.6bn due to strong net inflows, offset by negative market movements. As at 31 December 2011, 61% of total fee based AUA related to retail business (2010: 63%) and 39% to corporate business (2010: 37%). Spread/risk business AUA increased by 7% to £14.4bn with net outflows being offset by positive market and other movements.

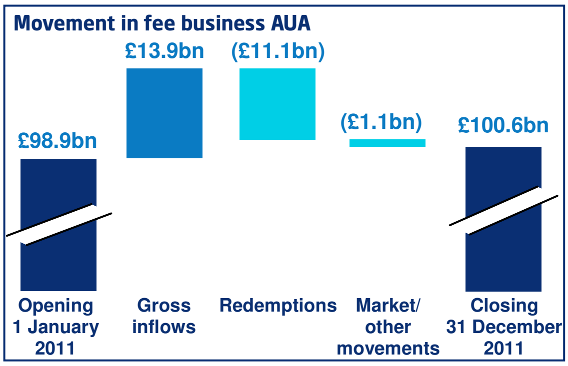
Total UK net inflows for the year were £2,125m. Core retail and corporate fee based business net inflows which drive UK profits, increased 37% to £2,863m.

The growth in our core business was offset by net outflows of £87m, reflecting institutional pensions net inflows of £1,414m (2010: £2,440m) and conventional with profits (CWP) net outflows of £1,501m (2010: £923m). CWP does not contribute to UK profits.

Core retail net inflows (excluding CWP) increased by 19% to £839m. This reflects a 7% increase in mutual funds net inflows which was driven by new business sales demonstrating our success in this market.

Core corporate net inflows (excluding institutional pensions and CWP) increased by 46% to £2,024m. This reflects very strong growth in our corporate pensions, driven by new scheme wins.

Spread/risk net outflows have increased by 6% due to lower new business sales compared to 2010 as a result of the legislative change in retirement age.



Net flows	2011 £m	2010 £m
Retail – core	**839**	704
Corporate – core	**2,024**	1,390
Fee based business – core	**2,863**	2,094
Fee based business – institutional pensions and CWP	**(87)**	1,517
Total UK fee based net inflows	**2,776**	3,611
Spread/risk business net inflows	**(651)**	(614)
Total UK net inflows	**2,125**	2,997

New business performance

Despite the challenging trading environment, our PVNBP sales increased by 8% to £14,035m (2010: £12,956m).

In our retail business, sales increased by 3% to £6,400m (2010: £6,197m). Individual pensions, which includes individual SIPP, rose by 2% to £3,936m (2010: £3,858m). Sales of savings and investments products increased by 8% to £2,151m (2010: £1,997m). This includes a 10% increase in mutual fund sales to £1,972m (2010: £1,795m) reflecting the significant growth in sales through our Wrap platform. Our savings and investments sales have performed strongly in 2011, with our net flows growing by 7% within the overall mutual fund market that saw a decline of 39% on 2010 levels according to the Institute of Money Advisers figures.

In our corporate business, we have grown new business volumes strongly while maintaining stable margins. Corporate pension sales have increased by 40% driven by our success in winning new schemes. In addition, our enhanced trust-based pension proposition has been successful in attracting both new and existing schemes and contributed over £725m to sales in 2011.

1.4 Business segment performance *continued*

1.4.1 UK *continued*

Delivering on our strategy

Our ambition is to be the leading long-term savings and investments business, delivering competitive retail and corporate propositions. This is underpinned by our brand values of being an easy, predictable, responsible and beneficial organisation to do business with.

In each of our core markets we ended the year in a strong position, with our 2011 retail IFA market share improving to 14.9% (2010: 14.6%) and our equivalent corporate market share improving to 19.1% (2010: 17.0%). Our market-leading positions in each market have been achieved through the introduction of our investment solutions and our focus on managing our underlying cost base through technology advances increasing our scalability.

We have put in significant work and investment over the last year, positioning ourselves more fully across the value chain to provide market-leading solutions that benefit our advisers and customers. This places us in a unique position to support retail and corporate markets, for both advised and non-advised customers, from the start of their investment journey to the end.

Our business model

Increasing assets

In the retail market our focus continues to be on embedding our wealth management platform into progressive RDR-ready advisory firms. We grow our assets by deepening and broadening our relationships with our target advisers through embedding our solutions, helping to remove complexity and risk from their businesses, allowing them time to focus on their clients. The RDR is causing significant change to many advisers' business models. Through adopting our wealth management platform, we have partnered with a significant proportion of new model advisers who have moved to fee charging ahead of the new regulations.

We continued to build on the success of our Wrap platform in 2011 and now have approximately 1,000 firms using our platform. We delivered enhanced functionality which focused on reducing risk and costs in adviser businesses. These enhancements include improved client reporting, upgraded back office integration and the introduction of the Managed Portfolio Services – delivering a leading retail proposition and contributing to the increase of 37% in assets and 47% in customer numbers. Sales of tax wrappers remained resilient despite the tough economic conditions.

Through refreshing our adviser and customer digital propositions, including launching an online stocks and shares ISA and online mutual funds, we have seen Adviserzone user sessions increase by 14% and the number of page hits double from 4 million to 8 million.

In the corporate market our focus has been to attract large scheme employers to adopt our workplace solutions and leverage our existing employer relationships. In 2011, we added 167 new schemes (2010: 182 new schemes) and we have seen enquiries more than double over this period. The number of new members joining our existing schemes has increased by 12% over 2010 – a total of 25,067 new customers.

We will continue to support our intermediary advisers through the regulatory changes in the market. The RDR will remove commission from product selection and will force advisers to set charges in agreement with their clients. Post-RDR we are well positioned to capitalise on these changes as we are already the leading provider in the nil commission market and have an established model for those advisers who are already operating a charging model. From the end of 2012 employers will have to automatically enrol all qualifying employees into a pension scheme, presenting a significant opportunity for Standard Life as we help our corporate clients to comply with their new duties.

Our Lifelens proposition is key to our success in this corporate market for a selected number of schemes and we believe that the combined strengths of this and our Vebnet propositions will enable us to take full advantage of current and future market opportunities.

Maximising revenue

We have strategically positioned ourselves across the value chain to maximise revenues from fees, platform and tax wrapper charges and overall investment charges.

During 2011, we made significant progress with our high margin investment propositions. Our three most popular solutions, Standard Life Wealth, MyFolio Managed Funds and MyFolio Multi-Manager Funds, secured total new assets in excess of £1bn in 2011.

The RDR and pensions reform have driven demand for risk based packaged investment solutions that fit the financial advice process, whilst uncertain markets have also encouraged more investors to look for managed solutions offering lower volatility.

Our current investment solutions range comprises a full private client discretionary service from Standard Life Wealth, the Managed Portfolio Service, and the MyFolio fund range – the most comprehensive range of risk based funds available in the market.

Our success is underpinned by our understanding of the UK corporate and retail markets and the end-to-end investment process. Our propositions benefited from the in-house investment expertise of Standard Life Investments and have demonstrated their ability to deliver for our customers. Standard Life Wealth, our flagship discretionary investment service, demonstrated the strength of its investment process by delivering positive returns in its core portfolio strategy for 2011, when all of the key Private Client Indices provided by Asset Risk Consultants for competitor benchmark indices were negative.

In January 2011 we acquired Focus Solutions. Combining their leading point of sale and back office expertise with the leading compliance services provided by threesixty allows us the capability to support our target advisers across the value chain.

Lowering costs

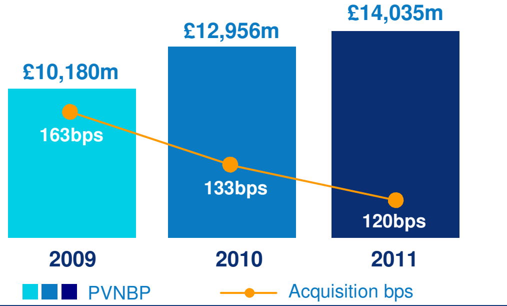
We are continuing to see the benefits of our scalable business model with maintenance expenses bps compared to average AUA falling to 33bps (2010: 34bps). Acquisition expenses as a percentage of PVNBP reduced significantly to 120bps (2010: 133bps).

Our overall strategy seeks to lower costs through technology advances, increased scalability and reduced commissions. We have in place a flexible and efficient IT change model, leveraging our investment in technology to deliver exceptional digital experience and service. We are also re-using core components across various channels creating scalable and low-cost operations.

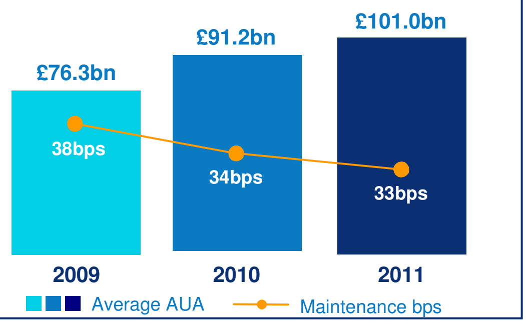
We are meeting the changing shape of demand and improving our customers' experience through active promotion of our online technology – making us easy to do business with. At the same time, and demonstrating the scalability of our operating model, we have significantly improved customer service efficiency, with a reduction in full-time equivalent employees of 15% since the end of 2009 despite an increase in our AUA of 16% over the same period.

We will continue to develop our IT and change infrastructure through improving our enterprise architecture and re-engineering our IT change processes. We will also look for strategic sourcing agreements to lower cost, improve capability and provide increased flexibility in a rapidly changing environment.

Acquisition expenses expressed as a proportion of sales



Maintenance expenses expressed as a proportion of average AUA



1.4 Business segment performance *continued*

1.4.2 Global investment management

"Standard Life Investments is a premier asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive 'focus on change' investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence. This has proved itself to be robust and repeatable in both good and bad market conditions. We have an unbroken record of positive annual net flows over the last eight years and have delivered a strong track record of profitable organic growth. Earnings before interest and tax have a compound annual growth rate over the last five years of 14%."
Keith Skeoch, Standard Life Investments Chief Executive Officer

Financial highlights

	2011	2010	Movement
Operating profit before tax	**£125m**	£103m	21%
Operating return on equity	**42.7%**	41.0%	1.7% points
Earnings before interest and tax (EBIT)[1]	**£126m**	£106m	19%
EBIT margin[1]	**34%**	33%	1% point
Third party assets under management (AUM)	**£71.8bn**	£71.6bn	-
Total assets under management	**£154.9bn**	£156.9bn	(1%)
Third party net inflows	**£4,280m**	£6,200m	(31%)

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

Standard Life Investments continued to deliver robust long-term investment performance in 2011, despite volatile markets. Third party AUM increased to a year end record of £71.8bn (2010: £71.6bn). Third party net inflows of institutional and wholesale business were £4.3bn (2010: £6.2bn) in what have been very challenging market conditions. These underlying new business flows underpinned strong revenue growth of 16%, driving EBIT up 19% to £126m and delivering EBIT margin of 34%. We continue to focus on serving existing clients and winning new clients through strong investment performance, product innovation, global distribution and high levels of customer service.

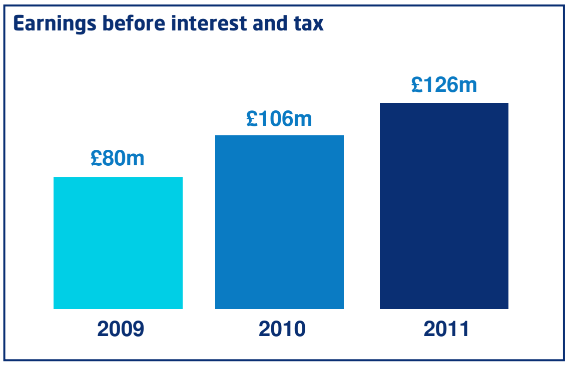
Standard Life Investments takes our responsibility as a long-term investor seriously. A cornerstone of our investment process is our belief that stewardship and environmental, social and governance (ESG) factors have a fundamental impact on long-term investment returns. Systematic consideration of stewardship and ESG factors at company level is firmly integrated into our investment process using proprietary indicators in the analysis. In addition, as responsible long-term investors, we engage regularly with investee companies to hold them to account and to promote high standards.

Market update

2011 was a difficult year for both financial markets and the fund management industry. The effects of the European sovereign debt crisis, downgrade of the United States debt ratings by Standard & Poor's and historic low returns in the safe haven sovereign bond market were further compounded by downward revisions to growth forecasts in a number of major economies. Market sentiment deteriorated during the second half of the year resulting in increased volatility across a range of markets. Equity markets in the UK and abroad fell sharply as investors tried to reduce their exposure to higher risk assets. The volatile markets had a significant impact on investor sentiment and resulted in a significant reduction in demand for mutual funds and a substantial fall in the turnover of institutional mandates. Average market values were slightly higher than in 2010, despite increased volatility in global financial markets. The average daily FTSE All-Share Index rose by 5% between 2010 and 2011.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	**383**	331
Maintenance expenses	**(227)**	(194)
Investment for transformation and growth	**(31)**	(34)
Global investment management operating profit before tax	**125**	103
Interest and exchange rate movements	**1**	3
Earnings before interest and tax (EBIT)	**126**	106



Operating profit before tax increased by 21% to £125m (2010: £103m). Revenue rose by 16% as a result of third party new business flows into higher margin products, such as GARS and UK mutual funds, and the fee received following the external transfer of the money market funds. This raised the average revenue yield on third party AUM to 37bps[2] (2010: 35bps).

[2] Excludes the fee received following the external transfer of the money market funds.

Cost growth is the result of utilising opportunities in the market to accelerate the expansion of our business in our chosen markets. Lower interest expense, coupled with foreign exchange gains also contributed to the increased operating profit. A £15m subordinated loan was repaid at the end of 2010, leaving the business with no gearing. EBIT increased by 19% to £126m (2010: £106m) and resulted in an EBIT margin of 34% (2010: 33%).

Operating return on equity

Operating return on equity has increased to 42.7% (2010: 41.0%) reflecting the shift in sales towards higher margin products.

Investment performance

We continued to deliver a robust investment performance over the longer term with 49% of funds over one year, and 82% of funds over three year time periods outperforming their benchmark. Our GARS fund has outperformed its LIBOR benchmark over all key time periods since inception and our mutual fund strength is shown by the proportion of eligible and actively managed funds (22 out of 29) rated A or above by Standard & Poor's in the UK. The pipeline for institutional business is strong with fixed income and GARS products attracting a lot of interest, increasingly from outside the UK. There is also positive demand for our mutual funds in the UK and for our SICAV funds in continental Europe.

Assets under management and net flows

We achieved third party net inflows of £4,280m (2010: £6,200m). This represents 6% of opening third party AUM, excluding money market funds. This continued Standard Life Investments' unbroken record of positive annual net flows over the last eight years. UK mutual funds net inflows of £1,643m (2010: £2,221m) were robust despite volatile market conditions. A significant number of new institutional clients were won in the UK and Europe during the period, increasing the institutional client base in these markets by 13% despite a substantial slow down in the number of institutional mandates across the market as a whole. Our high overall retention rates are reflected in redemptions being only 14% of opening AUM, which is in the top quartile in the industry. Inflows throughout 2011 have reflected the increasingly diverse nature of our product offering and the increasingly international character of our clients and distribution channels.

Third party AUM increased to a year end record of £71.8bn (2010: £71.6bn). The transfer of approximately £4bn of money market fund assets was offset by underlying new business flows. Third party AUM continues to represent 46% of total AUM (2010: 46%). In-house AUM decreased to £83.1bn (2010: £85.3bn) with favourable market movements offsetting outflows from the with profits business. As a result, total assets managed by Standard Life Investments stood at £154.9bn (2010: £156.9bn).

Delivering on our strategy

During 2011, Standard Life Investments successfully launched its refreshed visual identity and brand positioning. This builds on our commitment to increase the international nature of our business, as well as broaden the asset classes in which we excel, and helps to ensure that we present ourselves in a way that reflects our ambition, strengths and increasingly diversified business.

The refreshed brand identity will ensure communications are more consistent, with greater clarity in information provided to our clients, resulting in increased investor confidence. The refresh is supported by a major advertising campaign under the theme of 'Potential. Delivered'. This reflects our ongoing commitment to exceed our clients' expectations.

We have entered into an agreement with John Hancock Financial giving the GARS fund access to the United States market and allowing us to work with a leading distributor to help deliver potential for our global clients. We also continue to develop our strategic alliance with Chuo Mitsui Asset Trust and Banking Company, one of the largest trust banks in Japan, for reciprocal asset management services. The alliance sees Standard Life Investments provide advice on Chuo Mitsui's Global Equity Funds and Chuo Mitsui manage and advise on Standard Life Investments' Japanese Equity funds. We are also able to market each other's investment strategies through our respective distribution networks.

Our business model

Increasing assets

We have achieved third party net flows of £4,280m, increasing third party assets under management to £71.8bn. We continue to grow our share of the wholesale market in the UK, with UK mutual funds AUM now exceeding £10bn. We also continue to develop our GARS product range, with assets now over £13bn, and are strengthening our alternative capabilities in areas such as private equity and real estate. We also continue to enhance our multi-manager offerings. MyFolio has proved successful since its launch, providing new business flows into Standard Life Investments' actively managed funds and now has assets of approximately £1bn. Our pipeline of new investment initiatives is strong and we are confident that we will continue to meet the ever-changing demands of our clients through new and innovative solutions.

Maximising revenue

The majority of 2011 sales were into high margin products including UK wholesale and the GARS asset class. We continue to diversify our sources of revenue both geographically and by asset class. Geographically, we received net flows from Europe, US and Canada in 2011. The diversity of our asset class offering is evidenced by net flows in GARS, fixed income, real estate and overseas equities. EBIT has grown strongly with a compound annual growth rate over the last five years of 14%.

Lowering costs

The increasing volume of business in 2011 resulted in a rise in maintenance expenses from £194m to £227m. Opportunities in the market were utilised to accelerate the expansion of our business in our chosen markets. Maintenance expenses compared to total average AUM were controlled at 15bps (2010: 13bps).

1.4 Business segment performance *continued*

1.4.3 Canada

"We have delivered many new propositions to our corporate and retail customers, addressing their retirement needs. We are poised to take advantage of market opportunities in the group pensions space and have a fast-growing retail segregated fund offering. Our business model focused on cost and capital efficiency has enabled us to generate continued growth and increased operating profit levels, despite the challenging economic conditions. We are excited about the growth prospects in our key markets."
Charles Guay, Canada Chief Executive

Financial highlights

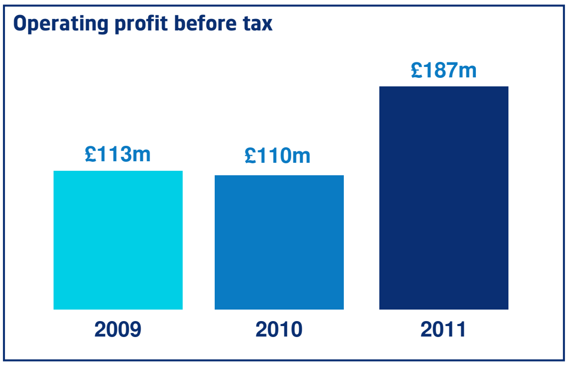
	2011	2010	Movement
Operating profit before tax	**£187m**	£110m	70%
Operating return on equity	**14.6%**	8.9%	5.7% points
Assets under administration	**£26.1bn**	£25.3bn	3%
Net flows	**£253m**	£63m	302%
EEV operating profit before tax	**£324m**	£250m	30%

Market update

Changing demographics including an ageing population, extensive personal debt and falling birth rates, emphasises the need for individuals to ensure that they have adequate pension provision. The Canadian Government is expected to introduce Pooled Registered Pension Plans, opening a new market to pension providers. We are one of the largest defined contribution (DC) pension providers in Canada and are developing our plans for this new market. We are also seeing acceleration in the conversion of defined benefit plans (DB) to DC plans, which will generate a significant opportunity for us to grow our AUA over the next few years.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	**166**	150
Spread/risk margin	**281**	222
Total income	**447**	372
Acquisition expenses	**(61)**	(64)
Maintenance expenses	**(201)**	(193)
Investment for transformation and growth	**(36)**	(35)
Capital management	**38**	30
Canada operating profit before tax from continuing operations	**187**	110



Operating profit before tax increased to £187m (2010: £110m). The key highlights are:

- **Fee based revenue** benefited from an increase in management charge income from higher AUA
- **Spread/risk margin** increased mainly due to the impact of specific management actions which led to a gain of £88m in 2011 (2010: £32m). Specific management actions in 2011 included the sale of a property which realised a significant gain of £42m and were designed to enhance the investment yields on assets. One-off reserving changes increased policyholder liabilities by £57m (2010: increase £13m). In 2011, one-off reserving changes were adversely impacted by strengthened mortality assumptions which were partly offset by revised investment allocations in line with the long-term asset strategy.
- The decrease in **acquisition expenses** of £3m was primarily due to lower commission charges
- The increase in **maintenance expenses** of £8m was mainly due to the rise in AUA and the associated costs incurred to service and administer these assets
- We continued to **invest in growing** our business and delivering enhancements to our client propositions with expenditure during the period of £36m
- The increase in **capital management** of £8m was mainly due to an increased investment return on shareholder assets

EEV operating profit before tax increased by 28% in constant currency to £324m (2010: £250m). Back book results increased from management actions designed to enhance the investment yields on assets and higher investment returns, but this was offset by adverse changes in mortality assumptions.

Operating return on equity

Operating return on equity increased to 14.6% (2010: 8.9%) benefiting from the growth in operating profitability. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

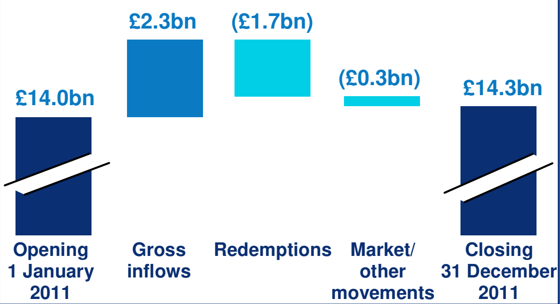
Assets under administration and net flows

AUA increased by £0.8bn during the year. Our fee business accounts for 55% (2010: 55%) of total AUA and has increased by 3% in constant currency to £14.3bn. The rise in fee business AUA has been driven by net inflows, partly offset by negative market movements. Spread/risk AUA increased to £10.3bn (2010: £10.1bn).

Net inflows increased by 305% in constant currency to £253m (2010: £63m). Gross inflows in our fee business were ahead of 2010. Strong sales in retail segregated funds and renewal premiums in group segregated funds were partly offset by a fall in mutual funds sales.

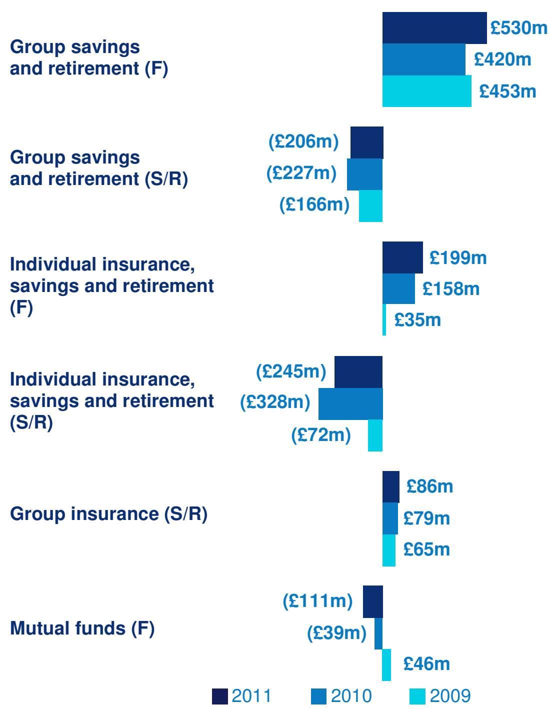
Mutual funds net outflows of £111m (2010: £39m) were impacted by lower sales levels. This was partially offset by lower redemptions.

Movement in fee business AUA



In our spread/risk business, retail net outflows improved from £328m to £245m, mainly due to higher sales of annuities and lower annuities and term funds redemptions. Group savings and retirement net outflows slightly improved to £206m (2010: £227m). A large part of group insurance sales consisted of future renewal premiums which had a marginal impact on this year's inflows, which increased by 6% in constant currency to £442m (2010: £411m).

Net flows £253m (2010: £63m, 2009: £361m)



New business performance

PVNBP sales decreased by 5% in constant currency to £2,928m (2010: £3,048m). Excluding large wins in 2010 for group savings and retirement, total sales increased by 12% in constant currency.

Strong sales in our retail segregated funds, which increased by 22% in constant currency, led to an increased market share and drove our retail line sales. Individual insurance, savings and retirement increased by 17% in constant currency. Mutual funds sales decreased to £218m (2010: £313m).

Group savings and retirement sales decreased by 26% in constant currency. Excluding large wins in 2010, sales in this product line increased by 8% in constant currency and our core defined contribution sales increased by 16%. Group insurance and disability management business was successful, with strong growth in market share.

Delivering on our strategy

Our strategy is to differentiate our business by providing innovative retirement and investment solutions combined with a world-class customer experience.

Our business model

Increasing assets

In our group savings and retirement line, we delivered the second phase of the member statement project that allows for significant member customisation. The trust application addition to our SLX platform enabled us to secure key accounts. We added several investment managers and new funds to our Quality and Choice Investment Programme and we have launched our simplified Ideal Term Funds and new Socially Responsible Investment option. In our retail line, we expanded our successful segregated funds range with the launch of the Ideal Income Series. We launched new Socially Responsible Investment segregated funds and introduced four new mutual funds. We enhanced our distribution through an agreement with Qtrade Financial Group, an online brokerage and investment dealer.

In our group savings and retirement line, product enhancements enabled us to win 204 new defined contribution accounts, increasing members to 561,000 (2010: 537,000), with defined contribution AUA increasing by 3% in constant currency to £9.4bn. The strength of our retail sales force and investment fund offering led to strong sales and increased asset share in our retail segregated funds, where we were one of the fastest growing companies in 2011[1].

Maximising revenue

The average revenue yield on our fee business decreased slightly to 117bps (2010: 118bps), reflecting pricing conditions prevailing in our markets. Our spread/risk margin reflects several actions taken during the year to maximise cash flows on assets and enhance investment yields. On 1 January 2012 we ceased selling individual life insurance products in order to sharpen our focus on long-term savings and investments.

Lowering costs

We continue to see the benefits of our scalable business model with maintenance expenses compared to average AUA falling to 85bps (2010: 86ps).

[1] As measured by net flows as a percentage of opening AUA.

1.4 Business segment performance *continued*

1.4.4 International

"Our International business operates in markets and market segments which offer significant growth potential. The propositions we offer are centred on flexible investment solutions, innovative life assurance wrappers and digital capabilities. This approach proved successful in 2011, delivering growth despite difficult market conditions."
Nathan Parnaby, International Chief Executive

Financial highlights – wholly owned

	2011	2010	Movement
Operating profit before tax	**£38m**	£38m	-
Operating return on equity	**9.9%**	10.2%	(0.3% points)
Assets under administration	**£12.3bn**	£11.1bn	11%
Net flows	**£1,448m**	£1,412m	3%
EEV covered business operating profit before tax	**£99m**	£90m	10%
EEV non-covered business operating loss before tax	**(£8m)**	(£7m)	(14%)

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

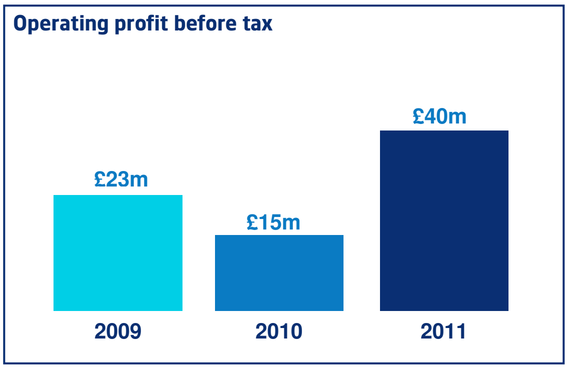
	2011	2010	Movement
Operating profit/(loss) before tax	**£2m**	(£23m)	109%
Operating return on equity	**2.8%**	(24.5%)	27.3% points
Assets under administration	**£1.2bn**	£1.2bn	-
Net flows	**£275m**	£254m	8%
EEV covered business operating profit before tax	**£5m**	£3m	67%

Market update

Overall customer sentiment was impacted by market uncertainties caused by the Eurozone crisis and volatile investment markets. International operates in a number of territories and these are subject to different market dynamics. In Germany, the economy continued to grow in 2011 and our successful repositioning saw us increasing our market share, particularly in the second half of 2011. The domestic market in Ireland was dominated by customers' reactions to the economy and austerity measures. Our businesses in Ireland performed well in these difficult conditions and increased our market share to all time high levels in our chosen market segments. Economies in Asia continued to grow strongly and we are well placed to expand our operations in our chosen markets. Changes to product regulation in India impacted sales levels in this market in the short term. However, the India joint venture has performed well despite the challenging regulatory environment and has improved both positioning in the market and market share.

Profitability

Operating profit before tax	2011 £m	2010 £m
Fee based revenue	**221**	212
Acquisition expenses	**(40)**	(31)
Maintenance expenses	**(132)**	(129)
Investment for transformation and growth	**(12)**	(15)
Capital management	**1**	1
Total wholly owned	**38**	38
India and China JV businesses	**2**	(23)
International operating profit before tax	**40**	15



Operating profit before tax increased to £40m from £15m. The key highlights are:

- **Fee based revenue** increased by 4% to £221m (2010: £212m) driven by the increase in AUA
- **Acquisition expenses** increased to £40m (2010: £31m) in line with the higher new business and market initiatives
- **Maintenance expenses** were broadly stable reflecting the scalable business model. The increase to £132m (2010: £129m) was driven by commission paid on existing business and higher investment fees in line with the growing AUA and back book
- **Operating profit before tax** of the wholly owned businesses was maintained at £38m, despite difficult market conditions
- The **joint ventures** contributed an operating profit before tax of £2m (2010: loss £23m) to the Group, which reflects their positive progression and our ongoing investment to support their development

Total EEV operating profit increased to £96m from £86m. EEV operating profit before tax of the wholly owned businesses, including non-covered business, increased to £91m (2010: £83m) predominantly from improved back book profitability in Ireland and Germany. EEV covered business operating profit before tax for the joint ventures was up to £5m (2010: £3m) with improved back book profitability partially offset by lower new business contribution.

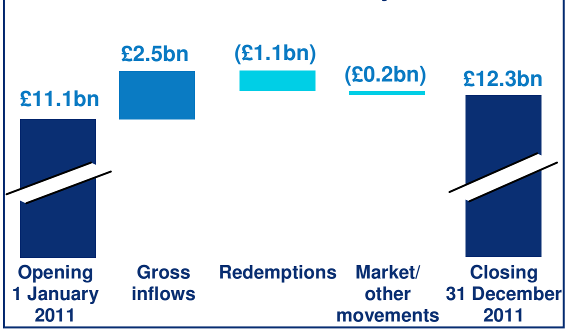
Operating return on equity

Operating return on equity for total International increased to 8.2% (2010: 1.7%) driven by the strong improvement in operating profits, predominantly from the joint ventures. The total International operating return on equity consists of 9.9% for the wholly owned businesses and 2.8% for the joint ventures.

Assets under administration and net flows

AUA in the wholly owned businesses grew by £1.2bn to £12.3bn (2010: £11.1bn) due to high net inflows in the year. Net flows of the wholly owned businesses increased by 3% to £1,448m (2010: £1,412m). This was mainly due to strong retail business inflows into our offshore bonds where net flows increased to £627m (2010: £496m). Net flows in Hong Kong rose to £63m (2010: £35m) due to new business sales and regular premium flows. In Ireland domestic business, net inflows fell to £194m (2010: £215m) with outflows driven by the economic situation and austerity measures. Net flows in the joint ventures increased by 8% to £275m (2010: £254m) with AUA of £1.2bn at the year end.

Movement in fee business AUA – wholly owned



New business performance

PVNBP sales in the wholly owned businesses increased by 18% in constant currency to £2,275m (2010: £1,929m). Ireland offshore bonds sales were 26% higher due to an improved proposition and better positioning in the wealth market. In Ireland domestic business, sales increased by 7% in constant currency. This was due to our strong investment proposition and high sales in the first half of the year as a reaction to legislative changes. In Germany, sales of £424m (2010: £337m) were 25% higher in constant currency driven by the launch of new propositions to revitalise our market presence. Hong Kong performed very well with sales of £320m (2010: £294m), up 13% in constant currency and leading to an increased market share. In India, sales were £414m (2010: £444m), down 1% in constant currency due to regulatory changes which have impacted the whole industry. Effective management of the recent market changes in India helped to increase our market share in the private market to 15% (2010: 12%). In China, sales decreased by 20% in constant currency to £86m (2010: £106m) due to refocusing the business on more profitable market segments and distribution channels.

Delivering on our strategy

Our strategy is to deliver profitable growth, expanding our businesses in attractive international and offshore wealth management markets (offshore bonds, Hong Kong and new markets), developing the joint venture businesses whilst maximising the value of our existing domestic businesses. 2011 saw us making good progress with strong growth in offshore bonds and Hong Kong from new proposition launches together with the development of our international offshore business. In Germany, we have introduced new propositions and are developing new product lines to reduce the reliance on with profits products. In China, we have a new management team in place under the leadership of a new general manager. We have produced a strategic plan to develop the business and are working closely with our joint venture partner to implement this.

Our business model

Increasing assets

We have undertaken significant proposition development work in both our domestic and international offshore businesses to generate higher inflows.

Market share in Hong Kong grew with targeted sales and marketing activity and market-leading propositions, like Harvest Supreme and the launch of new propositions such as Aspire. In Germany, a series of propositions were launched to refresh our market presence and emphasise our expertise in the unit linked market. We are actively targeting to diversify away from with profits business and emphasise our investment expertise. Ireland saw a focus on our digital propositions and the offshore business launched a recurring single premium variant of the offshore bond which was rated ‘Best Regular Premium Investment Product’ by the monthly publication, International Adviser.

These market initiatives and our strong customer relationship model contributed to the 14% increase of wholly owned gross inflows in 2011 leading to an 11% increase in wholly owned AUA to £12.3bn.

Maximising revenue

The average revenue yield on fee based business decreased to 186bps (2010: 212bps) reflecting the change in asset mix across the International territories and also the charging structure of legacy business. Our market development activity remains focused on driving growth in attractive markets, offering high value propositions and promoting high value Standard Life Investment propositions such as GARS.

Lowering costs

Maintenance expenses expressed as a proportion of average AUA fell from 129bps to 111bps in 2011 with continued efforts to drive efficiencies across all territories.

1.5 Risk management

"We are focused on delivering a strong framework that enables the risks of the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. This helps provide resilience and financial strength in the face of extreme conditions and a strong support for future growth and development."
Colin Ledlie, Chief Risk Officer

	Market risk	Credit risk
Definition	The risk that arises from the Group's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.	The risk of exposure to loss if a counterparty fails to perform its financial obligation, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of assets due to a widening of mortgage, bond and swap spreads.
Appetite	The Group has no appetite for market risk exposures except where they arise as a consequence of core strategic activity. Business units are expected to limit market risk exposures by matching the features of liabilities to features of assets. Exposures may be incurred where there is an overriding business need and specific appetites will be established as necessary.	The Group has an appetite for credit risk to the extent that acceptance of this risk optimises the Group risk-adjusted return. However, the Group has limited appetite for significant losses arising from counterparty failures and maintains robust risk limits which Group companies must adhere to.
Main sources of risk	**Equity and property risk** • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the funds are invested in equities and property • Burnthrough from the Heritage With Profits Fund (HWPF) and German With Profits Fund • Guarantees on segregated fund business in Canada **Fixed interest risk** • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in fixed interest assets • Burnthrough from the HWPF and German With Profits Fund • Insufficient long-dated fixed income assets to match the longest dated liabilities in Canada **Currency risk** • Exchange rate movements that reduce the value of overseas operations and profits generated by them • Changes in the value of future profits on unit linked funds and collective investment schemes where the underlying funds are invested in overseas assets	The Group is exposed to credit risk through: • Changes in the value of future profits earned on unit linked funds and collective investment schemes where the underlying funds are invested in corporate bonds • Burnthrough from the HWPF Credit risk also results from holding the following assets: • Corporate bonds held to back annuities written by SLAL post-demutualisation • Assets held to back the subordinated debt in SLAL, a proportion of which are asset backed securities that are held for historical reasons • Corporate bonds and commercial mortgages held in Canada to back annuities Other holdings of cash and cash equivalents, debt securities and the reinsurance of certain insurance liabilities to reinsurance counterparties also results in credit risk.
2011 summary	The economic crisis in the Eurozone has resulted in increased volatility in the equity and bond markets with UK, German and Canadian fixed interest yields falling. In response to this we have: • Increased hedging to reduce the impact of falling Euro yields • Implemented dynamic hedging of guarantees provided for Canadian Segregated Funds • Maintained hedging arrangements in respect of the currency risk arising from our overseas operations • Monitored the level of equity and property held within the HWPF We have also reviewed our portfolios to consider both the direct and indirect consequences that could arise from one or more countries ceasing to use the Euro.	The economic crisis in the Eurozone has resulted in the value of debt securities issued by certain sovereign states and banking counterparties falling in value. We have responded to the Eurozone crisis by: • Proactively managing the benchmarks of our fixed interest portfolios, in particular to remove exposures to peripheral sovereign debt • Restricting our holdings of cash and cash equivalents to banks that we assess to be of appropriate credit standing, taking into consideration both direct and indirect factors such as the potential impact of contagion risk on these banks We have also reduced our securities lending activity during the year which has reduced our counterparty exposures.

<table>
<tr><th>Demographic and expense risk</th><th>Liquidity risk</th><th>Operational and strategic risks</th></tr>
<tr><td>The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected. This includes liabilities of insurance and investment contracts.</td><td>The risk that the Group is unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive cost.</td><td>Operational risk is the risk of adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or external events. Strategic risk is the risk associated with the robustness of the planning process and threats to achieving the strategy.</td></tr>
<tr><td>The Group has an appetite for such risks since we expect acceptance of the risk to be value additive. Appetites will be established to reflect planned business activities in line with the Group's overall strategic objectives.</td><td>The Group has no appetite to fail to meet its liabilities as they fall due.</td><td>The Group has an appetite for operational risks where exposures arise due to core strategic activity. However, the Group will seek to put effective controls in place to reduce operational risk exposures, except where the costs of such controls exceed the expected benefits.</td></tr>
<tr><td>Persistency
• Changes in the value of future profits earned on unit linked funds and collective investment schemes in the UK and future recourse cash flow payments from the HWPF
• Changes in the value of future profits earned in respect of Standard Life Investment's third party AUM and segregated fund business
Longevity
• Annuity contracts written by the UK and Canada where the current experience differs from that expected, more volatility of experience than expected, or the rate of improvement in mortality is greater than anticipated
Expense
• Changes in the value of future expected expenses
• Shareholder is directly exposed to risk of expenses being above expectation</td><td>The Group is exposed to liquidity risk from the following sources:
• The type of business that is written, the assets and liabilities arising from that business and how the assets are managed to meet those liabilities
• Operational aspects of the business, for example the management of cash as it flows into our business as premiums and out of our business as claims and the payment of corporate cash flows including dividends, coupons and debt repayment
• Potential liquidity issues in unit linked funds due to the underlying asset classes
• The collateralisation of derivatives which results in cash volatility as the value of the derivative changes</td><td>The key operational and strategic themes affecting the Group are:
• Management of existing processes
• Management of information security
• Management of third party providers
• Project and programmes – managing change and the execution of projects
• People – succession planning, skilling and resource levels
• Delivering the strategic plan</td></tr>
<tr><td>We are actively engaging with advisers in the market to minimise the potential adverse impacts resulting from advisers seeking to move schemes in advance of the RDR being implemented in 2013.

A key commercial focus over the year has been to develop propositions to increase the retention of funds when insurance and savings contracts reach maturity.

We have continued to monitor emerging research into longevity, for example from the Office for National Statistics and the industry-wide Continuous Mortality Investigation, in order to inform our in-house view of likely future improvements in life expectancy.</td><td>The economic crisis in the Eurozone has reduced the liquidity for certain asset classes. Through our monitoring of market conditions we have sought to anticipate potential issues.

During the year we have continued to:
▪ Centrally co-ordinate strategic planning and funding requirements. This helped support our decision to repurchase some of our subordinated debt during the year.
▪ Maintain a portfolio of (currently undrawn) committed bank facilities
In 2011 we also established a Euro Medium Term Note Programme.

The Group has not invoked any deferral terms on unit linked contracts during the year and there are no funds subject to deferral at 31 December 2011.</td><td>The final judgement of the European Court of Justice in the Test-Achats case requires insurance contracts to be gender neutral in terms of pricing and benefits from 2012. Our UK and International businesses are well placed to meet the requirements.

We have continued to work on implementing appropriate processes and controls to prepare for regulatory changes.

The Eurozone crisis has presented additional pressures on various operating processes and systems during the year however the controls embedded within the Group have ensured we have been able to avoid any serious losses or adverse consequences.</td></tr>
</table>

1.6 Our customers

"We serve a wide variety of customers – individuals, financial advisers, corporate customers and large institutions. Our role is to help all of our customers look forward to their financial future with confidence and optimism. We continue to drive our transformation by putting customers at the heart of everything we do."
Bruce Kelsall, Group Marketing Director

Listening to customers

Putting customers at the heart of our business means we need to keep listening to them and developing our understanding of their needs and challenges.

We do this in a number of ways. On a day-to-day basis there are numerous conversations between our customer service and relationship management teams. We collect more structured feedback from our customers on our performance through detailed customer questionnaires. These include the new deeper insight programmes to analyse client needs in Standard Life Investments and the real time customer feedback techniques used in our customer service operations. We undertake detailed research to understand how our customers are preparing for major events such as pensions reform and the RDR and how we develop areas of our propositions.

However, we also employ more innovative techniques. Our online customer community has now grown to almost 1,500 members with 390 active members providing regular feedback on a number of issues such as our literature, our use of social media, and the role of the adviser in advance of the RDR. Customer closeness events between our senior leaders and customers have continued during 2011, with 17 being held across the UK. These sessions allow the senior team to hear first hand customers' views and opinions.

Developing our Brand

In 2011, we took another important step on our transformation journey when we launched our new repositioned brand across the Group. The repositioning was accompanied by investing in new propositions and capability. In the UK we relaunched our brand via an enhanced Adviserzone platform for advisers, a new **www.standardlife.co.uk** website and through the corporate proposition of Lifelens. New customer propositions and digital services accompanied the rollout of the new brand in Germany, Ireland and Hong Kong. In May, the Standard Life Investments brand was re-launched with a new messaging platform for institutional and wholesale clients. The results of a recent Standard Life Investments client survey indicate sustained brand loyalty and high levels of pride in association with 78% of clients stating that they would like to still be doing business with Standard Life Investments in 10 years' time.

The new brand positioning was accompanied by a new visual identity but the brand is more than just a new look – it's about the way we work and the experiences we create for our customers. And it is about the unique combination of capabilities we have that differentiates us strongly from competitors. We are a long-term savings and investments business that helps customers look forward to their financial future with confidence and optimism. This is summed up in our new endline, The Way Forward.

Underpinning our brand are four pillars that recognise the core needs of customers:

- Working to ensure that we offer products that are easy to understand and access, and that Standard Life is easy to deal with
- Being consistent in the service experiences we offer and transparent about how our products work and how we charge
- Acting responsibly in terms of how we operate as a business, helping our customers make informed choices and recognising our broader role in the societies we serve
- Helping customers handle their finances effectively. Our core purpose is to help customers take better care of their money.

Technology now plays an important role in the lives of all our customers and is also an important component of our brand. The way that we help our customers think and plan for the future, purchase our products and manage their finances, has been evolving to meet these dramatic digital changes. Our business with advisers is increasingly written through our award-winning technology platforms. Consumers can now purchase an ISA and pension online and manage their products through our online servicing capability. In 2011, we launched Facebook, LinkedIn, YouTube and Twitter feeds across our consumer and adviser channels, which are enabling us to engage in a different form of dialogue around long-term savings and investments. In Hong Kong, over 5,000 customers have downloaded the Asian iPhone and iPad app that enables them to view and transact against their portfolio.

Treating Customers Fairly

We are committed to building a customer-centric organisation. We have embedded the Financial Service Authority's Treating Customers Fairly (TCF) principles across the business and continue to have a strong management focus on how we deliver against the six TCF outcomes. However, we seek to deliver over and above these principles and we have significantly enhanced our complaint management process to give customers a more consistent and fair experience. In addition, we continue to invest in and improve the customer experience.

Supporting consumers

A key theme from our customers is the importance of clear communication and helping them to better understand the issues and choices they have in planning for their financial future. Responding to this has been a major theme in 2011.

Our **www.standardlife.co.uk** website has been extensively redeveloped. This meant improving the structure and design and simplifying the content. Our website now:

- Engages customers with clear, interactive and open content designed to help them get to grips with their finances
- Lets customers apply for the Active Money Personal Pension online
- Has tools to help customers become more confident in making financial decisions
- Lets customers purchase ISAs and mutual funds online

Consumer-focused websites in our international markets have all been redeveloped in a similar manner and we have substantially rewritten many of our brochures and standard letters to try to ensure that we communicate in a straightforward and accessible manner.

We also piloted our programme of Customer Retirement Roadshows in 2011 and are rolling them out throughout the UK in 2012. The roadshows are designed to help our customers prepare for their retirement by informing them about their retirement options and helping our customers to understand those options.

Supporting financial advisers

In 2011, we continued broadening and deepening our relationship with advisers, offering hands-on support in the run up to the RDR 2013 deadline. We aligned our propositions and technology to support advisers with end-to-end client solutions covering tax and retirement planning and investments. In addition in the UK, threesixty has continued to provide independent consulting and business support services, plus specific help with regulatory compliance.

Another key focus for 2011 has been to enhance our technology offering. We've continued to invest in the development of our market-leading Wrap platform, which is now being used by approximately 1,000 adviser firms. Further support is provided through Focus Solutions with their unrivalled point-of-sale and integration capabilities. Standard Life Investments launched Learning Gateway, a free online training portal to support advisers through the RDR transition and beyond, with over 2,800 advisers registered.

Based on adviser feedback, we launched our new Adviserzone.com in February 2011 to deliver more efficient new business processing and client servicing, with enhanced functionality and upgraded online tools. The objective is to enable IFAs to offer better value to their clients whilst reducing time spent on processing and administration. Later in 2011, we launched our dedicated tax planning hub on Adviserzone which offers tax planning solutions built around advisers' clients whatever their need or income level.

In Hong Kong, we enhanced the online servicing proposition for IFAs enabling them to initiate bulk fund switching on behalf of their clients electronically. 7,500 transactions of this nature are processed every month.

Corporate customers

In early 2011, we launched the employee benefits platform, Lifelens. This cutting-edge technology allows employers to offer and showcase all employee benefits and rewards through one single application. It means all members of corporate savings schemes get an easily accessible, personalised, single view of their benefits package. Lifelens has been well received by the market and after successfully streamlining our approach to its implementation, we expect the next wave of clients to transition during 2012.

We have been designing a pensions reform solution to help companies to meet the requirements and also minimise the disruption and cost of complying with the new regulations in the market. An example of this is by helping fully automate the auto enrolment process.

We launched a new 'Master Trust' proposition for employers wishing to move away from defined benefit or own trust solutions but wanting the reassurance of governance and modern investment choices for their employees.

In line with our theme of better communication for consumers, we have also significantly improved the information companies use to explain their pension schemes to employees, designing new websites and joining guides.

Throughout 2011, we delivered a number of thought leadership white papers and events debating some of the issues facing employers and intermediaries in the corporate market. These have included the implications of regulation, pensions scheme restructures and the importance of the design of default funds.

Expanding our investment offering to customers

We continued to develop and improve our investment solutions throughout 2011. The MyFolio range of governed, risk-managed funds, has been extended with additional variations launched catering for customers with an income investment preference and for the corporate pension market. Standard Life Wealth also launched a Managed Portfolio Service which brings its unique investment approach to a wider range of potential customers.

Satisfied customers

UK

We keep close tabs on our customers' thoughts and views of the service we give, a key measure being 'real-time customer feedback' – gaining feedback on our service levels straight after a service interaction. Our average rating for 2011 for customer satisfaction is 4.85 out of 5 (2010: 4.83) and for intermediary satisfaction it's 4.74 out of 5 (2010: 4.70).

1.6 Our customers *continued*

In 2011 our UK business was recognised with awards, including:

- 'Life and pensions five star provider award' at the Financial Adviser Service Awards
- Five awards from the Finance and Technology Research Centre (FTRC). Our Group SIPP; Group Personal Pension; Group Contracted-in Money Purchase; and Wrap platform all received the top 'eee' rating. We were also awarded SIPP and SIPP specialist 'eee' rating for the third consecutive year.
- 'Best Website for IFAs' at the Professional Adviser Awards
- 'Bundled/Full Service Defined Contribution Provider of the Year' at the UK Pensions Awards
- 'SIPP and/or SSAS Provider of the Year' and 'Best Income Drawdown Provider' at the Financial Adviser Life & Pensions Awards
- At the Aberdeen UK Platform Awards we were awarded 'Wrap Platform of the Year'

Global investment management

Our business is underpinned by strong investment performance achieved by rigorously applying our 'focus on change' investment philosophy. High quality support by our client service teams – combined with this strong investment performance – won us a number of awards in 2011 including:

- Standard Life Investments' UK Smaller Companies Trust won 'Best Shareholder Value' category at the Investment Trust of the Year Awards. The Trust also won, for the third year out of the past four years, the 'UK Smaller Companies' category.
- Best Investment Service Provider 1993 to 2010 from Financial Adviser in recognition of our long-term commitment to the IFA community over the last 18 years
- 'Most Innovative Asset Manager' at the Engaged Investor Trustee Awards
- Standard Life Investments' UK Equity Unconstrained Fund was 'Highly Commended' in the 'UK All Companies' category at the 2011 Moneywise Fund Awards
- 'Investment Manager of the Year' and 'DC Investment Only Provider of the Year' at the UK Pensions Awards 2011
- At the 2011 Eurofonds – Fund Class Awards, Standard Life Investments won a special award as 'Best Asset Manager in Europe over 7 years' in the asset managers category with between 26 and 40 funds rated, including both OEICs and SICAVs
- Five awards at the prestigious Lipper Fund Awards 2011. The funds recognised were the European Smaller Companies SICAV, the China Equities SICAV, the UK Smaller Companies Fund and the Managed Fund (two awards).
- Standard Life UK Smaller Companies Fund named 'Best UK Small-Cap Equity Fund' at the 2011 Morning Star UK Fund Awards
- Standard Life Investments' Global Absolute Return Strategies Fund won 'Best Absolute Return Fund' at the Professional Adviser Awards 2011

Canada

High quality customer service is the basis of our growth strategy. We focus on building retention and strong customer relationships. In 2011, our client retention level based on internal methodology was 93.2% (2010: 94.4%). We are constantly investing in technology, training and processes to help us provide the level of service our customers need and expect. This includes continuing to enhance web-based functionality across our group lines. This makes it easier for both sponsors and participants to administer our products.

Our customer focus has earned us a number of awards throughout the year, including:

- 'Outstanding Integrated Ad Campaign' award from the Web Marketing Association, recognising our multimedia campaign 'To make a long story short', promoting our revamped member statement
- Eight Insurance and Financial Communicators Association awards, recognising excellence in marketing and communications creativity, design and writing in the North American insurance and financial services industry
- Environics Adviser Perception Study ranked Standard Life Canada second in advisor perception of overall company and segregated funds division, and ranked first amongst top-selling advisers
- The Standard Life Corporate Bond Fund won a Lipper Fund Award in the Canadian Fixed Income category over a three-year period, recognising the talent, discipline and management style of our portfolio manager, Standard Life Investments

International

One of our core values is to deliver exceptional customer service and always put our customers at the heart of our thinking. In 2011, we actively managed our customer relationships which led to very good customer retention in our offshore bond business and Germany. In Hong Kong we developed additional web-enabled services which will add further customer value to our propositions.

All International operations are committed to maintaining the highest level of customer service. This commitment to customer service was acknowledged during 2011 by various awards received by our operations including:

- The German business won two awards for outstanding service and broker support
- The offshore bonds business received an International Adviser Award for 'Best Adviser Support and Customer Service – UK Offshore' in 2011
- The offshore bond business also received 'Best Regular Premium Investment Contract' award for our recurrent single premium contract from the monthly publication, International Adviser
- In India, HDFC Life won the 'Best Product Innovation Award 2011 – Life Insurance' for the HDFC SL Crest product

1.7 Our people

"To become a more customer-focused business we need to develop and harness the talents of our people, working closely with them to make change happen. We believe that highly engaged people are more productive and have a positive effect on profit and shareholder value. So, in 2011, we focused on getting great employee insight and using this to help strengthen the relationship that each individual employee has with our business. During 2012 we will continue to focus on increasing leadership capability, ensuring our leaders are equipped to help our people grow and fulfil their potential."
Sandy Begbie, Group People and Operations Director

Employee engagement

In April 2011 we introduced a new approach to measuring employee satisfaction with the launch of the 'InterAction' survey. 'InterAction' measures how engaged employees are and how enabled employees feel to do their job to the best of their ability. 86% of our employees worldwide participated and we used this insight to develop clear action plans at both Group and business unit levels to address the key themes identified.

We have embarked on a group-wide programme of activity to bring to life what we stand for as an organisation. By June 2011 over 600 employees across Standard Life Group had come together at sessions in all locations to share their stories of what it looks and feels like when we do the right thing for our customers, collaborate with each other and care about our stakeholders in all of our geographies and communities. We have used our understanding of what we stand for as an organisation to help define what underpins how we do things in Standard Life; 'We Care, We Do The Right Thing, We Come Together, We Get On With It and We Celebrate'.

Leadership and talent

A priority is to ensure that we have the depth and flexibility of talent we need for the future, as well as powerful and consistent leadership at all levels of the business. In 2011 we made further progress in moving towards these objectives by including more people and more roles than ever before in our talent review. We have continued to increase the ratio of internal appointments into senior roles as a result of previous investment in building talent pipelines.

All our executives have completed 360 degree feedback against our leadership framework and have established individual development plans to support their development as leaders. Through these sessions, and other activities across the Group, all people leaders are expected to establish a development plan to build and develop their leadership and support delivery of personal objectives.

In 2010, we invested in the development of our leaders with the introduction of three new leadership development programmes, tailored to the needs of team, area and senior leaders. By the end of 2011, nearly 700 leaders across the Group completed these programmes which focus on their development as leaders.

We continue to invest in building the strength and depth of our talent up through the organisation. During 2011 we completed a review of talent across the Group, increasing the breadth and depth of succession cover for key roles. We have selected our fourth intake into our award-winning Accelerated Development Support programme, our process to support the development of senior leaders with high potential, taking the total numbers involved to 72. In addition, we partnered with a leading business school to strengthen our equivalent programme for emerging leaders and selected a second intake of 31 participants to begin in 2012.

We are continuing to attract and recruit high calibre graduate entrants across the range of our programmes, with 19 new graduates and 10 interns joining us in 2011.

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

Our overall approach to leadership diversity has, and continues to be, to appoint on the basis of talent to all our positions. We know, however, that we need to do more to attract a diversity of talent at all levels and support all of our talent to progress, with the outcome of ensuring we have strong talent pipelines growing through the organisation which reflect our desired workforce and customer demographic. We are therefore taking actions to further improve, extend and embed our talent management processes, to review talent data and processes through a diversity lens and to address any specific identified issues or barriers to progression.

Organisational capabilities

We have undertaken a group-wide review to identify the key strategic organisational capabilities we require now and in the future. This insight is being used to create development and resourcing plans which will ensure we have the right skills and knowledge to deliver our strategy.

1.8 Basis of preparation

Overview

Our Business review for the year to 31 December 2011 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the Financial Services Authority (FSA). Under section 417 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair review of the business and a description of the principal risks and uncertainties facing the Group. Principal uncertainties are detailed in Section 1.1 – Chief Executive's overview. Principal risks are detailed in Section 1.5 – Risk management. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Reporting statement: Operating and Financial Review (OFR) issued by the Accounting Standards Board (ASB).

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

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

Going concern statement

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

IFRS and EEV reporting

The financial results are prepared on both an IFRS basis and an EEV basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies. The IFRS financial results in Section 1.2 of the Business review and in the IFRS financial statements section of this report have been prepared on the basis of the IFRS accounting policies in the Group's Annual Report and Accounts 2011. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued in May 2004 and October 2005 by the Chief Financial Officers (CFO) Forum. The CFO Forum represents the chief financial officers of major European insurers, including Standard Life. EEV methodology has been applied to covered business, which mainly comprises the Group's long-term savings business. Non-covered business is reported on an IFRS basis. The EEV financial results in Section 1.2 of the Business review and in the EEV financial information section of this report have been prepared in accordance with the EEV methodology applied by the Group in Note 17 of the EEV financial information section of this report for 2011, and in the relevant EEV methodology notes included in the Annual Report and Accounts 2010 in respect of the comparative period.

Group operating profit and EEV operating profit

The 2011 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 54 of this report, presents profit before tax attributable to equity holders adjusted for non-operating items. Further details on the calculation of Group operating profit is presented in the accounting policies section – Note 2.1 (a) Basis of preparation. The 2011 EEV consolidated income statement on page 78, presents EEV profit showing both operating and non-operating items. By presenting our results in this way, the Directors believe they are presenting a more meaningful indication of the underlying business performance of the Group.

Forward-looking statements

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

2 International Financial Reporting Standards (IFRS)

IFRS summary consolidated income statement
For the year ended 31 December 2011

	Notes	2011 £m	2010[1] £m
Revenue			
Gross earned premium		**3,343**	3,244
Premium ceded to reinsurers		**(98)**	(94)
Net earned premium		**3,245**	3,150
Net investment return		**4,911**	14,570
Fee and commission income		**855**	752
Other income		**75**	97
Total net revenue		**9,086**	18,569
Expenses			
Claims and benefits paid		**6,245**	5,513
Claim recoveries from reinsurers		**(620)**	(619)
Net insurance benefits and claims		**5,625**	4,894
Change in policyholder liabilities		**136**	9,899
Change in reinsurance assets and liabilities		**383**	97
Expenses under arrangements with reinsurers		**516**	569
Administrative expenses	2.3	**1,663**	1,607
Change in liability for third party interest in consolidated funds		**103**	443
Finance costs		**116**	113
Total expenses		**8,542**	17,622
Share of profit from associates and joint ventures		**51**	24
Profit before tax		**595**	971
Tax expense attributable to policyholders' returns	2.4	**217**	400
Profit before tax attributable to equity holders' profits		**378**	571
Total tax expense	2.4	**249**	498
Less: Tax attributable to policyholders' returns	2.4	**(217)**	(400)
Tax expense attributable to equity holders' profits	2.4	**32**	98
Profit for the year from continuing operations		**346**	473
Profit for the year from discontinued operations		**-**	20
Profit for the year		**346**	493
Attributable to:			
Equity holders of Standard Life plc		**298**	432
Non-controlling interests		**48**	61
		346	493
Earnings per share from continuing operations			
Basic (pence per share)	2.5	**13.0**	18.4
Diluted (pence per share)	2.5	**12.9**	18.3

[1] The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation.

IFRS consolidated statement of comprehensive income

For the year ended 31 December 2011

	2011 £m	2010 £m
Profit for the year	**346**	493
Less: Profit from discontinued operations	**-**	(20)
Profit from continuing operations	**346**	473
Fair value losses on cash flow hedges	**-**	(2)
Actuarial (losses)/gains on defined benefit pension schemes	**(88)**	184
Revaluation of land and buildings	**(5)**	(14)
Net investment hedge	**13**	(39)
Exchange differences on translating foreign operations	**(53)**	122
Equity movements transferred to unallocated divisible surplus	**11**	(2)
Aggregate equity holder tax effect of items recognised in comprehensive income	**27**	(60)
Other comprehensive (expense)/income for the year from continuing operations	**(95)**	189
Total comprehensive income for the year from continuing operations	**251**	662
Profit from discontinued operations	**-**	20
Other comprehensive income from discontinued operations	**-**	24
Total comprehensive income for the year from discontinued operations	**-**	44
Total comprehensive income for the year	**251**	706
Attributable to:		
Equity holders of Standard Life plc		
From continuing operations	**203**	601
From discontinued operations	**-**	44
Non-controlling interests		
From continuing operations	**48**	61
	251	706

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

For the year ended 31 December 2011

	Notes	2011 £m	2010[1] £m
Operating profit before tax from continuing operations			
UK		**220**	234
Global investment management		**125**	103
Canada		**187**	110
International		**40**	15
Other		**(28)**	(37)
Operating profit before tax from continuing operations		**544**	425
Adjusted for the following items:			
Short-term fluctuations in investment return and economic assumption changes[2]	2.6	**(139)**	157
Restructuring and corporate transaction expenses	2.3	**(70)**	(71)
Impairment of intangible assets		**(5)**	-
Impairment of investments in associates		**-**	(1)
Other operating profit adjustments[2]		**-**	-
Non-operating (loss)/profit before tax from continuing operations		**(214)**	85
Profit attributable to non-controlling interests		**48**	61
Profit before tax attributable to equity holders' profits		**378**	571
Tax (expense)/credit attributable to:			
Operating profit		**(87)**	(89)
Adjusted items		**55**	(9)
Total tax expense attributable to equity holders' profits		**(32)**	(98)
Profit for the year from continuing operations		**346**	473
Profit for the year from discontinued operations		**-**	20
Profit for the year		**346**	493

1 The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has been classified as a discontinued operation. The analysis of operating profit presented for the years ended 31 December 2011 and 31 December 2010 include continuing operations only.

2 As described in Note 2.1 – Accounting policies – (b) Operating profit, the Group has amended its operating profit accounting policy. As a result, £30m has been reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

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

IFRS summary consolidated statement of financial position

As at 31 December 2011

	Notes	2011 £m	2010 £m
Assets			
Intangible assets		**200**	135
Deferred acquisition costs		**920**	881
Investments in associates and joint ventures	2.16	**326**	3,087
Investment property		**8,743**	8,410
Property, plant and equipment		**160**	164
Reinsurance assets	2.9	**6,818**	6,962
Loans		**3,219**	3,136
Derivative financial assets		**2,212**	1,343
Investment securities[1]		**125,707**	121,671
Other assets		**2,631**	2,522
Cash and cash equivalents[1]		**9,187**	5,805
Total assets		**160,123**	154,116
Equity			
Share capital	2.8(a)	**235**	228
Shares held by trusts	2.8(b)	**(19)**	(21)
Share premium reserve		**1,110**	976
Retained earnings		**1,030**	1,094
Other reserves		**1,605**	1,626
Equity attributable to equity holders of Standard Life plc		**3,961**	3,903
Non-controlling interests		**358**	335
Total equity		**4,319**	4,238
Liabilities			
Non-participating contract liabilities	2.9	**102,558**	99,164
Participating contract liabilities	2.9	**32,553**	33,474
Reinsurance liabilities	2.9	**245**	-
Deposits received from reinsurers		**6,036**	6,021
Third party interest in consolidated funds		**8,428**	5,454
Borrowings		**170**	245
Subordinated liabilities	2.17	**1,186**	1,799
Deferred income		**388**	382
Income and deferred tax liabilities		**294**	401
Derivative financial liabilities		**1,102**	924
Other liabilities		**2,844**	2,014
Total liabilities		**155,804**	149,878
Total equity and liabilities		**160,123**	154,116

[1] There has been a reallocation between cash and cash equivalents and investment securities of £1,629m at 31 December 2010. Refer to Note 2.1 – Accounting policies – (a) Basis of preparation.

IFRS consolidated statement of changes in equity
For the year ended 31 December 2011

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

2010	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life plc £m	Non-controlling interests £m	Total equity £m
1 January	**224**	**-**	**888**	**685**	**1,660**	**3,457**	**296**	**3,753**
Profit for the year	-	-	-	432	-	432	61	**493**
Other comprehensive income for the year	-	-	-	124	89	213	-	**213**
Total comprehensive income for the year	**-**	**-**	**-**	**556**	**89**	**645**	**61**	**706**
Distributions to equity holders	-	-	-	(273)	(5)	(278)	-	**(278)**
Issue of share capital other than in cash	4	-	88	-	-	92	-	**92**
Reserves credit for employee share-based payment schemes	-	-	-	-	18	18	-	**18**
Transfer to retained earnings for vested employee share-based payment schemes	-	-	-	15	(15)	-	-	**-**
Shares acquired by employee trusts	-	(35)	-	-	-	(35)	-	**(35)**
Shares distributed by employee trusts	-	10	-	(10)	-	-	-	**-**
Transfer between reserves on disposal of subsidiaries	-	-	-	121	(121)	-	-	**-**
Shares gifted to charity	-	4	-	-	-	4	-	**4**
Other movements in non-controlling interests in the year	-	-	-	-	-	-	(22)	**(22)**
31 December	**228**	**(21)**	**976**	**1,094**	**1,626**	**3,903**	**335**	**4,238**

IFRS summary consolidated statement of cash flows
For the year ended 31 December 2011

	2011 £m	2010 £m
Cash flows from operating activities		
Profit before tax from continuing operations	**595**	971
Profit before tax from discontinued operations	**-**	17
	595	988
Change in operating assets[1,2]	**(2,056)**	(17,505)
Change in operating liabilities	**4,026**	12,457
Non-cash and other items	**122**	240
Taxation paid	**(297)**	(262)
Net cash flows from operating activities[1]	**2,390**	(4,082)
Cash flows from investing activities		
Net acquisition of property, plant and equipment	**(15)**	(16)
Acquisition of subsidiaries net of cash acquired	**(41)**	(19)
Disposal of subsidiaries net of cash disposed[2]	**-**	(1,122)
Acquisition of investments in associates and joint ventures	**(23)**	(16)
Net acquisition of intangible assets	**(39)**	(45)
Net cash flows from investing activities	**(118)**	(1,218)
Cash flows from financing activities		
Proceeds from other borrowings	**5**	33
Repayment of other borrowings	**(35)**	(33)
Repayment of subordinated liabilities	**(591)**	-
Capital flows from non-controlling interests and third party interest in consolidated funds	**2,177**	2,553
Distributions paid to non-controlling interests	**(65)**	(56)
Shares acquired by trusts	**(7)**	(35)
Interest paid	**(125)**	(117)
Ordinary dividends paid	**(162)**	(186)
Net cash flows from financing activities	**1,197**	2,159
Net increase/(decrease) in cash and cash equivalents[1]	**3,469**	(3,141)
Cash and cash equivalents at the beginning of the year[1]	**5,701**	8,840
Effects of exchange rate changes on cash and cash equivalents	**(45)**	2
Cash and cash equivalents at the end of the year[1,3]	**9,125**	5,701
Supplemental disclosures on cash flows from operating activities		
Interest paid	**11**	11
Interest received	**2,832**	2,663
Dividends received	**1,575**	1,329
Rental income received on investment properties	**634**	605

1 There has been a reallocation between cash and cash equivalents and debt securities of £1,629m at 31 December 2010, which has impacted the statement of cash flows. Refer to Note 2.1 – Accounting policies – (a) Basis of preparation.

2 There has been a reallocation between disposal of subsidiaries net of cash disposed and change in operating assets of £150m at 31 December 2010.

3 Comprises £9,187m (2010: £5,805m) of cash and cash equivalents and (£62m) (2010: (£104m)) of overdrafts which are reported in Borrowings in the statement of financial position.

Notes to the IFRS financial information

2.1 Accounting policies

(a) Basis of preparation

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

The accounting policies as set out in the Group's Annual Report and Accounts for the year ended 31 December 2011 have been applied in the preparation of this preliminary announcement. The Group's accounting policies have not changed since the issue of the Annual Report and Accounts 2010.

It should be noted that the Group's accounting policy for cash and cash equivalents states that cash and cash equivalents include any highly liquid investments with less than three months to maturity from the date of acquisition. Any debt instruments with a maturity date greater than three months from the date of acquisition are classified as debt securities. Following a review of short-dated debt instruments during the year, there has been a reallocation from cash and cash equivalents to debt securities (included in investment securities) at 31 December 2010 of £1,629m. There has been no change to total assets or net assets.

The Group has adopted the following amendments to IFRSs, International Accounting Standards (IASs) and interpretations which are effective from 1 January 2011 and management considers that the implementation of these amendments and interpretations has had no significant impact on the Group's financial statements:

- Amendment to IAS 32 *Financial Instruments: Presentation – classification of rights issues*
- IAS 24 (revised) *Related Party Disclosures*
- *Annual Improvements* 2010
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Amendment to IFRIC 14 *Prepayment of a Minimum Funding Requirement*

(b) Operating profit

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

Operating profit also excludes the impact of the following items:

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

The Group has amended its operating profit accounting policy in respect of the treatment of the volatility arising from changes in insurance and investment contract liabilities driven by corresponding changes in tax provisions. Previously, such volatility was excluded from operating profit. Under the revised policy, volatility in relation to insurance contract liabilities is excluded from operating profit, only to the extent that it relates to short-term fluctuations in investment return and economic assumption changes or arises from items which are one-off in nature and outside the control of management. The purpose of this amendment is to improve consistency with the underlying principles of the Group's operating profit methodology. The change to the operating profit policy did not have a significant impact on the operating profit reported for the year ended 31 December 2010.

(c) Preliminary announcement

The preliminary announcement for the year ended 31 December 2011 does not constitute statutory accounts as defined in Section 434 of the UK Companies Act 2006. PricewaterhouseCoopers LLP have audited the consolidated statutory accounts for the Group for the years ended 31 December 2010 and 31 December 2011 and their reports were unqualified and did not contain a statement under Section 498(2) or (3) of the UK Companies Act 2006. The Group's consolidated statutory accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies. The Group's Annual Report and Accounts for the year ended 31 December 2011 will be available from 3 April 2012.

2.2 Segmental analysis

(a) Basis of segmentation

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed. The Group's reportable segments are as follows:

UK
UK operations comprise life and pensions business. The life and pensions business provides a broad range of pensions, protection, savings and investment products to individual and corporate customers. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010. It was classified as a discontinued operation in this reportable segment in the year ended 31 December 2010.

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

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

International
The businesses included in this reportable segment offer a range of life and pension products and comprise wholly owned operations in Ireland, Germany, Austria and Hong Kong and investments in joint ventures in India and China.

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

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

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

2.2 Segmental analysis *continued*

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

2011	UK £m	Global investment management £m	Canada £m	International[1] £m	Other £m	Elimination[2] £m	Total £m
Revenue							
Net earned premium	1,178	2	1,129	936	-	-	**3,245**
Net investment return	3,266	-	1,364	298	-	(17)	**4,911**
Other segment income	494	252	141	51	28	(36)	**930**
Inter-segment revenue	22	114	2	-	559	(697)	**-**
Total net revenue	**4,960**	**368**	**2,636**	**1,285**	**587**	**(750)**	**9,086**
Expenses							
Segment expenses	4,480	262	2,522	1,257	640	(735)	**8,426**
Finance costs	116	-	15	-	-	(15)	**116**
Total expenses	**4,596**	**262**	**2,537**	**1,257**	**640**	**(750)**	**8,542**
Share of profit from associates and joint ventures	20	15	14	2	-	-	**51**
Profit/(loss) before tax	**384**	**121**	**113**	**30**	**(53)**	**-**	**595**
Tax attributable to policyholders' returns	211	-	-	6	-	-	**217**
Tax attributable to equity holders' profits	(10)	29	12	5	(4)	-	**32**
Profit/(loss) for the year	**183**	**92**	**101**	**19**	**(49)**	**-**	**346**
Profit attributable to non-controlling interests	(48)	-	-	-	-	-	**(48)**
Profit/(loss) attributable to equity holders of Standard Life plc	**135**	**92**	**101**	**19**	**(49)**	**-**	**298**
Reconciliation to consolidated operating profit							
Tax attributable to equity holders' profits	(10)	29	12	5	(4)	-	**32**
Non-operating loss before tax	95	4	74	16	25	-	**214**
Operating profit/(loss) before tax	**220**	**125**	**187**	**40**	**(28)**	**-**	**544**
Other income included in the income statement is as follows:							
Interest income	98	1	174	22	1	-	**296**
Other expenses included in the income statement include:							
Impairment losses (reversed)/recognised	(3)	-	(2)	-	5	-	**-**
Amortisation of intangible assets	11	-	1	2	4	-	**18**
Amortisation of deferred acquisition costs	79	1	9	43	-	-	**132**
Depreciation of property, plant and equipment	-	1	2	1	11	-	**15**
Interest expense[3]	169	-	21	1	117	(131)	**177**
Assets							
Segment assets	120,996	417	25,393	12,697	1,129	(835)	**159,797**
Investments in associates and joint ventures	47	48	127	91	13	-	**326**
Total assets	**121,043**	**465**	**25,520**	**12,788**	**1,142**	**(835)**	**160,123**
Additions during the year							
Intangible assets	51	3	1	3	30	-	**88**
Deferred acquisition costs	66	-	17	95	-	-	**178**
Property, plant and equipment	1	2	1	-	11	-	**15**
Investment properties	259	-	199	2	-	-	**460**
	377	**5**	**218**	**100**	**41**	**-**	**741**

1 Included in the international reporting segment, total net revenue, excluding inter-segment revenue, for Germany, Austria, Ireland and Asia is £925m (2010: £1,055m), £173m (2010: £198m), £119m (2010: £548m) and £68m (2010: £91m) respectively.

2 Eliminations relate to inter-segment revenue and expenses.

3 Refer to Note 2.3 – Administrative expenses.

2010	UK[1] £m	Global investment management £m	Canada £m	International £m	Other £m	Elimination[2] £m	Total £m
Revenue							
Net earned premium	1,319	3	919	909	-	-	**3,150**
Net investment return	11,553	-	2,077	937	9	(6)	**14,570**
Other segment income	464	209	136	46	23	(29)	**849**
Inter-segment revenue	11	111	3	-	544	(669)	**-**
Total net revenue	**13,347**	**323**	**3,135**	**1,892**	**576**	**(704)**	**18,569**
Expenses							
Segment expenses	12,541	228	2,948	1,841	640	(689)	**17,509**
Finance costs	114	-	14	-	-	(15)	**113**
Total expenses	**12,655**	**228**	**2,962**	**1,841**	**640**	**(704)**	**17,622**
Share of profit/(loss) from associates and joint ventures	21	11	15	(23)	-	-	**24**
Profit/(loss) before tax	**713**	**106**	**188**	**28**	**(64)**	**-**	**971**
Tax attributable to policyholders' returns	385	-	-	16	(1)	-	**400**
Tax attributable to equity holders' profits	27	27	43	8	(7)	-	**98**
Profit/(loss) for the year from continuing operations	**301**	**79**	**145**	**4**	**(56)**	**-**	**473**
Profit for the year from discontinued operations[1]	20	-	-	-	-	-	**20**
Profit/(loss) for the year	**321**	**79**	**145**	**4**	**(56)**	**-**	**493**
Profit attributable to non-controlling interests from continuing operations	(61)	-	-	-	-	-	**(61)**
Profit/(loss) attributable to equity holders of Standard Life plc	**260**	**79**	**145**	**4**	**(56)**	**-**	**432**
Reconciliation to consolidated operating profit[1]							
Tax attributable to equity holders' profits from continuing operations	27	27	43	8	(7)	-	**98**
Non-operating (profit)/loss before tax from continuing operations	(33)	(3)	(78)	3	26	-	**(85)**
Less: Profit for the year from discontinued operations	(20)	-	-	-	-	-	**(20)**
Operating profit/(loss) before tax from continuing operations	**234**	**103**	**110**	**15**	**(37)**	**-**	**425**
Other income included in the income statement is as follows:							
Interest income[3]	73	1	164	21	1	-	**260**
Other expenses included in the income statement include:							
Impairment losses (reversed)/recognised[3]	(9)	-	-	-	4	-	**(5)**
Amortisation of intangible assets:							
From continuing operations	14	-	1	2	3	-	**20**
From discontinued operations	2	-	-	-	-	-	**2**
Amortisation of deferred acquisition costs:							
From continuing operations	82	-	25	52	-	-	**159**
From discontinued operations	37	-	-	-	-	-	**37**
Depreciation of property, plant and equipment[3]	-	1	2	1	8	-	**12**
Interest expense[3,4]	163	-	21	1	113	(128)	**170**
Assets							
Segment assets	114,931	419	24,246	11,290	913	(770)	**151,029**
Investments in associates and joint ventures	2,697	42	123	211	14	-	**3,087**
Total assets	**117,628**	**461**	**24,369**	**11,501**	**927**	**(770)**	**154,116**
Additions during the year							
Intangible assets	39	-	2	4	32	-	**77**
Deferred acquisition costs	110	1	17	90	-	-	**218**
Property, plant and equipment	-	-	1	1	16	-	**18**
Investment properties	758	-	73	-	-	-	**831**
	907	**1**	**93**	**95**	**48**	**-**	**1,144**

1 The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation for the year ended 31 December 2010. The reconciliation to consolidated operating profit for the year ended 31 December 2010 includes continuing operations only.
2 Eliminations relate to inter-segment revenue and expenses.
3 All from continuing operations.
4 Refer to Note 2.3 – Administrative expenses.

2.2 Segmental analysis *continued*

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

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

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

	2011 £m	2010 £m
UK	**7,647**	7,437
Continental Europe	**43**	48
Canada	**1,413**	1,223
Total	**9,103**	8,708

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

2.3 Administrative expenses

	2011 £m	2010 £m
Restructuring and corporate transaction expenses	**72**	72
Commission expenses	**393**	370
Interest expense	**19**	17
Staff costs and other employee-related costs	**569**	586
Acquisition costs deferred during the year	**(178)**	(218)
Amortisation of deferred acquisition costs	**132**	196
Other administrative expenses	**656**	623
Total administrative expenses	**1,663**	1,646
Less: administrative expenses from discontinued operations	**-**	(39)
Administrative expenses	**1,663**	1,607

In addition to interest expense of £19m (2010: £17m), interest expense of £116m (2010: £113m) was incurred in respect of subordinated liabilities and £42m (2010: £40m) in respect of deposits from reinsurers. For the year ended 31 December 2011, total interest expense is £177m (2010: £170m).

Total restructuring costs from continuing operations incurred during the year were £72m (2010: £72m). These include £59m (2010: £64m) of expenses in relation to the Solvency 2 programme and a number of local business unit transformation programmes. Of the restructuring costs from continuing operations, £70m (2010: £71m) is adjusted when determining operating profit before tax, with the remaining £2m (2010: £1m) incurred by the Heritage With Profits Fund in relation to Solvency 2.

2.4 Tax expense

The tax expense is attributed as follows:

	2011 £m	2010 £m
Tax expense attributable to policyholders' returns	217	400
Tax expense attributable to equity holders' profits	32	98
	249	498
Tax credit from discontinued operations	-	(3)
	249	495

The Finance Act 2011 reduced the UK corporation tax rate to 25% with effect from 1 April 2012 and this rate has been applied in calculating the UK deferred tax position at 31 December 2011. The 2011 Budget statement also announced the Government's intention to make further reductions in the rate of UK corporation tax in 2013 and 2014. These reductions have not been included in the calculation of deferred tax as they are subject to legislation being enacted in future years.

The share of tax of associates and joint ventures is £23m (2010: £4m) and is included in profit before tax in the summary consolidated income statement in 'Share of profit from associates and joint ventures'.

The total tax expense is split as follows:

	2011 £m	2010 £m
Income tax:		
UK	269	253
Double tax relief	(2)	(1)
Canada and International	31	42
Adjustment to tax expense in respect of prior years	12	4
Total income tax	310	298
Deferred tax:		
Deferred tax (credit)/expense arising from the current year	(61)	197
Total deferred tax	(61)	197
Total tax expense	249	495
Add: Income tax credit attributable to discontinued operations	-	3
Total income tax expense attributable to continuing operations	249	498
Attributable to equity holders' profits	32	98

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

	2011 £m	2010 £m
Tax on actuarial (losses)/gains on defined benefit pension schemes	(27)	59
Tax on revaluation of land and buildings	-	1
Tax on fair value gains on cash flow hedges attributable to discontinued operations	-	6
Tax relating to each component of other comprehensive income	(27)	66

2.5 Earnings per share

(a) Basic earnings per share

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

	2011	2010
Profit from continuing operations (£m)	298	412
Profit from discontinued operations (£m)	-	20
Profit attributable to equity holders of Standard Life plc (£m)	**298**	432
Weighted average number of ordinary shares in issue (millions)	2,301	2,242
Basic earnings per share from continuing operations (pence per share)	13.0	18.4
Basic earnings per share from discontinued operations (pence per share)	-	0.9
Basic earnings per share (pence per share)	**13.0**	19.3

(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, or purchased, assuming the exercise of the share options.

	2011	2010
Profit from continuing operations (£m)	298	412
Profit from discontinued operations (£m)	-	20
Profit attributable to equity holders of Standard Life plc (£m)	**298**	432
Weighted average number of ordinary shares for diluted earnings per share (millions)	2,304	2,248
Diluted earnings per share from continuing operations (pence per share)	12.9	18.3
Diluted earnings per share from discontinued operations (pence per share)	-	0.9
Diluted earnings per share (pence per share)	**12.9**	19.2

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was three million (2010: six million).

(c) Alternative earnings per share

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

(c)(i) Basic alternative earnings per share

	2011 £m	2011 p per share	2010 £m	2010 p per share
Operating profit before tax from continuing operations	**544**	**23.6**	425	19.0
Short-term fluctuations in investment return and economic assumption changes[1]	**(139)**	**(6.0)**	157	7.0
Restructuring and corporate transaction expenses	**(70)**	**(3.1)**	(71)	(3.2)
Impairment of intangible assets	**(5)**	**(0.2)**	-	-
Impairment of investments in associates	**-**	**-**	(1)	-
Other operating profit adjustments[1]	**-**	**-**	-	-
Profit attributable to non-controlling interests	**48**	**2.1**	61	2.7
Profit before tax from continuing operations	**378**	**16.4**	571	25.5
Tax (expense)/credit attributable to:				
Operating profit	**(87)**	**(3.7)**	(89)	(4.0)
Adjusted items	**55**	**2.4**	(9)	(0.4)
Profit attributable to non-controlling interests	**(48)**	**(2.1)**	(61)	(2.7)
Profit from discontinued operations	**-**	**-**	20	0.9
Profit attributable to equity holders of Standard Life plc	**298**	**13.0**	432	19.3

[1] As described in Note 2.1 – Accounting policies – (b) Operating profit, the Group has amended its operating profit accounting policy. As a result, £30m was reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

(c)(ii) Diluted alternative earnings per share

	2011 £m	2011 p per share	2010 £m	2010 p per share
Operating profit before tax from continuing operations	**544**	**23.6**	425	19.0
Short-term fluctuations in investment return and economic assumption changes[1]	**(139)**	**(6.0)**	157	6.9
Restructuring and corporate transaction expenses	**(70)**	**(3.1)**	(71)	(3.2)
Impairment of intangible assets	**(5)**	**(0.2)**	-	-
Impairment of investments in associates	**-**	**-**	(1)	-
Other operating profit adjustments[1]	**-**	**-**	-	-
Profit attributable to non-controlling interests	**48**	**2.1**	61	2.7
Profit before tax from continuing operations	**378**	**16.4**	571	25.4
Tax (expense)/credit attributable to:				
Operating profit	**(87)**	**(3.8)**	(89)	(4.0)
Adjusted items	**55**	**2.4**	(9)	(0.4)
Profit attributable to non-controlling interests	**(48)**	**(2.1)**	(61)	(2.7)
Profit from discontinued operations	**-**	**-**	20	0.9
Profit attributable to equity holders of Standard Life plc	**298**	**12.9**	432	19.2

[1] As described in Note 2.1 – Accounting policies – (b) Operating profit, the Group has amended its operating profit accounting policy. As a result, £30m was reallocated from other operating profit adjustments to short-term fluctuations in investment return and economic assumption changes for the year ended 31 December 2010.

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

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

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

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

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

	2011		2010	
	UK %	Canada %	UK %	Canada %
Equity securities	**6.49**	**8.60**	7.11	8.60
Property	**5.49**	**8.60**	6.11	8.60

In respect of debt securities, the expected rate of return is determined based on the average prospective yields for the debt securities actually held or, in respect of the Canadian operations, is determined by the Appointed Actuary in Canada.

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

For the year ended 31 December 2011, short-term fluctuations in investment return and economic assumption changes were losses of £139m (2010: gains of £157m). Short-term fluctuations in investment return relate principally to the investment volatility in Canada non-segregated funds, UK annuities and in respect of the Group's subordinated liabilities and assets backing those liabilities.

2.7 Dividends

The Company paid a final dividend of 8.65 pence per share (final 2009: 8.09 pence) totalling £197m in respect of the year ended 31 December 2010 on 27 May 2011 (final 2009: £180m) and an interim dividend of 4.60 pence per share (interim 2010: 4.35 pence) totalling £106m (interim 2010: £98m) in respect of the year ended 31 December 2011 on 18 November 2011.

Subsequent to 31 December 2011, the Directors have proposed a final dividend for the year ended 31 December 2011 of 9.20 pence per ordinary share, £217m in total. The dividend will be paid on 31 May 2012 to shareholders on the Company's register as at 23 March 2012, subject to approval at the Annual General Meeting on 25 May 2012. This dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2012.

The option to receive dividend entitlement under the Scrip scheme was removed and has been replaced with a dividend reinvestment plan commencing with the final dividend for 2011. Investors who took part in the Scrip scheme received their dividend entitlement in the form of shares rather than cash and the distribution under the Scrip scheme was recorded as an appropriation of retained earnings. Dividends paid during the year ended 31 December 2011 comprise £141m (2010: £92m) settled by the issue of shares under the Scrip scheme and £162m paid in cash (2010: £186m).

2.8 Issued share capital and shares held by trusts

(a) Issued share capital

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

	2011 Number	2011 £m	2010 Number	2010 £m
At 1 January	**2,283,019,841**	**228**	2,236,292,157	224
Shares issued in lieu of cash dividends	**70,138,459**	**7**	44,854,401	4
Shares issued in respect of share incentive plans	**507,364**	**-**	566,626	-
Shares issued in respect of share options	**158**	**-**	1,305,584	-
Demutualisation shares	**-**	**-**	490	-
Shares issued in respect of bonus issue	**-**	**-**	583	-
At 31 December	**2,353,665,822**	**235**	2,283,019,841	228

During the year ended 31 December 2011, 70,138,459 (2010: 44,854,401) shares have been issued in respect of dividends paid in the period under the Scrip dividend scheme.

The Group operates share incentive plans, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any one year is £1,500. The Group offers to match the first £25 of shares bought each month. During the year ended 31 December 2011, the Company allotted 507,364 (2010: 566,626) ordinary shares to Group employees under the share incentive plans.

The Group also operates a Long-term incentive plan (LTIP) for executives and senior management and a Sharesave (Save-as-you-earn) scheme for all eligible employees. During the year ended 31 December 2011, no (2010: 1,305,584) and 158 (2010: nil) ordinary shares were issued on exercise of share options in relation to the LTIP and Sharesave schemes respectively.

The Scheme of Demutualisation sets a 10-year limit, ending in 2016, for those eligible members of The Standard Life Assurance Company (SLAC) who were not allocated shares at the date of demutualisation to claim their entitlements. During the year ended 31 December 2011, no ordinary shares were issued to eligible members in respect of their demutualisation entitlements (2010: 490).

As part of the offer on the demutualisation of SLAC and flotation of Standard Life plc, holders of demutualisation shares, employee shares or shares acquired in the preferential offer who retained their shares for a continuous period of one year from 10 July 2006 were entitled to one bonus share for every 20 shares. Equity holders who were entitled to bonus shares but were not allocated shares on 10 July 2007 had until 10 July 2010 to claim their entitlements. During the year ended 31 December 2010, 583 ordinary shares were issued to equity holders entitled to receive bonus shares.

All ordinary shares in issue in the Company rank pari passu and carry the same voting rights and the same rights to receive dividends and other distributions declared or paid by the Company.

(b) Shares held by trusts

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

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

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

The number of shares held by trusts at 31 December 2011 which were not offset by a corresponding obligation to deliver a fixed number of equity instruments was 10,879,286 (2010: 12,209,946).

2.9 Insurance contracts, investment contracts and reinsurance contracts

	2011 £m	2010 £m
Non-participating insurance contract liabilities	**25,048**	23,564
Non-participating investment contract liabilities	**77,510**	75,600
Non-participating contract liabilities	**102,558**	99,164
Participating insurance contract liabilities	**16,509**	17,357
Participating investment contract liabilities	**15,319**	15,329
Unallocated divisible surplus	**725**	788
Participating contract liabilities	**32,553**	33,474

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

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

2011	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	**17,357**	**23,564**	**15,329**	**56,250**	**(6,962)**	**49,288**
Expected change	(1,014)	(523)	(658)	(2,195)	301	(1,894)
Methodology/modelling changes	(11)	(7)	14	(4)	-	(4)
Effect of changes in:						
Economic assumptions	(37)	1,309	176	1,448	(292)	1,156
Non-economic assumptions	4	(245)	15	(226)	385	159
Effect of:						
Economic experience	325	595	438	1,358	(23)	1,335
Non-economic experience	38	(507)	(51)	(520)	18	(502)
New business	30	1,013	76	1,119	(6)	1,113
Total change in contract liabilities	**(665)**	**1,635**	**10**	**980**	**383**	**1,363**
Foreign exchange adjustment	(183)	(151)	(20)	(354)	6	(348)
At 31 December	**16,509**	**25,048**	**15,319**	**56,876**	**(6,573)**	**50,303**
Reinsurance assets					(6,818)	
Reinsurance liabilities					245	
					(6,573)	

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

Non-economic assumptions changes of £159m (net of reinsurance) include an increase of £105m (net of reinsurance) in respect of changes in Canadian mortality assumptions. This increase is primarily in respect of a change in mortality improvement rates.

Economic assumptions reflect changes in fixed income yields, leading to lower valuation rates on non-participating business, and other market movements. Economic assumptions also include a decrease in liabilities of £77m as a result of changes, introduced by management, in respect of the long term asset allocation assumptions in Canada.

The movement in insurance contract liabilities, participating investment contract liabilities and reinsurance contracts during 2010 was as follows:

2010	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	**16,568**	**22,164**	**14,993**	**53,725**	**(7,032)**	**46,693**
Expected change	(362)	(525)	(546)	(1,433)	307	(1,126)
Methodology/modelling changes	2	(11)	8	(1)	(7)	(8)
Effect of changes in:						
Economic assumptions	38	583	2	623	(251)	372
Non-economic assumptions	(34)	(43)	(12)	(89)	54	(35)
Effect of:						
Economic experience	1,062	536	769	2,367	(19)	2,348
Non-economic experience	146	(434)	57	(231)	15	(216)
New business	39	816	90	945	(2)	943
Total change in contract liabilities	**891**	**922**	**368**	**2,181**	**97**	**2,278**
Foreign exchange adjustment	(102)	625	(32)	491	(31)	460
Movements attributable to discontinued healthcare operations	-	(147)	-	(147)	4	(143)
At 31 December	**17,357**	**23,564**	**15,329**	**56,250**	**(6,962)**	**49,288**
Reinsurance assets					(6,962)	
Reinsurance liabilities					-	
					(6,962)	

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

	2011 £m	2010 £m
At 1 January	**75,600**	63,728
Contributions	**11,904**	11,145
Initial charges and reduced allocations	**(7)**	(9)
Account balances paid on surrender and other terminations in the year	**(8,525)**	(7,589)
Investment return credited and related benefits	**(757)**	7,740
Foreign exchange adjustment	**(305)**	955
Recurring management charges	**(400)**	(370)
At 31 December	**77,510**	75,600

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

	2011 £m	2010 £m
At 1 January	**788**	791
Change in UDS recognised in the income statement	**(87)**	(22)
Change in UDS not recognised in the income statement	**(11)**	2
Foreign exchange adjustment	**35**	17
At 31 December	**725**	788

2.10 Defined benefit and defined contribution plans

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

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

	2011 £m	2010 £m
Current service cost	**(60)**	(67)
Interest cost on benefit obligation	**(107)**	(110)
Expected return on plan assets	**136**	119
Past service cost	**64**	59
Credit recognised in the summary consolidated income statement	**33**	1

In 2011, a credit from past service costs of £64m (2010: £59m) was recognised as a result of a change in the basis of future pension discretionary increases in the UK staff pension scheme.

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

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

	2011				2010			
	UK £m	Canada £m	Ireland £m	Total £m	UK £m	Canada £m	Ireland £m	Total £m
Present value of funded obligation	**(1,972)**	**(215)**	**(54)**	**(2,241)**	(1,724)	(175)	(51)	(1,950)
Present value of unfunded obligation	**-**	**(68)**	**-**	**(68)**	-	(56)	-	(56)
Fair value of plan assets	**2,519**	**179**	**58**	**2,756**	2,005	175	48	2,228
Adjustment for unrecognised past service costs	**-**	**(5)**	**-**	**(5)**	-	(6)	-	(6)
Surplus not recognised	**(209)**	**-**	**-**	**(209)**	-	-	-	-
Net asset/(liability) in the summary consolidated statement of financial position	**338**	**(109)**	**4**	**233**	281	(62)	(3)	216

Under the guidance contained in IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* when measuring the defined benefit asset, £209m (2010: £nil) of the surplus is not considered recoverable.

2.10 Defined benefit and defined contribution plans *continued*

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

The Group also recognises a net liability of £6m (2010: £6m) arising from a scheme with a total defined benefit obligation of £6m (2010: £6m) administered for the benefit of employees in Germany, resulting in a net asset of £227m (2010: £210m). The summary consolidated statement of financial position presents any net scheme assets within other assets and any net scheme liabilities within other liabilities.

(c) Principal assumptions

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

	2011			2010		
	UK	**Canada**	**Ireland**	UK	Canada	Ireland
	%	**%**	**%**	%	%	%
Rate of increase in salaries	**4.45-5.45**	**3.50**	**3.50**	4.65-5.65	3.50	3.50
Rate of increase in pensions	**2.85**	**1.33**	**1.00**	3.05-3.65	1.33	1.00
Discount rate	**4.60**	**4.50**	**5.10**	5.30	5.50	5.25
Inflation assumption	**2.85-3.45**	**2.00**	**2.00**	3.05-3.65	2.00	2.00
Expected return on plan assets	**5.45**	**5.75**	**4.00**	6.15	7.00	5.00

2.11 Contingent liabilities, indemnities and guarantees

(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 litigation) will have a material effect on the results and financial position of the Group.

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

(b) Issued share capital

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

(c) Other

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

2.12 Commitments

(a) Capital commitments

As at 31 December 2011, £275m (2010: £251m) was contractually committed to the acquisition of investment properties. Of this amount, £248m (2010: £239m) and £27m (2010: £12m) relates to the contractual obligations to purchase, construct or develop investment property and repair, maintain or enhance investment property respectively.

(b) Unrecognised financial instruments

As at 31 December 2011, the Group had committed the following unrecognised financial instruments to customers and third parties:

	2011	2010
	£m	£m
Commitments to extend credit:		
Original term to maturity of one year or less	**109**	51
Original term to maturity of more than one year	**3**	7
Other commitments	**273**	335

Included in other commitments is £257m (2010: £315m) committed by certain subsidiaries which are not fully owned by the Group. These commitments are funded through (contractually agreed) additional investments in the subsidiary by the Group and the non-controlling interests. The levels of funding are not necessarily in line with the relevant percentage holdings.

(c) Operating lease commitments

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

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

	2011 £m	2010 £m
Not later than one year	29	26
Later than one year and no later than five years	93	55
Later than five years	120	129
Total operating lease commitments	**242**	210

2.13 Related party transactions

(a) Transactions with/from related parties

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

	2011 £m	2010 £m
Sale to:		
Associates	8,397	17,340
Joint ventures	51	32
	8,448	17,372
Purchase from:		
Associates	8,993	18,052
Joint ventures	24	19
	9,017	18,071

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

In addition to the amounts shown above, the Group's defined benefit pension schemes have assets of £739m (2010: £655m) invested in investment vehicles managed by the Group.

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

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

During the year ended 31 December 2011, key management personnel and their close family members contributed £4.4m (2010: £1.9m) to products sold by the Group.

2.14 Capital statement

The Group's capital position is analysed between UK regulated life business, overseas life operations and other activities. The UK regulated life business is analysed by the nature of the underlying funds and includes German and Irish business written by branches of UK regulated companies. Other activities comprise investment management and group corporate centre. The Group's capital position, based on draft regulatory returns, is set out below:

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

[1] Capital resources amounting to £38m in respect of other with profits funds are disclosed within the Heritage With Profits Fund (HWPF) column.

2010	UK regulated life business: Heritage With Profits Fund[1] £m	UK regulated life business: Proprietary business funds £m	UK regulated life business: Life business equity holders' funds £m	Total UK regulated life business £m	Overseas life operations £m	Total life business £m	Other activities[2] £m	Group total £m
Available capital resources								
Equity holders' funds								
Held outside life assurance funds	-	-	1,008	1,008	1,220	2,228	796	**3,024**
Held within life assurance funds	-	879	-	879	-	879	-	**879**
Equity attributable to ordinary equity holders of Standard Life plc	**-**	**879**	**1,008**	**1,887**	**1,220**	**3,107**	**796**	**3,903**
Unallocated divisible surplus	**788**	**-**	**-**	**788**	**-**	**788**	**-**	**788**
Other sources of capital								
Subordinated liabilities	-	-	-	-	-	-	1,799	**1,799**
Internal subordinated liabilities	-	-	1,799	1,799	257	2,056	(2,056)	**-**
	-	**-**	**1,799**	**1,799**	**257**	**2,056**	**(257)**	**1,799**
Adjustments onto regulatory basis								
Changes to the valuation of contract liabilities	3,262	(2)	-	3,260	(80)	3,180	-	**3,180**
Exclusion of deferred acquisition costs and other inadmissible assets	(122)	(528)	(326)	(976)	(111)	(1,087)	(43)	**(1,130)**
Exclusion of deferred income	114	231	-	345	(1)	344	-	**344**
Changes to the valuation of other assets and liabilities	(11)	(259)	(120)	(390)	128	(262)	208	**(54)**
	3,243	**(558)**	**(446)**	**2,239**	**(64)**	**2,175**	**165**	**2,340**
Total available capital resources to meet regulatory requirement	**4,031**	**321**	**2,361**	**6,713**	**1,413**	**8,126**	**704**	**8,830**
Analysed as follows:								
Capital not subject to constraints	-	-	2,336	2,336	577	2,913	623	**3,536**
Capital subject to constraints	4,031	321	25	4,377	836	5,213	81	**5,294**
Total available capital resources	**4,031**	**321**	**2,361**	**6,713**	**1,413**	**8,126**	**704**	**8,830**
Restricted assets within the long-term business fund								**(1,357)**
Regulatory capital resources								**7,473**
Regulatory capital resources requirement				**2,910**	**709**	**3,619**	**33**	**3,652**
Regulatory capital surplus								**3,821**

1 Capital resources amounting to £34m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column.

2 The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and its capital resources are not, therefore, included in the analysis.

2.14 Capital statement *continued*

Movements in capital

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

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

Change in assumptions used to measure life assurance contract liabilities and experience differences includes a decrease to capital resources as a result of changes in Canadian mortality assumptions. This is primarily due to a change in mortality improvement rates.

Redemption of subordinated liabilities relates to the repurchase of a portion of the Euro denominated subordinated guaranteed bonds and details are provided in Note 2.17 – Subordinated liabilities. Under Financial Services Authority (FSA) requirements, the €63m of the bonds that remain outstanding, do not qualify as capital resources and are shown as a movement in other factors.

Equity holder/inter-fund transfers include the transfer of £68m (2010: £71m) from the HWPF to the Proprietary Business Funds (PBF) in relation to additional expenses charged on German unitised with profits business.

2010	UK regulated life business: Heritage With Profits Fund £m	UK regulated life business: Proprietary business funds £m	UK regulated life business: Life business equity holders funds £m	Total UK regulated life business £m	Overseas life operations £m	Total life business £m	Other activities £m	Group total £m
At 1 January	**1,655**	**258**	**3,379**	**5,292**	**1,204**	**6,496**	**550**	**7,046**
Methodology/modelling changes	675	4	-	679	(47)	632	-	**632**
Change in assumptions used to measure life assurance contract liabilities and experience differences	(56)	8	-	(48)	(6)	(54)	-	**(54)**
New business	(16)	(138)	-	(154)	(26)	(180)	-	**(180)**
Investment surplus	2,415	87	5	2,507	98	2,605	-	**2,605**
Equity holder/inter-fund transfers	(71)	71	-	-	32	32	(32)	**-**
Dividend transfers	-	-	(205)	(205)	-	(205)	19	**(186)**
Other factors	(571)	31	(818)	(1,358)	158	(1,200)	167	**(1,033)**
At 31 December	**4,031**	**321**	**2,361**	**6,713**	**1,413**	**8,126**	**704**	**8,830**

UK regulated life business

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

Based on draft regulatory returns at 31 December 2011, SLAL had available capital resources of £6.0bn (2010: £6.7bn) and a CRR of £3.4bn (2010: £2.9bn). 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 £4.4bn at 31 December 2011 (2010: £4.4bn) represents capital resources held within long-term business funds, or in relation to other regulated entities, the amount of the CRR.

Overseas life operations

Capital resources of £1,394m (2010: £1,413m), which relate mainly to operations in Canada, also include operations in Asia. 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 £1,019m at 31 December 2011 (2010: £836m).

Other activities

At 31 December 2011, capital resources of £933m (2010: £704m) and capital subject to constraints of £83m (2010: £81m) relate to the Group's investment management businesses and group corporate centre activities.

Intra-group transactions

The Group, through subsidiaries and joint ventures, provides insurance and other financial services in the UK, Canada, Hong Kong, India and China. Through branches, the Group also provides such services in Ireland 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 has issued subordinated liabilities of £253m (2010: £257m) to the Company. During the year ended 31 December 2010, Standard Life Investments Limited repaid the subordinated liabilities of £15m that it had issued. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

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

Group capital requirement

The Group must also calculate a group regulatory capital position under the Insurance Groups Directive (IGD). The IGD calculation is a prudent aggregate value for the Group's capital resources. The capital held within the long-term business funds of approximately £4.4bn (2010: £4.4bn) is restricted to the level of the CRR of those funds of approximately £3.4bn (2010: £2.9bn). Therefore, the Group recognises no net surplus in respect of capital within the long-term business funds.

On an IGD basis, the estimated regulatory capital position at 31 December 2011 is a surplus of £3.1bn (2010: £3.8bn). The reduction in the estimated regulatory capital surplus is predominantly due to the repurchase of a portion of the Euro denominated subordinated guaranteed bonds.

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

2.15 Business combinations

On 11 January 2011, the Group purchased the entire issued and to be issued share capital of Focus Solutions Group plc (Focus). On 17 May 2011, Focus delisted its ordinary shares from trading and was re-registered as a private limited company, Focus Solutions Group Limited. Focus is a provider of software and consultancy solutions to the financial services industry, enabling its clients to automate the delivery of financial products and services to their customers across multiple distribution channels in a rapid and efficient manner. Continued investment in innovative technology is central to the delivery of the Group's accelerated growth strategy. The acquisition will enable the development of new and existing propositions, enhancing the customer experience and driving greater efficiencies. The consideration, acquisition date final fair value of net assets acquired and resulting goodwill are as follows:

	£m
Purchase consideration	
Cash paid	42
Loan notes issued	7
Total purchase consideration	**49**
Fair value of net assets acquired:	
Intangible assets	22
Other assets	8
Cash and cash equivalents	1
Deferred tax assets	3
Other creditors	(6)
Deferred tax liabilities	(5)
	23
Goodwill	**26**

2.15 Business combinations *continued*

The goodwill is attributable to the workforce of the acquired business and its growth prospects as well as the significant synergies expected to arise as a result of the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

The amount of revenue and profit included in the consolidated income statement for the year ended 31 December 2011 contributed by Focus was £16m and £1m respectively.

2.16 Investments in associates and joint ventures

During the year ended 31 December 2011, two sub-funds of Standard Life Investments (Global Liquidity Funds) plc (GLF), the Sterling Liquidity Fund and Euro Liquidity Fund, were restructured. The majority of the external holding in these funds transferred to a third party. The remaining assets were transferred into two new GLF sub-funds being the GBP VNAV Liquidity Fund and the Euro VNAV Liquidity Fund, which are subsidiaries of the Group. As a result of the restructure, the GLF sub-funds are no longer associates of the Group.

The newly created sub-funds have been consolidated on a line by line basis in the Group's results for 31 December 2011. The significant impact of this change has been to decrease the Group's investments in associates and joint ventures by £2,775m and increase cash and cash equivalents, investment securities and third party interest in consolidated funds.

2.17 Subordinated liabilities

Included in subordinated liabilities at 31 December 2010 was €750,000,000 (£660,000,000) Euro denominated 6.375% fixed/floating rate subordinated guaranteed bonds due 2022 (the Bonds). On 12 September 2011, the Company announced that it had agreed to purchase €687,220,000 of the Bonds at a purchase price of €10,200 per €10,000. After settlement on 14 September 2011, and at 31 December 2011, €62,780,000 in aggregate principal amount of the Bonds remain outstanding. The maturity date for the remaining Euro denominated bonds is 12 July 2022 and all outstanding obligations under the instruments become immediately due and payable on this date.

2.18 Events after the reporting period

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of Standard Life Assurance Limited in its claim of approximately £100m against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. The insurers are appealing the judgment and the appeal is unlikely to be heard before autumn 2012. No recoveries in respect of the claim are recognised in the consolidated income statement for the year ended 31 December 2011. The recognition of the benefit of any recoveries in respect of the claim in the consolidated income statement will depend on the timing and outcome of the appeal.

3 European Embedded Value (EEV)

EEV consolidated income statement
For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Covered business			
UK		**450**	436
Canada		**324**	250
International		**104**	93
HWPF TVOG		**11**	(8)
Covered business EEV operating profit	3.2(a)	**889**	771
UK		**67**	28
Global investment management[1]	3.6(b)	**69**	33
Group corporate centre costs		**(50)**	(54)
Other	3.6(c)	**14**	9
Non-covered business EEV operating profit		**100**	16
EEV operating profit before tax from continuing operations		**989**	787
EEV non-operating items			
Long-term investment return and tax variances		**70**	578
Effect of economic assumption changes		**(500)**	(209)
Impairment of intangible assets		**(5)**	-
Impairment of investments in associates		**-**	(1)
Restructuring costs[2]		**(73)**	(71)
Other EEV non-operating items		**(13)**	-
Consolidation adjustment for different accounting bases[3]		**58**	51
EEV non-operating (loss)/profit before tax from continuing operations		**(463)**	348
EEV profit before tax from continuing operations		**526**	1,135
Tax attributable to:			
EEV operating profit		**(265)**	(249)
EEV non-operating items		**108**	(90)
EEV profit after tax from continuing operations		**369**	796
EEV profit after tax from discontinued operations[4]		**-**	20
Total EEV profit after tax		**369**	816

1 Global investment management non-covered EEV operating profit of £69m (2010: £33m) represents operating profit of £125m (2010: £103m) after excluding profits of £56m (2010: £70m) which have been generated by life and pensions covered business. Global investment management EEV operating profit therefore represents third party non-covered EEV operating profit. Refer to Note 3.6(b) – Global investment management EEV operating profit before tax and Note 3.17 – EEV methodology.

2 Refer to IFRS financial information Note 2.3 – Administrative expenses. The £73m of restructuring costs in 2011 also include additional impacts to required capital and PVIF following the termination of an internal reinsurance agreement.

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

4 The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and was classified as a discontinued operation for the year ended 31 December 2010.

EEV earnings per share (EPS)
For the year ended 31 December 2011

	2011	2010
EEV operating profit after tax from continuing operations (£m)[1]	**724**	538
Basic EPS (pence) from continuing operations	**31.5**	24.0
Weighted average number of ordinary shares in issue (millions)	**2,301**	2,242
Diluted EPS (pence) from continuing operations	**31.4**	23.9
Weighted average number of ordinary shares on a diluted basis (millions)	**2,304**	2,248

1 EEV operating profit before tax from continuing operations of £989m (2010: £787m) less attributed tax on EEV operating profit from continuing operations of £265m (2010: £249m).

EEV consolidated statement of comprehensive income
For the year ended 31 December 2011

	Notes	2011 £m	2010 £m
EEV profit after tax		**369**	816
Less: EEV profit after tax from discontinued operations		**-**	20
EEV profit from continuing operations		**369**	796
Fair value gains/(losses) on cash flow hedges[1]		**-**	(2)
Actuarial (losses)/gains on defined benefit pension schemes[1]		**(88)**	184
Exchange differences on translating foreign operations[2]		**(69)**	152
Net investment hedge[1]		**13**	(39)
Aggregate tax effect of items not recognised in income statement		**27**	(59)
Other		**-**	9
Other comprehensive (expense)/income for the year		**(117)**	245
Total comprehensive income for the year attributable to equity holders from continuing operations		**252**	1,041
EEV profit after tax from discontinued operations		**-**	20
Other comprehensive income from discontinued operations[3]		**-**	24
Total comprehensive income for the year attributable to equity holders from discontinued operations		**-**	44
Total comprehensive income for the year attributable to equity holders	3.7	**252**	1,085

1 Consistent with the IFRS consolidated statement of comprehensive income.
2 Exchange differences primarily relate to Canada (£30m) and India (£24m).
3 Refer to the Annual Report and Accounts 2011 IFRS financial information Note 10 – Discontinued operations.

EEV consolidated statement of financial position
As at 31 December 2011

	Notes	31 December 2011 £m	31 December 2010 £m
Covered business			
Free surplus		**651**	1,202
Required capital		**1,296**	1,031
Net worth		**1,947**	2,233
Present value of in-force		**4,423**	4,277
Cost of required capital		**(583)**	(439)
Total embedded value of covered business	3.2(c)	**5,787**	6,071
Non-covered business			
UK		**393**	271
Global investment management		**256**	256
Group corporate centre		**650**	457
Other		**253**	221
Total net assets of non-covered business	3.6(a)	**1,552**	1,205
Consolidation adjustment for different accounting bases[1]		**89**	45
Total Group embedded value	3.7	**7,428**	7,321
Equity			
Share capital		**235**	228
Shares held by trusts		**(19)**	(21)
Share premium reserve		**1,110**	976
Retained earnings on an IFRS basis		**1,030**	1,094
Other reserves		**1,605**	1,626
Additional retained earnings on an EEV basis		**3,467**	3,418
Total equity		**7,428**	7,321

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

EEV per share
As at 31 December 2011

	31 December 2011	31 December 2010
Total Group embedded value (£m)	**7,428**	7,321
EEV per share (pence)	**317**	322
Diluted closing number of ordinary shares in issue (millions)	**2,344**	2,275

Notes to the EEV financial information

3.1 Basis of preparation

The European Embedded Value (EEV) basis results have been prepared in accordance with the EEV Principles and Guidance issued in May 2004 by the CFO Forum of European Insurance Companies and the Additional Guidance issued in October 2005 and the Interim Transitional Guidance issued in September 2011. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the cost of holding required capital and the value of free surplus. The total profit recognised over the lifetime of a policy is the same as under International Financial Reporting Standards (IFRS) but the timing of recognition of profits is different.

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

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

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

Covered business

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

With effect from January 2011, Canadian insurers have adopted IFRS as their basis for reporting, replacing the previous Canadian GAAP (CGAAP) basis. The impact of the change has been to reduce the Canada EEV by £59m. The comparative results for the 12 months to 31 December 2010 have not been restated.

Elsewhere within the Group, the regulatory basis for setting actuarial reserves and required capital has been calculated assuming the continuation of current regimes. Therefore, no allowance has been made for the change in reserving or required capital bases anticipated under Solvency 2. This approach is in accordance with the Interim Transitional Guidance for Embedded Value Reporting issued by the CFO Forum in September 2011. Similarly, no allowance has been made for forthcoming changes to the UK life insurance tax regime. The deferred tax position has been calculated using legislation in force at 31 December 2011.

The Hong Kong EEV results for 31 December 2010 were calculated on a 'risk neutral' approach, whereby projected investment returns and discount rates were based on risk free rates. For the results for 31 December 2011, Hong Kong is using a similar approach to that used in the rest of the Group's wholly owned businesses. This involves projecting investment returns on real world assumptions and setting a risk discount rate that removes the market risk above the risk free rate. Principal economic assumptions for investment returns and risk discount rates are provided in Note 3.13 – Principal economic assumptions – deterministic calculations – covered business. Due to the calibration methodology for setting the risk discount rate, there is no material impact on the results produced on the previous 'risk neutral' approach. Therefore the comparative results for 31 December 2010 have not been restated. The India and China joint venture (JV) businesses are still calculated on a 'risk neutral' approach.

Segmentation

Within the IFRS segmental analysis, UK operations primarily comprise life and pensions, UK non-covered mutual funds business and the non-covered UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation for the year ended 31 December 2010. Following the acquisition of Focus Solutions Group plc on 11 January 2011, UK non-covered business results for the year ended 31 December 2011 include Focus. UK non-covered business is shown within Note 3.6 – Non-covered business.

The EEV consolidated income statement presents EEV operating profit from continuing operations only and therefore excludes the results from discontinued operations.

Impact of UK budget changes announced on 23 March 2011

The Finance Act 2011 reduced the UK corporation tax rate to 25% with effect from 1 April 2012. The reduction to 25% has been included within our best estimate assumptions for UK corporation tax as at 31 December 2011.

The 2011 Budget statement also announced the Government's intention to make further reductions in the rate of UK corporation tax in 2013 and 2014. However, these reductions are subject to legislation being enacted in future years and, in accordance with our previous approach, have not been included within the best estimate assumptions as at 31 December 2011.

3.1 Basis of preparation *continued*

Recapture of internal reinsurance

On 31 December 2011, the business of Standard Life Investment Funds Limited (SLIF) was transferred to the Standard Life Assurance Limited (SLAL) Shareholder Fund and Proprietary Business Fund under a court approved scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000. The impact of the change has been to reduce the UK EEV by £10m. This is included within restructuring costs.

Events after the reporting period

A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of SLAL in its claim of approximately £100m against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. The insurers are appealing the judgment and the appeal is unlikely to be heard before autumn 2012. No recoveries in respect of the claim are recognised in the income statement for the year ended 31 December 2011. The recognition of the benefit of any recoveries in respect of the claim will depend on the timing and outcome of the appeal.

3.2 Segmental analysis – covered business

(a) Segmental EEV income statement

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

12 months to 31 December 2011	Notes	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Contribution from new business	3.3	204	73	58	-	**335**
Contribution from in-force business:						
Expected return on existing business		242	144	54	-	**440**
Experience variances	3.4	12	118	7	11	**148**
Operating assumption changes	3.5	31	(8)	10	-	**33**
Development expenses		(33)	(14)	(27)	-	**(74)**
Expected return on free surplus		(6)	11	2	-	**7**
EEV operating profit before tax		**450**	**324**	**104**	**11**	**889**
Investment return and tax variances		41	41	(19)	7	**70**
Effect of economic assumption changes		(173)	(181)	105	(251)	**(500)**
Restructuring costs		(53)	(3)	(3)	-	**(59)**
EEV profit/(loss) before tax		**265**	**181**	**187**	**(233)**	**400**
EEV attributed tax		(66)	(45)	(56)	58	**(109)**
EEV profit/(loss) after tax		**199**	**136**	**131**	**(175)**	**291**

12 months to 31 December 2010	Notes	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Contribution from new business	3.3	173	68	67	-	**308**
Contribution from in-force business:						
Expected return on existing business		237	142	43	-	**422**
Experience variances	3.4	32	16	(13)	(8)	**27**
Operating assumption changes	3.5	44	18	19	-	**81**
Development expenses		(30)	(10)	(27)	-	**(67)**
Expected return on free surplus		(20)	16	4	-	**-**
EEV operating profit/(loss) before tax		**436**	**250**	**93**	**(8)**	**771**
Investment return and tax variances		463	40	22	53	**578**
Effect of economic assumption changes		(77)	(83)	10	(59)	**(209)**
Restructuring costs		(39)	(1)	(5)	-	**(45)**
EEV profit/(loss) before tax		**783**	**206**	**120**	**(14)**	**1,095**
EEV attributed tax		(212)	(53)	(27)	4	**(288)**
EEV profit/(loss) after tax		**571**	**153**	**93**	**(10)**	**807**

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

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

HWPF TVOG represents the time value of financial options and guarantees (TVOG) arising from the Heritage With Profits Fund (HWPF). Although the HWPF includes business written by the UK, Germany and Ireland, the Group manages the risk at an aggregate level. This is consistent with the Group's IFRS consolidated financial statements as disclosed in Note 42 – Risk management of the Annual Report and Accounts 2011. The results for Canada and International include the cost of the Canada and Asia TVOG and the cost of TVOG arising on business written outside of the HWPF in Germany.

Improved new business profitability was due to higher sales volumes in the UK and increased margins in the UK and Canada. An analysis of new business contribution is provided in Note 3.3 – Analysis of new business contribution.

The increase in the expected return on existing business from £422m in 2010 to £440m in 2011 is primarily due to higher opening PVIF, partly offset by lower opening risk discount rates.

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

Development expenses of £74m in 2011 (2010: £67m) reflect the increased investment in the business. Development expenses of £33m in the UK mainly relate to investment in corporate propositions, in particular trust based pensions; retail propositions, largely SIPP; and to investment in the launch of our repositioned brand and refreshed visual identity. The £27m of development expenses in International include £8m relating to the costs of developing the JV businesses and £19m relating to development of the wholly owned businesses to build future growth.

The negative £6m expected return on free surplus in the UK reflects the relatively low expected returns currently available on cash assets within free surplus, along with a higher expected increase in the value of subordinated liabilities relative to the expected return on the assets backing subordinated liabilities. The improvement over the £20m UK loss reported in 2010 mainly reflects the impact of a change in investment strategy in the assets that are backing the subordinated liabilities together with the impact on expected return of the completion of a tender for a tranche of subordinated liabilities in 2011.

Investment return and tax variances generated a profit of £70m across all covered business. Investment return and tax variances in the UK produced a profit of £41m. Investment returns in 2011 generated an increase in free surplus of £165m, largely within annuity business, which was offset by a reduction in PVIF of £237m, largely due to lower than expected investment returns on unitised business. In addition, there was a profit of £110m, in excess of the returns that are included in the expected return on free surplus and in operating variances, arising from differences in movements of subordinated liabilities and the assets that are backing the subordinated debt. Canada investment return and tax variances generated a profit of £41m which is after a £79m pre-tax loss (£59m post-tax loss) from the impact of adopting IFRS accounting. Refer to Note 3.1 – Basis of preparation. The remaining positive variances in Canada primarily reflect the benefits of strong investment returns in 2011.

Effect of economic assumption changes was an overall loss of £500m. The main cause of the loss was higher TVOG within the HWPF of negative £251m and within the German With Profit Fund of negative £30m, which were largely due to lower risk free rates and higher swaption volatility. Reductions in risk free rates led to losses from lower future assumed investment returns of £615m in the UK and £161m in Canada, partly offset by a profit of £471m from reduced risk discount rates, which is explained in Note 3.13 – Principal economic assumptions – deterministic calculations – covered business. Changes to the long term corporation tax rates in the UK, Canada and Germany, along with the impact of the temporary levy on pension business in Ireland, resulted in an overall profit of £97m. Refer to Note 3.1 – Basis of preparation. Increases in the market valuation of the Canada subordinated liabilities created a loss within covered business of £59m, but this is offset within the overall Group EEV profit by a consolidation adjustment for different accounting bases.

Restructuring costs of £59m include £53m within the UK. This primarily represents the covered business costs associated with a number of restructuring programmes including Solvency 2, as well as the free surplus and associated other EEV impacts arising from the termination of the internal reinsurance agreement between SLAL and SLIF.

3.2 Segmental analysis – covered business *continued*

(b) Segmental analysis of movements in EEV

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Opening EEV	**3,657**	**1,758**	**732**	**(76)**	**6,071**
EEV profit/(loss) after tax	199	136	131	(175)	**291**
Internal capital transfers	(376)	(116)	34	-	**(458)**
Transfer back of surplus to Standard Life Investments	(36)	(2)	(3)	-	**(41)**
Transfer back of mutual funds net worth	19	(5)	-	-	**14**
Actuarial (losses)/gains on defined benefit pension schemes	-	(42)	8	-	**(34)**
Foreign exchange differences	-	(30)	(36)	-	**(66)**
Aggregate tax effect of items not recognised in income statement	-	12	-	-	**12**
Other	(4)	1	1	-	**(2)**
Closing EEV	**3,459**	**1,712**	**867**	**(251)**	**5,787**

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Opening EEV	**3,120**	**1,553**	**658**	**(66)**	**5,265**
EEV profit/(loss) after tax	571	153	93	(10)	**807**
Internal capital transfers	(15)	(65)	(3)	-	**(83)**
Transfer back of surplus to Standard Life Investments	(47)	(3)	(2)	-	**(52)**
Transfer back of mutual funds net worth	28	(4)	-	-	**24**
Actuarial losses on defined benefit pension schemes	-	(20)	(9)	-	**(29)**
Foreign exchange differences	-	139	(5)	-	**134**
Aggregate tax effect of items not recognised in income statement	-	5	-	-	**5**
Closing EEV	**3,657**	**1,758**	**732**	**(76)**	**6,071**

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

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Analysis of EEV					
Free surplus	930	226	46	-	**1,202**
PVIF	2,637	1,061	655	(76)	**4,277**
Required capital	159	813	59	-	**1,031**
Cost of capital	(69)	(342)	(28)	-	**(439)**
Opening EEV	**3,657**	**1,758**	**732**	**(76)**	**6,071**
Analysis of EEV					
Free surplus	686	(103)	68	-	**651**
PVIF	2,683	1,229	762	(251)	**4,423**
Required capital	169	1,059	68	-	**1,296**
Cost of capital	(79)	(473)	(31)	-	**(583)**
Closing EEV	**3,459**	**1,712**	**867**	**(251)**	**5,787**

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Analysis of EEV					
Free surplus	673	136	91	-	**900**
PVIF	2,359	962	545	(66)	**3,800**
Required capital	139	770	47	-	**956**
Cost of capital	(51)	(315)	(25)	-	**(391)**
Opening adjusted EEV	**3,120**	**1,553**	**658**	**(66)**	**5,265**
Analysis of EEV					
Free surplus	930	226	46	-	**1,202**
PVIF	2,637	1,061	655	(76)	**4,277**
Required capital	159	813	59	-	**1,031**
Cost of capital	(69)	(342)	(28)	-	**(439)**
Closing EEV	**3,657**	**1,758**	**732**	**(76)**	**6,071**

3.3 Analysis of new business contribution

The following table sets out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out in Note 3.17 – EEV methodology.

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

12 months to 31 December 2011	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier[1]	PVNBP margin[2] %
Individual pensions	F	12	3,598	99	3,936	3.4	0.3
Savings and investments	F	15	1,973	24	2,151	7.4	0.7
Annuities	S/R	58	312	-	312	-	18.6
Protection	S/R	-	-	-	1	-	5.2
Retail		**85**	**5,883**	**123**	**6,400**	**4.2**	**1.3**
Corporate pensions	F	60	1,889	620	4,607	4.4	1.3
Institutional pensions	F	59	3,027	1	3,028	1.0	2.0
Corporate		**119**	**4,916**	**621**	**7,635**	**4.4**	**1.6**
UK		**204**	**10,799**	**744**	**14,035**	**4.3**	**1.5**
Fee	F	38	1,216	33	1,695	14.5	2.2
Spread/risk	S/R	35	306	61	1,233	15.2	2.9
Canada		**73**	**1,522**	**94**	**2,928**	**15.0**	**2.5**
Wholly owned	F	51	1,567	86	2,275	8.2	2.2
Joint ventures		7	82	100	500	4.2	1.4
International		**58**	**1,649**	**186**	**2,775**	**6.1**	**2.1**
Total covered business		**335**	**13,970**	**1,024**	**19,738**	**5.6**	**1.7**

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

3.3 Analysis of new business contribution *continued*

12 months to 31 December 2010	Fee (F) – Spread/risk (S/R)	NBC £m	Single premiums £m	Annualised regular premiums £m	PVNBP £m	PVNBP multiplier[1]	PVNBP margin[2] %
Individual pensions[3]	F	19	3,539	92	3,858	3.5	0.5
Savings and investments	F	7	1,827	23	1,997	7.4	0.4
Annuities	S/R	56	341	-	341	-	16.5
Protection	S/R	-	-	1	1	1.0	(12.9)
Retail		**82**	**5,707**	**116**	**6,197**	**4.2**	**1.3**
Corporate pensions[3]	F	45	1,225	508	3,287	4.1	1.4
Institutional pensions	F	46	3,472	-	3,472	-	1.3
Corporate		**91**	**4,697**	**508**	**6,759**	**4.1**	**1.3**
UK		**173**	**10,404**	**624**	**12,956**	**4.1**	**1.3**
Fee	F	47	1,216	68	2,048	12.2	2.3
Spread/risk	S/R	21	239	52	1,000	14.6	2.1
Canada		**68**	**1,455**	**120**	**3,048**	**13.3**	**2.2**
Wholly owned	F	44	1,313	77	1,929	8.0	2.3
Joint ventures		23	74	119	550	4.0	4.3
International		**67**	**1,387**	**196**	**2,479**	**5.6**	**2.7**
Total covered business		**308**	**13,246**	**940**	**18,483**	**5.6**	**1.7**

1 The PVNBP multiplier is calculated as the total of PVNBP less single premiums, divided by annualised regular premiums.
2 PVNBP margins are calculated as the ratio of NBC to PVNBP and are based on the underlying unrounded numbers.
3 Individual pensions include Retail Trustee Investment Plan. This was previously included in corporate pensions. The 2010 impact on PVNBP is £25m.

3.4 Experience variances

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	(37)	-	(11)	-	**(48)**
Maintenance expenses	(4)	-	-	-	**(4)**
Mortality and morbidity	3	-	1	-	**4**
Tax	32	72	16	(1)	**119**
Other	18	46	1	12	**77**
Total	**12**	**118**	**7**	**11**	**148**

The lapse experience loss of £37m in the UK includes a negative variance within our pensions business of £29m. This was mainly due to transfers within our pension business. UK lapse experience variance also includes a £10m adverse variance within mutual funds and a £2m loss on institutional pensions mainly arising from the loss of one large scheme. The £11m adverse lapse experience within International mainly arises from a £4m loss within the Ireland domestic business and a £5m loss within the JV businesses.

Management action that reduced future tax payable on profits from overseas branches resulted in positive tax variances of £36m in the UK and £15m in International. Tax variances in Canada represent the expected release of tax provisions within the actuarial reserves along with operating tax variances.

Other UK variances of £18m include a £50m profit from the impact of a management action to reduce current and future investment expenses; a £28m loss from an agreement to fund future recharges to non-covered businesses; various modelling improvements which generated a profit of £13m; a £7m cost from the completion of a tender for a tranche of subordinated liabilities; with £10m of other losses mainly arising from the impact of reserve changes and other reconciliations.

Within Canada, other variances mainly arise from the impact of management actions to enhance investment yields on assets.

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	(3)	-	(2)	-	**(5)**
Maintenance expenses	(4)	5	1	-	**2**
Mortality and morbidity	4	17	-	-	**21**
Tax	(8)	9	(1)	-	**-**
Other	43	(15)	(11)	(8)	**9**
Total	**32**	**16**	**(13)**	**(8)**	**27**

For the 12 months to 31 December 2010, other UK variances of £43m include a £28m gain from the impact of investment strategy changes in the assets backing annuity business; a £17m loss from an agreement to fund future recharges to non-covered businesses; various modelling improvements which generated a profit of £31m; with £1m of other profits mainly arising from the impact of reserve changes and other reconciliations and management actions.

3.5 Operating assumption changes

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	31	34	(18)	-	**47**
Maintenance expenses	10	40	(8)	-	**42**
Mortality and morbidity	(11)	(139)	(3)	-	**(153)**
Tax	1	-	-	-	**1**
Other	-	57	39	-	**96**
Total	**31**	**(8)**	**10**	**-**	**33**

Positive lapse assumption changes in the UK include a £25m gain from improved long-term assumptions for institutional pensions, and a £8m profit on legacy life business reflecting recent experience. Favourable changes in assumed early retirement rates for individual pensions have been offset by anticipating a period of higher paid-up activity as a result of pension reform changes.

Canada lapse assumption gains of £34m mainly arise from improved persistency within pensions business.

Within International, the lapse assumption loss of £18m includes a £7m loss from the JV businesses and a £6m loss from higher paid-up assumptions in Hong Kong.

Canada expense assumption profits of £40m include a £31m profit from mutual fund and segregated fund business and £15m of gains from group insurance business.

The £11m loss from mortality assumption changes in the UK mainly arise from annuities, reflecting updates for recent experience and revised longevity improvement rates. In Canada, most of the £139m loss from mortality assumptions reflects the impact of revised industry-standard mortality improvement rates.

The £57m other assumption changes in Canada include a £109m profit from various changes in asset allocation strategies, including the benefits of management actions aimed at enhancing the investment yield on assets. This was partly offset by a loss of £62m from a reduction in expected fee income in our group savings and retirement products.

The £39m other assumption changes in International include a gain of £48m within Germany due to revised assumptions for certain classes of deferred annuities, which enables recognition of the profits expected when the policy converts to an annuity in-payment.

12 months to 31 December 2010	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Lapses	13	-	(7)	-	**6**
Maintenance expenses	48	68	14	-	**130**
Mortality and morbidity	(19)	(12)	2	-	**(29)**
Tax	(1)	-	-	-	**(1)**
Other	3	(38)	10	-	**(25)**
Total	**44**	**18**	**19**	**-**	**81**

3.5 Operating assumption changes *continued*

For the 12 months to 31 December 2010, expense assumption gains in the UK and in Europe reflect changes in the expense allocation for investment related expenses. The UK figure also includes an allowance for the expected benefits on maintenance costs arising from the headcount reductions announced during 2010, but only to the extent that these arrangements had been finalised by 31 December 2010.

Canada expense assumption profits of £68m mainly arise from improved expenses for group savings and retirement products, reflecting the significant growth in business volumes during 2010. The other assumption changes in Canada include a £37m loss from a reduction in expected fee income in our group savings and retirement products.

3.6 Non-covered business

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

UK non-covered primarily comprises UK non-covered mutual funds business and the non-covered UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010 and has therefore been classified as a discontinued operation for the year ended 31 December 2010.

(a) Segmental analysis – non-covered business

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

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

The Company operated a Scrip dividend scheme for dividends paid in 2010 and 2011. Investors taking part in the Scrip scheme receive their dividend entitlement in the form of new shares issued in lieu of cash dividends. For the 12 months ended 31 December 2011, dividends paid comprise £141m (2010: £92m) settled by the issue of shares under the Scrip scheme, and £162m paid in cash (2010: £186m).

The other movement in the UK EEV net assets mainly relates to the change in the UK non-covered pension scheme of negative £51m (2010: positive £214m) and the associated deferred tax asset of positive £15m (2010: negative £65m).

Other movements in other including group corporate centre predominantly relate to the £141m issue of share capital other than in cash in relation to the Scrip dividend paid by the Company.

12 months to 31 December 2010	UK £m	Global investment management £m	Discontinued operations £m	Other including group corporate centre £m	Total non-covered business £m
Opening EEV net assets	**(19)**	**195**	**343**	**644**	**1,163**
Opening adjustments	34	-	-	(34)	**-**
Opening adjusted EEV net assets	**15**	**195**	**343**	**610**	**1,163**
EEV (loss)/profit after tax	(9)	26	20	(66)	**(29)**
Transfer back of net worth from covered business	(28)	52	-	4	**28**
Foreign exchange differences	-	2	-	16	**18**
Internal capital transfers	144	(18)	(387)	344	**83**
Distributions to equity holders	-	-	-	(278)	**(278)**
Other	149	(1)	24	48	**220**
Closing EEV net assets	**271**	**256**	**-**	**678**	**1,205**

The opening adjustment of £34m represents the reclassification of other non-covered to UK non-covered business during the period.

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

(b) Global investment management EEV operating profit before tax

Global investment management non-covered business profits are included in EEV on a look through basis. This means that the profits from global investment management which are generated from life and pensions business are allocated to covered business. Therefore, the difference between third party non-covered business EEV operating profit before tax of £69m (2010: £33m) and operating profit for the global investment management business of £125m (2010: £103m) is the profit allocated to covered business.

	12 months to 31 December 2011 £m	12 months to 31 December 2010 £m
Global investment management third party non-covered business EEV operating profit before tax	**69**	33
Third party related covered business EEV operating profit before tax	**32**	33
Total third party business EEV operating profit before tax	**101**	66
Other covered business EEV operating profit before tax	**24**	37
Global investment management operating profit before tax	**125**	103

Total global investment management EEV operating profit allocated to covered business of £56m (2010: £70m) consists of third party related covered business EEV operating profit of £32m (2010: £33m) and other covered business EEV operating profit of £24m (2010: £37m).

Third party related covered business EEV operating profits relate to products actively marketed and sold to third parties through global investment management distribution channels. If these profits are added to the global investment management third party non-covered business EEV operating profits of £69m (2010: £33m), there are £101m (2010: £66m) of total third party related profits for global investment management.

The increase in the proportion of global investment management EEV operating profit before tax generated from third parties is due to new business flows into higher margin products, a refinement of cost allocations and the fee received following the transfer of money market funds in the first half of 2011.

(c) Other EEV operating profits before tax

	12 months to 31 December 2011 £m	12 months to 31 December 2010 £m
Canada non-life subsidiaries	**6**	1
Mutual funds transferred to covered business	**(7)**	(3)
Canada non-life subsidiaries excluding transfers to covered business	**(1)**	(2)
Standard Life plc income	**6**	3
Other	**9**	8
Other non-covered business EEV operating profit before tax	**14**	9

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

Included within other are the head office costs relating to the International businesses. These costs are included within the International segment of the IFRS financial statements.

3.7 EEV reconciliation of movements in consolidated statement of financial position

	12 months to 31 December 2011 £m	12 months to 31 December 2010 £m
Opening EEV	**7,321**	6,435
Total comprehensive income for the period attributable to equity holders	**252**	1,085
Distributions to equity holders	**(303)**	(278)
Issue of share capital other than in cash	**141**	92
Shares acquired by employee trusts	**(7)**	(35)
Shares gifted to charity	**-**	4
Reserves credit for employee share-based payment schemes	**24**	18
Closing EEV	**7,428**	7,321

3.8 Reconciliation of EEV net assets to IFRS net assets

	31 December 2011 £m	31 December 2010 £m
Net assets on an EEV basis	**7,428**	7,321
Present value of in-force life and pensions business net of cost of capital	**(3,840)**	(3,838)
EEV net worth	**3,588**	3,483
Adjustment of long-term debt to market value	**(44)**	(40)
Canada marked to market adjustment	**(19)**	(46)
Deferred acquisition costs net of deferred income reserve	**350**	378
Deferred tax differences	**123**	98
Adjustment for share of joint ventures	**24**	35
Consolidation adjustment for different accounting bases[1]	**(89)**	(45)
Other	**28**	40
Net assets attributable to equity holders on an IFRS basis	**3,961**	3,903

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

Reconciling items are shown net of tax where appropriate.

The movement in Canada marked to market adjustment reflects the impact of the adoption of IFRS reporting on EEV net worth for the Canada business. This change has not had a significant impact on the total Canada EEV results (net worth and present value of in-force life and pensions business net of cost of capital). Refer to Note 3.1 – Basis of preparation.

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

(a) Total

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

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**925**	**956**	**1,881**	**3,384**	**5,265**
Opening adjustments	(25)	-	(25)	25	**-**
Opening adjusted EEV	**900**	**956**	**1,856**	**3,409**	**5,265**
Contribution from new business	(265)	45	(220)	451	**231**
Contribution from in-force business:					
Expected return on existing business	(1)	37	36	275	**311**
Expected return transfer to net worth	625	(59)	566	(566)	**-**
Experience variances	35	(1)	34	(17)	**17**
Operating assumption changes	6	(55)	(49)	108	**59**
Development expenses	(51)	-	(51)	-	**(51)**
Expected return on free surplus	2	-	2	-	**2**
EEV operating profit/(loss) after tax	**351**	**(33)**	**318**	**251**	**569**
Investment return and tax variances	179	10	189	234	**423**
Effect of economic assumption changes	(73)	31	(42)	(110)	**(152)**
Restructuring costs	(33)	-	(33)	-	**(33)**
EEV profit after tax	**424**	**8**	**432**	**375**	**807**
Internal capital transfers	(83)	-	(83)	-	**(83)**
Transfer back of surplus to Standard Life Investments	(52)	-	(52)	-	**(52)**
Transfer back of mutual funds net worth	24	-	24	-	**24**
Actuarial losses on defined benefit pension schemes	(29)	-	(29)	-	**(29)**
Foreign exchange differences	13	67	80	54	**134**
Aggregate tax effect of items not recognised in income statement	5	-	5	-	**5**
Closing EEV	**1,202**	**1,031**	**2,233**	**3,838**	**6,071**

The adjustment to opening EEV net worth and PVIF net of cost of capital represents a change to the presentation of certain Canada GAAP guarantee reserves. Prior to the results for the 12 months to 31 December 2010, these reserves were replaced with a time value of options and guarantees (TVOG) within the Group's EEV results. In order to better align the Group's EEV net worth movement and the Group's primary measure of performance, Group operating profit, these reserves are now included within the EEV net worth. Total EEV operating profit for the 12 months to 31 December 2010 is unaffected by this adjustment.

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

(b) UK and HWPF TVOG

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**930**	**159**	**1,089**	**2,492**	**3,581**
Contribution from new business	(146)	18	(128)	282	**154**
Contribution from in-force business:					
Expected return on existing business	(1)	5	4	177	**181**
Expected return transfer to net worth	390	(4)	386	(386)	**-**
Experience variances	(23)	1	(22)	39	**17**
Operating assumption changes	(3)	1	(2)	26	**24**
Development expenses	(25)	-	(25)	-	**(25)**
Expected return on free surplus	(5)	-	(5)	-	**(5)**
EEV operating profit after tax	**187**	**21**	**208**	**138**	**346**
Investment return and tax variances	222	(4)	218	(182)	**36**
Effect of economic assumption changes	(219)	10	(209)	(110)	**(319)**
Restructuring costs	(37)	(17)	(54)	15	**(39)**
EEV profit/(loss) after tax	**153**	**10**	**163**	**(139)**	**24**
Internal capital transfers	(376)	-	(376)	-	**(376)**
Transfer back of surplus to Standard Life Investments	(36)	-	(36)	-	**(36)**
Transfer back of mutual funds net worth	19	-	19	-	**19**
Other	(4)	-	(4)	-	**(4)**
Closing EEV	**686**	**169**	**855**	**2,353**	**3,208**

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**673**	**139**	**812**	**2,242**	**3,054**
Opening adjustments	-	-	-	-	**-**
Opening adjusted EEV	**673**	**139**	**812**	**2,242**	**3,054**
Contribution from new business	(134)	17	(117)	242	**125**
Contribution from in-force business:					
Expected return on existing business	(1)	5	4	169	**173**
Expected return transfer to net worth	374	(3)	371	(371)	**-**
Experience variances	34	(3)	31	(15)	**16**
Operating assumption changes	(26)	-	(26)	58	**32**
Development expenses	(21)	-	(21)	-	**(21)**
Expected return on free surplus	(14)	-	(14)	-	**(14)**
EEV operating profit after tax	**212**	**16**	**228**	**83**	**311**
Investment return and tax variances	187	-	187	190	**377**
Effect of economic assumption changes	(80)	4	(76)	(23)	**(99)**
Restructuring costs	(28)	-	(28)	-	**(28)**
EEV profit after tax	**291**	**20**	**311**	**250**	**561**
Internal capital transfers	(15)	-	(15)	-	**(15)**
Transfer back of surplus to Standard Life Investments	(47)	-	(47)	-	**(47)**
Transfer back of mutual funds net worth	28	-	28	-	**28**
Closing EEV	**930**	**159**	**1,089**	**2,492**	**3,581**

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

(c) Canada

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

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**161**	**770**	**931**	**622**	**1,553**
Opening adjustments	(25)	-	(25)	25	**-**
Opening adjusted EEV	**136**	**770**	**906**	**647**	**1,553**
Contribution from new business	(18)	20	2	48	**50**
Contribution from in-force business:					
Expected return on existing business	-	30	30	75	**105**
Expected return transfer to net worth	142	(60)	82	(82)	**-**
Experience variances	14	5	19	(6)	**13**
Operating assumption changes	30	(55)	(25)	39	**14**
Development expenses	(8)	-	(8)	-	**(8)**
Expected return on free surplus	12	-	12	-	**12**
EEV operating profit/(loss) after tax	**172**	**(60)**	**112**	**74**	**186**
Investment return and tax variances	(12)	9	(3)	32	**29**
Effect of economic assumption changes	4	27	31	(92)	**(61)**
Restructuring costs	(1)	-	(1)	-	**(1)**
EEV profit/(loss) after tax	**163**	**(24)**	**139**	**14**	**153**
Internal capital transfers	(65)	-	(65)	-	**(65)**
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	**(3)**
Transfer back of mutual funds net worth	(4)	-	(4)	-	**(4)**
Actuarial losses on defined benefit pension schemes	(20)	-	(20)	-	**(20)**
Foreign exchange differences	14	67	81	58	**139**
Aggregate tax effect of items not recognised in income statement	5	-	5	-	**5**
Closing EEV	**226**	**813**	**1,039**	**719**	**1,758**

The adjustment to opening EEV net worth and PVIF net of cost of capital represents a change to the presentation of certain Canada GAAP guarantee reserves. Prior to the results for the 12 months to 31 December 2010, these reserves were replaced with a TVOG within the Group's EEV results. In order to better align the Group's EEV net worth movement and the Group's primary measure of performance, Group operating profit, these reserves are now included within the EEV net worth. Total EEV operating profit for the 12 months to 31 December 2010 is unaffected by this adjustment.

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

(d) International

12 months to 31 December 2011	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**46**	**59**	**105**	**627**	**732**
Contribution from new business	(102)	10	(92)	141	**49**
Contribution from in-force business:					
Expected return on existing business	-	2	2	42	**44**
Expected return transfer to net worth	126	4	130	(130)	**-**
Experience variances	-	(3)	(3)	9	**6**
Operating assumption changes	(4)	-	(4)	4	**-**
Development expenses	(23)	-	(23)	-	**(23)**
Expected return on free surplus	2	-	2	-	**2**
EEV operating profit/(loss) after tax	**(1)**	**13**	**12**	**66**	**78**
Investment return and tax variances	-	(1)	(1)	(18)	**(19)**
Effect of economic assumption changes	(13)	-	(13)	87	**74**
Restructuring costs	(2)	-	(2)	-	**(2)**
EEV profit/(loss) after tax	**(16)**	**12**	**(4)**	**135**	**131**
Internal capital transfers	34	-	34	-	**34**
Transfer back of surplus to Standard Life Investments	(3)	-	(3)	-	**(3)**
Actuarial profits on defined benefit pension schemes	8	-	8	-	**8**
Foreign exchange differences	(1)	(4)	(5)	(31)	**(36)**
Other	-	1	1	-	**1**
Closing EEV	**68**	**68**	**136**	**731**	**867**

12 months to 31 December 2010	Free surplus £m	Required capital £m	Net worth £m	PVIF net of cost of capital £m	Total £m
Opening EEV	**91**	**47**	**138**	**520**	**658**
Opening adjustments	-	-	-	-	**-**
Opening adjusted EEV	**91**	**47**	**138**	**520**	**658**
Contribution from new business	(113)	8	(105)	161	**56**
Contribution from in-force business:					
Expected return on existing business	-	2	2	31	**33**
Expected return transfer to net worth	109	4	113	(113)	**-**
Experience variances	(13)	(3)	(16)	4	**(12)**
Operating assumption changes	2	-	2	11	**13**
Development expenses	(22)	-	(22)	-	**(22)**
Expected return on free surplus	4	-	4	-	**4**
EEV operating profit/(loss) after tax	**(33)**	**11**	**(22)**	**94**	**72**
Investment return and tax variances	4	1	5	12	**17**
Effect of economic assumption changes	3	-	3	5	**8**
Restructuring costs	(4)	-	(4)	-	**(4)**
EEV profit/(loss) after tax	**(30)**	**12**	**(18)**	**111**	**93**
Internal capital transfers	(3)	-	(3)	-	**(3)**
Transfer back of surplus to Standard Life Investments	(2)	-	(2)	-	**(2)**
Actuarial losses on defined benefit pension schemes	(9)	-	(9)	-	**(9)**
Foreign exchange differences	(1)	-	(1)	(4)	**(5)**
Closing EEV	**46**	**59**	**105**	**627**	**732**

3.10 Time value of options and guarantees (TVOG)

	31 December 2011 £m	31 December 2010 £m
UK and Europe HWPF	**(251)**	(76)
Canada	**(29)**	(26)
International	**(41)**	(17)
Total	**(321)**	(119)

UK and Europe HWPF TVOG reflects the value of shareholder exposure to the policyholder guarantees within the HWPF. The value of this exposure has increased by £175m during 2011. This mainly arose from adverse economic assumption changes reflecting the increased cost of guarantees in a low yield environment, in particular for German business, alongside a general increase in both implied volatility and corporate bond spreads.

The £24m increase in TVOG within International mainly reflects the higher cost of guarantees for post demutualisation business in Germany.

3.11 Market value of subordinated liabilities within covered business

	31 December 2011 £m	31 December 2010 £m
UK	**(1,005)**	(1,682)
Canada	**(341)**	(302)
Total	**(1,346)**	(1,984)

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

3.11 Market value of subordinated liabilities within covered business *continued*

UK subordinated liabilities include Euro denominated subordinated guaranteed bonds. On 14 September 2011, the Company settled a tender for these bonds, as described in Note 37 to the IFRS financial information in the Annual Report and Accounts 2011. The tender was accepted for bonds with a face value of €687m and bonds with a face value of €63m remain outstanding. This tender resulted in a loss of £7m which is included within UK EEV operating profit as described in Note 3.4 – Experience variances.

The decrease in the UK subordinated liability mainly reflects the tender referred to above, along with increased market yields during 2011. The £39m increase in the Canada subordinated liability includes a £5m reduction from currency movements.

The impact of these movements, other than those related to the tender, are reflected in EEV non-operating profit in UK and Canada as shown in Note 3.2(a) – Segmental EEV income statement. For Canada, this has been offset by the Group EEV consolidation adjustment in respect of Canadian subordinated liability, as shown in the EEV consolidated income statement.

3.12 PVIF monetisation profile

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

(a) PVIF emergence

In-force business

At 31 December 2011	PVIF £m	Cash emerging during years (£m) 1-5	6-10	11-15	16-20	20+
UK	4,280	1,501	978	673	449	679
Canada	4,291	484	455	440	416	2,496
International	1,337	386	248	147	102	454
Total undiscounted	**9,908**	**2,371**	**1,681**	**1,260**	**967**	**3,629**
Total discounted	**4,744**	**2,069**	**1,108**	**628**	**364**	**575**

New business

At 31 December 2011	PVIF £m	Cash emerging during years (£m) 1-5	6-10	11-15	16-20	20+
UK	520	148	118	94	67	93
Canada	157	21	27	21	18	70
International	230	85	53	29	24	39
Total undiscounted	**907**	**254**	**198**	**144**	**109**	**202**
Total discounted	**508**	**220**	**129**	**72**	**42**	**45**

(b) Reconciliation to closing PVIF

In-force business

At 31 December 2011	Reconciliation of discounted PVIF: PVIF £m	TVOG £m	Total £m
UK and HWPF TVOG	2,683	(251)	**2,432**
Canada	1,258	(29)	**1,229**
International	803	(41)	**762**
Total	**4,744**	**(321)**	**4,423**

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

New business		Reconciliation of discounted PVIF		
At 31 December 2011	PVIF £m	Cost of capital £m	TVOG £m	Total £m
UK	289	(7)	-	**282**
Canada	68	(7)	-	**61**
International	151	(5)	(5)	**141**
Total	**508**	**(19)**	**(5)**	**484**

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

As outlined in Note 3.1 – Basis of preparation, the Group's EEV results do not include any allowance for changes to the reserving or required capital bases anticipated under future reporting or regulatory regimes. The PVIF monetisation profile therefore excludes changes anticipated under Solvency 2. Similarly, no allowance has been made for forthcoming changes to the UK life insurance tax regime. The deferred tax position has been calculated using the legislation in force at 31 December 2011.

3.13 Principal economic assumptions – deterministic calculations – covered business

(a) Gross investment returns and expense inflation

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

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 Excludes corporate bond returns on annuities. For annuities in UK equity holder owned funds, the overall investment return, after allowing for assumed defaults, is 4.20% for annuities that are level or subject to fixed escalations and 2.73% for annuities where escalations are linked to a price index.
4 Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in a mixture of government and corporate bonds.
5 0.000% in 2012. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.

At 31 December 2010	UK HWPF/PBF[1] %	Canada %	Europe HWPF/PBF[1] %	Europe offshore[2] %	Hong Kong %
Gross investment returns					
Risk free	3.49	3.29	2.96	3.49	[6]
Corporate bonds	4.08[3]	[4]	n/a	n/a	[6]
Equities	6.49	8.60	5.96	6.49	[6]
Property	5.49	8.60	4.96	5.49	[6]
Other					
Expense inflation:	3.95	[5]		3.95	[6]
Germany			2.29		
Ireland			3.01		

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 Excludes corporate bond returns on annuities. For annuities in UK equity holder funds, the overall investment return, after allowing for assumed defaults, is 4.91% for annuities that are level or subject to fixed escalations and 4.02% for annuities where escalations are linked to a price index.
4 Current holdings are assumed to yield in future years the earned rate for the year preceding the valuation. Future reinvestments are assumed to be in government bonds.
5 0.691% in 2011. The rate in subsequent years is based on a moving 30-year bond yield less a 3% deduction.
6 The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 3.13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

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

(b) Risk discount rates – in-force business

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

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 5.55% and 3.51% respectively.

At 31 December 2010	UK HWPF %	UK PBF[1] %	Canada %	Europe HWPF %	Europe PBF[1] %	Europe offshore[2] %	Hong Kong %
Risk margin – in-force business							
Risk margin before cost of capital adjustment:							
Market risk	1.80	1.60	2.60	1.80	1.60	1.60	[4]
Non-market risk	1.80	1.60	2.80	1.80	1.60	1.60	[4]
Total	**3.60**	**3.20**	**5.40**	**3.60**	**3.20**	**3.20**	[4]
Cost of capital adjustment	-	(0.50)	(1.80)	-	(0.50)	(0.50)	[4]
Risk margin after cost of capital adjustment	**3.60**	**2.70**	**3.60**	**3.60**	**2.70**	**2.70**	[4]
Risk discount rates – in-force business							
Risk free	3.49	3.49	3.29	2.96	2.96	3.49	[4]
Risk margin	3.60	2.70	3.60	3.60	2.70	2.70	[4]
Risk discount rate[3]	**7.09**	**6.19**	**6.89**	**6.56**	**5.66**	**6.19**	[4]

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 Using the value of in-force business as weights, the average risk discount rates for UK and Europe were 6.73% and 6.10% respectively.
4 The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 3.13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

Changes in market risk margins generally arise from changes in the mix of business and asset allocations. In Canada, the market risk is also impacted by the relative movements in the returns assumed on equities and property compared to risk free, which in 2011 led to a significant increase in Canada risk margins.

During 2011, separate risk discount rate risk margins were developed for the UK, the Ireland offshore business, and the combined German and Ireland domestic business. Previously, average risk margins had been used across all four businesses. The main impact was to decrease the risk margins used for the combined German and Ireland domestic in-force business, reflecting in particular their lower exposure to market risk for the HWPF and lower non-market risk for equity holder owned funds. Corresponding increases were applied to the separate UK risk margins.

As part of the adoption of IFRS in Canada from 2011, the opening risk discount rate was changed from 6.89% to 6.79%. The effect of this change is included within the overall impact of the adoption of IFRS in Canada. Refer to Note 3.1 – Basis of preparation.

Annuity-in-payment profits were recognised for certain classes of deferred annuities in Germany during 2011. Refer to Note 3.5 – Operating assumption changes. The recognition of the additional non-market risks within these annuity-in-payment profits has increased the risk discount rates used to value the German and Ireland domestic business. This generated a loss of £9m which has been included within other assumption changes in the International EEV operating profit.

The impact of the other changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 3.2(a) – Segmental EEV income statement. The amounts within these totals that relate to the changes in risk discount rates are for UK: profit £295m, for Canada: loss £18m, and for International: profit £194m. These profits reflect the benefit of reduced risk discount rates which are mainly driven by reductions in risk free rates.

(c) Risk discount rates – new business

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

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2010.
4 Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.30% and 4.54% respectively.

12 months to 31 December 2010	UK HWPF %	UK PBF[1] %	Canada %	Europe HWPF %	Europe PBF[1] %	Europe offshore[2] %	Hong Kong %
Risk margin – new business							
Risk margin before cost of capital adjustment:							
Market risk	1.80	1.50	1.40	1.80	1.50	1.50	[5]
Non-market risk	0.50	1.60	1.90	0.50	1.60	1.60	[5]
Total	**2.30**	**3.10**	**3.30**	**2.30**	**3.10**	**3.10**	[5]
Cost of capital adjustment	-	(0.40)	(0.70)	-	(0.40)	(0.40)	[5]
Risk margin after cost of capital adjustment	**2.30**	**2.70**	**2.60**	**2.30**	**2.70**	**2.70**	[5]
Risk discount rates – new business							
Risk free[3]	4.11	4.11	3.85	3.39	3.39	4.11	[5]
Risk margin	2.30	2.70	2.60	2.30	2.70	2.70	[5]
Risk discount rate[4]	**6.41**	**6.81**	**6.45**	**5.69**	**6.09**	**6.81**	[5]

1 Proprietary Business Fund (PBF) denotes the equity holder owned fund in SLAL.
2 Europe offshore denotes Standard Life International Limited (SLIL).
3 As the new business contribution is calculated using start of period economic assumptions, the risk free rates shown here represent market yields at 31 December 2009.
4 Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe were 6.77% and 6.31% respectively.
5 The Hong Kong EEV results for 31 December 2010 are calculated on a risk neutral approach, whereby projected investment returns and discount rates are based on risk free rates. Refer to Note 3.13(d) – Principal economic assumptions – deterministic calculations – covered business – International – Asia for more detail.

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

(d) International – Asia

The PVIF and cost of required capital of the India and China JV businesses is calculated using a 'risk neutral' approach whereby projected investment returns and discount rates are based on risk free rates. This was also the approach adopted for Hong Kong until 2011. The risk free rates used were:

	31 December 2011 %	31 December 2010 %
India	**8.55**	6.81
China	**3.89**	3.92
Hong Kong	**n/a**	1.55

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

Non-market risk has been allowed for via a specific deduction to PVIF, based on a non-market risk 'cost of capital' approach. This has reduced the PVIF of the India and China JV businesses at 31 December 2011 by £25m (31 December 2010: £22m). Similarly, the 2011 pre-tax NBC has been reduced by £7m (2010: £8m) as an allowance for non-market risk.

3.14 Principal economic assumptions – stochastic calculations

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

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

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

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

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

Parameters used in ESG

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

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

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

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

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

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

Swaption-implied volatilities

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

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

UK Sterling Option term (years)	31 December 2011 Swap term (years) 10	 15	31 December 2010 Swap term (years) 10	 15
10	19.1%	17.1%	14.4%	14.2%
15	17.7%	16.1%	14.5%	14.3%
20	16.0%	14.6%	14.2%	13.9%
25	14.6%	13.4%	13.6%	13.3%

Euro Option term (years)	31 December 2011 Swap term (years) 15	 20	31 December 2010 Swap term (years) 15	 20
10	20.2%	19.8%	15.5%	15.1%
15	19.4%	18.6%	15.0%	14.4%
20	17.6%	16.6%	13.5%	12.8%
25	16.3%	n/a	12.6%	n/a

Equity-implied volatilities

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

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

UK equities Term (years)	31 December 2011	31 December 2010
10	26.2%	25.4%
15	26.7%	26.7%
20	27.4%	27.4%
25	28.4%	28.4%
European equities Term (years)		
10	27.9%	25.8%
15	27.9%	27.9%
20	28.6%	29.0%
25	28.9%	29.6%

Property-implied volatilities

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

For the UK and Europe, the model is calibrated to property-implied volatility of 15% for 31 December 2011 and 15% for 31 December 2010.

Note 3.10 – Time value of options and guarantees (TVOG) also shows the value of TVOG in Canada and International, which are in addition to the HWPF TVOG. Where material, these values are also calculated using ESG similar to that used for the HWPF TVOG calculation.

3.15 Foreign exchange

The principal exchange rates applied are:

Local currency: £	Closing 31 December 2011	Average to 31 December 2011	Closing 31 December 2010	Average to 31 December 2010
Canada	**1.582**	**1.584**	1.556	1.605
Europe	**1.197**	**1.152**	1.167	1.165
India	**82.529**	**75.027**	70.007	70.803
China	**9.782**	**10.378**	10.317	10.477
Hong Kong	**12.070**	**12.499**	12.171	12.032

3.16 Sensitivity analysis – economic and non-economic assumptions

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

Sensitivities tested were:

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

Embedded value:

31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
Embedded value	3,459	1,712	867	(251)	**5,787**
Risk discount rates +1%	(196)	(191)	(84)	-	**(471)**
Risk discount rates -1%	229	242	112	-	**583**
Interest returns +1%	(11)	37	(4)	97	**119**
Interest returns -1%	19	(359)	(25)	(344)	**(709)**
Fall in equity market values by 10%	(158)	(30)	(24)	(19)	**(231)**
Fall in property market values by 10%	(17)	(56)	(2)	(15)	**(90)**
Maintenance expenses -10%	132	100	13	-	**245**
Lapse rates -10%	116	118	17	(24)	**227**
Annuitant mortality -5%	(74)	(49)	(6)	(8)	**(137)**
Non-annuitant mortality -5%	8	30	2	1	**41**
Prescribed minimum capital	-	139	-	-	**139**

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 liability valuation bases used for covered and non-covered business as explained in Note 3.17 – EEV methodology, the impact of these sensitivities on the Group EEV consolidation adjustment is not included in this sensitivity analysis.

New business contribution:

12 months to 31 December 2011	UK £m	Canada £m	International £m	HWPF TVOG £m	Total £m
New business contribution	204	73	58	-	**335**
Risk discount rates +1%	(31)	(13)	(13)	-	**(57)**
Risk discount rates -1%	37	16	18	-	**71**
Interest returns +1%	(1)	(8)	3	-	**(6)**
Interest returns -1%	-	10	(11)	-	**(1)**
Fall in equity market values by 10%	(25)	(10)	(4)	-	**(39)**
Fall in property market values by 10%	(4)	-	-	-	**(4)**
Maintenance expenses -10%	23	14	5	-	**42**
Lapse rates -10%	18	12	6	-	**36**
Annuitant mortality -5%	(3)	(1)	-	-	**(4)**
Non-annuitant mortality -5%	-	16	2	-	**18**
Prescribed minimum capital	-	2	-	-	**2**

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

The demographic 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.

3.17 EEV methodology

Covered business

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

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

UK covered business also includes:

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

Canada covered business also includes mutual funds.

International covered business consists of:

- The Group's Germany branch of Standard Life Assurance Limited (SLAL)
- The Group's Ireland branch of SLAL
- The Group's offshore bond business, which is sold by Standard Life International Limited (SLIL)
- The Group's business in Hong Kong (Standard Life (Asia) Limited)
- The Group's share of results in the JV in India, HDFC Standard Life Insurance Company Limited, at 26% for the 12 months to 31 December 2011 (2010: 26%)
- The Group's share of results in the JV in China, Heng An Standard Life Insurance Company Limited, at 50% for the 12 months to 31 December 2011 (2010: 50%)

Non-covered business

The Group's non-covered business predominantly consists of the third party global investment management business of Standard Life Investments, Standard Life plc, the non-covered business of Standard Life Savings Limited, other non-life and pensions entities and the Group's UK pension scheme. The Group's healthcare business, Standard Life Healthcare Limited, was sold on 31 July 2010.

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

3.17 EEV methodology *continued*

Segmentation

Under the EEV Principles and Guidance we are required to provide business classifications which are consistent with those used for the primary statements. In the IFRS financial statements the Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed, as required under IFRS 8. The EEV segmentation has been prepared in a consistent manner, whilst also distinguishing between covered and non-covered business. HWPF TVOG is disclosed separately in EEV, as explained in Note 3.2(a) – Segmental analysis – covered business – Segmental EEV income statement.

Consolidation adjustments

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

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

The consolidation adjustment to remove the impact of the accounting differences for the Canada subordinated liability is explained in more detail under subordinated liabilities in the EEV methodology.

Value of in-force covered business

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

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

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

Free surplus

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

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

Allowance for risk

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

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

Risk discount rates

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

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

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

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

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

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

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

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

Required capital

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

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

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

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

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

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

3.17 EEV methodology *continued*

Time value of financial options and guarantees (TVOG)

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

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

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

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

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

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

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

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

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

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

Asia
TVOG in the Asia businesses within International arises from guarantees and options given to with profits business written in India and China.

Other economic assumptions

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

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

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

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

Non-economic assumption changes

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

Expense assumptions

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

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

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

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

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

Restructuring costs for covered and non-covered business are consistent with those identified in the Group operating profit adjustments and primarily represent costs in relation to a number of restructuring programmes including Solvency 2. Refer to the IFRS financial information Note 2.3 – Administrative expenses for further detail. Restructuring costs in 2011 also include the impact on free surplus, required capital, cost of required capital and PVIF arising from the termination of the internal reinsurance agreement between SLAL and SLIF.

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

Expenses – pension scheme deficits

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

Other non-economic experience assumptions

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

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

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

New business

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

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

- New recurrent single premium business is classified as new regular premium business to the extent that it is deemed likely to renew
- Department for Work and Pensions (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 (with the exception of vesting annuities for tax layer 1 deferred annuities sold before September 2009). NBC for Germany is calculated assuming a specific level of future premium indexation. Similarly, it is assumed that premiums on ‘low start’ policies increase at the end of the low start period.

3.17 EEV methodology *continued*

For Ireland, new business is determined as follows:

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

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

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

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

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

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

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

Tax

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

During 2009, a loan was made to the HWPF by the Company, repayment of which is contingent on the emergence of recourse cash flows and surplus in the HWPF (contingent loan agreement). A transfer to equity holders was then made to transfer the remaining unallocated surplus to equity holders without equity holder tax arising. As a result of this, the market risk associated with unallocated surplus was reduced. Future transfers to equity holders from the HWPF will, in the first instance, take the form of repayments under the contingent loan agreement. Such transfers can be made without equity holder tax arising for a number of years. Over time the actual effective tax rate on these transfers to equity holders will move towards 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 debt plus the subordinated debt issued by Canada form part of covered business and have been deducted at market value within EEV. The Canada subordinated liability is owned by a non-covered subsidiary of the Group, where the asset is valued on an amortised cost basis. Total Group EEV has been adjusted to exclude the difference between the market value and the amortised cost value of the Canada subordinated liability.

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

Foreign exchange

Embedded value and other items within the statement of financial position denominated in foreign currencies have been translated to Sterling using the appropriate closing exchange rates. NBC and other items within the income statement have been translated using the appropriate average exchange rates. Gains and losses arising from foreign exchange differences on consolidation are presented separately within the EEV consolidated statement of comprehensive income. Details of the exchange rates applied are provided in Note 3.15 – Foreign exchange.

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4 Supplementary information

4.1 Analysis of Group operating profit by segment

2011	UK £m	Global investment management[1] £m	Canada £m	International £m	Other £m	Elimination £m	Total £m
Fee based revenue	625	383	166	221	-	(172)	**1,223**
Spread/risk margin	75	-	281	-	-	-	**356**
Total income	**700**	**383**	**447**	**221**	**-**	**(172)**	**1,579**
Acquisition expenses	(169)	-	(61)	(40)	-	-	**(270)**
Maintenance expenses	(332)	(227)	(201)	(132)	(3)	172	**(723)**
Investment for transformation and growth	(53)	(31)	(36)	(12)	(5)	-	**(137)**
Group corporate centre costs	-	-	-	-	(45)	-	**(45)**
Capital management	10	-	38	1	25	-	**74**
India and China JV businesses	-	-	-	2	-	-	**2**
Other	64	-	-	-	-	-	**64**
Operating profit/(loss) before tax from continuing operations	**220**	**125**	**187**	**40**	**(28)**	**-**	**544**
Tax on operating profit	(16)	(30)	(31)	(8)	(2)	-	**(87)**
Operating profit/(loss) after tax from continuing operations	**204**	**95**	**156**	**32**	**(30)**	**-**	**457**
Non-operating items	(95)	(4)	(74)	(16)	(25)	-	**(214)**
Tax on non-operating items	26	1	19	3	6	-	**55**
IFRS profit/(loss) for the year from continuing operations	**135**	**92**	**101**	**19**	**(49)**	**-**	**298**
Profit from discontinued operations	-	-	-	-	-	-	**-**
IFRS profit/(loss) after tax attributable to equity holders	**135**	**92**	**101**	**19**	**(49)**	**-**	**298**
Other movements in equity							**(240)**
Total movements in equity							**58**
Opening IFRS shareholder net assets							**3,903**
Closing IFRS shareholder net assets							**3,961**

[1] Global investment management fee based revenue includes share of profits from HDFC Asset Management Company Limited.

2010	UK £m	Global investment management[1] £m	Canada £m	International £m	Other £m	Elimination £m	Total £m
Fee based revenue	593	331	150	212	-	(155)	**1,131**
Spread/risk margin	148	-	222	-	-	-	**370**
Total income	**741**	**331**	**372**	**212**	**-**	**(155)**	**1,501**
Acquisition expenses	(172)	-	(64)	(31)	-	-	**(267)**
Maintenance expenses	(312)	(194)	(193)	(129)	-	155	**(673)**
Investment for transformation and growth	(61)	(34)	(35)	(15)	(4)	-	**(149)**
Group corporate centre costs	-	-	-	-	(50)	-	**(50)**
Capital management	(21)	-	30	1	17	-	**27**
India and China JV businesses	-	-	-	(23)	-	-	**(23)**
Other	59	-	-	-	-	-	**59**
Operating profit/(loss) before tax from continuing operations	**234**	**103**	**110**	**15**	**(37)**	**-**	**425**
Tax on operating profit	(36)	(27)	(20)	(8)	2	-	**(89)**
Operating profit/(loss) after tax from continuing operations	**198**	**76**	**90**	**7**	**(35)**	**-**	**336**
Non-operating items	33	3	78	(3)	(26)	-	**85**
Tax on non-operating items	9	-	(23)	-	5	-	**(9)**
IFRS profit/(loss) for the year from continuing operations	**240**	**79**	**145**	**4**	**(56)**	**-**	**412**
Profit from discontinued operations	20	-	-	-	-	-	**20**
IFRS profit/(loss) after tax attributable to equity holders	**260**	**79**	**145**	**4**	**(56)**	**-**	**432**
Other movements in equity							**14**
Total movements in equity							**446**
Opening IFRS shareholder net assets							**3,457**
Closing IFRS shareholder net assets							**3,903**

[1] Global investment management fee based revenue includes share of profits from HDFC Asset Management Company Limited.

4.2 EEV and EEV operating profit

2011	Covered UK (and HWPF TVOG) £m	Covered Canada £m	Covered International £m	Total non-covered £m	Group elimination £m	Total £m	Pence per share p
Opening EEV	**3,581**	**1,758**	**732**	**1,205**	**45**	**7,321**	**322**
Opening adjustments	-	-	-	-	-	-	
Adjusted opening EEV	**3,581**	**1,758**	**732**	**1,205**	**45**	**7,321**	
New business contribution	204	73	58	-	-	**335**	
Contributions from in-force business	257	251	46	-	-	**554**	
Non-covered business	-	-	-	100	-	**100**	
EEV operating profit before tax from continuing operations	**461**	**324**	**104**	**100**	**-**	**989**	
Tax on EEV operating profit	(115)	(80)	(26)	(44)	-	**(265)**	
EEV operating profit after tax from continuing operations	**346**	**244**	**78**	**56**	**-**	**724**	**31**
EEV non-operating (loss)/profit after tax and EEV profit after tax from discontinued operations	(322)	(108)	53	(22)	44	**(355)**	(15)
EEV profit after tax	**24**	**136**	**131**	**34**	**44**	**369**	
Non-trading adjustments	(397)	(182)	4	313	-	**(262)**	
Closing EEV	**3,208**	**1,712**	**867**	**1,552**	**89**	**7,428**	**317**

2010	Covered UK (and HWPF TVOG) £m	Covered Canada £m	Covered International £m	Total non-covered £m	Group elimination £m	Total £m	Pence per share p
Opening EEV	**3,054**	**1,553**	**658**	**1,163**	**7**	**6,435**	**288**
Opening adjustments	-	-	-	-	-	**-**	
Adjusted opening EEV	**3,054**	**1,553**	**658**	**1,163**	**7**	**6,435**	
New business contribution	173	68	67	-	-	**308**	
Contributions from in-force business	255	182	26	-	-	**463**	
Non-covered business	-	-	-	16	-	**16**	
EEV operating profit before tax from continuing operations	**428**	**250**	**93**	**16**	**-**	**787**	
Tax on EEV operating profit	(117)	(64)	(21)	(47)	-	**(249)**	
EEV operating profit/(loss) after tax from continuing operations	**311**	**186**	**72**	**(31)**	**-**	**538**	**24**
EEV non-operating profit/(loss) after tax and EEV profit after tax from discontinued operations	250	(33)	21	2	38	**278**	12
EEV profit/(loss) after tax	**561**	**153**	**93**	**(29)**	**38**	**816**	
Non-trading adjustments	(34)	52	(19)	71	-	**70**	
Closing EEV	**3,581**	**1,758**	**732**	**1,205**	**45**	**7,321**	**322**

4.3 Reconciliation of operating profit to EEV capital and cash generation

2011	UK £m	Investment management £m	Canada £m	International £m	Other £m	Total £m
Operating profit/(loss) before tax from continuing operations	220	125	187	40	(28)	**544**
Tax on EEV operating profit	(16)	(30)	(31)	(8)	(2)	**(87)**
Operating profit/(loss) after tax from continuing operations	**204**	**95**	**156**	**32**	**(30)**	**457**
Impact of different treatment of assets and actuarial reserves	-	-	(11)	4	-	**(7)**
DAC and DIR[1], intangibles, tax and other	11	-	11	(34)	-	**(12)**
Look through to investment management	36	(41)	2	3	-	**-**
EEV operating capital and cash generation from continuing operations	**251**	**54**	**158**	**5**	**(30)**	**438**
EEV operating profit after tax – PVIF	138	-	82	66	-	**286**
EEV operating profit/(loss) after tax from continuing operations	**389**	**54**	**240**	**71**	**(30)**	**724**

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

2010	UK £m	Investment management £m	Canada £m	International £m	Other £m	Total £m
Operating profit/(loss) before tax from continuing operations	234	103	110	15	(37)	**425**
Tax on EEV operating profit	(36)	(27)	(20)	(8)	2	**(89)**
Operating profit/(loss) after tax from continuing operations	**198**	**76**	**90**	**7**	**(35)**	**336**
Impact of different treatment of assets and actuarial reserves	(20)	-	4	2	-	**(14)**
DAC and DIR[1], intangibles, tax and other	(6)	-	12	(41)	-	**(35)**
Look through to investment management	47	(52)	3	2	-	**-**
EEV operating capital and cash generation from continuing operations	**219**	**24**	**109**	**(30)**	**(35)**	**287**
EEV operating profit after tax – PVIF	83	-	74	94	-	**251**
EEV operating profit/(loss) after tax from continuing operations	**302**	**24**	**183**	**64**	**(35)**	**538**

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

4.4 Group assets under administration and net flows

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

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

	Opening AUA at 1 Jan 2011 £bn	Gross inflows £bn	Redemptions £bn	Net inflows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2011 £bn
Fee business						
UK[1]	76.5	10.5	(7.6)	2.9	(1.6)	77.8
Institutional pensions	15.8	3.2	(1.8)	1.4	0.3	17.5
Conventional with profits (excluding annuities)	6.6	0.2	(1.7)	(1.5)	0.2	5.3
UK total	**98.9**	**13.9**	**(11.1)**	**2.8**	**(1.1)**	**100.6**
Standard Life Investments third party[2]	71.6	12.9	(8.6)	4.3	(4.1)	71.8
Canada	14.0	2.3	(1.7)	0.6	(0.3)	14.3
International (wholly owned)	11.1	2.5	(1.1)	1.4	(0.2)	12.3
Consolidation/eliminations[3]	(32.2)	(7.7)	4.7	(3.0)	(0.5)	(35.7)
Total fee business	**163.4**	**23.9**	**(17.8)**	**6.1**	**(6.2)**	**163.3**
Spread/risk						
UK	13.4	0.5	(1.2)	(0.7)	1.7	14.4
Canada	10.1	1.1	(1.4)	(0.3)	0.5	10.3
Total spread/risk business	**23.5**	**1.6**	**(2.6)**	**(1.0)**	**2.2**	**24.7**
Assets not backing products[1]	8.1	-	-	-	0.4	8.5
Joint ventures	1.2	0.4	(0.1)	0.3	(0.3)	1.2
Non-life assets	1.4	-	-	-	0.2	1.6
Other consolidation/eliminations[3]	(0.8)	-	-	-	(0.1)	(0.9)
Group assets under administration	**196.8**	**25.9**	**(20.5)**	**5.4**	**(3.8)**	**198.4**

1 Standard Life Wealth has been disclosed separately from Individual SIPP for the first time. The 2010 comparatives have not been restated.
2 Market and other movements include the external transfer of the UK money market funds.
3 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.

4.4 Group assets under administration and net flows *continued*

Group assets under administration (summary)
12 months ended 31 December 2010

	Opening AUA at 1 Jan 2010 £bn	Gross inflows £bn	Redemptions £bn	Net inflows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2010 £bn
Fee business						
UK	66.6	9.4	(7.3)	2.1	7.5	76.2
Institutional pensions	12.0	3.6	(1.2)	2.4	1.4	15.8
Conventional with profits (excluding annuities)	6.9	0.2	(1.1)	(0.9)	0.6	6.6
UK total	**85.5**	**13.2**	**(9.6)**	**3.6**	**9.5**	**98.6**
Standard Life Investments third party	56.9	12.4	(6.2)	6.2	8.5	71.6
Canada	11.3	2.2	(1.8)	0.4	2.3	14.0
International (wholly owned)	9.1	2.2	(0.8)	1.4	0.6	11.1
Consolidation/eliminations[1]	(23.9)	(6.7)	3.0	(3.7)	(4.6)	(32.2)
Total fee business	**138.9**	**23.3**	**(15.4)**	**7.9**	**16.3**	**163.1**
Spread/risk						
UK	13.1	0.5	(1.1)	(0.6)	0.9	13.4
Canada	9.2	0.9	(1.3)	(0.4)	1.3	10.1
Total spread/risk business	**22.3**	**1.4**	**(2.4)**	**(1.0)**	**2.2**	**23.5**
Assets not backing products	7.8	-	-	-	0.6	8.4
Joint ventures	0.8	0.4	(0.1)	0.3	0.1	1.2
Non-life assets	1.6	-	-	-	(0.2)	1.4
Other consolidation/eliminations[1]	(1.3)	-	-	-	0.5	(0.8)
Group assets under administration	**170.1**	**25.1**	**(17.9)**	**7.2**	**19.5**	**196.8**

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

Group assets under administration
12 months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Opening AUA at 1 Jan 2011 £bn	Gross inflows £bn	Redemptions £bn	Net inflows £bn	Market and other movements £bn	Closing AUA at 31 Dec 2011 £bn
UK							
Individual SIPP[1]	F	14.9	3.3	(1.6)	1.7	(0.2)	16.4
Other individual pensions	F	23.6	0.7	(2.3)	(1.6)	0.6	22.6
Investment bonds	F	8.7	0.2	(1.2)	(1.0)	(0.1)	7.6
Mutual funds	F	5.3	1.8	(0.4)	1.4	(0.6)	6.1
Annuities	S/R	13.4	0.5	(1.2)	(0.7)	1.7	14.4
Legacy life	F	9.1	0.3	(1.8)	(1.5)	(0.1)	7.5
Wealth[1]	F	0.5	0.5	(0.1)	0.4	-	0.9
UK retail		**75.5**	**7.3**	**(8.6)**	**(1.3)**	**1.3**	**75.5**
Corporate pensions	F	21.0	3.9	(1.9)	2.0	(1.0)	22.0
Institutional pensions	F	15.8	3.2	(1.8)	1.4	0.3	17.5
UK corporate		**36.8**	**7.1**	**(3.7)**	**3.4**	**(0.7)**	**39.5**
Assets not backing products[1]		6.9	-	-	-	0.1	7.0
UK long-term savings		**119.2**	**14.4**	**(12.3)**	**2.1**	**0.7**	**122.0**
Canada							
Fee	F	10.7	1.6	(1.1)	0.5	(0.3)	10.9
Spread/risk	S/R	3.6	0.2	(0.4)	(0.2)	0.4	3.8
Group savings and retirement		**14.3**	**1.8**	**(1.5)**	**0.3**	**0.1**	**14.7**
Fee	F	1.7	0.5	(0.3)	0.2	-	1.9
Spread/risk	S/R	5.9	0.4	(0.6)	(0.2)	0.2	5.9
Individual insurance, savings and retirement		**7.6**	**0.9**	**(0.9)**	**-**	**0.2**	**7.8**
Group insurance	S/R	**0.6**	**0.5**	**(0.4)**	**0.1**	**(0.1)**	**0.6**
Mutual funds	F	**1.6**	**0.2**	**(0.3)**	**(0.1)**	**-**	**1.5**
Assets not backing products		**1.2**	**-**	**-**	**-**	**0.3**	**1.5**
Canada long-term savings		**25.3**	**3.4**	**(3.1)**	**0.3**	**0.5**	**26.1**
International							
Ireland	F	6.0	1.6	(0.8)	0.8	(0.2)	6.6
Germany	F	5.0	0.8	(0.3)	0.5	0.1	5.6
Hong Kong	F	0.1	0.1	-	0.1	(0.1)	0.1
Wholly owned long-term savings		**11.1**	**2.5**	**(1.1)**	**1.4**	**(0.2)**	**12.3**
Joint ventures long-term savings		**1.2**	**0.4**	**(0.1)**	**0.3**	**(0.3)**	**1.2**
International long-term savings		**12.3**	**2.9**	**(1.2)**	**1.7**	**(0.5)**	**13.5**
Total worldwide long-term savings		**156.8**	**20.7**	**(16.6)**	**4.1**	**0.7**	**161.6**
Non-life assets		**1.4**	**-**	**-**	**-**	**0.2**	**1.6**
Standard Life Investments third party assets under management[2]		**71.6**	**12.9**	**(8.6)**	**4.3**	**(4.1)**	**71.8**
Consolidation and elimination adjustments[3]		(33.0)	(7.7)	4.7	(3.0)	(0.6)	(36.6)
Group assets under administration		**196.8**	**25.9**	**(20.5)**	**5.4**	**(3.8)**	**198.4**
Group assets under administration managed by:							
Standard Life Group entities		164.0					163.3
Other third party managers		32.8					35.1
Total		**196.8**					**198.4**

1 Standard Life Wealth has been disclosed separately from Individual SIPP for the first time. The 2010 comparatives have not been restated.
2 Market and other movements include the external transfer of the UK money market funds.
3 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.

4.4 Group assets under administration and net flows *continued*

Long-term savings operations net flows (regulatory basis)
12 months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Gross inflows 12 months to 31 Dec 2011 £m	Redemptions 12 months to 31 Dec 2011 £m	Net inflows 12 months to 31 Dec 2011 £m	Gross inflows 12 months to 31 Dec 2010 £m	Redemptions 12 months to 31 Dec 2010 £m	Net inflows 12 months to 31 Dec 2010 £m
UK							
Individual SIPP[1,2]	F	3,329	(1,596)	1,733	3,436	(1,493)	1,943
Other individual pensions	F	748	(2,371)	(1,623)	827	(2,486)	(1,659)
Investment bonds	F	203	(1,183)	(980)	247	(1,054)	(807)
Mutual funds[1]	F	1,790	(406)	1,384	1,647	(355)	1,292
Annuities	S/R	459	(1,134)	(675)	491	(1,133)	(642)
Protection	S/R	76	(52)	24	85	(57)	28
Legacy life	F	294	(1,876)	(1,582)	345	(1,333)	(988)
Wealth[2]	F	453	(47)	406	n/a	n/a	n/a
UK retail		7,352	(8,665)	(1,313)	7,078	(7,911)	(833)
Corporate pensions[1]	F	3,904	(1,880)	2,024	2,994	(1,604)	1,390
Institutional pensions	F	3,209	(1,795)	1,414	3,631	(1,191)	2,440
UK corporate		7,113	(3,675)	3,438	6,625	(2,795)	3,830
UK long-term savings[3]		14,465	(12,340)	2,125	13,703	(10,706)	2,997
Canada							
Fee	F	1,626	(1,096)	530	1,483	(1,063)	420
Spread/risk	S/R	229	(435)	(206)	176	(403)	(227)
Group savings and retirement		1,855	(1,531)	324	1,659	(1,466)	193
Fee	F	540	(341)	199	438	(280)	158
Spread/risk	S/R	312	(557)	(245)	296	(624)	(328)
Individual insurance, savings and retirement		852	(898)	(46)	734	(904)	(170)
Group insurance	S/R	442	(356)	86	411	(332)	79
Mutual funds[1]	F	218	(329)	(111)	313	(352)	(39)
Canada long-term savings		3,367	(3,114)	253	3,117	(3,054)	63
International							
Ireland	F	1,582	(761)	821	1,349	(638)	711
Germany	F	823	(259)	564	796	(130)	666
Hong Kong	F	81	(18)	63	43	(8)	35
Wholly owned long-term savings		2,486	(1,038)	1,448	2,188	(776)	1,412
Joint ventures long-term savings[4]		415	(140)	275	378	(124)	254
International long-term savings		2,901	(1,178)	1,723	2,566	(900)	1,666
Other consolidation/eliminations[2]		(85)	8	(77)	n/a	n/a	n/a
Total worldwide long-term savings		20,648	(16,624)	4,024	19,386	(14,660)	4,726

1 The mutual funds net flows are also included within mutual funds net flows in the third party investment operations. In addition, an element of the UK non-insured SIPP is included within UK mutual funds net flows in the third party investment operations.

2 Standard Life Wealth has been disclosed separately from Individual SIPP for the first time in 2011 and an elimination line has been added to remove the double count between Wealth and Ireland. The 2010 comparatives have not been restated.

3 UK long-term savings include a total net outflow of £2,341m in relation to conventional with profits business (2010: net outflow £1,778m). Of this, a net outflow of £839m is in relation to annuities business (2010: net outflow £855m).

4 Includes net flows in respect of Standard Life's share of the India and China JV businesses.

Long-term savings operations net flows (regulatory basis)
Three months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Gross inflows 3 months to 31 Dec 2011 £m	Redemptions 3 months to 31 Dec 2011 £m	Net inflows 3 months to 31 Dec 2011 £m	Gross inflows 3 months to 31 Dec 2010 £m	Redemptions 3 months to 31 Dec 2010 £m	Net inflows 3 months to 31 Dec 2010 £m
UK							
Individual SIPP[1,2]	F	687	(375)	312	795	(356)	439
Other individual pensions	F	140	(525)	(385)	154	(565)	(411)
Investment bonds	F	36	(291)	(255)	67	(268)	(201)
Mutual funds[1]	F	316	(101)	215	453	(23)	430
Annuities	S/R	119	(283)	(164)	98	(282)	(184)
Protection	S/R	19	(14)	5	22	(14)	8
Legacy life	F	68	(502)	(434)	82	(331)	(249)
Wealth[2]	F	126	(14)	112	n/a	n/a	n/a
UK retail		1,511	(2,105)	(594)	1,671	(1,839)	(168)
Corporate pensions[1]	F	771	(368)	403	643	(362)	281
Institutional pensions	F	746	(439)	307	955	(327)	628
UK corporate		1,517	(807)	710	1,598	(689)	909
UK long-term savings[3]		3,028	(2,912)	116	3,269	(2,528)	741
Canada							
Fee	F	427	(233)	194	380	(336)	44
Spread/risk	S/R	75	(107)	(32)	50	(103)	(53)
Group savings and retirement		502	(340)	162	430	(439)	(9)
Fee	F	146	(92)	54	129	(89)	40
Spread/risk	S/R	77	(146)	(69)	96	(156)	(60)
Individual insurance, savings and retirement		223	(238)	(15)	225	(245)	(20)
Group insurance	S/R	112	(89)	23	104	(86)	18
Mutual funds[1]	F	51	(75)	(24)	65	(84)	(19)
Canada long-term savings		888	(742)	146	824	(854)	(30)
International							
Ireland	F	420	(249)	171	458	(214)	244
Germany	F	241	(110)	131	237	(37)	200
Hong Kong	F	20	(2)	18	20	(3)	17
Wholly owned long-term savings		681	(361)	320	715	(254)	461
Joint ventures long-term savings[4]		99	(31)	68	102	(41)	61
International long-term savings		780	(392)	388	817	(295)	522
Other consolidation/eliminations[2]		(14)	3	(11)	n/a	n/a	n/a
Total worldwide long-term savings		4,682	(4,043)	639	4,910	(3,677)	1,233

1 The mutual funds net flows are also included within mutual funds net flows in the third party investment operations. In addition, an element of the UK non-insured SIPP is included within UK mutual funds net flows in the third party investment operations.

2 Standard Life Wealth has been disclosed separately from Individual SIPP for the first time in 2011 and an elimination line has been added to remove the double count between Wealth and Ireland. The 2010 comparatives have not been restated.

3 UK long-term savings include a total net outflow of £622m in relation to conventional with profits business (2010: net outflow £449m). Of this, a net outflow of £207m is in relation to annuities business (2010: net outflow £209m).

4 Includes net flows in respect of Standard Life's share of the India and China JV businesses.

4.4 Group assets under administration and net flows *continued*

Long-term savings operations net flows (regulatory basis)
15 months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Net flows 3 months to 31 Dec 2011 £m	3 months to 30 Sep 2011 £m	3 months to 30 Jun 2011 £m	3 months to 31 Mar 2011 £m	3 months to 31 Dec 2010 £m
UK						
Individual SIPP[1]	F	**312**	423	487	511	439
Other individual pensions	F	**(385)**	(407)	(359)	(472)	(411)
Investment bonds	F	**(255)**	(243)	(233)	(249)	(201)
Mutual funds	F	**215**	326	434	409	430
Annuities	S/R	**(164)**	(164)	(175)	(172)	(184)
Protection	S/R	**5**	6	8	5	8
Legacy life	F	**(434)**	(502)	(387)	(259)	(249)
Wealth[1]	F	**112**	101	80	113	n/a
UK retail		**(594)**	(460)	(145)	(114)	(168)
Corporate pensions	F	**403**	356	706	559	281
Institutional pensions	F	**307**	295	518	294	628
UK corporate		**710**	651	1,224	853	909
UK long-term savings		**116**	191	1,079	739	741
Canada						
Fee	F	**194**	89	90	157	44
Spread/risk	S/R	**(32)**	(58)	(58)	(58)	(53)
Group savings and retirement		**162**	31	32	99	(9)
Fee	F	**54**	52	45	48	40
Spread/risk	S/R	**(69)**	(76)	(62)	(38)	(60)
Individual insurance, savings and retirement		**(15)**	(24)	(17)	10	(20)
Group insurance	S/R	**23**	20	22	21	18
Mutual funds	F	**(24)**	(19)	(21)	(47)	(19)
Canada long-term savings		**146**	8	16	83	(30)
International						
Ireland	F	**171**	114	242	294	244
Germany	F	**131**	141	152	140	200
Hong Kong	F	**18**	15	15	15	17
Wholly owned long-term savings		**320**	270	409	449	461
Joint ventures long-term savings[2]		**68**	67	38	102	61
International long-term savings		**388**	337	447	551	522
Other consolidation/eliminations[1]		**(11)**	(28)	(14)	(24)	-
Total worldwide long-term savings		**639**	508	1,528	1,349	1,233

[1] Standard Life Wealth has been disclosed separately from Individual SIPP for the first time in 2011 and an elimination line has been added to remove the double count between Wealth and Ireland. The 2010 comparatives have not been restated.

[2] Includes net flows in respect of Standard Life's share of the India and China JV businesses.

4.5 Analysis of new business

Long-term savings operations new business
12 months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Single premiums 12 months to 31 Dec 2011 £m	Single premiums 12 months to 31 Dec 2010 £m	New regular premiums 12 months to 31 Dec 2011 £m	New regular premiums 12 months to 31 Dec 2010 £m	PVNBP 12 months to 31 Dec 2011 £m	PVNBP 12 months to 31 Dec 2010 £m	Change[3] %	Change in constant currency[3] %
UK									
Individual SIPP[1]	F	**3,278**	3,201	**77**	69	**3,570**	3,461	**3%**	**3%**
Other individual pensions	F	**320**	338	**22**	23	**366**	397	**(8%)**	**(8%)**
Investment bonds	F	**179**	202	**-**	-	**179**	202	**(11%)**	**(11%)**
Mutual funds	F	**1,794**	1,625	**24**	23	**1,972**	1,795	**10%**	**10%**
Annuities	S/R	**312**	341	**-**	-	**312**	341	**(9%)**	**(9%)**
Protection	S/R	**-**	-	**-**	1	**1**	1	**-**	**-**
UK retail		**5,883**	5,707	**123**	116	**6,400**	6,197	**3%**	**3%**
Corporate pensions[1]	F	**1,889**	1,225	**620**	508	**4,607**	3,287	**40%**	**40%**
Institutional pensions	F	**3,027**	3,472	**1**	-	**3,028**	3,472	**(13%)**	**(13%)**
UK corporate		**4,916**	4,697	**621**	508	**7,635**	6,759	**13%**	**13%**
UK long-term savings		**10,799**	10,404	**744**	624	**14,035**	12,956	**8%**	**8%**
Canada									
Fee	F	**458**	465	**33**	68	**937**	1,297	**(28%)**	**(29%)**
Spread/risk	S/R	**99**	51	**4**	10	**164**	169	**(3%)**	**(4%)**
Group savings and retirement		**557**	516	**37**	78	**1,101**	1,466	**(25%)**	**(26%)**
Fee	F	**540**	438	**-**	-	**540**	438	**23%**	**22%**
Spread/risk	S/R	**203**	186	**4**	4	**243**	224	**8%**	**7%**
Individual insurance, savings and retirement		**743**	624	**4**	4	**783**	662	**18%**	**17%**
Group insurance	S/R	**4**	2	**53**	38	**826**	607	**36%**	**34%**
Mutual funds	F	**218**	313	**-**	-	**218**	313	**(30%)**	**(31%)**
Canada long-term savings		**1,522**	1,455	**94**	120	**2,928**	3,048	**(4%)**	**(5%)**
International									
Ireland	F	**1,496**	1,260	**8**	9	**1,531**	1,298	**18%**	**17%**
Germany	F	**47**	39	**29**	24	**424**	337	**26%**	**25%**
Hong Kong	F	**24**	14	**49**	44	**320**	294	**9%**	**13%**
Wholly owned long-term savings		**1,567**	1,313	**86**	77	**2,275**	1,929	**18%**	**18%**
India[2]		**46**	34	**89**	104	**414**	444	**(7%)**	**(1%)**
China[2]		**36**	40	**11**	15	**86**	106	**(19%)**	**(20%)**
Joint ventures long-term savings		**82**	74	**100**	119	**500**	550	**(9%)**	**(5%)**
International long-term savings		**1,649**	1,387	**186**	196	**2,775**	2,479	**12%**	**13%**
Total worldwide long-term savings		**13,970**	13,246	**1,024**	940	**19,738**	18,483	**7%**	**7%**

1 Included within non-insured SIPP is an element which is also included within UK mutual funds net flows in the third party investment operations figure.
2 Standard Life's share of the joint venture company's new business.
3 % change is calculated on the figures rounded to millions.
4 New business gross sales for overseas operations are calculated using average exchange rates. The principal average rates for the twelve months to 31 December 2011 were £1: C$1.58 (2010: £1: C$1.60) and £1: €1.15 (2010: £1: €1.17).

4.5 Analysis of new business *continued*

Investment operations
12 months ended 31 December 2011

		Opening AUM at 1 Jan 2011 £m	Gross inflows £m	Redemptions £m	Net inflows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2011 £m
UK	Mutual funds[1,2]	9,179	4,346	(2,703)	1,643	(12)	1,631	10,810
	Private equity	3,437	87	(136)	(49)	(78)	(127)	3,310
	Segregated funds	13,979	262	(1,486)	(1,224)	493	(731)	13,248
	Pooled property funds	1,702	296	-	296	(45)	251	1,953
Total UK		**28,297**	**4,991**	**(4,325)**	**666**	**358**	**1,024**	**29,321**
Canada	Mutual funds[1,3]	1,789	219	(332)	(113)	(29)	(142)	1,647
	Separate mandates	3,443	577	(510)	67	305	372	3,815
Total Canada		**5,232**	**796**	**(842)**	**(46)**	**276**	**230**	**5,462**
International	Europe	3,806	1,842	(708)	1,134	376	1,510	5,316
	India[4]	3,392	306	-	306	(987)	(681)	2,711
	Other	1,131	144	(9)	135	(257)	(122)	1,009
Total International		**8,329**	**2,292**	**(717)**	**1,575**	**(868)**	**707**	**9,036**
Total worldwide investment products excluding money market and related funds		**41,858**	**8,079**	**(5,884)**	**2,195**	**(234)**	**1,961**	**43,819**
	UK money market funds[5]	3,953	-	-	-	(3,901)	(3,901)	52
	India cash funds[5]	1,435	(120)	-	(120)	(93)	(213)	1,222
Total worldwide investment products		**47,246**	**7,959**	**(5,884)**	**2,075**	**(4,228)**	**(2,153)**	**45,093**

Total third party assets under management comprise the investment business noted above together with third party insurance contracts. New business relating to third party insurance contracts is disclosed as insurance business for reporting purposes. An analysis of total third party assets under management is shown below.

	Opening AUM at 1 Jan 2011 £m	Gross inflows £m	Redemptions £m	Net inflows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2011 £m
Third party investment products	47,246	7,959	(5,884)	2,075	(4,228)	(2,153)	45,093
Third party insurance contracts (new business classified as insurance products)	24,367	4,959	(2,754)	2,205	112	2,317	26,684
Total third party assets under management	**71,613**	**12,918**	**(8,638)**	**4,280**	**(4,116)**	**164**	**71,777**
UK money market funds and India cash funds[5]	5,388	(120)	-	(120)	(3,994)	(4,114)	1,274
Total third party assets under management excluding money market and related funds	**66,225**	**13,038**	**(8,638)**	**4,400**	**(122)**	**4,278**	**70,503**
Standard Life Investments – total assets under management	**156,874**						**154,876**

1 Included within mutual funds are cash inflows which have also been reflected in UK and Canada mutual funds new business sales and net flows for UK mutual funds, an element of UK non-insured SIPP and Canada mutual funds.

2 In the 12 months to 31 December 2010, UK mutual funds gross inflows were £3,838m and net inflows were £2,221m.

3 In the 12 months to 31 December 2010, Canada mutual funds gross inflows were £309m and net outflows were £38m.

4 International gross inflows include India where, due to the nature of the Indian investment sales market, the new business is shown as the net of sales less redemptions. India cash funds are included as money market and related funds in the table.

5 Due to the nature of the UK money market funds and India cash funds, the flows are calculated using average net client balances. Other movements are derived as the difference between these average net inflows and the movement in the opening and closing AUM. Market and other movements include the transfer of UK money market funds in Global Liquidity Fund, as a result of Standard Life Investments withdrawal from constant net asset value money market funds.

6 Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2011. Investment fund flows are translated at average exchange rates. Gains and losses arising from the translation of funds denominated in foreign currencies are included in the market and other movements column. The principal closing exchange rates used as at 31 December 2011 were £1: C$1.58 (31 December 2010: £1: C$1.56) and £1:€1.20 (31 December 2010: £1: €1.17). The principal average exchange rates for the 12 months to 31 December 2011 were £1: C$1.58 (2010: £1: C$1.60) and £1: €1.15 (2010: £1: €1.17).

Long-term savings operations new business
Three months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	Single premiums 3 months to 31 Dec 2011 £m	Single premiums 3 months to 31 Dec 2010 £m	New regular premiums 3 months to 31 Dec 2011 £m	New regular premiums 3 months to 31 Dec 2010 £m	PVNBP[5] 3 months to 31 Dec 2011 £m	PVNBP[5] 3 months to 31 Dec 2010 £m	Change[3] %	Change in constant currency[3] %
UK									
Individual SIPP[1]	F	674	723	14	15	730	770	(5%)	(5%)
Other individual pensions	F	39	39	6	5	53	54	(2%)	(2%)
Investment bonds	F	31	62	-	-	31	62	(50%)	(50%)
Mutual funds	F	339	449	4	5	376	483	(22%)	(22%)
Annuities	S/R	82	60	-	-	82	60	37%	37%
Protection	S/R	-	-	-	-	-	-	-	-
UK retail		1,165	1,333	24	25	1,272	1,429	(11%)	(11%)
Corporate pensions[1]	F	248	174	95	87	666	502	33%	33%
Institutional pensions	F	711	875	-	-	711	875	(19%)	(19%)
UK corporate		959	1,049	95	87	1,377	1,377	-	-
UK long-term savings		2,124	2,382	119	112	2,649	2,806	(6%)	(6%)
Canada									
Fee	F	137	103	9	7	248	185	34%	35%
Spread/risk	S/R	41	17	-	1	54	26	108%	105%
Group savings and retirement		178	120	9	8	302	211	43%	44%
Fee	F	146	129	-	-	146	129	13%	14%
Spread/risk	S/R	49	67	-	1	53	76	(30%)	(31%)
Individual insurance, savings and retirement		195	196	-	1	199	205	(3%)	(3%)
Group insurance	S/R	1	-	10	11	145	174	(17%)	(17%)
Mutual funds	F	51	65	-	-	51	65	(22%)	(22%)
Canada long-term savings		425	381	19	20	697	655	6%	6%
International									
Ireland	F	392	423	2	3	403	438	(8%)	(8%)
Germany	F	22	20	12	7	185	113	64%	64%
Hong Kong	F	3	7	13	18	92	124	(26%)	(24%)
Wholly owned long-term savings		417	450	27	28	680	675	1%	1%
India[2]		9	11	21	21	96	95	1%	16%
China[2]		8	12	3	5	20	41	(51%)	(53%)
Joint ventures long-term savings		17	23	24	26	116	136	(15%)	(6%)
International long-term savings		434	473	51	54	796	811	(2%)	-
Total worldwide long-term savings		2,983	3,236	189	186	4,142	4,272	(3%)	(3%)

1 Included within non-insured SIPP is an element which is also included within UK mutual funds net flows in the third party investment operations figures.
2 Standard Life's share of the joint venture company's new business.
3 % change is calculated on the figures rounded to millions.
4 New business gross sales for overseas operations are calculated using average exchange rates. The principal average rates for the 12 months to 31 December 2011 were £1: C$1.58 (2010: £1: C$1.60) and £1: €1.15 (2010: £1: €1.17).
5 The PVNBP figures for the three months to 31 December 2011 and to 31 December 2010 exclude the full impact of the year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was an increase in total PVNBP of £91m in the final PVNBP results published in the 2011 Preliminary results (2010: increase £171m).

4.5 Analysis of new business *continued*

Investment operations
Three months ended 31 December 2011

		Opening AUM at 1 Oct 2011 £m	Gross inflows £m	Redemptions £m	Net inflows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2011 £m
UK	Mutual funds[1,2]	10,637	763	(688)	75	98	173	10,810
	Private equity	3,462	23	(72)	(49)	(103)	(152)	3,310
	Segregated funds	12,627	23	(97)	(74)	695	621	13,248
	Pooled property funds	1,976	60	-	60	(83)	(23)	1,953
Total UK		**28,702**	**869**	**(857)**	**12**	**607**	**619**	**29,321**
Canada	Mutual funds[1,3]	1,554	53	(78)	(25)	118	93	1,647
	Separate mandates	3,583	103	(160)	(57)	289	232	3,815
Total Canada		**5,137**	**156**	**(238)**	**(82)**	**407**	**325**	**5,462**
International	Europe	4,857	602	(155)	447	12	459	5,316
	India[4]	3,002	110	-	110	(401)	(291)	2,711
	Other	845	121	(9)	112	52	164	1,009
Total International		**8,704**	**833**	**(164)**	**669**	**(337)**	**332**	**9,036**
Total worldwide investment products excluding money market and related funds		**42,543**	**1,858**	**(1,259)**	**599**	**677**	**1,276**	**43,819**
	UK money market funds[5]	53	-	-	-	(1)	(1)	52
	India cash funds[5]	1,538	(307)	-	(307)	(9)	(316)	1,222
Total worldwide investment products		**44,134**	**1,551**	**(1,259)**	**292**	**667**	**959**	**45,093**

Total third party assets under management comprise the investment business noted above together with third party insurance contracts. New business relating to third party insurance contracts is disclosed as insurance business for reporting purposes. An analysis of total third party assets under management is shown below.

	Opening AUM at 1 Oct 2011 £m	Gross inflows £m	Redemptions £m	Net inflows £m	Market and other movements £m	Net movement in AUM £m	Closing AUM at 31 Dec 2011 £m
Third party investment products	44,134	1,551	(1,259)	292	667	959	45,093
Third party insurance contracts (new business classified as insurance products)	24,962	1,199	(651)	548	1,174	1,722	26,684
Total third party assets under management	**69,096**	**2,750**	**(1,910)**	**840**	**1,841**	**2,681**	**71,777**
UK money market funds and India cash funds[5]	1,591	(307)	-	(307)	(10)	(317)	1,274
Total third party assets under management excluding money market and related funds	**67,505**	**3,057**	**(1,910)**	**1,147**	**1,851**	**2,998**	**70,503**
Standard Life Investments - total assets under management	**149,838**						**154,876**

1 Included within mutual funds are cash inflows which have also been reflected in UK and Canada mutual funds new business sales and net flows for UK mutual funds, an element of UK non-insured SIPP and Canada mutual funds.

2 In the three months to 31 December 2010 UK mutual funds gross inflows were £1,239m and net inflows were £750m.

3 In the three months to 31 December 2010 Canada mutual funds gross inflows were £68m and net outflows were £19m.

4 International gross inflows include India where, due to the nature of the Indian investment sales market, the new business is shown as the net of sales less redemptions. India cash funds are included as money market and related funds in the table.

5 Due to the nature of the UK money market funds and India cash funds, the flows are calculated using average net client balances. Other movements are derived as the difference between these average net inflows and the movement in the opening and closing AUM.

6 Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2011. Investment fund flows are translated at average exchange rates. Gains and losses arising from the translation of funds denominated in foreign currencies are included in the market and other movements column. The principal closing exchange rates used as at 31 December 2011 were £1: C$1.58 (30 September 2011: £1: C$1.62) and £1:€1.20 (30 September 2011: £1: €1.16). The principal average exchange rates for the 12 months to 31 December 2011 were £1: C$1.58 (2010: £1: C$1.60) and £1: €1.15 (2010: £1: €1.17).

Long-term savings operations new business
15 months ended 31 December 2011

	Fee (F) – Spread/risk (S/R)	PVNBP 3 months to 31 Dec 2011[1] £m	3 months to 30 Sep 2011 £m	3 months to 30 Jun 2011 £m	3 months to 31 Mar 2011 £m	3 months to 31 Dec 2010[1] £m
UK						
Individual SIPP	F	**730**	857	978	1,006	770
Other individual pensions	F	**53**	71	155	98	54
Investment bonds	F	**31**	44	51	54	62
Mutual funds	F	**376**	455	584	568	483
Annuities	S/R	**82**	83	74	73	60
Protection	S/R	**-**	-	1	-	-
UK retail		**1,272**	1,510	1,843	1,799	1,429
Corporate pensions	F	**666**	1,028	1,536	1,294	502
Institutional pensions	F	**711**	643	802	872	875
UK corporate		**1,377**	1,671	2,338	2,166	1,377
UK long-term savings		**2,649**	3,181	4,181	3,965	2,806
Canada						
Fee	F	**248**	132	124	377	185
Spread/risk	S/R	**54**	33	22	48	26
Group savings and retirement		**302**	165	146	425	211
Fee	F	**146**	123	128	143	129
Spread/risk	S/R	**53**	59	54	77	76
Individual insurance, savings and retirement		**199**	182	182	220	205
Group insurance	S/R	**145**	195	162	324	174
Mutual funds	F	**51**	47	54	66	65
Canada long-term savings		**697**	589	544	1,035	655
International						
Ireland	F	**403**	290	386	450	438
Germany	F	**185**	81	90	72	113
Hong Kong	F	**92**	77	78	99	124
Wholly owned long-term savings		**680**	448	554	621	675
India[2]		**96**	106	62	150	95
China[2]		**20**	20	23	26	41
Joint ventures long-term savings		**116**	126	85	176	136
International long-term savings		**796**	574	639	797	811
Total worldwide long-term savings		**4,142**	4,344	5,364	5,797	4,272

1 The three month period to 31 December 2011 and to 31 December 2010 exclude the full impact of year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was an increase in total PVNBP of £91m in the final PVNBP results published in the 2011 Preliminary results (2010: increase £171m).

2 Amounts shown reflect Standard Life's share of the joint venture company's new business.

4.6 Exposure to investment property and financial assets

Group exposure to investment property and financial assets

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

As explained in Note 2.1 – Accounting policies – (a) Basis of preparation, there has been a reallocation between cash and cash equivalents and debt securities at 31 December 2010. The information presented in this Note reflects the position after this reallocation.

	Exposure				
31 December 2011	**Shareholder £m**	**Policyholder (participating) £m**	**Policyholder (unit linked) £m**	**TPICF and NCI[1] £m**	**Total £m**
Investments in associates and joint ventures	15	-	27	13	**55**
Investment property	831	2,181	4,418	1,313	**8,743**
Equity securities	571	9,140	46,363	2,457	**58,531**
Debt securities	11,511	30,028	21,879	3,758	**67,176**
Loans	2,903	179	137	-	**3,219**
Other financial assets	536	1,796	1,357	374	**4,063**
Cash and cash equivalents	1,085	1,657	5,122	1,323	**9,187**
Total	**17,452**	**44,981**	**79,303**	**9,238**	**150,974**

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

	Exposure				
31 December 2010	**Shareholder £m**	**Policyholder (participating) £m**	**Policyholder (unit linked) £m**	**TPICF and NCI[1] £m**	**Total £m**
Investments in associates and joint ventures	32	1,557	1,143	117	**2,849**
Investment property	862	2,297	4,147	1,104	**8,410**
Equity securities	564	9,335	48,449	1,959	**60,307**
Debt securities	10,594	29,884	18,596	2,290	**61,364**
Loans	2,823	207	106	-	**3,136**
Other financial assets[2]	960	959	935	232	**3,086**
Cash and cash equivalents	1,623	221	3,538	423	**5,805**
Total	**17,458**	**44,460**	**76,914**	**6,125**	**144,957**

1 Third party interest in consolidated funds and non-controlling interests.
2 Adjusted to remove reinsurance assets.

Shareholder exposure to investment property and financial assets

The total shareholder exposure to investment property and financial assets of £17.5bn (2010: £17.5bn) includes £11.4bn (2010: £10.8bn) of assets held by non-segregated funds of the Group's Canada operations. The effective exposure of shareholders to assets of the non-segregated funds in Canada was significantly lower than the nominal level of exposure presented below because changes in the value of assets are typically accompanied by offsetting changes in the value of related liabilities. The shareholder exposure is limited to the net impact on the shareholder surplus and the value of any guarantees which may be triggered.

	Canada non-segregated funds exposure		Other shareholder exposure		Total shareholder exposure	
	31 Dec 2011 £m	31 Dec 2010 £m	**31 Dec 2011 £m**	31 Dec 2010 £m	**31 Dec 2011 £m**	31 Dec 2010 £m
Investments in associates and joint ventures	**15**	21	**-**	11	**15**	32
Investment property	**831**	862	**-**	-	**831**	862
Equity securities	**412**	459	**159**	105	**571**	564
Debt securities	**6,836**	6,359	**4,675**	4,235	**11,511**	10,594
Loans	**2,902**	2,811	**1**	12	**2,903**	2,823
Other financial assets[1]	**163**	116	**373**	844	**536**	960
Cash and cash equivalents	**228**	184	**857**	1,439	**1,085**	1,623
Total	**11,387**	10,812	**6,065**	6,646	**17,452**	17,458

1 Comparatives have been adjusted to remove reinsurance assets.

Shareholder exposure to debt securities excluding Canada non-segregated funds consists primarily of debt securities backing annuity liabilities and subordinated debt liabilities.

Group exposure to debt securities

The Group's exposure to debt securities has been further analysed in the tables below. The high quality of the debt security portfolio has been maintained, with 48% of debt securities rated AAA (2010: 51%) and 95% (2010: 94%) being rated as investment grade.

	Exposure				
31 December 2011	**Shareholder £m**	**Policyholder (participating) £m**	**Policyholder (unit linked) £m**	**TPICF and NCI[1] £m**	**Total £m**
Government, provincial and municipal	4,028	19,695	9,408	709	**33,840**
Banks	1,880	3,442	4,817	1,436	**11,575**
Other financial institutions	1,534	4,015	2,564	348	**8,461**
Other corporate	3,829	2,451	4,692	1,247	**12,219**
Other	240	425	398	18	**1,081**
Total	**11,511**	**30,028**	**21,879**	**3,758**	**67,176**

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

	Exposure				
31 December 2010	**Shareholder £m**	**Policyholder (participating) £m**	**Policyholder (unit linked) £m**	**TPICF and NCI[1] £m**	**Total £m**
Government, provincial and municipal	4,063	18,380	8,173	1,024	**31,640**
Banks	1,616	3,895	3,491	111	**9,113**
Other financial institutions	1,664	4,118	2,572	598	**8,952**
Other corporate	3,045	3,167	4,016	552	**10,780**
Other	206	324	344	5	**879**
Total	**10,594**	**29,884**	**18,596**	**2,290**	**61,364**

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

4.6 Exposure to investment property and financial assets *continued*

Shareholder exposure to debt securities

At 31 December 2011, total shareholder exposure to debt securities was £11,511m (2010: £10,594m), of which 96% (2010: 95%) was rated as investment grade, showing the high quality of the debt securities held.

Shareholder exposure to debt securities by credit rating

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
AAA	1,117	1,166	147	82	143	421	307	290	166	135	1,880	2,094
AA	1,405	1,519	729	1,002	378	382	352	232	-	-	2,864	3,135
A	1,501	1,378	893	483	650	494	2,384	1,928	-	-	5,428	4,283
BBB	-	-	70	36	54	16	727	517	-	-	851	569
Below BBB or not rated	5	-	41	13	309	351	59	78	74	71	488	513
Total	4,028	4,063	1,880	1,616	1,534	1,664	3,829	3,045	240	206	11,511	10,594

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

Shareholder exposure to debt securities by country

	Government, Provincial and Municipal[1]		Banks		Other financial institutions		Other corporate		Other[2]		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK	384	365	482	453	824	1,007	512	320	74	63	2,276	2,208
Canada	3,610	3,631	278	198	513	433	2,307	1,986	-	-	6,708	6,248
Australia	-	-	12	11	5	6	1	-	-	-	18	17
Austria	-	2	-	-	-	-	-	-	-	-	-	2
Belgium	-	3	1	-	-	-	1	-	-	-	2	3
Denmark	-	-	66	79	-	-	17	15	-	-	83	94
Finland	-	-	50	-	-	-	-	-	-	-	50	-
France	-	5	103	291	2	1	315	244	-	-	420	541
Germany	24	27	104	66	3	1	250	154	-	-	381	248
Greece	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	2	1	3	73	2	-	-	-	7	74
Italy	-	12	24	45	-	1	67	53	-	-	91	111
Japan	-	-	50	-	27	8	5	-	-	-	82	8
Mexico	-	-	-	-	-	-	43	-	-	-	43	-
Netherlands	-	3	182	133	1	21	15	12	-	-	198	169
Norway	-	-	52	1	-	-	31	27	-	-	83	28
Portugal	-	-	-	-	-	-	1	-	-	-	1	-
Spain	-	3	17	86	-	-	39	23	-	-	56	112
Sweden	-	-	97	61	-	-	28	26	-	-	125	87
Switzerland	-	-	129	-	11	-	12	10	-	-	152	10
US	7	5	228	159	145	98	177	167	-	-	557	429
Other	3	7	3	32	-	15	6	8	166	143	178	205
Total	4,028	4,063	1,880	1,616	1,534	1,664	3,829	3,045	240	206	11,511	10,594

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

At 31 December 2011 the shareholder exposure to government securities issued by peripheral European countries was £nil (2010: £15m).

Shareholder exposure to loans

Shareholders are directly exposed to loans of £2.9bn (2010: £2.8bn) which primarily comprise the Canadian non-segregated funds commercial mortgage book. This mortgage book is deemed to be of very high quality.

	31 Dec 2011 £m	31 Dec 2010 £m
Canada non-segregated funds commercial mortgage book	2,902	2,811
Other	1	12
Total	2,903	2,823

The Canadian mortgage book has an average loan to value of 44% (2010: 45%).

4.7 Fair value hierarchy of financial instruments

To provide further information on the approach used to determine the fair value of certain financial assets and derivative financial liabilities measured as at fair value on the Group's IFRS statement of financial position, the fair value of these financial instruments has been categorised below to reflect the following fair value hierarchy:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Fair values measured using inputs that are not based on observable market data (unobservable inputs)

As explained in Note 2.1 – Accounting policies – (a) Basis of preparation, there has been a reallocation between cash and cash equivalents and debt securities at 31 December 2010. The information presented in this Note reflects the position after this reallocation.

Total

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m
Equity securities	57,286	59,059	-	40	1,245	1,208	58,531	60,307
Debt securities	27,699	25,147	38,095	34,731	1,382	1,486	67,176	61,364
Derivative financial assets	577	435	1,635	908	-	-	2,212	1,343
Derivative financial liabilities	(434)	(95)	(668)	(829)	-	-	(1,102)	(924)
Total	85,128	84,546	39,062	34,850	2,627	2,694	126,817	122,090

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

Level 2 financial instruments principally include certain government bonds, listed or publicly quoted corporate bonds, commercial paper, certificates of deposit and derivative instruments which are not exchange traded. Corporate bonds have generally been classified as level 2 as the composite price provided by external pricing providers may include, as an input, quotes provided by some banks that are not based on actual transaction prices.

Level 3 financial instruments principally include unlisted equity securities, being predominantly interests in private equity funds, listed or publicly quoted corporate bonds for which prices are not available from external pricing providers or where such prices are considered to be stale (including some asset backed securities) or are based on single broker indicative quotes and unquoted bonds where credit spreads, being a significant input to the valuation technique, are obtained from a broker or estimated internally.

Shareholder exposure

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m
Equity securities	560	555	-	-	11	10	571	565
Debt securities	555	551	9,967	9,075	989	968	11,511	10,594
Derivative financial assets	-	-	252	298	-	-	252	298
Derivative financial liabilities	(2)	(2)	(14)	(30)	-	-	(16)	(32)
Total	1,113	1,104	10,205	9,343	1,000	978	12,318	11,425

4.7 Fair value hierarchy of financial instruments *continued*

Policyholder (participating) exposure

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m
Equity securities	8,388	8,605	-	-	752	729	9,140	9,334
Debt securities	19,861	17,969	9,887	11,543	280	371	30,028	29,883
Derivative financial assets	367	334	647	271	-	-	1,014	605
Derivative financial liabilities	(86)	(8)	(41)	(122)	-	-	(127)	(130)
Total	28,530	26,900	10,493	11,692	1,032	1,100	40,055	39,692

Policyholder (unit linked) exposure

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m
Equity securities	46,286	48,341	-	40	77	68	46,363	48,449
Debt securities	6,806	5,943	14,963	12,522	110	132	21,879	18,597
Derivative financial assets	158	72	565	263	-	-	723	335
Derivative financial liabilities	(257)	(62)	(466)	(507)	-	-	(723)	(569)
Total	52,993	54,294	15,062	12,318	187	200	68,242	66,812

Third party interest in consolidated funds and non-controlling interests exposure

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m	31 Dec 2011 £m	31 Dec 2010 £m
Equity securities	2,052	1,558	-	-	405	401	2,457	1,959
Debt securities	477	684	3,278	1,591	3	15	3,758	2,290
Derivative financial assets	52	29	171	76	-	-	223	105
Derivative financial liabilities	(89)	(23)	(147)	(170)	-	-	(236)	(193)
Total	2,492	2,248	3,302	1,497	408	416	6,202	4,161

4.8 Total expenses and operating cost base

	2011 £m	2010 £m
Total expenses per IFRS income statement	8,542	17,622
Less: Claims, commissions and changes in provisions and liabilities	(6,640)	(15,694)
Less: IFRS adjustments and amortisation	(803)	(892)
Less: Finance costs	(116)	(113)
Total operating cost base in respect of continuing operations	983	923

Movement in the operating cost base

2011	UK £m	Global investment management £m	Canada £m	International £m	Other £m	Total £m
Opening operating cost base in respect of continuing operations	**369**	**229**	**171**	**96**	**58**	**923**
Inflation[1]	11	11	5	2	1	**30**
Foreign exchange impact[2]	-	-	2	1	-	**3**
Organic growth[3]	53	18	2	11	-	**84**
Efficiency savings[4]	(40)	2	9	(8)	(8)	**(45)**
Movement in investing for transformation and growth costs[5]	(8)	(3)	1	(3)	1	**(12)**
Closing operating cost base in respect of continuing operations	**385**	**257**	**190**	**99**	**52**	**983**

2010	UK £m	Global investment management £m	Canada £m	International £m	Other £m	Total £m
Opening operating cost base	**426**	**189**	**147**	**97**	**55**	**914**
Remove costs relating to discontinued businesses	(87)	-	-	-	-	**(87)**
Opening operating cost base in respect of continuing operations	**339**	**189**	**147**	**97**	**55**	**827**
Inflation[1]	7	9	3	1	3	**23**
Foreign exchange impact[2]	-	-	16	(3)	-	**13**
Organic growth[3]	30	31	9	8	-	**78**
Efficiency savings[4]	(27)	(20)	(8)	(7)	1	**(61)**
Movement in investing for transformation and growth costs[5]	20	20	4	-	(1)	**43**
Closing operating cost base in respect of continuing operations	**369**	**229**	**171**	**96**	**58**	**923**

1 Notional level of inflation that would have impacted the operating cost base during the year. Blended rate used for staff and non-staff costs of 3.3% for 2011 (2010: 2.5%).
2 Adjustment to opening cost base as a result of movement in the average exchange rate.
3 Movement in the cost base implied by the growth of the organisation – a combination of PVNBP and policies in-force movements used for the life and pensions businesses and assets under management used for Standard Life Investments.
4 Difference between the movement in the cost base implied by the organic growth calculation and the actual change that has taken place, plus realised savings from cost initiatives and other reductions.
5 Movements in the operating cost base, which are specifically identifiable and relate to investing for transformation and growth.

4.9 Investment for transformation and growth

	2011 £m	2010 £m	Movement £m
Investment in operating cost base	**137**	149	**(12)**
Investment capitalised	**36**	36	**-**
Additional investment in joint venture businesses	**23**	16	**7**
Total investment for transformation and growth	**196**	201	**(5)**

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