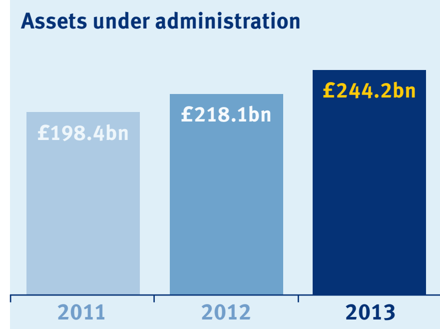
# Annual Report and Accounts 2013

## Standard Life plc

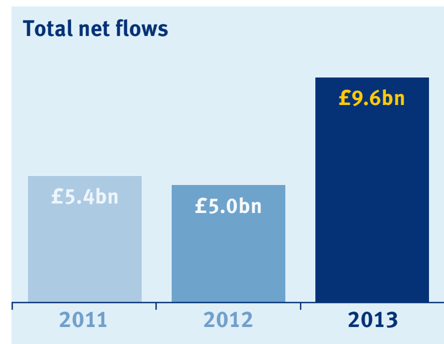
# Group financial highlights

### Assets under administration



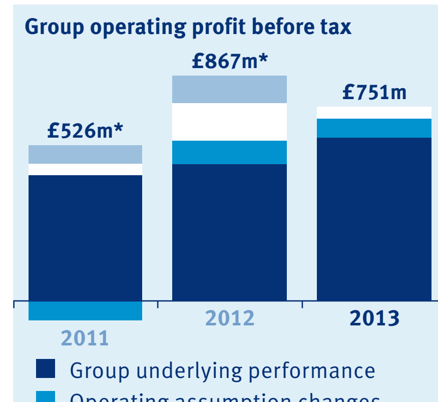

As a long-term savings and investments business, **AUA** is a key driver of income and therefore shareholder value. AUA was up 12% to a record £244.2bn.

### Total net flows




**Total net flows** represent our customers' premiums and deposits less the redemptions that they make. Positive net flows are key to growing AUA. Total net flows almost doubled to a record £9.6bn.

### Group operating profit before tax

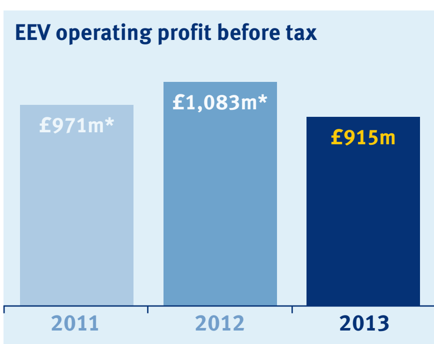



- Group underlying performance
- Operating assumption changes
- Canada specific management actions
- Other specific items

**Group operating profit before tax** is a measure of our ability to deliver long-term returns for our shareholders and provides an indication of our dividend paying capability. This reduced by 13% to £751m, due to a particularly strong prior year which included significant management actions in Canada and the £96m benefit from the UK professional indemnity insurance claim.

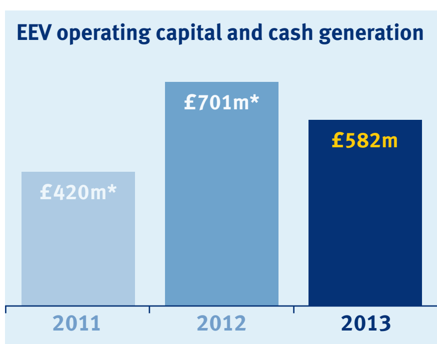
Group underlying performance increased by 19% to £638m (2012: £534m) and business unit underlying performance increased by 25% to £704m (2012: £561m). 2013 benefited from a strong performance in Standard Life Investments and the UK.

### EEV operating profit before tax




**EEV operating profit before tax** measures our ability to effectively manage our existing book of business and to write profitable new business. EEV profitability decreased by 16% to £915m, with 2012 including significant benefit from one-off items.

### EEV operating capital and cash generation




**EEV operating capital and cash generation** reflects our ability to generate capital and cash. This enables further investment in the business and the payment of dividends to our shareholders. This decreased by 17% to £582m due to costs associated with increased sales and lower benefit from one-off items.

## 15.8 pence per share

Full year dividend (subject to shareholder approval)

## £466m

IFRS profit after tax attributable to equity holders - 30% decrease

* Comparatives have been restated to reflect an amendment to IAS 19 Employee Benefits.

**If you want to know the definitions for these financial terms, you will find them in the glossary on pages 283 to 288.**

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## Chairman's Statement

The Chairman shares his views on our performance, and the relevant issues affecting our business and how we operate.


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## 1. Strategic report

A narrative review of the Group's performance that includes an overview from the Chief Executive and details of our individual businesses. You can also find out about our approach to risk management and sustainability.


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## 2. Governance information

Good governance is part of ensuring we operate responsibly and act in the interests of our shareholders. In this section you can find out more on our Directors' background and experience, their specific responsibilities in relation to the Annual Report and Accounts, the key parts of our governance framework and how it was implemented during 2013 as well as reports from the various Board committees. You can also find out about our approach to Directors' remuneration and the results of how our Remuneration Policy was carried out during 2013.


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## 3. Financial information

The Group's IFRS financial statements and EEV financial information which include detailed analysis of the Group's performance, assets and liabilities. You will also find additional analysis of the Group's assets under administration and net flows and the Company financial statements.


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# Chairman's statement

## Another year of good progress

I am pleased to report another year of good progress for Standard Life. Our world-class investments business has continued to deliver innovative propositions and excellent performance. We have continued to build our global presence and also maintain our leading position in the UK savings and pensions market, which is one of the most competitive and dynamic in the world. Our strong balance sheet allows us to look after the savings and pensions of around six million people across the world through our wholly-owned businesses in the UK, Canada, USA, Germany, Ireland, Hong Kong, Singapore, and Dubai. We are very conscious of the important part we play in many people's lives. It is a special responsibility to have and we strive constantly to ensure that we live up to our customers' expectations.

Our good progress has meant that we have been able to continue to grow our dividend well above the rate of inflation. During this prolonged period of low interest rates, we hope that this is welcome news to our shareholders – we attach much importance to maintaining our record of regular increases. We are recommending a final dividend of 10.58p per share. If approved, the final dividend will give a total 2013 dividend of 15.80p, an increase of 7.5% compared to the 2012 interim and final dividend. Our capital position remains one of the strongest in the industry and we expect this to be maintained as the new, EU-wide Solvency 2 regime is introduced.

Much is talked about the importance of ethics and integrity in financial services, but there is often a disconnect between what chairmen and their boards say and the day-to-day experiences of their customers. For us, we always try to make sure that all our people know that doing the right thing by our customers is the only way in which we can build a sustainable business. This includes being transparent in our charges and making sure that people understand exactly what they are getting when they buy one of our products, so that they can make properly-informed decisions.

The rollout of auto enrolment into workplace pensions is changing the savings landscape in the UK and we are reinforcing our leading position in this market. It is – rightly – a very competitive market and I believe that's the best way to ensure that charges are fair and give value for money. The value that we offer includes excellent customer service and access to award-winning investment solutions.

Our approach to corporate governance continues to be, we believe, best in class, both in the way we conduct ourselves and the way in which we exercise our stewardship responsibilities towards the companies in which we invest. A strong, engaged board is central to this. We constantly refresh the people on your board to ensure that it contains excellent people from a variety of backgrounds, maintains its great expertise and provides ongoing constructive challenge. Martin Pike, formerly a leading consulting actuary, joined us and two people left our Board during the year – Jackie Hunt stepped down as our Chief Financial Officer to take up a Chief Executive position at Prudential UK, and Sheelagh Whittaker left our Group Board to join the board of Standard Life Canada. And after six years' excellent service, Colin Buchan will retire from the Board at the next AGM on 13 May. Some of these departures have hurt our diversity statistics a little in the short-term but we're determined to maintain our diversity balance, not just on our boards, but also throughout the Company.

In September this year, the Scottish people will be voting in a referendum on Scottish independence. Your Company is strictly apolitical and it would be inappropriate for us to give any views on how people should vote. Equally, as one of the largest companies headquartered and based in Scotland, it is appropriate that we have carefully thought through the potential consequences if Scotland were to become an independent nation. We have reviewed all the information that we have available to us at the current time, and we consider that a number of material issues remain uncertain. David Nish covers these issues in section 1.1 of this report.

We have been based in Scotland for 189 years and we are very proud of our heritage. Scotland has been a good place from which to run our business and to compete around the world. We very much hope that this can continue. But if anything were to threaten this, we will take whatever action we consider necessary – including transferring parts of our operations from Scotland – in order to ensure continuity and to protect the interests of our stakeholders. We will continue to seek further clarity from politicians on both sides of the debate, so that we can reach an informed view on what constitutional change may mean for our customers, our business and our shareholders.

It is our people that make Standard Life special. Our executive leadership continues to push the business forward, keep it safe and strong and expand its reach. We strive to put ourselves in our customers' shoes and give them the standards of service that we would expect to receive ourselves. I'm confident 2014 will be another good year for Standard Life.

**Gerry Grimstone**, Chairman

# 1. Strategic report

## 1.1 Chief Executive's overview

Standard Life has had another strong year with Group underlying performance up 19% to £638m. Group operating profit reduced by 13% to £751m due to a particularly strong prior year which included a higher positive impact of one-off items. We continue to invest to meet the large scale changes in our markets. As a result, higher growth has been delivered.

In the UK we are capitalising on the opportunities created by the Retail Distribution Review and auto enrolment. We attracted 340,000 new customers and increased assets by 13% to £150bn. Standard Life Investments had a particularly good year with third party net inflows of over £10bn as a result of excellent investment performance, broadening geographical reach and an expanding investment offering. In Canada, we are delivering against our transformation strategy.

Our balance sheet remains strong. We are generating significant cash flows and have once again increased our dividend.

Our business has been shaped and positioned to benefit from evolving customer needs and regulatory changes. This, combined with our investment expertise and focus on providing value for our customers, is driving demand for our propositions across the retail, workplace, institutional and wholesale channels. We remain very well positioned for the future and look forward with confidence to delivering growing returns for our shareholders.

### Strong market position delivering growth in assets, revenue and returns

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

During 2013 we have continued to make good progress in each of our businesses. Growth in revenue reflects customer demand for our propositions, while continued work on controlling costs has enabled us to increase operating leverage, in turn driving an ongoing improvement in underlying performance.

- Continuing strong growth from the UK business, attracting 340,000 new customers, reflecting the success of our business model and also the opportunities created by the Retail Distribution Review and auto enrolment
- Strong flows and investment performance driving Standard Life Investments operating profit
- Growing our fee based business in Canada, leveraging Standard Life Investments expertise with launch of 20 new funds and expanded bank distribution
- Continued progress in Asia and Emerging Markets, with our business in Hong Kong ranked 3rd in the savings and investment market and is the market-leader in the broker and IFA segment.

### Delivering on our sustainability strategy

- Maintained our positions in DJSI World, DJSI Europe and FTSE4Good sustainability indices, reflecting our continued performance in delivering on our sustainability strategy
- A main focus was on employability, in particular our placement programme for young people, in partnership with Edinburgh City Council's Edinburgh Guarantee
- Carried out research to learn more about our customers' wants and needs
- Held our first group-wide Green Travel Week to raise awareness, encourage greener travel and reduce our carbon footprint
- Continued to invest in our people, through development, leadership and technology
- Signed the Armed Forces Corporate Covenant and recently announced an enhanced special leave policy for employees who are, or who are partners of, serving personnel
- Continued programme of activity to influence and promote sustainability issues, both as an investor through Standard Life Investments and with our suppliers.

### Outlook

Our UK business has been shaped and positioned to benefit from regulatory, market and demographic changes. Our retail platform is gaining market share as we continue to deepen relationships with a growing number of advisers. Our corporate business has a good pipeline for 2014 which includes significant auto enrolment activity.

Standard Life Investments remains focused on delivering excellent investment performance, expanding its investment capabilities and increasing its distribution channels and geographic reach. This is reflected in a robust pipeline of institutional business and continued demand for our wholesale propositions.

Canada continues to build momentum in its fee based propositions, however its contribution in 2014 at a Group level will be impacted if weakness in the Canadian Dollar continues. Our Asia and Emerging Markets business is well positioned for future growth in the attractive international markets in which it operates.

We look forward to the future with confidence as we continue to capitalise on the strong distribution capabilities of our long-term savings businesses and our global investment expertise. We are innovating and driving efficiency to deliver the right propositions and value for our customers. These strengths, combined with our strong balance sheet mean we can continue to deliver value for customers and grow returns for our shareholders.

# 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. Section 1.5 – Risk management has more information on our principal risks and risk management approach. Find out more about some of the terms used in this report in the glossary.

### Our aspirations

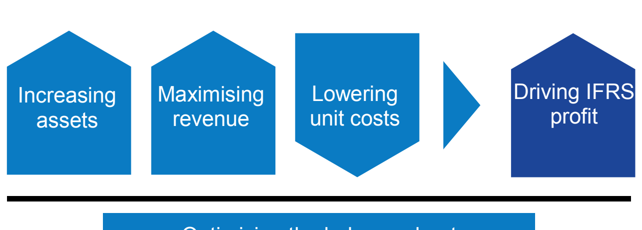
We are in the business of helping our customers to look forward to a well-planned financial future with confidence, through the long-term savings and investments solutions they get from us.

### Our goal

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

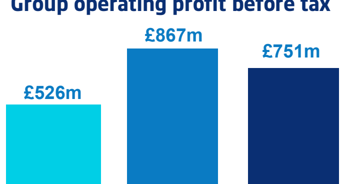
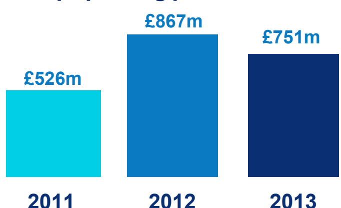
### Our business model

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



### Group profitability

Operating profit before tax is the key performance indicator for the Group and decreased by 13% to £751m, following significant management actions in Canada in 2012 and the £96m benefit from the UK professional indemnity insurance claim included in 2012. IFRS profit for the year was £496m (2012: £694m).

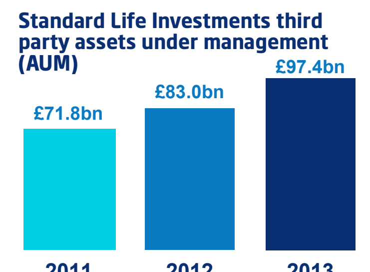




Find out more about our financial performance in Section 1.3 – Group financial overview.

### Our strategic objectives

**Expanding the global reach of our investment management business**

### Our performance in 2013

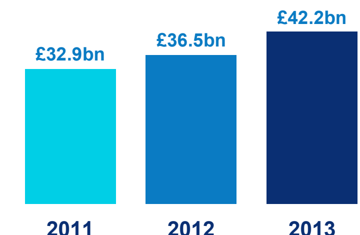



- £5.3bn, or 53% of third party net flows in 2013 from outside the UK
- Retention rates amongst the best in the industry, with redemptions at just 15% of opening third party AUM
- Assets managed for John Hancock in the US rose to £2.8bn (2012: £1.0bn)
- Excellent money weighted average investment performance with 99% of third party AUM ahead of benchmark in the year, with 94% ahead over 3 years and 96% over 5 years
- Innovation and client demand driving new fund launches including second local currency Global Emerging Markets Debt fund, US Monthly Income Fund and Enhanced-Diversification Growth Fund.

### Competitive advantages and market opportunities

- Pipeline of institutional business remains robust and we continue to attract considerable interest, increasingly from outside the UK
- Continued to deliver excellent investment performance over all key time periods
- Further opportunities to leverage internal distribution across the Group
- Continued to extend our global reach with expansion in Boston and Hong Kong
- Ryder Cup sponsorship provides further opportunity to promote the brand globally
- Opportunities for further global growth with strategic partners including Sumitomo Mitsui in Japan and John Hancock in the US.

## Corporate: Building on strength in pension savings and corporate benefits




- In 2013, 292,000 employees joined our UK corporate pension schemes with total employees now 1.4 million
- Successful start to auto enrolment in the UK with 290 schemes implemented in 2013 and a low opt out rate at under 10% of those enrolled
- UK corporate net inflows increased by 62% to £2.0bn (2012: £1.2bn)
- In Canada, corporate pensions Target Liability Bond Funds were launched and we also expanded our range of corporate benefits services and tools.

- Leading provider of corporate benefit solutions in the UK and Canada
- Continued opportunity to benefit from ongoing shift from defined benefit to defined contribution and bundling of pension provision with single provider
- New small and medium-sized enterprise pension solution launched to target the significant number of employees who will need to be auto-enrolled over next few years
- Ongoing investment in technology and investment solutions created greater capacity to take on new business
- We celebrated our 180th anniversary in Canada during 2013 and remain well placed for introduction of Pooled Registered Pension Plans (PRPP) and overall need for greater private pension provision.

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

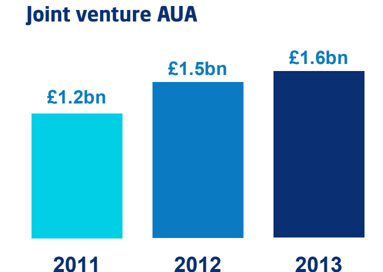
UK and Canada retail fee AUA

| 2011 | 2012 | 2013 |
|---|---|---|
| £59.2bn | £64.3bn | £76.4bn |

- UK Wrap platform assets increased by 36% to £16.6bn
- Standard Life Wealth continues to grow and completed the acquisition of the private client division of Newton Management Limited in September 2013
- Success of MyFolio risk based funds continues with assets increasing by 82% to £4.0bn (2012: £2.2bn)
- Our SIPP proposition continues to grow with a 20% increase in customers and AUA up 18% to £23.2bn (2012: £19.6bn)
- In Canada, retail segregated funds AUA increased by 22% to £2.8bn (2012: £2.3bn).

- Taking the lead in securing super clean share classes and concluded negotiations with 14 investment management companies enabling us to deliver preferential terms to customers
- Market-leading range of MyFolio funds meeting the growing demand for simple investment solutions
- Platforms are well positioned for growth, outperforming in a fast growing market
- Helping to support and guide customers post RDR, including working with bank partners
- One of the fastest growing retail segregated fund franchises in Canada.

## Maximising value from the joint venture relationships in Asia




- HDFC Life continues to grow and is a leading force in the private market in India
- HDFC Life paid its first dividend to shareholders in December 2013
- HDFC Asset Management, our associate business remains the largest mutual fund provider in India with 4.6 million customers
- In China, Heng An Standard Life has taken strategic action to focus on sustainable growth by targeting higher margin regular premium business.

- We established an Asia Advisory Board to provide guidance and advice on our strategy to grow across the region
- HDFC Life has been a market leader in updating its product range to reflect new Indian product guidelines which came into effect on 1 January 2014
- Increased scope for distribution of Standard Life Investments and HDFC Asset Management investment products.

# 1.1 Chief Executive's overview *continued*

## Market overview

The latter part of 2013 saw more investor confidence with major economies showing signs of recovery, helped by very considerable support from central banks. Equity markets benefited from continued earnings growth, while global fund flows suggested that investors were gradually increasing their risk appetite as inflows to equity markets exceeded those to bonds for the first time in a number of years. During 2013 as a whole, share prices rose strongly in most developed markets, although many emerging markets lagged behind due to economic and political concerns. The average daily FTSE All-Share Index rose by 15% between 2012 and 2013 buoyed by increased investor confidence with the potential of a strong recovery in the US, and initial signs of recovery in the Eurozone.

## Legislation and public policy

The phased introduction of auto enrolment continued in 2013. By 2018, all UK employers will need to provide a qualifying workplace pension for their eligible employees. The largest employers have already done this and from April 2014, companies with less than 250 employees will need to comply with the new rules. That means around 1.4 million qualifying workplace pension schemes will need to be created and 8.8 million employees auto-enrolled over the next few years.

In November 2013, the UK Government launched a consultation on pension charges for workers automatically enrolled into workplace pensions including the potential introduction of a charge cap. The level of any cap will be confirmed as part of the outcome of the consultation which we expect to be published in Q1 2014. However, the Government has confirmed that any charge cap will not be implemented before April 2015, in order to give employers at least twelve months' notice of rules that will apply to them. We believe that we offer competitive pensions which meet our customers' needs including those joining schemes through auto enrolment. Although charges are an important element of providing a good value pension, contribution levels, investment selection and performance are also critical factors and it is important that a debate on charges does not distract from the important work being done to make the auto enrolment project a success.

The Retail Distribution Review phase 2 brings new regulations mainly affecting platform service providers. Customers will pay for platform services through transparent charges deducted from their investments and platform providers cannot receive payment for these services from fund managers. These regulations are effective from 6 April 2014 for new business and from 6 April 2016 for existing business. As well as implementing changes for the April 2014 date we are also progressing with the 2016 requirements leaving us well placed in the market.

Pooled Registered Pension Plans (PRPP) are being introduced in Canada, aiming to encourage saving for a retirement income for those individuals who do not have access to a corporate pension plan via their workplace. We have developed a strong PRPP proposition and we were granted a licence to be a federal PRPP administrator in September 2013.

Solvency 2 is a major European regulatory change initiative that will bring consistency to the way in which EU insurers manage capital and risk, with the aim of enhancing protection for consumers. In November 2013, the European Parliament, Council and Commission reached an agreement on the Omnibus II Directive. The agreement on Omnibus II enables the Solvency 2 framework to become operational by 1 January 2016. We continue to closely monitor the development of Solvency 2 and our business is well placed to implement the necessary changes expected to be required before 2016.

## Constitutional change

As a large company and employer based in Scotland, we have been following the constitutional debate ahead of the independence referendum on 18 September 2014.

We have a long-standing policy of strict political neutrality and at no time will we advise people on how they should vote. However, we have a duty and a responsibility to understand the implications of independence for our four million UK customers, our shareholders, our people and other stakeholders in our business and take whatever action is necessary to protect their interests.

For this reason, we have engaged with key politicians and analysed the relevant papers published by both sides of the independence debate. These include the Scottish Government publication *Scotland's Future* (the 'White Paper') and the UK Government's *Scotland Analysis* series.

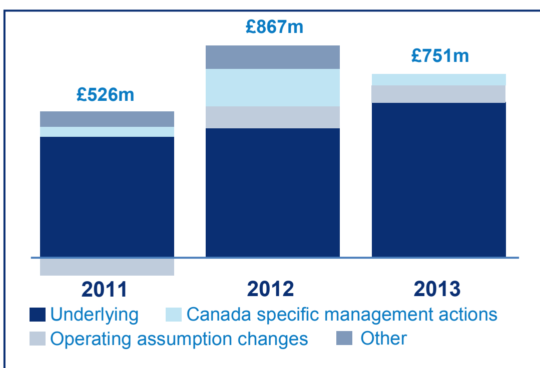
At the time of publishing this report (February 2014), we believe a number of material issues remain uncertain. These include:

- The currency that an independent Scotland would use
- Whether agreement and ratification of an independent Scotland's membership to the European Union would be achieved by the target date (currently 24 March 2016)
- The shape and role of the monetary system
- The arrangements for financial services regulation and consumer protection in an independent Scotland
- The approach to individual taxation, especially around savings and pensions, as a consequence of any constitutional change.

We will continue to seek clarity on these matters, but uncertainty is likely to remain. In view of this, there are steps we will take based on our analysis of the risks. For example, we have started work to establish additional registered companies to operate outside Scotland, into which we could transfer parts of our operations if it was necessary to do so. This is a precautionary measure to ensure continuity of our businesses' competitive position and to protect the interests of our stakeholders. As Chief Executive, my commitment is whatever happens, we will continue to serve the needs of our customers and maintain our competitive position.

# 1.2 Group key financial performance indicators

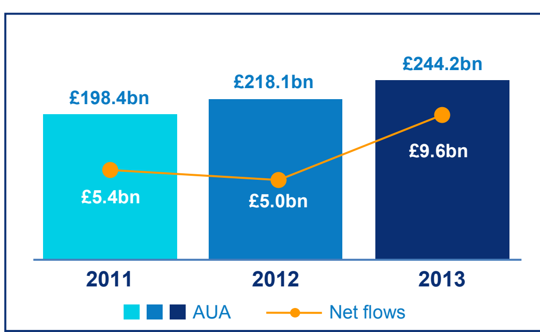
## Group operating profit before tax[1]




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

- Group operating profit before tax reduced by 13% to £751m, due to a particularly strong prior year which included significant management actions in Canada and the £96m benefit from the UK professional indemnity insurance claim
- Group underlying performance increased by 19% to £638m (2012: £534m) and benefited from strong performance in Standard Life Investments and the UK
- Fee based revenue increased by 15% or £188m to £1,459m, with strong demand for our propositions in the UK and Standard Life Investments, and higher asset values.

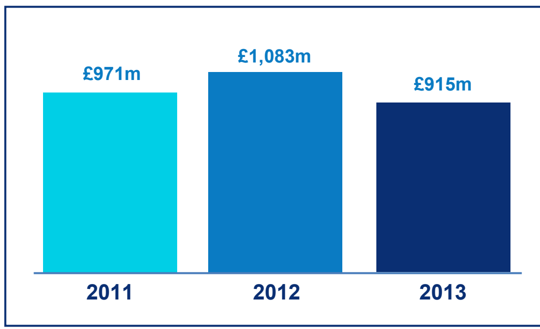
## Assets under administration and net flows




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

- Group AUA increased by 12% to a record £244.2bn, driven by strong net inflows in the UK and Standard Life Investments, and favourable market movements
- Total net inflows almost doubled to a record £9.6bn
- Record level of third party assets in Standard Life Investments at £97.4bn (2012: £83.0bn).

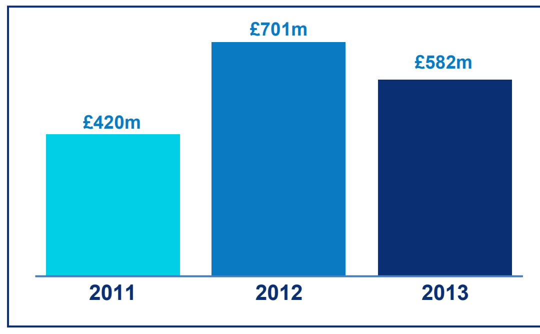
## EEV operating profit before tax[1]




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

- EEV operating profit before tax decreased by 16% to £915m
- Core EEV operating profit of £687m was broadly consistent with prior year (2012: £697m)
- Efficiency and back book management elements, which are more variable than core, reduced by £97m and £61m respectively, reflecting higher investment costs allocated to covered business and lower benefits from management actions.

## EEV operating capital and cash generation[1]




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

- EEV operating capital and cash generation decreased by 17% to £582m largely due to £91m lower operating capital and cash generation from back book management and £50m higher new business strain mainly reflecting increased sales volumes
- EEV operating capital and cash generation remains aligned with Group operating profit after tax.

[1] Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits.*

Find out more about these measures in Section 1.3 – Group financial overview and Section 1.9 – Basis of preparation.

## 1.3 Group financial overview

Our financial results demonstrate our ability to deliver sustainable returns for our shareholders. We continue to develop high-quality and innovative solutions that meet the changing needs of our customers. Our financial performance is detailed below.

### IFRS and Group operating profit

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Group operating profit before tax[1,2] | **£751m** | £867m | (13%) |
| IFRS profit after tax attributable to equity holders of Standard Life plc[2] | **£466m** | £665m | (30%) |
| Group operating return on equity[2] | **14.7%** | 19.2% | (4.5% points) |

### IFRS profit

IFRS profit after tax attributable to equity holders reduced to £466m (2012: £665m) mainly due to the impact of a rise in yields on debt securities, lower management actions in 2013, benefit from the UK professional indemnity insurance claim included in 2012 and an increased tax charge. The tax expense attributable to equity holders' profits in 2013 was £90m (2012: £51m). IFRS profit for the year of £496m (2012: £694m) also includes profit attributable to non-controlling interests of £30m (2012: £29m). 2012 results have been restated to reflect the revised requirements following the amendment to IAS 19 *Employee Benefits* which reduced the comparative period results by £33m.

### Group operating profit before tax

| | UK and Europe | | Standard Life Investments | | Canada | | Asia and Emerging Markets | | Other / Eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Fee based revenue | **927** | 839 | **521** | 408 | **194** | 172 | **54** | 46 | **(237)** | (194) | **1,459** | 1,271 |
| Spread/risk margin | **162** | 112 | **-** | - | **351** | 393 | **-** | - | **-** | - | **513** | 505 |
| **Total income** | **1,089** | 951 | **521** | 408 | **545** | 565 | **54** | 46 | **(237)** | (194) | **1,972** | 1,776 |
| Acquisition expenses | **(227)** | (203) | **-** | - | **(76)** | (79) | **(22)** | (10) | **-** | - | **(325)** | (292) |
| Maintenance expenses[3] | **(485)** | (463) | **(351)** | (281) | **(234)** | (240) | **(43)** | (41) | **237** | 194 | **(876)** | (831) |
| Group corporate centre costs[3] | **-** | - | **-** | - | **-** | - | **-** | - | **(53)** | (50) | **(53)** | (50) |
| Capital management[2] | **3** | 12 | **-** | - | **16** | 107 | **-** | - | **(13)** | 23 | **6** | 142 |
| Share of JV and associates' PBT | **-** | - | **22** | 18 | **-** | - | **5** | 8 | **-** | - | **27** | 26 |
| Other | **-** | 96 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | 96 |
| **Group operating profit before tax** | **380** | 393 | **192** | 145 | **251** | 353 | **(6)** | 3 | **(66)** | (27) | **751** | 867 |

Group operating profit before tax fell by 13% to £751m, following significant management actions in Canada in 2012, and the £96m benefit from the UK professional indemnity insurance claim in 2012. Group underlying performance increased by 19% to £638m (2012: £534m) due to a strong performance in the UK and Standard Life Investments.

- **Fee based revenue** increased by 15% to £1,459m driven by higher average asset values and strong demand for our fee based products
- **Spread/risk margin** increased slightly to £513m mainly due to better than expected claims and investment experience and higher returns from existing business in Canada. Specific management actions in Canada generated a benefit of £42m (2012: £81m) from property sales and the renegotiation of an existing reinsurance arrangement. Actuarial reserving changes generated a gain of £68m (2012: gain £84m) and includes a benefit of £40m (2012: benefit £1m) from a reduction in actuarial reserves arising from UK mortality assumption changes.
- **Acquisition expenses** increased to £325m and expressed as a proportion of sales improved to 145bps (2012: 156bps)
- **Maintenance expenses** increased to £876m reflecting further investment in our businesses. Maintenance expenses expressed as a proportion of average AUA improved further to 41bps (2012: 45bps).

#### Analysis of Group operating profit before tax

| | 2013 £m | 2012 £m |
|---|---|---|
| **Business unit underlying performance** | **704** | 561 |
| Group centre costs/capital management | **(66)** | (27) |
| **Group underlying performance** | **638** | 534 |
| Canada specific management actions (Spread/risk margin) | **42** | 81 |
| Canada specific management actions (Capital management) | **3** | 72 |
| Operating assumption and actuarial reserving changes (Spread/risk margin) | **68** | 84 |
| Professional indemnity insurance claim | **-** | 96 |
| **Group operating profit before tax** | **751** | 867 |

[1] Operating profit is IFRS profit before tax adjusted to remove the impact of short-term market driven fluctuations in investment return and economic assumptions, restructuring costs (including Solvency 2), 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, changes in Canada insurance contract liabilities due to resolution of prior year tax matters and other significant one-off items outside the control of management.

[2] Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits*.

[3] JV relationship management costs are now reflected in Group corporate centre costs, previously these were included within maintenance expenses as part of our Asia and Emerging Markets business. 2012 comparatives have been restated.

- **Group corporate centre costs** increased slightly to £53m (2012: £50m)
- **Capital management** reduced to £6m due to lower investment return on shareholders' funds and higher financing costs following the issue of subordinated debt in 2012. Gains on property sales in Canada generated £3m (2012: £72m).
- HDFC Asset Management, our associate business which is included in the results of Standard Life Investments, contributed £22m to profit (2012: £18m). Our share of profit from the life joint venture businesses in Asia reduced to £5m (2012: £8m), mainly due to higher new business strain driven by the expansion of our Indian joint venture's unit linked product sales in 2013.

## Group non-operating loss before tax

The Group non-operating loss in 2013 was £187m (2012: loss £142m). The losses in 2013 were primarily due to short-term fluctuations in investment return and economic assumption changes, with losses of £92m (2012: loss £29m) mainly due to a rise in yields on debt securities. Non-operating restructuring and corporate transaction expenses of £73m (2012: £109m) relate to business unit restructuring programmes, Solvency 2 and costs arising from the acquisition of the private client division of Newton Management Limited.

**Group non-operating loss before tax**

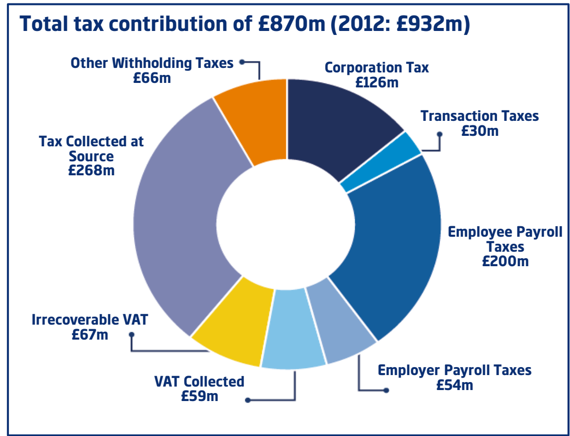
| | 2013 £m | 2012 £m |
|---|---|---|
| Short-term fluctuations in investment return and economic assumption changes | **(92)** | (29) |
| Restructuring and corporate transaction expenses | **(73)** | (109) |
| Other operating profit adjustments | **(22)** | (4) |
| **Group non-operating loss before tax** | **(187)** | (142) |

## Group tax expense and total tax contribution

The tax expense attributable to equity holders' profits in 2013 was £90m (2012: £51m) of which £141m (2012: £124m) related to operating items and a credit of £51m (2012: credit £73m) to non-operating items. The increase in the total tax expense reflects a higher tax charge in our UK and Europe business in 2013 and a non-recurring release of current and deferred tax on a number of items in 2012. The effective tax rate increased from 7% to 15%.

In 2013, our total tax contribution to tax authorities in all the jurisdictions in which we operated was £870m (2012: £932m) of which £492m (2012: £631m) related to the UK. Of the total, £313m (2012: £417m) was total taxes borne by the Group whilst £557m (2012: £515m) represents total tax collected by us on behalf of tax authorities. Total taxes borne and total tax contribution is less than 2012 mainly due to a reduction in the UK tax payable on policyholder investment returns as a result of bond market movements.

Of the non-corporation tax items, the largest is PAYE deducted from both pension annuity payments made to customers and from employee payroll payments, demonstrating the Group's wider economic contribution.




## Group operating return on equity

Return on equity measures our success in generating profit relative to our shareholder capital. Group operating return on equity decreased to 14.7% (2012: 19.2%) mainly due to an increased tax charge and the reduced operating profit before tax. The prior year result benefited from a non-recurring release of deferred tax on a number of items. We will continue to manage our capital position to ensure that we generate sustainable returns for our shareholders.

Find out more about the IFRS results in Section 1.4 – Business segment performance and Section 1.9 – Basis of preparation.

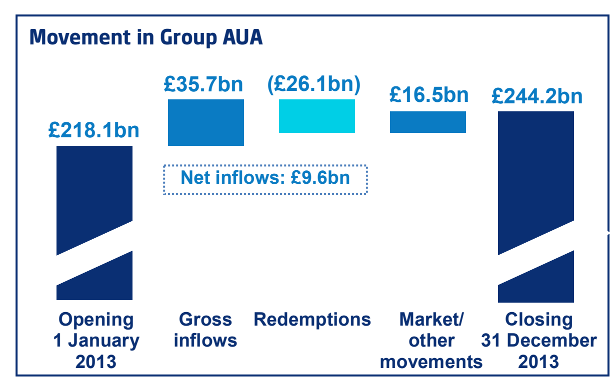
## Assets under administration and new business

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Assets under administration | **£244.2bn** | £218.1bn | 12% |
| Net flows | **£9.6bn** | £5.0bn | 92% |
| Present value of new business premiums | **£22.9bn** | £19.3bn | 19% |
| New business contribution | **£320m** | £339m | (6%) |

## Assets under administration and net flows

AUA increased by 12% to £244.2bn driven by a combination of net inflows across our businesses and positive market movements:

- Overall net inflows increased to £9.6bn (2012: £5.0bn) reflecting strong net inflows into our newer style fee based propositions such as MyFolio and Wrap and the global expansion at Standard Life Investments
- Fee business AUA increased to £210.1bn (2012: £180.7bn) with 86% (2012: 83%) of total AUA now related to fee business
- Spread/risk business AUA reduced to £23.5bn (2012: £25.7bn) due to negative market movements which were impacted by the increase in yields on debt securities and net outflows in the UK due to scheduled annuity payments.



# 1.3 Group financial overview *continued*

## New business

| | PVNBP | | New business contribution | | PVNBP margin | | IRR | | Undiscounted payback | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| | **£m** | £m | **£m** | £m | **%** | % | **%** | % | **years** | years |
| UK and Europe | **19,076** | 14,935 | **245** | 267 | **1.3** | 1.8 | **17** | 17 | **6** | 6 |
| Canada | **2,894** | 3,584 | **36** | 45 | **1.3** | 1.3 | **7** | 8 | **10** | 11 |
| Asia and Emerging Markets | **933** | 774 | **39** | 27 | **4.2** | 3.5 | **13** | 13 | **7** | 7 |
| **Total** | **22,903** | 19,293 | **320** | 339 | **1.4** | 1.8 | **13** | 13 | **7** | 7 |

- Present value of new business premiums (PVNBP) for the Group increased by 19% to a record £22,903m. UK and Europe sales rose by 28%, partly offset by a 19% fall in Canada.
- Reduced new business contribution in the UK and Europe reflects changes in product mix, with lower sales of annuities combined with increased sales of lower margin corporate pensions business. The overall margin was 1.4%, with a reduction in UK and Europe partly offset by an increase in Asia and Emerging Markets.
- Total internal rate of return (IRR) for the Group remained stable at 13%. The low interest rate environment continues to impact the returns on business written in Canada, which generated an IRR of 7%.

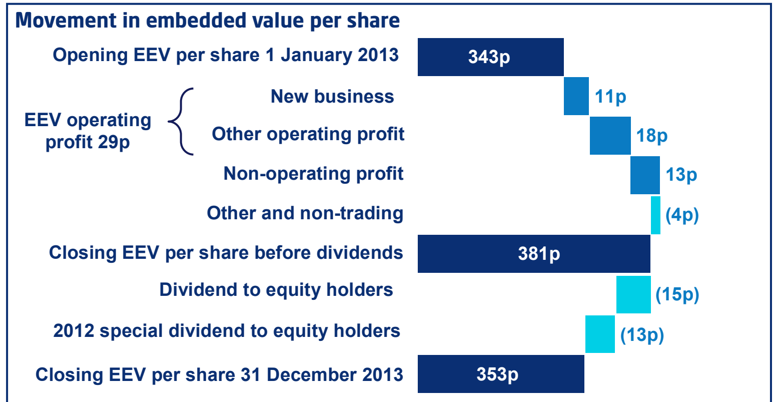
## EEV

| | **2013** | 2012 | Movement |
|---|---|---|---|
| EEV per share | **353p** | 343p | 3% |
| EEV operating profit before tax[1] | **£915m** | £1,083m | (16%) |
| EEV profit before tax[1] | **£1,279m** | £1,301m | (2%) |

[1] Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits*.

## Group embedded value

Group embedded value increased to £8,423m (2012: £8,142m) representing an EEV per share of 353p. EEV per share increased by 38p before dividend distributions, including EEV operating profit after tax of £683m (29p per share). EEV non-operating profit after tax was £305m (13p per share), mainly comprising investment variances of £234m and economic assumption changes of £143m. The 4p decrease in EEV per share from other and non-trading items was mainly due to adverse foreign exchange movements, mostly relating to Canada.



EEV profit before tax of £1,279m (2012: £1,301m) comprises operating profit of £915m (2012: £1,083m) and non-operating profit of £364m (2012: £218m).

## EEV operating profit before tax

EEV operating profit before tax decreased by 16%, with core profits largely stable and lower efficiency and back book management profits:

- Core operating profits decreased by 1% to £687m
- Efficiency operating loss of £91m was primarily due to increased investment costs allocated to covered business
- EEV operating profit before tax from back book management of £319m (2012: £380m) included £176m of favourable operating tax variances and £144m from improved modelling of cashflows. 2012 profit of £380m included £453m of gains from asset strategy changes, improved modelling, property disposals and benefit from the UK professional indemnity insurance claim.

**EEV operating profit before tax**

| | **2013 £m** | 2012 £m |
|---|---|---|
| Core | **687** | 697 |
| Efficiency | **(91)** | 6 |
| Back book management | **319** | 380 |
| **Total** | **915** | 1,083 |

## EEV non-operating profit before tax

Total EEV non-operating profit before tax of £364m (2012: £218m) included favourable investment return and tax variances of £293m (2012: £498m) and profit from economic assumption changes of £168m (2012: loss £106m). The favourable investment return and tax variances profit of £293m included a £333m profit from higher than expected investment returns. The £168m profit from economic assumption changes was due to the use of higher projected investment returns and the reduction in the UK corporation tax rate, partly offset by losses from higher discount rates.

Restructuring and corporate transaction expenses of £73m (2012: £114m) primarily relate to business unit restructuring programmes, Solvency 2 and costs arising from the acquisition of the private client division of Newton Management Limited.

## Cash generation

| | 2013 | 2012 | Movement |
|---|---|---|---|
| EEV operating capital and cash generation[1] | **£582m** | £701m | (17%) |

[1] Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits*.

## Group EEV operating capital and cash generation

Total EEV operating capital and cash generation decreased by 17% to £582m (2012: £701m):

- Gross EEV operating capital and cash generation decreased by £69m mainly as a result of reduced capital and cash generation from back book management. Outflows from new business strain increased by 23%, mainly reflecting higher sales volumes. As a percentage of PVNBP, new business strain was 1.2% (2012: 1.1%).
- Core capital and cash generation was £46m lower than 2012. This included a £50m increase in new business strain, mainly due to higher sales volumes.
- Back book management operating capital and cash generation of £265m included £165m of favourable tax variances and £38m from changes to mortality assumptions.

Coverage of gross EEV operating capital and cash compared to new business strain decreased to 3.2 (2012: 4.2). Coverage of EEV operating capital and cash generation compared to the interim and final dividends (excluding 2012 special dividend) decreased to 1.6 (2012: 2.0).

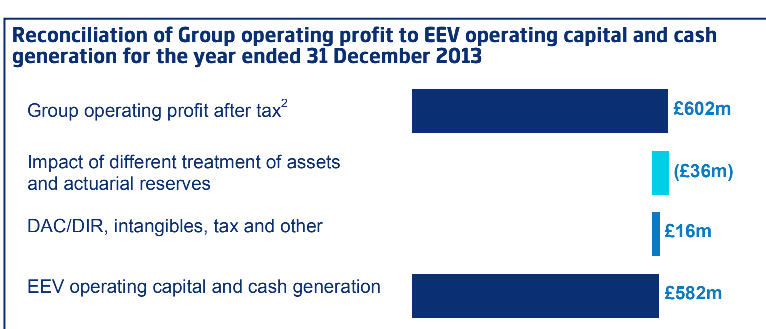
| **Group EEV operating capital and cash generation** | 2013 £m | 2012 £m |
|---|---|---|
| UK and Europe | **575** | 534 |
| Canada | **238** | 364 |
| Asia and Emerging Markets | **36** | 40 |
| Non-covered | **(1)** | (21) |
| **Gross EEV operating capital and cash generation** | **848** | 917 |
| New business strain | **(266)** | (216) |
| **EEV operating capital and cash generation** | **582** | 701 |
| **Analysed by:** | | |
| Core | **302** | 348 |
| Efficiency | **15** | (3) |
| Back book management | **265** | 356 |
| **Total** | **582** | 701 |

## 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:

- £36m negative impact from the difference in the treatment of assets and actuarial reserves
- £16m positive impact from the difference in the treatment of deferred acquisition costs (DAC)/deferred income reserve (DIR), intangibles, tax and other. Other includes the impact of different methodologies in respect of asset management charges. In EEV operating profit this income is included on an expected return basis but the actual charges are included in Group operating profit.

**Reconciliation of Group operating profit to EEV operating capital and cash generation for the year ended 31 December 2013**




[2] Group operating profit after tax consists of: Group operating profit before tax of £751m, tax charge on operating profit of (£141m) and share of joint ventures' and associates' tax expense of (£8m).

# 1.3 Group financial overview *continued*

## Capital management

| | 2013 | 2012 | Movement |
|---|---|---|---|
| IFRS equity attributable to equity holders of Standard Life plc[1] | **£4,227m** | £4,359m | (3%) |
| EEV[1] | **£8,423m** | £8,142m | 3% |
| Group capital surplus[2] | **£3.8bn** | £4.1bn | (7%) |

1 Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits*.
2 2013 based on estimated regulatory returns. 2012 based on final regulatory returns.

### Group capital surplus

The Group capital surplus decreased to £3.8bn (2012: £4.1bn) following the payment of the £302m special dividend and the acquisition of the private client division of Newton Management Limited.

The Group capital surplus remains largely insensitive to a 30% fall in equities from the 31 December 2013 position, with the surplus estimated to reduce by approximately £0.2bn (2012: £0.3bn reduction). Following a 100bps rise in yields, the surplus is estimated to reduce by approximately £0.1bn (2012: £0.1bn reduction). Following a 100bps fall in yields the surplus is estimated to reduce by approximately £0.1bn (2012: £0.4bn reduction).

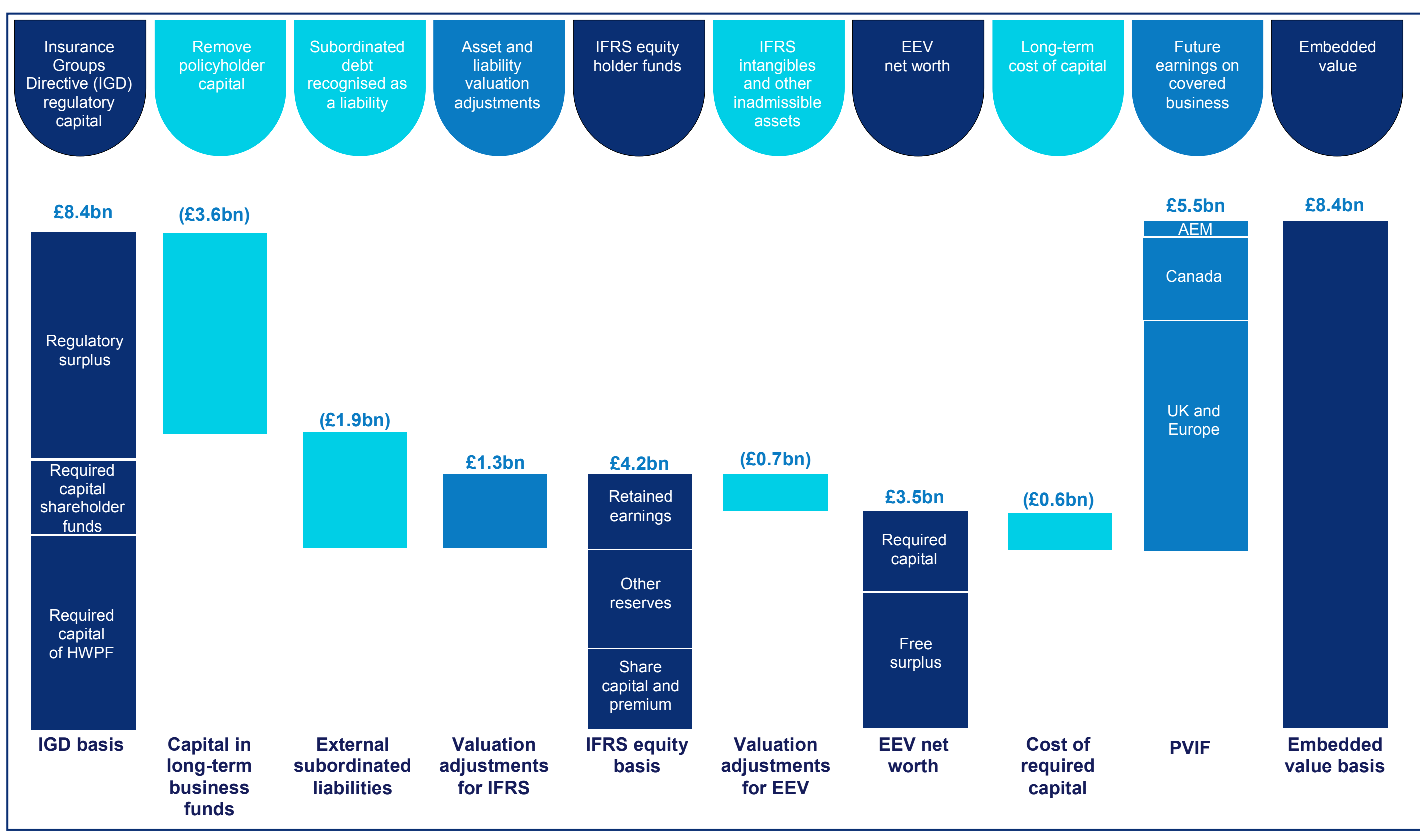
We welcome the positive steps in the development of the Solvency 2 regime during 2013 and expect our capital position to remain strong following implementation.

| Group capital surplus and solvency cover[3] | 2013 £bn | 2012 £bn | 2011 £bn |
|---|---|---|---|
| Shareholders' capital resources | **2.9** | 3.3 | 3.1 |
| Capital resources arising from subordinated debt | **1.9** | 1.9 | 1.1 |
| SLAL long-term business funds | **3.6** | 2.8 | 3.1 |
| Group capital resources[4] | **8.4** | 8.0 | 7.3 |
| Group capital resource requirement | **(4.6)** | (3.9) | (4.2) |
| **Group capital surplus** | **3.8** | 4.1 | 3.1 |
| **Group solvency cover** | **183%** | 205% | 173% |

3 2013 based on estimated regulatory returns. 2012 and 2011 based on final regulatory returns.
4 Net of restricted assets of £1.2bn (2012: £1.2bn, 2011: £1.0bn).

### Reconciliation of key capital measures

The following diagram illustrates the key differences between regulatory, IFRS and EEV capital measures at 31 December 2013:



## Liquidity management and dividends

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Standard Life plc cash and liquid resources | **£907m** | £1,064m | (15%) |
| Full year dividend[1] | **£375m** | £345m | 8.7% |

[1] Excludes special dividend of £302m in 2012.

### Liquidity management

The Group maintains a strong liquidity position and this was shown in stress testing undertaken during 2013.

This liquidity stress testing ensures that we can withstand a scenario of significant falls in asset values combined with unprecedented levels of surrenders and claims.

We also maintain contingency funding plans across the Group to ensure that each business unit is prepared for a liquidity issue. As part of this contingency planning, Standard Life plc, the Group's ultimate holding company, maintains a £500m revolving credit facility with a syndicate of banks which will mature in March 2018. The Group's revolving credit facility remained unutilised during 2013 apart from a small drawdown to test the facility.

Standard Life plc also holds substantial cash and liquid resources. At 31 December 2013, Standard Life plc held £574m (2012: £1,064m) of cash and short-term debt securities and £333m (2012: £nil) of bonds.

| Standard Life plc cash and liquid resources | 2013 £m | 2012 £m |
|---|---|---|
| **Opening 1 January** | **1,064** | 565 |
| Dividends received from subsidiaries | **629** | 499 |
| Cash dividends paid to shareholders[2] | **(656)** | (331) |
| Additional investments in subsidiaries | **(97)** | (131) |
| Additional investments in associates and joint ventures | **(19)** | (16) |
| Issue of external subordinated liabilities | **-** | 497 |
| Other | **(14)** | (19) |
| **Closing 31 December** | **907** | 1,064 |

[2] 2013 reflects the payment of the 2012 final dividend of £230m, the 2012 special dividend of £302m and the 2013 interim dividend of £124m. 2012 reflects the payment of the 2011 final dividend of £216m and the 2012 interim dividend of £115m.

### Dividends

We propose a final dividend of 10.58p per share making a total of 15.80p (2012: 14.70p excluding the special dividend). This represents an increase of 7.5% per share. We will continue to apply our existing progressive dividend policy taking account of market conditions and our financial performance.

# 1.4 Business segment performance

## 1.4.1 UK and Europe

### Financial highlights[1]

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Operating profit before tax[2] | **£380m** | £393m | (3%) |
| Operating return on equity[2] | **20.0%** | 25.4% | (5.4% points) |
| Assets under administration | **£166.0bn** | £146.2bn | 14% |
| Net flows | **£3,358m** | £1,922m | 75% |
| EEV operating profit before tax[2] | **£483m** | £813m | (41%) |

[1] Standard Life Wealth included in UK results. From 1 January 2014 Standard Life Wealth will be included in Standard Life Investments results.
[2] Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits.*

### Strategic overview

Our UK and Europe business is a leading provider of long-term savings and investment propositions including self-invested and workplace pensions, individual savings accounts, and mutual funds. We have built strong relationships with individual customers, advisers, employee benefits consultants and employers and we offer a comprehensive range of products and services across the value chain, including access to a wide range of investment solutions through Standard Life Investments. We are a customer focused business providing platforms, business services and investment outsourcing options that are simple, effective and efficient. Technology is helping us to improve our customer proposition further and achieve even greater benefits of scale in our business.

### Market update

Auto enrolment and the Retail Distribution Review (RDR) continue to influence developments and change across the UK market. Capitalising on these changes has helped us to secure over 340,000 new customers during the year. Financial advisers are increasingly focused on the long-term financial needs of their clients and are becoming less product-centric. They are looking towards platforms and simple investment propositions to improve their business efficiency, meet increasing regulatory demands and to provide a better customer experience. The platform market already exceeds £250bn in AUA and is forecast to grow to £600bn by 2018 with a greater concentration towards fewer providers.

The number of active defined benefit schemes is declining, reflecting an underlying shift towards defined contribution schemes. Increasing life expectancy and the reluctance of employers to continue to bear long-term investment risk are key reasons for this shift. Nevertheless, consumers are generally under-estimating how much they need to save for retirement, underlining the importance of auto enrolment.

Small and medium-sized enterprises (SMEs) are central to the UK economy, accounting for 99% of UK businesses and employing over 14 million people. Over the next few years, around 1.4 million qualifying workplace pension schemes will need to be created to cater for an estimated 8.8 million employees who will be auto-enrolled. We have already added over 220,000 new customers as a result of auto enrolment across some of our largest clients. We are now working with advisers across the UK to provide propositions, support and tools for SMEs, who often lack the resources of larger employers, to help make auto enrolment a success for their employees.

In November 2013, the UK Government launched a consultation on pension charges for workers automatically enrolled into workplace pensions including the potential introduction of a charge cap. The level of any cap will be confirmed as part of the outcome of the consultation which we expect to be published in Q1 2014. However, the Government has confirmed that any charge cap will not be implemented before April 2015, in order to give employers at least twelve months notice of rules that will apply to them. We believe that we offer competitive pensions which meet our customers' needs including those joining schemes through auto enrolment. Although charges are an important element of providing a good value pension, contribution levels, investment selection and performance are also critical factors and it is important that a debate on charges does not distract from the important work being done to make the auto enrolment project a success.

Several regulators in EU member states are considering the introduction of regulation similar to elements of the UK's RDR. In January 2014, the European Parliament and Council reached a compromise on the Market in Financial Instruments Directive II (MiFID II) and are currently finalising wording, which may also include text that resembles language from RDR. Work being done at the EU level, notably the Insurance Mediation Directive (IMD II) and Packaged Retail Investment Products (PRIPs) will further solidify the rules surrounding retail financial products. Our experience in the UK, together with an increasingly positive sentiment across Europe towards a greater need for pension savings, means that our business is well placed to meet market and regulatory changes in our operations in Europe.

Whilst the UK economy is showing good signs of recovery, we remain alert to the continuing economic and political risks, including Eurozone volatility and the potential for rising interest rates in the UK. Germany is the largest savings market in Europe and its export driven economy has continued to grow despite the Euro crisis and recession affecting other major economies in Europe. We have also seen increasing market confidence in Ireland, where lower retail bank deposit rates and the removal of the Government blanket deposit guarantee further encouraged consumers to move investments into longer term products.

## Profitability

### Operating profit before tax

| | UK | | Europe | | UK and Europe | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Fee based revenue | **727** | 667 | **200** | 172 | **927** | 839 |
| Spread/risk margin | **154** | 107 | **8** | 5 | **162** | 112 |
| **Total income** | **881** | 774 | **208** | 177 | **1,089** | 951 |
| Acquisition expenses | **(181)** | (174) | **(46)** | (29) | **(227)** | (203) |
| Maintenance expenses | **(368)** | (356) | **(117)** | (107) | **(485)** | (463) |
| Capital management | **3** | 11 | **-** | 1 | **3** | 12 |
| Other | **-** | 96 | **-** | - | **-** | 96 |
| **Operating profit before tax** | **335** | 351 | **45** | 42 | **380** | 393 |

UK and Europe operating profit before tax reduced by £13m to £380m. UK and Europe underlying performance increased by £32m to £336m.

Movements in the **UK operating profit** from 2012 include:

- **Fee based revenue** increased by 9% to £727m mainly driven by higher AUA as our new style propositions continue to attract net inflows while our older style propositions benefit from ongoing increments, market movements and our retention activity. The average revenue yield on fee based business reduced to 67bps (2012: 72bps) reflecting changes in business mix.
- **Spread/risk margin** increased by 44% to £154m benefiting from a reduction in actuarial reserves arising from mortality assumption changes
- **Acquisition expenses** increased by just 4% to £181m despite a 31% increase in sales and expressed as a percentage of sales improved to 106bps (2012: 133bps), reflecting the scalability of our business model
- **Maintenance expenses** increased by 3% to £368m reflecting increased investment management fees due to higher average market levels and the growth in institutional pensions business. As a proportion of average AUA, maintenance expenses improved to 26bps (2012: 31bps) as we continue to benefit from our scalable business model and cost discipline.

**Europe operating profit** increased by 7% to £45m. Our business in Ireland benefited from operating assumption changes, higher AUA and improved cost management. In Germany, the impact of higher strain from new business sales was offset by modelling improvements leading to a reduction in actuarial reserves.

### UK profit contribution[1]

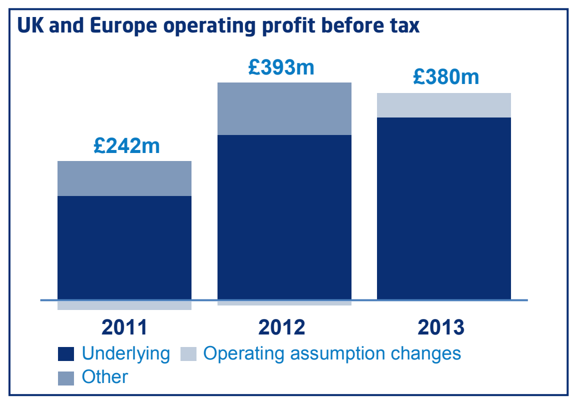
Overall UK profit contribution increased by 20% to £500m (2012: £415m).

Newer style UK retail propositions continue to show momentum which, combined with the benefits of scalability and growth in direct customers coming from our corporate business, helped to deliver 48% growth in profit contribution to £80m. This, together with the 5% increase in contribution from our older style propositions, helped to drive an overall increase in retail fee based business contribution of 15% to £268m (2012: £233m).

In our corporate business, profit contribution increased by 2% to £90m (2012: £88m). Our corporate business continues to provide our old and new retail business with a source of new customers and revenue.

Profit contribution from spread/risk products increased by 51% to £142m (2012: £94m) benefiting from reserve releases arising from assumption changes.

**UK and Europe operating profit before tax**




**Analysis of UK and Europe operating profit before tax**

| | **2013 £m** | 2012 £m |
|---|---|---|
| UK and Europe underlying performance | **336** | 304 |
| Operating assumption and actuarial reserving changes (Spread/risk margin) | **44** | (7) |
| Professional indemnity insurance claim | **-** | 96 |
| **UK and Europe operating profit before tax** | **380** | 393 |

| **UK profit contribution[1]** | **2013 £m** | 2012 £m |
|---|---|---|
| Retail – new | **80** | 54 |
| Retail – old | **188** | 179 |
| **Retail fee based business contribution** | **268** | 233 |
| Corporate | **90** | 88 |
| **Fee based business contribution** | **358** | 321 |
| Spread/risk | **142** | 94 |
| **UK profit contribution** | **500** | 415 |
| Indirect expenses and capital management | **(165)** | (160) |
| Other | **-** | 96 |
| **UK operating profit before tax** | **335** | 351 |

[1] Profit contribution reflects the income and expenses directly attributable to each of the UK lines of business. It differs from operating profit due to the exclusion of indirect expenses, such as overheads, and capital management.

# 1.4 Business segment performance *continued*

## 1.4.1 UK and Europe *continued*

### EEV operating profit

UK and Europe EEV operating profit before tax was lower at £483m (2012: £813m), with the prior period benefiting from back book management actions taken to reduce the risk exposures of the UK business and the one-off professional indemnity insurance claim. UK and Europe core EEV operating profit before tax reduced to £439m (2012: £458m) due to lower new business contribution reflecting changes in product mix, with lower sales of annuities combined with increased sales of lower margin corporate pensions business.

### Operating return on equity

UK and Europe operating return on equity of 20.0% (2012: 25.4%), reflects a £46m decrease in operating profit after tax to £332m (2012: £378m) due to an increased tax charge in 2013 and the benefit in respect of a professional indemnity insurance claim included in the 2012 results.

### Assets under administration and net flows

UK and Europe AUA increased by 14% to £166.0bn. Fee based business AUA, which accounts for 87% of total AUA, increased by 17% to £145.2bn due to a combination of higher net flows and positive market movements.

| | Net flows | | AUA | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £bn** | 2012 £bn |
| UK retail – new | **3,069** | 2,753 | **38.6** | 28.7 |
| UK retail – old | **(2,642)** | (3,057) | **33.5** | 31.7 |
| **UK retail fee based business** | **427** | (304) | **72.1** | 60.4 |
| UK corporate | **1,981** | 1,224 | **29.2** | 24.5 |
| **UK retail and corporate fee based business** | **2,408** | 920 | **101.3** | 84.9 |
| UK institutional pensions | **1,907** | 1,832 | **25.3** | 21.3 |
| UK conventional with profits | **(1,450)** | (1,447) | **2.9** | 4.1 |
| Europe fee based | **1,154** | 1,138 | **15.7** | 13.6 |
| **Total fee based business** | **4,019** | 2,443 | **145.2** | 123.9 |
| UK spread/risk | **(654)** | (530) | **14.6** | 15.3 |
| Europe spread/risk | **(7)** | 9 | **0.5** | 0.5 |
| Assets not backing products | **-** | - | **5.7** | 6.5 |
| **Total UK and Europe** | **3,358** | 1,922 | **166.0** | 146.2 |

In the UK, net flows into our new style retail propositions continued to grow, increasing by 11% to £3.1bn, reflecting stronger gross inflows of £5.9bn (2012: £5.2bn).

Improved retention in our older style UK retail business led to a 14% reduction in net outflows while AUA grew by 6%, reflecting ongoing increments and positive market movements. We continue to engage with customers with maturing policies who wish to continue to save or annuitise with us.

UK corporate pension AUA increased by £4.7bn or 19% to £29.2bn. Net inflows increased by 62% to £2.0bn (2012: £1.2bn) with our success in securing new schemes and the positive impact of auto enrolment more than offsetting the impact of expected outflows from schemes secured by competitors on a commission basis prior to the implementation of RDR. We continue to secure new schemes and have a solid pipeline of business wins, including SMEs with upcoming auto enrolment staging dates. UK institutional pensions AUA managed by Standard Life Investments increased by 19% to £25.3bn helped by a 4% increase in net inflows to £1.9bn (2012: £1.8bn).

UK spread/risk business AUA reduced to £14.6bn (2012: £15.3bn), as negative market movements caused by an increase in yields on debt securities and scheduled annuity payments more than offset the impact of new annuity sales.

In our Europe business, fee based AUA grew by 15% to £15.7bn, driven by net inflows, which increased slightly to £1.2bn (2012: £1.1bn) and favourable market movements. Sales and inflows have improved from 2012, driven largely by the quality of our investment proposition and our marketing campaign in the Ireland branch.

### New business performance

Total UK and Europe PVNBP sales increased by 28% to £19,076m (2012: £14,935m). This was against a backdrop of subdued, although improving, retail consumer sentiment and ongoing economic uncertainly and a continually evolving market environment following the introduction of RDR. Sales of corporate pensions increased by 73% benefiting from the implementation of auto enrolment and the strength of our propositions for the workplace pension market.

### Our business model

We have strategically positioned ourselves across the value chain, by providing investment solutions through Standard Life Investments via funds such as MyFolio and through Standard Life Wealth. Our business model also supports the wider Group in generating additional revenue margins.

### Maximising revenue

- Negotiations concluded with 14 investment management companies, enabling us to deliver preferential terms to customers in a simple, transparent and tax-efficient way. As well as creating value for our customers this will remove significant complexity for advisers and our business.
- MyFolio, managed by Standard Life Investments, provides an attractive investment outsourcing option to advisers and customers. In the UK, MyFolio AUA increased by 82% to £4.0bn (2012: £2.2bn). Distribution of MyFolio in Ireland has progressed well, accounting for 25% of total sales in 2013, and in Germany MyFolio now accounts for £60m of AUA.
- Launched Master Trust, our trust based pension solution in response to the growing market opportunities presented by auto enrolment and the large market for trust based schemes
- Our auto enrolment solution for SMEs was launched in 2013 with Standard Life Investment Active Plus III as the default fund providing a risk based default solution. We have now entered into arrangements with 22 strategic partners including Punter Southall and Barnett Waddingham to offer a packaged 'off the shelf' solution to their new auto enrolment clients.
- Following a year-long review of the annuities market, the Financial Conduct Authority (FCA) issued their report in February 2014. The FCA is now launching a further study with a view to improving customer outcomes. We support this as we believe it is important that customers understand their options. Our education process begins 10 years before retirement focussing on helping customers to understand all the options available to them so that they can make an informed decision and get the right outcome for their retirement. In the meantime, in Q4 2013, we expanded our propositions by launching our enhanced annuity proposition in response to growing customer demand.
- Standard Life Wealth completed the acquisition of the private client division of Newton Management Limited in September 2013. This will increase the scale of the Group's discretionary investment management service, broaden the client investment proposition and increase distribution capability. In November 2013, we announced that Standard Life Wealth will move from the UK and Europe business and will be reported as part of Standard Life Investments results from 1 January 2014.
- We now have 1m customers with whom we have a direct relationship and we are developing new services to support those customers in order to improve engagement and increase cross sales, consolidation and retirement services opportunities
- Our Maxxellence investment product in Germany continues to perform well, attracting £33m (2012: £10m) of assets since its launch in 2012.

### Increasing assets

- Wrap platform assets increased by 36% to £16.6bn (2012: £12.2bn). The number of firms using our Wrap platform increased by 99 firms to 1,236 firms and those with more than £20m assets on the platform are up 41% to 228 firms.
- We support the FCA's move to the unbundling of charges and the promotion of clean share classes. We have delivered a simple, consistent and tax-efficient pricing structure, along with clear discounts from external fund managers. This demonstrates our buying power in the market and we believe that this will support asset growth as it will create value for our customers and will remove significant complexity for advisers and our business.
- Our SIPP proposition continues to grow with a 20% increase in customers and AUA up 18% to £23.2bn (2012: £19.6bn)
- Our distribution arrangement with RBS Group for private banking customers continues to develop and has now contributed £0.2bn in Wrap platform AUA. We have also launched an online feature allowing customers who have already taken advice from their RBS adviser to top up online through their wrap platform.
- We secured 243 new corporate schemes (2012: 203 new schemes), which will bring an estimated 118,000 new employees (2012: 88,000 new employees)
- We successfully implemented auto enrolment for 219 existing and 71 new schemes in 2013, which combined with regular joiners across the 35,000 schemes we administer, means that we have secured 292,000 new employees resulting in the number of total employees increasing to 1.4 million
- Our early experience of auto enrolment remains encouraging with an average opt out rate of less than 10% of those auto-enrolled
- We are continuing to see high levels of enquiries from employers as they review their entire defined contribution pension provision.

### Lowering unit costs

- We expect to continue to deliver further unit cost reductions through automation and greater operational efficiencies
- Auto enrolment is expected to deliver scale with acquisition costs per new joiner falling, as demonstrated with the continuing trend towards online interaction with customers and self-servicing. 79% of opt-outs for auto enrolment were processed without manual intervention or interaction with our customer service representatives.
- Our new in-house bulk hub, which specialises in bulk fund switches, has reduced end to end processing time by over 95% regardless of scheme size
- Staff costs represent approximately 87% of total UK operational direct costs. Overall, there has been a 15% reduction in employee numbers since 2011, whilst UK revenue per average employee has increased by 21%.
- Providing our customers with high quality service remains very important to us. We will continue to invest in both the quality and efficiency of our customer service operation whilst maintaining a downward trend in overall unit costs and ensuring that the UK business is equipped to meet future growth demands.

# 1.4 Business segment performance *continued*

## 1.4.2 Standard Life Investments

### Financial highlights

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Operating profit before tax | **£192m** | £145m | 32% |
| Operating return on equity | **67.4%** | 52.0% | 15.4% points |
| Earnings before interest and tax (EBIT)[1] | **£192m** | £145m | 32% |
| EBIT margin[1] | **37%** | 36% | 1% point |
| Third party assets under management (AUM) | **£97.4bn** | £83.0bn | 17% |
| Total assets under management | **£184.1bn** | £167.7bn | 10% |
| Third party net inflows | **£10.1bn** | £6.1bn | 66% |

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

### Strategic overview

Standard Life Investments is a leading asset manager with an expanding global reach. Our ‘Focus on Change’ investment philosophy lies at the heart of our wide range of investment solutions and is backed by disciplined risk management and a shared commitment to a culture of investment excellence. This has proved itself to be robust and repeatable in both good and challenging market conditions. We have an unbroken record of positive annual net flows since inception and a strong track record of profitable organic growth. Earnings before interest and tax have a compound annual growth rate over the last six years of 17%.

We have further expanded our range of investment solutions, with developments in real estate, multi-asset portfolios and emerging markets being of particular note. We continue to broaden the diversity of our AUM with 53% (£5.3bn) of third party net inflows coming from outside the UK, including £2.1bn from the US, and 46% from the Institutional distribution channel.

We will continue to leverage our investment expertise and work closely with the wider Standard Life Group, and with our strategic partners including Sumitomo Mitsui in Japan, HDFC in India and John Hancock in the US, while exploring and capitalising on further opportunities for growth elsewhere.

Our ‘Focus on Change’ investment philosophy continues to drive our investment processes, delivering strong performance with over 90% of third party AUM funds ahead of benchmark for all key time periods. We play a leading role in governance and stewardship. Strong corporate governance along with responsible stewardship of a business’ assets, employees, customers and environment has a fundamental impact on long-term investment returns. During 2013, we voted at 1,939 shareholder meetings and undertook 511 Environmental, Social and Governance engagements, promoting high standards of governance and stewardship.

During 2013, Standard Life Investments became the first designated Worldwide Partner in the history of the Ryder Cup, extending our brand reach and building our global growth strategy. The Ryder Cup's heritage, values and strong team ethos are an excellent match to Standard Life Investments’ core beliefs and ambition.

Results for Standard Life Wealth will be reported as part of Standard Life Investments from 1 January 2014. This follows the acquisition of the private client division of Newton Management Limited which created a deeper operational and investment link between Standard Life Wealth and Standard Life Investments. We believe that there are substantial opportunities to accelerate the growth of Standard Life Wealth by utilising Standard Life Investments’ infrastructure, internal expertise and international exposure.

### Market update

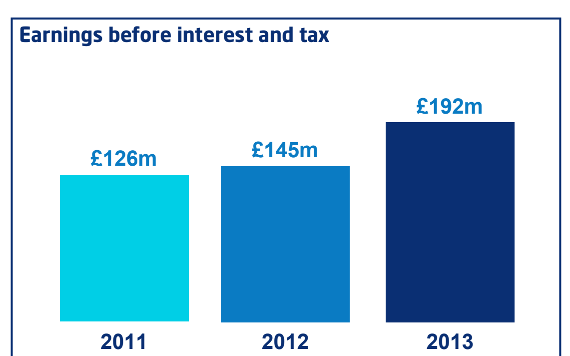
The latter part of 2013 saw more investor confidence that the major economies were recovering, helped by very considerable support from central banks. Equity markets benefited from continued earnings growth, while global fund flows suggested that investors were gradually increasing their risk appetite as inflows to equity markets exceeded those to bonds for the first time in a number of years. During 2013 as a whole, share prices rose strongly in most developed markets, although many emerging markets lagged behind due to economic and political concerns.

Despite many investors still seeking income opportunities in a period of low interest rates, demand for sustainable earnings and growth opportunities in equities and commercial real estate has increased. Standard Life Investments stands to benefit by providing robust and innovative investment solutions that satisfy changing client risk appetites.

Confidence among institutional clients continues to grow and strong inflows have also been recorded across the global wholesale market. The advantages of our strategic positioning have been reflected in Standard Life Investments’ ability to attract flows across a range of higher margin products through a broad suite of investment solutions, continuing product innovation and expanding geographic reach.

## Profitability

| Operating profit before tax | 2013 | 2012 |
|---|---|---|
| | £m | £m |
| Fee based revenue | **521** | 408 |
| Maintenance expenses | **(351)** | (281) |
| Share of joint ventures' and associates' profit before tax | **22** | 18 |
| **Standard Life Investments operating profit before tax** | **192** | 145 |
| Interest and exchange rate movements | **-** | - |
| **Earnings before interest and tax (EBIT)** | **192** | 145 |




**Operating profit before tax** and **EBIT** increased by 32% to £192m, with a 1% point increase in **EBIT margin** to 37%.

The key highlights were:

- **Fee based revenue** exceeded half a billion pounds for the first time, rising 28% to £521m. This reflected the shift in mix towards higher margin products such as UK mutual funds and multi-asset investment solutions, and the increased market levels. The changing mix helped to increase the revenue yield on third party AUM to 44bps (2012: 40bps).
- **Maintenance expenses** increased to £351m reflecting the investment in growing the business and diversifying our sources of revenue both geographically and by product category. We have expanded our geographical footprint and invested in our operational and technology infrastructure while maintaining control of our cost base.
- **HDFC Asset Management**, our associate business, remains the largest mutual fund provider in India and contributed £22m (2012: £18m) to operating profit before tax.

### Operating return on equity

Operating return on equity increased to 67.4% (2012: 52.0%), reflecting the increased profitability of our business and an efficient and scalable capital base.

## Investment performance

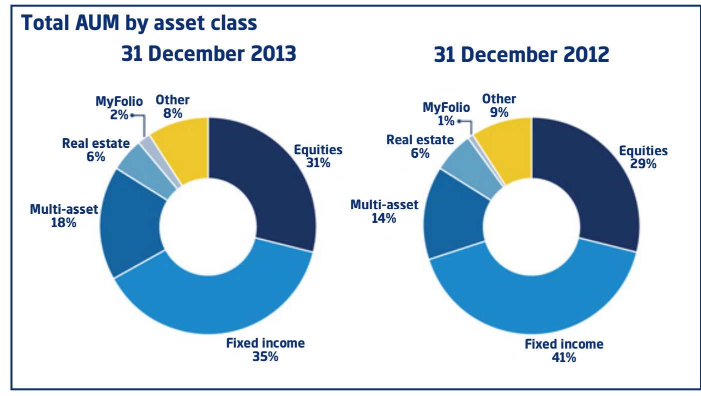
Strong growth in 2013 was underpinned by excellent money weighted average investment performance. 99% of third party assets under management were ahead of benchmark in the year with 94% ahead over 3 years and 96% over 5 years. It is particularly encouraging that equity funds performed strongly through stock selection during the recent period of turbulence, with 99% of equity funds ahead of benchmark at 1 year. Impressive performance continues to be delivered by the credit teams, with 100% of funds ahead of benchmark at 1 year. Our suite of multi-asset funds outperformed their cash benchmark over all key time periods since inception. In addition, the strength of our mutual funds proposition is demonstrated by fifteen of our funds being in the top decile of the peer group over 1 year and twelve funds being in the top decile over 3 years. A large proportion of eligible and actively managed funds (45 out of 61) were rated 'Silver' or above by Standard & Poor's.

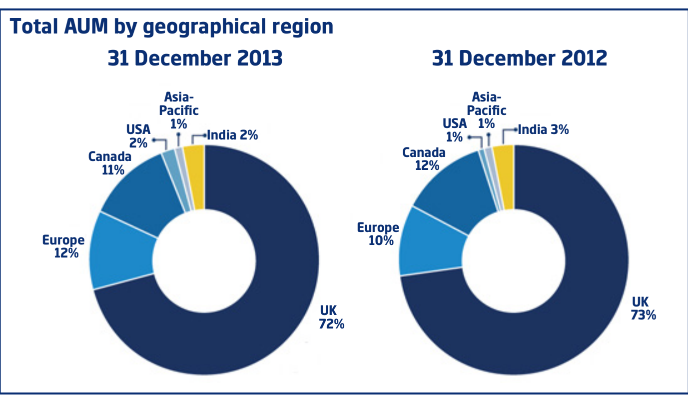
## Assets under management and net flows

We remain focused on meeting the needs of existing clients and securing new business backed by consistently strong investment performance, product innovation, high levels of client service and an expanding global distribution capability. Third party net inflows increased 66% to £10.1bn (2012: £6.1bn) representing 12% of opening third party AUM. This continued our unbroken record of positive annual net inflows since inception. Our retention rates were amongst the best in the industry, with redemptions at just 15% of opening third party AUM.

Third party AUM increased to a record £97.4bn (2012: £83.0bn) representing 53% of total AUM (2012: 49%). In-house AUM increased to £86.7bn (2012: £84.7bn) with investment performance returns and favourable market movements more than offsetting scheduled outflows from the with profits business. As a result, total AUM reached £184.1bn (2012: £167.7bn).

Inflows during 2013 reflected the diverse nature of our product offering, our expanding global distribution capability and the increasingly international nature of our client base. Assets under management generated from sales in our Boston office broke through $7bn, with net inflows in 2013 increasing to £2.1bn (2012: £1.8bn). In the UK and Europe we increased the institutional client base by 11%.



# 1.4 Business segment performance *continued*

## 1.4.2 Standard Life Investments *continued*

At an asset class level, we saw a broad mix of net inflows into fixed income, multi-asset, real estate and cash.

Our UK wholesale retail business continued to perform well with net inflows into our range of UK mutual funds up 36% to £3.4bn (2012: £2.5bn) and represented a market share of gross sales at 4.9% (2012: 4.7%). We also recorded the highest net sales in the industry in 2013, with the total for the year almost double that of our nearest competitor.

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

### Our business model

#### Maximising revenue

- Sales of high margin products enabled us to increase the revenue yield on our third party gross sales to 53bps (2012: 52bps) resulting in the average revenue yield on third party assets increasing to 44bps (2012: 40bps)
- Continued to collaborate across the Group to maximise the Group's share of the value chain, for example our MyFolio range of funds, which won 'Best New Fund Launch' at the Professional Adviser awards
- Standard Life Investments announced the launch of a second Global Emerging Markets Debt Fund, for retail and institutional investors in Europe.

#### Increasing assets

- Achieved record third party AUM of £97.4bn driven by third party net inflows of £10.1bn
- Our share of the wholesale market in the UK continues to grow, with gross sales increasing to 4.9% (2012: 4.7%). UK mutual funds AUM now exceeds £19.5bn, representing 20% of third party assets.
- Developing our multi-asset portfolio of products which comprises our suite of global absolute return strategies and balanced funds including the recent launch of the Enhanced-Diversification Growth Fund
- Market-leading range of MyFolio risk based funds, used extensively within our long-term savings and investments business, continues to be very popular with AUM of £4.0bn
- Development of our real estate product suite including the intent to enter the commercial real estate debt market and the launch of a Canadian Real Estate Fund
- Strong pipeline of new investment initiatives which positions us well to continue to meet the changing demands of our clients through new and innovative investment solutions.

#### Lowering unit costs

- Maintenance expenses expressed as a proportion of average AUM were 19bps (2012: 17bps). This reflects the ongoing development of our investment capability and expanding distribution and geographic reach.
- Continued investment to extend our geographical footprint with expansion in Boston and Hong Kong
- Investment in core operational and technology infrastructure to support future growth
- Ongoing management of costs, combined with expansion in revenue margins, has resulted in a 17% compound annual growth in EBIT over the last six years.

## 1.4.3 Canada

### Financial highlights

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Operating profit before tax[1] | **£251m** | £353m | (29%) |
| Operating return on equity[1] | **14.7%** | 24.5% | (9.8% points) |
| Assets under administration | **£27.4bn** | £27.8bn | (1%) |
| Net flows | **£376m** | £407m | (8%) |
| EEV operating profit before tax[1] | **£393m** | £310m | 27% |

1 Comparatives have been restated to reflect an amendment to IAS 19 *Employee Benefits*.

### Strategic overview

In Canada, we celebrated our 180th anniversary in 2013 and continue to help our customers to look forward to their financial future with confidence and optimism. Demographic and market changes are creating opportunities to grow our fee based business. We aim to achieve this by providing innovative retirement and investment solutions as well as exceptional levels of customer service.

Our corporate pension business creates employer and individual member solutions through innovation in technology and a comprehensive investment platform. In addition, our highly ranked retail sales team are providing advisers with solutions and tools to bring them closer to their customers, including our market-leading retail segregated funds. We are building on the strength of Standard Life Investments to provide global products in a Canadian market experiencing increased demand for investment diversification. We have expanded distribution across the corporate broker network, increasing our presence with investment advisers. We are engaging directly with our corporate pension members as we look to consolidate their assets on our investment platforms. We also continue to focus on maximising the value of our back book of spread business, improving its profitability, capital efficiency and risk exposure.

### Market update

Consumer confidence has reached its highest level since 2010 and Canada continues to be seen as a safe haven for international investors. While Canadians are feeling more optimistic about their current and future finances, they remain cautious about future job prospects, reflecting global economic worries and subdued national growth prospects. Longer term, the combination of declining population growth and an ageing population is expected to increase the emphasis on private sector retirement and health benefit provisions. This increases opportunities for providers of investment products, as well as decumulation and payout propositions.

Rising interest rates and equity market volatility have left investors looking for alternatives to traditional investments and savings propositions, with net new flows in the retail investment space improving but remaining below historical levels. As a result, our retail business has a complete suite of income-oriented investment funds, a leading retail segregated fund offering and Standard Life Investments' successful Global Absolute Return Strategies (GARS) offering has been launched for the Canadian retail market. These are aiming to meet the need of risk-averse customers seeking stable yields. Retail mutual fund regulation is evolving towards increased cost and performance transparency. While we do not expect that this will lead to the elimination of upfront sales commissions in the short term, we are leveraging the UK experience with RDR to take advantage of this evolving environment. Our new fee based class of segregated funds are designed for advisers and clients moving away from traditional commission-based products.

In light of the current investment climate, the Canadian market has been focused on product management and retention. We have launched a comprehensive programme aimed at getting Canadians to break free from financial inertia caused by financial uncertainty and the volume and complexity of information. Our new online tool, the Motion Profiler, allows both existing and potential customers and their advisers to understand how finances and investing fit into their broader life goals and concerns, and what might be preventing them from saving or holding them back from investing.

The need for greater private pension provision through employers is also very evident. We continue to engage with policy makers and employers to develop propositions that meet our customers' needs. We expect that demand for defined contribution retirement solutions will increase with the continued shift away from defined benefit pension plans, particularly by private sector employers. In addition, the introduction of Pooled Registered Pension Plans (PRPP) will make pensions saving much more accessible to employees of small and medium-sized enterprises who represent the majority of employers in Canada. Whilst provincial legislation introducing PRPP has experienced delays, provinces representing over 50% of all businesses in Canada have enacted PRPP legislation and are in the process of introducing guidelines and issuing licenses to providers. Quebec is the most advanced and is the only province with an announced timetable for implementation following the adoption of the Voluntary Retirement Savings Plans (VRSPs). From July 2014, VRSPs will include mandatory auto enrolment for Quebec-based businesses with more than five employees but voluntary contribution from employees, over a deferred period.

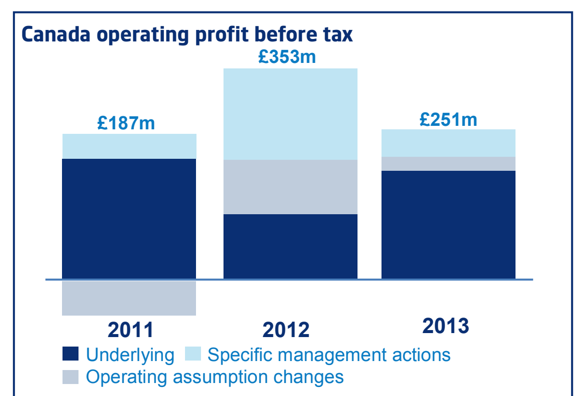
# 1.4 Business segment performance *continued*

## 1.4.3 Canada *continued*

### Profitability

#### Operating profit before tax

| | 2013 £m | 2012 £m |
|---|---|---|
| Fee based revenue | **194** | 172 |
| Spread/risk margin | **351** | 393 |
| **Total income** | **545** | 565 |
| Acquisition expenses | **(76)** | (79) |
| Maintenance expenses | **(234)** | (240) |
| Capital management | **16** | 107 |
| **Canada operating profit before tax** | **251** | 353 |




Operating profit before tax decreased by £102m to £251m (2012: £353m) mainly due to lower gains from one-off actuarial reserving changes and a reduced level of management actions compared to 2012. Canada underlying performance increased by 67% to £182m (2012: £109m).

The key movements in operating profit were:

- **Fee based revenue** increased by £22m due to higher average AUA
- **Spread/risk margin** reduced due to lower actuarial reserving changes which generated a gain of £24m (2012: gain £91m). Spread/risk margin was also impacted by a reduction in total management actions to £91m (2012: £109m). Specific management actions of £42m (2012: £81m) reflected gains from property sales and the renegotiation of an existing reinsurance arrangement. Other ongoing regular management actions to enhance the investment yields on assets contributed £49m (2012: £28m). These items were partially offset by better than expected claims and investment experience and higher returns from existing business.
- **Acquisition expenses** decreased slightly due to lower administrative expenses
- **Maintenance expenses** decreased by £6m to £234m and expressed as a proportion of average AUA improved to 88bps (2012: 95bps)
- **Capital management** decreased by £91m due to reduced gains on property sales of £3m (2012: £72m) and lower returns following de-risking in 2012, which resulted in surplus assets being invested in lower yielding bonds rather than properties.

#### Analysis of Canada operating profit before tax

| | 2013 £m | 2012 £m |
|---|---|---|
| Canada underlying performance | **182** | 109 |
| Specific management actions (Spread/risk margin) | **42** | 81 |
| Specific management actions (Capital management) | **3** | 72 |
| Operating assumption and actuarial reserving changes (Spread/risk margin) | **24** | 91 |
| **Canada operating profit before tax** | **251** | 353 |

#### EEV operating profit

EEV operating profit before tax increased to £393m (2012: £310m), mainly due to improved modelling of future taxes within the actuarial reserves, partly offset by lower property disposal gains and the impact of assumption changes.

#### Operating return on equity

Operating return on equity decreased to 14.7% (2012: 24.5%) in line with lower operating profit and higher levels of capital at the start of the year following management actions undertaken in 2012.

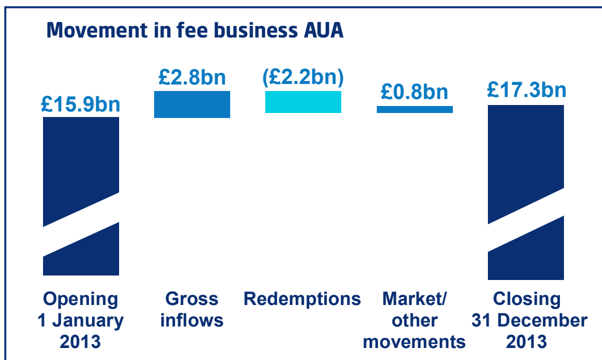
### Assets under administration and net flows

Total AUA decreased by 1% to £27.4bn reflecting adverse exchange rate movements partly offset by positive net inflows. AUA increased by 7% in constant currency.

Fee business AUA increased by 18% in constant currency to £17.3bn due to positive net inflows into retail segregated funds and corporate pensions as well as positive market movements.

Spread/risk AUA decreased to £8.4bn resulting from scheduled net outflows and adverse market movements.

Net inflows into fee based propositions reduced by £243m to £572m (2012: £815m) due to lower flows into corporate pensions and net outflows from retail mutual funds, largely reflecting outflows in fixed income funds driven by the adverse interest rate environment. These were partly offset by strong growth in retail segregated funds, driven by the strength of our offering and adviser relationships.



## New business performance

PVNBP sales of £2,894m were 18% lower in constant currency (2012: £3,584m) due to a particularly strong performance in 2012 when several large corporate pension and corporate benefit schemes were won. This was partially offset by a strong performance in retail fee business where segregated funds sales increased by 27% in constant currency to £832m (2012: £668m).

| Net flows[1] | | 2013<br>£m | 2012<br>£m |
|---|---|---|---|
| Fee (F) | F | **248** | 500 |
| Spread/Risk (S/R) | S/R | **(112)** | (224) |
| **Corporate pensions** | | **136** | 276 |
| Corporate benefits | S/R | **82** | 92 |
| Retail fee | F | **324** | 315 |
| Retail spread/risk | S/R | **(166)** | (276) |
| **Total Canada** | | **376** | 407 |
| Fee business | | **572** | 815 |
| Spread/risk business | | **(196)** | (408) |
| **Total Canada** | | **376** | 407 |

[1] Canada categories for AUA and net flows have been revised to align with other business segments.

## Our business model

We look to further enhance our position in the market and strengthen our relationships with customers and advisers by providing innovative retirement and investments solutions, enabled by Standard Life Investments' global investment capabilities.

### Maximising revenue

- The average revenue yield on our fee business remained stable at 113bps (2012: 113bps)
- We continue to work closely with Standard Life Investments on distributing global investment products through our retail investment funds offering, securing a greater proportion of the value chain and driving future revenue growth. Across all our product lines 20 new funds managed by Standard Life Investments were launched in 2013.

### Increasing assets

**Corporate**

- Launched 'Pension in a Box', a comprehensive and flexible retirement programme targeted at SMEs, which offers the complete Plan for Life Programme member experience
- Launched our Financial Education Centre for corporate pension members, providing better understanding of financial concepts through interactive multi-media tools and calculators
- Our Group Retirement Centre focused on delivering retirement income planning services to customers and generated £90m in net inflows in 2013
- Launched Target Liability Bond Funds, a sophisticated solution for employers looking to address the challenges of the low interest rate environment and help them manage the transition from defined benefit to defined contribution plans
- Added 22 new funds to our Quality and Choice platform, including 13 funds managed by Standard Life Investments and funds from four new external managers
- In corporate benefits, we expanded our range of consulting services and tools, focusing on promoting sustainable health initiatives in the workplace
- Enhanced our healthcare management approach by enabling the submission of claims directly from healthcare providers' point-of-care and introduced digital statements and invoicing through our client website
- Continued to develop our serious health issues Management and Support Programme to assist customers, ensure optimal quality and effectiveness of treatment and help plan sponsors to contain costs.

**Retail**

- Continued to expand our mutual funds offering with new product launches, including Standard Life Investments managed US Monthly Income, Tactical Bond funds, and Standard Life Mutual Funds' Global Real Estate Fund
- Enhanced our retail segregated funds proposition by adding the GARS fund and expanded our market reach by introducing a new class for all our funds destined for fee based advisers and their clients
- Maintained leading position in individual segregated funds – ranked no.1 by net flows and market share of 13% as at 31 December 2013
- We now have access to five of the top six Canadian banks' investment dealer platforms with the GARS mutual fund and other global funds managed by Standard Life Investments helping us to strengthen and build distribution relationships.

### Lowering unit costs

- Acquisition expenses as a proportion of sales were 263bps (2012: 220bps), adversely impacted by lower sales volumes in the year
- Maintenance costs as a proportion of average AUA improved to 88bps (2012: 95bps), reflecting continued efforts to improve efficiency.

# 1.4 Business segment performance *continued*

## 1.4.4 Asia and Emerging Markets

### Financial highlights – wholly owned

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Operating loss before tax | **(£11m)** | (£5m) | (120%) |
| Operating return on equity | **(14.1%)** | (10.2%) | (3.9% points) |
| Assets under administration | **£296m** | £215m | 38% |
| Net flows | **£80m** | £55m | 45% |
| EEV operating loss before tax | **(£8m)** | (£19m) | 58% |

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

| | 2013 | 2012 | Movement |
|---|---|---|---|
| Operating profit before tax | **£5m** | £8m | (38%) |
| Operating return on equity | **5.1%** | 7.9% | (2.8% points) |
| Assets under administration | **£1.6bn** | £1.5bn | 7% |
| Net flows | **£231m** | £249m | (7%) |
| EEV operating profit before tax | **£23m** | £18m | 28% |

### Strategic overview

Our Asia and Emerging Markets business consists of wholly owned operations in Hong Kong, Singapore and Dubai, and life joint ventures in India and China. The wholly owned and joint venture businesses in Asia continue to evolve to meet the needs of customers in our chosen markets. The wholly owned business restructure was completed successfully in 2013 with the transfer of knowledge, operations and management responsibility to our new hub in Hong Kong.

Product enhancements and growing our distribution capability are key areas of focus for our wholly owned business. This will help meet the needs of our wide range of customers and also allow us to adapt to the rapidly changing regulatory environment. In Hong Kong, work is continuing to improve our business quality with a shift towards increasing direct contact with customers and closer distribution relationships with key independent financial advisers (IFAs). For the newly opened branches in Singapore and Dubai, the focus is on expanding distribution and developing our operational capability.

The Asia Advisory Board (AAB) was established during 2013 to provide guidance and advice on our strategy to grow across the region. The work of the AAB will support our businesses in the region as well as inputting to our joint ventures. The AAB is chaired by Gerry Grimstone and consists of Standard Life and external members.

The life joint venture business in India, HDFC Life, continues to be one of the top private providers in its local market, meeting the needs of their customers through offering a range of insurance solutions and demonstrating strong customer-focused business practices. In December 2013 HDFC Life paid its first dividend to shareholders. This is a significant milestone in the company's development and is a result of successful growth and HDFC Life board's confidence in the future sustainability of the business.

Heng An Standard Life, our life joint venture in China, continues with its strategy to develop targeted distribution channels to provide sustainable growth through offering a range of traditional insurance products.

### Market update

The long-term savings and investments market in Hong Kong remained competitive. Our business continued to attract higher net worth customers resident in Hong Kong and the wider region, improving our position in the market.

Singapore and Dubai are both high growth, high value emerging markets. In Singapore, the full implications of the comprehensive Financial Advisory Industry Review, chaired by the Monetary Authority of Singapore, are not yet known however we support any move to increase transparency for customers.

The Indian economy had a turbulent year in 2013 with economic growth rates declining. Life insurance penetration rates are still low in India compared to more developed markets. Regulatory change continued in 2013 which led to uncertainty for both companies and customers. HDFC Life continues to adapt proactively to the regulatory and market changes, to focus on providing quality products and services to customers and to consolidate its standing and reputation in the market.

The life assurance market in China is dominated by local companies who account for over 90% of new business. For joint venture companies, sales increased by 45% in 2013, with low margin short term single premium business accounting for a significant share of this growth. The Heng An Standard Life management team continue to drive sustainable growth through offering a range of long-term assurance solutions and expanding their targeted distribution channels.

## Profitability

### Operating (loss)/profit before tax

Operating loss before tax is £6m (2012: profit £3m):

- **Fee based revenue** increased by 16% in constant currency due to the growth in sales volumes
- Total **expenses** increased by 25% in constant currency reflecting the increased investment in expanding our business into Singapore and Dubai and an impairment of deferred acquisition costs in Hong Kong due to policyholders ceasing to make regular premiums to their policies earlier than expected
- The **joint venture businesses** delivered an operating profit before tax of £5m (2012: £8m). This reduction was primarily driven by changes in the new business mix in India towards more profitable products which have a higher new business strain and a strengthening of Sterling against the local currencies.

| Operating (loss)/profit before tax | 2013 £m | 2012 £m |
|---|---|---|
| Fee based revenue | 54 | 46 |
| Acquisition expenses | (22) | (10) |
| Maintenance expenses | (43) | (41) |
| **Total wholly owned** | **(11)** | (5) |
| India and China JV businesses | 5 | 8 |
| **Asia and Emerging Markets operating (loss)/profit before tax** | **(6)** | 3 |

### EEV operating profit

Total EEV operating profit increased to £15m from a loss of £1m in 2012. The wholly owned businesses recorded a total EEV operating loss of £8m (2012: loss £19m). Higher sales in Hong Kong and business written by our new branches in Singapore and Dubai have benefited the result.

EEV operating profit in our joint venture businesses increased to £23m (2012: £18m). In constant currency the EEV operating profit has increased by 44%. This increase has been driven by new business contribution increasing to £19m (2012: £13m), a 48% increase in constant currency.

### Operating return on equity

Operating return on equity for our total Asia and Emerging Markets operations was a negative return of 2.3% (2012: positive return of 1.3%) driven by the operating loss after tax.

## Assets under administration and net flows

AUA in the wholly owned businesses grew by 38% in constant currency to £296m (2012: £215m), with net inflows increasing to £80m (2012: £55m). This was driven by robust net inflows in Hong Kong and also reflects improved consumer sentiment across the markets we operate in.

AUA in the joint venture businesses increased by 7% to £1.6bn (2012: £1.5bn) mainly due to net inflows of £231m (2012: £249m). Net inflows in India were broadly in line with 2012 levels. In China, net inflows were lower in 2013 due to the product mix being weighted more towards higher margin regular premium business rather than lower margin single premium products, which would have higher initial flows.

## New business performance

PVNBP sales in the wholly owned businesses increased by 84% in constant currency to £468m (2012: £252m), driven mostly by the increased sales in Hong Kong. In India, sales fell by 3% in constant currency to £388m. HDFC Life continues to balance quality of business with sales volumes. In China, sales fell by 14% in constant currency to £77m as a result of strategic actions taken to focus on sustainable growth by targeting higher margin regular premium business.

## Our business model

### Maximising revenue

- Revenue for wholly owned business increased by 16% in constant currency, reflecting the strong growth in AUA. Our wholly owned business continues to increase the diversification of revenue across products and territories.
- Further opportunities for greater collaboration with Standard Life Investments in Asia are being explored
- In India, HDFC Life continues to generate strong net inflows as it focuses on improving customer experience and implementing new business quality initiatives.

### Increasing assets

- We offer propositions that help our customers invest during volatile market conditions. In Hong Kong, the Harvest 101 product will be re-launched mid-2014, meeting revised regulatory requirements and will continue to meet the needs of the target market of internationally mobile clients.
- Following the first anniversary of the opening of our branches in Singapore and Dubai, we aim to increase our asset base and provide solutions for a wide range of customers
- HDFC Life continues to be ranked in the top 3 private companies for overall new business sales in the life insurance market.

### Lowering unit costs

- Total expenses increased to £65m (2012: £51m), reflecting the costs associated with expanding our operations into Singapore and Dubai and the impairment of deferred acquisition costs in our Hong Kong business
- Successful transition of shared functions to Hong Kong in 2013 generated cost efficiencies and enabled improvements in capability as support services moved closer to the territories.

## 1.5 Risk management

Risk management is an integral part of the Group's corporate agenda. Our risk management strategy is to actively support the development of long-term value creation by ensuring well informed risk-reward decisions are taken in pursuit of the Group's business plan objectives and to ensure capital is delivered to areas where most value can be created for the risks taken. Further details on our risks and our management of these risks are included in Note 41 – Risk management in the Group financial statements section of this report. The framework we use to manage our risks is set out in the Corporate governance section.

| | 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 obligations, 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 appetite for market risk exposures that 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. Exposures may also be incurred with surplus assets subject to limits on the quantum and term of exposures. | 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 business units must adhere to. |
| **Main sources of risk** | **Equity and property risk**<br>• 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<br>• Burnthrough from the Heritage With Profits Fund (HWPF) and German With Profits Fund (GWPF)<br>• Assets held to back annuities and surplus in Canada.<br>**Fixed interest risk**<br>• 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<br>• Burnthrough from the HWPF and GWPF<br>• Insufficient long-dated fixed income assets to match the longest dated liabilities in Canada.<br>**Currency risk**<br>• Exchange rate movements that reduce the Sterling value of overseas operations and the capital repatriated from them<br>• 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:<br>• 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<br>• Burnthrough from the HWPF.<br><br>Credit risk also results from holding the following assets:<br>• Corporate bonds held to back annuities written by SLAL post-demutualisation<br>• Assets held to back subordinated debt, including a small proportion in SLAL which are asset backed securities that are held for historical reasons<br>• Corporate bonds and commercial mortgages held in Canada to back annuities.<br><br>Other holdings of cash and cash equivalents, debt securities and the reinsurance of certain insurance liabilities to reinsurance counterparties also results in credit risk. |
| **2013 summary** | Whilst concerns about sovereign debt levels in certain Eurozone countries remain, the return of economic growth and the possibility of tapering the US Federal Reserve stimulus have led to yields in the UK, Germany and Canada rising.<br><br>In managing our market risks in 2013 we have:<br>• Introduced cashflow matching investment strategies for annuity business in Ireland and Germany which have reached sufficient size to make this feasible<br>• Continued the dynamic hedging of guarantees provided for Canadian Segregated Funds<br>• Monitored and managed the level of risk taken within the HWPF in line with Principles and Practices of Financial Management and the need to treat with-profits policyholders fairly<br>• Reviewed and affirmed our currency hedging strategy which, within certain parameters, seeks to minimise currency volatility within the regulatory surplus and reduce the currency risk relating to dividend receipts from overseas operations. | During the year, UK sovereign debt credit ratings were cut by two major rating agencies. We had anticipated this and were well-prepared.<br><br>Our approach to managing credit concerns regarding debt issued by certain European sovereign states and banks remains the same and ensured we suffered no direct loss as a result of the financial crisis in Cyprus in 2013.<br><br>We successfully restructured a number of reinsured external fund links which has resulted in reducing our potential credit exposures. We typically have minimal direct exposure to US sovereign debt. However, we have closely monitored political developments in the US regarding the debt ceiling and budget discussions given the potential wider implications for credit markets. |

| Demographic and expense risk | Liquidity risk | Operational and strategic risk |
| --- | --- | --- |
| The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected. This includes risks relating to insurance and investment contracts. | The risk that the Group is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost. | Operational risk is the risk of adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or external events. Strategic risk is the risk associated with the robustness of the planning process and threats to achieving our strategy. |
| The Group has an appetite for demographic risks since we expect acceptance of such risks to be value additive and limits are established to reflect planned business activities. The Group recognises expense risk may arise from core strategic activity but has limited appetite for significant expense over-runs. | The Group always aims to meet its liabilities as they fall due. | The Group recognises that core strategic activity brings with it exposure to operational risk. However, the Group has limited appetite for large operational losses due to the related reputational damage and opportunity costs. The Group seeks to manage existing operational risk exposures and proactively control new exposures. |
| **Persistency**<br>• Changes in the value of future profits earned on unit linked funds and collective investment schemes and future recourse cash flow payments from the HWPF<br>• Changes in the value of future profits earned in respect of Standard Life Investments' third party AUM and segregated fund business.<br>**Longevity**<br>• Annuity contracts written by the business where the current experience differs from that expected, there is more volatility of experience than expected, or the rate of improvement in mortality is greater than anticipated.<br>**Expense**<br>• Changes in the value of future expected expenses<br>• Shareholder is directly exposed to risk of expenses being above expectation. | The Group is exposed to liquidity risk from the following sources:<br>• 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<br>• 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<br>• Potential liquidity issues in unit linked funds due to the underlying asset classes<br>• The collateralisation of derivatives which results in cash volatility as the value of the derivative changes. | The key operational and strategic themes affecting the Group are:<br>• Ability to deliver the strategic plan<br>• The significance of adverse global economic volatility<br>• The changes to the tax, legal or regulatory environment and resultant impact on our model and strategy<br>• Inadequate control environment internally and in relation to third parties<br>• Customer detriment resulting from system outage or security failings<br>• Systems unavailability and security exposures from emerging risks such as cyber threat<br>• Potential loss of clients from adverse customer experiences<br>• Insufficient capacity and capability to deliver change programmes and projects<br>• Insufficient people capabilities to deliver our strategy and plans<br>• Reputational damage. |
| We have continued to monitor opportunities for enhancing back-book profitability via reinsurance or capital market solutions.<br>We remain focused on developing propositions to increase the retention of funds when insurance and savings contracts reach maturity.<br>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.<br>We have renegotiated the terms of certain reinsurance arrangements in Canada to assist with the management of our longevity risk. | We continue to monitor liquidity for various asset classes particularly in the context of developments in the financial markets. During H1 2013 we refinanced our £500m syndicated revolving credit facility for a further 5 years and this remained undrawn at 31 December 2013.<br>To further assist with liquidity management we have continued to:<br>• Centrally co-ordinate strategic planning and funding requirements<br>• Maintain our Euro Medium Term Note Programme. | The move to the new regulatory regime within the UK in April 2013 has had no significant impact on the Group to date.<br>We have continued to work on implementing appropriate processes and controls to prepare for tax, legal and regulatory changes. In particular, aligned to regulatory developments, we have increased our focus on conduct risk management to ensure this is embedded across the Group and we meet, if not exceed, regulatory expectations. We continue to prepare for the changes in requirements for Solvency 2.<br>We continue to monitor developments and prepare for possible outcomes from the referendum on Scottish independence in 2014 and any potential referendum on UK membership of the European Union. |

# 1.6 Our customers

Understanding our customers – their financial needs today and in the future – helps drive what we do and enables us to create commercial value. We're constantly looking at what our customers tell us to see how we can meet their changing needs and how to make improvements to the experience we give them.

## Knowing our customers

We operate in a very competitive market, and a strong knowledge of our customers is crucial in developing the right types of products and services to suit their needs. This means more than simply having accurate information on things like demographics, personal wealth and attitudes to risk, as has traditionally been the focus in our sector. We believe that it's just as important to know how customers think and feel.

During 2013, we commissioned research to help us understand more deeply how people feel about saving for the long term. Our *Saving in mind* research has helped us understand more clearly how emotions and positive communications can help us build stronger customer relationships. We also published a report on how families share and talk about their money called *The Family Financial Tree* – looking at how money passes through the generations and, significantly, how families talk to each other about their finances. The insight can help us develop products and services that help customers to make informed savings decisions and be more confident about their financial futures, and we think it can also inform approaches taken across our whole industry.

Another type of insight we've used to help inform the way we build customer relationships is a concept called 'Personas'. By using pen portraits of our customer groups, this concept helps us understand the needs of different types of customers when we are designing or reviewing the services we offer to them. This type of insight is a powerful tool to help us shape our activities across the Group, and to deliver tailored and targeted experiences to our customers.

We continue to find better ways of generating valuable customer insight. For example, we have hired a dedicated customer insight manager for our Asia and Emerging Markets business. We have also set up a working party to build a consistent approach to customer measurement and segmentation across the Group. This is made up of members of our UK and Europe, Canada, Asia and Emerging Markets and Standard Life Investments businesses. They look at the aspects of customer measurement and insight that can be shared across the business, as well as sharing best practice and helping to build a more comprehensive view of our customers around the world.

## Helping our customers

Online technology plays a big part in the ways we help our customers deal with us quickly, more easily and at times that suit them. We use feedback from customers to continue to improve the online experience. The main areas we looked at improving were around the information, guidance and transactional services that we offer. During 2013 we launched Lifemap, a tool we have developed to help customers with their financial priorities. It allows customers to select what their current priority is and receive some guidance accordingly.

We have continued our relationship with our online community, which now has more than 1,500 customer members. This is used on a regular basis to get feedback on products, services and experiences from our customers to inform our decision making, as well as for research into customer needs and expectations.

In 2013 we also launched our Financial Inertia programme in Canada. Following research that we commissioned, we found out that over 40% of Canadians are concerned about their finances, but that life goals, behaviours and values can hold many back from taking action. The Financial Inertia programme offers a dedicated website which provides a series of educational tools to help people reach their long-term savings and investment objectives. By using these tools, it can help people understand more clearly what might be holding them back from long-term saving, and how they can make this fit more easily into their lives.

## Treating customers fairly

For many years we have aimed to put our customers at the centre of everything we do, and one of the ways we show our commitment to this is through the policies we follow.

In the UK we are committed to following the Treating Customers Fairly principles – the UK financial services' guiding principles for companies in this sector. Since 2009, we have used these principles as a minimum requirement in our approach to customer service, and we continue to invest in improving our customer processes and understanding with the aim of exceeding these outcomes. In 2013 we strengthened this commitment by creating a new policy. The new Conduct Risk policy helps us show that our commitment to delivering fair customer outcomes at all times – everything from our people, processes, leadership style and systems are key parts of the culture of our business.

In Canada, we also follow the Sound Commercial Practices Guideline, which includes properly informing customers being offered a product or service and acting fairly in dealings with them.

## Satisfied customers

We have worked to improve how we measure and understand the experiences that we deliver to our customers. We continue to measure customer complaints and the causes of these issues, which gives us a clear idea of what we can do to put things right. In 2013 we received 5,785 customer complaints in the UK, which was down from 5,979 in 2012. We have also established new measures to help us understand more clearly how our customers feel about their experiences with us. Across our businesses in the UK, Canada, and Asia and Emerging Markets, we use the Net Promoter Score (NPS) measure to find out how likely people would be to recommend us. We use NPS along with a number of other measures, to plan and prioritise changes we can make to

improve these experiences. We will continue to build up our insight of our customers in 2014 and, importantly, take action as a result.

Another important focus area in 2013 was finding out how we can improve customer engagement through the communication channels we use – by testing and learning to help us produce quicker, more regular communications activity. For example, the digital retailing department we've set up in our UK business is responsible for delivering services that are driven by customer needs and the evolution of digital servicing. Its work involves improving our online channels and producing analysis and insight into customers' digital requirements. By using this insight to inform our decision-making processes, it will help us prioritise the changes we should make to drive our future activities.

## Awards and recognition

Awards and recognition for our individual businesses in 2013 include:

### UK and Europe

- Communication Innovation of the Year at the Professional Pensions UK Pensions Awards
- Auto enrolment Innovation of the Year at the Professional Pensions UK Pensions Awards
- Best benefits communications for a large company at the Employee Benefits Awards
- Best flexible benefits plan for a large employer – highly commended at the Employee Benefits Awards
- Five-star rating awarded for online service at the FT Adviser Online Service Awards
- Standard Life Wealth won the Gold Standard for Discretionary Portfolio Management at the Incisive Media Awards
- Best Group Pension Provider at the Corporate Adviser Awards.

### Standard Life Investments

- UK Equity Unconstrained Fund won the UK All Companies sector award at the Moneywise Fund Awards
- Multi Asset Investing Team won top prize for the second time at the Scottish Financial Services Award
- Large Investment Group of the year and the top awards in the UK equity category for our UK Equity Unconstrained Fund, and the Absolute Return category for our Global Absolute Return Strategies Fund, at the Investment Adviser 100 Club Awards 2013
- Best Client Service by an Investment Manager at the Engaged Investor Trustee Awards
- MyFolio team won the adviser award for best Fund of Funds/Multi Manager at the Investment Week Fund Manager of the Year awards
- DC Investment Provider of the Year, SRI/ESG Provider of the Year and Multi-Asset Manager of the Year at the UK Pensions Awards 2013
- Best New Fund Launch for our MyFolio range at the Professional Adviser awards
- Platinum award for our Global Absolute Returns Strategies Fund at the Portfolio Adviser Fund Awards
- Keith Skeoch was named European Personality of the Year, by Funds Europe, the business strategy magazine for Europe's asset management professionals. The award criteria were for someone who has made a major and significant contribution to the European funds industry in 2012/2013. It also took into account longer term achievements in, and contributions to, the industry.

### Canada

- Fundata Award won for Ideal Monthly Income Fund for superior risk-adjusted performance relative to peers
- Award of Excellence for Fund Information from the Insurance and Financial Communicators Association for our Global Equity Fund materials.

### Asia and Emerging Markets

- Best for Adviser Support/Customer Service in the Asia category of the International Adviser Life awards
- Readers' Choice award for the Best International Life Company – Global at the International Adviser Life awards
- HDFC Life Smart Woman Plan voted as 'Life Insurance Product of the Year 2013' – Nielsen's Product of the Year Consumer Survey.

# 1.7 Our people strategy

Our people enable us to deliver our strategy. We are committed to bringing out the best in them and having a culture that encourages career development. We invest in the development of our people and understand that highly engaged employees can drive a positive impact on our profits and shareholder value. Listening to what our employees tell us gives us even greater insight into where we should focus action and strengthens the relationship our employees have with the organisation.

## The four strategic themes of our people strategy

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

## Leadership and talent

We work with our people to bring out the best in them and allow everyone to fulfil their potential. We offer development opportunities for everyone at all levels, across all geographies throughout the organisation. Through our Group Development Framework, we focus on development across our talent pipeline right up to executive team level. This is driven by both business priorities and individual development needs.

To attract and retain the best people, we make sure that they have the right development and career opportunities and they hold regular conversations with their managers about their development and aspirations. We understand the value of engaging the Board on our talent agenda. In June 2013 we provided a full update to the Nomination and Governance Committee on the progress over the last three years and priorities for the future.

## Senior leadership

We continue to invest in mentoring, coaching and development programmes for our future leaders to fulfil our aim of a sector leading senior leadership group. We have a particular focus on ensuring that our senior leadership group have meaningful and stretching development goals in place. In addition to some key external recruitment, we continue to ensure strong internal succession cover. To support this, we benchmark our top leaders against the best externally and continue to make targeted investment in future leaders a priority.

## Talent programmes

Our talent programmes continue to be a key focus at all levels. In 2013 we launched another cohort of each of our award-winning talent programmes – Emerging Leaders Development Support and Accelerated Development Support with over 50 participants across the Group. We work with external organisations to address key development needs and create a strong succession pipeline into senior roles within our organisation. Individuals participating on these programmes continue to move across the organisation, including internationally, and typically stay with us to develop their careers.

## Graduates

Graduates help to support our future growth and we continue to put a focus on the structured development of them through our graduate and award-winning internship programmes. Our group-wide graduate programme continues to cover a wide variety of disciplines and we've increased our number of cross-group moves, including international placements. To strengthen our global graduate capability we began recruitment activity in Montreal, Boston and Hong Kong.

## Employability

Employability is a key focus of our sustainability activities. To us, it means working to help improve the opportunities that people, particularly young people, are afforded in society. Find out more about our progress in this area in Section 1.8 – Our sustainability strategy.

### Engagement and well-being

In 2013 we undertook a local staff survey in each business unit to understand how our areas of focus were beginning to make a difference. The survey was tailored for each local business with one consistent group question on technology and systems. Across the Group we saw positive feedback on how employees viewed the investment we have been making in technology and how this has helped make a difference to their engagement with the Group. The latest group-wide employee engagement survey took place at the beginning of 2014, the results of which will be used to understand the views of our people and focus local management actions for the year ahead.

Well-being continues to be a strategic priority. To promote a healthy work environment we participated in the Global Corporate Challenge, a healthy living and activity campaign, for the second time. Spaces filled up quickly and we improved our global ranking, finishing as the ninth most active organisation out of the 1,200 that took part. To recognise our success, we received a recognition of achievement award and were highlighted as a case study organisation on the challenge website. We also ran our first green travel week where activities such as walking and cycling to work were encouraged. This was in addition to a focus on mental health that also took place across the Group.

### Our performance culture

We believe great performance should be rewarded, and we aim to make the process we follow to do that clear to everyone. Our approach continues to support our reward principles by linking pay to performance and ensuring our remuneration remains competitive to the market and we continue to be a UK Living Wage employer. In addition to this commitment to the Living Wage, we do not support the use of zero hours contracts in our organisation. In 2013, building on our regular performance management conversations and enabled by technology, we introduced a flexible pay matrix and a new goal management system. This brings together performance and development goals in one place and helps ensure greater transparency to support our performance culture. We also introduced a refreshed total reward statement in September 2013, designed to help emphasise the way employees can tailor their benefits package and, by including details of annual salary and bonus awards, highlights to employees the link between performance and reward.

### Diversity and inclusion

Standard Life has a strong focus on creating an environment where everyone is respected, valued and included as an individual. We've always promoted a culture of fairness and equality, and our practices align with both United Nations and International Labour Organisation's standards. We believe that having a diverse and inclusive culture where our people can be themselves, are engaged and perform to their potential helps us deliver a great customer experience and helps to deepen the understanding we have of our customers' needs. In 2013, our diversity agenda was accelerated across the Group and we delivered a range of activities to achieve our goals. This included introducing new mandatory diversity training, providing unconscious bias training and carrying out workplace or role adjustments for people with disabilities. Our employee network groups make an important contribution to our business and community. In 2013 we launched an employee network for our lesbian, gay, bisexual and transgender employees. This, along with other initiatives, resulted in our Stonewall Workplace Equality Index ranking improving from 351st to 224th, which Stonewall confirmed was one of the biggest rank increases they have seen. Our women's development network also achieved a highly commended award at the 2013 European Diversity Awards after having been launched only 15 months previously.

Our Board benefits from diversity in its widest sense by ensuring an overall balance of skills, independence, knowledge and experience. As at 31 December 2013, the Board comprised eleven Directors made up of nine males (82%) and two females (18%) (2012: males 67%, females 33%). The departure of Jackie Hunt and the retiral of Sheelagh Whittaker during the year affected our diversity statistics at Board level and when considering all future appointments, the Board follows the principles of its Diversity statement which you can read in the Corporate governance section.

We track and take action on gender and age related diversity in our leadership and talent pipeline populations, and will formally gather data on other characteristics across all levels from 2014. We continue to promote gender diversity and the business case for gender balance in leadership is clear. We have also gathered the gender data relating to senior managers in our Group (which includes the directors of our consolidated subsidiaries; members of our Executive Job Family and members of our Senior Leadership Group). From a total population of 105, 86 are male (82%) and 19 are female (18%).

Our talent pipeline continues to show a balanced male/female mix with 49% females joining our graduate programme, and 42% joining the Emerging Leaders Group. The total number of employees in our Group is 8,589 comprising 4,367 females (51%) and 4,222 males (49%).

# 1.8 Our sustainability strategy

Our sustainability strategy is mapped to our Group's business strategy, so that the commercial aims of our business are linked to our Environmental, Social and Governance responsibilities. Our overall aim is to ensure we operate in ways that will help secure a successful long-term future for our business.

## The five material themes of our sustainability strategy

1 Listening and responding to customers
2 Operating and growing responsibly
3 Developing and engaging our people
4 Protecting our environment
5 Contributing to our communities.

Each one focuses on a different area of our business: customers, the environment, our people, how we operate and the communities in which we operate. We developed them to best reflect the issues that matter most to our business and to our stakeholders on all areas of running a sustainable business. Our stakeholders are a variety of different audiences, including our customers, our people, shareholders, industry analysts, regulators and the media. All sustainability work is overseen by our Corporate Responsibility Committee. Find out more information on this committee in the Corporate governance section of this report.

In each section below, we have summarised what each theme is about and included an update on the work we have done to deliver against it during 2013.

### 1. Listening and responding to customers

We believe a key part of being sustainable is to understand what our customers' wants and needs are. The majority of our business is about providing long-term savings and investments products and these are designed to be held over many years. We need to be able to build understanding and trust, as well as listen. What customers tell us helps inform the types of products and services that we offer and we have several programmes in place to get feedback. Find out what we delivered against this theme in Section 1.6 – Our customers.

### 2. Operating and growing responsibly

Good governance lies at the heart of the way we manage our businesses. We have a robust reporting programme in place to record our activities and accountabilities in the areas of corporate governance, risk management, anti-bribery and anti-corruption. Find out more about the activities and important updates in these areas in the Corporate governance section of this report.

We also look to apply the internal governance principles we use ourselves in the relationships we have with other organisations. Broadly we do this through influencing:

- as an investor, through Standard Life Investments
- as a buyer of goods and services.

**Investor**
In 2013, Standard Life Investments, our global asset management business, continued to influence as an investor. This was done through voting or other types of engagement. We had 511 Environmental, Social and Governance engagements and voted at 1,939 shareholder meetings. Where possible, we use our influence with the companies we invest in to encourage best practice in Environmental, Social and Governance issues. We feel it is important to be an active shareholder. It allows us to voice the sustainability issues that matter to us and also to help protect the interests of our customers.

As an investor, we publish regular reports, statistics and evidence of our governance and stewardship activities. These are available online at **www.standardlifeinvestments.com/governance_and_stewardship/index.html**

Standard Life Investments is also an active member of several organisations that champion good governance:

- ABI Investment Committee
- Asian Corporate Governance Association
- CBI Companies Committee
- Council for Institutional Investors.

**Supply chain management**
In 2013 we began an important piece of work with a cross-section of our key suppliers, which included sending a questionnaire to find out more about social compliance and diversity, sustainability, and health and safety across these suppliers. The responses to the questionnaire helped give us a more detailed picture of the policies, processes and structures our suppliers have in place to meet their Environmental, Social and Governance responsibilities. This work has helped to foster stronger relationships across our supply chain that we aim to build upon in 2014 and beyond.

We are developing a wider Supply Chain Diversity and Sustainability Programme, which will be rolled out in 2014. We are planning activities to encourage areas of the business to work with and offer help to more local suppliers, particularly SMEs, as part of a strategic aim to diversify our supplier base. We have also created a Supplier Diversity and Inclusion Code of Conduct which will be launched during 2014.

We have been fully committed to the UK Living Wage since April 2012 and we promote this with our suppliers. All third party dedicated resource providing catering, cleaning, security and vending services on our UK premises are paid the UK Living Wage as a minimum. We have also addressed zero hour contracts with these service providers and, with the exception of a small number of hospitality staff, we have successfully negotiated moving those people working with us from zero hour contracts to fixed hour contracts.

### 3. Developing and engaging our people

We make it a priority to invest in our employees' professional and personal development, so that they can continue to do their jobs as effectively as possible. In particular, leadership and employee engagement are central to our strategy to develop our people. Find out more about what we have delivered against this theme in Section 1.7 – Our people strategy.

During 2013 we continued, as part of a significant group-wide investment in technology, to roll out a single desktop operating system and suite of office tools to help increase productivity and collaboration. Key elements of this technology programme, called 'digital workplace', were a direct result of feedback from our 2012 employee engagement survey. We also announced the planned installation of Microsoft's SharePoint software, our first group-wide collaboration system. We began a pilot in the UK and Ireland towards the end of 2013, and intend to build on the learnings from this as the system is rolled out across the Group during 2014. We hope to make optimal use of SharePoint to help reduce duplication of processes and increase collaboration in project work across the Group.

### 4. Protecting our environment

In 2013, we worked to bring additional transparency to our greenhouse gas emissions data by gaining a greater understanding of the environmental impact of our Hong Kong office. We are now in a position to include our Hong Kong energy and travel data in our 2013 greenhouse gas emissions total. This means our overall greenhouse gas emissions have risen to 32,796 Tonnes CO2e. However, on a like for like basis, excluding Hong Kong, there is a reduction of 1% from 32,264 Tonnes CO2e in 2012 to 31,796 Tonnes CO2e in 2013.

The environmental impact of our business travel is now more accurate too. The class of travel affects the environmental impact, therefore we have replaced our average class calculation with a more realistic calculation which takes into account the travel class.

We believe having a greater understanding of our environmental impact allows us to continue to take specific actions to further reduce emissions.

We have disclosed our greenhouse gas emissions for our own business operations in the table below. This does not include our greenhouse gas emissions for our global real estate investment portfolio, however these emissions are disclosed in the Standard Life Investments annual Sustainable Real Estate Investments report.

| Environment measures | | Unit | 2013 | 2012 | 2006 | % change from 2012 | % change from 2006 |
|---|---|---|---|---|---|---|---|
| **Greenhouse gas emissions** – *Carbon dioxide equivalent (CO2e)* | Scope 1[1] | Tonnes CO2e | **3,157** | 2,975 | 4,221 | +6% | -25% |
| | Scope 2[2] | Tonnes CO2e | **14,462** | 14,836 | 22,305 | -3% | -35% |
| | Scope 3[3] | Tonnes CO2e | **15,177** | 14,452 | 9,566[5] | +5% | +59% |
| **Total greenhouse gas emissions**[4] | | **Tonnes CO2e** | **32,796** | 32,263 | 36,092 | +2% | -9% |
| **FTE / Tonnes CO2e ratio** | | **Ratio** | **4.4** | 4.3 | 4.4 | +2% | - |
| **Paper used** | | **Tonnes** | **914** | 1,026 | 1,382 | -11% | -34% |
| Waste – landfill | | Tonnes | **446** | 699 | 864 | -36% | -48% |
| Waste – recycling | | Tonnes | **948** | 956 | 707 | -1% | +34% |
| **Total Waste** | | **Tonnes** | **1,394** | 1,655 | 1,571 | -16% | -11% |

1. Scope 1 emissions include gas and fuel oil.
2. Scope 2 emissions include electricity.
3. Scope 3 emissions include business travel and transmission and distribution losses for electricity.
4. As a result of the change to our business travel calculations and a change to Department for Environment, Food and Rural Affairs conversion factors, the 2012 and 2006 greenhouse gas emission totals have been restated.
5. 2006 Scope 3 emissions does not include travel from our Canadian business as it was not available at the time.

In November 2013, we launched our first group-wide initiative to encourage greener travel. Green Travel Week was designed to encourage our employees to 'make a small change for a bigger impact', by making individual pledges to reduce or rethink how they travel to and from work. One area of focus was on the impact that short, private car journeys have on the environment as several of our larger offices are in major cities, including Edinburgh, London, Toronto, Hong Kong and Boston. We offered help and information on using public transport as well as details of alternative transport, like organised cycling groups.

At our Group headquarters in Edinburgh, we have been replacing the chiller units that provide the building's air conditioning. Our headquarters is a large building at 36,533m$^2$ and the costs to operate it are significant. The new chiller units produce less carbon dioxide and based on initial assumptions could potentially reduce our energy bill by £90,000 in their first year.

# 1.8 Our sustainability strategy *continued*

### 5. Contributing to our communities

Employability is the main focus of our community initiatives (see separate section below), although we have continued to support other projects aimed at giving something back to the communities in which we operate.

In October 2013, we signed the UK Armed Forces Corporate Covenant – an initiative set up to support serving members of the Armed Forces, and their families, in the workplace. Serving personnel and their families face particular challenges, for example, being deployed overseas. From 1 January 2014, we enhanced our special leave policy for UK employees, offering up to five days additional paid leave and allowing temporary changes to working patterns for spouses and partners of Service personnel deployed overseas. This complements our existing provision for Reservists – people who volunteer to serve alongside the Regular Forces – where we offer an additional two weeks paid leave over and above an employee's annual leave to take part in Reservists' training.

Through the Standard Life Charitable Trust, an independent charity that we set up in 2009, we worked with the Royal British Legion, Ministry of Defence and the UK Government's Money Advice Service to launch 'Moneyforce'. This is a new money guidance website for Armed Forces personnel in the UK designed to help enlisted personnel manage their finances. It is recognised that this is an area that can be quite problematic for serving personnel, especially when they are posted abroad. The website **www.moneyforce.org.uk**, offers a range of help on a wide variety of money-related matters including budgeting, banking and managing debt.

We have supported and encouraged fundraising by our staff for many charities across the globe. In Canada, we organised a charity concert with the help of the Orchestré Symphonique de Montreal, which raised CA$107,000 for Canada's Big Brothers, Big Sisters youth mentoring organisation. At Standard Life Investments, staff raised almost £95,000 to support Marie Curie Cancer Care. We also supported 13 other UK and Ireland charities, raising almost £90,000. In Hong Kong, we supported The Hong Kong Society for the Protection of Children and staff raised almost HK$35,000.

We are always keen to support new and different ways for our people to donate their time to help charities and organisations in our communities. Our Group Finance team offered to donate their skills and expertise to help organisations which needed them, instead of more traditional task-based contributions such as landscaping or renovating. The pilot has achieved some good results and we are looking at extending this type of charitable giving elsewhere in the Group.

In 2013, in addition to our staff fundraising, our total Group community contribution through donating money, staff time and items to charitable organisations was £1.6m.

## Measurement

We measure our progress against seven key performance indicators and publish the results in our annual sustainability report which is available online at **www.standardlife.com/sustainability**. We also take part annually in two global sustainability surveys – Dow Jones Sustainability Indices (DJSI) and FTSE4Good. Each is internationally-recognised for its methodology and scrutiny of a company's sustainable credentials. Both surveys ask for a wide variety of data with strict criteria on what and how evidence can be presented.

### DJSI survey

In 2013, we maintained our listings in two of DJSI's key indices – the DJSI World and DJSI Europe. These indices list the top 10% and 20% respectively of sustainable companies in our industry in the survey (1,831 in total). We also achieved our best overall rating to date in the survey, scoring 76% with the highest score for companies in our industry being 83%.

### FTSE4Good

We also take part in the FTSE4Good index, which is another well-known sustainability survey. We qualified for their 2013 survey, which rates the Environmental, Social and Governance credentials of over 2,400 companies worldwide.

## Assurance

We measure our progress using seven key performance indicators. These are independently assured by PricewaterhouseCoopers LLP:

- Customer complaints recorded
- Impact of technology on employee engagement
- Succession planning for critical roles
- Voting at shareholder meetings of investee companies
- Environment, Social, Governance engagements
- Carbon footprint (greenhouse gas emissions reported as kg of $CO_2e$)
- Total community contribution.

We publish the results on our website at **www.standardlife.com/sustainability**

## Our focus on employability

We focus on employability because it runs across our material themes. To us, it means working to help improve the opportunities that people, particularly young people, are afforded in society. We are a large employer, with around 8,500 people working for us across the Group. We believe that this carries with it a big responsibility, both for us as an employer in aiming to maintain a diverse, sustainable workforce and in the communities and wider societies in which we operate.

During the year, we continued our involvement with Edinburgh City Council's Edinburgh Guarantee programme, offering full-time paid work placements for 35 school-leavers and young people, which makes 54 in total since the programme began in 2012. From the last intake of 2013, 10 of the 15 young people have gone on to be successfully recruited into a permanent role with us, and four have gone on to further education. We believe the programmes offer young people a great opportunity to begin their working lives or further education. Through the placements, young people get access to more than just paid work. They are offered help and advice from colleagues as well as the opportunity to apply for internal vacancies across the Group. Our ultimate aim is to help young people find the destination that's right for them, whether it's work, further education or another positive development area.

We've been encouraged by the success of the programme so far, especially the number of young people who have successfully progressed into a permanent job or on to further education. We were also pleased at the high number of young people who successfully gained full-time roles with us.

**Highlights from around the Group**

- Standard Life Investments recruited seven young people on an Investment apprenticeship as part of their 'Investment 2020' initiative
- We made a £65,000 donation to the 'Tomorrow's People' charity to provide work skills to 60 disadvantaged young people living in Kent, UK
- In Canada, we donated CA$10,000 to the Working Skills Centre and 12 of our employees volunteered too, offering practical skills and advice to people from disadvantaged backgrounds seeking employment.

**Diversity and employability**

Diversity, particularly age diversity, plays an important part in employability too. Our customers come from all walks of life. They cover a broad range of ages, have different professions, lifestyles and different wants and needs. So it's really important to us that our employees reflect that diversity as well. We believe that widening the diversity of our employee population helps us to reflect society better. There's no better alternative, we feel, to understanding our customers than having employees with similar experiences who are able to see things from their customer's point of view.

## Our ambitions for the future

We have made good progress against each of our sustainability themes during 2013. Several of our initiatives do, by their nature, take several years to complete. We have set out our ambitions for the next three years as follows:

- Fully embed sustainability into all business units plans across the Group, ensuring that every part of the business takes a consistent balanced view of our key sustainability issues and considers these in everything they do
- Lead by example in how we build our long-term customer relationships and as a way of demonstrating how this can help restore confidence in our industry
- Aim to be an industry leader in managing talent and diversity
- Grow our reputation as a business that uses its influence responsibly – in how it governs, invests and manages its supply chain
- Work with our key stakeholders to make a positive difference on Environmental, Social and Governance issues
- Build an enviable reputation as a leader and authority on employability.

The key initiatives that, if delivered successfully, will help us achieve these ambitions include:

- Review our environmental targets to ensure they continue to be relevant and stretching but achievable
- Enhance our online sustainability reporting to ensure we engage our key stakeholders
- Review our material themes with key stakeholders to ensure we continue to tackle the big issues for our business
- Build on our current employability activities with increased Edinburgh Guarantee intake and further positive intervention work in other UK locations.

We will continue to monitor our success with our progress being measured in our key performance indicators and our performance in sustainability indices like DJSI and FTSE4Good.

# 1.9 Basis of preparation

## Overview

Our Strategic report for the year to 31 December 2013 has been prepared in line with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. In August 2013, Parliament approved The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These regulations came into force for periods ending on or after 30 September 2013. Under section 414 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business and a description of the principal risks and uncertainties facing the Group. Principal uncertainties are detailed in Section 1.1 – Chief Executive's overview. Principal risks are detailed in Section 1.5 – Risk management. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Reporting statement: Operating and Financial Review (OFR) issued by the Accounting Standards Board (ASB).

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). However, our Board believes that non-Generally Accepted Accounting Principles (non-GAAP) measures, which have been used in the Strategic report, 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 Strategic report include operating profit, European Embedded Value (EEV) operating profit and EEV operating capital and cash generation. All non-GAAP measures should be read together with the Group's IFRS consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows, which are presented in the Group financial statements section of this report.

## Going concern

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

## IFRS and EEV reporting

The financial results are prepared on both an IFRS basis and an EEV basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. EEV measures the net assets of the business plus the present value of future profits expected to arise from in-force long-term life assurance and pensions policies. The IFRS financial results in the Strategic report and in the Group financial statements section of this report have been prepared on the basis of the IFRS accounting policies in the Group financial statements section of this report. The EEV basis has been determined in accordance with the EEV Principles and Guidance issued by the Chief Financial Officers (CFO) Forum. The EEV financial results in the Strategic report and in the EEV financial information have been prepared in accordance with the EEV methodology in the EEV financial information section of this report.

### Group operating profit and EEV operating profit

The 2013 reconciliation of consolidated operating profit to IFRS profit for the year, presented on page 106 of this report, presents profit before tax expense attributable to equity holders adjusted for non-operating items. Further details on the calculation of Group operating profit is presented in the Group accounting policies at (jj). Group operating profit has not been audited by our independent auditors. The 2013 EEV consolidated income statement on page 219, 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.

Approved on behalf of the Board

**Malcolm J Wood**, Group Company Secretary and General Counsel
Standard Life plc (SC286832)
27 February 2014

# Board of Directors as at 27 February 2014

## Board of Directors

Our business is managed by our Board of Directors. Biographical details of the Directors as at 27 February 2014 are listed below.

### Gerry Grimstone
### Chairman

***Age: 64***

***Tenure: 8 years***

***Nationality: British***

***Qualifications: MA and MSc Oxford University***

Appointed Chairman in May 2007, having been Deputy Chairman since March 2006. He became a Director of The Standard Life Assurance Company in July 2003. In October 2012, Gerry became Chairman of TheCityUK, the representative body for financial and related professional services in the UK. He has continued as an Independent Non-Executive of Deloitte LLP and the Lead Non-Executive at the Ministry of Defence. Other appointments include being a member of the Shareholder Executive Board of the Department of Business, Innovation and Skills (BIS) and Senior Adviser to the board of the Abu Dhabi Commercial Bank. Previously, he held senior positions within the Department of Health and Social Security and HM Treasury, and from 1986, spent 13 years with Schroders in London, Hong Kong and New York. He was Vice Chairman of Schroders' worldwide investment banking activities from 1998 to 1999.

Gerry is Chairman of both the Nomination and Governance Committee and the Corporate Responsibility Committee.

### David Nish
### Chief Executive

***Age: 53***

***Tenure: 7 years***

***Nationality: British***

***Qualifications: BAcc University of Glasgow. Member of the Institute of Chartered Accountants of Scotland***

Appointed Chief Executive on 1 January 2010, having been Group Finance Director since November 2006 when he was appointed to the Board. He is also Deputy Chairman of the board of the Association of British Insurers and Chairman of its Long-Term Savings and Life Insurance Committee; a non-executive Director of the UK Green Investment Bank plc, where he also chairs the audit and risk committee; a member of the Advisory Council of TheCityUK and a member of the Financial Services Advisory Board of the Scottish Government. David was previously a partner with Price Waterhouse, and subsequently Group Finance Director and executive Director, Infrastructure Division at Scottish Power plc.

David is a member of the Corporate Responsibility Committee.

### Keith Skeoch
### Executive Director

***Age: 57***

***Tenure: 8 years***

***Nationality: British***

***Qualifications: BA Sussex University and MA Warwick University. Fellow of the Securities and Investment Institute***

Appointed Director in May 2006, having been a Director of The Standard Life Assurance Company since March 2006. He is Chief Executive of Standard Life Investments Limited. Keith joined Standard Life Investments Limited in 1999 as Chief Investment Officer after nearly 20 years' investment experience at James Capel & Company Limited in a number of roles, including Chief Economist and Managing Director International Equities. He is also a Director of the Investment Management Association, a non-executive Director of the Financial Reporting Council and a member of the Advisory Board of Reform Scotland. In November 2013 he was awarded European Personality of the Year by Funds Europe.

### John Paynter
### Senior Independent Director

***Age: 59***

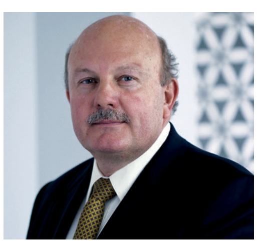
***Tenure: 2 years***

***Nationality: British***

***Qualifications: Law Degree, Oxford University***

Appointed Director in January 2012. He is the Company's Senior Independent Director and the non-executive Chairman of Standard Life Investments (Holdings) Limited. John is a non-executive Director of Standard Chartered plc, where he also sits on the audit and remuneration committees and is a Senior Adviser to Greenhill & Co International. From 2001 to 2005, he was Deputy Chairman of Cazenove Group plc and then Vice Chairman of JP Morgan Cazenove from 2005 to 2008. He served as a non-executive Director of Jardine Lloyd Thompson Group plc from October 2008 until June 2012, including three years as Chairman of its remuneration committee.

John is a member of the Audit Committee; the Remuneration Committee and the Nomination and Governance Committee.



## Colin Buchan
## Non-executive Director

***Age: 59***

***Tenure: 6 years***

***Nationality: British***

***Qualifications: BCom University of Witwatersand, South Africa; AMP INSEAD. Fellow of the Chartered Institute of Bankers of Scotland***

Appointed Director in January 2008. He is also Senior Independent Director of Blackrock World Mining Trust plc; Chairman of TTT Moneycorp Limited and Director of the Scottish Chamber Orchestra. He was formerly Global Head of Equities at UBS Warburg and a member of the Group Management Board of UBS AG. He was appointed Chairman of The Royal Bank of Scotland Group plc's remuneration committee in February 2009 and retired from that board in 2011 after almost ten years' service as a non-executive Director.

Colin was a non-executive Director of Standard Life Investments Limited from February 2002 to December 2011, serving as Chairman from 2008. As announced, Colin will retire from the Board following the 2014 AGM.

Colin is Chairman of the Investment Committee and a member of the Audit Committee; the Remuneration Committee and the Nomination and Governance Committee.

## Pierre Danon
## Non-executive Director

***Age: 57***

***Tenure: 2.5 years***

***Nationality: French***

***Qualifications: Degree in Civil Engineering, Ecole Nationale des Ponts et Chaussées, Paris; Law Degree Faculté de droit, Paris; MBA HEC Paris***

Appointed Director in October 2011. He is also Vice Chairman of TDC; executive Chairman of Volia; independent Director of CIEL Investment Limited; Director of Cordial Consulting Limited and Vice Chairman of AgroGeneration. From 2000 to 2005 Pierre was Chief Executive Officer of BT Retail and, subsequently, Chief Operating Officer of Capgemini Group and Chairman of Eircom. Until June 2012 he served as Chief Executive Officer and then non-executive Chairman of Numericable Completel in Paris.

Pierre is a member of the Investment Committee; the Remuneration Committee and the Risk and Capital Committee.

## Crawford Gillies
## Non-executive Director

***Age: 57***

***Tenure: 7 years***

***Nationality: British***

***Qualifications: Law Degree, University of Edinburgh; MBA Harvard Business School. Member of the Institute of Chartered Accountants of England and Wales***

Appointed Director in January 2007. He is also Chairman of Scottish Enterprise and Control Risks Group Holdings Limited, and was appointed a non-executive Director of MITIE Group PLC in July 2012. Crawford spent 22 years with Bain & Company Inc., the international management consultants, where he was Managing Director Europe. He was an independent member of the Department of Trade and Industry (DTI) Management and Strategy Boards from 2002 to 2007, and chaired the DTI's audit and risk committee from 2003 to 2007.

Crawford is Chairman of the Remuneration Committee and a member of the Investment Committee; the Risk and Capital Committee and the Corporate Responsibility Committee.

## David Grigson
## Non-executive Director

***Age: 59***

***Tenure: 4.5 years***

***Nationality: British***

***Qualifications: BA University of Manchester. Member of the Institute of Chartered Accountants of England and Wales***

Appointed Director in November 2009. He is also Chairman of Creston plc and Trinity Mirror plc and he is the Senior Independent Director of Ocado Group plc. He sits on the audit, remuneration and nomination committees of each of these companies. He is also Chairman of Investis Limited. David spent much of his career in senior financial executive positions, first with Emap plc where he served as Group Finance Director from 1989 to 2000, and more recently with Reuters Group plc, where he was Chief Financial Officer from 2000 to 2008, when Reuters Group became Thomson Reuters Limited.

David is Chairman of the Audit Committee and a member of the Risk and Capital Committee and the Nomination and Governance Committee.

## Noel Harwerth
## Non-executive Director

***Age: 66***

***Tenure: 2 years***

***Nationality: British and American***

***Qualifications: Law Degree, University of Texas***

Appointed Director in July 2012. She is also Chairman of Sumitomo Mitsui Banking Corporation Europe Limited, and holds non-executive Director appointments with GE Capital Bank Limited; Dominion Diamond Corporation; Alent plc and The London Metal Exchange. Noel has recently been appointed a Director of London First. Noel was previously with Citicorp for 15 years, latterly as the Chief Operating Officer of Citibank International. She previously held non-executive Director appointments at Logica plc; LME Holdings Limited; Avocet Mining plc and RSA Insurance Group plc.

Noel is Chairman of the Risk and Capital Committee and a member of the Audit Committee.

## Lynne Peacock
## Non-executive Director

***Age: 60***

***Tenure: 2 years***

***Nationality: British***

***Qualifications: BA North East London Polytechnic***

Appointed Director in April 2012. Lynne is also a non-executive Director of Scottish Water, where she chairs its audit committee. She is a non-executive Director of Nationwide Building Society, and chairs its remuneration committee and is a member of its audit, risk and nomination committees. She joined National Australia Bank Limited in 2003 and, from 2004 to 2011, she was Chief Executive Officer, UK (Clydesdale Bank plc and Yorkshire Bank). Before that, Lynne was with Woolwich plc from 1983 to 2003, finishing her career there as Chief Executive Officer.

Lynne is a member of the Remuneration Committee; the Corporate Responsibility Committee and the Audit Committee.

## Martin Pike
## Non-executive Director

***Age: 52***

***Tenure: appointed September 2013***

***Nationality: British***

***Qualifications: BA and MA Oxford University. Fellow of the Institute and Faculty of Actuaries***

Appointed Director in September 2013. Martin joined R Watson & Sons in 1983, and progressed his career with the firm to partner level. His senior roles included Head of European Insurance and Financial Services Practice, Watson Wyatt from 2006 to 2009; Vice President and Global Practice Director, Insurance and Financial Services, Watson Wyatt during 2009 and, latterly, Managing Director, Risk Consulting & Software, EMEA, Towers Watson from 2010 to 2013.

Martin is a member of the Investment Committee and the Risk and Capital Committee.

# Directors' report

The Directors present their annual report on the affairs of the Standard Life group (the "Group"), together with the audited International Financial Reporting Standards (IFRS) consolidated financial statements, European Embedded Value (EEV) financial information and Standard Life plc (the "Company") financial statements, for the year ended 31 December 2013.

## Reporting for the year ended 31 December 2013

The Company is the holding company of the Group. You can find out about the relevant activities of the Company's principal subsidiary undertakings and their overseas branches in the Group financial overview and Business segment performance sections of the Strategic report.

The main trends and factors likely to affect the future development, performance and position of the Group are outlined in the Chief Executive's overview section of the Strategic report. Reviews of the operating and financial performance of the Group for the year ended 31 December 2013 are given in the Strategic report.

The Chairman's statement, the Directors' responsibility statement and the Corporate governance section form part of the Directors' report. The Corporate governance section is submitted by the Board.

The results of the Group on both IFRS and EEV bases are presented in the Group financial statements and EEV financial information. A detailed description of the basis of preparation for IFRS (including operating profit) and EEV results are set out in the Group accounting policies section of the Group financial statements and Note 1 of the EEV financial information respectively. More information about the Group's use of financial instruments and related financial risk management matters is in Note 23 and Note 41 to the Group financial statements.

This report was prepared by the Company's executive team together with the Board and forms part of the management report.

## Forward-looking statements

Various sections of the Annual Report and Accounts 2013, including but not limited to the Chairman's statement, the Chief Executive's overview and the Group financial overview, may contain forward-looking statements. These statements are based on the Group's future plans, goals and expectations. These statements may be identified by words like 'believes', 'intends', 'expects', 'plans', 'pursues', 'seeks', 'anticipates' or words of a similar meaning.

Forward-looking statements carry an element of risk and uncertainty. As such, the Group's actual future financial condition, performance and results may materially differ from the plans, goals and expectations described in these statements.

The Company does not intend to update any of these statements.

## Dividends

The Board recommends paying a final dividend for 2013 of 10.58p per ordinary share. This will be paid on 22 May 2014 to shareholders whose names are on the Register of Members at the close of business on 11 April 2014.

The total payment is estimated at £251m for the final dividend and together with the interim dividend of 5.22p per share totalling £124m paid on 29 October 2013, the total dividend for 2013 will be 15.80p per share (2012: 27.50p inclusive of the special dividend paid in 2013) totalling £375m (2012: £647m inclusive of the special dividend paid in 2013).

## Share capital

You can find full details of the Company's share capital, including movements in the Company's issued ordinary share capital during the year, in Note 28 to the Group financial statements. You can also find an analysis of registered shareholdings by size, as at 31 December 2013, in the Shareholder information section on page 281.

On 31 December 2013, there were 2,376,616,730 ordinary shares in issue held by 107,416 registered members. The Standard Life Share Account (the Company-sponsored nominee) held 947,113,201 of those shares on behalf of 1,128,016 participants. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

During the year, and until the date this report was signed, the Company received the following notifications in respect of major shareholdings and major proportions of voting rights in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA).

| Shareholder | Date of Transaction | Type of Transaction | Percentage of Voting Rights Following Transaction |
|---|---|---|---|
| BlackRock, Inc. | 10 December 2013 | Adjustment to the calculation of notifiable interest in voting rights | Less than 5% |
| Legal & General Group Plc | 15 July 2013 | Disposal | Less than 3% |

During the year, in accordance with the terms of the Standard Life Employee Trust Deed, the Trustees of the Standard Life Employee Trust waived all entitlements to current or future dividend payments for shares they hold under option on behalf of participants in the Company's discretionary share plans between the grant and vest dates. Details of ordinary shares under option in respect of the Company's discretionary share plans are shown in Note 46 to the Group financial statements.

The Trustees of the Standard Life (Employee) Share Plan also voted the appropriate shares in accordance with any instructions received from participants in the plan. Details of the Company's employee share plan can be found in Note 46 to the Group financial statements.

## Restrictions on the transfer of shares and securities

Except where listed below, there are no specific restrictions on the size of a holding or on the transfer of shares. Both are governed by the general provisions of the Company's Articles of Association (the "Articles") and current legislation and regulation. The Articles can be found on our website at **www.standardlife.com/about/governance** You can also obtain a copy from Companies House, or by writing to the Group Company Secretary and General Counsel at our registered address (details of which can be found in the Contact details section on page 289). The Articles may only be amended by a special resolution passed by the shareholders.

The Board may decline to register the transfer of:

- a share that is not fully paid
- a certificated share, unless the instrument of transfer is duly stamped or duly certified and accompanied by the relevant share certificate or other evidence of the right to transfer, is in respect of only one class of share and is in favour of no more than four joint transferees
- an uncertificated share, in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the transfer is in favour of more than four joint transferees
- a certificated share by a person with a 0.25% interest in the Company, if that person has been served with a restriction notice under the Articles, after failing to provide the Company with information about interests in those shares as set out in the Companies Act 2006 (unless the transfer is shown to the Board to be pursuant to an arm's length sale under the Articles).

These restrictions are in line with the standards set out in the FCA's Listing Rules and are considered to be standard for a listed company.

The Directors are not aware of any other agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

## Rights attached to shares

Subject to applicable statutes, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may decide by ordinary resolution, or (if there is no such resolution or if it does not make specific provision) as the Board may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Every member and duly appointed proxy present at a general meeting or class meeting has one vote on a show of hands. On a poll, every member present in person or by proxy has one vote for every share they hold. For joint shareholders, the vote of the senior joint shareholder who tenders a vote, in person or by proxy, will be accepted and will exclude the votes of the other joint shareholders. For this purpose, seniority is determined by the order that the names appear on the register for joint shareholders.

A member will not be entitled to vote at any general meeting or class meeting in respect of any share they hold if any call or other sum then payable by them for that share remains unpaid or if they have been served with a restriction notice (as defined in the Articles) after failing to provide the Company with information about interests in those shares required to be provided under the Companies Act 2006.

The Company may, by ordinary resolution, declare dividends up to the amount recommended by the Board. Subject to the Companies Act 2006, the Board may also pay an interim dividend, and any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or 'pari passu' rights for losses that arise from paying interim or fixed dividends on other shares.

The Board may withhold payment of all or part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest (as defined in the Articles) if that person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information about interests in those shares, which is required under the Companies Act 2006.

Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares held as treasury shares). These rights can also be varied with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every separate general meeting (except an adjourned meeting) the quorum shall be two persons holding, or representing by proxy, not less than one third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

A shareholder's rights will not change if additional shares ranking 'pari passu' with their shares are created or issued – unless this is expressly provided in the rights attaching to their shares.

## Powers to purchase the Company's own shares

At the 2013 Annual General Meeting (AGM), shareholders granted the Directors limited power to:

- allot the Company's ordinary shares up to a maximum aggregate amount of £78,601,061
- disapply, up to a maximum total nominal amount of £11,790,159 or 5% of its issued ordinary share capital, shareholders' pre-emption rights in respect of new ordinary shares issued for cash
- make market purchases of the Company's ordinary shares up to a maximum of 235,803,185 or 10% of its issued ordinary shares.

The Company did not make any market purchases of its ordinary shares during the year ended 31 December 2013, and has not done so since then and up to the date of this report.

## Significant agreements

There are a number of agreements to which the Company is party that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. These agreements include:

- Under a £500m revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lenders) dated 5 March 2013 (the Facility), in the event that (i) any persons or group of persons acting in concert gains control of the Company or (ii) Standard Life Assurance Limited ceases to be a member of the Group, then any Lender may elect within a prescribed time frame to cancel its outstanding commitment under the Facility and declare its participation in all outstanding loans, together with accrued interest and all amounts accrued immediately due and payable, whereupon the commitment of that Lender under the Facility will be cancelled and all such outstanding amounts will become immediately due and payable
- Under a shareholders' agreement dated 15 January 2002 between The Standard Life Assurance Company and Housing Development Finance Corporation Limited (HDFC), pursuant to which the Group holds its interest in HDFC Standard Life Insurance Company Limited (HDFC Standard Life), upon a change of control of the Company, HDFC potentially has the right to terminate the joint venture and to purchase, or nominate a third party to purchase, the Group's shares in HDFC Standard Life for a price determined in accordance with the agreement
- Under a shareholders' agreement dated 10 June 2003 (as amended) between Standard Life Investments Limited (SLI) and HDFC, pursuant to which the Group holds its interest in HDFC Asset Management Company Limited (HDFC AMC) upon a change in the ownership structure of SLI that results in the acquisition by a third party, either directly or indirectly, of more than 20% of the issued, subscribed and paid-up capital of SLI, HDFC will have 90 days from the date upon which SLI notifies it in writing of the occurrence of such a change to purchase the Group's shares in HDFC AMC at a mutually agreed price
- Under a joint venture agreement dated 12 October 2009 (as amended) between the Company and Tianjin TEDA International Holding (Group) Co. Limited (TEDA), pursuant to which the Group holds its interest in Heng An Standard Life Insurance Company Limited (Heng An Standard Life), upon a change of control of the Company, TEDA has the right to terminate the joint venture and to purchase, or nominate a third party to purchase, the Group's shares in Heng An Standard Life for a price determined in accordance with the agreement.

A number of other agreements contain provisions that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. However, these agreements are not considered to be significant in terms of their likely impact on the business of the Group as a whole.

The Directors are not aware of any agreements with any employee that would provide compensation for loss of office or employment resulting from a takeover bid. The Company also has no agreement with any Director to provide compensation for loss of office or employment resulting from a takeover.

## Directors and their interests

The Directors who served throughout the year were:

- Gerry Grimstone (Chairman)
- Colin Buchan
- Pierre Danon
- Crawford Gillies
- David Grigson
- Noel Harwerth
- Jackie Hunt (Chief Financial Officer) (resigned on 26 April 2013)
- David Nish (Chief Executive)
- John Paynter
- Lynne Peacock
- Martin Pike (appointed as a non-executive Director on 27 September 2013)
- Keith Skeoch
- Sheelagh Whittaker (retired on 14 May 2013).

Biographies of the Directors can be found on pages 39 to 41.

Details of the Directors' beneficial interests in the Company's ordinary shares, the Standard Life (Employee) Share Plan, the Sharesave Plan and the share-based executive long-term incentive plans (LTIPs) are set out in the Directors' remuneration report together with details of the executive Directors' service contracts and non-executive Directors' appointment letters.

No Director had any interest in the Company's listed debt securities or in any shares, debentures or loan stock of the Company's subsidiaries. No Director had any material interest in any contract with the Company or a subsidiary undertaking which was significant in relation to the Company's business, except for the following:

- the benefit of a continuing third-party indemnity provided by the Company (in accordance with company law and the Articles)
- service contracts between each executive Director and subsidiary undertakings (Standard Life Employee Services Limited and Standard Life Investments Limited).

Copies of the following documents can be viewed at the Company's registered office (details of which can be found in the Contact details section on page 289) during normal business hours (9am to 5pm Monday to Friday) and will be available for inspection at the Company's AGM on 13 May 2014:

- the Directors' service contracts or letters of appointment
- the Directors' deeds of indemnity, entered into in connection with the indemnification of Directors provisions in the Articles
- the Articles
- the rules of the proposed new LTIP.

## Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code, and related legislation.

The UK Corporate Governance Code recommends that Directors of FTSE 350 companies should stand for election every year. In line with this, all our Directors will retire at the AGM on 13 May 2014. Martin Pike will stand for election and all remaining Directors who wish to continue in office will stand for re-election. As announced, Colin Buchan will retire from the Board following the 2014 AGM and therefore, will not stand for re-election.

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

## Directors' liability insurance

The Company maintains directors' and officers' liability insurance on behalf of its Directors and officers which gives appropriate cover for any legal action brought against them. The Company also maintains a third-party indemnity policy for the boards of trustees of the UK, Irish and Canadian staff pension schemes. The trustees include individuals who are directors of subsidiaries within the Group.

## Our people

We recognise that our people are central to delivering our strategy and you can read about our commitment to bring out the best in them in Section 1.7 of the Strategic report – Our people strategy.

The Group remains committed to creating a high-performing, diverse and healthy working environment where everyone is respected, valued and included as an individual. We treat people with disabilities fairly in relation to job applications, training, promotion and career development. Adjustments are made to train and support employees who become disabled during their employment to enable them to continue and develop in their role.

We know that positive employee relations are vital in engaging our people and achieving business goals. Constructive staff representation provides an essential means of informing the Group's strategy through the views and insights of our people. There are separate staff representation arrangements across different jurisdictions in the Group. In the UK, most employees are represented through partnership agreements with the Group's staff associations, VIVO and Bridge. In Ireland, there is an established agreement with Unite, and a Works Council was established in Germany in 2008.

We have maintained good relationships with our different staff representative bodies and a positive employee relations (ER) environment. Throughout 2013 we have continued to review and develop the organisational model to make sure that it is optimal to support our business strategy. A theme of the ER environment has, therefore, been around restructuring. This restructuring meant that, during 2013, around 250 people were made redundant. More than half of these were voluntary leavers. VIVO, one of our staff representative bodies in the UK, supported this as an effective means of mitigating compulsory redundancies. As part of our performance culture, each employee takes part in regular discussions with their manager. They agree performance goals and how their aspirations, strengths and limitations can be developed and addressed at work. We believe great performance should be rewarded, and we think the process we follow to do that should be clear to everyone. Our approach continues to support our reward principles by linking pay to performance and ensuring our remuneration remains competitive to the market.

We also use our internal intranet to communicate with our staff on matters which may concern them as employees and to ensure that our employees are fully aware of any financial and economic factors which may affect the performance of the Group.

As at 31 December 2013, 64% of the Group's employees were shareholders through participation in The Standard Life (Employee) Share Plan (the Plan). The Plan allows employees to buy ordinary shares in the Company directly from their earnings up to a market value of £125 per month, or an equivalent sum in a relevant currency. These are called Partnership shares. For each Partnership share that an employee buys under the Plan, the Company matches the purchase by allocating them one ordinary share up to a maximum total value of £25 per month, or an equivalent sum in the relevant currency. As at 31 December 2013, 3,657 (65%) of eligible employees in the UK were making a monthly average contribution of £42. A similar tax approved plan is used in Ireland and has a 47% take up. Even though the Plan cannot be structured on a tax favourable basis in Canada, Germany or Austria, more than 640 employees in these countries are buying shares each month.

The Group also encourages share ownership in the Company in the UK and Ireland through the Standard Life Sharesave Plan which was launched in August 2011. In September 2013 we launched a third invitation to UK employees and at the same time made a second invitation to Irish employees. There are now 2,918 employees in the UK and 85 employees in Ireland participating in Sharesave plans. The exercise price was £1.57 under the 2011 invitation; £2.21 (Euros €2.81) under the 2012 invitations and £2.72 (Euros €3.22) under the 2013 invitations.

## Sustainability

We launched our sustainability strategy in 2010. It is mapped to our Group's business strategy, so that the commercial aims of our business are linked to our environmental, social and governance responsibilities. You can find out more in Section 1.8 of the Strategic report – Our sustainability strategy and in the Environmental, social and governance risk paragraph of the Corporate governance section.

## Greenhouse gas emissions

We have disclosed our greenhouse gas emissions in Section 1.8 of the Strategic report – Our sustainability strategy.

## Political donations

No political donations were made during the year ended 31 December 2013. From time to time, we make our training facilities available to political parties, charities and other third sector organisations to facilitate debate and discussion on relevant public policy issues.

## Auditors

The Audit Committee is responsible for considering the Group's external audit arrangements. A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as auditors to the Company and giving authority to the Directors to determine their remuneration will be submitted at the AGM to be held on 13 May 2014.

## Disclosure of information to the auditors

Each Director confirms that he or she has taken all steps necessary, in his or her role as a Director, to be made aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is made aware of that information.

As far as each Director is aware, there is no relevant audit information that PricewaterhouseCoopers LLP is not aware of as at the date this report was approved.

## Annual General Meeting

This will be held at 2pm (UK time) on Tuesday, 13 May 2014 at the Edinburgh International Conference Centre, The Exchange, 150 Morrison Street, Edinburgh EH3 8EE, Scotland. Details of the meeting content can be found in our AGM guide 2014 which will be available online at **www.standardlife.com** from 1 April 2014.

On behalf of the Board

**Malcolm J Wood,** Group Company Secretary and General Counsel
Standard Life plc (SC286832)
27 February 2014

## Directors' responsibilities for preparing the financial statements

The following statements should be read with the statement of auditor's responsibilities included in the independent auditor's reports. They are made to help shareholders distinguish between the responsibilities of the Directors and those of the auditor's in relation to the financial statements for 2013.

The Directors are responsible for preparing the Annual Report and Accounts 2013. It is also their responsibility to state that they consider that the Annual Report and Accounts 2013, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Under the Companies Act 2006, the Directors are required to prepare and approve financial statements for each financial year. The Directors must only approve the financial statements when they are satisfied that they give a true and fair view of how the Group and the Company have performed at the end of the financial year, and that they give a true and fair view of the profit of the Group and the Company for that year. The financial statements of the Group and, where relevant, the Company have been prepared in accordance with:

- International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
- the Companies Act 2006
- the Disclosure and Transparency Rules (DTR) issued by the Financial Conduct Authority (FCA)
- Article 4 of the International Accounting Standards (IAS) Regulation.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the basis that the Group is a going concern, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained. These must disclose, with reasonable accuracy at any time, the financial position of the Group and the Company and enable the Directors to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and the DTR. The Directors should also make sure that the Group financial statements comply with Article 4 of the IAS Regulation.

The Directors are also responsible for:

- safeguarding the assets of the Company and the Group
- taking reasonable steps to prevent and detect fraud and other irregularities
- the maintenance and integrity of the Group's website.

UK legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' responsibility statement

Each of the Directors, whose names and functions are listed in the Board of Directors section on page 39, confirms that to the best of their knowledge and belief:

1. the Group and the Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company and taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.
2. the Strategic report includes the information required by DTR 4.1.8 and DTR 4.1.9 – a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties it faces.

By order of the Board

**Gerry Grimstone**, Chairman

27 February 2014

**David Nish,** Chief Executive

27 February 2014

# Corporate governance

## Introduction and report from the Chairman of the Nomination and Governance Committee

"Your Board adheres to the highest standards of corporate governance and ethical behaviour in directing the Group's affairs and in its accountability to you as shareholders. As Directors, we believe this commitment is key to managing our business effectively and delivering shareholder value over the longer term. Your Board continues to take the quality of its performance seriously and strives to improve performance through annual reviews and continuing self-assessment". Gerry Grimstone, Chairman and Chairman of the Nomination and Governance Committee.

As well as recognising the formal disclosure requirements of the UK Corporate Governance Code (the "Code"), this section tells you how the Board meets its governance responsibilities. All the Directors view the Code as an important tool in supporting how we deliver the Group's strategy and as an opportunity to drive and support effective behaviours at Board level and across the Group.

The Nomination and Governance Committee is responsible for the oversight of the corporate governance framework and its implementation. The Committee members are Gerry Grimstone (Chairman), Colin Buchan, David Grigson and John Paynter. Sheelagh Whittaker retired from the Committee on 14 May 2013. David Nish, Chief Executive, attends Committee meetings by invitation to discuss matters such as talent development and management succession.

During the year the Committee met five times. Its key duties are to support the composition and effectiveness of the Board, to oversee the development and implementation of the Group's corporate governance framework and to oversee the Group's activities to strengthen its talent pipeline at all levels. In this section, you can read about the Committee's role in the processes to:

- review Board diversity, skills and experience
- identify and recommend Directors to be appointed to the Board
- oversee succession planning, leadership and talent development and diversity levels throughout the Group
- support the review of the Board's effectiveness.

## Committee effectiveness

The Committee reviews its remit and effectiveness annually. Members completed an online self-assessment questionnaire and reviewed the Committee's terms of reference. After analysing the 2013 questionnaire responses, the Committee concluded that it:

- was continuing to focus Director recruitment on the skills and experience required by the Board
- was seeing continued progress in the succession, talent and development, diversity and leadership programmes across the Group
- was continuing to support the Board and the other Directors in their governance responsibilities.

## Compliance

Throughout 2013, the Company complied with all of the provisions set out in the Code issued by the Financial Reporting Council (FRC) in September 2012. This is available at **www.frc.org.uk**

Together with the Directors' remuneration report, this section explains how our corporate governance framework supports the way we apply the Code's main principles of good governance.

## Governance framework

The Group's governance framework is approved by the Board and documented in the Board Charter. You can read the Board Charter in the governance section of our website at **www.standardlife.com/about/governance**

The Group's Code of Business Conduct complements the Board Charter. It sets out our standards of conduct and governing principles in respect of operational excellence, compliance responsibilities, customer service, our people and other stakeholders.

The Board expects the Group to be a leader in corporate governance activities through its own actions and through its stewardship activities. The Nomination and Governance Committee regularly reviews the Group's corporate governance framework against relevant generally accepted standards, guidance and best practice, and, as appropriate, recommends changes to the Board Charter to the Board. To contribute to external developments, the Committee, generally on behalf of the Board, submits responses to corporate governance consultation documents. The Group Company Secretary and General Counsel is responsible for advising the Board on all governance matters.

The governance framework also sets out the Board's relationship with the boards of the Company's principal subsidiaries. In particular, it identifies the matters which must be referred from subsidiary boards to the Board and Board Committees for approval.

## Role and responsibilities of the Board

The Board's role is to organise and direct the affairs of the Company and the Group to maximise value for shareholders, in accordance with the Company's constitution and all relevant laws, regulations and corporate governance and stewardship standards. The Board's role and responsibilities, collectively and for individual Directors, are set out in the Board Charter. The Charter also identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- how strategy, objectives and business plans are developed and implemented
- capital and management structures
- dividend policy
- financial reporting
- how risks are managed, including the Enterprise Risk Management (ERM) framework, risk strategy, risk appetite limits and internal controls
- key Group policies
- significant corporate and other transactions
- significant external communications
- terms of reference of Board Committees
- appointments to the Board and Board Committees
- the matters to be escalated from subsidiary boards to the Board for approval.

The Board regularly reviews reports from the Chief Executive and Group Finance on progress against approved strategies, plans and budgets, as well as updates from the Chief Executive of Standard Life Investments Limited ("Standard Life Investments") on stock market and global economic conditions. There are also regular presentations from key business units and Group functions. The Chairman reports at each Board meeting on the activities he has undertaken on behalf of the Board and the Group since the previous meeting.

## Roles of the Chairman and the Chief Executive

The roles of the Chairman and the Chief Executive are separate. Each has clearly defined responsibilities, which are set out in the Board Charter.

The Chairman:

- leads the Board and ensures that its principles and processes are maintained
- promotes high standards of corporate governance
- with the Chief Executive and the Group Company Secretary and General Counsel, sets agendas for meetings of the Board
- ensures Board members receive accurate, timely and clear information on the Group and its activities
- encourages open debate and constructive discussion and decision-making
- leads the Board and individual Director performance assessments and training needs
- speaks on behalf of the Board and represents the Board to shareholders.

The Chief Executive, within authorities delegated by the Board:

- leads the other executive Directors and the executive team in the day-to-day running of the Group
- develops appropriate capital, corporate, management and succession structures to support the Group's objectives
- makes and implements operational decisions
- develops strategic plans and structures for presentation to the Board
- reports to the Board with timely and high quality information
- in conjunction with the Chairman, represents the Group to external stakeholders, including shareholders, customers, suppliers, regulatory and governmental authorities, and both the local and wider communities.

The heads of each business unit and the Group functions manage their teams within authorities set out in the Board Charter and an approved scheme of delegation. This includes reporting to the Chief Executive on how they are complying with Group policies and performing against approved plans and budgets.

## Board composition, balance and diversity

The Board's policy is to appoint and retain non-executive Directors who bring relevant expertise as well as a wide perspective to the Group and its decision-making framework. The Directors believe that at least half the Board should be made up of independent non-executive Directors. As at 27 February 2014, the Board comprises the Chairman, eight independent non-executive Directors and two executive Directors. The Board continues to support its Diversity statement, first approved in November 2011, which states that it:

- believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, when undertaking a search for candidates, both executive and non-executive
- recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness
- believes that it should have a blend of skills, experience, independence, knowledge and gender amongst its individual members that is appropriate to its needs

- believes that it should be able to demonstrate with conviction that any new appointee can make a meaningful contribution to its deliberations
- is committed to maintaining its diverse composition
- supports the Chief Executive's firm commitment to achieve and maintain a diverse workforce, both throughout the Group, and within his executive team.

In terms of gender diversity, two female members of the Board stepped down during 2013, and the Board currently comprises two women and nine men. The departures of Jackie Hunt and the retiral of Sheelagh Whittaker affected our diversity statistics at Board level, however, when considering future appointments, the Board follows the principles of its Diversity statement. The Board also benefits from the diverse backgrounds of its members which enhance its collective business, operational and international strength.

The Nomination and Governance Committee receives updates on progress towards achieving and maintaining diversity throughout the Group. This includes reviewing statistics on age, gender and full/part time working at all levels. The Group also promotes initiatives and programmes to raise awareness of why diversity matters. You can read more about our diversity activities in Section 1.7 of the Strategic report - Our people strategy.

## Board changes during the period

### Appointments

Martin Pike joined the Board on 27 September 2013 as a non-executive Director and became a member of the Risk and Capital Committee and the Investment Committee. Martin is a qualified actuary and his executive career was spent with Towers Watson. In recent years, Towers Watson has, on occasion, provided consultancy support to Standard Life Assurance Limited. When considering Martin's appointment, the Board concluded that this relationship did not impact his independence.

### Retirals and resignations

Sheelagh Whittaker retired at the conclusion of the 2013 Annual General Meeting (AGM) after four years' service. Recognising her experience of the Canadian market, Sheelagh has maintained her links with the Group through her appointment as a non-executive Director on the boards of our principal Canadian subsidiaries.

Jackie Hunt, Chief Financial Officer, resigned on 26 April 2013. Until the appointment of her replacement, the reporting lines to this position have been reassigned. David Nish has been ensuring that the activities of the Chief Financial Officer's role have continued to be carried out, fully supported by the Director of Group Finance and the finance directors of the principal subsidiary companies. Since Jackie's departure the Nomination and Governance Committee has been overseeing the process to recruit her successor and monitoring closely the recruitment plan.

### Board appointment process, terms of service and role

Taking account of the Group's strategy, as well as industry and regulatory developments, the Nomination and Governance Committee evaluates the Board's balance of skills, diversity, knowledge and experience, in the context of the time served by non-executive Directors. The Committee uses the results of this focused analysis to direct its recruitment activities and appointment recommendations and reviews all recommendations to appoint independent non-executive directors to the boards of subsidiary companies.

Having identified the capabilities needed for Board roles, and the succession timeframe, the Nomination and Governance Committee considers the related role profile submitted to external search consultants along with the request to prepare a list of suitable candidates. The Group has used the services of JCA Group, Russell Reynolds Associates, Egon Zehnder and Odgers Berndtson to support its recent recruitment searches. These external search consultants do not have any other connection with the Group.

The Committee reviews the list of potential candidates and agrees a shortlist of who they wish to interview. Subject always to the satisfactory completion of all background checks and regulatory approvals, the Committee makes recommendations to the Board on any proposed appointment. The other Board members are also offered the opportunity to meet the recommended candidates. As part of its recommendation, the Committee considers the external commitments of candidates to assess their ability to meet the necessary time commitment and whether there are any conflict of interest matters to address.

Each non-executive Director is appointed for a fixed term of three years and shareholders then vote on whether to re-elect him or her at every AGM. Once a three-year term has ended, a Director can continue for further terms if the Board is satisfied with the Director's performance, independence and ongoing time commitment. There is no specified limit to the number of terms a Director can serve, although the Board recognises the Code provisions regarding length of service when considering whether or not their appointment should be continued. The current average length of service of the non-executive Directors (excluding the Chairman) is just over three years. The Nomination and Governance Committee oversees the process to recommend continued appointments, but members of the Committee do not take part in discussions when their own performance – or continued appointment – is being considered. During 2013, the Committee recommended to the Board that the appointment of Colin Buchan should be continued from 1 January 2014. However, as announced, Colin will retire from the Board at the conclusion of the 2014 AGM after more than six years' service.

The role of the non-executive Directors is to participate fully in the Board's decision-making work – advising, supporting and challenging management as appropriate. You can see the format of the letter of appointment in the Board of Directors section of our website at **www.standardlife.com/about/board** or by writing to the Group Company Secretary and General Counsel. The letter confirms that the amount of time we expect each non-executive Director to commit to each year, once they have met all of

the approval and induction requirements, is 30 to 35 days. When non-executive Directors accept the terms of their appointment, they confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively. You can read more about the induction and development programme later in this section.

### Director election and re-election

Since 2011, we have given shareholders the opportunity each year to re-elect all the Directors. At the 2014 AGM all of the current Directors except Martin Pike and Colin Buchan will retire and stand for re-election. Martin, having been appointed since the previous AGM, will retire and stand for election. Colin Buchan will retire at the conclusion of the 2014 AGM and, therefore, will not stand for re-election.

You can read more supporting background information about the Directors and the reasons why the Chairman believes you should support their election or re-election, in the AGM guide 2014, which will be available at **www.standardlife.com** from 1 April, and in the Board of Directors summary on pages 39 to 41.

## Director independence, external activities and conflicts of interest

The Board carries out a formal review of the independence of non-executive Directors annually, including an assessment of their character, judgement and their relationships or circumstances which may affect their independence. The review considers all relevant issues including the number and nature of their other appointments, any other positions they hold within the Group, any potential conflicts of interest they have identified and the length of their service. Their individual circumstances are also assessed against independence criteria, including those in the Code. Following the review, the Board has concluded that all the non-executive Directors are independent. As noted above, the Board considered this in particular prior to Martin Pike's appointment.

Gerry Grimstone was Chairman of the Board throughout the year. He remained Chairman of TheCityUK. He has also retained his non-executive positions with Deloitte LLP and the Ministry of Defence and his membership of the Shareholder Executive Board of the Department of Business Innovation and Skills. He is also Senior Adviser to the board of the Abu Dhabi Commercial Bank. The Board formally reviewed his performance and, taking into account his outside appointments, is satisfied that he has sufficient time to carry out his duties. John Paynter served as the Senior Independent Director (SID) throughout the period. As SID, he is able to support the Chairman, whom he meets regularly one-to-one, and is available to talk with shareholders about any concerns that they may not have been able to resolve through the normal channels of Chairman, Chief Executive or Chief Financial Officer, or if a shareholder considers these channels are inappropriate.

The Directors continued to review and authorise Board members' actual and potential conflicts of interest on a regular and ad hoc basis in line with the authority granted to them in the Company's Articles of Association ("the Articles"). As part of the process to approve the appointment of a new Director, the Board considers and, where appropriate, authorises his or her potential or actual conflicts. The Board also considers whether any new outside appointment of any current Director creates a potential or actual conflict before, where appropriate, authorising it. All appointments are approved in accordance with the Group's Outside Appointments and Conflicts of Interest policies. In January 2014, the Board again reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons and concluded that the authorisations should remain in place until January 2016. Under the terms of the approval, conflicted Directors can be excluded from receiving information, taking part in discussions and making decisions that relate to the potential or actual conflict. The Board's policy encourages executive Directors to take up one external non-executive Director role. David Nish continued as a non-executive Director of the UK Green Investment Bank plc and Keith Skeoch continued as a non-executive Director of the Financial Reporting Council. You can read more about the Directors' outside appointments in their biographies on pages 39 to 41.

## Advice

Directors may sometimes need appropriate external professional advice to carry out their responsibilities. The Board's policy is to allow them to seek this, at the Company's expense. No Directors chose to seek external advice during 2013. All Directors also have access to the advice and services of the Group Company Secretary and General Counsel, whose appointment and removal is a matter for the Board.

## Board effectiveness

### Review process

Board effectiveness is key to the Group's success. The Board has, with the help of the Nomination and Governance Committee, developed a formal annual review process to assess how well the Board, its Committees, the Chairman and the Directors are performing collectively and individually. It also looks at how performance could be improved. The 2013 review, as in 2012, was led internally having been supported by an external facilitator in 2011. In 2014 we intend to incorporate external input into the review process.

The review comprised confidential online questionnaires (with the same external platform we used in 2011 and in 2012); the analysis of the responses; the development of a themed summary report and recommendations for improving performance and effectiveness. This year, members of Group Secretariat also met with each Director individually to discuss his or her ratings and comments, with particular focus on addressing any areas of concern. The output from these meetings informed both the results report and the individual review meetings the Chairman had with each Director.

The survey questions were reviewed and refreshed to focus on generating robust input from the Directors. Directors completed questionnaires about the Board, each Committee they sit on, the Chairman's performance and their own individual performance. They were encouraged to provide open and honest feedback, explain the ratings they gave and suggest how the Board or

Committee could improve. The Group Company Secretary and General Counsel, the secretaries of the Board Committees, and the other members of the executive team who interact frequently with the Directors and implement their recommendations and decisions, also completed questionnaires. The questions covered how the Board:

- agrees and implements strategy
- identifies, manages and responds to risks and uses risk appetites
- works together as a team and across the Group
- provides leadership and oversees the talent and development activities across the Group
- holds management accountable
- stays informed of the views of customers and employees
- communicates with stakeholders
- assesses and meets regulatory change
- receives comprehensive and focused information
- reviews its make-up, diversity and balance
- oversees the responsibilities and effectiveness of Board Committees.

### Outcome

Group Secretariat produced reports based on the consolidated results of each part of the survey. The reports were then considered in detail by the Nomination and Governance Committee before being formally recommended to the Board. The Board report included an update which set out the progress made to implement the previous year's recommendations. As in 2012, Directors were asked, where possible, to indicate whether and how matters had changed since the previous year. These rankings were positive.

At the end of the exercise, the Board concluded that it had performed effectively since the last review and could demonstrate continuing progress and improving trends in many areas. Suggestions where further improvements could be made included:

- enhancing the risk related information the Board receives, in particular information relating to strategic risk, conduct risk and technology risk
- increasing the level of customer related feedback brought to the Board
- continuing to offer employees the opportunity to interact with the Board
- continuing the non-executive Directors' programme of individual meetings with various parts of the Group
- continuing to focus on the quality and efficiency of Board papers.

Progress to implement the recommendations is monitored by the executive team and reported to the Nomination and Governance Committee.

Each Committee followed a similar questionnaire, reporting and feedback process. The Board concluded that the Committees had performed well and each Committee also reviewed its own results and recommendations in detail. These reviews are covered in the individual Committee sections of this report.

### Chairman

The review of the Chairman's performance was led by the SID. It was based on formal feedback given in the confidential online questionnaires. The questions covered:

- the Chairman's role to lead the Board and encourage effective participation
- how he informs the Board of stakeholders' views
- his relationships with both executive and non-executive Directors.

The feedback was summarised into a report which was reviewed by the SID and distributed to all Board members, except the Chairman. The Directors, led by the SID and without the Chairman being present, met to consider the report. They concluded that the Chairman had performed his role effectively, showed strong leadership of the Board and continued to devote significant time to the Group. The SID was responsible for passing feedback from the review directly to the Chairman.

### Directors

The Chairman led the performance review of the Directors. He held one-to-one meetings to assess their individual performance and contribution against duties set out in the Board Charter and in their appointment letters.

Before these meetings, the Directors assessed their own performance by completing a confidential online questionnaire, the results of which were shared with the Chairman. The questionnaires asked each Director to identify particular areas of the Group that they might want to visit or learn more about, as well as any technical knowledge they would like to develop.

Individual development and engagement plans ("Plans") were prepared to support each meeting. The Plans built on the responses to particular questions and areas of interest and training needs identified by each Director as well as the follow-up points raised in each of the Group Secretariat interviews. The meetings were designed to review whether each Director was contributing effectively to the Board and to the Board Committees, and whether they continued to have sufficient time to commit to the role. The meetings also considered individual training, development and engagement opportunities for each Director. The Plans summarised the internal and external continuing development the non-executive Directors had undertaken during the year and considered the

extent to which each non-executive Director had implemented the points raised in the previous year's review. Each Director takes forward the resulting actions, supported by the Chairman and the Company, using either internal resources or external expertise.

## Director induction and development

The Chairman, supported by the Group Company Secretary and General Counsel, is responsible for arranging a comprehensive and structured preparation and induction programme for all new Directors. The programme recognises the Director's background knowledge and experience and is tailored to his or her individual requirements. All Directors are also required to complete the Financial Conduct Authority's (FCA) and Prudential Regulation Authority's (PRA) Significant Influence Function Holder's approval programme before they are appointed and to self-certify annually that they remain competent to carry out this aspect of their role. The formal preparation and induction programme includes:

- meetings with each executive Director, key members of senior management, the heads of the operating businesses and Group functions
- focused technical meetings with internal and external experts on specific areas including Solvency 2, conduct risk, risk and capital management and financial reporting
- visits to business units
- meetings with the external auditors and the FCA/PRA supervisory team
- the Group's corporate governance and risk management frameworks and the role of the Board and its Committees
- key Board materials and information, shareholder communications and financial reports
- the Group's organisational structure, strategy, business activities and operational plans
- the Group's key performance indicators, financial and operational measures and industry terminology
- their individual responsibilities both as Directors and as holders of a Significant Influence Function.

The induction programme provides the background knowledge new Directors need to perform to a high level as soon as possible after joining the Board and to support them as they build their knowledge and strengthen their performance further. When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training on the Committee's role and duties.

When Directors are appointed to the Board, they commit to broadening their understanding of the Group's business. The Group corporate centre monitors relevant external governance and financial and regulatory developments and keeps the ongoing Board training and information programme up to date. During 2013, specific Board sessions took place on RDR, new generation platforms, with-profits matters and other product and customer developments. Similarly, the relevant Board Committees received updates on developments in financial reporting, remuneration and corporate governance. Non-executive Directors are actively invited to all parts of the Group's business in order to familiarise themselves with how our business is conducted and to meet with staff.

### Succession planning and talent development

The Board knows that comprehensive contingency and succession planning and talent development are key to effective operation and long-term success. The Nomination and Governance Committee regularly reviews the results of succession planning activities, including key man and retention risk, and talent development programmes at all levels across the Group. These programmes take into account the skills and expertise required by the Board and senior management currently and in the future. They recognise both the talent available within the Group and the need for external recruitment, and they consider the opportunities within the Group for people to develop through initiatives such as overseas placements. The programmes are led by the Group Talent and Organisation Development team. During the year, the Committee received updates on how the programmes at graduate and emerging leader levels, as well as the accelerated programme for senior leaders, have operated. They also received an analysis of how the Group's executive job family had changed over recent years, evidencing the Group's balance of managing underperformance as well as developing talent. They received updates on the specific individual development programmes in place for executive team members and their potential successors. The Committee believes that the plans and programmes continue to strengthen succession planning and talent development. The results of the Committee's reviews are presented at least annually to the Board for discussion. The Board members are keen to interact with the members of the development schemes and have met with, and had presentations from, key talent across the Group. Directors have been able to join the completion events for several of the programmes.

## Board meetings and meeting attendance

The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are generally held in Edinburgh or London and, on occasion, at the offices of one of our international businesses. In September 2013, the Board met in Frankfurt. This gave the Directors the opportunity to meet with senior leaders there, learn more about how the German business operates and find out more about our customers in Germany and their needs. During the year, the Board held specific sessions to consider the Group's strategy and business planning. The Chairman and the non-executive Directors also met formally and informally without the executive Directors present. At these meetings, matters including executive performance and succession were discussed.

The Board has a formal procedure for holding unscheduled meetings. This is used when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently. Directors are required to attend all meetings of the Board and the Committees they serve on, and to devote enough time to the Company to perform their duties. Board and Committee papers are generally distributed before meetings. The Board sometimes needs to call or rearrange meetings at short notice and it may be

difficult for all Directors to attend these meetings. If Directors are not able to attend a meeting because of conflicts in their schedules, they receive all the relevant papers and have the opportunity to submit their comments in advance to the Chairman or the Group Company Secretary and General Counsel. If necessary, they can follow up with the Chairman of the meeting.

Directors' attendance at the 2013 Board and Committee meetings is shown in the following table. The Company Chairman is not a member of the Audit, Risk and Capital, Remuneration and Investment Committees. He does however attend the meetings of all Committees, by invitation, in order to keep abreast of their discussions.

| | Board | Audit | Risk and Capital | Remuneration | Nomination and Governance | Investment | Corporate Responsibility |
|---|---|---|---|---|---|---|---|
| Number of meetings | 9 | 5 | 7 | 12 | 5 | 3 | 5 |
| **Chairman** | | | | | | | |
| Gerry Grimstone | 9 | | | | 5(c) | | 5(c) |
| **Executive Directors** | | | | | | | |
| David Nish | 9 | | | | | | 5 |
| Keith Skeoch | 9 | | | | | | |
| Jackie Hunt[1] | 3 | | | | | | |
| **Non-executive Directors** | | | | | | | |
| Colin Buchan | 9 | 5 | | 12 | 4 | 3(c) | |
| Pierre Danon | 9 | | 7 | 11 | | 3 | |
| Crawford Gillies | 9 | | 7 | 12(c) | | 3 | 5 |
| David Grigson | 9 | 5(c) | 7 | | 4 | | |
| Noel Harwerth | 9 | 5 | 7(c) | | | | |
| John Paynter[2] | 7 | 5 | | 10 | 3 | | |
| Lynne Peacock | 9 | 5 | | 12 | | | 5 |
| Martin Pike[3] | 2 | | 2 | | | | |
| Sheelagh Whittaker[4] | 3 | | 2 | | 1 | 2 | |

**As at 27 February 2014**

1 Resigned from the Board on 26 April 2013.

2 John Paynter was given a short period of leave of absence from the Board for medical treatment.

3 Appointed to the Board on 27 September 2013.

4 Retired from the Board on 14 May 2013.

(c) Committee Chairman

## Board Committees

The Board has established Committees that oversee, consider and make recommendations to the Board on important issues of policy and governance. At each Board meeting, the Committee Chairmen provide reports of the key issues considered at recent Committee meetings, and minutes of Committee meetings are circulated to the appropriate Board members. The Committees operate within specific terms of reference approved by the Board and kept under review by the Nomination and Governance Committee. These terms of reference are published within the Board Charter on the Board of Directors section of our website at **www.standardlife.com/about/board** and are also available from the Group Company Secretary and General Counsel. All Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary. The Chairman of each Committee and the Nomination and Governance Committee review Committee membership at regular intervals. The Nomination and Governance Committee considers all proposed appointments before they are recommended to the Board.

## Report from the Chairman of the Audit Committee

"The Board draws on the advice of the Audit Committee to support its effective governance over internal and external financial reporting. As Chairman of the Audit Committee I have had regular meetings with the Chief Financial Officer (and the Chief Executive, following the resignation of Jackie Hunt), the Director of Group Finance, the Group Chief Internal Auditor and the engagement partner from the external auditors. I was also actively engaged in the recruitment of the new Group Chief Internal Auditor who took up her position in February 2013. There are some areas of potential overlap between the Audit Committee's remit and that of the Risk and Capital Committee, so I have spent time with the Chairman of the Risk and Capital Committee to discuss the efficient operation of the two Committees to make sure that all relevant issues are efficiently discussed and all risks associated with internal and external financial reporting are being covered. The Audit Committee has had another very busy year and I am pleased to present my report on its work and operation during 2013". David Grigson, Chairman

The Committee members are David Grigson (Chairman), Colin Buchan, John Paynter, Lynne Peacock and Noel Harwerth. The Board considers them all to be independent non-executive Directors. The Board is satisfied that David Grigson, who is a chartered accountant and served as Chief Financial Officer of Reuters Group, has recent and relevant financial experience. The Board believes that the other members of the Committee have both the broad commercial knowledge and experience of financial management and reporting to bring the right mix of skills to the Committee.

The Committee's remit is to consider and to make appropriate recommendations to the Board on:

- any matter relating to the financial affairs of the Group
- the Group's internal and external audit arrangements
- the Group's internal controls over financial reporting.

During the year, the Committee met five times to coincide with the Company's financial reporting cycle requirements. It met regularly with each of the external and internal auditors without management being present to allow the Committee to discuss any issues of emerging concern in more detail. Invitations to attend the Committee meetings on a regular basis are extended to the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Executive of Standard Life Investments, the Director of Group Finance, the Group Chief Risk Officer and the Group Chief Internal Auditor (GCIA). In June 2013, David Grigson attended the local audit committee meetings of the Group's principal Canadian subsidiaries.

The main issues reviewed and approved or recommended to the Board during 2013 included:

January to March

- Preliminary Results 2012
- Annual Report and Accounts 2012
- Summary Financial Report 2012
- current material legal actions and litigation to support contingencies and commitments disclosure
- the non-audit services policy.

April to June

- Interim Management Statements/Q1 Trading Results
- completion of the 2012 external audit for all audited entities
- the 2013 external audit engagement letter for all audited entities
- the 2012 external audit fee and the proposed 2013 fee for all audited entities.

July to September

- Half Year Results 2013
- external audit results of Half Year Results review
- external audit plan for 2013 for all audited entities
- current material legal actions and litigation.

October to December

- Interim Management Statements/Q3 Trading Results
- initial findings from Financial Year 2013 year end work
- the effectiveness of Group Internal Audit (GIA), the GIA Charter and the GIA annual plan
- the effectiveness of the external auditors and their proposed re-appointment at the 2014 AGM
- the effectiveness of the Audit Committee.

At every meeting the Committee:

- reviews the findings of GIA reports and how the high-priority findings are being followed up by management
- reviews the results of the monitoring of financial crime, fraud risk assessments and calls to our dedicated Speak Up helpline
- reviews reports from the chairmen of the subsidiary audit committees
- reviews the findings from external audit work
- reviews the non-audit services requested of the external auditors by the business units, both in terms of the nature of the service and the level of proposed fee.

## Financial reporting

### Accounting policies, practices and areas of judgement

The Committee reviewed the Group accounting policies and confirmed they were appropriate to be used for the 2013 Group financial statements. The Committee also focussed on the valuation bases for the assets and liabilities, including the key assumptions used to measure the insurance and participating investment liabilities. The Committee reviewed the implications of the adoption of IFRS 13 *Fair value measurement* on how the fair value of assets and liabilities was calculated and agreed with the approaches being applied.

The Committee discussed the significant accounting and actuarial matters affecting the 2013 Group financial statements and considered the areas listed below to contain the most significant levels of judgement:

- calculation of the value of insurance and participating investment contracts, focussing on the determination of mortality assumptions in UK and Canada and the allowance for future taxes included in the valuation in Canada
- calculation of the fair value of complex financial instruments, including private equity investments and derivatives, and securities where a recent market price was not available
- calculation of the fair value of investment properties and owner occupied buildings
- calculation of the value of intangible assets and goodwill arising from the acquisition of the private client division of Newton Management Limited and the determination of the useful lives of the intangible assets
- calculation of the fair value of the UK pension scheme surplus – in particular reviewing the determination of pension scheme assumptions for mortality, discount rate, inflation and the rate of increase in salaries and pensions and the assessment of the recoverability of the surplus.

For each of the matters discussed, the Committee:

- considered the information management provided to support the Committee's review of the matter, including the strength and operation of the controls to prevent management override and management's responses to the challenges raised by Committee members
- sought information from the external auditors as to whether/how the external auditors had considered each of these areas and how any areas of significant audit focus had been reported in the external auditors' report
- reviewed the consistency of the views of management and the external auditors.

### EEV basis of preparation, methodology and areas of judgement

The Committee reviewed the EEV basis of preparation and changes to the methodology, and agreed that the basis of preparation and methodology were appropriate to be used in the 2013 EEV financial information. The Committee considered the areas with the most significant levels of judgement affecting the EEV financial information to be the determination of mortality and persistency assumptions and the risk discount rates in UK and Canada. In addition, the Committee also reviewed the projected release of the future taxes included in the Canadian liabilities. The Committee challenged the assumptions and agreed with management's proposals.

### Disclosure

The Committee also considered the processes to prepare and review the Annual Report and Accounts 2013 (ARA). In particular, the Committee sought assurance on the internal and external verification and compliance processes which had taken place as well as the quality of the internal review of the ARA. Following its review, the Committee was able to confirm to the Board that it believed the ARA, taken as a whole, is fair, balanced and understandable.

The Committee also discussed the management information provided on:

- the clarity of disclosures in the Group financial statements and EEV financial information, and agreed that the Strategic report, as a whole, contained a fair, balanced and understandable view of the Group's business, a description of the risk and uncertainties facing the business, a balanced and comprehensive analysis of the development and performance of the Group's business during the year and the position of the Group's business at the end of the year
- the results of management's assessments of the Group's going concern position and Group solvency position, including recommending to the Board that the going concern assessment was reasonable (you can read more in the Going concern section of this report)
- relevant external financial reporting developments and guidance, including how the Committee had supported the introduction of the Strategic report and its additional disclosures, as well as its impact on the previously issued Summary Financial Report.

### External audit

The Committee monitors the external auditors' performance. This includes reviewing how independent and objective the external audit team is and how the team maintains its professional scepticism, all in the context of regulatory requirements and professional standards. The Committee assesses the effectiveness of the external audit process and approves the terms of engagement and remuneration for audit services. As part of its ongoing review of the effectiveness of the external auditors, the Committee:

- assesses the team's qualifications, independence, expertise and resources as well as its relationship with management and the executive Directors
- considers the scope and planning of the external audit of the Group
- reviews the audit findings with the external audit team and the overall effectiveness of the audit.

The Committee is satisfied that the external auditors continue to fulfil the terms of the engagement.

The Committee is also responsible for making a recommendation to the Board each year on the appointment, reappointment or removal of the external auditors. The current audit firm was appointed for the 1994 financial year. The external audit was put out to tender in 2003, following which the auditors were reappointed for the financial year beginning 1 January 2004. The audit engagement partner rotates every five years in accordance with Auditing Practices Board ("APB") ethical guidelines and 2013 is the second year for the current partner. The Committee believes that the present auditors' performance and reappointment should be considered every year rather than only when a tender is due. Therefore, there is a standing annual agenda item to review the auditors' performance in detail against the relevant duties in the Committee's terms of reference and taking into account all other appropriate factors, governance standards and guidance. The members of the audit team are not present for this. As part of this review, the Committee considers the way the audit engagement partner reports to and interacts with the Committee and the quality and succession planning of the audit engagement partner and the senior audit team. The Committee also seeks the views of the senior members of the Group Finance team who work most closely with the audit team. The Committee considers the quality of the regular and ad hoc reports received from the audit team on the output of audit activities, considering whether this is consistent with the reports from management, and the updates about independence, internal quality processes and technical knowledge. In particular the Committee looks for evidence that the external auditors have maintained a high level of professional scepticism, have brought a high level of professional challenge to management, and have reported transparently and comprehensively to the Committee.

Following the 2013 effectiveness review, the Committee concluded that it was appropriate to recommend to the Board that a resolution should be proposed at the 2014 AGM to reappoint the present auditors until the conclusion of the 2015 AGM. The Committee's recommendation is not restricted by any contractual obligations. The Committee agreed to comply with the relevant revisions to the Code and to the FRC Guidance on Audit Committees with regard to the external audit tendering timetable which came into force in October 2013. As the Committee believes that the current auditors' performance continues to be satisfactory, the Committee will implement the relevant transitional provisions suggested by the FRC which were issued along with the revised Code.

### Non-audit services

The Board has approved the non-audit services from external audit policy (the "Policy") and the Committee monitors the implementation of the Policy on behalf of the Board. The aim of the Policy, which is reviewed annually, is to support and safeguard the objectivity and independence of the external auditors. It does this by prohibiting the auditors from carrying out certain types of non-audit services to ensure that the audit services provided are not impaired. It also ensures that where fees for approved non-audit services are significant, they are subject to the Committee's prior approval. The services prohibited by the Policy include:

- book-keeping or other services related to the accounting records or financial statements
- financial information system design
- appraisal or valuation services where the results would be material to the financial statements
- internal audit outsourcing
- actuarial calculations
- management functions
- legal services
- forensic audit services
- temporary or permanent services as a director, officer or employee or performance of any decision-making, supervisory or monitoring function
- recruitment of senior management.

The Policy permits non-audit services to be purchased, following approval, when they are closely aligned to the external audit function and when the external audit firm's skills and experience make it the most suitable supplier.

These include:

- accounting consultations and audits in connection with acquisitions and disposals of businesses
- due diligence related to mergers and acquisitions
- tax compliance and advisory services
- employee benefit plan audits
- attesting to services not required by statute or regulation
- assurance services relating to regulatory developments affecting the Group
- consultations concerning financial accounting and reporting standards not relating to the audit of the Group's financial statements
- sustainability audits/review.

Depending on the level of the proposed fee, the Policy requires the approval of the Chairman or members of the Committee and/or the whole Committee before certain non-audit services are commissioned. You can find details of the fees paid to the external auditors for audit and non-audit work carried out during the year in Note 9 to the Group financial statements. Non-audit services carried out during 2013 included assurance services related to regulatory stress testing and sustainability reporting, tax advisory services relating to Austria, Germany and Canada and continuing assistance to our Foreign Account Tax Compliance Act (FATCA) compliance project. During the year, the Committee reviewed how the fees related to non-audit services were reported and agreed to extend the associated narrative to evidence as clearly as possible the nature of the service.

## Internal audit

The Group has an internal audit function (GIA) and the Committee considers its effectiveness annually, in particular monitoring its independence, objectivity and resourcing in the context of the Institute of Internal Auditors' (IIA) professional standards. A new GCIA was appointed in February 2013. The Committee approves the scope and content of the annual internal audit plan, which is updated on a rolling basis to allow GIA to address any emerging issues. The plan is based on the audit universe, discussed with management and the external auditors and mapped to the key risks within the Own Risk and Solvency Assessment (ORSA). The Committee receives regular reports on:

- the implementation of the approved plan
- key findings from completed reviews, including the impact on financial reporting processes and related applications
- updates on how effectively management has implemented agreed improvement actions
- the GCIA's assessment of the internal control environment at each business unit.

The external auditors identify GIA reviews where they intend to place reliance on the work of the GIA team. Equally, the FCA or the PRA may request GIA to undertake specific reviews as part of their Risk Mitigation Plan follow up. GIA has an internal audit co-sourcing agreement with KPMG LLP and this is used to support specific technical reviews. During the year, GIA carried out its own quality assurance processes and reported the results back to the Committee. The Committee members also met with the senior managers of the GIA team during the year. GIA operates in accordance with a Global Charter which is reviewed by the Committee every year. During 2013 the Global Charter was updated to reflect the IIA new code for internal auditors of banks and financial services.

## Financial crime and whistleblowing

The Committee reviews the arrangements for Group employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters. At each meeting it receives reports on all calls to our dedicated Speak Up helpline. Any concerns are investigated and the Committee oversees the follow-up action taken. The Committee also receives updates at every meeting from the Group Head of Financial Crime who reports on compliance with the Group's anti-bribery policy, and any other activities associated with financial crime. Staff are trained how to detect and report the signs of possible fraudulent or improper activity and about the existence of the Speak Up helpline.

## Committee effectiveness

The Committee reviews its remit and effectiveness annually. Members complete an online self-assessment questionnaire and review the Committee's terms of reference. After analysing the questionnaire responses in late 2013, the Committee concluded that it had:

- performed effectively during the year
- fulfilled its duties under its terms of reference, and kept its terms of reference up-to-date
- received sufficient, reliable and timely information from management and the external auditors to enable it to fulfil its responsibilities.

The Board's review also confirmed that it was satisfied with the performance of the Committee. After each meeting, the Chairman reports to the Board, summarising the key points from the Committee's discussions which supported the Committee's recommendations to the Board.

## Advice and development

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. It is also authorised to seek, at the expense of the Group, appropriate professional advice inside and outside the Group, whenever it considers this necessary.

## Report from the Chairman of the Risk and Capital Committee

"The Risk and Capital Committee supports the Board in the effective oversight and challenge of risk management and the use of capital across the Group. The Committee was formed in April 2010 and is now well established in its role of providing quality support and analysis to the Board. I am pleased to present my report on the work and operation of the Committee during the past year". Noel Harwerth, Chairman

The Committee members are Noel Harwerth, (Chairman), David Grigson, Pierre Danon, Crawford Gillies and Martin Pike (appointed 27 September 2013) who are all considered by the Board to be independent non-executive Directors. Sheelagh Whittaker retired from the Committee on 14 May 2013. During 2013, the Committee met seven times.

The Group Chief Risk Officer attends the Committee meetings and has right of access to the Committee Chairman. Colin Ledlie stood down as Group Chief Risk Officer in March 2013 to take up a secondment with the FCA. Following approval from the Committee and the Board, Raj Singh was appointed as our Group Chief Risk Officer. Others invited to attend Committee meetings on a regular basis include the Chairman, the Chief Executive, the Chief Financial Officer, the Chief Executive of Standard Life Investments and the GCIA as well as the external auditors. The Committee has the authority to meet without management being present if the members consider this necessary.

The role of the Committee is to provide oversight and challenge of, and advice to the Board on:

- the Group's risk strategy, limits and tolerances, material risk exposures and future risk strategy and their impact on capital
- the structure of the Group's ERM framework and its suitability to react to the changing nature of risks
- the risk aspects of major investments, major product developments and other corporate transactions
- material risk and capital matters affecting the Heritage With Profits Fund.

At each quarterly meeting, the Committee:

- reviews the Group Chief Risk Officer's status reports on risk dashboards and risk metrics
- reviews matters escalated from the Group Enterprise Risk Management Committee ("Group ERMC")
- reviews compliance reporting on matters arising from the approved annual plan
- reviews any with-profits matters related to risk management of the use of capital
- reviews the ORSA
- discusses emerging external risks and their impact on the risk strategy.

### The Committee's work in 2013

Economic uncertainty has continued during 2013 impacted by a number of factors including the possibility that quantitative easing measures in the USA may be phased out and by on-going concerns in the Eurozone. The Committee closely monitored financial markets during the year in order to assess the impact on the Group's risk profile and capital position. Interest rates in the UK, Germany and Canada remained low relative to historic levels however for most of the year yields were higher than their 2012 closing levels. Stock markets have experienced strong growth in 2013 with a number of markets reaching historic highs. Against this economic backdrop the Committee carefully monitored solvency levels and key risk metrics across the Group.

In advance of completing the acquisition of the private client division of Newton Management Limited, details of the proposed transaction were presented to the Committee. The Committee discussed the key risks and mitigants associated with the transaction and the approach to due diligence that was being adopted.

The Committee continued to monitor regulatory developments relevant to the Group. This included considering the impact of the FCA and the PRA replacing the Financial Services Authority in April. In response to the European Union (EU) formally announcing a delay in the implementation date for Solvency 2 regulations, the Committee considered the likely impact of the delay and the Group's planned response to ensure the Group remained well positioned to meet the regulatory requirements and deliver process improvements that assist in managing capital effectively.

In December, the Committee assessed the appropriateness of the Group's key risk metrics and decided to focus on economic capital resources in 2014. The committee reviewed and approved the Group's Risk Appetite Framework and reviewed the proposed quantitative risk limits to be used to manage the business during 2014.

The Committee noted improvements that were made to internal risk reporting during the year which included increased focus on risks relating to conduct, the customer and the regulatory environment. In addition to standing agenda items, the Committee also received a number of thematic reviews on areas of specific interest. These 'deep dives' included reviews of hedging, credit risk management, the use of correlations, persistency risk management and longevity risk management.

### Committee effectiveness

The Committee reviews its remit and effectiveness annually. Members of the Committee completed an online self-assessment questionnaire and reviewed the Committee's terms of reference in late 2013. The general consensus from the completed questionnaires was that the Committee continues to make good progress and to evolve.

You can find out more about the Group's main sources of risk and how risks are managed in Section 1.5 of the Strategic report - Risk management. You can also find out more about risk exposures in Note 41 to the Group financial statements.

## Report from the Chairman of the Remuneration Committee

"The Committee supports effective governance over remuneration. You can read my full introduction in the Directors' remuneration report which follows this section". Crawford Gillies, Chairman

The Committee members are Crawford Gillies (Chairman), Colin Buchan, Pierre Danon, John Paynter and Lynne Peacock – all of whom are considered by the Board to be independent non-executive Directors.

During 2013 the Committee met twelve times. The Committee's role is to approve or make recommendations to the Board in respect of the overarching Group-wide remuneration policy, including:

- rewards for the executive Directors, senior executives and the Chairman
- the design and targets related to any employee share plan
- the design and targets for annual cash bonus plans below the executive level
- changes to employee benefits structures (including pensions) throughout the Group.

The Chairman, Chief Executive and Group Operations Officer (who has overall responsibility for the Group's People function) are invited to attend Committee meetings on a regular basis. The Director of Group Reward and Employment Policy attends all meetings in his capacity as secretary to the Committee.

You can find details of the Group's current remuneration policies for the Directors and senior executives as well as more information on all of the Committee's activities during the year in the Directors' remuneration report.

## Report from the Chairman of the Investment Committee

"The Investment Committee oversees the high-level asset allocation strategy (including benchmarks) within the Heritage With Profits Fund and Insured Funds as well as the investment activities and stewardship role of the Group as an investor and a fund manager and reports its findings and recommendations to the Board. I am pleased to present my report on the work and operation of the Committee during the year". Colin Buchan, Chairman

The Committee members are Colin Buchan (Chairman), Crawford Gillies, Pierre Danon and Martin Pike (appointed 27 September 2013) who are all considered by the Board to be independent non-executive Directors. Sheelagh Whittaker retired from the Committee on 14 May 2013. During the year the Committee met three times and reported to the Board on matters relevant to the investment activities and stewardship role of the Group as an investor and fund manager.

At each meeting, the Committee:

- receives updates from Standard Life Investments on the performance of financial markets and various investment classes and the global outlook, covering both micro and macro-economic situations
- oversees investment activity within Standard Life Assurance Limited considering matters such as fund performance, investment objectives, investment benchmarks and asset allocation
- receives updates on specific corporate governance and stewardship matters related to investments managed by Standard Life Investments.

The Chief Executive and other board members and executives (where appropriate) of Standard Life Investments attend Committee meetings. The Committee's discussions are relevant to and inform the deliberations at the Board and other Committee meetings.

Following the 2013 review of its effectiveness, which considered that the Committee had performed well, the Committee discussed how to strengthen further investment insight throughout the Group. It concluded that this could best be done by relevant Boards and other committees taking on the responsibilities presently exercised by the Committee and expanding them. On this basis, the Board accepted the Committee's recommendation that the Committee should stand down and thanked Colin Buchan for his leadership of the Committee. Our amended governance framework will ensure full oversight of matters relevant to the investment activities and stewardship role of the Group as an investor and fund manager.

## Report from the Chairman of the Corporate Responsibility Committee

"The Corporate Responsibility Committee provides oversight over sustainability issues and reports its findings and recommendations to the Board. I am pleased to present my report on the work and operation of the Committee during the year". Gerry Grimstone, Chairman

The Committee members are Gerry Grimstone (Chairman), Crawford Gillies, Lynne Peacock and David Nish.

During the year the Committee met five times. The Committee oversees and provides guidance and direction on the Group's sustainability programme. It also supports the Board's role in providing leadership on environmental and social issues. The Committee's duties include keeping under review the Group's sustainability strategy and policies and making recommendations to the Board on sustainability issues. This links our responsibilities to our stakeholders more closely to our long-term business objectives. During 2013, the Committee oversaw donations to charities involved with employability and financial capability - a key focus for the Group's sustainability strategy.

You can find more details about the Group's sustainability activities in Section 1.8 of the Strategic report – Our sustainability strategy and on the Group's website at **www.standardlife.com/sustainability**

## Report from the Chairman of the With Profits Committee of Standard Life Assurance Limited

"Whilst the management of its with-profits business is the direct responsibility of the Board of Standard Life Assurance Limited (SLAL), FCA regulations require that a with-profits firm's governance arrangements should make provision for independent judgement and advice. The SLAL Board has established a With Profits Committee (WPC) for this purpose. I am pleased to present my report on the work and operation of the Committee during 2013". Niall Franklin, Chairman

The Committee members are Niall Franklin (Chairman), Graham Aslet, Clifton Melvin and Ross Ainslie (appointed 1 July 2013). Ray Greenshields retired from the Committee on 31 March 2013. The Committee members are appointed by the SLAL Board on the recommendation of the Nomination and Governance Committee. The WPC met eight times during 2013. Directors of the Standard Life plc and SLAL Boards and senior actuaries involved with the management of the with-profits business, in particular the UK & Europe Chief Risk Officer, the With Profits Actuary and the Actuarial Function Holder, routinely attend these meetings.

SLAL has had a WPC since demutualisation. Its role is to monitor and advise the SLAL Board on the management of with-profits business, providing independent judgement on the fair treatment of with-profits policyholders, and to take a proactive role in raising any issues that merit further consideration. The Committee reviews all proposals that are material to the interests of SLAL's with-profits policyholders. The Committee has the authority to engage external advisers, when appropriate, and has engaged an actuary from Milliman LLP to routinely provide the members with advice.

The Committee's routine formal interaction with the SLAL Board is by the minutes of its meetings and by an annual report to the SLAL Board in which it reviews the management of with-profits business having regard to SLAL's duty to treat its with-profits policyholders fairly and to meet their reasonable benefit expectations. The Committee has authority to make a report to the with-profits policyholders. It did not do so during 2013 and would not expect to do so unless it disagreed materially with SLAL's own annual report to its with-profits policyholders (which is required by FCA regulations) on the management of the with-profits business. The Directors of SLAL and of the Company have an open invitation to attend any of the Committee meetings. Minutes of the Committee meetings are submitted to the Board and in May 2013 the Committee Chairman attended a meeting of the Board at which with-profits matters were discussed.

During 2013, the Committee reviewed:

- allocation of costs
- management of with profits assets and, in particular, the setting of investment strategy
- management of bonus rates and fair payout bases.

The Committee has a web page which provides information on its main activities, including how the Committee protects the interests of policyholders and makes its views known.

You can access the web page at **www.standardlife.co.uk/1/site/uk/fund-info/with-profits/with-profits-committee**

## Communicating with investors

The Company continues to develop a dialogue with all its shareholders. As part of this, the Investor Relations and Group Secretariat teams support communication with investors. During 2013, the Group continued its programme of domestic and international presentations and meetings between the executive Directors and institutional investors, fund managers and analysts. The wide range of relevant issues discussed at investor presentations and meetings covers business strategy, financial performance, operational activities and corporate governance - but excludes inside information. The Chairman has his own investor contact programme and brings relevant issues to the attention of the Board. The Remuneration Committee also consulted with major institutional shareholders regarding executive remuneration during the year. More information on the consultation can be found in the Directors' remuneration report on page 70.

The Board is equally committed to the interests of the Company's 1.3 million individual shareholders who hold approximately 55% of the Company's issued shares. Given this large shareholder base, it is impractical to communicate with all shareholders using the same direct engagement model we follow for our institutional shareholders. The Company has continued to gather and respond to shareholders' views on the services and means of communication available to them, mainly via the Shareholder Questions mailbox and surveys conducted with shareholders contacting the shareholder helpline. Their input has informed how the Company communicates with them - particularly online - and how the ARA, the new Strategic report and the AGM guide 2014 are produced. We believe that communicating electronically with our shareholders supports our sustainability strategy, and around 500,000 shareholders receive all communications electronically. We encourage shareholders to use our share portal to access information relating to their personal shareholding and dividend history and around 300,000 have signed up to this service. Share portal participants can also change their details and dividend mandates online and receive dividend tax vouchers electronically. We also encourage our individual shareholders to hold their shares in the Standard Life Share Account where shares are held electronically in a secure environment.

To give all shareholders access to the Company's announcements, all material information reported via the London Stock Exchange's regulatory news service is published on the Company's website. During 2013 we expanded our online investor communication tools. We have continued to host formal presentations to support the release of both the Full-Year and Half-Year financial results together with conference calls for our two Interim Management Statements. These results-related events are also made available live on the Group's website, with the facility for all listeners to ask questions, as well as having a permanent replay facility.

We have hosted several short analyst and investor events designed to give deeper insight into particular areas of our business, created a company profile which is intended to give a high level introduction to the Group and are in the process of developing divisional profiles to give further high level insights.

We also publish a monthly newsletter which features articles from senior management, to keep investors up to date on matters which may be of interest to them. These are available on the Investors section of the Group's website. We have also maintained our Investor Relations Twitter account **@sl_invrelations**

The Chairman's statement and the Strategic report in this ARA aim to provide a balanced overall assessment of the Group's activities, performance and prospects. This information will be supported by a presentation at the 2014 AGM – an event that provides a valuable opportunity for the Board and shareholders to communicate. Shareholders will be invited to ask questions during the meeting and have an opportunity to talk with the Directors after the formal part of the meeting. The voting results will be published on our website at **www.standardlife.com** after the meeting. These will include the number of votes withheld.

The 2013 AGM was held at the Edinburgh International Conference Centre on 14 May 2013. Directors were available to answer shareholders' questions. In accordance with best practice, all resolutions were considered on a poll which was conducted by our registrars and monitored by independent scrutineers. The results, along with proxy votes lodged prior to the meeting, were made available on our website the same day. 40% of the shares in issue were voted and all resolutions were passed.

## Institutional investor

Standard Life Investments, the Group's principal asset management company, recognises the importance of good governance and stewardship. As a major investor, it monitors the governance of the companies it invests in. It also holds regular meetings with their senior management representatives. Standard Life Investments maintains principles and policy guidelines on corporate governance, stewardship and voting. During 2013, these guidelines were updated to make them applicable on a global basis. The guidelines support Standard Life Investment's approach to engaging and to voting at shareholder meetings. Standard Life Investments also makes voting reports available to clients and publishes summary information on its website. The policy guidelines are applied pragmatically, after all relevant information has been carefully considered. When assessing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also reviewed the Company's compliance with these principles and policy guidelines. The Committee concluded that the Company complied with the guidelines during the year.

Standard Life Investments is a strong supporter of the principles of good stewardship that are set out in the Stewardship Code, believing that it is mutually beneficial for companies and long-term investors such as Standard Life Investments to have a relationship based on accountability, engagement and trust. Standard Life Investments has made public its processes to comply with the Stewardship Code's seven best practice principles. You can read more about this and its governance and stewardship annual review at **www.standardlifeinvestments.com**

## Other information

You can find details of the following, as required by DTR 7.2.6, in the Directors' report and in the Directors' remuneration report:

**Share capital**

- significant direct or indirect holdings of the Company's securities
- confirmation that there are no securities carrying special rights with regard to control of the Company
- confirmation that there are no restrictions on voting rights in normal circumstances
- how the Articles can be amended
- the powers of the Directors, including when they can issue or buy back shares.

**Directors**

- how the Company appoints and replaces Directors
- Directors' interests in shares.

## Annual review of internal control

The Directors have overall responsibility for the Group's ERM framework and system of internal control and for the ongoing review of their effectiveness. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The framework covers all of the Group's risks as set out in the ERM Framework section below. GIA regularly reviews the effectiveness of internal control and the ERM framework, and reports its findings to the Audit Committee and the Risk and Capital Committee. In particular, with regard to regular financial reporting and preparing consolidated accounts, Group Finance participates in the control self-assessment and policy compliance elements of the ERM framework. Group Finance maintains an up-to-date Group Accounting Manual and sets formal requirements with business unit finance functions which specify the reports and approvals needed. Group Finance then reviews and challenges these as part of the consolidation process. The consolidation team which sits within Group Finance defines the process and detailed controls for the IFRS consolidation. In addition, Group Finance runs the Technical Review Committee (TRC), which is made up of senior finance managers. The TRC reviews external technical developments and detailed reporting and accounting policy issues to support the consistent interpretation and application of the Group accounting policies and practices. This is done in conjunction with the Group's other management committees with external reporting responsibilities: the Financial Reporting Executive Review Group and the EEV Basis Group.

In line with the Code and the further guidance in the Turnbull Report, the Board has reviewed the effectiveness of the system of internal control. The system was in place throughout the year and up to the date of approval of the Annual Report and Accounts 2013. In order to support this review, a certification exercise was completed by each of the business unit Chief Executive Officers, Chief Financial Officers, Chief Risk Officers and Group function executives. They were asked to confirm the following:

- that they had maintained the risk management system (incorporating the system of internal control), reported significant control breakdowns throughout the year and that necessary actions had been taken or were being taken to remedy and monitor these breakdowns
- that the scheme of delegation was reviewed and approved by relevant committees
- that the system of governance had been reviewed and was documented
- that the system of internal control was also regularly reviewed and results reported to relevant Enterprise Risk Management Committees (ERMCs)
- that the external auditors had been made aware of relevant information.

In order to support these statements, the most significant control issues which arose throughout the year were documented and reviewed. Business unit risk functions were also asked to produce a report detailing the assurance activity which had been conducted throughout the year in relation to the system of internal control. The certification, documented control issues and assurance reports were reviewed by each business unit and/or the Group Chief Risk Officer as appropriate, with challenge provided by Group Risk, before being presented for certification. A certificate was then prepared by Group Risk for the Chief Executive together with a report combining the output from the business unit and Group function executive certifications. Completed certifications and supporting documentation were presented to the business unit and the Group ERMCs. The results of the output from this review were presented to the Audit Committee which subsequently reported its conclusions to the Board.

## Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Strategic report includes details on our cash flow and capital management - Section 1.3 Group financial overview-and a section describing our key risks-Section 1.5 Risk management. Further details of the Group's risk and capital management procedures and governance are outlined later in this section. In addition, the Group’s financial statements include notes on the Group’s borrowings and subordinated liabilities (Notes 35 and 36), management of its risks including market, credit and liquidity risk (Note 41), its contingent liabilities and commitments (Notes 44 and 45), and its capital structure and position (Note 48).

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group’s available credit facilities. The Company’s revolving credit facility of £500 million was renewed on 5 March 2013 and is due to mature in March 2018. The Group has considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The recommendation of Group Finance and supporting information regarding the appropriateness of the going concern basis was submitted to the Audit Committee. The Committee reviewed the recommendation taking into account the relevant FRC guidance (Going Concern and Liquidity Risk; Guidance for Directors of UK Companies). After making appropriate enquiries, and taking account of the above, 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.

## The Group's Enterprise Risk Management framework

The Group has an ERM framework that enables risks to the Group to be identified, assessed, controlled and monitored consistently, objectively and holistically. We have operated our ERM framework for a number of years and we continue to seek opportunities to strengthen the framework and to ensure that it is aligned with external best practice.

There are five key elements to our ERM framework which are set out in the adjacent diagram. The operation of this framework provides for a risk-based approach to managing our business, integrating concepts of strategic planning, operations management and internal control.

You can find out more about each element of the framework below.

We believe that our current ERM framework is closely aligned to the requirements of emerging regulatory frameworks relating to risk management and systems of governance, although we recognise there will continue to be developments in line with regulatory developments and industry best practice.

During the year we have further developed and embedded our ORSA process. This has been built on our ERM framework which provides a good foundation for this in terms of identifying, assessing, controlling and monitoring risks.

Our experience of operating and improving our ERM framework over a number of years means that we are well placed to meet the future requirements of Solvency 2 which we anticipate will support the further embedding of risk management within the Group.

You can find out more information about our risk exposures at 31 December 2013 in Note 41, Risk management which shows the impact of applying this framework in managing our business and in Section 1.5 of the Strategic report – Risk management.

## Risk culture

### Our approach

- right people, right jobs, right behaviours, roles and responsibilities clearly defined
- right structure, effectively implemented, risk focused committees and management
- Group-wide awareness, deepening understanding of risk, ongoing embedding and change.

### Risk governance structure

The risk governance structure we use in defining our risk culture includes the Risk and Capital Committee (the"RCC") which is made up of non-executive Directors as detailed in the Report from the Chairman of the RCC above. The Group Chief Risk Officer also attends meetings of the RCC. The main role of the RCC is to provide oversight and challenge of, and advice to the Board on:

- the Group's risk strategy, limits and tolerances, material risk exposures and future risk strategy and their impact on capital
- the structure of the Group's ERM framework and its suitability to react to the changing nature of risks
- the risk aspects of major investments, major product developments and other corporate transactions
- material risk and capital matters affecting the Heritage With Profits Fund.

The RCC also provides advice to the Remuneration Committee on an arm's length basis on various matters, including whether specific risk adjustments need to be applied to performance-related payments in incentive packages.

The Group ERMC consists of the members of the executive team which includes the Group Chief Risk Officer. The Group ERMC meets at least quarterly, and usually in conjunction with the executive team. The main role of the Group ERMC is to:

- oversee compliance with the Group's ERM framework
- support the Chief Executive in the management of risk across the Group.

The Group ERMC is supported by the Group Credit Risk Committee which deals with all types of credit risks arising from the current and proposed activities of the Group. In addition, our internal Chief Risk Officer (CRO) Forum, comprising our business unit CROs, meets monthly to review risk matters.

Group Risk supports the operation of these risk committees (the RCC, the Group ERMC and the Group Credit Risk Committee) and provides assurance, assistance and advice to them as required.

Group Risk is supported by the Risk functions within the business units which each have their own business unit ERMC. The business unit risk functions are responsible for providing assurance that the financial and non-financial risks inherent in business activities are identified and managed in accordance with the appetite and limits approved by the Board and relevant subsidiary boards. They are also responsible for producing risk management information for use within the business unit and for aggregation across the Group.

## Three lines of defence

The Group operates a three lines of defence model of risk management, with clearly defined roles and responsibilities for committees and individuals:

**First line**: day-to-day risk management is delegated from the Board to the Chief Executive and, through a system of delegated authorities and limits, to business managers.

**Second line**: risk oversight is provided by the Group CRO and established risk management committees, including the Group ERMC. These management committees are supported by the specialist Risk Management and Compliance functions across the Group.

**Third line**: independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Audit Committee, which is supported by the GIA function, and the RCC.

## Qualitative risk appetites

The Group has defined qualitative risk appetite principles and statements to provide guidance to our businesses and help to drive our strategy in line with the Group's appetite for risk. The general principles are:

- the Group has no appetite for unrewarded risk
- the Group has no appetite for any risk that is not consistent with the delivery of our strategic objectives
- the Group's appetite for accepting risk is dependent on the expected return exceeding the cost of capital
- the price charged for accepting risk should seek to maximise the risk/reward profile; prices charged for our products should fully reflect all risks.

## Quantitative risk limits

Quantitative risk limits are used to support the qualitative risk appetite statements and allow regular objective reporting of exposures against risk limits. The quantitative risk limits used during 2013 have been based on the following key risk metrics which are a focus of our risk management activity:

- excess working capital
- economic capital resources.

These metrics enable us to measure risk and capital consistently across the Group's diverse range of businesses, activities and projects. These metrics supplement, rather than replace, the wide range of metrics currently used throughout the Group and, where appropriate, make allowance for local regulatory capital considerations. The Group's risk profile is assessed and reviewed regularly.

During 2013 the Group has managed its exposures using quantitative risk limits based on economic capital resources and excess working capital risk metrics.

Economic capital resources are a quantification of the capital available within the Group. They are a measure, based on an internal economic capital methodology, of the value of the Group's assets less liabilities. This metric supports management of the financial strength of the Group and delivery of long-term shareholder value. Under this metric, risk exposures are measured as the amount of capital that is needed to cover the risks taken by the Group, calibrated to withstand a defined risk event.

Excess working capital is shareholder cash that is in excess of regulatory requirements, target solvency requirements and any further operational constraints. This metric supports management of the primary source of funding for the business, the strategic activities of the Group and distributions to shareholders. Under this metric, risk exposures are measured as the reduction in excess shareholder cash that a business might expect to see as a consequence of a defined risk event.

For 2014, the Group is transitioning away from excess working capital as a key risk metric. Economic capital resources will be the key risk metric for managing risk exposures against quantitative risk appetites across the group. Although excess working capital will be not be used for the purposes of the risk appetite framework, we will continue to track and manage the business through a wide range of risk, capital and profit metrics.

You can find out more about our approach to assessing risk exposures and establishing risk limits in the Risk and capital model detailed below.

## ERM reporting

Group Risk continues to review and challenge risk reporting from the risk functions across the Group to ensure that accurate and adequate information is delivered to the risk committees (as detailed above) to support their risk management mandates. To support this, during 2013, the RCC and Group ERMC risk reporting content and style were refreshed.

## Risk control processes

### Our approach

- embedded and comprehensive policy framework covering financial and non-financial risks
- operational risk and control: integrated system, consistent application
- active control management: make the right things happen the first time, identify when things have not gone well and understand why, recover the position quickly when things have not gone well.

### Key risk control processes

Risk control processes are the practices by which we manage financial and non-financial risks within the Group. Risk control processes are used to identify, assess, control and monitor risk. They are defined in, and implemented through, the Group's policy framework.

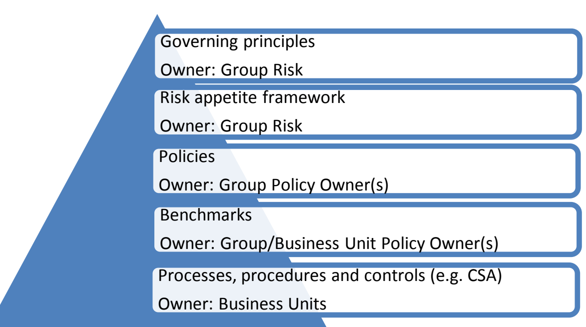
| | Objective | Processes |
|---|---|---|
| **Identify** | Identify major sources of risk which may affect shareholder value and/or the interests of the Group's policyholders, customers and other stakeholders. | Internal/external events and loss monitoring<br>Risk register and policies<br>Risk profile and ownership<br>Key processes and ownership<br>Risk metrics/indicators<br>Gross and net risk assessment<br>Key controls<br>Benchmarks |
| **Assess** | Assess exposures to each major source of risk, using qualitative and quantitative techniques as appropriate. | Limits: thresholds/tolerances |
| **Control** | Establish a defined response to risk. Management selects the risk responses, which may include avoiding, accepting, reducing or transferring the risk exposure. | Assurance mechanisms: control self-assessment/policy compliance/second line oversight/audit reviews |
| **Monitor** | Current exposure to identified risks is monitored and reported as required. | Reporting to committees and boards |

We manage our financial and non-financial risks using a control framework which comprises of: policy framework, control self-assessment (CSA), risk assessment, key risk indicators, risk event and action plan management, supported by the Operational Risk and Control (ORAC) system.

The policy framework and CSA modules require senior management to certify adherence with policy standards and key controls on a regular basis. The results of this exercise and risk event information are reported to Group and business unit ERMC meetings on a regular basis.

### Policy framework

The policy framework supports the Group's corporate purpose by providing a consistent, high-level approach to managing the key risks faced by the Group and operates on five levels:




The five levels of the policy framework interact as follows:

- **Governing principles:** articulate the Group's approach to managing our key risks at the highest level, and assist the Group's businesses to operate effectively, efficiently and in compliance with applicable laws and regulations
- **Risk appetite framework:** defines the key principles under which the Group should seek to take risks
- **Policies:** state the standards that business units must comply with in managing the key risks that threaten the achievement of our strategy and business objectives
- **Benchmarks:** state how each business unit will demonstrate policy compliance through providing appropriate evidence for each policy standard, in terms of processes, controls and communications

- **Processes, procedures and controls:** designed and implemented by business units to help ensure compliance with the standards set out in the policy.

The policy framework helps ensure that all businesses operate effectively, efficiently and comply with all applicable laws and regulations.

## Tax policy and risk management

As part of the policy framework, the Group operates the Tax Risk and Transfer Pricing Policy which supports the delivery of the Group's business objectives. The key principles of this policy are:

- the principles apply to all taxes and levies payable by the Group or operated/collected by the Group on behalf of governmental authorities
- we will be compliant with all legally required reporting, disclosures and approvals and will pay all tax that we consider to be legally due in any territory acting in an open, honest and transparent manner with tax authorities and other relevant bodies
- we shall act in a transparent manner with revenue and governmental authorities at all times
- tax shall be managed and controlled within a commercial context so that all transactions and arrangements must have a business purpose and commercial rationale
- we shall lobby and seek to influence applicable industry bodies or associations, governments and other external bodies (such as the Organisation for Economic Co-operation and Development and the EU) in the interests of all our stakeholders including customers, shareholders and employees.

The Group pro-actively manages tax risks and employs an experienced in-house tax team to oversee the tax affairs of the Group who report the Group's tax position and material tax issues to the Audit Committee.

In addition, the Group participates in the development of tax policy and legislation through engagement with tax authorities on tax consultations and involvement with representative bodies such as the Association of British Insurers and the Investment Management Association in alignment with our business strategy and to promote a stable environment for long term savings and investments.

## Environmental, social and governance risks

We have a sustainability strategy which, taken together, helps us ensure that we manage our environmental, social and governance risks effectively. The strategy has five material themes:

1. Listening and responding to customers
2. Operating and growing responsibly
3. Developing and engaging our people
4. Protecting our environment
5. Contributing to our communities.

The strategy is underpinned by our Code of Business Conduct and policy framework. In particular, the Environment Policy and the Group Community Investment Policy directly support the sustainability strategy. The standards in the Environment Policy require business units to identify applicable environmental legislation and, together with our sustainability team, establish annual environmental targets and environmental management programmes to achieve these targets.

In addition, we complete a regular environmental risk assessment which identifies and assesses risks, such as the cost and source of energy, energy-efficient ratings of Company property, and responsible sourcing of materials. The standards in the Group Community Investment Policy provide clear guidance on which charities can and cannot be supported, and reaffirm that our community involvement should have a positive and sustainable effect.

PricewaterhouseCoopers LLP provide limited-scope assurance on seven key performance indicators (KPIs) spread across our five material themes which relate to our environmental, social and governance disclosures. These KPIs are:

- Customer complaints recorded
- Impact of technology on employee engagement
- Succession planning for critical roles
- Voting at shareholder meetings of investee companies
- Environment, Social, Governance engagements
- Carbon footprint (greenhouse gas emissions reported as kg of $CO_2e$)
- Total community contribution.

You can read more about how we have progressed against these themes in Section 1.8 of the Strategic report – Our sustainability strategy on pages 34 to 37, or at **www.standardlife.com/sustainability**

## Emerging risk management

Our approach:

- defined process for the identification of emerging risks
- supported by reverse stress testing of business plans
- raising awareness at executive level and across the Group.

The Group has defined a clear and simple process for identifying and managing emerging risks. The process provides for:

- the identification of emerging financial and non-financial risks
- the creation of action plans and identification of early warning indicators
- the effective management of emerging risks by the appropriate risk committee
- the passage of any risks identified into 'business as usual' processes where appropriate.

Reverse stress testing and analysis is a key component of the emerging risk process and our method for carrying it out has been further embedded during the year. Reverse stress testing serves to enhance our risk processes by subjecting our business plans to a combination of stress events. This enables us to take a forward-looking view of risks driven by our business model along with any capital implication associated with these risks.

## Risk and capital models

Our approach:

- modelling and understanding our business
- managing complexity, achieving consistency and clarity with common metrics
- risks effectively quantified and business fully profiled.

The Group continually strives to enhance its internal risk and capital models. Our main objective is to improve the consistency of the quantitative measurement of risk and use of capital across all businesses.

Within our model, the capital of the Group is quantified according to a number of metrics as described above. Businesses plan their capital consumption using internally agreed targets, which are set to ensure that strategic objectives can be delivered under a wide range of market and trading conditions. The risk exposures of the business units are assessed on the basis of the expected variance in key metrics in response to specific risk events, covering the full range of risks to which the Group is exposed.

## Strategic risk management

Our approach:

- putting risk at the heart of our business planning
- identifying and understanding our risks and strategy and making the right decisions
- effective strategic control and allocation of capital.

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the Group's corporate objectives. This process enhances the Group's capability to assess strategic allocation of capital and the ability to identify, monitor and manage emerging risks.

The process is based on a consideration of the general environment, the competitive environment and external events that could prevent, or impact the achievement of the strategy.

As part of this process, we have been monitoring the Scottish independence debate very closely. Our main priority, regardless of any constitutional change which may take place in the future, is to continue serving our customers across the UK and around the world and maintain our competitive position in the markets in which we operate. More details on this are included in Section 1.1 of the Strategic report. Where there are areas that need further clarity, these will remain areas of focus within the strategic risk management process.

# Directors' remuneration report

This report sets out the policies that will govern what and how we pay the Directors of Standard Life plc in the future and what we paid them in 2013. Where tables and charts in this report have been audited by PricewaterhouseCoopers LLP we have marked them as 'audited' for clarity.

## Remuneration Committee Chairman's statement

### Introduction

I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year ended 31 December 2013 which has been prepared in line with the new reporting requirements which came into effect on 1 October 2013. This sets out our remuneration policy for our Directors and how our remuneration policy was applied during 2013.

The Group has had another strong year, delivering increased growth in group underlying performance, net flows and returns to shareholders. We believe that the Remuneration Committee's decisions on the level of pay, annual bonus payments and the level of awards to be granted from the long-term incentive arrangements for the executive Directors reflects its assessment of the Group's overall performance in 2013.

We are also proposing a new long-term incentive plan. These proposals have been supported by a number of our institutional investors and will further strengthen the alignment of awards with the interests of our customers, shareholders and our focus on delivering sustainable business growth.

2013 saw strong financial performance with Group operating profit before tax of £751m, revenue up 7% on 2012 and continuing capital strength. As well as delivering strong financial performance, the Group has continued to deliver on its strategy and ambitions through a stronger customer focus, realisation of investment in technology through improved efficiency and effectiveness of its operations and by positively engaging its people in why the Group exists as a business.

Reflecting on the overall acceleration in growth on the prior year and the strong performance of the executive Directors, the Remuneration Committee decided to approve payments under the Group annual bonus, for 2013, of 75.14% of the Chief Executive's (CE) maximum potential bonus (131.5% of salary) and, for the Chief Executive, Standard Life Investments (CE, SLI) of 79.75% of his maximum potential bonus (47.85% of salary). In addition, the Remuneration Committee approved a total of 100% of the CE, SLI's maximum potential bonus (305% of salary) under the Standard Life Investments' annual bonus arrangement.

Given the performance delivered in 2013 relative to the stretching longer term targets set in 2011, the Remuneration Committee also determined that the awards granted in 2011 under the Standard Life Long-term Incentive Plan (the current Group LTIP) should vest at 64% of the maximum award and those granted in 2011 under the Standard Life Investments Long-term Incentive Plan (SLI LTIP) should vest at 60.9% of the maximum award.

The Remuneration Committee reviews the way that the performance has been achieved and receives input from the Risk and Capital Committee. This is in order to ensure that the performance has been achieved in a manner consistent with the Group's risk strategy and is an appropriate reflection of the Group's performance. The total remuneration in respect of 2013 for the CE is £4,049k and for the CE, SLI is £4,201k. The breakdown is set out on page 84 of this report.

In setting salary for 2014 for the executive Directors, the Remuneration Committee considered updated market analysis for the CE as well as the anticipated salary increases to be awarded to employees across the Group. In recognition of this, and his personal performance, he has been awarded a 2.53% increase moving his base salary from £790,000 to £810,000 from 16 March 2014. In setting salary for the CE, SLI, the Remuneration Committee considered his contribution to Standard Life Investments' growth, the anticipated salary increases to be awarded to employees generally, his personal performance and his standing in the broader investment community. Reflecting this, the CE, SLI has been awarded an increase of 2.8% moving his base salary from £437,750 to £450,000 with effect from 16 March 2014.

### Remuneration policy

Our remuneration policy report is set out on pages 72 to 83 and we propose that, subject to shareholder approval, the policy is effective from 13 May 2014 – the date of the 2014 Annual General Meeting (AGM).

Our remuneration policy is designed to support our overall strategic objectives of driving customer and shareholder value and delivering sustainable business growth. Remuneration is one of the key tools we have as a business to incentivise our people to achieve these objectives while ensuring we are able to attract and retain the right talent given the aspirations and opportunities of the Group.

In reviewing our remuneration policy for our executive team we have re-assessed our remuneration principles to ensure that these continue to be relevant and appropriate. The revised principles that underpin our remuneration policy are summarised below:

- The design and structure should be simple in design and operation
- The overall remuneration policy should encourage significant levels of long-term share ownership to ensure the executive has wealth not just income at risk to align executives' interests with shareholders and to incentivise continued delivery during and beyond the performance period
- Performance should be assessed over a meaningful period that reflects our focus on sustained performance, suitable for a long-term business
- The basis of awards should be transparent for both shareholders and participants through the use of relevant and measureable performance targets that are clearly linked to driving shareholder value through our customer focus

- Award level and design should be competitive in order to attract, retain and incentivise a talented executive team through alignment with Group performance and reflect the individual's value in the market, without paying more than is necessary
- We should provide an appropriate level of fixed remuneration and ensure that incentive arrangements balance risk and reward
- Our remuneration policy should reflect Standard Life's role as a leading investor and promoter of best remuneration practice and governance in the wider market.

## Proposed new Group long-term incentive plan

During 2013, we carried out a review of our long-term incentive arrangements for our executive team and senior management. This was in the context of the expiry of the current Group LTIP at the end of 2014 as well as emerging views on best practice in executive pay.

The objective of the review was to ensure that our long-term incentive arrangements continue to support our overall strategic objectives of driving customer and shareholder value and delivering sustainable business growth.

As a result of the review, a new long-term incentive plan, underpinned by our remuneration principles, is being presented to shareholders for approval. Subject to this approval, the Standard Life plc Executive Long Term Incentive Plan (the new Group LTIP) will be used to grant awards from 2014 onwards.

The key features of the proposed new Group LTIP for executive Directors from 2014 are summarised below:

- Delivers shares based on performance against Group targets
- Maximum awards as a percentage of salary will be maintained at existing levels for 2014 for current executive Directors
- Three-year performance period with an additional two-year holding period making it a five-year plan from grant to vest
- Awards are based on cumulative Group operating profit before tax and cumulative Group net flows performance
- The assessment of performance against the targets set is subject to robust underpins with Remuneration Committee discretion to adjust downwards (to zero) if considered appropriate
- Provisions apply which allow the Remuneration Committee to reduce unvested awards if considered appropriate.

We will disclose the performance target ranges for the new Group LTIP awards at the beginning of the performance period and performance against the targets will be disclosed at the end of the performance period.

In support of the new Group LTIP and to help ensure that executive wealth, as well as income, is linked to Group performance we will be replacing the existing shareholding guidelines for executive Directors with an increased shareholding requirement. To promote stewardship, we are also introducing a requirement that Standard Life plc shares earned from incentive arrangements, to the value of the shareholding requirement, must be held for at least 12 months following cessation of employment.

The Remuneration Committee values the opportunity to listen to our shareholders' views and is committed to maintaining an open and transparent dialogue with shareholders on executive remuneration. We therefore undertook an extensive consultation exercise with our major institutional shareholders in the process of developing the new Group LTIP involving face to face meetings. The structure now being proposed to shareholders is reflective of the feedback we received.

During the consultation, investors were supportive of the proposed design and operation of the new Group LTIP. They were particularly positive about the simplicity of the plan, the strong link between the performance measures and the Group's strategy and the longer holding period. We believe that this plan and the associated shareholding requirements are consistent with and will support our strategic objective of delivering customer and shareholder value and sustainable profitable growth over time, and are in line with the best interests of our shareholders.

Further details of the proposed new Group LTIP are set out in this report and in the AGM Guide 2014. A resolution to approve the new plan will be put forward at the 2014 AGM. I hope you will support this resolution and also the resolutions to approve the Directors' remuneration policy and the Directors' remuneration report.

## Agenda for 2014

We believe it is appropriate to review the remuneration arrangements for the Chief Executive, Standard Life Investments (CE, SLI), but delayed doing that during 2013 due to the uncertainty surrounding regulatory changes affecting the asset management sector. Once that uncertainty is resolved, we will conduct a review and will consult major institutional investors as part of this process.

**Crawford Gillies**, Chairman, Remuneration Committee

## Future policy report

This section sets out the remuneration policy for executive Directors and non-executive Directors, which is subject to a binding vote of shareholders and will, if approved, take effect from 13 May 2014 – the date of the 2014 AGM.

### Remuneration Policy for executive Directors

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Base salary** | To provide a core reward for undertaking the role positioned at a level needed to recruit and retain the talent required to develop and deliver the business strategy. | The Remuneration Committee sets base salaries taking into account a range of factors including:<br>• the individual's skills, performance and experience<br>• internal relativities and wider workforce salary levels<br>• external benchmark data<br>• the size and responsibility of the role<br>• the complexity of the business and geographical scope<br>• economic indicators.<br><br>Base salaries are normally reviewed annually, with any increases usually effective from March.<br><br>Base salaries may be reviewed more frequently at the discretion of the Remuneration Committee. | Salaries for executive Directors are set at an appropriate level to attract and incentivise individuals of the calibre and with the experience required.<br><br>Whilst there is no maximum salary, any increases for executive Directors will normally be in line with the typical level of increases awarded to other employees at Standard Life and will be a reflection of their performance.<br><br>The Remuneration Committee may award increases above this level in certain circumstances, such as:<br>• where a new recruit or promoted employee's salary has been set lower than the market level for such a role and larger increases are justified as the individual becomes established in the role<br>• where there is a significant increase in the size and responsibilities of the executive Director's role. | Not applicable |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Benefits** | Provide market competitive monetary and non-monetary benefits, in a cost effective manner, to assist employees in carrying out their duties efficiently. | The executive Directors are provided with a package of core benefits funded by the Company and are invited to participate, in line with other employees, in their employing company's voluntary benefits programme which they fund themselves through salary sacrifice.<br><br>Core benefits currently provided include health screening, private healthcare, death in service protection, disability benefit and reimbursement of membership fees of professional bodies.<br><br>Where the Remuneration Committee considers it appropriate other benefits may be provided on recruitment or relocation. | Car allowance up to a maximum of £16,585 per annum.<br><br>There is no maximum value of the core benefit package as this is dependent on the cost to the employing company and the individual's circumstances.<br><br>In the event of recruitment or relocation additional benefits may be provided, such as:<br>• housing rental costs<br>• education allowance<br>• travel and accommodation costs<br>• relocation costs (including shipping costs, legal fees and stamp duty associated with the purchase of a house and other professional advice).<br><br>Such benefits would be set at an appropriate level taking into account the individual's circumstances and typical market practice. | Not applicable |
| **All-employee share plans** | Promote share ownership by all employees to drive performance aligned to our shareholder interests. | Executive Directors can participate in the all-employee share plans operated by Standard Life on the same basis as all other employees. The two current all - employee share arrangements are:<br>• The Standard Life (Employee) Share Plan<br>• The Standard Life Sharesave Plan. | The maximum opportunity is in line with all other employees and as determined by the prevailing HMRC rules on maximum employee payment limits. | Not applicable |
| **Pension** | Provide a competitive, flexible retirement benefit in a way that does not create an unacceptable level of financial risk or cost to the Group. | Executive Directors are auto-enrolled into the Company's defined contribution pension plan and are offered the alternative of a cash allowance.<br><br>The level of pension benefit and level of cash allowance are reviewed periodically taking into account:<br>• external benchmark data<br>• pension legislation<br>• other elements of the remuneration package.<br><br>We would continue to honour defined benefit pension arrangements in the event of an individual being promoted to an executive Director role who retains a contractual entitlement to such a pension benefit. | Employer contribution into the Group's defined contribution pension plan of up to 32% of salary.<br><br>Alternatively, a cash allowance of up to 30% of salary. | Not applicable |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Group annual bonus** | Designed to support the delivery of our annual business plan. Focus is on the delivery of the annual financial, strategic, customer and people objectives. | Awards are based on a balanced Group scorecard combining annual financial and non-financial performance targets.<br><br>Performance targets are set annually by the Remuneration Committee.<br><br>The Remuneration Committee exercises its judgement to determine awards at the end of the year to ensure that the outcome of the scorecard is fair in the context of our overall Group performance, taking into account actual performance against Group scorecard targets, business performance and performance against personal goals. Normally, 50% of any bonus above 25% of salary is deferred into shares which vest after two years from the date of award (subject to the deferred amount being at least 10% of salary).<br><br>Deferred bonus shares are normally granted in the form of nil-cost options, however may be awarded in other forms if it is considered appropriate.<br><br>Deferred bonus shares are subject to malus between grant and vest and cash awards are subject to clawback for two years from the date of award (details set out later in this report).<br><br>Deferred awards will accrue dividend equivalents over the deferral period. These will normally be paid in shares on a reinvested basis. | The maximum award opportunity in respect of any financial year is based on role and is up to 175% of salary. | Performance is measured against a range of key financial metrics, strategic, customer and people indicators and personal performance.<br><br>The performance scorecard is weighted with at least 50% of bonus based on financial performance and no less than 30% based on non-financial performance. The non-financial targets are split between strategic, customer and people measures.<br><br>The split between financial and non-financial targets is set annually by the Remuneration Committee.<br><br>A portion of the award may be based on individual performance objectives. This will be no more than 20% of the overall award.<br><br>Performance is measured over 12 months.<br><br>The award opportunity for bonus at threshold performance is zero with up to 50% of the award normally payable for target performance. 100% of the award is payable for maximum performance. |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Standard Life Investments' personal and company bonus plans** | Designed to support the delivery of Standard Life Investments' annual business plan.<br><br>Rewards Standard Life Investments' employees for the delivery of individual performance objectives in the year and on Standard Life Investments' corporate and investment performance. | Bonus pool is determined by reference to Standard Life Investments' financial performance.<br><br>Personal bonus awards are based on personal performance against agreed Standard Life Investments' business scorecard objectives and awarded from the bonus pool.<br><br>Company awards are made from the bonus pool after deduction of personal bonus payments and the size of the award reflects the value of total reward positioned against market.<br><br>The award for the CE, SLI is determined by the Remuneration Committee.<br><br>Awards are normally paid in cash. | The maximum award opportunity for the CE, SLI in respect of any financial year is 105% of salary in respect of the personal bonus element and is 200% of salary in respect of the company bonus element.<br><br>The Group CE and Group CFO do not participate in this plan.<br><br>In the event that stretch targets are exceeded the Remuneration Committee retains the discretion to award a higher company bonus to the CE, SLI provided it is in line with its principles on remuneration.<br><br>Such discretion would only be used:<br><br>(i) if the company bonus and personal bonus were at a maximum<br><br>(ii) following consultation with the Group's largest shareholders on the use of such discretion<br><br>(iii) on the basis that the award made to the CE, SLI did not exceed 2.5% of Standard Life Investments' profits delivered above the stretch targets.<br><br>Any additional bonus payments made to the CE, SLI would be deferred, over a period to be agreed by the Remuneration Committee, into Standard Life plc shares, would be eligible to accrue dividends and would be subject to clawback (details set out later in the report). | Performance is measured against a range of key financial metrics, strategic, customer and people indicators and personal performance.<br><br>Individual awards are then based on personal performance objectives set at the start of the year against Standard Life Investments' business scorecard objectives.<br><br>Performance is measured over 12 months.<br><br>The award opportunity for the personal bonus and company bonus at threshold performance is zero, with up to 50% of the award normally payable for target performance. 100% of the award is payable for maximum performance. |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **The Standard Life plc Executive Long Term Incentive Plan (new Group LTIP)** | Rewards participants for the delivery of our goals of driving shareholder value through customer experience with a focus on measures such as cumulative Group operating profit and cumulative Group net flows. | Award of shares subject to performance measured over a three-year period with a subsequent two-year holding period. Awards may only be exercised after the five-year combined period.<br><br>Performance targets are set annually for each three-year cycle by the Remuneration Committee.<br><br>The Remuneration Committee has the discretion to amend the final vesting level of awards if it does not consider that it reflects the performance of the Group.<br><br>Group LTIP awards are normally granted in the form of nil-cost options. They may however be awarded in other forms if it is considered appropriate.<br><br>Unvested awards are subject to malus (details set out later in the report).<br><br>Dividend-equivalents accrue over the five-year period. These will normally be paid in shares on a reinvested basis.<br><br>Vesting of awards takes place on a straight line basis between threshold and target performance and target and maximum performance.<br><br>The Remuneration Committee may adjust and amend awards in accordance with the Group LTIP rules. | The maximum award opportunity under the plan is 300% of salary.<br><br>The Remuneration Committee's current intention is that award levels will be based on role and will be up to a maximum of 200% of salary.<br><br>The Remuneration Committee will normally consult with the Group's largest shareholders in advance of increasing award levels above the current grant levels. | Vesting of the award is based on the following performance measures:<br>• Cumulative Group operating profit performance before tax weighted at up to 100% of the award<br>• Cumulative Group net flows weighted at no more than 50% of the award.<br><br>The weighting of measures for awards to be made in 2014 will be:<br>• Cumulative Group operating profit (excluding life joint ventures) before tax - 70%<br>• Cumulative Group net flows performance (excluding life joint ventures) - 30%.<br><br>The split between these measures, for each grant, is set annually by the Remuneration Committee.<br><br>Awards are subject to review by the Remuneration Committee and the Risk and Capital Committee at the end of the three-year performance period to confirm that vesting of the award is appropriate. This will take into account performance relative to the Group scorecards over the plan period.<br><br>The Group cumulative operating profit and Group cumulative net flows performance condition ranges will be disclosed in the Directors' remuneration report published in the year in which the awards are made.<br><br>The award opportunity at threshold performance is zero, with up to 50% of the award normally vesting for target performance. 100% of the award vests for maximum performance. |

| Element | Purpose and link to strategy | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Standard Life Investments' Long-term Incentive Plan (SLI LTIP)** | Rewards the delivery of Standard Life Investments' long-term strategy and the delivery of sustainable returns to the Group. | Award of shares subject to a three-year performance period.<br><br>Performance targets are set annually for each three-year cycle by the Remuneration Committee.<br><br>The Remuneration Committee has the discretion to amend the final vesting level of awards if it does not consider that it reflects the performance of Standard Life Investments.<br><br>SLI LTIP awards are normally granted in the form of nil-cost options. They may however be awarded in other forms if it is considered appropriate.<br><br>Awards are subject to clawback for up to two years post vesting.<br><br>Dividend-equivalents accrue over the three-year period. These will normally be paid in shares on a reinvested basis.<br><br>The Remuneration Committee may adjust and amend awards in accordance with the SLI LTIP rules. | The maximum award opportunity for the CE, SLI is 200% of salary.<br><br>The Group CE and Group CFO do not participate in this plan. | Vesting of the award is based on Standard Life Investments' consolidated cumulative three-year third party earnings before interest and tax.<br><br>The vesting of awards is subject to an investment performance gateway which requires Standard Life Investments' performance to be above the lower quartile of the money-weighted average of all assets under management (captive and third party assets) compared to other asset managers.<br><br>Awards are also subject to review by the Remuneration Committee and the Risk and Capital Committee at the end of the three-year performance period to confirm that vesting of the award is appropriate.<br><br>The award opportunity at threshold performance is zero, with normally up to 50% of the award vesting for target performance. 100% of the award vests for maximum performance. |

## Notes to policy table

The deferred element of the Group annual bonus plan, the new Group LTIP and the SLI LTIP shall be operated in accordance with the rules of the respective plans. The rules for the new Group LTIP will be set out for approval at the 2014 AGM. The rules of the SLI LTIP were approved by shareholders in 2010.

## Remuneration Committee discretion in relation to existing commitments

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes 'payments' include the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares (including awards granted in 2011, 2012 and 2013 under the current Group LTIP, the SLI LTIP and any other share based plan operated by the Group), in line with the terms of the payment that were agreed at the time the award was granted.

Awards granted to executive Directors under the current Group LTIP (in the form of nil-cost options) are subject to the achievement of Group operating profit performance targets measured in the final financial year of the three year performance periods . The Remuneration Committee has the discretion to amend the final vesting level of these awards if it does not consider that it reflects the performance of the Group. Awards are also subject to review by the Risk and Capital Committee at the end of the performance period to confirm that vesting of the award is appropriate. The maximum individual award under this plan is 200% of salary. These awards accrue dividend-equivalents over the performance period which will normally be paid in shares on a re-invested basis. The performance target ranges for these awards are disclosed in this or previous remuneration reports with the target performance level disclosed retrospectively in the remuneration report for the final year of the performance period.

Awards granted to the CE, SLI under the SLI LTIP in 2011, 2012 and 2013 are consistent with the remuneration policy table above.

## Remuneration Committee discretion in relation to future operation of the remuneration policy

In the event of a variation of share capital, demerger, special dividend or similar event, the Remuneration Committee may adjust or amend awards in accordance with the rules of the relevant plan.

The Remuneration Committee retains the discretion to amend the performance target in exceptional business or regulatory circumstances. If discretion is exercised in this way the Remuneration Committee will consult with major shareholders as appropriate.

All awards are subject to Remuneration Committee discretion and may be adjusted (or reduced to nil) where it determines that the overall level of the Company or Group performance does not warrant payment of variable remuneration, or it considers that risks (such as financial, regulatory, compliance or brand risk) have not adequately been reflected in awards.

## Malus or clawback

Malus or clawback may apply where stated in the policy table on pages 72 to 77.

Under the malus and clawback provisions the Remuneration Committee can reduce awards that have not yet vested and can require the repayment of an award.

The circumstances in which malus or clawback would apply are set out below:

- Where there is a material mis-statement of the Group's financial statements through information or assumptions that are found to be misleading prior to the date of vesting
- Where there is fraud and/or any other material financial irregularity, or failure of risk management which results in material losses being incurred
- Where there is serious misconduct by a participant or team.

The Remuneration Committee will address any performance issues through their oversight of the annual Group scorecard.

No other element of remuneration is subject to malus or clawback.

## Performance measures and target setting

Performance targets for our incentive arrangements are set on an annual basis by the Remuneration Committee. The Remuneration Committee takes into account a range of factors including internal business forecasts, prior year performance, and degree of stretch against the performance targets in the business plan as well as the economic environment, market conditions and expectations.

We aim to deliver target awards for 'good' performance. By this we mean business outcomes are delivered consistently against agreed requirements and performance expectations in terms of both 'what' has been delivered and 'how' this level of performance has been achieved. Maximum awards will only be earned where the performance in the Group or Standard Life Investments has significantly exceeded expectations.

The following table sets out why the performance conditions that are currently used for the annual Group performance scorecard were chosen.

| Performance metrics | Financial metrics | Strategic metrics | Customer metrics | People metrics |
|---|---|---|---|---|
| **Rationale** | Measures chosen to support the delivery of financial performance as set out in the Group's annual business plan.<br>Measures chosen may include, but are not limited to:<br>• Group operating profit before tax<br>• European Embedded Value operating profit before tax (EVOP)<br>• Operating return on equity (RoE). | Focuses management on the delivery of the business' strategic priorities across the Group to drive improved performance in future years. | Focuses management on growing our customer volumes through winning new customers and growing revenue from our existing customers which will ultimately lead, through growth in assets under management and quality revenue flows, to increasing profitability and increased shareholder value. | Develops our organisational capability by building the resources for the future, and encouraging the desired behaviours. |

The table below sets out why the performance conditions for the new Group LTIP were chosen.

| Performance metrics | Operating profit before tax | Net flows |
|---|---|---|
| Rationale | Chosen measure of profitability and closely linked to cash generation. A key measure of the profit we make that provides an indication of the long-term operating performance. It excludes items which create short-term volatility and that are not within management control. Targets our ability to deliver returns to our shareholders and provides an indication of our dividend paying capability. | Net flows are a measure of the assets that customers have invested with us during the year (premiums and deposits), minus the assets they've taken out (withdrawals, claims and annuity payments). This reflects our ability to win/retain business and is an indicative measure of customer satisfaction. |

The following table sets out why the performance conditions currently used in the Standard Life Investments' personal and company bonus plan were chosen.

| Performance metrics | Financial metrics | Strategic metrics | Customer metrics | People metrics |
|---|---|---|---|---|
| Rationale | Measures chosen to support the delivery of financial performance as set out in the Standard Life Investments' annual business plan.<br>Measures chosen may include, but are not limited to:<br>• Operating profit before tax<br>• Earnings before interest and tax (EBIT)<br>• Operating RoE. | Drives delivery against the Standard Life Investments' strategic priorities. | Embeds a culture that places the customer at the heart of our business.<br>Embeds the Standard Life and Standard Life Investments brands to drive competitive advantage.<br>Continues to enhance the external profile of Standard Life Investments with key external parties. | Develops our organisational capability by building resource capabilities and the behaviours we will need to deliver the Standard Life Investments' annual business plan. |

The following table sets out why the performance conditions currently used in the SLI LTIP were chosen:

| Performance metric | Consolidated cumulative three-year third party earnings before interest and tax |
|---|---|
| Rationale | Chosen measure of profitability which drives the growth of Standard Life Investments. |

Awards under the SLI LTIP are also subject to an investment performance gateway which requires Standard Life Investments' investment performance to be above the lower quartile of the money-weighted average of all assets under management (captive and third party assets) compared to other asset managers before the award vests. This benchmarks performance relative to other asset managers and prevents vesting for relative underperformance.

## Remuneration arrangements throughout the Group

The following overarching principles are applied to our remuneration policy and practice throughout the Group:

- Remuneration is linked to performance, is transparent and easy to understand
- The policy encourages behaviours that deliver results which are aligned to the interests of our key stakeholders
- Remuneration is competitive and reflects financial and personal performance and the individual's value in the market, without paying more than is necessary
- The policy provides an appropriate balance of fixed and variable remuneration.

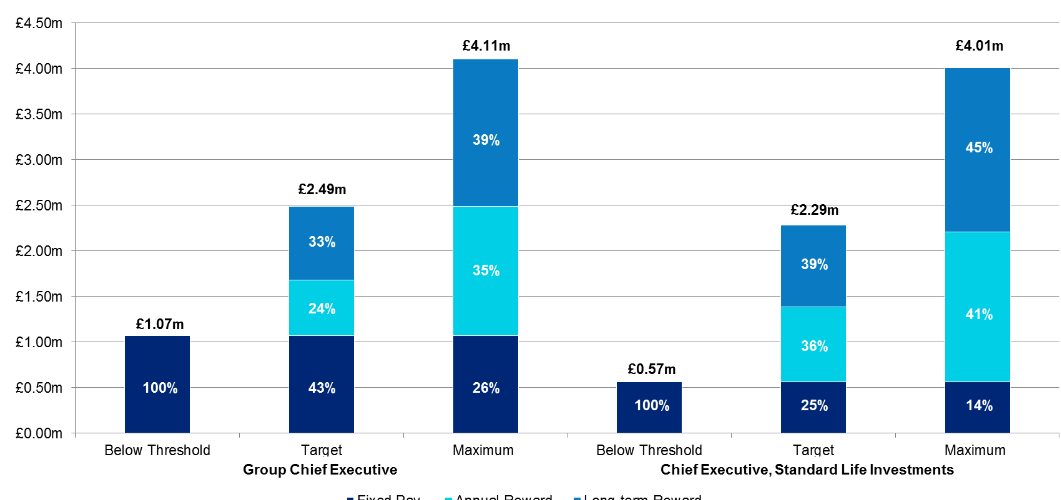
The scorecard used to determine annual bonuses for executive Directors is used in the determination of annual bonuses for all employees.

Although the above principles apply throughout the Group, given the size of the Group and the scale of its operations, the way in which the remuneration policy is implemented varies by jurisdiction and seniority. For example participation in the current Group LTIP is at the Remuneration Committee's discretion and is normally limited to senior management, and the Group's defined contribution pension provision is graduated based on seniority.

## Scenario charts

The chart below illustrates how much the current executive Directors could earn under different scenarios for 2014. This is based on the following assumptions:

- Below threshold is based on fixed pay only which includes salary, pension allowance and taxable benefits
- Target includes the potential value of annual and long-term incentives which would be payable for target performance (being 50% of maximum)
- Maximum shows the total remuneration receivable for maximum performance under all incentive plans
- A constant share price is assumed and dividend equivalents have been ignored.




## Remuneration Policy for non-executive Directors

| Approach to fees | Operation | Other items |
|---|---|---|
| Fees for the Chairman and non-executive Directors are set at an appropriate level to reflect the time commitment, responsibility and duties of the position and the contribution that is expected from non-executive Directors.<br><br>Board membership fees are subject to a maximum cap which is stated in the Company's Articles of Association. Any changes in this would be subject to shareholder approval. | The Board annually sets the fees for the non-executive Directors other than the fee for the Chairman of the Company which is set by the Remuneration Committee.<br><br>Fees are set at a market rate with reference to the level of fees paid to other non-executive directors of FTSE 100 financial services companies.<br><br>The Chairman receives an aggregate fee which takes into account their role in all Board committees.<br><br>Non-executive Director remuneration policy is to pay:<br>• Board membership fees<br>• Further fees for additional Board duties such as Chairman of a Committee, the Senior Independent Director and the Chairman of Standard Life Investments to take into account the additional responsibilities and time commitments of the roles.<br><br>The Board retains discretion to remunerate the non-executive Directors in shares rather than cash where appropriate. | The Chairman and non-executive Directors are not eligible to participate in any incentive arrangements. Additional fees or benefits may be provided at the discretion of the Remuneration Committee in the case of the Chairman, and the Board in the case of the other non-executive Directors, to reflect for example, housing, office, transport and other business related expenses incurred in carrying out their role. |

## Remuneration Policy for new appointments

### Principles

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Remuneration Committee applies the following principles:

- The Remuneration Committee takes into consideration all relevant factors, including the calibre of the individual, local market practice and existing arrangements for other executive Directors, adhering to the underlying principle that any arrangements should reflect the best interests of the Group and its shareholders
- Remuneration arrangements for new appointments will typically align with the remuneration policy presented above
- In the case of internal promotions, the Remuneration Committee will honour existing commitments entered into before promotion
- The Remuneration Committee will explain to shareholders the rationale for the relevant arrangements in the following year's Directors' remuneration report; and the maximum level of bonus and long-term incentive awards which may be awarded to a new executive Director (excluding the CE, SLI) at or shortly following recruitment shall be limited to 475% of salary. The maximum level for the CE, SLI will be 865% of salary. These limits exclude buyout awards and are in line with the policy table above.

**Components and approach**

The remuneration package offered to new appointments may include any element of remuneration included in the remuneration policy set out in this report, or any other element which the Remuneration Committee considers is appropriate given the particular circumstances but not exceeding the maximum level of bonus and long term incentive awards detailed above. In considering which elements to include, and in determining the approach for all relevant elements, the Remuneration Committee will take into account a number of different factors, including (but not limited to) typical market practice, existing arrangements for other executive Directors and internal relativities, and market positioning.

**Buyouts**

To facilitate recruitment, the Remuneration Committee may make an award to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Remuneration Committee will adhere to the FCA guidance in relation to the practice of buyout awards to new recruits and, in particular, the requirements for Code Staff (as defined by our regulators). In considering buyout levels and conditions, the Remuneration Committee will take into account such factors as the type of award and performance measures and the likelihood of performance conditions being met. The buyout award will reflect the foregone award in amount and terms (including any deferral or retention period and performance conditions) as closely as possible but within the structures and timing of equivalent Group plans. Where appropriate, the Remuneration Committee retains the discretion to utilise Listing Rule 9.4.2 (a rule, set by the United Kingdom Listing Authority, which permits an arrangement to be made without shareholder approval, specifically to facilitate, in unusual circumstances, the recruitment or retention of the relevant individual) for the purpose of making an award to 'buy out' remuneration terms forfeited on leaving a previous employer or to utilise any other incentive plan operated by the Group.

**Appointment of non-executive Directors**

If a new Chairman or non-executive Director is appointed, remuneration arrangements will normally be in line with those detailed in the remuneration policy for non-executive Directors set out above.

## Service Contracts

**Executive Directors:** The executive Directors' terms and conditions of employment are detailed in individuals' executive service contracts. In these contracts, the Remuneration Committee aims to strike the right balance between the Company's interests and those of the executive Directors, while ensuring that they comply with best practice, legislation and the agreed remuneration principles. Contracts are not for a fixed term, but set out notice periods in line with the executive's role.

The terms and provisions that relate to remuneration in the executive Director contracts (that are not set out elsewhere in this report) are set out below. It is intended that the terms for any new appointment would be in line with these:

| Provision | Policy |
|---|---|
| Notice periods | Six months by the executive Directors to the Company.<br>Up to 12 months by the Company to the executive Director.<br>A payment in lieu of notice can be made. |
| Termination payments | Any payment in lieu of notice will be up to 12 months' salary, pension contributions and the value of other contractual benefits.<br>A duty to mitigate applies.<br>The payment may be made in phased instalments. Rights to bonus and existing long-term incentive awards are governed by the rules of the respective plans. |
| Remuneration | Salary, pension and core benefits are specified in the contracts and are treated as described above.<br>There is no contractual entitlement to participate in the annual bonus plan or receive long-term incentive awards. Individuals are notified of these discretionary schemes at the beginning of each year. |
| Non-compete clauses | Applies during the contract and for up to six months after leaving at the Company's choice. |
| Contract dates | David Nish 31 October 2006[1]<br>Keith Skeoch 3 April 2006 |

[1] David Nish signed a new contract in October 2009, reflecting his appointment to Chief Executive from 1 January 2010.

**Non-executive Directors:** The non-executive Directors, including the Chairman, have letters of appointment that set out their duties and responsibilities. The key terms are:

| Provision | Policy | |
|---|---|---|
| Period of appointment | Three-year term which can be extended by mutual consent and is subject to re-election by shareholders in line with the Company's articles of association and the UK Corporate Governance Code. | |
| Time commitment | Two to three days per week for the Chairman.<br>For other non-executive Directors – 30 to 35 days a year. | |
| Notice periods (apply to both the Company and non-executive Director) | Chairman – six months.<br>For other non-executive Directors – no notice period. | |
| Remuneration | Fees as set out in on page 95.<br>Reimbursement of travel and other reasonable expenses incurred in the performance of their duties.<br>No pension, annual bonus or other incentive payment permitted. | |
| Date of letters of appointment | Gerry Grimstone | 6 June 2003[1] as Director and 28 February 2007 as Chairman (continuation 27 May 2010 and 28 May 2013) |
| | Colin Buchan | 27 November 2007 (continuation 25 January 2011 and 17 December 2013) |
| | Pierre Danon | 28 November 2011 |
| | Crawford Gillies | 7 December 2006 (continuation 11 January 2010 and 3 December 2012) |
| | David Grigson | 26 October 2009 (continuation 30 October 2012) |
| | Noel Harwerth | 18 July 2012 |
| | John Paynter | 21 December 2011[2] |
| | Lynne Peacock | 13 March 2012 |
| | Sheelagh Whittaker | 23 June 2009 (continuation 2 October 2012)[3] |
| | Martin Pike | 27 September 2013[4] |

1 Initially appointed as a Director of The Standard Life Assurance Company and appointed as a Director of Standard Life plc effective from 30 March 2006.
2 Appointed Senior Independent Director with effect from 25 May 2012 for a three-year term. Letter of appointment dated 24 May 2012.
3 Retired on 14 May 2013.
4 Appointed with effect from 27 September 2013.

The service agreements / letters of appointment for Directors are available to shareholders to view on request from the Group Company Secretary and General Counsel at our registered address (details of which can be found in the Contact details on page 289 and at the 2014 AGM.

## Loss of office remuneration

The Remuneration Committee will consider the following factors when considering remuneration for loss of office:

- The individual's service contract and the rules of the relevant incentive plans
- Circumstances of the loss of office
- Performance during office
- The commercial justification for any payments.

The remuneration policy for loss of office for executive Directors is as follows:

- Any payment in lieu of notice will be up to 12 months' salary, pension contributions and the value of other contractual benefits
- There is a duty to mitigate any termination payments
- The payment may be made in phased instalments and the policy is to do this for notice periods over six months
- Rights to all-employee plans, bonus awards and long-term incentive awards are governed by the rules of the respective plans
- Awards under all-employee share plans vest in accordance with their terms, under which good leavers are entitled to shares on or shortly after cessation. Other leavers would usually forfeit awards.
- Typically, for good leavers, rights to annual bonus and long-term incentive awards will be pro-rated for time in service to termination as a proportion of the performance period and will, subject to performance, be paid at the usual time (which in the case of the new Group LTIP will normally include the holding period). Outstanding deferred share awards will typically vest in full at the date of termination.
- In certain circumstances, such as the individual's death, the Remuneration Committee retains the discretion to accelerate payments if it is considered appropriate
- In all plans, the Remuneration Committee retains the discretion to disapply time pro-rating for good leavers (see below) and, in the case of the current Group LTIP, performance pro-rating
- Typically, for other leavers, rights to annual bonus and outstanding long-term incentive awards will be forfeited
- Other payments such as legal fees or outplacement costs may be paid if considered commercially appropriate.

In both the annual bonus plans' and long-term incentive plans' rules, the distinction is made between good leavers and other leavers. A good leaver is someone whose employment comes to an end because of death, ill health, injury, disability, redundancy or retirement as determined by their employing company, sale of the employing company or business or any other circumstance at the discretion of the Remuneration Committee. For the purposes of the SLI LTIP, a good leaver may also include an individual who is transferred out of Standard Life Investments to another company in the Group. In determining whether an individual is a good leaver, the Remuneration Committee will exercise its judgement in a manner which seeks to be in the Company's interests

taking into account all relevant factors in relation to the departure. Where judgement has been exercised the Remuneration Committee would provide an explanation in the following year's Directors' remuneration report.

In the event of a change of control, executive Directors may receive a cash bonus in respect of the year in which the change of control occurs which, unless the Remuneration Committee determines otherwise, will be time pro-rated by reference to the bonus year. Outstanding deferred share awards will typically vest in full. Long-term incentives will normally vest early, taking into account the extent to which any relevant performance conditions have been met and, unless the Remuneration Committee determines otherwise, the time that has elapsed from the beginning of the relevant performance period. If the Company undergoes a winding up or is subject to a demerger, delisting, special dividend or other event which in the opinion of the Remuneration Committee may affect the current or future share price, the Remuneration Committee may allow awards to vest on the same basis.

The treatment of other awards in the event of a change of control will be in line with the relevant plan rules as approved by shareholders.

There is no provision for compensation payments for non-executive Directors.

### Considering conditions elsewhere in the Group

When setting the policy for executive Directors' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group, recognising international variance and jurisdictional differences, where appropriate.
The Remuneration Committee is informed about the approach on salary increases, Group-wide benefit offerings including pensions, the structure of incentive arrangements and distribution of outcomes throughout the wider organisation, as well as the take-up of all-employee share ownership plans, employee engagement survey results and staff morale.

The Remuneration Committee does not consider it appropriate to consult employees in the Group on the remuneration policy for executive Directors. However, the Group engages with its employee associations from an early stage in the annual remuneration cycle. The areas discussed include: external relativities, economic factors, employee expectations and congruence of executive pay with that of the wider workforce in terms of overall pay budgets and approach.

### Consideration of shareholder views

The Remuneration Committee values the opportunity to listen to our shareholders. As explained in the Remuneration Committee Chairman's statement major institutional shareholders were consulted as part of the approach to designing the new long-term incentive plan. The overall reaction from shareholders with whom we met and from those who expressed views on the proposed plan has been positive.

## Annual remuneration report - what we did in 2013

This section sets out the annual remuneration report and is subject to an advisory vote of shareholders at the Annual General Meeting.

### Single total figure of remuneration - executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the executive Directors who served as director at any time during the financial year ending 31 December 2013.

| Executive Directors | | Basic salary for year £000s | Taxable benefits in year £000s[1] | Annual bonus earned for year £000s | Long-term incentives with performance period ending during the year £000s[2] | Pension allowance paid in lieu of pension in year £000's | Total remuneration for the year £000s |
|---|---|---|---|---|---|---|---|
| David Nish[3] | 2013 | 787 | 17 | 1,039 | 1,970 | 236 | 4,049 |
| | 2012 | 775 | 18 | 1,217 | 3,322 | 232 | 5,564 |
| Keith Skeoch[3] | 2013 | 436 | 3 | 1,545 | 2,108 | 109 | 4,201 |
| | 2012 | 425 | 15 | 1,528 | 2,803 | 106 | 4,877 |
| Jackie Hunt[4] | 2013 | 178 | 5 | - | - | 45 | 228 |
| | 2012 | 530 | 16 | 733 | 1,360 | 132 | 2,771 |

1 This includes the taxable value of all benefits paid in respect of the year ended 31 December 2013. For executive Directors this includes car allowance of £16,585 for David Nish, £2,490 for Keith Skeoch (Keith Skeoch ceased to receive a car allowance with effect from 16 March 2013) and a car allowance of £5,154 for Jackie Hunt. Also included is private health cover - this amount is not significant.

2 The figure reported for long-term incentives in 2013 is the market value of Group LTIP and SLI LTIP awards that will vest in 2014. The share price at the date of vesting was not known at the date of publication of this report and therefore the number of Standard Life plc shares that will vest has been multiplied by the average share price over the quarter ending 31 December 2013 (£3.49). This amount includes additional Standard Life plc shares received in respect of accrued dividends from grant through to 31 December 2013.
The figure reported for long-term incentives in 2012 has been restated as the actual market values at the date of vest of the Group LTIP and SLI LTIP, unknown at the date of publication of the 2012 Annual Report and Accounts are now known. The estimates provided in last year's report were: David Nish £2,759k, Keith Skeoch £2,273k and Jackie Hunt £1,129k.

3 David Nish participates in the Standard Life Sharesave Plan – his option is not yet exercisable. Both David Nish and Keith Skeoch participate in the Standard Life Employee Share Plan – the maximum annual award of matching shares is currently £300.

4 Jackie Hunt resigned from the Board on 26 April 2013 and ceased to be a Standard Life employee on 4 September 2013. The table includes figures for the period from 1 January 2013 to the date Jackie Hunt resigned as a Director.

### Base salary (audited)

| | Annual base salary as at 1 January 2013 | Annual base salary from 16 March 2013 | Total base salary paid in 2013 |
|---|---|---|---|
| David Nish | £775,000 | £790,000 | £786,875 |
| Keith Skeoch | £425,000 | £437,750 | £435,886 |
| Jackie Hunt[1] | £537,500 | £565,000 | £178,323 |

1 Jackie Hunt resigned from the Board on 26 April 2013 and ceased to be a Standard Life employee on 4 September 2013 at which date payment of salary ceased. The table includes figures for the period from 1 January 2013 to the date Jackie Hunt resigned as a Director.

### Pension (audited)

No Directors are members of, or have benefits in, the Standard Life Staff Pension Scheme. Executive Directors received a cash allowance in lieu of pension as follows:

| | Cash allowances in lieu of pension contribution as a % of salary | Paid in 2013 |
|---|---|---|
| David Nish | 30% | £236,492 |
| Keith Skeoch | 25% | £108,972 |
| Jackie Hunt[1] | 25% | £44,580 |

1 Jackie Hunt resigned from the Board on 26 April 2013 and ceased to be a Standard Life employee on 4 September 2013 at which date payment of the cash allowance ceased. The table includes figures for the period from 1 January 2013 to the date Jackie Hunt resigned as a Director.

## Annual bonus plans

### Group annual bonus

Awards in respect of 2013 were made under the Group annual bonus plan. The target and maximum award opportunities (expressed as a percentage of salary) that could be earned in respect of 2013's Group performance were:

| | Target | Maximum opportunity |
|---|---|---|
| David Nish | 75% | 175% |
| Keith Skeoch | 30% | 60% |
| Jackie Hunt | 75% | 150% |

For David Nish and Keith Skeoch, 90% of the award was based on Group performance and 10% on personal performance. Jackie Hunt is no longer entitled to a bonus award as her employment with the Group ceased on 4 September 2013.

The scorecard weightings, key achievements and overall score for 2013 are shown, for David Nish and Keith Skeoch, in the following table:

- The scorecard is based on a scale of 1 to 5 with 5 reflecting maximum, 3 on target and 1 unsatisfactory performance
- More information on our financial KPIs can be found in Section 1.2 of the Strategic report
- Before approving the level of performance in 2013, the Remuneration Committee sought the views of the Group Chief Risk Officer and the Risk and Capital Committee on the level of underlying risk within the business
- The actual financial performance targets and the detailed non-financial measures used for the determination of the annual bonus plans have not been disclosed in this Directors' remuneration report as the Board deem that, given the annual bonus rewards the achievement of the Group's business plan, the disclosure of these could seriously prejudice the Group's business. The financial targets will be disclosed at the earliest in the Directors' remuneration report published for the financial year following the year in which the bonus is paid.

| Element (weighting as a % of maximum bonus opportunity) | Performance measure | Key achievements | Overall score (out of 5) |
|---|---|---|---|
| **Financial** **(63%)** | Group operating profit before tax (excluding life joint ventures).[1]<br>EEV operating profit before tax (EVOP) (excluding life joint ventures).[1]<br>Operating return on equity (RoE) (excluding life joint ventures).[1] | Strong financial performance across the Group against challenging targets demonstrated by:<br>• Group operating profit before tax (excluding life joint ventures)[1] of £746m exceeding maximum targets<br>• EVOP (excluding joint ventures)[1] of £892m between threshold and target<br>• Group operating RoE (excluding joint ventures) was 15% exceeding maximum targets<br>• Group assets under administration including joint ventures increased by 12% from 2012 to £244.2bn<br>• Group net flows including joint ventures of £9.6bn. | **4.1** |
| **Strategic/delivery/ process** **(9%)** | Management of the Group's strategy and its deployment in each Business Unit including the annual investment programme, any corporate actions and the efficiency of the Group's balance sheet. | • Proactive Board review, challenge and approval of strategy at Group level and in each business unit, including update and on-going monitoring of strategic risks<br>• Good delivery progress across all change portfolios.<br>• All planned balance sheet actions successfully completed and financial strength maintained, allowing for special dividend to be paid. | **3.8** |

[1] Life joint ventures refers to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited

| Element<br><br>(weighting as a % of maximum bonus opportunity) | Performance measure | Key achievements | Overall score (out of 5) |
|---|---|---|---|
| **Customer and external leadership**<br><br>**(9%)** | Drive customer focus within the organisation and build advocacy for the Standard Life brand.<br><br>Protect and enhance Standard Life's corporate reputation. | • Deepened our customer experience understanding through more robust measurement<br>• Evolved Customer Personas to profile how our customers feel about their finances and drive more informed treatment and engagement<br>• Evolved customer engagement through bespoke and rolling campaigns, with 200,000 customers now receiving monthly online communications<br>• Enhanced availability of our customer retirement offering, resulting in 70% of our workplace customers accessing our full retirement journey<br>• Developed a broader set of propositions to meet our customers' evolving needs including the Impaired Life Annuity which was launched in Q4/13<br>• Received over 1,500 pieces of print and on-line media coverage which was largely neutral or positive in tone with only 6% being negative<br>• Delivered key thought leadership campaigns boosting customer financial awareness and encouraging action on savings, including 'Saving in Mind' and 'Family Financial Tree' in the UK and a programme to tackle financial inertia in Canada<br>• Secured a partnership agreement which saw Standard Life Investments become the first ever worldwide sponsor of the Ryder Cup<br>• Achieved our highest ever score and retained our position in the Dow Jones Sustainability Index (DJSI) for a third consecutive year, putting us in the top 10% of listed companies. | **4.0** |
| **People**<br><br>**(9%)** | Develop our organisational capability by building the environment, the resources, capabilities and developing the behaviours we will need. This will include:<br>• Ensuring the environment we work in creates a culture of continuous improvement<br>• Developing powerful and consistent leadership, identifying and growing tomorrow's leaders<br>• Embedding our remuneration and performance management strategy to encourage high performance and the delivery of our business objectives. | • We launched another cohort of each of our award-winning talent programmes and benchmarked some of our top leaders against the best externally to continue to create a strong succession pipeline<br>• To strengthen our global graduate capability, we began recruitment activity in Montreal, Boston and Hong Kong<br>• We continued our role in supporting the youth employment agenda with a number of initiatives in place and with 54 young people having now completed the Edinburgh Guarantee internship<br>• Building on our regular performance management conversations and enabled by technology, we introduced a flexible pay matrix and a new goal management system to support our performance culture<br>• We accelerated our diversity agenda across the Group and delivered a range of activities to achieve our goals<br>• We continue to make good progress in building our corporate systems. These group wide systems provide us with scalable platform on which the business can grow either organically or inorganically. | **4.2** |
| **Personal**<br><br>**(10%)** | Personal scorecards.<br><br>Behaviours against our leadership model and personal development. | Strong individual performance by each of our executive Directors against their own individual objectives. | **n/a** |
| Based on performance against each of the four Group performance elements and considering the performance of the Group as a whole, the Remuneration Committee approved a rating of 4.1 out of 5 for performance against the Group scorecard during 2013. | | | |

[1] Life joint ventures refers to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited

As a result of the ratings approved by the Remuneration Committee, the Group annual bonus outcome as approved by the Remuneration Committee for 2013 is:

| | | Bonus opportunity based on Group performance as a % of total bonus | Bonus opportunity based on personal performance as a % of total bonus | Total bonus payable as a % of bonus maximum | Total bonus payable as a % of base salary[1] | Total Bonus |
|---|---|---|---|---|---|---|
| David Nish | Maximum | 90% | 10% | 100% | 175% | |
| | Actual | 66.85% | 8.29% | 75.14% | 131.5% | £1,038,850 |
| Keith Skeoch | Maximum | 90% | 10% | 100% | 60% | |
| | Actual | 69.75% | 10% | 79.75% | 47.85% | £209,463 |

[1] Bonus paid based on base salary at 31 December 2013.

Half of any Group bonus above 25% of salary awarded is deferred into awards over Standard Life plc shares (subject to the deferred amount being at least 10% of salary) which vest two years from the date of award. In addition, deferred bonus shares are subject to malus between grant and vest and cash awards are subject to clawback for two years from the date of award where information is later proven to be inaccurate or misleading as a result of the executive's actions, or if the Group's financial statements are restated.

### Standard Life Investments bonuses

As well as participating in the Group annual bonus in 2013, Keith Skeoch also participated in the Standard Life Investments' discretionary annual cash bonus plans:

- These plans reward participants based on Standard Life Investments' corporate and investment performance. Consistent with fund management practice the amount of the bonus pool is determined by reference to Standard Life Investments' financial performance and having regard to the total remuneration spend.
- Personal bonus plan – rewards participants for personal performance in the year. Keith Skeoch's opportunity for 2013 was capped at 105% of salary.
- Keith Skeoch's company bonus opportunity for 2013 was equal to 200% of salary, if Standard Life Investments met its stretch targets. In the event that these stretch targets were exceeded, a higher Standard Life Investments company bonus could have been awarded by the Remuneration Committee provided that it was in line with its principles on total remuneration (details are provided in the future policy report).

The determination of annual bonuses at Standard Life Investments is subject to two levels of control. Firstly, the board of Standard Life Investments (Holdings) Limited reviews its financial results, and after taking into account the level of overall performance and risk, its remuneration committee proposes the level of bonus payments. This is then referred to the Remuneration Committee which reviews these recommendations and determines the bonuses to be paid to the most senior executives within Standard Life Investments.

The key achievements during the year in which the bonus outcome was determined were:

- Very strong EBIT performance
- Maintaining strong investment performance with 99% of third-party funds above benchmark in the year
- Third party gross sales increased compared to 2012
- Securing the first global partnership with the Ryder Cup
- Building the relationship with John Hancock.

Based on Keith Skeoch's and Standard Life Investments' performance in 2013 the Remuneration Committee approved personal bonus award of 105% of salary and a company bonus award of 200% of salary. Although Standard Life Investments exceeded its stretch targets in 2013 it was decided, in agreement with Keith Skeoch, that no additional company bonus payment would be considered this year.

| | | Company bonus plan | Personal bonus plan | Total as % of bonus maximum | Total as % of base salary | Total Bonus |
|---|---|---|---|---|---|---|
| Keith Skeoch | Maximum | 200% | 105% | 100% | 305% | |
| | Actual | 200% | 105% | 100% | 305% | 1,335,138 |

### Summary of bonus outcomes (audited)

The following table shows the total bonus awards made in respect of 2013:

| | Group cash bonus | Group deferred bonus | Standard Life Investments' cash bonuses | Total |
|---|---|---|---|---|
| David Nish | £618,175 | £420,675 | - | £1,038,850 |
| Keith Skeoch | £159,450 | £50,013 | £1,335,138 | £1,544,601 |

Annual bonus payments are not pensionable.

## Long-term incentives

### Standard Life Long-Term Incentive Plan (current Group LTIP)

The current Group LTIP is due to expire at the end of 2014 and shareholder approval is being sought at the 2014 AGM for a new plan (the Standard Life plc Executive Long Term Incentive Plan) which will be used to grant awards for 2014 onwards.

The LTIP awards currently in existence have a performance condition based on Group operating profit before tax (excluding profits of the life joint ventures – HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited). The current Group LTIP awards are also subject to two underpins when assessing the Group performance. The first requires the Group Risk and Capital Committee to be satisfied that performance obtained has been achieved within acceptable defined risk parameters. The second requires the Remuneration Committee to be satisfied that Group operating profit performance reflects overall Group performance.

### 2011 awards vesting in respect of performance ending in 2013 (audited)

Awards were made in March 2011 of 200% of salary to David Nish and Keith Skeoch and 125% of salary to Jackie Hunt. The table below summarises the performance targets for the awards and the outcome.

| 2013 performance level | Below threshold | Threshold | Target | Maximum |
|---|---|---|---|---|
| 2013 Group operating profit before tax (excluding life joint ventures)[1] | <£650m | £650m | £725m | £800m |
| Actual performance | | | | £746m |

[1] Life joint ventures refers to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited.

In line with the above results, the Remuneration Committee determined that 64% of awards granted to David Nish and Keith Skeoch in 2011 should vest in 2014. The 2011 award granted to Jackie Hunt lapsed on the cessation of her employment.

### Standard Life Investments Long-Term Incentive Plan (SLI LTIP)

In addition to the current Group LTIP, Keith Skeoch participated in the SLI LTIP. Under the SLI LTIP:

- Awards will only begin to vest if Standard Life Investments' investment performance is above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers. Investment performance is based on the three-year money-weighted average investment performance of Standard Life Investments against relevant benchmarks.
- The level of vesting, subject to the above hurdle being satisfied, will be based on consolidated cumulative three-year third party earnings before interest and tax (EBIT) performance as shown in the table below. The actual EBIT targets will not be disclosed as the Board deem that this is commercially sensitive information and, if disclosed, could seriously prejudice the Group's business.

| Performance | Consolidated cumulative three-year third party EBIT | % of target award of shares that vest[1] |
|---|---|---|
| Threshold | 60% of target | 0% |
| Maximum | 140% of target | 200% |

[1] Vesting takes place on a straight-line basis between 60% of target cumulative three-year third party EBIT and 140% of target cumulative three-year third party third party EBIT.

Before an award can vest, the Group's Risk and Capital Committee will need to verify to the Group's Remuneration Committee that the level of vesting was not as a result of behaviour that has exposed the Group to undue risk. If the Group's Risk and Capital Committee determines that the Group has been exposed to undue risk, the Remuneration Committee will take this into account when determining the level of vesting.

### 2011 awards vesting in respect of performance periods ending in 2013

In line with the above, Keith Skeoch received an award under this plan in March 2011 equivalent to 200% of salary (at maximum vesting). No other executive Director received an award under this plan.

The following table sets out performance against targets for the 2011 award.

| Performance level | Below threshold | Threshold | Target | Maximum |
|---|---|---|---|---|
| Consolidated cumulative three-year third party EBIT | <60% of target | 60% of target | 100% of target | 140% of target |
| Actual performance | | | | 108.7% of target |

As performance was above the lower quartile of the money-weighted average of all assets under management (both captive and third-party assets) and the consolidated cumulative three-year third party EBIT was 108.7% of target, the Remuneration Committee determined that 121.8% of target awards (60.9% of the maximum award) granted in 2011 should vest in March 2014.

**Awards granted in 2013 (audited):** The table below summarises the key details of awards granted to executive Directors under the current Group LTIP and the SLI LTIP in 2013.

| Award | Type of interest | Basis of award (% of salary and face value at grant)[1] | Performance criteria | % of award vesting at threshold and threshold performance level | % of award vesting at maximum and performance required for maximum vest |
|---|---|---|---|---|---|
| 2013 Group LTIP award, vests in March 2016 | Nil-cost option | David Nish – 200%- £1,580,000 Keith Skeoch – 200%- £875,500 Jackie Hunt – 125%- £706,250[2] | Group operating profit before tax (excluding life joint ventures)[3] in the year ended 31 December 2015 | Vesting: 0% Threshold: £725m | Vesting: 100% of award[4] Maximum: £875m |
| 2013 SLI LTIP award, vests in March 2016 | Nil-cost option | Keith Skeoch – 200%- £875,500 | Consolidated cumulative three-year third party Standard Life Investments' EBIT to 31 December 2015 and subject to an investment performance gateway | Vesting: 0% Threshold: 60% of third party EBIT target | Vesting: 200% of target award[5] Maximum: 140% of third party EBIT target |

1 The number of shares awarded is calculated based on the average share price for the five days preceding the grant which was £3.70.
2 This award lapsed on 4 September 2013.
3 Life joint ventures refer to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited.
4 Vesting between threshold and maximum levels will be on an incremental basis using predetermined milestones. These will be disclosed on a retrospective basis in the Directors' remuneration report for the year for which the Group LTIP awards vest.
5 Vesting takes place on a straight-line basis between 60% of target third party EBIT and 140% of target third party EBIT.

All of the above awards are subject to an additional personal performance underpin whereby if an executive performs at an unsatisfactory level in any year during the three-year performance period, their original award would be reduced by one-third, unless the Chief Executive, or the Remuneration Committee in the case of the Chief Executive, recommends otherwise.

Awards are also subject to clawback. This allows the Remuneration Committee to ask for awards to be repaid for up to two years from the date they vest, where misconduct by the executive during the performance period is subsequently discovered, or if the Group's financial statements for the year ended 31 December 2015 (in the case of the 2013 award) are restated.

## Share ownership

We operated a set of share ownership guidelines during 2013. The purpose of these guidelines was to encourage our executives, and the Chairman, to hold a substantial element of their personal wealth in Standard Life plc shares to align their interests with those of Standard Life's shareholders. The shareholding guideline targets were to be achieved within five years of their appointment as an executive Director (or from 10 July 2006 for those in role at the time of flotation).

Executive Directors were expected to build up a holding of Standard Life plc shares by keeping any shares they or their family members acquire, plus at least half the shares acquired under the current Group LTIP and from deferred bonuses on an after-tax basis, until the guideline was met.

These guidelines will be strengthened from 2014. David Nish and Keith Skeoch will now be required to hold 300% of their base salary in the form of Standard Life plc shares (under the previous guideline it was expected they would hold 150% and 100% respectively). The Chief Financial Officer when appointed will be required to hold 200% (Jackie Hunt, as CFO, was expected to attain a 100% holding).

The shares which the executive Directors will be required to hold to reach their respective shareholding requirement are based on the net vested shares arising from the exercise of an award. Net vested shares are those shares which the executive Director could retain after selling sufficient shares to cover the costs of the income tax and employee national insurance payable when the award is exercised. Executive Directors will be required to hold shares arising from the following awards:

- 100% of the net vested shares that could be acquired from the exercise of awards granted from 2014 onwards (this includes the awards arising from the deferral of annual bonus and awards granted under the new Group LTIP and the SLI LTIP)

- 50% of the net vested shares that could be acquired from the exercise of awards granted prior to the introduction of the new requirement (this includes awards arising from the deferral of annual bonus and awards granted under the current Group LTIP and the SLI LTIP)
- Shares currently held which were obtained from the exercise of awards and which contributed to satisfying the previous shareholder guidelines.

Executive Directors will be required to retain shares held in respect of the requirement for a period of one year following their departure from the Group.

The Remuneration Committee reviews progress against the requirements annually and retains discretion to require executive Directors to purchase shares to meet the requirement.

## Directors' interests in shares (audited)

The following table shows the actual number of Standard Life plc shares held by the executive Directors.

| | Total number of shares owned at 1 January 2013 | Shares acquired/(sold) by the Director during the period | Total number of shares owned at 31 December 2013[1] or date of resignation | Total value[2] of shares owned at 31 December 2013 as a % of salary at 31 December 2013 | Shares acquired/(sold) by the Director during the period 1 January 2014 to 26 February 2014 |
|---|---|---|---|---|---|
| David Nish | 1,048,083 | 704,835 | 1,752,918 | 798% | **78** |
| Keith Skeoch | 994,500 | 508,052 | 1,502,552 | 1234% | **77** |
| Jackie Hunt | 128,022 | 50,271 | 178,293 | 122% | - |

1 Includes shares held by the Director and by their connected persons.
2 Closing share price at 31 December 2013 was 359.6p.
3 Calculation based on numbers of shares held at date of resignation (26 April 2013) and the share price on that date (387.3p).

As is shown from the table David Nish and Keith Skeoch met the share ownership guidelines in place in 2013 and Jackie Hunt was on target to do so at the date of her resignation.

The Chairman will continue to be subject to a guideline holding of 100% of the value of his fees in Standard Life plc shares within four years of appointment. Gerry Grimstone as Chairman fully met this requirement in 2013 with the value of his shares at the end of the year being 259% of his fees.

The table below shows in relation to each executive Director, the total number of share options with and without performance conditions held at 31 December 2013:

| | Options with performance measures[1] | Options without performance measures[2] | Vested but unexercised | Exercised during year[3] |
|---|---|---|---|---|
| David Nish | 1,845,373 | 373,087 | - | 1,179,857 |
| Keith Skeoch | 2,028,846 | 42,720 | - | 816,110 |
| Jackie Hunt | - | - | - | 486,656 |

1 This comprises awards made under the Group and SLI LTIPs in 2011, 2012 and 2013 excluding shares to be awarded in lieu of dividend equivalents.
2 This comprises deferred bonus awards made in 2012 and 2013 and Sharesave options excluding shares to be awarded in lieu of dividend equivalents.
3 This comprises exercises of awards made under the 2010 Group and SLI LTIPs and deferred share awards from the 2010 Group bonus plan including dividend equivalents.

The closing market price of Standard Life plc shares at 31 December 2013 was 359.6p and the range for the year was 326.1p to 421.7p.

Directors' interests in the Company's shares through the medium of the Group's share plans are shown below:

## Group and Standard Life Investments LTIPs

Awards are subject to vesting conditions that are based on continuous employment and on satisfying corporate performance targets over the performance period.

| Award dates | | Number of shares | | | | | | Value of shares | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Original award | Expected first date of exercise[1] | Original award | Awarded during year | Shares in lieu of rolled-up dividends to end of year[2] | Exercised during year[3] | Lapsed during year | At end of year | Share price at award date[4] | Share price on exercise date | Actual date of exercise | Total value on exercise date |
| David Nish | | | | | | | | | | | |
| 25/06/10 | 25/06/13 | 778,983 | - | 177,329 | 956,312 | - | - | £1.8614 | £3.471 | 28/06/13 | £3,319,129 |
| 31/03/11 | 31/03/14 | 752,573 | - | 127,965 | - | - | 880,538 | £2.0596 | - | - | - |
| 29/03/12 | 29/03/15 | 665,750 | - | 67,301 | - | - | 733,051 | £2.3282 | - | - | - |
| 25/03/13 | 25/03/16 | - | 427,050 | 34,755 | - | - | 461,805 | £3.6998 | - | - | - |
| | | 2,197,306 | 427,050 | 407,350 | 956,312 | - | 2,075,394 | | | | |
| Keith Skeoch | | | | | | | | | | | |
| 16/06/10[5] | 16/06/13 | 383,057 | - | 87,193 | 326,823 | 143,427 | - | £1.8274 | £3.511 | 28/06/13 | £1,147,335 |
| 25/06/10 | 25/06/13 | 376,061 | - | 85,606 | 461,667 | - | - | £1.8614 | £3.511 | 28/06/13 | £1,620,714 |
| 31/03/11[5] | 31/03/14 | 412,701 | - | 70,173 | - | - | 482,874 | £2.0596 | - | - | - |
| 31/03/11 | 31/03/14 | 412,701 | - | 70,173 | - | - | 482,874 | £2.0596 | - | - | - |
| 29/03/12[5] | 29/03/15 | 365,088 | - | 36,906 | - | - | 401,994 | £2.3282 | - | - | - |
| 29/03/12 | 29/03/15 | 365,088 | - | 36,906 | - | - | 401,994 | £2.3282 | - | - | - |
| 25/03/13 | 25/03/16 | - | 236,634 | 19,258 | - | - | 255,892 | £3.6998 | - | - | - |
| 25/03/13 | 25/03/16 | - | 236,634 | 19,258 | - | - | 255,892 | £3.6998 | - | - | - |
| | | 2,314,696 | 473,268 | 425,473 | 788,490 | 143,427 | 2,281,520 | | | | |
| Jackie Hunt | | | | | | | | | | | |
| 25/06/10 | 25/06/13 | 318,980 | - | 72,612 | 391,592 | - | - | £1.8614 | £3.441 | 25/06/13 | £1,347,311 |
| 31/03/11 | 31/03/14 | 303,456 | - | - | - | 303,456 | - | £2.0596 | - | - | - |
| 29/03/12 | 29/03/15 | 288,581 | - | - | - | 288,581 | - | £2.3282 | - | - | - |
| 25/03/13 | 25/03/16 | - | 190,888 | - | - | 190,888 | - | £3.6998 | - | - | - |
| | | 911,017 | 190,888 | 72,612 | 391,592 | 782,925 | - | | | | |

1 All current Group LTIP and SLI LTIP options lapse six months after the expected first date of exercise.

2 The Remuneration Committee has invoked the power within the LTIP rules in relation to the 2010, 2011, 2012 and 2013 awards for the awards to carry a right to receive rolled-up dividends, but only to the extent that the awards vest. As such, these awards include shares equivalent to the level of dividends announced between June 2010 and December 2013 which fall within the relevant vesting periods. All awards were made under the current Group LTIP unless otherwise stated.

3 The 2010 Group LTIP vested at 100% and the SLI Group LTIP at 69.5% of maximum.

4 Based on the average share price for the five dealing days immediately before the awards were granted.

5 Keith Skeoch's awards under the SLI LTIP.

### Bonus awards – deferred shares

These awards are the deferred share elements of the 2009, 2010 and 2011 bonus awards. The value of the bonus deferred into share awards is reported within the annual bonus figures shown in the Directors' remuneration for the year for which the bonus is payable.

| Award dates | | Number of shares | | | | | | Value of shares | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Original award | Expected first date of exercise[1] | Original award | Awarded during year | Shares in lieu of rolled-up dividends to end of year[2] | Exercised during year | Lapsed during year | At end of year | Share price at award date[3] | Share price on exercise date | Actual date of exercise | Total value on exercise date |
| David Nish | | | | | | | | | | | |
| 31/03/11 | 31/03/13 | 206,609 | - | 16,936 | 223,545 | - | - | £2.114 | £3.760 | 30/04/13 | £840,552 |
| 29/03/12 | 29/03/14 | 209,667 | - | 21,194 | - | - | 230,861 | £2.015 | - | - | - |
| 28/03/13 | 28/03/15 | - | 153,751 | 12,513 | - | - | 166,264 | £3.326 | - | - | - |
| | | 416,276 | 153,751 | 50,643 | 223,545 | - | 397,125 | | | | |
| Keith Skeoch | | | | | | | | | | | |
| 31/03/11 | 31/03/13 | 25,529 | - | 2,091 | 27,620 | - | - | £2.114 | £3.913 | 07/05/13 | £108,077 |
| 29/03/12 | 29/03/14 | 23,813 | - | 2,405 | - | - | 26,218 | £2.015 | - | - | - |
| 28/03/13 | 28/03/15 | - | 18,907 | 1,538 | - | - | 20,445 | £3.326 | - | - | - |
| | | 49,342 | 18,907 | 6,034 | 27,620 | - | 46,663 | | | | |
| Jackie Hunt | | | | | | | | | | | |
| 31/03/11 | 31/03/13 | 87,863 | - | 7,201 | 95,064 | - | - | £2.114 | £3.394 | 10/04/13 | £322,647 |
| 29/03/12 | 29/03/14 | 116,095 | - | - | - | 116,095 | - | £2.015 | - | - | - |
| 28/03/13 | 28/03/15 | - | 89,993 | - | - | 89,993 | - | £3.326 | - | - | - |
| | | 203,958 | 89,993 | 7,201 | 95,064 | 206,088 | - | | | | |

1 All deferred share awards lapse six months after the expected first date of exercise.
2 The Remuneration Committee has invoked the power within the deferred share plan rules for the awards to carry a right to receive rolled-up dividends, but only to the extent that the awards vest. As such, these awards include shares equivalent to the level of dividends announced between March 2011 and November 2013 or the date of vesting if earlier.
3 Based on the average share price for the month of December preceding the date the awards were granted.

### Sharesave

David Nish and Jackie Hunt were granted options under the Standard Life Sharesave Plan on 15 September 2011. David Nish was granted options over 9,669 Standard Life plc shares exercisable from 1 November 2016 and Jackie Hunt was granted options over 5,715 Standard Life plc shares exercisable from 1 November 2014. Jackie Hunt's options lapsed on 4 September 2013 when her employment with Standard Life ceased.

The exercise price for these options is £1.5746. No Sharesave option grants were made to executive Directors during 2012 or 2013. Sharesave options lapse six months from the date of exercise.

### Executive Directors' external appointments

Subject to the Board's approval, executive Directors are able to accept a limited number of external appointments to the boards of other organisations and can retain any fees paid for these services. Executive appointments held during the year are shown below.

| Executive Director | Role and organisation | 2013 fees |
|---|---|---|
| David Nish | Deputy Chairman of the Board of the Association of British Insurers (ABI)<br>Chairman of the Long Term Savings and Life Insurance Committee of the ABI<br>Member of the Advisory Council of TheCityUK<br>Non-executive director of the UK Green Investment Bank plc | £30,000 |
| Keith Skeoch | Director of the Investment Management Association<br>Member of the Advisory Board of Reform Scotland<br>Non-executive director of the Financial Reporting Council | £nil[1] |
| Jackie Hunt | Non-executive Director of National Express Group PLC | £14,460[2] |

1 Keith Skeoch continues to waive his fees from the ABI.
2 Jackie Hunt's fees from National Express Group for the period 1 January 2013 to the date of her resignation (26 April 2013).

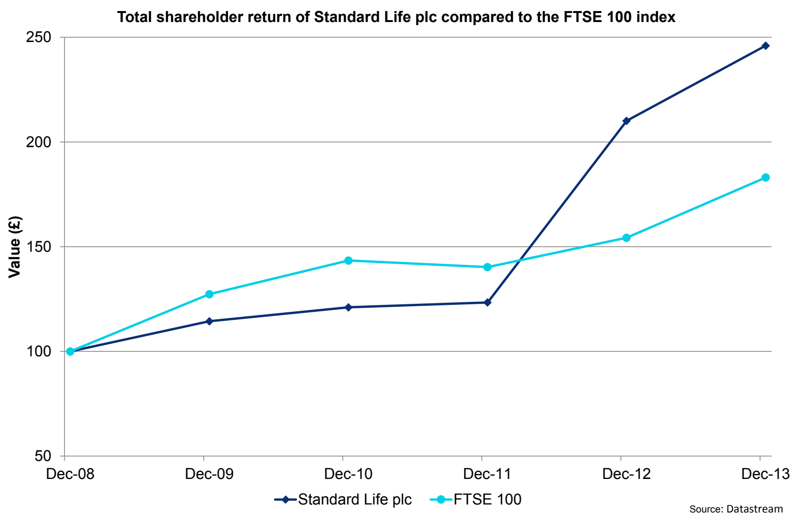
### Loss of office payments in 2013 (audited)

No loss of office payments were made in 2013. Jackie Hunt resigned as Chief Financial Officer and Director on 26 April 2013. She had a six month notice period and, therefore, would have ceased to be a Standard Life employee on 26 October 2013. By mutual agreement this was brought forward to 4 September 2013. She continued to receive salary, benefits and pension contributions while she remained an employee. Jackie Hunt did not receive an annual bonus in respect of the 2013 financial year. The deferred share awards granted in 2012 and 2013 (in respect of performance in 2011 and 2012) have lapsed as have the LTIP awards made in 2011, 2012 and 2013. The qualifying conditions for exercise of the deferred bonus award made in 2011 and the LTIP award made in 2010 were met and both awards were exercised. Details of the exercise of those awards are set out above.

## Payments to former directors

Payments made to former directors during the year (if not reported elsewhere) will in future be reported here if they are in excess of £20,000. No such payments were made in 2013.

## Pay compared to performance




**Performance graph**: The graph shows the difference between investing £100 in Standard Life plc and the FTSE 100 on 1 January 2009 to 31 December 2013. It is assumed dividends are reinvested. The FTSE 100 has been chosen as the comparator index because Standard Life plc is a member of this FTSE grouping.

The following table shows the single figure of total remuneration for the director in the role of Chief Executive for the same five financial years as shown in the graph above. Also shown are the annual bonus awards and Group LTIP awards which vested based on performance in those years.

| Year ended 31 December | CE | CE single figure of total remuneration (£000s) | Annual bonus award rates against maximum opportunity (%) | Long-term incentive plan vesting rates against maximum opportunity (%) |
|---|---|---|---|---|
| 2013 | David Nish | 4,049 | 75 | 64 |
| 2012 | David Nish | 5,564[1] | 88 | 100 |
| 2011 | David Nish | 2,601 | 77 | 63.5 |
| 2010 | David Nish | 1,971 | 83 | 0[2] |
| 2009 | Sir Sandy Crombie[3] | 2,175 | 67 | 49.67 |

[1] The key drivers behind the increase in the CE single figure for 2012 reflects David Nish's promotion to Chief Executive in 2010 and the correspondingly higher Group LTIP award granted, and also the impact of the increase in the Standard Life plc share price which moved from £1.86 at the award date to £3.46 on the first possible date of exercise and which drives the value outcome of the Group LTIP plan.

[2] The Group LTIP targets for the award granted in 2008 were not met and therefore no Group LTIP award vested for the year ended 31 December 2010.

[3] Sir Sandy Crombie stepped down from the role of Chief Executive on 31 December 2009.

## Relative importance of spend on pay

The following table compares our spend on employee remuneration to that paid in the form of dividends to our shareholders. Also shown is a measure of our profit before tax which is provided for context:

| | Remuneration payable to all Group employees (£m) | Dividends paid in respect of financial year (£m) | Group operating profit before tax (£m) |
|---|---|---|---|
| 2013 | 679 | 375 | 751 |
| 2012 | 645 | 345[1] | 867 |

[1] A further £302m was paid in the form of a special dividend at the same time as the final dividend for 2012

## Percentage change in remuneration of the director in the position of Chief Executive

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2012 and the year ended 31 December 2013 for the CE compared to the average UK based Group employee:

| | % change in base salary | % change in bonus 2012 to 2013 | % change in benefits[2] |
|---|---|---|---|
| CE | 1.02% | (1.46%)[1] | 0% |
| UK based employees of the Group | 1.97% | 1.17 | 0% |

[1] The CE's bonus for 2013 was less than that for 2012

[2] There was no change to core benefits in 2013

## Implementation of policy in 2014

### Base Salary

The Remuneration Committee considered it appropriate to award increases as follows:

| | Increase to base pay | Base pay effective from 16 March 2014 |
|---|---|---|
| David Nish | £20,000 | £810,000 |
| Keith Skeoch | £12,250 | £450,000 |

### Bonus

The executive Directors will participate in the Group annual bonus plan.  Target and maximum award opportunities are:

| | Target | Maximum opportunity |
|---|---|---|
| David Nish | 75% | 175% |
| Keith Skeoch | 30% | 60% |

For David Nish and Keith Skeoch, 90% of the award will be based on Group performance and 10% on personal performance. Keith Skeoch will continue to participate in the Standard Life Investments' personal and company bonus plan. The maximum awards under this plan are 105% of salary and 200% of salary respectively.

The financial performance targets and the detailed non-financial measures used for the determination of the Group and Standard Life Investments' annual bonus plans, and our financial and non-financial performance against these, will not generally be disclosed. The Board and the Remuneration Committee believe that, given the annual bonus rewards the achievement of our business plans, the disclosure of these could seriously prejudice the Group's business. In evaluating the non-financial metrics, the Remuneration Committee will reference, where possible, objective data and will exercise judgement in determining achievement of objectives when assessing performance. Disclosure on performance and how performance has been evaluated by the Remuneration Committee will be provided in the Directors' remuneration report at the end of the performance period. The Group financial targets will be disclosed at the earliest in the Directors' remuneration reports published for the financial year following the year in which the bonus is paid. This will allow shareholders to assess whether awards are appropriate in the context of the performance and progress made at the end of the year.

### Pension

Cash allowances are paid in lieu of pension as follows:

- David Nish – 30% of salary
- Keith Skeoch – 25% of salary

### Long-term incentive arrangements

Subject to the approval of the new Group LTIP at the 2014 AGM, the Remuneration Committee proposes to grant awards equivalent to 200% of salary to David Nish and 200% of salary to Keith Skeoch, in the form of nil-cost options under this plan. Vesting of these awards, in 2019, is based on the following performance measures measured over the period to 31 December 2016:

- Cumulative Group operating profit before tax performance weighted at 70% of the award
- Cumulative Group net flows weighted at 30% of the award.

| Award | Type of interest | Basis of award (% of salary and face value at grant) | Performance criteria | Threshold (% of target award vesting at threshold) | Maximum (% of award vesting and target for maximum vest) |
|---|---|---|---|---|---|
| 2014 new Group LTIP award, to vest in June 2019 | Nil-cost option | David Nish – 200%- £1,620,000 Keith Skeoch – 200%- £900,000 | Cumulative Group operating profit before tax[1] (70%) and cumulative Group net flows[2] (30%) for the three-year period ended 31 December 2016 | Vesting: 0% Cumulative Group operating profit before tax[1] Threshold: £2,165m Cumulative Group net flows[2] Threshold: £21.2bn | Vesting :100% of award Cumulative Group operating profit before tax [1] Maximum: £2,585m Cumulative Group net flows[2] Maximum: £33.4bn |

[1] Cumulative Group operating profit before tax excluding life joint ventures which refer to HDFC Standard Life Insurance Company Limited and Heng An Standard Life Insurance Company Limited.

[2] Cumulative Group net flows excluding life joint ventures which refer to HDFC Standard Life Insurance Company Limited and Heng An Standard Life.

Keith Skeoch will also be granted an award, in the form of a nil-cost option equivalent to 200% of salary under the SLI LTIP. This award will vest in 2017 subject to performance in the period to 31 December 2016. The award will vest provided the investment gateway is passed. The level of vesting is based on the cumulative three-year third party EBIT achieved in the three years to 31 December 2016. The performance targets will not generally be disclosed as the Board and the Remuneration Committee deem that, given the vesting of the SLI LTIP rewards the achievement of our business plans, the disclosure of these could seriously prejudice the Group's business.

| Award | Type of interest | Basis of award (% of salary and face value at grant) | Performance criteria | Threshold (% of award vesting at threshold) | Maximum % of target award vesting and target for maximum vest |
|---|---|---|---|---|---|
| 2014 SLI LTIP award, vests in March 2017 | Nil-cost option | Keith Skeoch - 200%- £900,000 | Consolidated cumulative three-year third party Standard Life Investments' EBIT to 31 December 2016 and subject to an investment gateway | 0% Threshold: 60% of EBIT target | 200% of target award Maximum: 140% of EBIT target |

## Single total figure of remuneration – non-executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the non-executive Directors who served as director at any time during the financial year ending 31 December 2013. Non-executive Directors do not participate in bonus or long-term incentive plans and do not receive pension funding.

| Non-executive Directors | | Fees for year ended 31 December £000s | Taxable benefits in year ended 31 December £000s[1] | Total remuneration for the year ended 31 December £000s |
|---|---|---|---|---|
| Gerry Grimstone | 2013 | 350 | 26 | 376 |
| | 2012 | 350 | 34 | 384 |
| Colin Buchan | 2013 | 86 | 4 | 90 |
| | 2012 | 86 | 1 | 87 |
| Pierre Danon | 2013 | 71 | 20 | 91 |
| | 2012 | 70 | 15 | 85 |
| Crawford Gillies | 2013 | 97 | 8 | 105 |
| | 2012 | 95 | 5 | 100 |
| David Grigson | 2013 | 97 | 15 | 112 |
| | 2012 | 95 | 6 | 101 |
| Noel Harwerth | 2013 | 97 | 10 | 107 |
| | 2012 | 43 | 1 | 44 |
| John Paynter | 2013 | 127 | 16 | 143 |
| | 2012 | 115 | 12 | 127 |
| Lynne Peacock | 2013 | 71 | 14 | 85 |
| | 2012 | 52 | 4 | 56 |
| Sheelagh Whittaker[2] | 2013 | 27 | 7 | 34 |
| | 2012 | 70 | 6 | 76 |
| Martin Pike[3] | 2013 | 19 | 2 | 21 |
| | 2012 | - | - | - |
| Lord Blackwell[4] | 2013 | - | - | - |
| | 2012 | 44 | 3 | 47 |
| Baroness McDonagh[3] | 2013 | - | - | - |
| | 2012 | 28 | 1 | 29 |

1 Gerry Grimstone received an allowance of £15,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fees. Other amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits they are included as being a payment which is subject to tax.
2 Sheelagh Whittaker resigned at the close of the AGM on 14 May 2013.
3 Martin Pike was appointed on 27 September 2013.
4 Lord Blackwell and Baroness McDonagh resigned from the Board at the close of the AGM on 25 May 2012.

The following table shows the number of Standard Life plc shares held by each of the non-executive Directors:

| | Total number of shares owned at 1 January 2013 | Shares acquired/(sold) by the Director during the period | Total number of shares owned at 31 December 2013[1] or date of resignation | Shares acquired/(sold) by the Director during the period 31 December 2013 to 26 February 2014 |
|---|---|---|---|---|
| Gerry Grimstone | 252,544 | - | 252,544 | - |
| Colin Buchan | 30,121 | - | 30,121 | - |
| Pierre Danon | 25,805 | 11,446 | 37,251 | - |
| Crawford Gillies | 50,170 | - | 50,170 | - |
| David Grigson | 15,000 | - | 15,000 | - |
| Noel Harwerth | 10,000 | - | 10,000 | - |
| John Paynter | 35,000 | 10,000 | 45,000 | - |
| Lynne Peacock | 5,345 | 10,000 | 15,345 | - |
| Sheelagh Whittaker | 11,809 | - | 11,809 | - |
| Martin Pike | - | 40,000 | 40,000 | - |

[1] Includes shares held by the Director and by their connected persons.

**Non-executive Director fees:** Following a review of non-executive Director fees in 2013, the Board (and the Remuneration Committee in respect of the Chairman) considered it appropriate to make no changes to non-executive Director fees:

| Role | 2014 fees[1] | 2013 fees |
|---|---|---|
| Chairman's fees[2] | £350,000 | £350,000 |
| Non-executive Director Core fees[3] | £71,400 | £71,400 |
| Additional fees: | | |
| Senior Independent Director | £17,500 | £17,500 |
| Chairman of the Audit Committee | £25,500 | £25,500 |
| Chairman of the Risk and Capital Committee | £25,500 | £25,500 |
| Chairman of the Remuneration Committee | £25,500 | £25,500 |
| Chairman of the Investments Committee | £15,000 | £15,000 |
| Chairman of Standard Life Investments | £38,250 | £38,250 |

[1] The core fee of £71,400 paid to each non-executive Director (including the Chairman) will total £642,600 for 2014 (2013: £642,600). This is within the maximum £1m permitted under Article 87 of Standard Life plc's articles of association. Total fees including additional duties are expected to amount to £1,068,450 for 2014 (2013: £1,068,450).

[2] The Chairman's fee is inclusive of the non-executive Directors core fee and no additional fees are paid to the Chairman where he chairs, or is a member of, other committees/boards. In 2014 the Chairman will also receive £15,000 (2013: £15,000) as an allowance towards his business related accommodation costs in Edinburgh. The Chairman elected to receive no increase in fees in 2014.

[3] For non-executive Directors, individual fees are constructed by taking a base fee and adding extra fees for chairing subsidiaries' boards and committees where a greater responsibility and time commitment is required.

## The Remuneration Committee

**Members:** During 2013, the Remuneration Committee was made up of five independent non-executive Directors: Crawford Gillies (Chairman), Colin Buchan, Pierre Danon, John Paynter and Lynne Peacock.

**Our role:** To consider and make recommendations to the Board in respect of the total remuneration policy across the Group, including:

- rewards for the executive Directors, senior executives and the Chairman
- the design and targets for any employee share plan
- the design and targets for annual cash bonus plans below executive level
- changes to employee benefit structures (including pensions) throughout the Group.

If you would like a copy of the Remuneration Committee's terms of reference these can be found in the Board Charter which you can obtain from **www.standardlife.com/about/board_committees** or request a copy from our Group Company Secretary and General Counsel.

**External advisers:** The Remuneration Committee received information on comparative pay data from Towers Watson. Pinsent Masons LLP provided legal interpretation of remuneration related regulations to the Remuneration Committee.

During the year, the Remuneration Committee also took advice from Deloitte LLP, who were appointed as external advisors to the Remuneration Committee from October 2011 until June 2014.

A representative from Deloitte LLP attends, by invitation, all Remuneration Committee meetings to provide information and updates on external developments affecting remuneration as well as specific matters raised by the Remuneration Committee. Deloitte LLP also drafted the plan rules and ancillary documentation for the new Group LTIP. Outside of the meetings, the Remuneration Committee's Chairman seeks advice on remuneration matters on an ongoing basis. As well as advising the Remuneration Committee, Deloitte LLP also provided tax, risk, data and real estate advice to the Group during the year. Deloitte LLP is an investment adviser to the trustees of the Standard Life Staff Pension Scheme. As well as providing these services, the Group is the current appointed provider for the defined contribution pension plan that Deloitte LLP provides for its employees and Deloitte LLP is one of the employee benefit consultants through which Standard Life has been appointed to provide defined contribution arrangements for Deloitte's clients through competitive tender.

Fees paid to Deloitte LLP during 2013 for professional advice to the Committee were £155,000.

Where appropriate, the Remuneration Committee receives input from the Chairman, CE, CFO, Group Operations Officer, Director of Group Reward and Employment Policy, Group Chief Risk Officer and Head of Corporate Governance at Standard Life Investments. This input never relates to their own remuneration.

As noted on page 39, Gerry Grimstone is an independent non-executive of Deloitte LLP. He was appointed to this role to represent the public interest following a recommendation by the Financial Reporting Council that all major audit firms should have such representation. His remuneration for that role is a fixed sum and has no relationship to Deloitte's business activities. Both the Chairman and the Remuneration Committee recognised the need to ensure there is no conflict of interest arising from the appointment of Deloitte LLP to advise the Remuneration Committee. The Chairman did not play a part in the tender and selection process. We were satisfied at the date of the appointment that the nature of the Chairman's appointment to Deloitte LLP did not create a conflict of interest. We continue to monitor this position and are satisfied that the continuing appointment does not give rise to a conflict of interest. Deloitte LLP operates appropriate safeguards to maintain the independence of its advice, for example, the team responsible for providing advice to the Remuneration Committee are not rewarded for cross-selling non-related services to Standard Life and work is contracted for independently from work performed by the rest of the firm. Whilst Gerry Grimstone has access to the Remuneration Committee advisor to the extent that he is invited to attend Remuneration Committee meetings, he does not meet with the Remuneration Committee advisor other than in those meetings to discuss matters relating to Standard Life. Communication between Deloitte LLP and the Remuneration Committee is on instruction from the Remuneration Committee Chairman.

**Activities of the Remuneration Committee:** The Remuneration Committee met 12 times during 2013. The key issues discussed/approved were:

**January to March**

- 2012 Directors' remuneration report
- Approving 2013 executive Director and executive team salaries and the vesting outcomes of the 2012 bonus plans and long-term plans dependant on 2012 performance
- Agreeing the 2013 Group scorecard
- Set targets for 2013 LTIP.

**April to June**

- Development of thinking around the direction of the new Group LTIP.

**July to September**

- 2013 mid-year performance review for annual bonus and LTIP awards
- Approval for 2013 invitations for the UK and Ireland Sharesave plans.

**October to December**

- Investor consultation on proposed new Group LTIP
- 2013 annual bonus update and principles for the 2014 salary and bonus planning cycle
- Performance updates for the outstanding LTIP awards granted in 2011, 2012 and 2013
- Chairman's 2014 fee.

**Shareholder voting:** We remain committed to on-going shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, we seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The following table sets out actual voting on our previous remuneration report presented at the 2013 AGM on 14 May 2013:

| | For | Against | Abstain |
|---|---|---|---|
| 2012 Directors' remuneration report | | | |
| (% of total votes cast) | 95.94% | 4.06% | |
| 2012 Directors' remuneration report | | | |
| (No. of votes cast) | 882,413,708 | 37,372,850 | 38,980,605 |

**Promoting all-employee share ownership:** We believe that share ownership by our employees helps them to understand the interests of our shareholders. On 31 December 2013, 64% of our employees were Standard Life shareholders through participation in our share plans. We promote employee share ownership with a range of initiatives:

- The Standard Life (Employee) Share Plan which allows employees to buy Standard Life plc shares directly from their earnings. On 31 December 2013, 3657 employees (65% of those eligible in the UK) were making a monthly average contribution of £42. A similar tax-approved plan is used in Ireland and has a 47% take-up. Even though the plan cannot be structured on a tax-favourable basis in Canada, Germany and Austria, more than 640 employees in these countries are buying shares each month.
- The Sharesave Plan which allows UK tax resident employees to save towards the exercise of options over Standard Life plc shares with the option price set at the beginning of the savings period at a discount of up to 20% of the market price. Sharesave invitations were made in August 2011, August 2012 and September 2013 to UK employees and at December 2013, 2918 employees in the UK had accepted one or more of the Sharesave offers.
- The Standard Life Ireland Sharesave plan which launched in August 2012. A further invitation was made in September 2013. As at 31 December 2013, 85 employees in Ireland had accepted one or more of the Sharesave Ireland invitations.

**Share dilution limits:** The current Group LTIP, the new Group LTIP, the SLI LTIP, the Standard Life (Employee) Share Plan, the Sharesave Plan and the Standard Life Ireland Sharesave Plan contain dilution limits that comply with the guidelines produced by the Association of British Insurers (ABI). On 31 December 2013, the Company's standing against these dilution limits was:

- 3.05% against 5% in any 10 years under all executive share plans (current Group LTIP and SLI LTIP)
- 3.67% against 10% in any 10 years under all share plans (current Group LTIP, SLI LTIP Standard Life (Employee) Share Plan, the Sharesave Plan and Sharesave Ireland Plan).

As is normal practice, there are employee trusts that operate in conjunction with the Group and SLI LTIPs and the Standard Life (Employee) Share Plan. On 31 December 2013, the number of unallocated shares held within these trusts was 11,610 in respect of the Standard Life (Employee) Share Plan. In addition, the trusts held 3,112,350 shares acquired to satisfy deferred bonus awards, Group LTIP and SLI LTIP awards and other share plan awards. Of these shares 111,720 are committed to satisfying vested but unexercised awards. The percentage of share capital held by the employee trusts is comfortably less than the 5% best practice limit endorsed by the Association of British Insurers.

**Related party transactions:** All transactions between Directors and the Group are on commercial terms that are equivalent to those available to all employees. During the year to 31 December 2013, the Directors contributed £2,869,942 (2012: £898,905) to products sold by the Group.

**Approval**

This report was approved by the Board on 27 February 2014 and signed on its behalf by:

**Crawford Gillies,** Chairman, Remuneration Committee

# Independent Auditors' Report to the Members of Standard Life plc
# Report on the Group financial statements

## Our opinion

In our opinion the Group financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's profit and cash flows for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

## What we have audited

The Group financial statements, which are prepared by Standard Life plc, comprise:

- the Consolidated statement of financial position as at 31 December 2013
- the Consolidated income statement and statement of comprehensive income for the year then ended
- the Consolidated statement of changes in equity and statement of cash flows for the year then ended
- the Group accounting policies and the notes to the Group financial statements, which include other explanatory information.

We have not audited the Pro forma reconciliation of consolidated operating profit to profit for the year set out on page 106 which was prepared by Standard Life plc.

The financial reporting framework that has been applied in the preparation of the Group financial statements comprises applicable law and IFRSs as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts 2013 (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

## What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Group financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Overview of our audit approach

### *Materiality*

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements both individually and on the financial statements as a whole.

Based on our professional judgement, we therefore determined materiality for the Group financial statements as a whole to be £40 million. Our view on overall materiality was communicated to the Audit Committee.

We agreed with the Audit Committee that we would report to the Committee those misstatements identified during the audit above £2 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

In determining our materiality, we have considered financial metrics which we believe to be relevant and concluded that operating profit before tax was a relevant benchmark because it is a performance measure used by management to reflect the underlying profit of the business.

## Overview of the scope of our audit

The Group is reported in five reportable segments being UK and Europe, Standard Life Investments, Canada, Asia and Emerging Markets and Other. These segments are disaggregated into reporting units. The Group's financial statements are a consolidation of these reporting units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors within PricewaterhouseCoopers LLP (PwC) and from other PricewaterhouseCoopers network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, we identified 10 of the Group's reporting units which, in our view, required an audit of their complete financial information, either due to their size and/or their risk characteristics. These focussed on the material reporting units within the UK and Europe, SLI and Canada reportable segments. In addition, specific audit procedures on certain balances and transactions were performed at a further 10 reporting units within the Group across all reportable segments. Additional procedures were also performed at the Group level over the group consolidation and other reporting packs in order to gain further audit evidence. Overall we concluded that this gave us the evidence we needed for our opinion on the Group financial statements as a whole.

## Areas of particular audit focus

In preparing the Group financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considered future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own independent judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 56.

| Area of focus | How the scope of our audit addressed the area of focus |
|---|---|
| **Valuation of insurance contract and pension scheme liabilities**<br><br>We focused on this area due to the significance of these liabilities to the Group's balance sheet and the inherent judgements in determining the assumptions applied in the methodology for calculating those liabilities.<br><br>The key judgements relate to annuitant mortality assumptions where small changes can have a significant impact on the Group's balance sheet (see Notes 33 and 37 to the Group financial statements). | We tested the design and operating effectiveness of key controls over critical actuarial models, data collection and analysis and the assumption setting processes.<br><br>We evaluated the methodology for those models focussing on significant changes by obtaining documentation of the key changes approved by the directors and assessing these against compliance with relevant financial and regulatory reporting requirements.<br><br>We performed audit procedures over the key changes in the methodology and assumptions used, in particular the expected future improvements in annuitant mortality. Having ascertained the extent of change in the assumptions that either individually or collectively would result in a significant impact on the financial statements, or a material misstatement, we considered the likelihood of such a movement in those key assumptions arising.<br><br>We also performed an independent annual benchmarking survey which allowed us to further challenge the assumption setting process by comparing the assumptions used relative to the Group's industry peers. |
| **Valuation of illiquid and complex investments**<br><br>We focussed on this area as the valuation of investments remains a complex area which requires the use of director judgement and/or the involvement of valuation specialists.<br><br>Due to the nature of the investment portfolio, the key judgements relate to the valuation of derivatives and real estate investments. (see Note 42 to the Group financial statements). | We tested key controls over asset valuation processes and techniques in respect of derivatives and real estate investments.<br><br>We evaluated the methodology, inputs and assumptions used in a sample of investment property valuations comparing the yields and market rents used by third party valuers against benchmarked industry data ranges for the appropriate sectors. We also compared year on year capital movements and assessed these against relevant industries for the period.<br><br>We assessed the models and inputs used for a sample of derivative investments across the investment portfolio for which there is no active market price available, recalculating the valuation using independent models and assessing data inputs against recognised market data providers.<br><br>We tested a further sample of derivative valuations to independent third party sources for a range of financial instruments where an active market price was available. |

| Area of focus | How the scope of our audit addressed the area of focus |
|---|---|
| **Risk of fraud in revenue recognition**<br><br>ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition due to the pressure management may feel to achieve the planned results.<br><br>We focused on this area due to the judgement involved in the recognition of revenue in premium, fee and investment income. | Regarding the premium, fee and investment income revenue recognised during the year, we evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of premium, fee and investment income revenue recognised in the financial statements.<br><br>We tested journal entries posted to revenue accounts to identify unusual or irregular items. We substantively tested manual journals, suspense accounts, control accounts and reconciliations over key financial reporting processes such as outstanding premiums and management fee income. |
| **Risk of management override of controls**<br><br>ISA (UK& Ireland) states there is a risk of management override of controls due to the pressure management may feel to achieve the planned results.<br><br>We focussed on this area due to the significance of estimates and judgements made by management relevant to the financial statements, the importance of the presentation and disclosure of key earnings measures in the financial statements and because there is always a risk that any system of internal control will be overridden. | We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's Internal Audit function.<br><br>We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested key reconciliations and journal entries.<br><br>We assessed the application of accounting policies and methodologies for the reporting of key earnings measures by obtaining an understanding from management including details of changes that occurred in the year. Adjustments were tested to obtain evidence in respect of the adjustments made and whether they were permitted under the methodology approved by the Board of Directors. |

## Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 64, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements
- the information given in the Corporate governance statement set out on pages 49 to 69 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the Group financial statements.

## Other matters on which we are required to report by exception

### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

### Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate governance statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 48 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 56, as required by C.3.8 of the Code, the Group Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

### Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Group financial statements
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the Group financial statements and the audit

### Our responsibilities and those of the directors

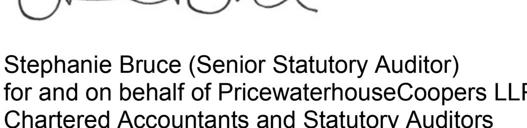
As explained more fully in the Directors' responsibilities statement set out on page 48, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other matters

We have reported separately on the Company financial statements of Standard Life plc for the year ended 31 December 2013 and on the information in the Directors' remuneration report that is described as having been audited.



Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 February 2014

(a) The financial statements are published on the website of Standard Life plc. The maintenance and integrity of the website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated income statement
## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Revenue** | | | |
| Gross earned premium | | **4,128** | 4,315 |
| Premium ceded to reinsurers | | **(93)** | (95) |
| **Net earned premium** | | **4,035** | 4,220 |
| Investment return | 4 | **15,449** | 13,982 |
| Fee and commission income | 5 | **977** | 906 |
| Other income | | **84** | 77 |
| **Total revenue** | | **20,545** | 19,185 |
| **Expenses** | | | |
| Claims and benefits paid | | **6,278** | 6,562 |
| Claim recoveries from reinsurers | | **(583)** | (590) |
| **Net insurance benefits and claims** | | **5,695** | 5,972 |
| Change in reinsurance assets and liabilities | 33 | **683** | 44 |
| Change in insurance and participating contract liabilities | 33 | **(1,320)** | 1,339 |
| Change in unallocated divisible surplus | 33 | **(40)** | (39) |
| Change in non-participating investment contract liabilities | 33 | **11,892** | 7,718 |
| Expenses under arrangements with reinsurers | 6 | **61** | 656 |
| Administrative expenses | | | |
| Restructuring and corporate transaction expenses | 10 | **75** | 114 |
| Other administrative expenses | 7 | **1,750** | 1,607 |
| **Total administrative expenses** | | **1,825** | 1,721 |
| Change in liability for third party interest in consolidated funds | 32 | **865** | 782 |
| Finance costs | | **108** | 77 |
| **Total expenses** | | **19,769** | 18,270 |
| Share of profit from associates and joint ventures | 17 | **25** | 48 |
| **Profit before tax** | | **801** | 963 |
| Tax expense attributable to policyholders' returns | 11 | **215** | 218 |
| **Profit before tax expense attributable to equity holders' profits** | | **586** | 745 |
| Total tax expense | | **305** | 269 |
| Less: Tax attributable to policyholders' returns | | **(215)** | (218) |
| **Tax expense attributable to equity holders' profits** | 11 | **90** | 51 |
| **Profit for the year** | | **496** | 694 |
| **Attributable to:** | | | |
| Equity holders of Standard Life plc | | **466** | 665 |
| Non-controlling interests | 32 | **30** | 29 |
| | | **496** | 694 |
| **Earnings per share** | | | |
| Basic (pence per share) | 12 | **19.7** | 28.3 |
| Diluted (pence per share) | 12 | **19.6** | 28.1 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income
## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Profit for the year** | | **496** | 694 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement gains/(losses) on defined benefit pension plans | 30 | **101** | (37) |
| Revaluation of owner occupied property | 19 | **68** | 5 |
| Equity movements transferred to unallocated divisible surplus | 31 | **(48)** | (2) |
| Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss | 11 | **(13)** | 102 |
| **Total items that will not be reclassified subsequently to profit or loss** | | **108** | 68 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Fair value losses on cash flow hedges | 31 | **-** | (1) |
| Net investment hedge | 31 | **63** | 18 |
| Fair value losses on available-for-sale financial assets | 31 | **(32)** | - |
| Exchange differences on translating foreign operations | 31 | **(120)** | (65) |
| Equity movements transferred to unallocated divisible surplus | 31 | **4** | 13 |
| Share of other comprehensive income of joint ventures | 17 | **(3)** | - |
| Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss | 11 | **7** | - |
| **Total items that may be reclassified subsequently to profit or loss** | | **(81)** | (35) |
| **Other comprehensive income for the year** | | **27** | 33 |
| **Total comprehensive income for the year** | | **523** | 727 |
| **Attributable to:** | | | |
| Equity holders of Standard Life plc | | **493** | 698 |
| Non-controlling interests | | **30** | 29 |
| | | **523** | 727 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

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

## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Operating profit before tax**[2] | | | |
| UK and Europe | | **380** | 393 |
| Standard Life Investments | | **192** | 145 |
| Canada | | **251** | 353 |
| Asia and Emerging Markets | | **(6)** | 3 |
| Other | | **(66)** | (27) |
| **Operating profit before tax** | 2 | **751** | 867 |
| Adjusted for the following items: | | | |
| Short-term fluctuations in investment return and economic assumption changes | | **(92)** | (29) |
| Restructuring and corporate transaction expenses | | **(73)** | (109) |
| Changes in Canada insurance contract liabilities due to resolution of prior years' tax matters | | **(15)** | - |
| Other | | **(7)** | (4) |
| **Non-operating loss before tax** | 2 | **(187)** | (142) |
| Share of joint ventures' and associates' tax expense | 2 | **(8)** | (9) |
| Profit attributable to non-controlling interests | 2 | **30** | 29 |
| **Profit before tax expense attributable to equity holders' profits** | | **586** | 745 |
| Tax (expense)/credit attributable to: | | | |
| Operating profit | 2 | **(141)** | (124) |
| Non-operating items | 2 | **51** | 73 |
| **Total tax expense attributable to equity holders' profits** | | **(90)** | (51) |
| **Profit for the year** | | **496** | 694 |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

2 The split of operating profit before tax for the year ended 31 December 2013 has been updated to reflect changes in segmental reporting. Refer to Note 2 – Segmental analysis (b) Reportable segments – Group operating profit, revenue and asset information.

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

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position
## As at 31 December 2013

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 15 | **300** | 214 |
| Deferred acquisition costs | 16 | **905** | 904 |
| Investments in associates and joint ventures | 17 | **328** | 328 |
| Investment property | 18 | **8,545** | 8,565 |
| Property, plant and equipment | 19 | **219** | 156 |
| Pension and other post-retirement benefit assets | 37 | **432** | 339 |
| Deferred tax assets | 20 | **121** | 177 |
| Reinsurance assets | 33 | **6,173** | 6,912 |
| Loans | 21 | **2,924** | 3,299 |
| Derivative financial assets | 21 | **1,767** | 2,150 |
| Equity securities and interests in pooled investment funds | 21 | **90,316** | 65,812 |
| Debt securities | 21 | **62,039** | 73,301 |
| Receivables and other financial assets | 21 | **1,042** | 1,717 |
| Other assets | 25 | **269** | 284 |
| Assets held for sale | 26 | **121** | - |
| Cash and cash equivalents | 21 | **9,104** | 9,942 |
| **Total assets** | | **184,605** | 174,100 |
| **Equity** | | | |
| Share capital | 28 | **238** | 236 |
| Shares held by trusts | 29 | **(6)** | (7) |
| Share premium reserve | | **1,110** | 1,110 |
| Retained earnings | 30 | **1,391** | 1,441 |
| Other reserves | 31 | **1,494** | 1,579 |
| **Equity attributable to equity holders of Standard Life plc** | | **4,227** | 4,359 |
| Non-controlling interests | 32 | **333** | 341 |
| **Total equity** | | **4,560** | 4,700 |
| **Liabilities** | | | |
| Non-participating insurance contract liabilities | 33 | **28,312** | 29,050 |
| Non-participating investment contract liabilities | 33 | **97,659** | 84,201 |
| Participating contract liabilities | 33 | **30,447** | 31,618 |
| Reinsurance liabilities | 33 | **316** | 381 |
| Deposits received from reinsurers | 34 | **5,589** | 6,136 |
| Third party interest in consolidated funds | 32 | **11,803** | 12,037 |
| Borrowings | 34 | **95** | 108 |
| Subordinated liabilities | 34 | **1,861** | 1,868 |
| Pension and other post-retirement benefit provisions | 37 | **104** | 130 |
| Deferred income | 38 | **316** | 352 |
| Deferred tax liabilities | 20 | **178** | 43 |
| Current tax liabilities | 20 | **55** | 150 |
| Derivative financial liabilities | 23 | **795** | 853 |
| Other financial liabilities | 34 | **2,367** | 2,323 |
| Other liabilities | 40 | **148** | 150 |
| **Total liabilities** | | **180,045** | 169,400 |
| **Total equity and liabilities** | | **184,605** | 174,100 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 104 to 216 were approved on behalf of the Board of Directors, on 27 February 2014 and signed on its behalf by the following Directors:

**Gerry Grimstone,** Chairman

**David Nish**, Chief Executive

# Consolidated statement of changes in equity
## For the year ended 31 December 2013

| 2013 | Notes | Share capital £m | Shares held by trusts £m | Share premium reserve £m | Retained earnings £m | Other reserves £m | Total equity attributable to equity holders of Standard Life plc £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **1 January** | | **236** | **(7)** | **1,110** | **1,441** | **1,579** | **4,359** | **341** | **4,700** |
| Profit for the year | | - | - | - | 466 | - | 466 | 30 | **496** |
| Other comprehensive income for the year | | - | - | - | 90 | (63) | 27 | - | **27** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **556** | **(63)** | **493** | **30** | **523** |
| Distributions to equity holders | 14 | - | - | - | (636) | (20) | (656) | - | **(656)** |
| Issue of share capital other than in cash | 28 | 2 | - | - | - | - | 2 | - | **2** |
| Reserves credit for employee share-based payment schemes | 31 | - | - | - | - | 32 | 32 | - | **32** |
| Transfer to retained earnings for vested employee share-based payment schemes | 30, 31 | - | - | - | 33 | (33) | - | - | **-** |
| Shares acquired by employee trusts | | - | (11) | - | - | - | (11) | - | **(11)** |
| Shares distributed by employee trusts | | - | 12 | - | (12) | - | - | - | **-** |
| Other movements in non-controlling interests in the year | | - | - | - | - | - | - | (38) | **(38)** |
| Aggregate tax effect of items recognised directly in equity | 11 | - | - | - | 9 | (1) | 8 | - | **8** |
| **31 December** | | **238** | **(6)** | **1,110** | **1,391** | **1,494** | **4,227** | **333** | **4,560** |

| 2012 (restated)[1] | Notes | Share capital £m | Shares held by trusts £m | Share premium reserve £m | Retained earnings £m | Other reserves £m | Total equity attributable to equity holders of Standard Life plc £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **1 January** | | **235** | **(19)** | **1,110** | **1,034** | **1,605** | **3,965** | **358** | **4,323** |
| Profit for the year | | - | - | - | 665 | - | 665 | 29 | **694** |
| Other comprehensive income for the year | | - | - | - | 65 | (32) | 33 | - | **33** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **730** | **(32)** | **698** | **29** | **727** |
| Distributions to equity holders | 14 | - | - | - | (331) | - | (331) | - | **(331)** |
| Issue of share capital other than in cash | 28 | 1 | - | - | - | - | 1 | - | **1** |
| Reserves credit for employee share-based payment schemes | 31 | - | - | - | - | 25 | 25 | - | **25** |
| Transfer to retained earnings for vested employee share-based payment schemes | 30, 31 | - | - | - | 25 | (25) | - | - | **-** |
| Shares acquired by employee trusts | | - | (5) | - | - | - | (5) | - | **(5)** |
| Shares distributed by employee trusts | | - | 17 | - | (17) | - | - | - | **-** |
| Other movements in non-controlling interests in the year | | - | - | - | - | - | - | (46) | **(46)** |
| Aggregate tax effect of items recognised directly in equity | 11 | - | - | - | - | 6 | 6 | - | **6** |
| **31 December** | | **236** | **(7)** | **1,110** | **1,441** | **1,579** | **4,359** | **341** | **4,700** |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows
## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **801** | 963 |
| Change in operating assets | 43 | **(12,992)** | (14,319) |
| Change in operating liabilities | 43 | **9,938** | 11,375 |
| Adjustment for non-cash movements in investment income | | **62** | (6) |
| Change in unallocated divisible surplus | 33 | **(40)** | (39) |
| Non-cash items relating to investing and financing activity | 43 | **134** | 84 |
| Taxation paid | | **(190)** | (284) |
| **Net cash flows from operating activities** | | **(2,287)** | (2,226) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 19 | **(17)** | (18) |
| Acquisition of subsidiaries and unincorporated businesses net of cash acquired | | **(57)** | - |
| Acquisition of investments in associates and joint ventures | | **(19)** | (16) |
| Purchase of intangible assets not acquired through business combinations | | **(47)** | (38) |
| **Net cash flows from investing activities** | | **(140)** | (72) |
| **Cash flows from financing activities** | | | |
| Repayment of other borrowings | | **(37)** | (42) |
| Proceeds from subordinated liabilities | | **-** | 747 |
| Repayment of subordinated liabilities | | **-** | (50) |
| Capital flows from third party interest in consolidated funds and non-controlling interests | | **2,492** | 2,983 |
| Distributions paid to non-controlling interests | | **(92)** | (75) |
| Shares acquired by trusts | | **(11)** | (5) |
| Interest paid | | **(112)** | (77) |
| Ordinary dividends paid | 14 | **(656)** | (331) |
| **Net cash flows from financing activities** | | **1,584** | 3,150 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(843)** | 852 |
| Cash and cash equivalents at the beginning of the year | 27 | **9,898** | 9,125 |
| Effects of exchange rate changes on cash and cash equivalents | | **(20)** | (79) |
| **Cash and cash equivalents at the end of the year** | 27 | **9,035** | 9,898 |
| **Supplemental disclosures on cash flows from operating activities** | | | |
| Interest paid | | **11** | 11 |
| Interest received | | **2,431** | 2,694 |
| Dividends received | | **2,137** | 1,822 |
| Rental income received on investment properties | | **586** | 595 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

The Notes on pages 127 to 216 are an integral part of these consolidated financial statements.

# Group accounting policies

## (a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment properties, owner occupied property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these consolidated financial statements.

### (a)(i) New standards, interpretations and amendments to existing standards that have been adopted by the Group

The Group has adopted the following new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and amendments to existing standards which are effective by EU endorsement for annual periods beginning on or after 1 January 2013 unless otherwise stated:

**IFRS 13 *Fair Value Measurement***
IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. The standard has been applied prospectively and also requires specific disclosures on fair values. All fair values reported in the consolidated financial statements have been determined in accordance with IFRS 13. Additional disclosures have been provided in Note 42 – Fair value of assets and liabilities.

**Amendment to IAS 1 *Presentation of Financial Instruments* (effective for annual periods beginning on or after 1 July 2012)**
The amendment to IAS 1 revised the way other comprehensive income is presented. As a result items that can subsequently be reclassified to profit or loss are presented separately from items that will never be reclassified to profit or loss in the consolidated statement of comprehensive income. The tax associated with each category is also shown separately. The amendment has affected presentation only.

**Amendment to IAS 19 *Employee Benefits***
The amendment to IAS 19 revises requirements for pensions and other post-retirement benefits, termination benefits and other employee benefits. The main impact on the Group's consolidated financial statements is that expected returns on plan assets and the unwind of the discount rate on the defined benefit obligation are no longer separately recognised in profit or loss. Instead, interest on the net defined benefit asset or liability is recognised in profit or loss, calculated using the discount rate used to measure the net pension obligation or asset. Additionally, the amended standard no longer permits entities to defer past service costs. Past service costs must be recognised immediately in profit or loss. The amendment has been applied retrospectively and the impact is described in Note 37 – Pension and other post-retirement benefit provisions.

Enhanced disclosures are also required by the amendments which are presented in Note 37 – Pension and other post-retirement benefit provisions.

All other revisions in the amendment have had no impact on the Group's consolidated financial statements.

**Amendment to IFRS 7 *Financial Instruments: Disclosures***
The amendment to IFRS 7 requires additional disclosures for financial assets and liabilities which are offset in the financial statements or are subject to enforceable master netting agreements or similar arrangements. The additional disclosures are presented in Note 41 – Risk management.

Additionally the Group has adopted the following amendments to existing standards which are effective by EU endorsement from 1 January 2013 and management considers that the implementation of these amendments has had no significant impact on the Group's consolidated financial statements:

- Amendment to IAS 12 *Income Taxes*: *Deferred Tax*
- *Annual Improvements to IFRS 2009-2011.*

### (a)(ii) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2014. The Group has not early adopted the standards, amendments and interpretations described below:

#### Consolidation standards

**IFRS 10 *Consolidated Financial Statements***
IFRS 10 introduces a single consolidation model to be applied to all entities and replaces previous requirements on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee (SIC) 12 *Consolidation – Special Purpose Entities*. IFRS 10 defines control, determines how to identify if an investor controls an investee and requires an investor to consolidate entities it controls under the new standard. IFRS 10 identifies three elements, all of which must be present for an investor to control an investee, which are as follows:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use that power over the investee to affect the amount of the returns.

**IFRS 11 *Joint Arrangements***
IFRS 11 defines and establishes accounting principles for joint arrangements and replaces previous requirements in IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* The standard distinguishes between two types of joint arrangements – Joint Ventures and Joint Operations – based on how rights and obligations are shared by the parties to the arrangement. Joint operators should recognise their share of the assets, liabilities, revenue and expenses of the interest in accordance with applicable IFRSs. Joint venturers should apply the equity method of accounting prescribed in IAS 28 *Investments in Associates and Joint Ventures 2011* to account for their interest.

**IFRS 12 *Disclosure of Interests in Other Entities***
IFRS 12 is a single disclosure standard which applies to all entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 requires entities to disclose information to enable users of the financial statements to evaluate the nature, risks and financial effects associated with interests in other entities. The required disclosures are grouped into the following main categories:

- Significant judgements and assumptions
- Interests in subsidiaries
- Interests in joint arrangements and associates
- Interests in unconsolidated structured entities.

**IAS 27 *Separate Financial Statements* (2011)**
IAS 27 is revised to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10.

**IAS 28 *Investments in Associates and Joint Ventures* (2011)**
IAS 28 is revised to include joint ventures as well as associates. Joint ventures are required to be equity accounted following the issue of IFRS 11.

**Adoption of the consolidation standards**
IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) as amended by *IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements*, *Joint Arrangements and Disclosure of Interests in Other Entities: transition guidance* and *IFRS 10, IFRS 12 and IAS 27: Investment Entities* must be adopted concurrently. The adoption of IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) is expected to have a significant impact on the recognition, measurement and presentation of interests in other entities in the consolidated financial statements of the Group. Additional disclosures will also be presented. The new standards and amendments have been endorsed by the EU for adoption for annual periods beginning on or after 1 January 2014.

#### Other

**Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014)**
The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The adoption of the amendment to IAS 32 is not expected to have a significant impact on the consolidated financial statements of the Group.

**Amendment to IAS 36 *Impairment of Assets* (effective for annual periods beginning on or after 1 January 2014)**
The amendment to IAS 36 clarifies that the recoverable amount for a cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated, is only required to be disclosed when an impairment loss has been recognised or reversed. The adoption of the amendment to IAS 36 is not expected to have a significant impact on the consolidated financial statements of the Group.

# Group accounting policies *continued*

## (a)(ii) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group *continued*

**International Financial Reporting Interpretations Committee (IFRIC) Interpretation 21 *Levies* (effective for annual periods beginning on or after 1 January 2014)**
The interpretation clarifies that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. The adoption of the interpretation is not expected to have a significant impact on the consolidated financial statements of the Group. The interpretation has not yet been endorsed by the EU.

**Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 January 2014)**
The amendments to IAS 39 provide relief in certain circumstances from having to discontinue hedge accounting when a derivatives contract is novated as a result of a change in law or regulation and the new counterparty is a clearing counterparty. The adoption of the amendments to IAS 39 are not expected to have a significant impact on the consolidated financial statements of the Group.

**Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after 1 January 2014)**
The amendments clarify the requirements for attributing employee and third party contributions to periods of service and recognising employee and third party contributions in certain situations. The adoption of the amendment is not expected to have an impact on the consolidated financial statements of the Group. The amendment has not yet been endorsed by the EU.

**IFRS 9 *Financial Instruments and subsequent amendments (amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition Disclosures* and *Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (no stated mandatory effective date)***
IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). Financial liabilities may be designated as at FVTPL. The amortised cost measurement basis is applied to most other financial liabilities. For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income.

*Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39* removes and replaces the current requirements for hedge effectiveness in IAS 39 and therefore the requirements for the application of hedge accounting. The new requirements change what qualifies as a hedged item and some of the restrictions on the use of some hedging instruments. The accounting and presentation requirements remain largely unchanged. However, entities will now be required to reclassify the gains and losses accumulated in equity on a cash flow hedge to the carrying amount of a non-financial hedged item when it is initially recognised. Additional disclosures on hedge accounting are also required.

The mandatory effective date for IFRS 9 has been removed however the standard as amended permits entities to adopt certain elements early without the need to adopt the entire standard. The standard including subsequent amendments has not yet been endorsed by the EU.

The adoption of IFRS 9 is expected to have a significant impact on the measurement and presentation of financial instruments and related balances in the consolidated financial statements of the Group.

**Annual improvements 2010-2012 cycle and Annual improvements 2011-2013 cycle (effective for annual periods beginning on or after 1 July 2014)**
These annual improvement cycles make 10 minor amendments to existing standards. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements of the Group. The annual improvement amendments have not yet been endorsed by the EU.

### (a)(iii) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to make estimates and assumptions and exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

| Financial statement area | Critical accounting judgements, estimates or assumptions | Related accounting policies and notes |
|---|---|---|
| Classification of insurance, reinsurance and investment contracts | Assessment of the significance of insurance risk transferred | (f) |
| Classification of financial instruments | Classification of asset as either held for trading, available-for-sale, FVTPL | g(iii), q, and Notes 4 and 21 |
| Participating contracts, non-participating insurance contracts and reinsurance contracts | Determination of the valuation interest rates<br>Determination of longevity and mortality assumptions<br>Determination of persistency assumptions<br>Determination of expense assumptions | (u), (v), (w), (x) and Notes 3 and 33 |
| Deferred acquisition costs on insurance and investment contracts | Determination of the acquisition costs to be deferred on insurance contracts and investment contracts<br>Determination of the amortisation pattern to be applied to deferred acquisition costs | (k) and Note 16 |
| Financial instruments at fair value through profit or loss | Determination of the fair value of complex financial instruments | (q) and Note 42 |
| Investment property and owner occupied property | Determination of the fair value of investment property and owner occupied property | (l), (m) and Notes 18 and 19 and 42 |
| Defined benefit pension plans | Determination of assumptions for mortality, discount rate, inflation and the rate of increase in salaries and pensions<br>Assessment of the recoverability of any surplus | (aa) and Note 37 |
| Assets whose carrying value is subject to impairment testing | Determination of the recoverable amount | (i),(j), (k), (o),(p) and Notes 15, 16, 17, 19, 22 and 41 |
| Business combinations | Identification and valuation of identifiable intangible assets arising from business combinations | c(i), j(ii) and Note 1 |
| Intangible assets | Determination of useful lives of intangible assets | j(ii) and Note 15 |

## (b) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Associate and joint venture undertakings are accounted for either using the equity method from the date that significant influence or joint control, respectively, commences until the date this ceases, or at fair value through profit or loss.

### (b)(i) Subsidiaries

Subsidiaries are all entities, including special purpose entities, over which the Group has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Where the Group owns more than 50% of an investment vehicle, such as open-ended investment companies, unit trusts and limited partnerships, and it is consolidated, the interests of parties other than the Group in such vehicles are classified as liabilities. These are recognised in the third party interest in consolidated funds line on the consolidated statement of financial position and any movements are recognised in the consolidated income statement. The interests of parties other than the Group in all other types of entities are recorded as non-controlling interests in equity.

### (b)(ii) Associates and joint ventures

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity, which is subject to joint control arising from contractual agreement.

# Group accounting policies *continued*

## (b) Basis of consolidation *continued*

### (b)(ii) Associates and joint ventures *continued*

Where the Group has a significant holding in an investment vehicle that meets the definition of an associate or joint venture and that investment in an associate or joint venture backs policyholder liabilities, including the unallocated divisible surplus, the scope exemption under IAS 28 *Investments in Associates* is applied and that investment is designated as at fair value through profit or loss (FVTPL) in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

All other associates and joint ventures are accounted for using the equity method and, in this case, the Group's investment in associates and joint ventures includes goodwill, net of any impairment loss, identified on acquisition.

Investments in associates and joint ventures that are accounted for using the equity method are initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate and joint ventures. The Group's share of post-acquisition profit or loss of its associates and joint ventures is recognised in the consolidated income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Where the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations in connection with or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## (c) Business combinations and Group reconstructions

### (c)(i) Business combinations

The Group uses the acquisition method of accounting to account for business combinations. At the acquisition date the assets acquired and liabilities assumed as part of the business combinations are identified and assessed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Only assets acquired and liabilities assumed as part of the exchange in the business combination transaction are considered in applying the acquisition method of accounting.

The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. The consideration transferred in a business combination is measured at fair value at the acquisition date. Any obligation for contingent consideration arising from an acquisition is recognised at fair value at the acquisition date on the consolidated statement of financial position and subsequent changes in fair value are recorded in the consolidated income statement. Acquisition-related costs are expensed when incurred.

### (c)(ii) Group reconstructions

The Group uses merger accounting principles to account for group reconstructions which are not business combinations within the scope of IFRS 3 *Business Combinations* (revised). Under the principles of merger accounting, assets and liabilities transferred to a new entity are recorded in the new entity at the carrying value they were measured at by the transferor. No goodwill is recognised as a result of such transactions

## (d) Foreign currency translation

The consolidated financial statements are presented in millions pounds Sterling.

The statements of financial position of Group entities that have a different functional currency than the Group's presentation currency are translated into the presentation currency at the year end exchange rate and their income statements and cash flows are translated at average exchange rates for the year. All resulting exchange differences arising are recognised in the foreign currency translation reserve in equity. Where the unallocated divisible surplus changes as a result of such exchange differences which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the consolidated income statement but is recognised in equity (refer also to (h)(v)).

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the relevant line in the consolidated income statement.

Translation differences on non-monetary items, such as equity securities held at fair value through profit or loss, are reported as part of the fair value gain or loss within net investment return in the consolidated income statement. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line in the consolidated income statement.

## (e) Segmental reporting

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

## (f) Classification of insurance, reinsurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts. A contract is classified as insurance only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred, excluding scenarios that lack commercial substance. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. When a policyholder exercises an option within an investment contract to utilise withdrawal proceeds from the investment contract to secure future benefits which contain significant insurance risk, the related investment contract liability is derecognised and an insurance contract liability is recognised. The withdrawal proceeds which are used to secure the insurance contract are recognised as premium income in accordance with accounting policy (g)(ii). Life and pensions business contracts that are not considered to be insurance contracts are classified as investment contracts.

The Group has written insurance and investment contracts which contain discretionary participating features (e.g. with profits business). These contracts provide a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of with profits funds and their amount and timing is at the discretion of the Group. These contracts are referred to as participating contracts.

Generally, life and pensions business product classes are sufficiently homogeneous to permit a single classification at the level of the product class. However, in some cases, a product class may contain individual contracts that fall across multiple classifications (hybrid contracts). For certain significant hybrid contracts the product class is separated into the insurance element, a non-participating investment element and a participating investment element, so that each element is accounted for separately.

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present, they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as a reinsurance contracts.

## (g) Revenue recognition

### (g)(i) Deposit accounting for non-participating investment contracts

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the consolidated income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (f).

The fee income associated with non-participating investment contracts is dealt with under policy (g)(iv).

### (g)(ii) Premiums

Premiums received on insurance contracts and participating investment contracts are recognised as revenue when due for payment, except for unit linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

### (g)(iii) Net investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as at fair value through profit or loss, including investment income received (such as interest payments), are recognised in the consolidated income statement in the period in which they occur.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the consolidated income statement.

For debt securities classified as available-for-sale (AFS), interest income recognised in the consolidated income statement is calculated using the effective interest rate (EIR) method.

Unrealised gains and losses on AFS financial assets are recognised in other comprehensive income unless an impairment loss is recognised. On disposal any accumulated gain or loss previously recognised in other comprehensive income is recycled to the consolidated income statement.

For loans measured at amortised cost, interest income recognised in the consolidated income statement is calculated using the EIR method.

Dividend income is recognised in the consolidated income statement when the right to receive payment is established.

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

# Group accounting policies *continued*

## (g) Revenue recognition *continued*

### (g)(iv) Fee and commission income

All fees related to unit linked non-participating investment contracts are deemed to be associated with the provision of investment management services. Fees related to the provision of investment management services and administration services are recognised as the services are provided. Front-end fees, which are charged at the inception of service contracts, are deferred as a liability and recognised over the expected life of the contract. Ongoing fees that are charged periodically, either directly or by making a deduction from invested funds, are recognised as received, which corresponds to when the services are provided.

Commissions received or receivable are recognised as revenue on the commencement or renewal date of the related policies. However, when it is probable that the Group will be required to render further services during the life of the policy, the commission is deferred as a liability and is recognised as the services are provided.

## (h) Expense recognition

### (h)(i) Deposit accounting for non-participating investment contracts

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the consolidated income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (f) above.

### (h)(ii) Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the consolidated income statement.

Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

### (h)(iii) Change in insurance and participating investment contract liabilities

The change in insurance and participating investment contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the consolidated income statement. This also includes the movement in unallocated divisible surplus (UDS) in the period. However, where movements in assets and liabilities which are attributable to participating policyholders are taken directly to equity, the change in UDS arising from these movements is not recognised in the consolidated income statement as it is also recognised in equity.

### (h)(iv) Change in investment contract liabilities

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the income statement as changes in investment contract liabilities.

### (h)(v) Expenses under arrangements with reinsurers

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised as they are incurred in the consolidated income statement as expenses under arrangements with reinsurers.

## (i) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each reporting date. An impairment loss is recognised in the consolidated income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill, which have been impaired are reviewed for possible reversal of impairment losses at each reporting date.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, or group of units, to which the asset belongs.

## (j) Goodwill and intangible assets

### (j)(i) Goodwill

In a business combination, goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held interest, over the fair value of the Group's share of the identifiable assets acquired and the liabilities and contingent liabilities assumed at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash generating units or groups of cash generating units that are expected to benefit from the business combination. The carrying amount of goodwill for each cash generating unit or group of cash generating unit is reviewed when changes in circumstances or events indicate that there may be uncertainty over its carrying value, and at least annually.

Goodwill is carried at cost less any accumulated impairment losses and is included in intangible assets.

### (j)(ii) Intangible assets

Intangible assets are recognised on the consolidated statement of financial position if it is probable that the relevant future economic benefits attributable to the asset will flow to the Group and they can be measured reliably and are either identified as separable (i.e. capable of being separated from the entity and sold, transferred, rented, or exchanged) or they arise from contractual or other legal rights, regardless of whether those rights are transferable or separable.

Intangible assets are recognised at cost. For intangible assets acquired in a business combination the cost is the fair value at the acquisition date.

Intangible assets are carried at initial cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful life of the intangible asset. The estimated useful life of the Group's classes of intangible assets is as follows:

- Intangible assets acquired through business combinations – between six and seventeen years
- Internally developed software – between two and ten years
- Other acquired intangible assets – between two and six years.

Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (i). Amortisation commences at the time from which an intangible asset is available for use.

## (k) Deferred acquisition costs

### (k)(i) UK and Europe - insurance and participating investment contracts

Acquisition costs incurred in issuing insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that is subject to the Prudential Regulation Authority (PRA) realistic capital regime. For other participating investment contracts, incremental costs directly attributable to the issue of the contracts are deferred. For other insurance contracts, acquisition costs, which include both incremental acquisition costs and other indirect costs of acquiring and processing new business, are deferred.

Deferred acquisition costs are amortised in proportion to projected margins over the period the relevant contracts are expected to remain in force. After initial recognition, deferred acquisition costs are reviewed by category of business and written off to the extent that they are no longer considered to be recoverable.

### (k)(ii) Canada and Asia and Emerging markets - insurance contracts

The Group's policy for acquisition costs incurred on insurance contracts issued by overseas subsidiaries is to apply the policy used in the issuing entity's local statutory or regulatory reporting or, where local reporting did not explicitly or implicitly defer acquisition costs at the time the overseas subsidiary was first consolidated, to adjust those policies to apply a policy similar to that described in (k)(i) for non-participating insurance contracts.

Implicit allowance is made for deferred acquisition costs in the Canadian Asset Liability Method (CALM). Therefore, no explicit deferred acquisition costs have been recognised separately for business written by the Canadian subsidiaries.

### (k)(iii) Non-participating investment contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services sold with unit linked investment contracts are deferred. Where such costs are borne by a with profits fund that is subject to the PRA's realistic capital regime, deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

Trail or renewal commission on non-participating investment contracts where the Group does not have an unconditional legal right to avoid payment, is deferred at inception of the contract and an offsetting liability for contingent commission is established.

## (l) Investment property

Property held for long-term rental yields or investment gain that is not occupied by the Group and property being constructed or developed for future use as investment property are classified as investment property.

Investment property is initially recognised at cost, including any directly attributable transaction costs. Subsequently investment property is measured at fair value. Fair value is determined without any deduction for transaction costs that may be incurred on sale or other disposal. Gains or losses arising from changes in fair value are recognised in the consolidated income statement. Investment property is not depreciated.

# Group accounting policies *continued*

## (l) Investment property *continued*

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the companies in the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income and are also spread over the term of the lease.

## (m) Property, plant and equipment

Owner occupied property consists of land and buildings owned and occupied by the Group. Owner occupied property is recognised initially at cost and subsequently at fair value at the date of revaluation less any subsequent accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset into working condition for its intended use. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Prior to the demutualisation of The Standard Life Assurance Company (SLAC), increases in the fair value of owner occupied property were recognised in the unallocated divisible surplus and following the demutualisation of SLAC, all fair value increases are recognised in the revaluation reserve in equity. Where the unallocated divisible surplus changes as a result of fair value increases which are attributable to participating policyholders, this change in the unallocated divisible surplus is not recognised in the consolidated income statement but through equity. Decreases in the fair value of owner occupied property that offset previous increases in the same asset were recognised in the unallocated divisible surplus prior to the demutualisation of SLAC and are recognised in the revaluation of owner occupied property reserve in equity post the demutualisation of SLAC. All other decreases are charged to the consolidated income statement for the period.

Owner occupied property is depreciated on a straight-line basis over their estimated useful lives, generally between 30 and 50 years. The depreciable amount of an asset is determined by the difference between the fair value and the residual value. The residual value is the amount that would be received on disposal if the asset was already at the age and condition expected at the end of its useful life.

Equipment is stated at historical cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation on equipment is charged to the consolidated income statement on a straight-line basis over their estimated useful lives of between two and 15 years. The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

## (n) Income tax

The income tax expense is based on the taxable profits for the year, after adjustments in respect of prior years.

Deferred tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries and associates give rise to deferred tax only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the timing of the reversal of that difference cannot be controlled. Deferred tax is provided on unremitted earnings of subsidiaries to the extent that the temporary difference created is expected to reverse in the foreseeable future and the Group is not able to control the timing of the reversal.

Current tax and deferred tax is recognised in the consolidated income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly in equity respectively.

The income tax expense is determined using rates enacted or substantively enacted at the reporting date.

The Group's long-term businesses in the UK and Ireland are subject to tax on policyholders' investment returns on certain products and tax on equity holder profits. Policyholder tax is accounted for as an income tax and is included within the total income tax expense. Total income tax expense is analysed between equity holder tax and policyholder tax in the consolidated income statement. Equity holder tax comprises current and deferred tax on profits attributable to equity holders. Policyholder tax comprises current and deferred tax on investment returns attributable to policyholders.

## (o) Reinsurance assets and reinsurance liabilities

Reinsurance assets and reinsurance liabilities arise under contracts that are classified as reinsurance contracts (refer to policy (f)).

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy benefits and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in Receivables and other financial assets and Other financial liabilities respectively.

Reinsurance assets and reinsurance liabilities are offset and the net amount reported on the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

If a reinsurance asset is considered to be impaired, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement.

## (p) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss (FVTPL). Financial assets classified as loans include loans secured by mortgages and loans secured on policies.

Loans are initially measured at fair value plus directly attributable transaction costs. Subsequently, other than those loans designated as at FVTPL, they are measured at amortised cost, using the effective interest rate (EIR) method, less any impairment losses. Revenue from financial assets classified as loans are recognised in the consolidated income statement on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan’s current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

If there is no evidence of impairment on an individual basis, a collective impairment review is undertaken whereby the assets are grouped together, on the basis of similar credit risk characteristics, in order to calculate a collective impairment loss. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Loans which are subject to collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the renegotiated terms have been collected. Individually significant loans whose terms have been renegotiated are subject to on-going review to determine whether they remain impaired or past due.

## (q) Equity securities, debt securities and derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition.

All of the Group’s equity securities and certain debt securities are designated as at fair value through profit or loss (FVTPL) as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis so as to maximise returns either for policyholders or equity holders. All other debt securities are designated as available-for-sale (AFS).

All derivative instruments are classified as held for trading (HFT) except those designated as part of a hedging relationship. Hedge accounting policies are described in (q)(i).

Equity securities, debt securities and derivatives are recognised at fair value on the trade date of the transaction. In the case of derivatives, where no initial premium is paid or received, the initial measurement value is nil. For instruments classified as HFT or designated as at FVTPL, directly attributable transaction costs are not included in the initial measurement value but are recognised in the consolidated income statement. AFS debt securities are initially recognised at fair value plus directly related transaction costs.

Where a valuation technique is used to establish the fair value of a financial instrument, a difference could arise between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation technique is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out.

Instruments classified as HFT or as at FVTPL are measured at fair value with changes in fair value recognised in the consolidated income statement.

Debt securities designated as AFS are measured at fair value. For these instruments interest calculated using the effective interest method is recognised in the consolidated income statement. Other changes in fair value and any related tax are recognised in other comprehensive income and recorded in a separate reserve within equity until disposal or impairment, when the cumulative gain or loss is recognised in the consolidated income statement with a corresponding movement through other comprehensive income. An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows.

# Group accounting policies *continued*

## (q) Equity securities, debt securities and derivatives *continued*

### (q)(i) Hedge accounting

A hedge relationship will qualify for hedge accounting by the Group if, and only if, the following conditions are met:

- Formal hedging documentation at inception of the hedge is completed, detailing the hedging instrument, hedged item, risk management objective, strategy, effectiveness testing methodology and hedge relationship
- The hedge relationship is expected to be highly effective at inception in achieving offsetting changes in fair value or cash flow attributable to the hedged risk
- The effectiveness of the hedge can be reliably measured and the hedge is assessed for effectiveness regularly during the reporting period for which the hedge was designated to demonstrate that it is has been highly effective.

The Group discontinues hedge accounting in the following circumstances:

- It is evident from effectiveness tests that the hedge is not, or ceased to be, highly effective
- The hedging instrument expires, or is sold, terminated or exercised, or
- The hedged item matures or is sold or repaid.

**Cash flow hedge relationships**
A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the consolidated income statement. A cash flow hedge is therefore used to hedge exposure to variability in cash flows such as those on variable rate assets and liabilities. Where a derivative is designated and qualifies as a cash flow hedge, the effective part of any gain or loss resulting from the change in fair value of the derivative is recognised directly in the cash flow hedges reserve in equity. Any ineffectiveness is recognised immediately in the consolidated income statement. Amounts that have been recognised directly in the cash flow hedge reserve are recognised in the consolidated income statement in the same period or periods during which the hedged item affects the profit or loss.

If a cash flow hedge no longer meets the relevant hedging criteria, hedge accounting is discontinued and no further changes in the fair value of the derivative are recognised in the cash flow hedges reserve. Amounts that have already been recognised directly in the cash flow hedges reserve are recognised in the consolidated income statement in the same period or periods during which the hedged item affects the profit or loss.

Where the forecast transaction is no longer expected to occur or the asset or liability is derecognised, the associated accumulated amounts in the cash flow hedges reserve are recognised immediately in the consolidated income statement.

**Net investment hedge relationships**
A hedge of net investments in foreign operations is the hedge against the effects of changes in exchange rates in the net investment in a foreign operation, that is, the hedge of the translation gains or losses that are recognised in equity.

A hedge of net investments in foreign operations is accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. In the event of disposal of the foreign operation, gains and losses accumulated in equity are included in the consolidated income statement.

If the net investment hedge ceases to meet the relevant hedging criteria, hedge accounting is discontinued and gains and losses accumulated in equity remain in equity until the disposal of the net investment, at which point the amounts are included in the consolidated income statement.

### (q)(ii) Embedded derivatives

Options, guarantees and other derivatives embedded in a host contract are separated and recognised as a derivative unless they are either considered closely related to the host contract, meet the definition of an insurance contract or if the host contract itself is measured at fair value with changes in fair value recognised in income.

## (r) Financial guarantee contracts

The Group recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Group initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the Group measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and the best estimate of the expenditure required to meet the obligations under the contract at the reporting date, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

## (s) Cash and cash equivalents

Cash and cash equivalents include cash in hand, money held at call and short notice with banks and any highly liquid investments with less than three months to maturity from the date of acquisition. Cash and cash equivalents are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost. For the purposes of the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in borrowings on the consolidated statement of financial position.

## (t) Equity

### (t)(i) Share capital and shares held by trusts

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium reserve. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium reserve as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are excluded from the consideration transferred.

If the Company or its subsidiaries purchase any equity instruments of the Company, the consideration paid is treated as a deduction from total equity. Any corresponding obligation to deliver a fixed number of the Company's equity instruments is offset within the shares held by trusts balance in equity. Where such shares are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are treated as a realised profit in equity. If the proceeds exceed the purchase price, the excess over the purchase price is transferred to the share premium reserve.

### (t)(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and nominal value is transferred to a 'merger reserve'.

## (u) Insurance and investment contract liabilities

For insurance contracts and participating investment contracts, IFRS 4 *Insurance Contracts* permits the continued application, for measurement purposes, of previously applied Generally Accepted Accounting Principles (GAAP), except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. The Group therefore adopts UK GAAP, including the requirements of FRS 27 *Life Assurance* in relation to its UK-regulated with profits funds, for the measurement of its insurance and participating investment contract liabilities. As permitted under UK GAAP, the Group adopts local regulatory valuation methods, adjusted for consistency with asset measurement policies, for the measurement of liabilities under insurance contracts and participating investment contracts issued by overseas subsidiaries.

Further details on these policies and the policies for the measurement of non-participating investment contracts are given in (v), (w) and (x).

## (v) Participating contract liabilities and non-participating insurance contracts

### (v)(i) Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities
- Participating investment contract liabilities
- Unallocated divisible surplus
- Present value of future profits on non-participating contracts, which is treated as a deduction from gross participating contract liabilities.

The policy for measuring each component is noted below.

#### UK and Europe

Participating contract liabilities arising under contracts issued by a with profits fund falling within the scope of the Prudential Regulation Authority (PRA) realistic capital regime are measured on the PRA realistic basis. Under this approach, the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

- With profits benefits reserves (WPBR) for the fund as determined under the PRA realistic basis, plus
- Future policy related liabilities (FPRL) for the fund as determined under the PRA realistic basis, less
- Any amounts due to equity holders included in FPRL, less
- The portion of future profits on non-participating contracts included in FPRL not due to equity holders, where this portion can be separately identified.

The WPBR is primarily based on the retrospective calculation of accumulated assets shares. The aggregate value of individual policy asset shares reflects the actual premium, expense and charge history of each policy. The net investment return credited to the asset shares is consistent with the return achieved on the assets notionally backing participating business. Any mortality deductions are based on published mortality tables adjusted where necessary for experience variations. For those asset shares on an expense basis, the allowance for expenses attributed to the asset share is, as far as practical, the appropriate share of the actual expenses incurred or charged to the fund. For those on a charges basis, the allowance is consistent with the charges for an equivalent unit linked policy. The FPRL comprises other components such as a market consistent stochastic valuation of the cost of options and guarantees.

# Group accounting policies *continued*

## (v) Participating contract liabilities and non-participating insurance contracts *continued*

### (v)(i) Participating contract liabilities *continued*

The Group's principal with profits fund is the Heritage With Profits Fund (HWPF) operated by Standard Life Assurance Limited (SLAL). The participating contracts held in the HWPF were issued by a with profits fund falling within the scope of the PRA realistic capital regime. Under the Scheme of Demutualisation (the Scheme), the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that SLAL's board is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. This planned enhancement to the benefits under with profits contracts held in the HWPF is included in the FPRL under the PRA realistic basis, resulting in a realistic surplus of nil. Applying the policy noted above, this planned enhancement is therefore included within the measurement of participating contract liabilities.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund (SHF) or the Proprietary Business Fund (PBF) of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme, such transfers are subject to certain constraints in order to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business in SLAL.

Under the PRA realistic basis, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in the FPRL (as a reduction in FPRL where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to FPRL. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above:

- The value of participating insurance and participating investment contract liabilities is reduced by future expected (net positive) cash flows arising on participating contracts
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to adjust the value of participating insurance and participating investment contract liabilities.

Some participating contracts are issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within SLAL falling within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. Any liability for insurance features retained in the non-participating fund is measured using the gross premium method applicable to non-participating contracts (see policy (v)(ii)).

#### Canada

The Group's policy for measuring liabilities for participating contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting. Therefore, for participating contracts issued by The Standard Life Assurance Company of Canada (SLCC), the Canadian regulatory valuation technique is applied, under which for most participating business the value of participating policy liabilities is set equal to the value of the assets set aside in a separate fund for this business, unless this is insufficient to cover guaranteed benefits, in which case a higher liability is recognised.

#### Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the Group's with profits funds. This amount is recognised as a liability as it is not considered to be allocated to shareholders due to uncertainty regarding transfers from these funds to equity holders.

In relation to the HWPF, amounts are considered to be allocated to equity holders when they emerge as recourse cash flows within the HWPF. The Scheme permits the HWPF to enter into loans, the repayment of which is contingent on the emergence of recourse cash flows (contingent loan agreement). The Scheme requires that an amount equal to the loan proceeds received on a contingent loan agreement (securitisation receipt) is transferred to the SHF or PBF of SLAL. When the HWPF enters into a contingent loan agreement and the securitisation receipt transferred to the SHF or PBF is in the form of an instrument whose cash flows are contingent on the emergence of recourse cash flows within the HWPF, the obligation to transfer, and the subsequent transfer of, the securitisation receipt is not treated as an allocation to equity holders from the HWPF. In this case the obligation of the HWPF to repay the contingent loan agreement, in excess of repayments reflecting emerged recourse cash flows, is not considered to be a recognised liability of the HWPF in the determination of the UDS.

As a result of the policies for measuring the HWPF's assets and all its other recognised liabilities:

- The UDS of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future recourse cash flows on non-participating contracts), the value of future additional expenses to be charged on German branch business and the effect of any measurement differences between the Realistic Balance Sheet value and IFRS accounting policy value of all assets and all liabilities other than participating contract liabilities recognised in the HWPF

- The recourse cash flows are recognised as they emerge as an addition to equity holders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the German branch business, they are recognised as an addition to equity holders' profits.

### Present value of future profits (PVFP) on non-participating contracts held in a with profits fund

For with profits funds falling within the scope of the PRA's realistic capital regime, an amount is recognised for the PVFP on non-participating contracts where the determination of the realistic value of liabilities for with profits contracts in that with profits fund takes account of this value directly or indirectly. The amount is recognised as a deduction from liabilities. Where this amount can be apportioned between an amount recognised in the realistic value of with profits contract liabilities and an amount recognised in UDS, the apportioned amounts are reflected in the measurement of participating contract liabilities and UDS respectively. Otherwise it is recognised as a separate amount reflected in liabilities comprising participating contract liabilities and UDS.

### (v)(ii) Non-participating insurance contract liabilities

### UK and Europe

The liability for annuity in payment contracts is measured by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from yields on the underlying assets.

Other non-participating insurance contracts are measured using the gross premium method. In general terms, a gross premium valuation basis is one in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims and costs of maintaining contracts. Cash flows are discounted at the valuation rate of interest determined in accordance with Prudential Regulation Authority (PRA) requirements.

### Canada and Asia and Emerging Markets

The Group's policy for measuring liabilities for non-participating insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting.

For non-participating insurance contracts issued by SLCC, the Canadian regulatory valuation technique is applied. Under Canadian regulations, liabilities are determined according to the Canadian Asset Liability Method (CALM). Assets and liabilities are projected under a number of different economic scenarios. These scenarios include the current yield curve as at the valuation date and a number of various rising and falling interest rate environments. Under each scenario, the assets required to support the liabilities are the value of assets which will achieve zero surplus at the end of the projection period. In this valuation allowance is made for income taxes arising from differences between tax and accounting bases that are policy related. Under CALM the deferred taxes recognised under IAS12 relating directly to policy related items included in the computation of liabilities are eliminated in the liabilities and discounted deferred taxes are added. The liability is set equal to the greatest value of the required assets.

Liabilities for non-participating insurance contracts issued by subsidiaries in Ireland and Hong Kong are measured using local reporting valuation techniques.

## (w) Non-participating investment contract liabilities

Unit linked non-participating investment contract liabilities are designated as at FVTPL as they are implicitly managed on a fair value basis as their value is directly linked to the market value of the underlying portfolio of assets.

Liabilities for non-linked investment contracts are measured at amortised cost. Amortised cost is calculated as the fair value of contributions received at the date of initial recognition, less the effect of payments such as transaction costs, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the EIR.

## (x) Liability adequacy test

The Group applies a liability adequacy test at each reporting date to ensure that the insurance and participating contract liabilities (less related deferred acquisition costs) are adequate in the light of the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows), that deficiency is provided for in full. The deficiency is recognised in the consolidated income statement.

## (y) Borrowings

Borrowings include bank overdrafts and are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost with any difference between the carrying value and redemption value being recognised in the consolidated income statement over the period of the borrowings on an effective interest rate basis.

## (z) Subordinated liabilities

Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the consolidated income statement over the relevant term of the instrument using the effective interest rate. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

# Group accounting policies *continued*

## (aa) Pension costs and other post-retirement benefits

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the relevant Group companies, determined by periodic actuarial calculations.

For defined benefit plans, the liability recognised on the consolidated statement of financial position is the present value of the defined benefit obligation less the fair value of plan assets. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if the Group considers that it has an unconditional right to a refund. The amount of surplus recognised will be limited by tax and expenses. Plan assets exclude any insurance contracts or non-transferable financial instruments issued by the Group. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method whereby estimated future cash outflows are discounted using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid of similar term as the pension liability. Where appropriate these interest rates are adjusted to take account of abnormal market conditions.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the asset ceiling and returns on plan assets (other than amounts included in net interest) are recognised in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in staff costs and other employee–related costs when they are due.

## (bb) Deferred income

Front-end fees on service contracts, including investment management service contracts, are deferred as a liability and amortised on a straight-line basis to the consolidated income statement over the period services are provided.

## (cc) Provisions, contingent liabilities and contingent assets

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are disclosed if the future obligation is less than probable but greater than remote or if the obligation is probable but the amount cannot be reliably estimated.

Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

## (dd) Non-current assets held for sale

Assets and liabilities which have been classified as held for sale are presented separately in the consolidated statement of financial position. Assets and liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated incremental costs that are directly attributable to the disposal (excluding finance costs and income tax expense).

Investment property which has been classified as held for sale is measured at fair value.

## (ee) Dividend distribution

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by equity holders. Interim dividends on these shares are recognised in equity in the period in which they are paid.

## (ff) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Where the Group is the lessor, lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term. Initial direct costs incurred in arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The Group has not entered into any material finance lease arrangements as either lessor or lessee.

## (gg) Employee share-based payments

The Group operates share incentive plans for all employees, share-based long-term incentive plans and restricted stock plans for senior employees and may award annual performance shares or options to all eligible employees when the Group's profit exceeds certain targets. Further details of the schemes are set out in Note 46. For share-based payment employee transactions, services received are measured at fair value.

Fair value of options granted under each scheme is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

For cash-settled share-based payment transactions, services received are measured at the fair value of the liability. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in the consolidated income statement.

For equity-settled share-based payment transactions, the fair value of services received is measured by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date, which is the date that the Group and the employees have a shared understanding of the terms and conditions of the award. If that award is subject to an approval process then the grant date is the date when that approval is obtained. Market vesting conditions and non-vesting conditions, such as the requirement of employees to save in a Save-as-you-earn scheme, are included in the calculation of the fair value of the instruments at the date of grant. Vesting conditions which are not market conditions are included in assumptions about the number of instruments that are expected to vest.

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Group immediately recognises the charge in respect of the services received in full in the consolidated income statement with a corresponding credit to the equity compensation reserve in equity.

If the equity instruments do not vest until the employee has fulfilled specified vesting conditions, the Group presumes that the services to be rendered by the employee as consideration for those equity instruments will be received in the future, during the period of those vesting conditions (vesting period). Therefore, the Group recognises the charge in respect of those services as they are rendered during the vesting period with a corresponding credit to the equity compensation reserve in equity.

Cancellations of awards granted arise where non-vesting conditions attached to the award are not met during the vesting period. Cancellations are accounted for as an acceleration of vesting and the remaining unrecognised expense in respect of the fair value of the award is recognised immediately.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the consolidated income statement with a corresponding adjustment to the equity compensation reserve.

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

## (hh) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported on the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## (ii) Securities lending agreements

The Group undertakes securities lending agreements under which securities are loaned to third parties. Where they do not meet the criteria for derecognition under IAS 39 *Financial Instruments: Recognition and Measurement*, the loaned securities are not derecognised and continue to be classified in accordance with the Group’s policy. The collateral received from securities borrowers typically consists of debt securities. Non-cash collateral arising from securities lending arrangements is only recognised on the consolidated statement of financial position where the criteria for recognition is met.

## (jj) 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.

# Group accounting policies *continued*

## (jj) Operating profit *continued*

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
- Changes in Canada insurance contract liabilities as a result of the resolution of the tax position of individual matters relating to prior years
- 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.

## (kk) Earnings per share

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume the conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Diluted earnings per share can also be calculated by adjusting the profit or loss for the effects of changes in income, expenses, tax and dividends that would have occurred had the dilutive potential ordinary shares been converted into ordinary shares.

Alternative earnings per share is calculated on operating profit before tax. Refer to policy (jj) for details of the adjusted items.

# Notes to the Group financial statements

## 1. Business Combinations

On 27 September 2013, Standard Life Wealth Limited (SLW), a wholly owned subsidiary of the Company acquired the private client division of Newton Management Limited (NML) resulting in combined assets under management of £5.5bn. SLW acquired NML's UK client business through the transfer of customer contracts and employees involved in the management of those contracts. The acquisition also involved the purchase by SLW of the entire share capital of Newton International Investment Management Limited (renamed Standard Life Wealth International Limited (SLWI)), a company incorporated in Jersey whose principal activity is to manage international private client investments. A wholly owned subsidiary of SLWI, also incorporated in Jersey, acts as authorised corporate director (ACD) for a Jersey regulated investment fund. On the acquisition date SLW was appointed investment adviser to SLWI, to the Jersey regulated investment fund and to a number of UK regulated investment funds. Other wholly owned subsidiaries of the Company were appointed as trust manager or ACD of these UK regulated investment funds. The transaction has broadened the Group's client investment proposition with an additional complimentary style of investing and a new offshore offering. Additionally the Group's distribution capability has increased through an expanded network of professional intermediaries. In November 2013, the Group announced the results of SLW will be managed and reported as part of Standard Life Investments segment from 1 January 2014. For 2013 SLW was managed and reported as part of UK and Europe.

At the acquisition date the consideration, net assets acquired and resulting goodwill were as follows:

| | Notes | 27 September 2013 £m |
|---|---|---|
| **Purchase consideration** | | |
| Cash paid on 27 September 2013 | | 45 |
| Liability for contingent consideration | | 31 |
| **Total purchase consideration** | | **76** |
| **Fair value of net assets acquired:** | | |
| Customer-related intangible assets | 15 | 29 |
| Financial assets | | 6 |
| Prepayments | | 1 |
| **Total fair value of net assets acquired** | | **36** |
| **Goodwill** | 15 | **40** |

The goodwill is attributable to the value of future contracts and the workforce of the acquired business as well as the significant synergies expected to arise as a result of the acquisition. Of the goodwill recognised of £40m, £37m is expected to be deductible for income tax purposes.

The liability for contingent consideration at 27 September 2013 consists of variable consideration of £16m and deferred consideration of £15m and is measured at fair value. Both the variable and deferred consideration are calculated as a percentage of a maximum amount as agreed in the purchase agreement. The percentage of the variable consideration was based on assets under management on the acquisition date and the £16m was settled in full in November 2013. The amount of the deferred consideration settlement will be calculated based on assets under management six months after the completion date on 27 March 2014 and will be settled in April 2014. The potential amount payable under the remaining contingent consideration arrangement is between £nil and £17.6m.

At 31 December 2013, the fair value of the remaining contingent consideration is £15m and is included in other financial liabilities on the consolidated statement of financial position.

The amount of revenue and profit contributed to the Group's consolidated income statement for the year ended 31 December 2013 from the acquired business was £5m and £1m respectively.

If the acquisition had occurred on 1 January 2013, the Group's total revenue and profit for the year would have increased by £15m and £2m to £20,560m and £498m respectively.

# 2. Segmental analysis

## (a) Basis of segmentation

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

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

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

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

**Asia and Emerging Markets**
The businesses included in Asia and Emerging Markets offer a range of savings and investment products and comprise wholly owned operations in Hong Kong, Singapore and Dubai and investments in joint ventures in India and China.

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

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

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

The key performance metrics of the Group include operating profit before tax and assets under administration (AUA), which are analysed below by reportable segment.

In February 2013, changes were announced in the way the Group manages its business. The offshore bond business in Ireland which was previously reported in Asia and Emerging Markets is now managed and reported as part of UK and Europe. Additionally, due to changes in the way the Group's segments are managed, some overhead costs which were previously reported in Asia and Emerging Markets are now reported in group corporate centre in Other. These combined changes provide stronger focus in our chosen markets and will help drive further value in each of the markets in which the Group operates. The reportable segments have therefore been changed for the year ended 31 December 2013. Comparative amounts for 31 December 2012 have been restated on the same basis to allow more meaningful comparison.

In November 2013, the Group announced that the results of Standard Life Wealth Limited (SLW) would be managed and reported as part of the Standard Life Investments segment effective 1 January 2014. Previously this business was managed as part of the UK and Europe segment and accordingly the results of SLW have been presented as part of UK and Europe.

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

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

The pro forma reconciliation of consolidated operating profit to profit for the year sets out the long-term operating performance of the Group. Operating profit is the key measure utilised by the Group's management in their evaluation of segmental performance and is presented by reportable segment.

| 31 December 2013 | Notes | UK and Europe £m | Standard Life Investments £m | Canada £m | Asia and Emerging Markets £m | Other £m | Elimination £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Fee based revenue | | 927 | 521 | 194 | 54 | - | (237) | **1,459** |
| Spread/risk margin | | 162 | - | 351 | - | - | - | **513** |
| **Total income** | | **1,089** | **521** | **545** | **54** | **-** | **(237)** | **1,972** |
| Acquisition expenses | | (227) | - | (76) | (22) | - | - | **(325)** |
| Maintenance expenses | | (485) | (351) | (234) | (43) | - | 237 | **(876)** |
| Group corporate centre costs | | - | - | - | - | (53) | - | **(53)** |
| Capital management | | 3 | - | 16 | - | (13) | - | **6** |
| Share of joint ventures' and associates' profit before tax[1] | | - | 22 | - | 5 | - | - | **27** |
| Other | | - | - | - | - | - | - | **-** |
| **Operating profit/(loss) before tax** | | **380** | **192** | **251** | **(6)** | **(66)** | **-** | **751** |
| Tax on operating profit | | (48) | (40) | (50) | - | (3) | - | **(141)** |
| Share of joint ventures' and associates' tax expense | | - | (7) | (1) | - | - | - | **(8)** |
| **Operating profit/(loss) after tax** | | **332** | **145** | **200** | **(6)** | **(69)** | **-** | **602** |
| Adjusted for the following items: | | | | | | | | |
| Short-term fluctuations in investment return and economic assumption changes | 13 | (11) | 1 | (70) | (2) | (10) | - | **(92)** |
| Restructuring and corporate transaction expenses | 10 | (59) | (2) | (2) | (5) | (5) | - | **(73)** |
| Changes in Canada insurance contract liabilities due to resolution of prior years' tax matters | 13 | - | - | (15) | - | - | - | **(15)** |
| Other | | (5) | - | - | - | (2) | - | **(7)** |
| **Total non-operating items** | | **(75)** | **(1)** | **(87)** | **(7)** | **(17)** | **-** | **(187)** |
| Tax on non-operating items | | 14 | - | 32 | 1 | 4 | - | **51** |
| **Profit for the year attributable to equity holders of Standard Life plc** | | **271** | **144** | **145** | **(12)** | **(82)** | **-** | **466** |
| Profit attributable to non-controlling interests | | | | | | | | **30** |
| **Profit for the year** | | | | | | | | **496** |

[1] Share of joint ventures' and associates' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

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

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

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

# 2. Segmental analysis *continued*

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

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

| 31 December 2012 (restated)[1] | Notes | UK and Europe £m | Standard Life Investments £m | Canada £m | Asia and Emerging Markets £m | Other £m | Elimination £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Fee based revenue | | 839 | 408 | 172 | 46 | - | (194) | **1,271** |
| Spread/risk margin | | 112 | - | 393 | - | - | - | **505** |
| **Total income** | | **951** | **408** | **565** | **46** | **-** | **(194)** | **1,776** |
| Acquisition expenses | | (203) | - | (79) | (10) | - | - | **(292)** |
| Maintenance expenses | | (463) | (281) | (240) | (41) | - | 194 | **(831)** |
| Group corporate centre costs | | - | - | - | - | (50) | - | **(50)** |
| Capital management | | 12 | - | 107 | - | 23 | - | **142** |
| Share of joint ventures' and associates' profit before tax[2] | | - | 18 | - | 8 | - | - | **26** |
| Other | | 96 | - | - | - | - | - | **96** |
| **Operating profit/(loss) before tax** | | **393** | **145** | **353** | **3** | **(27)** | **-** | **867** |
| Tax on operating profit | | (15) | (33) | (75) | - | (1) | - | **(124)** |
| Share of joint ventures' and associates' tax expense | | - | (5) | (4) | - | - | - | **(9)** |
| **Operating profit/(loss) after tax** | | **378** | **107** | **274** | **3** | **(28)** | **-** | **734** |
| Adjusted for the following items: | | | | | | | | |
| Short-term fluctuations in investment return and economic assumption changes | 13 | (4) | - | (19) | (1) | (5) | - | **(29)** |
| Restructuring and corporate transaction expenses | 10 | (95) | (3) | (3) | (1) | (7) | - | **(109)** |
| Other | | - | - | - | - | (4) | - | **(4)** |
| **Total non-operating items** | | **(99)** | **(3)** | **(22)** | **(2)** | **(16)** | **-** | **(142)** |
| Tax on non-operating items | | 51 | 1 | 17 | - | 4 | - | **73** |
| **Profit for the year attributable to equity holders of Standard Life plc** | | **330** | **105** | **269** | **1** | **(40)** | **-** | **665** |
| Profit attributable to non-controlling interests | | | | | | | | **29** |
| **Profit for the year** | | | | | | | | **694** |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

2 Share of joint ventures' and associates' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

### (b)(ii) Total income

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Fee based revenue | **1,459** | 1,271 |
| Spread/risk margin | **513** | 505 |
| **Total income as presented in the analysis of Group operating profit by segment** | **1,972** | 1,776 |
| Consolidation adjustments | **273** | 279 |
| Tax movement attributable to policyholder returns | **215** | 218 |
| Net insurance benefits and claims | **5,695** | 5,972 |
| Change in reinsurance assets and liabilities | **683** | 44 |
| Change in insurance and participating liabilities | **(1,320)** | 1,339 |
| Investment return credited and related benefits on non-participating investment liabilities | **11,892** | 7,718 |
| Change in unallocated divisible surplus | **(40)** | (39) |
| Expenses under arrangements with reinsurers | **61** | 656 |
| Change in liability for third party interest in consolidated funds | **865** | 782 |
| Non-operating items | **(31)** | (98) |
| Other | **280** | 538 |
| **Total revenue as presented on the consolidated income statement** | **20,545** | 19,185 |

Consolidation adjustments mainly relate to amounts attributable to third party interest in consolidated funds which are included in total revenue in the consolidated income statement but excluded from total income. Non-operating items are the adjustments that relate to total income which reconcile operating profit to profit for the year as shown in the analysis of Group operating profit by segment in Note 2(b)(i).

### (b)(iii) Total expenses

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

| | 2013 £m | 2012 restated[1] £m |
|---|---|---|
| Acquisition expenses | **325** | 292 |
| Maintenance expenses | **876** | 831 |
| Group corporate centre costs | **53** | 50 |
| **Total operating expenses as presented in the analysis of Group operating profit by segment** | **1,254** | 1,173 |
| Consolidation adjustments | **248** | 264 |
| Net insurance benefits and claims | **5,695** | 5,972 |
| Change in reinsurance assets and liabilities | **683** | 44 |
| Change in insurance and participating liabilities | **(1,320)** | 1,339 |
| Change in investment contract liabilities | **11,892** | 7,718 |
| Change in unallocated divisible surplus | **(40)** | (39) |
| Expenses under arrangements with reinsurers | **61** | 656 |
| Change in liability for third party interest in consolidated funds | **865** | 782 |
| Finance costs | **108** | 77 |
| Non-operating items | **80** | 113 |
| Other | **243** | 171 |
| **Total expenses as presented on the consolidated income statement** | **19,769** | 18,270 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

# 2. Segmental analysis *continued*

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

### (b)(iii) Total expenses *continued*

Consolidation adjustments mainly relate to expenses attributable to third party interest in consolidated funds which are included in total expenses in the consolidated income statement but excluded from total operating expenses. Finance costs are included in capital management in the analysis of Group operating profit by segment. Non-operating items are the adjustments that relate to total expenses which reconcile operating profit to profit for the year as shown in the analysis of Group operating profit by segment in Note 2(b)(i).

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

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

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

| 31 December 2013 | UK and Europe £bn | Standard Life Investments £bn | Canada £bn | Asia and Emerging Markets £bn | Other £bn | Elimination[1] £bn | Total £bn |
|---|---|---|---|---|---|---|---|
| **Assets under administration** | | | | | | | |
| Fee based | 145 | 97 | 17 | - | - | (49) | **210** |
| Spread/risk | 15 | - | 8 | - | - | - | **23** |
| Assets not backing products in long-term savings business | 6 | - | 2 | - | - | - | **8** |
| Joint ventures | - | - | - | 2 | - | - | **2** |
| Other corporate assets | - | 1 | - | - | 1 | (1) | **1** |
| **Total assets under administration** | **166** | **98** | **27** | **2** | **1** | **(50)** | **244** |
| Third party AUA | | | | | | | **(79)** |
| Reinsurance assets | | | | | | | **6** |
| Deferred acquisition costs | | | | | | | **1** |
| Assets attributable to third party interest in consolidated funds and non-controlling interests | | | | | | | **12** |
| Other | | | | | | | **1** |
| **Total assets per consolidated statement of financial position** | | | | | | | **185** |

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

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

| 31 December 2012 | UK and Europe £bn | Standard Life Investments £bn | Canada £bn | Asia and Emerging Markets £bn | Other £bn | Elimination[1] £bn | Total £bn |
|---|---|---|---|---|---|---|---|
| **Assets under administration** | | | | | | | |
| Fee based | 124 | 83 | 16 | - | - | (42) | **181** |
| Spread/risk | 16 | - | 10 | - | - | - | **26** |
| Assets not backing products in long-term savings business | 6 | - | 2 | - | - | - | **8** |
| Joint ventures | - | - | - | 1 | - | - | **1** |
| Other corporate assets | - | - | - | - | 2 | - | **2** |
| **Total assets under administration** | **146** | **83** | **28** | **1** | **2** | **(42)** | **218** |
| Third party AUA | | | | | | | **(65)** |
| Reinsurance assets | | | | | | | **7** |
| Deferred acquisition costs | | | | | | | **1** |
| Assets attributable to third party interest in consolidated funds and non-controlling interests | | | | | | | **13** |
| Other | | | | | | | **-** |
| **Total assets per consolidated statement of financial position** | | | | | | | **174** |

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

## (c) Total revenue by geographical location

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

| | 2013 £m | 2012 £m |
|---|---|---|
| UK | **14,488** | 12,540 |
| Canada | **3,826** | 3,363 |
| Rest of the world | **2,231** | 3,282 |
| **Total** | **20,545** | 19,185 |

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

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

| | 2013 £m | 2012 £m |
|---|---|---|
| UK | **7,474** | 7,126 |
| Canada | **1,284** | 1,391 |
| Rest of the world | **398** | 418 |
| **Total** | **9,156** | 8,935 |

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

# 3. Business written in the Group's insurance entities

## (a) How the business is held in the Group's insurance entities

The Group's insurance and investment contracts are held by the regulated entities within each reportable segment. Each regulated entity operates various funds and how the business is held within these funds is outlined below by reportable segment.

### (a)(i) UK and Europe

**Standard Life Assurance Limited**

The main entity in the UK and Europe reportable segment that issues insurance and investment contracts is Standard Life Assurance Limited (SLAL). SLAL operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company on 10 July 2006, under which its recognised assets and liabilities are allocated to one of the following funds:

- Shareholder Fund (SHF)
- Proprietary Business Fund (PBF) – includes UK, German and Irish branches
- Heritage With Profits Fund (HWPF) – includes UK, German and Irish branches
- German With Profits Fund (GWPF)
- German Smoothed Managed With Profits Fund (GSMWPF)
- UK Smoothed Managed With Profits Fund (UKSMWPF).

**SLAL – Insurance and investment contracts issued since demutualisation**

The liabilities and associated supporting assets for contracts issued since demutualisation are held in the PBF except for the element of any contract where the customer has chosen to invest in a with profits (i.e. participating) fund. The assets and associated liabilities, including liabilities for financial guarantees, for such with profits investment elements are held in the GWPF, GSMWPF or UKSMWPF. The PBF is sub-divided into internal linked funds (unit linked funds) and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and corresponding liabilities for such unit linked investment elements are held in the unit linked funds. Asset management charges are transferred from the unit linked funds to the non-unit linked sub-fund of the PBF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element are held in the non-unit linked sub-fund of the PBF. Any liabilities for insurance features contained within a contract that has a with profits element are held in the non-unit linked sub-fund of the PBF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are held in the non-unit linked sub-fund of the PBF.

**SLAL – Insurance and investment contracts issued before demutualisation**

The liabilities and associated supporting assets for contracts, both participating and non-participating, issued prior to demutualisation are mostly held in the HWPF except for (i) the assets and corresponding liabilities for unit linked investment elements of such contracts, and (ii) the supporting assets and associated liabilities for longevity risk on certain annuity contracts. The assets and associated liabilities for these two contract components are held in the PBF. Asset management charges arising on unit linked investment elements are transferred from the PBF to HWPF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element or a with profits investment element are held in the HWPF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are also held in the HWPF.

# 3. Business written in the Group's insurance entities *continued*

## (a) How the business is held in the Group's insurance entities *continued*

### (a)(i) UK and Europe *continued*

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of SLAL is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. The Scheme provides that certain defined cash flows (recourse cash flows (RCF)) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SHF, and thus accrue to the ultimate benefit of equity holders of the Company. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of German branch business. Under these mechanisms, profits, on an RCF basis, on non-participating business excluding investment spread profits on annuities and profits, on an RCF basis or German additional expenses basis, on unitised with profits contracts, are transferred to the SHF. All investment return on HWPF investments is retained in the HWPF for the ultimate benefit of participating policyholders. Under the Scheme, transfers to the SHF are subject to certain constraints in order to protect policyholders.

**Standard Life International Limited**
The UK and Europe reportable segment also contains the International Bond issued by Standard Life International Limited (SLIL) to UK residents. Note (a)(iii) below contains a description of the fund structure operated by SLIL.

### (a)(ii) Canada

The main entity in the Canada reportable segment that issues insurance and investment contracts is The Standard Life Assurance Company of Canada (SLCC). SLCC operates a fund structure under which certain recognised assets and associated liabilities are allocated to either segregated funds or a participating fund. Its remaining recognised assets are managed together to support other contract liabilities and to contribute to equity holders surplus. Where a customer chooses to invest on a segregated fund basis, the assets and associated liabilities for such segregated fund investment elements are held in the segregated funds. SLCC's segregated funds operate on a similar basis to SLAL's unit linked funds. Any liabilities for insurance features or financial guarantees contained within a contract that has a segregated fund investment element are held outside the segregated funds. Deferred income and deferred acquisition costs arising on contracts that have a segregated fund investment element are also held outside the segregated funds.

SLAL operates a Canadian branch. A separate sub-fund of the PBF is maintained for this branch. All contracts issued from SLAL's Canadian PBF are wholly reinsured to SLCC.

### (a)(iii) Asia and Emerging Markets

The entities in the Asia and Emerging Markets reportable segment that issue insurance and investment contracts, other than joint ventures, are SLIL and Standard Life (Asia) Limited (SLA). These entities operate using a shareholder fund and a long-term business fund which is sub-divided into unit linked funds and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds. Any liabilities for insurance features contained within a contract that has a unit linked investment element are held in the non-unit linked fund. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element are held in the non-unit linked fund.

## (b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued by the Group, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below.

### (b)(i) UK and Europe – Insurance and investment contracts issued since demutualisation

**UK annuity-in-payment contracts (spread/risk business)**
This class of business consists of single premium contracts that provide guaranteed annuity payments. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in the UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2013 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £320m (2012: £279m) and this represents approximately 9% (2012: 8%) of the total liability for UK annuity in payment contracts held within the PBF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall. If the market moves in line with the adverse scenarios as shown in the market risk sensitivity analysis in Note 41(b), then the impact on shareholder equity from these RPI linked annuities and corresponding assets is not significant.

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2013 is £274m (2012: £269m) and this represents approximately 8% (2012: 8%) of the total liability for UK annuity in payment contracts held in the PBF. If the market moves in line with the adverse market conditions as shown in the market risk sensitivity analysis, the impact on the shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

**UK and Irish unit linked pension contracts (fee business)**
This class of business comprises single or regular premium contracts under which a percentage of the premium is used to allocate units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts.

Contracts are categorised as retail (e.g. UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pension, UK Stakeholder, Irish Synergy Personal Pension), corporate (e.g. UK Group SIPP, UK Group Flexible Retirement Plan, UK Group Stakeholder) and institutional (Trustee Investment Plan). These contracts do not contain a with profits investment option except for UK Group Stakeholder and UK Stakeholder, under which customers may invest in the UKSMWPF.

The costs of contracts invested in unit linked funds are recovered by deduction of an asset management charge from the unit linked funds. Under Stakeholder contracts, this asset management charge has a specified maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

Under UK SIPP contracts, as well as investing in unit linked funds offered by SLAL, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the Group's consolidated statement of financial position.

**UK unit linked investment bonds (fee business)**
Unit linked investment bonds issued by SLAL (e.g. Capital Investment Bond) are single premium whole of life contracts under which a percentage of the premium is used to allocate units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

The International Bond is issued by SLIL to UK residents. It is a single premium whole of life investment bond. The customer has the option to invest in unit linked funds offered by SLIL and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the last life assured an additional benefit of 0.1% of the surrender value is paid unless the death is accidental when an additional benefit of 10% of the surrender value is paid subject to a £1m cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

**German unitised with profits deferred annuity contracts (fee business)**
German unitised with profits deferred annuities contracts are written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. The death benefit under all of the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the nominal fund, and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value of contracts invested in the GWPF is subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors and certain unit prices in the GWPF are guaranteed not to decrease.

The GWPF is operated such that all investment return on assets held in the fund will be distributed to participating policyholders over time subject to deductions of asset management charges and deductions for guarantees.

### (b)(ii) UK and Europe – Insurance and investment contracts issued before demutualisation and related reinsurance contracts

**HWPF participating contract allocations of regular and final bonuses**
This section firstly describes the method used by the Group to determine the regular and final bonuses allocated to participating contracts held in the HWPF. It then describes the significant types of insurance and investment contracts held in that fund, the nature of any guarantees provided and significant reinsurance contracts.

As shown in the market risk sensitivity analysis in Note 41(b), there is no impact on shareholder equity arising from contracts in the HWPF for either of the market movements scenarios. As explained in the limitations of the sensitivity analysis, this is because although shareholders are potentially exposed to the full cost if the assets of the HWPF are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

Regular bonuses are declared at the discretion of the Group in accordance with the Principles and Practices of Financial Management (PPFM) of the HWPF for UK business and similar principles for European business and are set at levels which aim to achieve a gradual build-up in guaranteed participating policy benefits whilst not unduly constraining investment freedom and the prospects for final bonuses. In setting these rates, the financial position (both current and projected) of the HWPF is taken into account, and were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees. For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

The Group's aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the HWPF applicable to such a policy, after any adjustments for smoothing, and any distribution of the residual estate deemed appropriate by the Group.

# 3. Business written in the Group's insurance entities *continued*

## (b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

### (b)(ii) UK and Europe – Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued*

When setting payout levels, the Group seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares varies between products, for example calculations can be on the basis of representative policies or on an individual policy basis.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The Group reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the Group seeks to offer some smoothing of investment returns to participating policyholders at the time of claims due to maturity for life policies or for pension policies where the Group has no right to reduce benefits as defined in the relevant contractual terms and conditions. The Group may, at its discretion, also provide some smoothing of investment returns for death claims and some types of withdrawal at the time of payment. The Group aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The Group monitors the anticipated cost of smoothing on a regular basis and, in most circumstances, will reflect the costs in payouts and in some circumstances adjust the approach to smoothing.

When calculating asset shares, the Group may, at its discretion, make fair deductions to reflect its assessment of the cost of guarantees. The Group takes an allowance for the assessed costs of guarantees when determining final bonuses payable on claims, calculating policy switch values and calculating surrender and transfer values. These allowances vary between types of policies, reflecting the nature of the guarantees provided. These allowances are kept under review. A deduction is also taken from participating asset shares determined on an expense basis of 0.5% pa as a contribution to the capital of the HWPF.

Eligible policies covered by the Mortgage Endowment Promise may receive 'top up' amounts, in accordance with the Scheme.

**UK conventional with profits contracts (no impact on equity holder profits in the absence of burnthrough)**
Conventional (i.e. non-unitised) with profits contracts consist of single or regular premium endowment, whole life and pension contracts held in the HWPF.

Under endowment and whole life contracts, guaranteed benefits are payable on death. Regular bonuses may be added to the guaranteed sum assured over the term of the policy and, in addition, a final bonus may be paid on death and maturity. Certain endowment assurances have minimum surrender value provisions and minimum paid-up values.

Under pension contracts, a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example under pure endowment contracts. Regular bonuses may be added to this initial minimum over the term of the policy and, in addition, a final bonus may be paid. Guaranteed annuity options providing for payment of a minimum annuity, in lieu of a cash sum, are available under pure endowment contracts. Under some of these contracts the guarantee applies only at the maturity date. Under other contracts, the option also applies for a specified period preceding the maturity date, in which case the sum assured and bonuses are reduced by specified factors and different guaranteed annuity rates apply.

All conventional with profits contracts are classified as participating insurance contracts.

**UK and Irish unitised with profits pension contracts (fee business via RCF)**
This class of business comprises single or regular premium contracts held in the HWPF under which a percentage of the premium is used to allocate units on a participating basis. Such contracts include hybrid contracts (see accounting policy (f)) resulting in the unitised with profits investment elements being classified as participating investment contracts, although there are some contracts that are classified as participating insurance contracts, for example those with guaranteed minimum pensions. The major unitised with profits pension contracts include Individual Personal Pension Plans (retail), Group Personal Pension Plans, Executive Pensions and Stakeholder (corporate) and Trustee Investment Plans (institutional).

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed either that the unit price will rise at an annual rate of at least 4% per year or that the unit price will not fall, and, that there will be no unit price adjustment (UPA) at specified retirement dates or death
- Certain Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no unit price adjustment (UPA) when units are encashed.

**UK and Irish unitised with profits life contracts (fee business via RCF)**
Unitised with profits life business comprises single or regular premium endowment and whole life contracts held in the HWPF under which a percentage of the premium is used to allocate units on a participating basis. The death benefit under regular premium contracts is the greater of the bid value of units allocated and sum assured under the contract. Some contracts also contain critical illness cover providing for payment of a critical illness sum assured on diagnosis of certain defined serious illnesses. These contracts, principally Homeplan, With Profits Bonds and Versatile Investment Plans, are classified as participating insurance contracts.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed on death and maturity either that the unit price will rise at an annual rate of at least 3% a year or that the unit price will not fall, and, that there will be no UPA at maturity
- For bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits.

Under contracts effected in connection with house purchase, the death benefit is guaranteed. Under other regular premium contracts, at any time after the first ten years, the Group may review the status of the contract and, if it deems it necessary, the sum assured may be reduced, within the limits permitted.

Under some contracts effected in connection with house purchase, provided the original contract is still in force, the following options can normally be exercised at any time before the 55th birthday of the life assured:

- Future insurability option under which a new contract can be effected on then current premium rates, in connection with a further loan, up to the level of life and basic critical illness cover available on the original contract, without any further evidence of health
- Term extension option on then current premium rates under which the term of the contract may be extended by a whole number of years if the lender agrees to extend the term of the loan.

**German unitised with profits contracts (fee business via German additional expenses basis)**
Unitised with profits German contracts held in the HWPF mainly consist of endowment assurances and deferred annuities, under which a percentage of each premium is applied to purchase units on a participating basis. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the nominal fund and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts. For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors. In addition certain unit prices in the HWPF are guaranteed not to decrease.

**UK and Irish unit linked pension contracts (fee business via RCF)**
This class of business comprises single or regular premium contracts under which a percentage of the premium is used to allocate units in one or more unit linked funds held in the PBF. Such contracts include hybrid contracts (see accounting policy (f)) resulting in the unit linked investment elements being classified as non-participating investment contracts. The major unit linked pension contracts include Individual Personal Pension Plans (retail), Group Personal Pension Plans, Executive Pensions and Stakeholder (corporate) and Trustee Investment Plans (institutional).

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF. Under Stakeholder contracts, this asset management charge has a maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

**UK and Irish unit linked life contracts (fee business via RCF)**
This class of business comprises principally unit linked investment bonds (e.g. Capital Investment Bonds), classified as non-participating investment contracts and the unit linked investment element of Homeplan contracts, classified as non-participating insurance contracts. No significant guarantees, other than the guaranteed death benefit on Homeplan contracts, are provided under these contracts.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF.

**UK and Irish annuity-in-payment contracts (spread/risk business in relation to longevity risk transferred to PBF otherwise no impact on shareholder profits in absence of burnthrough)**
This class of business consists of the same type of contracts described in (b)(i) above and also includes the With Profit Pension Annuity (WPPA), under which changes to the level of annuity are based on a declared rate of return but reductions in the level of the annuity are limited. These contracts are classified as non-participating insurance contracts, except for the WPPA which is classified as a participating insurance contract.

SLAL has reinsured both the longevity and market risk arising on a portfolio of annuity-in-payment contracts held within the HWPF with Canada Life International Re (the reinsurer). In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium of £6.3bn (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. In respect of this arrangement SLAL holds a ring fenced pool of assets within the HWPF. See Note 41(c) on credit exposure and Note 6 – Expenses under arrangements with reinsurers for further details of the deposit back. A floating charge over the ring fenced pool of assets has been granted to the reinsurer.

The longevity risk on the remaining annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk arising on investments supporting its fixed schedule of payments is retained in the HWPF.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2013 is £2,977m (2012: £3,271m) and this represents approximately 32% (2012: 32%) of the total liability for UK annuity in payments contracts held within the HWPF.

# 3. Business written in the Group's insurance entities *continued*

## (b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

### (b)(ii) UK and Europe – Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued*

The total liability at 31 December 2013 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £2,113m (2012: £2,007m) and this represents approximately 22% (2012: 20%) of the total liability for UK annuity contracts held within the HWPF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

**UK other non-participating contracts (spread/risk business via RCF)**
This class of business consists primarily of deferred annuities that provide guaranteed annuity payments from the retirement age associated with the relevant pension plan. The payments depend on the survival of a life or lives with or without a guarantee period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in UK RPI. These contracts are classified as non-participating insurance contracts.

### (b)(iii) Canada – Insurance, investment and reinsurance contracts

**Annuity-in-payment contracts (spread/risk business)**
This class of business consists of single premium contracts that provide guaranteed annuity payments based on the survival of a life or lives or for a specified period. The majority of the portfolio are life contingent annuities and are classified as non-participating insurance contracts. However, there are some term certain annuities classified as investment contracts. The benefits may increase each year at a predefined rate or in line with increases in the Canadian Consumer Price Index (CPI). For contracts under which benefits increase in line with the CPI, benefits will not decrease in periods of deflation.

For those annuities which increase at a predefined rate, the total liability at 31 December 2013 is £652m (2012: £713m) and these represent approximately 16% (2012: 16%) of the total liability for Canadian annuity-in-payment contracts. The liability for annuities linked to CPI is approximately £394m (2012: £464m). This represents approximately 9% (2012: 10%) of the total liability for Canadian annuity-in-payment contracts.

For CPI-linked annuities, a 1% increase in the CPI would increase liabilities by £65m (2012: £80m). However, inflation risk on these annuities is mitigated by investments in assets linked to inflation.

**Universal Life contracts (fee business and spread/risk business)**
The main Universal Life contract, Perspecta, is a non-participating whole life assurance contract. Perspecta was closed to new business in 2012. Premiums may be invested in term investment funds (TIFs), segregated funds or mutual funds. Premiums invested in TIFs are placed on deposit at rates of interest guaranteed for periods from one day to 20 years. The rate offered is determined with reference to the financial conditions at the time of premium payment. The contract provides life cover and, in addition, on death the value of the segregated funds is guaranteed never to be less than 75% of premiums deposited into those funds, adjusted for expense charges and any withdrawals. At 31 December 2013, the liability for these policies is £1,227m (2012: £1,464m).

Perspecta contracts issued up to November 2003 provided the following interest rate guarantees:

- 0% for the Daily Interest Fund.

For each TIF, the greatest of 90% of the Government of Canada Bond rate for the same term, less 1.75%, and:

- 0% for the 1-year TIF
- 1% for the 3-year TIF
- 2% for the 5-year TIF
- 3% for the 10, 15 and 20-year TIF.

Furthermore, it was guaranteed that at least one TIF at a minimum guaranteed interest rate of 3% would be offered as long as the policy is in-force.

Perspecta contracts issued after November 2003 provide lower interest rate guarantees for terms of at least three years. There is no guarantee that a term with a 3% minimum guaranteed rate will be offered and the TIF investment option can be withdrawn.

In addition, on all Perspecta policies the value of the investment account may increase on guaranteed terms at specified policy anniversaries. The level of increase depends upon various conditions, including when the contract was effected.

Perspecta policyholders have the option to switch into TIFs some or all of their investments in the other investment options and can increase their premiums up to statutory limits. The guarantees that then apply are those set when the contract was effected.

A reduction of 1% in the yield curve would increase the value of the guarantees by £19m (2012: £67m). At 31 December 2013, the liability for all the TIFs (i.e. pre and post November 2003) is £74m (2012: £99m).

SLCC has entered into contracts to reinsure mortality risk arising under these Universal Life contracts. Under these reinsurance contracts, the reinsurers receive regular reinsurance premiums throughout the period until death claims arise on the underlying contracts based on payment schedules established at inception of the reinsurance contract. SLCC receives payments from the reinsurers on the death of the Universal Life policyholders to cover the death benefit due.

**Registered and non-registered savings plans (fee business and spread/risk business)**
This category comprises individual and group non-participating savings contracts. These contracts permit investment into term funds or segregated funds.

Premiums invested in term funds are placed on deposit at rates of interest guaranteed for a selected term. The rate offered depends on financial conditions at the time of deposit. Proceeds at the end of a guarantee period may be reinvested at the then current rates. The components of contracts invested in term funds are classified as non-participating investment contracts.

Where premiums on individual contracts are invested in segregated funds a death benefit guarantee applies being the greater of the segregated fund value and 100% of the net deposits. In addition provided that the monies have been invested for a minimum of 10 years, the maturity benefit is the greater of the segregated fund value at the maturity date and 75% or 100% of premiums invested, depending on the guarantee option selected, less any cash values previously paid out. Otherwise the maturity benefit is the fund value. The cost of all these guarantees including those in respect of registered retirement income plans (see below), net of supporting fees, has been calculated in accordance with local regulations and results in a reduction in liabilities of £6m (2012: increase £40m) being required. The components of individual contracts invested in segregated funds are classified as non-participating insurance contracts.

Where premiums on group contracts are invested in segregated funds, no guarantees on death or maturity are given. The components of group contracts invested in segregated funds are classified as non-participating investment contracts.

**Registered retirement income plans (fee business and spread/risk business)**

Registered retirement income plans are non-participating single premium contracts. These contracts permit investment into term funds or segregated funds on a similar basis to the individual savings plans described above. Regular withdrawals are made from the account to provide an income during retirement. The policyholder may vary the amounts withdrawn subject to the regulatory minimum. The components of contracts invested in term funds are classified as non-participating investment contracts. The components of individual contracts invested in segregated funds are classified as non-participating insurance contracts.

**Participating individual life contracts (no impact on equity holder profits in the absence of burnthrough)**
Participating whole life and endowment assurance contracts contain scales of minimum guaranteed surrender values and paid-up policy amounts. Participating whole life contracts issued prior to 1985 include a guaranteed annuity rate option where the lump sum death benefit can be converted into an annuity on guaranteed terms or retained by SLCC whereupon the value accumulates at an annual interest rate of at least 2.5%.

The value of the liabilities in respect of guaranteed benefits is 42% (2012: 48%) of the participating contract liability value which is set equal to the value of the fund in which the contracts participate.

**Non-participating life contracts (spread/risk business)**
This category comprises whole life and term assurance contracts where the guaranteed benefit is payable on death. These contracts are classified as non-participating insurance contracts. This category is closed to new business.

### (b)(iv) Asia and Emerging Markets – Insurance contracts and investment contracts

**Unit linked life contracts (fee business)**
The main contract issued by SLA is the Harvest 101 product. It is a regular premium savings product with a term ranging from five to 25 years. The customer has the option to invest in unit linked funds offered by SLA and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the life insured, a benefit of 101% of the fund value is paid. If the death is accidental then an additional benefit of 10% of the initial account value is paid subject to a USD10,000 cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

## 4. Investment return

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Interest and similar income: | | | |
| Cash and cash equivalents | | 98 | 123 |
| Loans | | 143 | 165 |
| Debt securities | | 18 | - |
| Other | | 1 | 1 |
| | | 260 | 289 |
| Dividend income | | 2,144 | 1,769 |
| Gains/(losses) on financial instruments at fair value through profit or loss: | | | |
| Equity securities (other than dividend income) | | 12,803 | 6,325 |
| Debt securities | | (615) | 4,911 |
| Derivative financial instruments | | (38) | 70 |
| | | 12,150 | 11,306 |
| Impairment losses (recognised)/reversed on loans | | (4) | 2 |
| Foreign exchange losses on instruments other than as at fair value through profit or loss | | (17) | (19) |
| Income from investment properties: | | | |
| Rental income | 18 | 591 | 604 |
| Net fair value gains on investment properties | 18 | 325 | 31 |
| | | 916 | 635 |
| **Total investment return** | | **15,449** | 13,982 |

## 5. Fee and commission income

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Fee income on investment contracts at fair value | | 675 | 648 |
| Fee income from third party funds under management | | 242 | 196 |
| Fee income deferred during the year | 38 | (36) | (61) |
| Amortisation of deferred income | 38 | 73 | 70 |
| Release of deferred income | 38 | - | 26 |
| Reinsurance commission income | | 1 | 1 |
| Other fee and commission income | | 22 | 26 |
| **Total fee and commission income** | | **977** | 906 |

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

## 6. Expenses under arrangements with reinsurers

| | 2013 £m | 2012 £m |
|---|---|---|
| Interest payable on deposits from reinsurers | **33** | 36 |
| Premium Adjustments | **28** | 620 |
| **Expenses under arrangements with reinsurers** | **61** | 656 |

Standard Life Assurance Limited (SLAL), a wholly owned subsidiary of the Company, has reinsured a portfolio of annuity contracts held within its Heritage With Profits Fund (HWPF) with Canada Life International Re (the reinsurer), a reinsurer not related to the Company. The treaty contains the requirement for the payment or receipt of Premium Adjustments, a term defined in the treaty, to ensure that the investment risk on the ring fenced pool of assets falls on the reinsurer. They are calculated periodically under the treaty as the difference between the value of the ring fenced assets and the deposit amount. If the Premium Adjustment is payable to the reinsurer, the reinsurer is required to deposit a corresponding amount into the deposit. If the Premium Adjustment is payable to SLAL, a corresponding amount is repaid from the deposit. Accrued interest and accrued Premium Adjustments are presented in deposits received from reinsurers on the consolidated statement of financial position.

## 7. Other administrative expenses

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| Interest expense | | **16** | 17 |
| Commission expenses | | **381** | 394 |
| Staff costs and other employee-related costs | 8 | **679** | 645 |
| Operating lease rentals | | **34** | 32 |
| Auditors' remuneration | 9 | **7** | 7 |
| Depreciation of property, plant and equipment | 19 | **14** | 16 |
| Impairment losses on property, plant and equipment | 19 | **5** | 7 |
| Impairment losses reversed on property, plant and equipment | 19 | **(2)** | - |
| Amortisation of intangible assets | 15 | **30** | 24 |
| Recovery under insurance claim | 40 | **-** | (98) |
| Other | | **594** | 560 |
| | | **1,758** | 1,604 |
| Acquisition costs deferred during the year | 16 | **(165)** | (202) |
| Impairment of deferred acquisition costs | 16 | **6** | 3 |
| Amortisation of deferred acquisition costs | 16 | **151** | 180 |
| Release of deferred acquisition costs[2] | 16 | **-** | 22 |
| **Total other administrative expenses** | | **1,750** | 1,607 |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.
2 A reclassification of certain non-participating investment contracts as non-participating insurance contracts resulted in a release of deferred acquisition costs during the year ended 31 December 2012. Refer to Note 5 – Fee and commission income.

In addition to interest expense of £16m (2012: £17m), interest expense of £108m (2012: £77m) was incurred in respect of subordinated liabilities and £33m (2012: £36m) in respect of deposits from reinsurers. For the year ended 31 December 2013, total interest expense is £157m (2012: £130m).

# 8. Staff costs and other employee-related costs

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **The aggregate remuneration payable in respect of employees:** | | | |
| Wages and salaries | | **528** | 507 |
| Social security costs | | **59** | 56 |
| Pension costs: | 37 | | |
| Defined benefit plans | | **41** | 41 |
| Defined contribution plans | | **15** | 13 |
| Employee share-based payments | 46 | **36** | 28 |
| **Total staff costs and other employee-related costs** | | **679** | 645 |

| | 2013 | 2012 |
|---|---|---|
| **The average number of staff employed by the Group during the year:** | | |
| UK and Europe | **3,951** | 4,229 |
| Standard Life Investments | **1,109** | 1,022 |
| Canada | **1,992** | 1,951 |
| Asia and Emerging Markets | **259** | 264 |
| Other[2] | **913** | 981 |
| **Total average number of staff employed** | **8,224** | 8,447 |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.
2 Includes staff in group corporate centre and group information technology.

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 70 to 98.

# 9. Auditors' remuneration

| | 2013 £m | 2012 £m |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements | **0.3** | 0.3 |
| Fees payable to the Company's auditors for other services: | | |
| The audit of the Company's consolidated subsidiaries pursuant to legislation | **4.3** | 3.8 |
| The audit of funds not consolidated in the Group's financial statements | **0.8** | 0.8 |
| Audit related assurance services | **0.4** | 0.4 |
| **Total audit related assurance fees** | **5.8** | 5.3 |
| Other assurance services | **0.7** | 1.2 |
| Tax compliance services | **0.2** | 0.3 |
| Tax advisory services | **0.2** | 0.3 |
| Other non-audit fee services | **0.2** | 0.1 |
| **Total non audit fees** | **1.3** | 1.9 |
| **Total auditors' remuneration** | **7.1** | 7.2 |

Auditors' remuneration for the year to 31 December 2013 has been presented across new categories to provide more useful information. Comparatives for the year ended 31 December 2012 have been adjusted accordingly.

For more information on non-audit services, refer to the Report from the Chairman of the Audit Committee in the Corporate Governance report.

During the year, the Group incurred audit fees in respect of the UK staff defined benefit plan of £44,400 (2012: £43,500).

## 10. Restructuring and corporate transaction expenses

Total restructuring costs incurred during the year were £75m (2012: £114m) which includes £11m related to the acquisition of the private client division of Newton Management Limited described in Note 1 – Business combinations. The remaining costs relate to a number of business unit restructuring programmes and Solvency 2.

Of the restructuring costs, £73m (2012: £109m) is adjusted when determining operating profit before tax, with the remaining £2m (2012: £5m) incurred by the Heritage With Profits Fund.

## 11. Tax expense

The tax expense is attributed as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Tax expense attributable to policyholders' returns | **215** | 218 |
| Tax expense attributable to equity holders' profits | **90** | 51 |
| **Total tax expense** | **305** | 269 |

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Group's UK profits for this accounting period are subject to tax at a rate of 23.25%. The Finance Act 2013 further reduced the UK corporation tax rate to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. These rates have been applied in calculating the UK deferred tax position at 31 December 2013.

The share of tax of associates and joint ventures is £8m (2012: £9m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

### (a) Current year tax expense

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Current tax:** | | | |
| UK | | **146** | 224 |
| Double tax relief | | **-** | (2) |
| Overseas | | **28** | 43 |
| Adjustment to tax expense in respect of prior years | | **(39)** | (32) |
| **Total current tax** | | **135** | 233 |
| **Deferred tax:** | | | |
| Deferred tax expense arising from the current year | 20 | **170** | 36 |
| **Total deferred tax** | | **170** | 36 |
| **Total tax expense attributable to operations** | | **305** | 269 |
| **Attributable to equity holders' profits** | | **90** | 51 |

In 2012, £1m of unrecognised tax losses from previous years were used to reduce income tax expense. Unrecognised losses and timing differences of £4m were used to reduce the deferred tax expense (2012: £14m).

Deferred tax of £30m (2012: £26m) has not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries.

### (b) Tax relating to components of other comprehensive income

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

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Deferred tax on remeasurement gains/(losses) on defined benefit pension plans | 30 | **8** | (102) |
| Deferred tax on revaluation of owner occupied property | 31 | **5** | - |
| Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss | | **13** | (102) |
| Current tax on net change in financial assets designated as available-for-sale | 31 | **(7)** | - |
| Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss | | **(7)** | - |
| **Tax relating to each component of other comprehensive income** | | **6** | (102) |

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

# 11. Tax expense *continued*

## (c) Tax relating to items taken directly to equity

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Tax credit on reserves for employee share-based payments | | **(8)** | (6) |
| **Tax relating to items taken directly to equity** | 20 | **(8)** | (6) |

## (d) Reconciliation of tax expense

| | 2013 £m | 2012 restated[1] £m |
|---|---|---|
| Profit before tax | **801** | 963 |
| **Tax at 23.25% (2012: 24.5%)** | **186** | 236 |
| Policyholder tax (net of tax at UK standard rate) | **165** | 165 |
| Permanent differences | **(14)** | (32) |
| Non-taxable transfer to equity holders | **-** | (47) |
| Different tax rates | **(1)** | 15 |
| Adjustment to current tax expense in respect of prior years | **(39)** | (32) |
| Recognition of previously unrecognised tax credit | **(4)** | (14) |
| Deferred tax not recognised | **(1)** | - |
| Adjustment to deferred tax expense in respect of prior years | **(10)** | (31) |
| Overseas witholding tax on dividends | **14** | 8 |
| Other | **9** | 1 |
| **Total tax expense for the year** | **305** | 269 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

# 12. 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.

| | 2013 | 2012 restated[1] |
|---|---|---|
| **Profit attributable to equity holders of Standard Life plc (£m)** | **466** | 665 |
| Weighted average number of ordinary shares outstanding (millions) | **2,362** | 2,351 |
| **Basic earnings per share (pence per share)** | **19.7** | 28.3 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

## (b) Diluted earnings per share

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

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

| | 2013 | 2012 restated[1] |
|---|---|---|
| **Profit attributable to equity holders of Standard Life plc (£m)** | **466** | 665 |
| Weighted average number of ordinary shares outstanding for diluted earnings per share (millions) | **2,378** | 2,369 |
| **Diluted earnings per share (pence per share)** | **19.6** | 28.1 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

The dilutive effect of share awards and options included in the weighted average number of ordinary shares above was 16 million (2012: 18 million).

## (c) Alternative earnings per share

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

### (c)(i) Basic alternative earnings per share

| | 2013 £m | 2013 p per share | 2012 restated[1] £m | 2012 restated[1] p per share |
|---|---|---|---|---|
| **Operating profit before tax** | **751** | **31.8** | 867 | 36.9 |
| Tax on operating profit | **(141)** | **(6.0)** | (124) | (5.3) |
| Share of joint ventures and associates tax expense | **(8)** | **(0.3)** | (9) | (0.4) |
| **Operating profit after tax** | **602** | **25.5** | 734 | 31.2 |
| Adjusted for the following items: | | | | |
| Short-term fluctuations in investment return and economic assumption changes | **(92)** | **(4.0)** | (29) | (1.2) |
| Restructuring and corporate transaction expenses | **(73)** | **(3.1)** | (109) | (4.6) |
| Changes in Canada insurance contract liabilities due to resolution of prior years' tax matters | **(15)** | **(0.6)** | - | - |
| Other | **(7)** | **(0.3)** | (4) | (0.2) |
| **Total non-operating items** | **(187)** | **(8.0)** | (142) | (6.0) |
| Tax on non-operating items | **51** | **2.2** | 73 | 3.1 |
| **Profit attributable to equity holders of Standard Life plc** | **466** | **19.7** | 665 | 28.3 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

### (c)(ii) Diluted alternative earnings per share

| | 2013 £m | 2013 p per share | 2012 restated[1] £m | 2012 restated[1] p per share |
|---|---|---|---|---|
| **Operating profit before tax** | **751** | **31.6** | 867 | 36.6 |
| Tax on operating profit | **(141)** | **(6.0)** | (124) | (5.2) |
| Share of joint ventures and associates tax expense | **(8)** | **(0.3)** | (9) | (0.4) |
| **Operating profit after tax** | **602** | **25.3** | 734 | 31.0 |
| Adjusted for the following items: | | | | |
| Short-term fluctuations in investment return and economic assumption changes | **(92)** | **(3.9)** | (29) | (1.2) |
| Restructuring and corporate transaction expenses | **(73)** | **(3.1)** | (109) | (4.6) |
| Changes in Canada insurance contract liabilities due to resolution of prior years' tax matters | **(15)** | **(0.6)** | - | - |
| Other | **(7)** | **(0.3)** | (4) | (0.2) |
| **Total non-operating items** | **(187)** | **(7.9)** | (142) | (6.0) |
| Tax on non-operating items | **51** | **2.2** | 73 | 3.1 |
| **Profit attributable to equity holders of Standard Life plc** | **466** | **19.6** | 665 | 28.1 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

# 13. Non-operating items

### Short-term fluctuations in investment return and economic assumptions changes

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

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

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | UK<br>% | Canada<br>% | UK<br>% | Canada<br>% |
| Equity securities | **4.74** | **8.60** | 4.93 | 8.60 |
| Property | **3.74** | **8.60** | 3.93 | 8.60 |

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

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

For the year ended 31 December 2013, short-term fluctuations in investment return and economic assumption changes resulted in losses of £92m (2012: £29m). Short-term fluctuations in investment return relate principally to the investment volatility in Canada non-segregated funds and UK annuities, and in respect of the Group's subordinated liabilities and assets backing those liabilities.

### Changes in Canada insurance contract liabilities due to resolution of prior years' tax matters

As set out in accounting policy (v)(ii) the Group's Canadian insurance contract liabilities are measured according to CALM. That valuation includes an allowance for the difference between the undiscounted deferred taxes recognised under IAS 12 *Income Taxes* relating directly to the insurance contract liabilities and the discounted value of those deferred taxes.

Hence when management or the Canadian tax authorities successfully challenge an historic tax position which results in a change in the difference between the undiscounted and discounted deferred taxes relating directly to the tax treatment of insurance contract liabilities, a change in insurance contract liabilities is recognised in the income statement thus impacting profit before tax. This change in insurance contract liabilities is removed when determining operating profit before tax. As this amount unwinds under CALM in future years, the associated change in insurance contract liabilities is also excluded from operating profit before tax.

Normal finalisation of prior years' tax charges are not excluded from operating profit where they are routine and part of normal operations.

# 14. Dividends

The Company paid a final dividend of 9.80 pence per share and a special dividend of 12.80 pence per share totalling £230m and £302m respectively (final 2011: 9.20 pence; £216m) in respect of the year ended 31 December 2012 on 21 May 2013. An interim dividend of 5.22 pence per share (interim 2012: 4.90 pence) totalling £124m (interim 2012: £115m) in respect of the year ended 31 December 2013 was paid on 29 October 2013. The dividends were recorded as an appropriation of retained earnings and special reserve for the year ended 31 December 2013.

Subsequent to 31 December 2013, the Directors have proposed a final dividend for the year ended 31 December 2013 of 10.58 pence per ordinary share, £251m in total. The dividend will be paid on 22 May 2014 to shareholders on the Company's register as at 11 April 2014, subject to approval at the Annual General Meeting on 13 May 2014. The dividend will be recorded as an appropriation of retained earnings in the financial statements for the year ended 31 December 2014.

## 15. Intangible assets

| | Notes | Goodwill £m | Intangible assets acquired through business combinations £m | Internally developed software £m | Other acquired intangible assets £m | Total £m |
|---|---|---|---|---|---|---|
| **Gross amount** | | | | | | |
| **At 1 January 2012** | | 71 | 30 | 154 | 23 | 278 |
| Additions | | - | - | 25 | 13 | 38 |
| Disposals and adjustments | | - | - | (2) | 2 | - |
| Other | | - | - | - | (1) | (1) |
| **At 31 December 2012** | | 71 | 30 | 177 | 37 | 315 |
| Additions | 1 | **40** | **29** | **25** | **22** | **116** |
| Other | | **-** | **-** | **-** | **(2)** | **(2)** |
| **At 31 December 2013** | | **111** | **59** | **202** | **57** | **429** |
| **Accumulated amortisation** | | | | | | |
| **At 1 January 2012** | | - | (8) | (58) | (12) | (78) |
| Amortisation charge for the year | 7 | - | (5) | (15) | (4) | (24) |
| Other | | - | - | - | 1 | 1 |
| **At 31 December 2012** | | - | (13) | (73) | (15) | (101) |
| Amortisation charge for the year | 7 | **-** | **(5)** | **(20)** | **(5)** | **(30)** |
| Other | | **-** | **-** | **-** | **2** | **2** |
| **At 31 December 2013** | | **-** | **(18)** | **(93)** | **(18)** | **(129)** |
| **Carrying amount** | | | | | | |
| **At 1 January 2012** | | 71 | 22 | 96 | 11 | 200 |
| **At 31 December 2012** | | 71 | 17 | 104 | 22 | 214 |
| **At 31 December 2013** | | **111** | **41** | **109** | **39** | **300** |

The Group's goodwill of £111m (2012: £71m) has been acquired through a series of business combinations. The cash generating unit to which all goodwill is attributed is the UK and Europe business unit.

Goodwill is reviewed annually for impairment by comparing the carrying value of each of the investments including goodwill with its recoverable amount. The recoverable amount of the investments is determined by calculating its value in use.

The value in use calculation uses cash flow projections based on business plans for a maximum period of five years. The following key assumptions have been applied by management to the calculations after considering past experience and market expectations for future growth:

- A growth rate of 3% has been used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth rates for the industry and the UK economy
- Additional net flows into assets under administration and increased market share have been assumed due to enhanced product offerings
- Cost savings have been assumed due to synergies expected
- A risk-adjusted discount rate ranging from 10% to 15% has been applied.

As a result of the impairment testing carried out, no goodwill was considered to be impaired at 31 December 2013 or 31 December 2012.

# 16. Deferred acquisition costs

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **904** | 920 |
| Additions during the year | 7 | **165** | 202 |
| Amortisation charge | 7 | **(151)** | (180) |
| Impairment charge | 7 | **(6)** | (3) |
| Release of deferred acquisition costs[1] | 7 | **-** | (22) |
| Foreign exchange adjustment | | **(7)** | (13) |
| **At 31 December** | | **905** | 904 |

[1] A reclassification of certain non-participating investment contracts to non-participating insurance contracts resulted in a release of deferred acquisition costs during the year to 31 December 2012. Refer to Note 5 – Fee and commission income.

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £772m (2012: £799m). Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £607m (2012: £649m).

# 17. Investments in associates and joint ventures

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Investments in associates and joint ventures accounted for using the equity method | | **306** | 302 |
| Loans to associates and joint ventures | 21 | **22** | 26 |
| **Total investments in associates and joint ventures** | | **328** | 328 |

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **328** | 326 |
| Share of profit from associates and joint ventures | | **25** | 48 |
| Dividends received | | **(12)** | (5) |
| Additions | | **24** | 21 |
| Disposals and loan repayments | | **(9)** | (14) |
| Change due to reclassification of investments | | **-** | (36) |
| Foreign exchange adjustment | | **(25)** | (12) |
| Share of other comprehensive income of joint ventures | 30 | **(3)** | - |
| **At 31 December** | | **328** | 328 |

## (a) Investments in associates

The following are particulars of the Group's share of significant associates:

| Name of associate | Country of incorporation or registration | Interest held % | Year end | Nature of business | Assets £m | Liabilities £m | Revenues £m | Profit £m |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | | | |
| HDFC Asset Management Company Limited[1] | **India** | **40.0** | **31 Mar** | **Investment Management** | **64** | **32** | **37** | **15** |
| At 31 December 2012 | | | | | | | | |
| HDFC Asset Management Company Limited[1] | India | 40.0 | 31 Mar | Investment Management | 63 | 31 | 31 | 13 |

[1] The reporting date for HDFC Asset Management Company Limited is 31 March as this is its year end date. This is different from the Group's year end date of 31 December.

## (b) Investments in joint ventures

The following are particulars of the Group's significant joint ventures, all of which are unlisted:

| Name of joint venture | Country of incorporation or registration | Interest held % | Current assets £m | Long-term assets £m | Current liabilities £m | Long-term liabilities £m | Income £m | Expenses £m |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2013** | | | | | | | | |
| Castan Waterfront Development Inc. | **Canada** | **50.0** | **1** | **25** | **1** | **10** | **(3)** | **-** |
| First Real Properties Limited | **Canada** | **49.0** | **2** | **88** | **2** | **11** | **8** | **7** |
| 526304 Alberta Limited | **Canada** | **50.0** | **5** | **25** | **-** | **4** | **4** | **-** |
| HDFC Standard Life Insurance Company Limited | **India** | **26.0** | **27** | **1,180** | **30** | **1,132** | **406** | **394** |
| Heng An Standard Life Insurance Company Limited | **China** | **50.0** | **20** | **379** | **2** | **346** | **66** | **73** |
| **At 31 December 2012** | | | | | | | | |
| Castan Waterfront Development Inc. | Canada | 50.0 | - | 24 | - | 5 | 2 | - |
| First Real Properties Limited | Canada | 49.0 | 1 | 98 | 3 | 11 | 27 | 10 |
| 526304 Alberta Limited | Canada | 50.0 | 1 | 25 | - | - | 2 | - |
| HDFC Standard Life Insurance Company Limited | India | 26.0 | 29 | 1,149 | 38 | 1,025 | 535 | 518 |
| Heng An Standard Life Insurance Company Limited | China | 50.0 | 11 | 357 | 2 | 325 | 85 | 94 |

# 18. Investment property

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| At 1 January | | **8,565** | 8,743 |
| Additions – acquisitions | | **539** | 540 |
| Additions – subsequent expenditure | | **127** | 130 |
| Net fair value gains | | **325** | 31 |
| Disposals | | **(806)** | (827) |
| Foreign exchange adjustment | | **(104)** | (48) |
| Investment property reclassified to assets held for sale | 26 | **(92)** | - |
| Other | | **(9)** | (4) |
| **At 31 December** | | **8,545** | 8,565 |
| The fair value of investment property can be analysed as: | | | |
| Freehold | | **6,210** | 6,250 |
| Long leasehold | | **2,271** | 2,200 |
| Short leasehold | | **64** | 115 |
| | | **8,545** | 8,565 |

The rental income arising from investment property during the year amounted to £591m (2012: £604m), which is included in investment return as set out in Note 4 – Investment return. Direct operating expenses (included within other administrative expenses) arising in respect of such rented property during the year amounted to £168m (2012: £179m).

The methods and assumptions used to determine fair value for investment property and property under development are discussed in Note 42 – Fair value of assets and liabilities.

For property located in UK and Europe, all valuations are provided by independent qualified professional valuers at 31 December or as at a date that is not more than three months before 31 December. Where valuations have been undertaken at dates prior to the end of the reporting period, adjustments are made where appropriate to reflect the impact of changes in market conditions between the date of these valuations and the end of the reporting period.

In Canada, property with a value higher than CA$50m are externally appraised every quarter, property with a value between CA$10m and CA$50m are externally appraised twice a year while property with a value lower than CA$10m are externally appraised once a year, with valuations evenly distributed throughout the year. Property not subject to an external appraisal at a quarter end are reviewed in light of the market information provided by the other external appraisals and an internal adjustment is estimated.

## 18. Investment property *continued*

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

| | 2013 £m | 2012[1] £m |
|---|---|---|
| Not later than one year | **453** | 464 |
| Later than one year and no later than five years | **1,397** | 1,471 |
| Later than five years | **2,778** | 2,383 |
| **Total operating lease receivables** | **4,628** | 4,318 |

[1] The comparative information has been restated to reflect correct timing of future rental receivables.

## 19. Property, plant and equipment

| | Notes | Owner occupied property £m | Equipment £m | Total £m |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| **At 1 January 2012** | | 115 | 97 | 212 |
| Additions | | 1 | 17 | 18 |
| Disposals and adjustments[1] | | - | (4) | (4) |
| Revaluations | 31 | 5 | - | 5 |
| Impairment losses recognised[2] | 7 | (7) | - | (7) |
| Foreign exchange adjustment | | (2) | - | (2) |
| **At 31 December 2012** | | 112 | 110 | 222 |
| Additions | | **-** | **17** | **17** |
| Disposals and adjustments[1] | | **-** | **(6)** | **(6)** |
| Revaluations | 31 | **68** | **-** | **68** |
| Impairment losses reversed[2] | 7 | **2** | **-** | **2** |
| Impairment losses recognised[2] | 7 | **(5)** | **-** | **(5)** |
| Foreign exchange adjustment | | **(5)** | **-** | **(5)** |
| **At 31 December 2013** | | **172** | **121** | **293** |
| **Accumulated depreciation** | | | | |
| **At 1 January 2012** | | - | (52) | (52) |
| Depreciation charge for the year | 7 | - | (16) | (16) |
| Disposals and adjustments[1] | | - | 2 | 2 |
| **At 31 December 2012** | | - | (66) | (66) |
| Depreciation charge for the year | 7 | **-** | **(14)** | **(14)** |
| Disposals and adjustments[1] | | **-** | **6** | **6** |
| **At 31 December 2013** | | **-** | **(74)** | **(74)** |
| **Carrying amount** | | | | |
| **At 1 January 2012** | | 115 | 45 | 160 |
| **At 31 December 2012** | | 112 | 44 | 156 |
| **At 31 December 2013** | | **172** | **47** | **219** |

[1] For the year ended 31 December 2013 £6m (2012: £2m) of disposals and adjustments relates to equipment with net book value of nil and is no longer in use.
[2] The impairment (recognised)/reversed arose due to changes in the market value of a number of properties relative to their original deemed cost.

If owner occupied property was measured using the cost model, the historical cost before impairment would be £180m (2012: £180m). Where the expected residual value of owner occupied property is in line with the current fair value, no depreciation is charged. Equipment primarily consists of computer equipment.

The methods and assumptions used to value owner occupied property are set out in Note 42 – Fair value of assets and liabilities.

## 20. Tax assets and liabilities

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| Current tax recoverable | 25 | **137** | 154 |
| Deferred tax assets | | **121** | 177 |
| **Total tax assets** | | **258** | 331 |
| Current tax liabilities | | **55** | 150 |
| Deferred tax liabilities | | **178** | 43 |
| **Total tax liabilities** | | **233** | 193 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

All current tax assets and liabilities as at 31 December 2013 and 31 December 2012 are expected to be recoverable or payable in less than 12 months. Deferred tax assets and liabilities are expected to be recovered or settled after more than 12 months.

### (a) Recognised deferred tax

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **Deferred tax assets comprise:** | | | |
| Actuarial liabilities | | **148** | 165 |
| Losses carried forward | | **39** | 48 |
| Realised losses on investments | | **9** | 81 |
| Depreciable assets | | **34** | 32 |
| Deferred income | | **46** | 58 |
| Employee benefits | | **42** | 50 |
| Provisions and other temporary timing differences | | **3** | 5 |
| Insurance related items | | **10** | 34 |
| Subordinated liabilities valuation differences | | **3** | - |
| Unrealised losses on investments | | **1** | 6 |
| Other | | **2** | - |
| **Gross deferred tax assets** | | **337** | 479 |
| Less: Offset against deferred tax liabilities | | **(216)** | (302) |
| **Net deferred tax assets** | | **121** | 177 |
| **Deferred tax liabilities comprise:** | | | |
| Insurance related items | | **35** | 40 |
| Unrealised gains on investments | | **212** | 139 |
| Deferred acquisition costs | | **132** | 157 |
| Subordinated liabilities valuation differences | | **3** | - |
| Temporary timing differences | | **4** | 9 |
| Other | | **8** | - |
| **Gross deferred tax liabilities** | | **394** | 345 |
| Less: Offset against deferred tax assets | | **(216)** | (302) |
| **Net deferred tax liabilities** | | **178** | 43 |
| **Movements in net deferred tax assets/(liabilities) comprise:** | | | |
| **At 1 January** | | **134** | 65 |
| Amounts charged to the consolidated income statement | | **(170)** | (36) |
| Amounts (charged)/credited to components of other comprehensive income | 30 | **(13)** | 102 |
| Amounts credited directly to equity in respect of employee share-based payment schemes | | **8** | 6 |
| Transfer to current tax for vested employee share based payment schemes | 30 | **(9)** | - |
| Foreign exchange adjustment | | **(6)** | (2) |
| Prior year adjustment | | **(1)** | - |
| Other | | **(-)** | (1) |
| **At 31 December** | | **(57)** | 134 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

# 20. Tax assets and liabilities *continued*

## (a) Recognised deferred tax *continued*

Deferred tax assets and liabilities are netted off to the extent that legal offset is available under local tax law. A deferred tax asset of £49m (2012: £135m) for the Group has been recognised in respect of losses of various subsidiaries and unrealised losses on investments. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against anticipated taxable profits and gains based on business plans. The losses do not have an expiry date.

## (b) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax has not been recognised in respect of the following assets:

- Cumulative losses carried forward of £96m (2012: £89m)
- Tax reserves of the German branch of Standard Life Assurance Limited of £71m (2012: £93m)
- Unrealised investment losses of £12m (2012: £376m).

# 21. Financial investments

| 2013 | Notes | Designated as at fair value through profit or loss £m | Held for trading £m | Available-for-sale £m | Loans and receivables £m | Net investment hedge £m | Total £m |
|---|---|---|---|---|---|---|---|
| Investments in associates and joint ventures | 17 | - | - | - | 22 | - | **22** |
| Loans | 22 | - | - | - | 2,924 | - | **2,924** |
| Derivative financial assets | 23 | - | 1,713 | - | - | 54 | **1,767** |
| Equity securities and interests in pooled investment funds | 41 | 90,316 | - | - | - | - | **90,316** |
| Debt securities | 41 | 61,356 | - | 683 | - | - | **62,039** |
| Receivables and other financial assets | 24 | - | - | - | 1,042 | - | **1,042** |
| Assets held for sale | 26 | 29 | - | - | - | - | **29** |
| Cash and cash equivalents | 27 | - | - | - | 9,104 | - | **9,104** |
| **Total** | | **151,701** | **1,713** | **683** | **13,092** | **54** | **167,243** |

| 2012 | Notes | Designated as at fair value through profit or loss £m | Held for trading £m | Available-for-sale £m | Loans and receivables £m | Net investment hedge £m | Total £m |
|---|---|---|---|---|---|---|---|
| Investments in associates and joint ventures | 17 | - | - | - | 26 | - | **26** |
| Loans | 22 | - | - | - | 3,299 | - | **3,299** |
| Derivative financial assets | 23 | - | 2,132 | - | - | 18 | **2,150** |
| Equity securities and interests in pooled investment funds | 41 | 65,812 | - | - | - | - | **65,812** |
| Debt securities | 41 | 72,927 | - | 374 | - | - | **73,301** |
| Receivables and other financial assets | 24 | - | - | - | 1,717 | - | **1,717** |
| Assets held for sale | 26 | - | - | - | - | - | **-** |
| Cash and cash equivalents | 27 | - | - | - | 9,942 | - | **9,942** |
| **Total** | | **138,739** | **2,132** | **374** | **14,984** | **18** | **156,247** |

The amount of debt securities expected to be recovered or settled after more than 12 months is £48,905m (2012: £61,940m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

## 22. Loans

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Loans secured by mortgages | 42(e) | **2,705** | 3,014 |
| Loans secured on policies | | **90** | 99 |
| Other | | **129** | 186 |
| **Total loans** | 41 | **2,924** | 3,299 |

Loans with variable rates and fixed interest rates are £170m and £2,754m respectively (2012: £197m and £3,102m respectively). Loans that are expected to be recovered after more than 12 months are £2,468m (2012: £2,765m).

## 23. Derivative financial instruments

The Group uses derivative financial instruments in order to match contractual liabilities, to reduce the risk from potential movements in foreign exchange rates, equity indices, property indices and interest rates, to reduce credit risk or to achieve efficient portfolio management. The Group designates certain derivative financial instruments as cash flow hedges and net investment hedges to mitigate risk, as detailed below. Derivative financial instruments that are not designated part of a hedge relationship are held for trading under IAS 39 *Financial Instruments: Recognition and Measurement*.

| | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Contract amount £m | Fair value assets £m | Fair value liabilities £m | Contract amount £m | Fair value assets £m | Fair value liabilities £m |
| Cash flow hedges | | **20** | **-** | **-** | 22 | - | - |
| Net investment hedges | | **883** | **54** | **-** | 755 | 18 | - |
| Held for trading | | **78,165** | **1,713** | **795** | 82,979 | 2,132 | 853 |
| **Derivative financial instruments** | 41 | **79,068** | **1,767** | **795** | 83,756 | 2,150 | 853 |

Derivative assets of £824m (2012: £1,681m) are expected to be recovered after more than 12 months. Derivative liabilities of £195m (2012: £560m) are expected to be settled after more than 12 months.

### (a) Cash flow hedges

The Group designates as cash flow hedges those currency forwards and currency swaps used to reduce the exposure to variability in cash flows arising from the foreign exchange risk associated with revenue receivable in foreign currency.

Forward foreign exchange contracts with an aggregate notional principal amount of £20m (2012: £22m) and a net fair value asset position of £nil (2012: £nil) were designated as hedges of future cash flows arising from revenue receivable in foreign currency in 2013 and 2012. The cash flows from these instruments are expected to be reported in the consolidated income statement for the following year. In 2013 and 2012, the ineffectiveness recognised in the consolidated income statement that arises from these cash flow hedges was less than £1m.

### (b) Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations using forward foreign exchange contracts. Forward foreign exchange contracts with a notional principal of £883m (2012: £755m) and a net asset position of £54m (2012: £18m) were designated as net investment hedges and gave rise to gains for the year of £63m (2012: gains of £18m), which have been deferred in the net investment hedge translation reserve. The effectiveness of hedges of net investments in foreign operations is measured with reference to changes in the spot exchange rates. Any ineffectiveness, together with any difference in value attributable to forward points, is recognised in the consolidated income statement. In 2013, the losses recognised in the consolidated income statement were £5m (2012: £4m). No amounts were withdrawn from equity during the year (2012: £nil), as there were no disposals of foreign operations.

# 23. Derivative financial instruments *continued*

## (c) Held for trading

Derivative financial instruments classified as held for trading include those that the Group holds as economic hedges of financial instruments that are measured at fair value. Held for trading derivative financial instruments are also held by the Group to match contractual liabilities that are measured at fair value or to achieve efficient portfolio management in respect of instruments measured at fair value.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Contract amount £m | Fair value assets £m | Fair value liabilities £m | Contract amount £m | Fair value assets £m | Fair value liabilities £m |
| **Equity derivatives:** | | | | | | |
| Futures | **12,176** | **186** | **314** | 8,490 | 22 | 88 |
| Variance swaps | **32** | **67** | **77** | 62 | 179 | 188 |
| Options | **4,421** | **375** | **33** | 5,190 | 678 | 40 |
| **Bond derivatives**: | | | | | | |
| Futures | **6,969** | **23** | **44** | 13,231 | 79 | 34 |
| **Interest rate derivatives:** | | | | | | |
| Swaps | **23,068** | **265** | **156** | 12,133 | 441 | 117 |
| Futures | **108** | **1** | **-** | 128 | - | - |
| Options | **72** | **12** | **-** | 113 | 27 | - |
| Swaptions | **5,651** | **279** | **28** | 11,469 | 469 | 110 |
| **Foreign exchange derivatives:** | | | | | | |
| Forwards | **22,054** | **386** | **81** | 19,468 | 164 | 109 |
| Futures | **179** | **-** | **-** | 201 | - | 2 |
| Options | **2,865** | **89** | **56** | 5,907 | 55 | 77 |
| **Other derivatives:** | | | | | | |
| Inflation rate swaps | **447** | **23** | **6** | 1,305 | 3 | 23 |
| Credit default swaps | **123** | **7** | **-** | 5,282 | 15 | 65 |
| **Derivative financial instruments held for trading** | **78,165** | **1,713** | **795** | 82,979 | 2,132 | 853 |

## (d) Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

| 2013 | Within 1 year £m | 2-5 years £m | 6-10 years £m | 11-15 years £m | 16-20 years £m | Greater than 20 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cash inflows** | | | | | | | |
| Derivative financial assets | 19,488 | 265 | 180 | 85 | 29 | 59 | **20,106** |
| Derivative financial liabilities | 8,275 | 300 | 45 | 27 | 10 | 19 | **8,676** |
| **Total** | **27,763** | **565** | **225** | **112** | **39** | **78** | **28,782** |
| **Cash outflows** | | | | | | | |
| Derivative financial assets | (18,638) | (170) | (75) | (146) | (185) | (126) | **(19,340)** |
| Derivative financial liabilities | (8,471) | (140) | (209) | (253) | (166) | (112) | **(9,351)** |
| **Total** | **(27,109)** | **(310)** | **(284)** | **(399)** | **(351)** | **(238)** | **(28,691)** |
| **Net derivative financial instruments cash inflows/(outflows)** | **654** | **255** | **(59)** | **(287)** | **(312)** | **(160)** | **91** |

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

| 2012 | Within 1 year £m | 2-5 years £m | 6-10 years £m | 11-15 years £m | 16-20 years £m | Greater than 20 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Cash inflows** | | | | | | | |
| Derivative financial assets | 12,445 | 1,135 | 99 | 20 | 15 | 107 | **13,821** |
| Derivative financial liabilities | 11,858 | 799 | 3 | - | - | - | **12,660** |
| **Total** | **24,303** | **1,934** | **102** | **20** | **15** | **107** | **26,481** |
| **Cash outflows** | | | | | | | |
| Derivative financial assets | (11,912) | (688) | (36) | (101) | (52) | (31) | **(12,820)** |
| Derivative financial liabilities | (12,117) | (666) | (37) | (44) | (49) | (127) | **(13,040)** |
| **Total** | **(24,029)** | **(1,354)** | **(73)** | **(145)** | **(101)** | **(158)** | **(25,860)** |
| **Net derivative financial instruments cash inflows/(outflows)** | **274** | **580** | **29** | **(125)** | **(86)** | **(51)** | **621** |

## 24. Receivables and other financial assets

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Amounts receivable on direct insurance business | | **110** | 114 |
| Amounts receivable on reinsurance contracts | | **7** | 4 |
| Outstanding sales of investment securities | | **109** | 51 |
| Accrued income | | **271** | 1,037 |
| Cancellations of units awaiting settlement | | **177** | 130 |
| Collateral pledged in respect of derivative contracts | 41 | **28** | 8 |
| Property related assets | | **148** | 212 |
| Other | | **192** | 161 |
| **Receivables and other financial assets** | | **1,042** | 1,717 |

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

The amount of receivables and other financial assets expected to be recovered after more than 12 months is £93m (2012: £95m).

## 25. Other assets

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Current tax recoverable | 20 | **137** | 154 |
| Prepayments | | **39** | 23 |
| Other | | **93** | 107 |
| **Other assets** | | **269** | 284 |

The amount of other assets expected to be recovered after more than 12 months is £44m (2012: £41m).

## 26. Assets held for sale

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment property | **92** | - |
| Amounts seeded into funds | **29** | - |
| **Assets held for sale** | **121** | - |

Investment property classified as held for sale relates to property for which contracts have been exchanged prior to 31 December 2013 but the sale is expected to close during 2014. The consideration for the sale of investment property will be cash. Gains or losses on all investment property, including those held for sale are recorded in Investment return in the consolidated income statement. Investment property held for sale is included in the Group's UK and Europe reportable segment.

## 26. Assets held for sale *continued*

Amounts seeded into funds classified as held for sale relate to seed capital provided to newly established funds which the Group is actively seeking to divest from and it is highly probable that the capital provided will be returned within 12 months. These are included in the Group's Standard Life Investments reportable segment. The underlying assets of seeded funds consist primarily of equity securities and interests in pooled investment funds. There are no significant liabilities in seeded funds.

## 27. Cash and cash equivalents

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| Cash at bank and in hand | **687** | 631 |
| Money at call and short notice | **857** | 882 |
| Demand, term deposits and debt instruments with less than three months to maturity from acquisition | **7,560** | 8,429 |
| **Cash and cash equivalents** | **9,104** | 9,942 |

| | Notes | 2013<br>£m | 2012<br>£m |
|---|---|---|---|
| Cash and cash equivalents | | **9,104** | 9,942 |
| Bank overdrafts | 35 | **(69)** | (44) |
| **Total cash and cash equivalents for consolidated statement of cash flows** | | **9,035** | 9,898 |

Cash in hand is non-interest bearing. Cash at bank, money at call and short notice and deposits are subject to variable interest rates.

## 28. Share capital

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

| **Issued shares of 10p each fully paid** | 2013<br>Number | 2013<br>£m | 2012<br>Number | 2012<br>£m |
|---|---|---|---|---|
| **At 1 January** | **2,357,978,652** | **236** | 2,353,665,822 | 235 |
| Shares issued in respect of share incentive plans | **283,126** | **-** | 445,155 | - |
| Shares issued in respect of share options | **18,354,952** | **2** | 3,867,675 | 1 |
| **At 31 December** | **2,376,616,730** | **238** | 2,357,978,652 | 236 |

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 2013, the Company allotted 283,126 (2012: 445,155) ordinary shares to Group employees under such share incentive plans.

The Group also operates long-term incentive plans (LTIPs) for executives and senior management and a Sharesave (Save-as-you-earn) scheme for all eligible employees. During the year ended 31 December 2013, 18,169,290 (2012: 3,832,753) and 185,662 (2012: 34,922) ordinary shares were issued in relation to LTIP and Sharesave schemes respectively.

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.

## 29. Shares held by trusts

The Employee Shares 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 consolidated statement of financial position. Share-based liabilities to employees may also be settled by the issue of new shares.

Shares held by trusts 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 2013 which were not offset by a corresponding obligation to deliver a fixed number of equity instruments, was 3,112,350 (2012: 2,527,223).

## 30. Retained earnings

| | Notes | 2013 £m | 2012 restated[1] £m |
|---|---|---|---|
| **At 1 January** | | **1,441** | 1,034 |
| Profit for the year attributable to equity holders | | **466** | 665 |
| Dividends and appropriations | | **(636)** | (331) |
| Transfer from equity compensation reserve for vested employee share-based payments | 31 | **33** | 25 |
| Remeasurement gains/(losses) on defined benefit pension plans | 37 | **101** | (37) |
| Shares distributed by employee trusts | | **(12)** | (17) |
| Share of other comprehensive income of joint ventures | 17 | **(3)** | - |
| Aggregate tax items recognised in equity | | **9** | - |
| Aggregate tax items recognised in other comprehensive income | 11 | **(8)** | 102 |
| **At 31 December** | | **1,391** | 1,441 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits.* Refer to Group accounting policies – (a) Basis of preparation.

## 31. Reconciliation of movements in other reserves

| 2013 | Notes | Revaluation of owner occupied property £m | Cash flow hedges £m | Foreign currency translation £m | Net investment hedge £m | Available-for-sale financial assets £m | Merger reserve £m | Equity compensation reserve £m | Special reserve £m | Reserve arising on Group reconstruction £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January** | | **10** | **-** | **269** | **(24)** | **-** | **3,108** | **55** | **261** | **(2,100)** | **1,579** |
| Fair value gains/(losses) on cash flow hedges | | - | - | - | - | - | - | - | - | - | **-** |
| Net investment hedge | 23 | - | - | - | 63 | - | - | - | - | - | **63** |
| Fair value gains/(losses) on available-for-sale financial assets | | - | - | - | - | (32) | - | - | - | - | **(32)** |
| Revaluation of owner occupied property | 19 | 68 | - | - | - | - | - | - | - | - | **68** |
| Exchange differences on translating foreign operations | | - | - | (120) | - | - | - | - | - | - | **(120)** |
| Reserves credit for employee share-based payment schemes | | - | - | - | - | - | - | 32 | - | - | **32** |
| Vested employee share-based payments | 30 | - | - | - | - | - | - | (33) | - | - | **(33)** |
| Dividends and distributions | | - | - | - | - | - | - | - | (20) | - | **(20)** |
| With profits funds: associated UDS movement recognised in equity | 33 | (48) | - | 4 | - | - | - | - | - | - | **(44)** |
| Aggregate tax effect of items recognised directly in equity | 20 | - | - | - | - | - | - | (1) | - | - | **(1)** |
| Aggregate tax effect of items recognised in other comprehensive income | | (5) | - | - | - | 7 | - | - | - | - | **2** |
| **At 31 December** | | **25** | **-** | **153** | **39** | **(25)** | **3,108** | **53** | **241** | **(2,100)** | **1,494** |
| Balance at 31 December 2013 comprises: | | | | | | | | | | | |
| Total reserve before with profit fund adjustment | | 67 | - | 373 | 39 | (25) | 3,108 | 53 | 241 | (2,100) | **1,756** |
| Total with profit fund adjustment | | (42) | - | (220) | - | - | - | - | - | - | **(262)** |
| **At 31 December** | | **25** | **-** | **153** | **39** | **(25)** | **3,108** | **53** | **241** | **(2,100)** | **1,494** |

The with profit fund adjustment represents the cumulative amounts transferred to the unallocated divisible surplus as they represent movements attributable to participating policyholders, which would otherwise have been included in other reserves.

# 31. Reconciliation of movements in other reserves *continued*

**Merger Reserve**: On demutualisation of The Standard Life Assurance Company (SLAC), the demutualisation shares issued by the Company qualified for merger relief under section 131 of the Companies Act 1985 (which has now been superseded by section 612 of the Companies Act 2006). Merger relief permits, where shares are issued at a premium, the difference between the issue value and nominal value of the shares issued to be transferred to a reserve other than the share premium account. The difference between the issue value and nominal value of the demutualisation shares was transferred to the merger reserve. Following the dividend in specie, £1,872m of merger reserves attached to the demutualisation shares was replaced with merger relief on the ordinary shares of the operating subsidiaries acquired by the Company. On disposal of Standard Life Bank plc and Standard Life Healthcare Limited during 2010, £86m of the merger relief was realised and transferred from the merger reserve to retained earnings.

**Reserve arising on Group reconstruction**: On demutualisation of SLAC, the value of the demutualisation shares issued was equal to the fair value of the assets and liabilities of the Group. Merger accounting principles were applied to the demutualisation transaction and therefore all assets and liabilities were transferred at their book value at the time of demutualisation in the consolidated financial statements. The reserve arising on group reconstruction represents the difference between the fair value and book value of the assets and liabilities of the Group at the time of demutualisation of SLAC on 10 July 2006.

**Special reserve**: On 21 July 2006 the Court of Session confirmed a £500m reduction in the share premium account of the Company. Following the reduction, a special reserve was created for the same amount. The special reserve forms part of the Company's distributable profits for the purpose of section 830 of the Companies Act 2006. The total amount of dividends paid during the year was £656m (2012: £331m), of which £20m (2012: £nil) has been treated as a deduction from the special reserve.

| 2012 | Notes | Revaluation of owner occupied property £m | Cash flow hedges £m | Foreign currency translation £m | Net investment hedge £m | Merger reserve £m | Equity compensation reserve £m | Special reserve £m | Reserve arising on Group reconstruction £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January** | | **7** | **1** | **320** | **(41)** | **3,108** | **49** | **261** | **(2,100)** | **1,605** |
| Fair value losses on cash flow hedges | | - | (1) | - | - | - | - | - | - | **(1)** |
| Fair value gains transferred to income statement on cash flow hedges | | - | - | - | - | - | - | - | - | **-** |
| Net investment hedge | | - | - | - | 18 | - | - | - | - | **18** |
| Revaluation of owner occupied property | 19 | 5 | - | - | - | - | - | - | - | **5** |
| Exchange differences on translating foreign operations | | - | - | (65) | - | - | - | - | - | **(65)** |
| Reserves credit for employee share-based payment schemes | | - | - | - | - | - | 25 | - | - | **25** |
| Vested employee share-based payments | 30 | - | - | - | - | - | (25) | - | - | **(25)** |
| With profits funds: associated UDS movement recognised in equity | 33 | (2) | - | 13 | - | - | - | - | - | **11** |
| Aggregate tax effect of items recognised directly in equity | 20 | - | - | - | - | - | 6 | - | - | **6** |
| Aggregate tax effect of items recognised in other comprehensive income | | - | - | 1 | (1) | - | - | - | - | **-** |
| **At 31 December** | | **10** | **-** | **269** | **(24)** | **3,108** | **55** | **261** | **(2,100)** | **1,579** |
| Balance at 31 December 2012 comprises: | | | | | | | | | | |
| Total reserve before with profit fund adjustment | | 4 | - | 493 | (24) | 3,108 | 55 | 261 | (2,100) | **1,797** |
| Total with profit fund adjustment | | 6 | - | (224) | - | - | - | - | - | **(218)** |
| **At 31 December** | | **10** | **-** | **269** | **(24)** | **3,108** | **55** | **261** | **(2,100)** | **1,579** |

## 32. Non-controlling interests and third party interest in consolidated funds

The movement in non-controlling interests during the year was:

| | 2013 £m | 2012 £m |
|---|---|---|
| **At 1 January** | **341** | 358 |
| Foreign exchange differences on translating foreign operations | **2** | (6) |
| Change in net assets attributable to non-controlling interests | **30** | 29 |
| Net contributions | **(14)** | (31) |
| Distributions | **(26)** | (9) |
| **At 31 December** | **333** | 341 |

The movement in third party interest in consolidated funds during the year was:

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **12,037** | 8,428 |
| Foreign exchange differences on translating foreign operations | | **(72)** | (98) |
| Change in liability for third party interest in consolidated funds | | **865** | 782 |
| Net contributions and movements between classifications of investments | | **(858)** | 3,055 |
| Distributions | | **(169)** | (130) |
| **At 31 December** | 34 | **11,803** | 12,037 |

## 33. Insurance contracts, investment contracts and reinsurance contracts

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Non-participating insurance contract liabilities | 33(a) | **28,312** | 29,050 |
| Non-participating investment contract liabilities | 33(b) | **97,659** | 84,201 |
| **Non-participating contract liabilities** | | **125,971** | 113,251 |
| | | | |
| Participating insurance contract liabilities | 33(a) | **15,060** | 15,919 |
| Participating investment contract liabilities | 33(a) | **14,707** | 14,993 |
| Unallocated divisible surplus | 33(d) | **680** | 706 |
| **Participating contract liabilities** | | **30,447** | 31,618 |

# 33. Insurance contracts, investment contracts and reinsurance contracts *continued*

## (a) Insurance contracts, participating investment contracts and reinsurance contracts

### (a)(i) Change in liabilities and reinsurance contracts

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

| 2013 | 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** | **15,919** | **29,050** | **14,993** | **59,962** | **(6,531)** | **53,431** |
| Expected change | (1,585) | (952) | (880) | **(3,417)** | 475 | **(2,942)** |
| Methodology/modelling changes | (51) | 68 | (21) | **(4)** | - | **(4)** |
| Effect of changes in: | | | | | | |
| Economic assumptions | 14 | (598) | (145) | **(729)** | 216 | **(513)** |
| Non-economic assumptions | 24 | (89) | (59) | **(124)** | 31 | **(93)** |
| Effect of: | | | | | | |
| Economic experience | 491 | 164 | 666 | **1,321** | (5) | **1,316** |
| Non-economic experience | 107 | (711) | 111 | **(493)** | (26) | **(519)** |
| New business | 28 | 2,078 | 20 | **2,126** | (8) | **2,118** |
| **Total change in contract liabilities** | **(972)** | **(40)** | **(308)** | **(1,320)** | **683** | **(637)** |
| Contract reclassification | - | 6 | - | **6** | - | **6** |
| Foreign exchange adjustment | 113 | (704) | 22 | **(569)** | (9) | **(578)** |
| **At 31 December** | **15,060** | **28,312** | **14,707** | **58,079** | **(5,857)** | **52,222** |
| Reinsurance assets | | | | | (6,173) | |
| Reinsurance liabilities | | | | | 316 | |
| | | | | | **(5,857)** | |

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

Non-economic assumptions decrease of £93m (net of reinsurance) includes a decrease of £34m (net of reinsurance) in respect of participating business which is primarily in respect of the best estimate non-economic assumptions used in calculating the value of future transfers to equity holders in respect of participating business in the HWPF. Non-economic assumptions also includes a decrease of £50m (net of reinsurance) in respect of changes to mortality assumptions on non-participating business.

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

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

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

## (a)(ii) Non-participating insurance contracts – principal assumptions

### UK and Europe

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

**Valuation interest rates**
The valuation interest rates used are determined in accordance with the Prudential Regulation Authority's Integrated Prudential Sourcebook. The process used to determine the valuation interest rates used in the calculation of the liabilities comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

For equity assets, the current dividends and earnings are considered and, if necessary, a deduction is made to reflect sustainability. Similarly, a deduction to the yields on property assets is made where necessary, to reflect sustainability and also to allow for the possibility of rental defaults. For corporate bonds, a deduction is made for the risk of default which varies by the quality of asset and the credit spread at the valuation date. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category except for UK annuity business within the PBF where the internal rate of return of the assets backing the liabilities is used.

# 33. Insurance contracts, investment contracts and reinsurance contracts *continued*

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

### (a)(ii) Non-participating insurance contracts – principal assumptions *continued*

The valuation interest rates used are:

| Non-participating | 2013 | 2012 |
|---|---|---|
| **1. Business held within the PBF** | | |
| **Annuities** | | |
| Individual/group: | | |
| Life | **3.75%** | 3.30% |
| Pensions | **3.75%** | 3.30% |
| Linked to RPI | **(0.15%)** | (0.10%) |
| **2. Business held within the HWPF** | | |
| **Annuities** | | |
| Individual/group: | | |
| Non-linked: | | |
| Life | **3.35%** | 2.80% |
| Pensions: reinsured externally | **3.05%** | 2.60% |
| Pensions: not reinsured externally | **3.60%** | 3.30% |
| Deferred annuities | **3.60%** | 3.20% |
| Linked to RPI: | | |
| Linked to RPI: reinsured externally | **(0.30%)** | (0.60%) |
| Linked to RPI: not reinsured externally | **(0.50%)** | (0.55%) |
| Deferred annuities linked to RPI | **(0.50%)** | (0.55%) |

**Mortality rates**

The future mortality assumptions are based on historical experience, with an allowance for future mortality improvement in annuities. The Group's own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

| Mortality tables used | 2013 | 2012 |
|---|---|---|
| **Annuities** | | |
| Individual and group in deferment | **Males: 73.7% AMC00** | Males: 75.6% AMC00 |
| | **Females: 73.4% AFC00** | Females: 76.4% AFC00 |
| Individual after vesting (business written after 10 July 2006) | **Males: 88.8% RMC00** | Males: 88.7% RMC00 |
| | **Females: 96.0% RFC00** | Females: 94.1% RFC00 |
| Individual after vesting (business written prior to 10 July 2006) | **Males: 97.5% RMC00** | Males: 97.5% RMC00 |
| | **Females: 105.5% RFC00** | Females: 103.4% RFC00 |
| Group after vesting (business written after 10 July 2006) | **Males: 111.3% RMV00** | Males: 102.6% RMV00 |
| | **Females: 118.3% WA00** | Females: 109.3% WA00 |
| Group after vesting (business written prior to 10 July 2006) | **Males: 111.1% RMV00** | Males: 112.8% RMV00 |
| | **Females: 118.5% WA00** | Females: 120.1% WA00 |

In the valuation of the liabilities in respect of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2013 this is based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2013 model with long-term improvement rates of 1.9% for males and 1.6% for females. The Continuous Mortality Investigation Bureau (CMI) is a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2013 is a model that was published towards the end of 2013.

For 2012, this was based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2009 model with long-term improvement rates of 1.9% for males and 1.6% for females. CMI_2009 is a model that was published towards the end of 2009.

The SLAL parameterisation of the CMI_2013 and CMI_2009 models make the following changes relative to the 'core' model:

- blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model)
- assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on SLAL's historic experience.

**Expenses**
The assumptions for future policy expense levels are determined from the Group's recent expense analyses. No allowance has been made for potential expense improvement and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 4.00% (2012: 3.39%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

**Withdrawals**
For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

**Ireland**
The assumptions for business in Ireland are derived in a similar manner to those above.

## Canada

The Canadian economic environment at the reporting date is used to determine the expected interest rates for the current valuation. The expected experience scenario of risk free rates is derived from the yield curve of Canadian federal bonds at that date, as summarised below:

| Yield curve – by duration | 2013 | 2012 |
|---|---|---|
| 6 months | 0.94% | 1.00% |
| 1 year | 0.97% | 1.09% |
| 2 years | 1.11% | 1.13% |
| 3 years | 1.37% | 1.23% |
| 5 years | 2.04% | 1.37% |
| 7 years | 2.41% | 1.62% |
| 10 years | 2.87% | 1.89% |
| 20 years | 3.15% | 2.32% |
| 30 years | 3.23% | 2.35% |

The following table shows other key investment returns used in the asset and liability projections under Canadian Asset Liability Method (CALM):

| Investment returns | 2013 | 2012 |
|---|---|---|
| Equity securities | 6.94% | 6.93% |
| Property | 6.72% | 6.83% |

These investment returns are net of investment expenses and are prudent assumptions as they include risk margins determined in line with Canadian standards of practice. A further drop in the asset values of 30% for equity securities and 25% for property is applied, consistent with Canadian standards of practice, to allow for adverse deviations in projecting cash flows arising from capital gains on non-fixed income assets.

# 33. Insurance contracts, investment contracts and reinsurance contracts *continued*

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

### (a)(ii) Non-participating insurance contracts – principal assumptions *continued*

| Mortality tables used | 2013 | 2012 |
|---|---|---|
| **1. Assurances** | | |
| Perspecta Universal Life and Term Life | **65%-121% of base table (where base table is 71-75% of CIA 97-04) internally developed projection scale CAN1921-2004 M/F (2014)** | 65%-120% of base table (where base table is 73-74% of CIA 97-04) internally developed projection scale CAN1921-2004 M/F (2013) |
| Participating and non-participating life, closed to new business | **72%-99% of CIA 97-04 internally developed projection scale CAN1921-2004 M/F (2014)** | 73%-102% of CIA 97-04 internally developed projection scale CAN1921-2004 M/F (2013) |
| **2. Annuities** | | |
| Individual after vesting | **20%-101% of IAM83M/IAM83F internally developed projection scale CAN1921-2004 M/F (2014)** | 16%-96% of IAM83M/IAM83F internally developed projection scale CAN1921-2004 M/F (2012) |
| Group after vesting | **82%-100% of GAM94M/GAM94F internally developed projection scale CAN1921-2004 M/F (2014)** | 83%-103% of GAM94M/GAM94F internally developed projection scale CAN1921-2004 M/F (2012) |

Mortality assumptions are derived from studies performed during 2013, with data to 2012, using a blend of industry and The Standard Life Assurance Company of Canada's (SLCC) experience. The rates are expressed as a percentage per the tables shown. For assurance business, the percentages vary depending on the underwriting classification and the duration of the contracts. For annuity business, the percentages vary depending on the gender of the annuitant.

### (a)(iii) Present value of future profits on non-participating contracts in the Heritage With Profits Fund

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

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

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| Participating contract liabilities before apportionment | **29,660** | 30,624 |
| Apportionment of non-participating PVFP | **107** | 288 |
| | **29,767** | 30,912 |
| Participating insurance contracts | **15,060** | 15,919 |
| Participating investment contracts | **14,707** | 14,993 |
| **Participating contract liabilities after apportionment** | **29,767** | 30,912 |
| Unallocated divisible surplus before apportionment | **1,776** | 1,679 |
| Apportionment of non-participating PVFP | **(1,096)** | (973) |
| **Unallocated divisible surplus after apportionment** | **680** | 706 |

Assumptions used in the calculation of the present value of future profits on non-participating insurance and investment contracts were as follows:

**Economic assumptions**

| | 2013 | 2012 |
|---|---|---|
| **Risk discount rate** | **4.21% - 4.38%** | 3.54% - 4.14% |
| **Investment returns** | | |
| Equity securities | **3.01%** | 1.84% |
| Property | **3.01%** | 1.84% |
| Fixed interest – annuity/protection | **3.18%** | 2.44% |
| Fixed interest – other business | **3.01%** | 1.84% |
| Expense inflation | **4.00%** | 3.39% |

The table above shows the changes in the basis between 2012 and 2013. The risk discount rates are calculated on a market consistent basis and are set equal to the risk free rate plus a margin to allow for the non-market risks inherent in the cash flows being discounted.

The investment returns are the risk free rate of returns that are used to value the non-participating business on a market consistent basis.

**Non-economic assumptions**

The expense and mortality assumptions are best estimate assumptions determined from the Group's recent analyses. They are consistent with the assumptions for non-participating insurance contracts and any explicit margins for prudence are removed.

A withdrawal investigation is carried out each year and assumptions are set with reference to recent levels taking into account any trends evident. However, in general the participating business is not particularly sensitive to the overall level of withdrawals. For non-participating insurance business, appropriate allowances are made for withdrawals on certain term assurance contracts.

## (b) Non-participating investment contracts

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

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **84,201** | 77,507 |
| Contributions | | **13,740** | 11,027 |
| Initial charges and reduced allocations | | **(4)** | (6) |
| Account balances paid on surrender and other terminations in the year | | **(10,498)** | (9,062) |
| Change in non-participating investment contracts recognised in the consolidated income statement | | **11,892** | 7,718 |
| Foreign exchange adjustment | | **(1,243)** | (406) |
| Contract reclassification | | **(6)** | (2,182) |
| Recurring management charges | | **(423)** | (395) |
| **At 31 December** | 34 | **97,659** | 84,201 |

## (c) Expected settlement and recovery

An indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities is given in Note 41 – Risk management. Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

# 33. Insurance contracts, investment contracts and reinsurance contracts *continued*

## (d) Movement in components of unallocated divisible surplus (UDS)

The movement in UDS was as follows:

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **706** | 725 |
| Change in UDS recognised in the income statement | | **(40)** | (39) |
| Change in UDS not recognised in the income statement | 31 | **44** | (11) |
| Foreign exchange adjustment | | **(30)** | 31 |
| **At 31 December** | | **680** | 706 |

# 34. Financial liabilities

| 2013 | Notes | Designated at fair value through profit or loss £m | Held for trading £m | Financial liabilities measured at amortised cost £m | Total £m |
|---|---|---|---|---|---|
| Non-participating investment contract liabilities | 41 | 95,267 | - | 2,392 | **97,659** |
| Deposits received from reinsurers | 41 | - | - | 5,589 | **5,589** |
| Third party interest in consolidated funds | 41 | 11,803 | - | - | **11,803** |
| Borrowings | 35 | - | - | 95 | **95** |
| Subordinated liabilities | 36 | - | - | 1,861 | **1,861** |
| Derivative financial liabilities | 23 | - | 795 | - | **795** |
| Other financial liabilities | 39 | 15 | - | 2,352 | **2,367** |
| **Total** | | **107,085** | **795** | **12,289** | **120,169** |

| 2012 | Notes | Designated at fair value through profit or loss £m | Held for trading £m | Financial liabilities measured at amortised cost £m | Total £m |
|---|---|---|---|---|---|
| Non-participating investment contract liabilities | 41 | 81,601 | - | 2,600 | **84,201** |
| Deposits received from reinsurers | 41 | - | - | 6,136 | **6,136** |
| Third party interest in consolidated funds | 41 | 12,037 | - | - | **12,037** |
| Borrowings | 35 | - | - | 108 | **108** |
| Subordinated liabilities | 36 | - | - | 1,868 | **1,868** |
| Derivative financial liabilities | 23 | - | 853 | - | **853** |
| Other financial liabilities | 39 | - | - | 2,323 | **2,323** |
| **Total** | | **93,638** | **853** | **13,035** | **107,526** |

# 35. Borrowings

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Bank overdrafts | 27 | **69** | 44 |
| Other | | **26** | 64 |
| **Borrowings** | | **95** | 108 |

The amount of borrowings expected to be settled after more than 12 months is £23m (2012: £61m). Included within bank overdrafts of £69m (2012: £44m) is £26m (2012: £21m) relating to unpresented cheques.

## 36. Subordinated liabilities

| | 2013 Principal amount | 2013 Carrying value £m | 2012 Principal amount | 2012 Carrying value £m |
|---|---|---|---|---|
| Subordinated notes: | | | | |
| 5.5% Sterling fixed rate due 4 December 2042 | **£500,000,000** | **499** | £500,000,000 | 498 |
| 3.938% Canadian dollar fixed/floating rate due 21 September 2022 | **CA$400,000,000** | **229** | CA$400,000,000 | 246 |
| Subordinated guaranteed bonds: | | | | |
| 6.75% Sterling fixed rate perpetual | **£500,000,000** | **502** | £500,000,000 | 502 |
| Mutual Assurance Capital Securities: | | | | |
| 6.546% Sterling fixed rate perpetual | **£300,000,000** | **316** | £300,000,000 | 316 |
| 5.314% Euro fixed/floating rate perpetual | **€360,000,000** | **315** | €360,000,000 | 306 |
| **Subordinated liabilities** | | **1,861** | | 1,868 |

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 42(e).

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year. The principal amount of subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £56m (2012: £55m) is expected to be settled within 12 months.

The classification of amounts due under the subordinated guaranteed bonds and Mutual Assurance Capital Securities are determined by the interaction of these arrangements with the internal subordinated loan note issued by Standard Life Assurance Limited (SLAL) to the Company, as set out below.

**Subordinated notes**

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

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

**Subordinated guaranteed bonds**

The subordinated guaranteed bonds were issued on 12 July 2002. The payment of principal and interest in respect of the bonds has been irrevocably and unconditionally guaranteed by SLAL. The claims of the bondholders to payment under the guarantee will rank below the claims of all senior creditors of SLAL including policyholders.

The bonds are perpetual securities and as such have no fixed redemption date. However, the bonds are redeemable at par at the option of the Company on 12 July 2027 and on every fifth anniversary thereafter. If the bonds are not redeemed on 12 July 2027, the interest rate payable will be reset to 2.85% over the gross redemption yield on the appropriate five year benchmark gilt on the reset date. The Company can elect to defer the payment of interest on the bonds. Interest will accrue on any interest deferred at the then current rate of interest on the bonds. Any interest deferred becomes immediately due and payable on: the date of declaration or payment of dividends, interest or other payment in respect of any pari passu ranking securities or securities that rank junior to the bonds; the date any of the securities are purchased by the Company, SLAL or a subsidiary of the Company; the date fixed for any payment under a guarantee that ranks junior to the bonds; the date of any redemption or purchase of bonds; or the commencement of winding up of the Company or SLAL.

**Mutual Assurance Capital Securities (MACS)**

The MACS were issued on 4 November 2004. The payment of principal and interest in respect of the MACS is irrevocably and unconditionally guaranteed by SLAL. The claims of the holders of the MACS to payment under the guarantee will rank below the claims of all senior creditors of SLAL including policyholders.

The MACS are perpetual securities and as such have no fixed redemption date.

The Sterling denominated MACS started accruing interest from 4 November 2004 and bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January each year, commencing on 6 January 2006. From and including 6 January 2020 and every fifth anniversary thereafter, these MACS will bear interest annually in arrears based on the aggregate of a margin plus the gross redemption yield of the specific gilts.

## 36. Subordinated liabilities *continued*

The Euro denominated MACS started accruing interest from 4 November 2004 and bear interest at a rate of 5.314% per annum payable annually in arrears on 6 January, commencing on 6 January 2006. From and including 6 January 2015, these MACS will bear interest quarterly in arrears, commencing 6 April 2015, at a floating rate of interest to be calculated quarterly based on the aggregate of a margin plus the rate for three month Euro deposits.

The payment of interest can be deferred at the option of the Company on an interest payment date and is mandatorily deferred on any interest payment date on which the Company does not satisfy certain specified solvency conditions. SLAL has corresponding mandatory deferral rights in relation to payments under the guarantee. Any interest deferred becomes immediately due and payable on the date the payment of interest is resumed by the Company or SLAL, the date fixed for the redemption or purchase of MACS by the Company, the commencement of winding up of the Company or the date of any declaration or payment of securities that rank junior to MACS or the date any of these junior securities are purchased by the Company, SLAL or a subsidiary of the Company.

The obligation to pay any deferred interest must be satisfied with cash raised from the issue of ordinary shares or the sale of treasury shares.

**Internal subordinated loan note**

SLAL issued a subordinated loan note to the Company on 10 July 2006. The loan note at all times ranks senior to ordinary share capital and junior to Innovative Tier 1 capital of SLAL. There is no fixed redemption date for the note, but interest payments cannot be deferred and must be paid on the date they become due and payable. The note is ranked junior to the subordinated guaranteed bonds and MACS, therefore any interest deferred on the Sterling guaranteed bonds or MACS becomes immediately due and payable on the date of interest payment in respect of the note. This removes the discretionary nature of the interest payments on the Sterling guaranteed bonds and MACS.

## 37. Pension and other post-retirement benefit provisions

The Group operates post-retirement defined benefit and defined contribution plans for staff employed by the Group.

| | Defined benefit | Defined contribution |
|---|---|---|
| **UK** | The Group's largest defined benefit plan is for employees in the UK and has been closed to new entrants since November 2004. Prior to 2008 the plan provided final salary benefits. From 2008 plan benefits have been accrued on a revalued career average salary (RCAS) basis. A minority of members elected to retain the link to final salary in respect of their pension plan accrued to 31 December 2007 with future accrual from 1 January 2008 on a defined contribution basis.<br><br>The plan is governed by a trustee board which comprises both employer and employee nominated trustees and an independent trustee. The plan is subject to the statutory funding objective requirements set up by the Pensions Act 2004. The objective requires a defined benefit pension plan to be funded to at least the level of its technical provisions (which are an actuarial estimate of the assets needed to provide for benefits already accrued under the plan at that time) and regular valuations must be obtained by the trustees to check whether the statutory funding objective is met. After consulting with the employer, the trustees prepare statements of funding and investment principles and, based on the funding valuation, set out future contributions in a schedule of contributions including a recovery plan if one is needed to restore funding to the level of the technical provisions (no recovery plan is currently required).<br><br>At the last actuarial valuation effective 31 December 2010 the plan was 102% funded on the Trustees' technical provisions basis. The estimated funding position as at 30 September 2013 was 114%. The plan is currently undergoing a triennial valuation with an effective date 31 December 2013.<br><br>The administration expenses of this plan are met by the Group rather than from the plan assets. | The Group contributes 9% of members' pensionable salaries to a group flexible retirement plan. Separate arrangements exist for those in the executive job family. The Group has no further payment obligation once the contributions are paid. |
| **Canada** | The defined benefit pension plan for employees in Canada closed to new entrants on 31 December 2013 but remains open to future accrual, providing a pension based on final average earnings and years of service.<br><br>The last actuarial valuation of the plan was effective 31 December 2012, at which time the plan was 102% funded on an ongoing basis. The plan is currently undergoing a valuation with an effective date of 31 December 2013.<br><br>Additional unfunded pension and post-retirement medical benefits are also provided to senior employees. | The Group pays contributions based on a member's age and years of service to privately administered plans. The Group has no further payment obligation once the contributions are paid. |

| | Defined benefit | Defined contribution |
|---|---|---|
| **Other** | The defined benefit plan for employees in Ireland has been closed to new entrants from 31 December 2009, with future accrual from that point on a career average revalued earnings (CARE) basis.<br>At the last actuarial valuation effective 1 January 2013 the plan was 99% funded on an on-going basis. The effective date of the next valuation is 1 January 2016.<br>The Group also operates a small unfunded defined benefit plan for employees in Germany. | The Group contributes 9% of members' pensionable salaries to a group flexible retirement plan. The Group has no further payment obligation once the contributions are paid. |

**Plan regulations**

The plans are administered according to local regulations in each country. Responsibility for the governance of the plans rests with the relevant trustee boards (or equivalent). Trustee boards comprise a mixture of company nominated, member nominated and independent representatives.

**Contributions to plans**

| | Defined benefit | | Defined contribution | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| UK | **39** | 38 | **10** | 9 |
| Canada | **10** | 8 | **4** | 4 |
| Other | **2** | 1 | **1** | - |

Expected contributions to the plans in 2014 are as follows:

| | Defined benefit 2014 £m | Defined contribution 2014 £m |
|---|---|---|
| UK | **37** | **10** |
| Canada | **12** | **4** |
| Other | **1** | **1** |

## Impact of amendment to IAS 19

An amendment to IAS 19 *Employee Benefits* effective for the current period has resulted in a revision to the calculation of the charge to the consolidated income statement in respect of defined benefit plans. This amendment has been applied retrospectively. The expected return on plan assets and unwind of the discount rate on the defined benefit obligation are no longer recognised in profit or loss separately. Instead, the interest on the net defined benefit asset is now recognised in profit or loss. This is calculated as the net defined benefit asset multiplied by the discount rate used to measure the defined benefit obligation.

The amendment also removed the ability for entities to defer unvested past service costs and recognise them over the future vesting period. Past service costs are now recognised immediately in profit or loss.

The impact on the consolidated statement of financial position as a result of the retrospective application of the IAS 19 amendment is a decrease in deferred tax assets of £1m (2012: £1m) and a decrease in the pension and other post-retirement benefits liability of £4m (2012: £5m) with a corresponding change in retained earnings.

The impact of the amendment on the consolidated income statement is an increase in other administrative expenses of £35m for the year (2012: £33m). There was a corresponding change in remeasurement gains/losses on defined benefit pension plans in other comprehensive income so that the overall impact on total comprehensive income was nil for each reporting period.

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

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

| | Notes | 2013 £m | 2012 restated £m |
|---|---|---|---|
| Current service cost | | **(70)** | (64) |
| Interest income[1] | | **14** | 11 |
| Past service cost and losses on settlements | | **-** | (1) |
| **Charge recognised in the consolidated income statement** | 8 | **(56)** | (54) |

[1] Interest income has been calculated based on the fair value plan assets at 1st January 2013 which includes the effects of IFRS 13 valuation methodology changes.

Contributions made to defined contribution plans are included within current service cost, with the balance attributed to the Group's defined benefit plans.

# 37. Pension and other post-retirement benefit provisions *continued*

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

| | 2013 | | | | 2012 (restated) | | | |
|---|---|---|---|---|---|---|---|---|
| | UK £m | Canada £m | Other £m | Total £m | UK £m | Canada £m | Other £m | Total £m |
| Present value of funded obligation | **(2,327)** | **(209)** | **(76)** | **(2,612)** | (2,121) | (233) | (69) | (2,423) |
| Present value of unfunded obligation | **-** | **(64)** | **(7)** | **(71)** | - | (70) | (7) | (77) |
| Fair value of plan assets | **2,992** | **192** | **60** | **3,244** | 2,642 | 188 | 61 | 2,891 |
| Effect of limit on plan surplus | **(233)** | **-** | **-** | **(233)** | (182) | - | - | (182) |
| **Net asset/(liability) in the consolidated statement of financial position** | **432** | **(81)** | **(23)** | **328** | 339 | (115) | (15) | 209 |

The UK plan surplus is considered to be recoverable as a right to a refund exists. Accordingly the surplus has been reduced by 35% to reflect the authorised surplus payments charge that would arise on a refund.

## (c) Movement in the net defined benefit asset

| 2013 | Present value of obligation £m | Fair value of plan assets £m | Total £m | Effect of limit on plan surpluses £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2013** | **(2,500)** | **2,891** | **391** | **(182)** | **209** |
| Current service cost | (55) | - | **(55)** | - | **(55)** |
| Interest (expense)/income[1] | (110) | 124 | **14** | - | **14** |
| **Amounts recognised in consolidated income statement** | **(165)** | **124** | **(41)** | **-** | **(41)** |
| Remeasurements: | | | | | |
| Return on plan assets, excluding amounts included in interest income | - | 248 | **248** | - | **248** |
| Gain from change in demographic assumptions | (25) | - | **(25)** | - | **(25)** |
| Gain from change in financial assumptions | (70) | - | **(70)** | - | **(70)** |
| Experience gains | (1) | - | **(1)** | - | **(1)** |
| Change in effect of limit on plan surplus | - | - | **-** | (51) | **(51)** |
| **Remeasurement gains/(losses) recognised in other comprehensive income** | **(96)** | **248** | **152** | **(51)** | **101** |
| Exchange differences | 21 | (15) | **6** | - | **6** |
| Employer contributions | - | 51 | **51** | - | **51** |
| Benefit payments | 57 | (55) | **2** | - | **2** |
| **At 31 December 2013** | **(2,683)** | **3,244** | **561** | **(233)** | **328** |

[1] Interest (expense)/income has been calculated based on the fair value plan assets at 1st January 2013 which includes the effects of IFRS 13 valuation methodology changes.

The following table shows the restated movement in the defined benefit asset for the year ended 31 December 2012:

| 2012 (restated) | Present value of obligation £m | Fair value of plan assets £m | Total £m | Effect of limit on plan surpluses £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2012** | **(2,315)** | **2,756** | **441** | **(209)** | **232** |
| Current service cost | (51) | - | **(51)** | - | **(51)** |
| Interest (expense)/income | (106) | 117 | **11** | - | **11** |
| Past service cost and losses on settlements | (1) | - | **(1)** | - | **(1)** |
| **Amounts recognised in consolidated income statement** | **(158)** | **117** | **(41)** | **-** | **(41)** |
| Remeasurements:<br>Return on plan assets, excluding amounts included in interest expense | - | 19 | **19** | - | **19** |
| Gain from change in demographic assumptions | (37) | - | **(37)** | - | **(37)** |
| Gain from change in financial assumptions | (6) | - | **(6)** | - | **(6)** |
| Experience gains | (40) | - | **(40)** | - | **(40)** |
| Change in effect of limit on plan surplus | - | - | **-** | 27 | **27** |
| **Remeasurement gains/(losses) recognised in other comprehensive income** | **(83)** | **19** | **(64)** | **27** | **(37)** |
| Exchange differences | 10 | (4) | **6** | - | **6** |
| Employer contributions | - | 47 | **47** | - | **47** |
| Benefit payments | 46 | (44) | **2** | - | **2** |
| **At 31 December 2012** | **(2,500)** | **2,891** | **391** | **(182)** | **209** |

## (d) Plan assets

Investment strategy is directed by the relevant trustee boards, who pursue different strategies according to the characteristics and maturity profile of each plan. To provide more information on the approach used to determine and measure the fair value of the plan assets, the fair value hierarchy has been used as defined in Note 42 – Fair value of assets and liabilities. Those assets which cannot be classified as level 1 have been presented together as level 2 or 3.

The distribution of the fair value of the assets of the Group's funded plans at 31 December 2013 is as follows:

| | UK | | Canada | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Assets measured at fair value based on level 1 inputs** | | | | | | | | |
| Derivatives | **3** | 8 | **-** | - | **-** | - | **3** | 8 |
| Equity securities | **417** | 378 | **92** | 93 | **-** | - | **509** | 471 |
| Pooled investment vehicles | **988** | 1,083 | **42** | 36 | **51** | 45 | **1,081** | 1,164 |
| Debt securities | **442** | 382 | **-** | - | **-** | - | **442** | 382 |
| Total assets measured at fair value based on level 1 inputs | **1,850** | 1,851 | **134** | 129 | **51** | 45 | **2,035** | 2,025 |
| **Assets measured at fair value based on level 2 or 3 inputs** | | | | | | | | |
| Derivatives | **321** | 161 | **-** | - | **9** | 16 | **330** | 177 |
| Equity securities | **1** | - | **-** | - | **-** | - | **1** | - |
| Pooled investment vehicles | **53** | 47 | **-** | - | **-** | - | **53** | 47 |
| Debt securities | **275** | 382 | **51** | 57 | **-** | - | **326** | 439 |
| Qualifying insurance policies | **5** | - | **-** | - | **-** | - | **5** | - |
| Total assets measured at fair value based on level 2 or 3 inputs | **655** | 590 | **51** | 57 | **9** | 16 | **715** | 663 |
| Cash and cash equivalents | **487** | 201 | **7** | 2 | **-** | - | **494** | 203 |
| **Total** | **2,992** | 2,642 | **192** | 188 | **60** | 61 | **3,244** | 2,891 |

# 37. Pension and other post-retirement benefit provisions *continued*

## (d) Plan assets *continued*

Derivative financial instruments are used to modify the profile of the assets of the plans to better match the plans' liabilities and to execute specific strategies as defined within the plans' investment guidelines. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

Defined benefit plans also use pooled investment vehicles to access a variety of asset classes in an efficient way. The underlying assets of the pooled investment vehicles include, but are not limited to, equity securities, property, debt securities and absolute return portfolios.

## (e) Principal assumptions

The principal economic assumptions for the plans are shown below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | UK % | Canada % | UK % | Canada % |
| Discount rate | **4.60** | **4.80** | 4.50 | 4.00 |
| Rates of inflation: | | | | |
| Consumer Price Index (CPI) | **2.90** | **2.00** | 2.70 | 2.00 |
| Retail Price Index (RPI) (UK only) | **3.70** | **-** | 3.30 | - |
| Salary inflation (Canada only) | **-** | **3.50** | - | 3.50 |

The most significant non-economic assumption is that made in respect of mortality post-retirement. The mortality tables (along with sample complete expectations of life) are illustrated below:

| | | | | Expectation of life from NRA | | | |
|---|---|---|---|---|---|---|---|
| | | | Normal | Male, age today | | Female, age today | |
| 2013 | Table | Improvements | Retirement Age (NRA) | NRA | 40 | NRA | 40 |
| UK | Plan specific basis (calibrated by Club Vita) reflecting membership demographics | Long cohort projections issued by the CMI in December 2002 with the cohort effect delayed by 10 years, scaling factors of 85% males/75% females and a minimum underpin of 1.5%p.a. males/1.0%p.a. females which tapers to 0% between ages 90 and 120 | 60 | 31 | 32 | 30 | 32 |
| Canada | RPP 2014 Public Sector Mortality Table (CPM-RPP2014Publ) with generational projection without any size adjustment factors due to pension income level | CPM Improvement Scale A (CPM-A) | 65 | 23 | 24 | 25 | 25 |

| | | | | Expectation of life from NRA | | | |
|---|---|---|---|---|---|---|---|
| | | | Normal | Male, age today | | Female, age today | |
| 2012 | Table | Improvements | Retirement Age (NRA) | NRA | 40 | NRA | 40 |
| UK | Plan specific basis (calibrated by Club Vita) reflecting membership demographics | Long cohort projections issued by the CMI in December 2002 with the cohort effect delayed by 10 years, scaling factors of 85% males/75% females and a minimum underpin of 1.5%p.a. males/1.0%p.a. females which tapers to 0% between ages 90 and 120 | 60 | 31 | 32 | 30 | 32 |
| Canada | UP94 projected to 2015 | Scale AA | 63 | 23 | 23 | 25 | 25 |

## (f) Risk

### (f)(i) Risks and mitigating actions

The Group's consolidated statement of financial position is exposed to movements in the defined benefit plans' net asset. In particular, the consolidated statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the UK and Canadian plans. By offering post-retirement defined benefit pension plans the Group is exposed to a number of risks. A discussion of the key risks and mitigating actions in place is below.

**Asset volatility**
Failure of the asset strategy to keep pace with changes in plan liabilities would expose the plan to the risk of a deficit developing, which could increase funding requirements for the Group.

**Yields/ discount rate**
Falls in yields would in isolation be expected to increase the cost of future benefit accrual and plan liabilities.

The UK plan (the Group's dominant post-retirement defined benefit plan) uses both bonds and derivatives to hedge out yield risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise Group support for the plan.

**Inflation**
Rises in inflation expectations would in isolation be expected to increase the cost of future benefit accrual and plan liabilities.

The UK plan (the Group's dominant post-retirement defined benefit plan) uses both bonds and derivatives to hedge out inflation risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise Group support for the plan.

In the UK plan pensions in payment are generally linked to CPI, however inflationary risks are hedged using RPI instruments due to lack of availability of CPI linked instruments. Therefore, the plan is exposed to movements in the actual and expected long term gap between the two indices.

**Life expectancy**
Increases in life expectancy beyond those currently assumed will lead to an increase in plan liabilities.

Regular reviews of mortality experience are performed to ensure assumptions remain appropriate.

## (f)(ii) Sensitivity to principal assumptions

The sensitivity of the defined benefit plans' net assets to the principal assumptions is disclosed below.

| | Change in assumption | | 2013 (Increase)/ decrease in present value of obligation £m | 2013 Increase/ (decrease) in fair value of plan assets £m | 2012 (Increase)/ decrease in present value of obligation £m | 2012 Increase/ (decrease) in fair value of plan assets £m |
|---|---|---|---|---|---|---|
| Yield/ discount rate | Decrease by 1% | UK | **(642)** | **853** | (598) | 792 |
| | | Canada | **(52)** | **11** | (60) | 14 |
| | Increase by 1% | UK | **474** | **(618)** | 433 | (580) |
| | | Canada | **41** | **(9)** | 46 | (10) |
| Rates of inflation | Decrease by 1% | UK | **462** | **(538)** | 424 | (489) |
| | | Canada | **31** | **(1)** | 36 | (1) |
| | Increase by 1% | UK | **(582)** | **752** | (550) | 679 |
| | | Canada | **(38)** | **2** | (43) | 1 |
| Life expectancy | Decrease by 1 year | UK | **51** | **-** | 45 | - |
| | | Canada | **7** | **-** | 10 | - |
| | Increase by 1 year | UK | **(51)** | **-** | (45) | - |
| | | Canada | **(7)** | **-** | (10) | - |

**Canada – post-retirement medical benefits**
In Canada, certain plans provide employees with post-retirement medical benefits. A 1% point change in assumed medical cost trend rates would have the following effects:

| | One percentage point increase 2013 £m | One percentage point increase 2012 £m | One percentage point decrease 2013 £m | One percentage point decrease 2012 £m |
|---|---|---|---|---|
| (Increase)/decrease on defined benefit obligation | **(4)** | (4) | **3** | 3 |

## (f)(iii) Duration of defined benefit obligation

| | 2013 UK years | 2013 Canada years | 2012 UK years | 2012 Canada years |
|---|---|---|---|---|
| Pensioner | **15** | **10** | 14 | 10 |
| Non pensioner | **26** | **21** | 27 | 22 |

## 38. Deferred income

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | **352** | 388 |
| Additions during the year | 5 | **36** | 61 |
| Amortised to the consolidated income statement as fee income | 5 | **(73)** | (70) |
| Release of deferred income[1] | 5 | **-** | (26) |
| Foreign exchange adjustment | | **1** | (1) |
| **At 31 December** | | **316** | 352 |

[1] A reclassification of certain non-participating investment contracts to non-participating insurance contracts resulted in a release of deferred income during the year to 31 December 2012. Refer to Note 5 – Fee and commission income.

The amount of deferred income expected to be settled after more than 12 months is £252m (2012: £290m).

## 39. Other financial liabilities

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Contingent commissions | | **73** | 72 |
| Amounts payable on direct insurance business | | **336** | 307 |
| Amounts payable on reinsurance contracts | | **23** | 24 |
| Outstanding purchases of investment securities | | **191** | 131 |
| Accruals | | **346** | 339 |
| Creation of units awaiting settlement | | **106** | 91 |
| Cash collateral held in respect of derivative contracts | 41 | **711** | 811 |
| Property related liabilities | | **190** | 170 |
| Contingent consideration | 42 | **15** | - |
| Other | | **376** | 378 |
| **Other financial liabilities** | | **2,367** | 2,323 |

The amount of other financial liabilities expected to be settled after more than 12 months is £180m (2012: £181m).

## 40. Other liabilities

| | 2013 £m | 2012[1] £m |
|---|---|---|
| Provisions | **19** | 17 |
| Other | **129** | 133 |
| **At 31 December 2013** | **148** | 150 |

1 There has been a reallocation of £6m from provisions to other in 2012 to correct a misclassification.

The amount of other liabilities expected to be settled after more than 12 months is £13m (2012: £7m).

| 2013 | Legal provisions £m | Other provisions £m | Total provisions £m |
|---|---|---|---|
| **At 1 January 2013** | **7** | **10** | **17** |
| Charged/(credited) to the consolidated income statement: | | | |
| Additional provisions | - | 11 | **11** |
| Release of unused provision | (3) | (3) | **(6)** |
| Used during the year | (3) | - | **(3)** |
| **At 31 December 2013** | **1** | **18** | **19** |

| 2012 | Legal provisions £m | Other provisions £m | Total provisions £m |
|---|---|---|---|
| **At 1 January 2012** | **4** | **7** | **11** |
| Charged/(credited) to the consolidated income statement: | | | |
| Additional provisions | 101 | 6 | **107** |
| Release of unused provisions | (98) | - | **(98)** |
| Used during the year | - | (3) | **(3)** |
| **At 31 December 2012** | **7** | **10** | **17** |

**Legal provisions**
A judgment handed down on 1 February 2012 in the Commercial Court in London found in favour of Standard Life Assurance Limited (SLAL) in its claim against the insurers of its 2008/2009 professional indemnity policy in relation to the Standard Life Pension Sterling Fund. During the year ended 31 December 2012 SLAL received a cash receipt of £98m including interest and reimbursement of legal fees.

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

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

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

**Other provisions**
Other provisions comprise obligations in respect of compensation, staff entitlements and reorganisations.

Of the total provisions of £19m (2012: £17m), £10m (2012: £6m) is expected to be settled after more than 12 months after the reporting date.

# 41. Risk management

## (a) Overview

### (a)(i) Application of the risk management framework

The Group's risk management activities support the creation of long-term value by ensuring well-informed risk-reward decisions are taken in pursuit of the Group's business plan. This includes defining and observing qualitative risk appetite statements for the different risks faced by the Group where these statements clearly articulate the aggregate level and types of uncertainty that the Group is willing to accept in order to achieve the business plan. For certain specific exposures, these statements are supported by quantitative risk limits to ensure that the Group's risk profile remains balanced and within target ranges.

The risk management framework used by the Group in 2013 to identify, assess, control and monitor risks is set out in the Corporate governance report. This includes information on the use of qualitative risk appetite statements and quantitative risk limits in order to manage the Group's risks.

The risk metrics used by the Group in managing the business allows the Group to monitor how exposure to different types of risks impacts the shareholder. In pursuing the Group's business plan, the Group is exposed to the following key risks:

| Risk | Definition |
|---|---|
| Market | The risk that arises from the Group's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. |
| Credit | The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner. It also includes the risk of a reduction in the value of assets due to a widening of mortgage, bond and swap spreads. |
| Demographic | The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 *Insurance Contracts* and other financial risks. |
| Expense | The risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. |
| Liquidity | The risk that the Group is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost. |
| Operational | The risk of adverse consequences for the Group's business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below. |
| Conduct | The risk that through our culture, strategies, decision-making and behaviours we do not deliver good outcomes for our customers. |
| Strategic | The risk associated with the robustness of the planning process and threats to achieving the Group's strategy. |

The Group's appetite for each of the risks is set out in Section 1.5 – Risk management of the Strategic report. This section of the Strategic report also outlines the main sources of these risks for the Group and specific actions taken to manage the Group's exposure to each risk during the year.

The assets and liabilities on the Group's consolidated statement of financial position can be split into four categories (risk segments) which give the shareholder different exposures to the risks listed previously. These categories are:

**Shareholder business**
Shareholder business refers to the assets and liabilities to which the shareholder is directly exposed. For the purposes of this Note, the shareholder refers to the equity holders of the Company.

**Participating business**
Participating business refers to the assets and liabilities of the participating funds of the life operations of the Group. It includes the liabilities for insurance features and financial guarantees contained within contracts held in the HWPF that invest in unit linked funds. It does not include the liabilities for insurance features contained in contracts invested in the GWPF or GSMWPF. Such liabilities are included in shareholder business.

**Unit linked and segregated funds**
Unit linked and segregated funds refers to the assets and liabilities of the unit linked and segregated funds of the life operations of the Group. It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked or segregated fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked or segregated fund contracts. Such cash flows and liabilities are included in shareholder business or participating business.

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

The following table sets out the link between the reportable segments set out in Notes 2 and 3 and the risk segments.

| | Risk segment | | |
|---|---|---|---|
| **Reportable segment** | **Shareholder business** | **Participating business** | **Unit linked and segregated funds**[1] |
| **UK and Europe** | SLAL – SHF<br>SLAL – PBF (excluding unit linked funds and Canadian branch)<br>SLS<br>SLCM<br>Vebnet Group<br>SLIL (excluding unit linked funds)[2]<br>SLW | SLAL – HWPF<br>SLAL – GWPF<br>SLAL – GSMWPF<br>SLAL – UKSMWPF | SLAL – PBF unit linked funds<br>SLIL unit linked funds[2] |
| **Standard Life Investments** | SLIH and all its subsidiaries | n/a | n/a |
| **Canada** | SLCC (excluding segregated funds and participating fund)<br>SLAL – PBF Canadian branch | SLCC participating fund | SLCC segregated funds |
| **Asia and Emerging Markets** | SLIL (excluding unit linked funds)[3]<br>SLA (excluding unit linked funds)<br>Interests in Indian and Chinese JVs | n/a | SLIL unit linked funds[3]<br>SLA unit linked funds |
| **Other** | Company | n/a | n/a |

SLAL = Standard Life Assurance Limited
SLIH = Standard Life Investments (Holdings) Limited
SLCC = The Standard Life Assurance Company of Canada
SLIL = Standard Life International Limited
SLA = Standard Life (Asia) Limited
SLW = Standard Life Wealth Limited
SLS = Standard Life Savings Limited
SLCM = Standard Life Client Management Limited

HWPF = Heritage With Profits Fund
PBF = Proprietary Business Fund
GWPF = German With Profits Fund
GSMWPF = German Smoothed Managed With Profits Fund
SHF = Shareholder Fund
UKSMWPF = UK Smoothed Managed With Profits Fund

1 As discussed in Note 3 and above, unit linked and segregated funds does not include cash flows arising from unit linked or segregated fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked or segregated fund contracts. Such cash flows and liabilities are included in shareholder or participating business.

2 Related to SLIL's International Bond business.

3 Related to SLIL's business excluding International Bond business.

SLW will be managed as part of the Standard Life Investments reportable segment from 1 January 2014. For the years ending 31 December 2013 and 2012 SLW was managed as part of the UK and Europe reportable segment.

# 41. Risk management *continued*

## (a) Overview *continued*

### (a)(i) Application of the risk management framework *continued*

The table below sets out how the shareholder is exposed to market, credit, demographic, expense and liquidity risk at the reporting date, arising from the assets and liabilities of the four risk segments:

| Risk | Shareholder business | Participating business | Unit linked and segregated funds | Third party interest in consolidated funds and non-controlling interests (TPICF & NCI) |
|---|---|---|---|---|
| Market | The shareholder is directly exposed to the impact of movements in equity and property prices, interest rates and foreign exchange rates on the value of assets held by the shareholder business and the associated movements in the value of liabilities. | The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds. | Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are borne by the policyholder. The shareholder's exposure arises from the changes in the value of future profits earned on unit linked and segregated funds due to market movements. Further information on this exposure is provided in the EEV financial statements. | The shareholder is not exposed to the market risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties. |
| Credit | The shareholder is directly exposed to credit risk from holding cash, debt securities, loans, derivative financial instruments and reinsurance assets and the associated movement in the value of liabilities. | The shareholder is exposed to the credit risk on the assets which could cause the with profits funds to have insufficient resources to meet its obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds. | Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure is limited to changes in the value of future profits earned on unit linked and segregated funds due to market movements. Further information on this exposure is provided in the EEV financial statements. | The shareholder is not exposed to the credit risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties. |

| Risk | Shareholder business | Participating business | Unit linked and segregated funds | Third party interest in consolidated funds and non-controlling interests (TPICF & NCI) |
|---|---|---|---|---|
| **Demographic and expense** | The shareholder is exposed to longevity and mortality risk on annuity contracts and universal life contracts held by UK and Europe and Canada, and mortality risk on contracts held in non-participating funds by UK and Europe, Canada and Asia and Emerging Markets including those containing insurance features that are invested in unit linked or segregated funds or in the GWPF or GSMWPF. The shareholder is also exposed to expenses and persistency being different from expectation on these contracts. | The shareholder receives recourse cash flows and certain other defined payments in accordance with the Scheme of Demutualisation and other relevant agreements. The recourse cash flows are based on several different components of which some are sensitive to demographic and expense risk. | The shareholder is exposed to demographic and expense risk arising on components of a unit linked or segregated fund contract, but it is not the assets or liabilities of the fund which gives rise to this exposure. | TPICF & NCI are not exposed to demographic and expense risk. |
| **Liquidity** | The shareholder is directly exposed to the liquidity risk from the shareholder business. | With profits funds are normally expected to meet their obligations through liquidating assets held in the respective with profits fund. If a with profits fund cannot meet its obligations as they fall due, the shareholder will be required to provide liquidity to meet the policyholder claims and benefits as they fall due. | Unit linked and segregated funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked or segregated fund cannot meet its obligations in this way, the shareholder may be required to meet the obligations to the policyholder. | The shareholder is not exposed to the liquidity risk from these liabilities, since the financial risks of the obligations are borne by third parties. |

The shareholder is exposed to operational and strategic risk arising across the four risk segments and any losses incurred are typically borne by the shareholder.

The shareholder is also exposed to certain risks relating to defined benefit pension plans operated by the Group. These include:

- Market risks through the potential impact of market movements on the value of assets held in the defined benefit pension plans
- Credit risks through the potential impact of widening credit spreads or credit losses on the assets held in the defined benefit pension plans
- Longevity risk through the risk that members of the defined benefit pension plans live longer than expected.

### (a)(ii) Consolidated financial position by risk segment

In previous reporting periods, the Standard Life SICAV funds managed by Standard Life Investments, which held assets of £9.8bn at 31 December 2012, were consolidated in accordance with the Group's accounting policies. During the year to 31 December 2013, the Group's holding in these funds fell below 50% and therefore the funds are not consolidated at 31 December 2013. All assets and liabilities of these funds were previously included on a line-by-line basis. The Group's holdings in the SICAV funds are now reflected in equity securities and interests in pooled investment funds. The statement of financial position categories materially impacted by the change are debt securities, equity securities and interests in pooled investment funds, cash and cash equivalents and third party interest in consolidated funds.

The table that follows provides an analysis of the consolidated statement of financial position showing the Group's assets and liabilities by risk segment. This categorisation has been used to present the information in this note.

# 41. Risk management *continued*
## (a) Overview *continued*
### (a)(ii) Consolidated financial position by risk segment *continued*

| | Shareholder business | | Participating business | | Unit linked and segregated funds | | Third party interest in consolidated funds and non-controlling interests | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 restated[1] £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 restated[1] £m |
| Intangible assets | 298 | 210 | 2 | 4 | - | - | - | - | 300 | 214 |
| Deferred acquisition costs | 842 | 829 | 63 | 75 | - | - | - | - | 905 | 904 |
| Investments in associates and joint ventures | 328 | 324 | - | - | - | 3 | - | 1 | 328 | 328 |
| Investment property | 431 | 521 | 1,995 | 2,048 | 4,829 | 4,701 | 1,290 | 1,295 | 8,545 | 8,565 |
| Property, plant and equipment | 93 | 77 | 126 | 79 | - | - | - | - | 219 | 156 |
| Pension and other post-retirement benefit assets | 432 | 339 | - | - | - | - | - | - | 432 | 339 |
| Deferred tax assets | 121 | 192 | - | (64) | - | 49 | - | - | 121 | 177 |
| Reinsurance assets | 182 | 175 | 5,991 | 6,737 | - | - | - | - | 6,173 | 6,912 |
| Loans | 2,549 | 2,855 | 199 | 226 | 176 | 218 | - | - | 2,924 | 3,299 |
| Derivative financial assets | 111 | 63 | 652 | 1,106 | 739 | 681 | 265 | 300 | 1,767 | 2,150 |
| Equity securities and interests in pooled investment funds at FVTPL | 195 | 197 | 14,692 | 9,079 | 69,955 | 53,019 | 5,474 | 3,517 | 90,316 | 65,812 |
| Debt securities: | | | | | | | | | | |
| At FVTPL | 11,133 | 12,049 | 23,578 | 30,005 | 22,944 | 24,823 | 3,701 | 6,050 | 61,356 | 72,927 |
| At available-for-sale | 683 | 374 | - | - | - | - | - | - | 683 | 374 |
| Receivables and other financial assets | 469 | 515 | 94 | 496 | 415 | 550 | 64 | 156 | 1,042 | 1,717 |
| Other assets | 89 | 86 | 41 | 43 | 128 | 146 | 11 | 9 | 269 | 284 |
| Assets held for sale | 29 | - | - | - | 59 | - | 33 | - | 121 | - |
| Cash and cash equivalents | 953 | 1,537 | 1,028 | 1,494 | 5,467 | 5,461 | 1,656 | 1,450 | 9,104 | 9,942 |
| **Total assets** | 18,938 | 20,343 | 48,461 | 51,328 | 104,712 | 89,651 | 12,494 | 12,778 | 184,605 | 174,100 |
| Non-participating insurance contract liabilities | 9,172 | 10,107 | 11,124 | 12,233 | 8,016 | 6,710 | - | - | 28,312 | 29,050 |
| Non-participating investment contract liabilities | 2,392 | 2,600 | - | - | 95,267 | 81,601 | - | - | 97,659 | 84,201 |
| Participating insurance contract liabilities | - | - | 15,060 | 15,919 | - | - | - | - | 15,060 | 15,919 |
| Participating investment contract liabilities | - | - | 14,707 | 14,993 | - | - | - | - | 14,707 | 14,993 |
| Unallocated divisible surplus | - | - | 680 | 706 | - | - | - | - | 680 | 706 |
| Reinsurance liabilities | 316 | 381 | - | - | - | - | - | - | 316 | 381 |
| Deposits received from reinsurers | - | - | 5,589 | 6,136 | - | - | - | - | 5,589 | 6,136 |
| Third party interest in consolidated funds | - | - | - | - | - | - | 11,803 | 12,037 | 11,803 | 12,037 |
| Borrowings | 58 | 29 | 9 | 9 | 27 | 44 | 1 | 26 | 95 | 108 |
| Subordinated liabilities | 1,861 | 1,868 | - | - | - | - | - | - | 1,861 | 1,868 |
| Pension and other post-retirement benefit provisions | 104 | 130 | - | - | - | - | - | - | 104 | 130 |
| Deferred income | 244 | 268 | 72 | 84 | - | - | - | - | 316 | 352 |
| Deferred tax liabilities | 50 | 43 | 77 | - | 51 | - | - | - | 178 | 43 |
| Current tax liabilities | 7 | 87 | (5) | 6 | 47 | 50 | 6 | 7 | 55 | 150 |
| Derivative financial liabilities | 41 | 23 | 129 | 48 | 463 | 548 | 162 | 234 | 795 | 853 |
| Other financial liabilities | 914 | 855 | 693 | 912 | 611 | 445 | 149 | 111 | 2,367 | 2,323 |
| Other liabilities | 86 | 86 | 21 | 33 | 27 | 14 | 14 | 17 | 148 | 150 |
| **Total liabilities** | 15,245 | 16,477 | 48,156 | 51,079 | 104,509 | 89,412 | 12,135 | 12,432 | 180,045 | 169,400 |
| Net inter-segment assets/(liabilities) | 534 | 493 | (305) | (249) | (203) | (239) | (26) | (5) | - | - |
| **Net assets** | 4,227 | 4,359 | - | - | - | - | 333 | 341 | 4,560 | 4,700 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

## (b) Market risk

As described in the table on pages 178 to 179, the shareholder is exposed to market risk from the shareholder and participating businesses and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating businesses.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked and segregated funds since the shareholder is not exposed to market risks from these assets. The shareholder's exposure to market risk on these assets is limited to variations in the value of future profits earned on the contracts as fees are based on a percentage of the fund value. The sensitivity to market risk analysis includes the impact on those statement of financial position items which are affected by changes in future profits due to the market stresses changing the value of assets held by the unit linked and segregated funds. The shareholder is also not exposed to the market risk from the assets held by third parties in consolidated funds and non-controlling interests and therefore they have been excluded from the following quantitative disclosures.

The Group manages market risks through the use of a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits
- Clearly defined investment benchmarks for policyholder and shareholder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities.

The specific controls and techniques used to manage the market risks in the shareholder and participating businesses are discussed below:

**Shareholder business**
Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies that are appropriate to the liabilities or are held to match the cash flows anticipated to arise in the business. A combination of limits by name, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

**Participating business**
The assets of the participating business are principally managed to support the liabilities of those funds and are appropriately diversified by both asset class and geography.

The key considerations in the asset and liability management of the participating business are:

- The economic liability and how this varies with market conditions
- The need to invest the assets in a manner consistent with participating policyholders' reasonable expectations and, where appropriate, the Scheme of Demutualisation and the Principles and Practices of Financial Management (PPFM)
- The need to ensure that regulatory and capital requirements are met.

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf and derivative instruments may be used to manage these risks.

### (b)(i) Elements of market risk

The main elements of market risk to which the Group is exposed are equity and property risk, interest rate risk and foreign currency risk, which are discussed on the following pages.

As a result of the diversity of the products offered by the Group and the different regulatory environments in which it operates, the Group employs different methods of asset and liability management across its business units.

Information on the methods used to determine fair values for each major category of financial instrument and investment property measured at fair value is presented in Note 42 – Fair value of assets and liabilities and Note 18 – Investment property.

#### (b)(i)(i) Group exposure to equity risk

The Group is subject to equity price risk due to daily changes in the market values and returns on the holdings in its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in the shareholder business and the Group defined benefit pension funds
- Burnthrough from the with profits funds where adverse movements in the market values and returns on holdings in the equity portfolios of these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of equities held in funds from which management charges are taken.

# 41. Risk management *continued*
## (b) Market risk *continued*
### (b)(i) Elements of market risk *continued*

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices.

The table below shows the shareholder and participating businesses' exposure to equity markets. Equity securities are analysed by country based on the ultimate parent country of risk.

| | Shareholder business | | Participating business | | Total | |
|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| UK | 16 | 19 | 5,042 | 4,553 | 5,058 | 4,572 |
| Canada | 134 | 105 | 224 | 204 | 358 | 309 |
| Australia | - | 1 | 31 | 32 | 31 | 33 |
| Austria | - | - | 4 | 11 | 4 | 11 |
| Belgium | - | - | 127 | 96 | 127 | 96 |
| Denmark | - | 1 | 115 | 102 | 115 | 103 |
| Finland | - | - | 67 | 30 | 67 | 30 |
| France | 1 | 2 | 654 | 500 | 655 | 502 |
| Germany | 1 | 1 | 450 | 395 | 451 | 396 |
| Greece | - | - | 6 | 1 | 6 | 1 |
| Ireland | - | 1 | 132 | 102 | 132 | 103 |
| Italy | - | - | 85 | 104 | 85 | 104 |
| Japan | 1 | 3 | 124 | 77 | 125 | 80 |
| Mexico | - | - | 6 | 5 | 6 | 5 |
| Netherlands | 1 | 1 | 412 | 336 | 413 | 337 |
| Norway | - | - | 77 | 53 | 77 | 53 |
| Portugal | - | - | 21 | 30 | 21 | 30 |
| Spain | - | - | 200 | 89 | 200 | 89 |
| Sweden | - | 1 | 289 | 221 | 289 | 222 |
| Switzerland | 1 | 1 | 605 | 391 | 606 | 392 |
| US | 25 | 30 | 1,977 | 1,525 | 2,002 | 1,555 |
| Other | 1 | 25 | 247 | 217 | 248 | 242 |
| **Total** | 181 | 191 | 10,895 | 9,074 | 11,076 | 9,265 |

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £14m (2012: £6m) and amounts seeded into funds of £29m (2012: £nil). The participating business has interests in pooled investment funds of £3,797m (2012: £5m).

#### (b)(i)(ii) Group exposure to property risk

The Group is subject to property price risk due to changes in the value and return on holdings in investment property. This risk arises from:

- Direct property holdings in the shareholder business and the Group defined benefit pension funds
- Burnthrough from the with profits funds where adverse movements in the market values and returns on investment property in these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of property held in funds from which management charges are taken.

Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by:

- Any one property or group of properties
- Geographic area
- Property type
- Development property under construction.

The tables below show the shareholder and participating businesses' direct exposure to investment property analysed by country and sector.

**Shareholder business**

| | Office | | Industrial | | Retail | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Canada | 348 | 392 | 45 | 57 | - | - | 38 | 72 | 431 | 521 |
| **Total** | 348 | 392 | 45 | 57 | - | - | 38 | 72 | 431 | 521 |

**Participating business**

| | Office | | Industrial | | Retail | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| UK | 550 | 560 | 266 | 264 | 946 | 962 | - | - | 1,762 | 1,786 |
| Canada | 49 | 50 | 19 | 20 | 4 | 5 | 14 | 13 | 86 | 88 |
| Belgium | 14 | 14 | - | - | - | - | - | - | 14 | 14 |
| France | - | 2 | 4 | 27 | - | - | 2 | 2 | 6 | 31 |
| Spain | 127 | 129 | - | - | - | - | - | - | 127 | 129 |
| **Total** | 740 | 755 | 289 | 311 | 950 | 967 | 16 | 15 | 1,995 | 2,048 |

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

### (b)(i)(iii) Group exposure to interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the Group which give rise to interest rate risk are debt securities, loans and cash and cash equivalents. The main financial liabilities giving rise to interest rate risk principally comprise non-unit linked insurance, participating and non-participating investment contract liabilities and subordinated liabilities. Derivative financial instruments held by the Group also give rise to interest rate risk.

**Shareholder business**

Under the Group's risk management framework, Group companies are required to manage their interest rate exposures in line with the Group's qualitative risk appetite statements and quantitative risk limits. Group companies typically use a combination of cash flow and duration matching techniques to manage their interest rate risk at an entity level. Hedging is used to mitigate the risk that burnthrough may arise from the with profits funds under certain circumstances where adverse interest rate movements could mean the assets of the with profits funds are not sufficient to meet the obligations of the with profits funds.

**Participating business**

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

The sensitivity of profit after tax to changes in interest rates for both the shareholder business and the participating business is included in the Profit after tax sensitivity to market risk table, shown in section (b)(ii) below.

# 41. Risk management *continued*

## (b) Market risk *continued*

### (b)(i) Elements of market risk *continued*

#### (b)(i)(iv) Foreign currency risk

The Group's financial assets are generally held in the local currency of its operational geographic locations, principally to assist with the matching of liabilities. However, foreign currency risk arises where financial assets are held in other currencies, for example to meet the expectations of particular groups of policyholders or to improve the risk profile through diversification. The Group manages this risk through the use of limits on the amount of foreign currency risk that is permitted.

The tables below summarise the shareholder and participating businesses' exposure to foreign currency risks in Sterling. The tables exclude inter-segment assets and liabilities.

**Shareholder business**

| | UK Sterling | | Euro | | Canada Dollar | | Hong Kong Dollar | | US Dollar | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 restated[1] £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 restated[1] £m |
| Total assets | **7,585** | 7,589 | **1,275** | 1,201 | **9,591** | 11,124 | **86** | 87 | **106** | 110 | **295** | 232 | **18,938** | 20,343 |
| Total liabilities | **(6,019)** | (5,970) | **(655)** | (601) | **(8,483)** | (9,778) | **(44)** | (37) | **(36)** | (86) | **(8)** | (5) | **(15,245)** | (16,477) |
| Net investment hedges | **883** | 755 | **-** | - | **(870)** | (743) | **(13)** | (12) | **-** | - | **-** | - | **-** | - |
| | **2,449** | 2,374 | **620** | 600 | **238** | 603 | **29** | 38 | **70** | 24 | **287** | 227 | **3,693** | 3,866 |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

Other includes assets of £55m (2012: £19m) and liabilities of £nil (2012: £5m) in relation to derivatives used to manage currency risk exposures. The principal source of foreign currency risk for shareholders arises from the Group's investments in overseas subsidiaries and joint ventures. The most significant of these exposures relates to the Group's Canadian subsidiaries. Derivative financial instruments are used to reduce this exposure in line with the Group's strategy for managing foreign exchange risks.

During 2013 the Group reaffirmed its strategy for hedging foreign currency risks in the shareholder business. The purpose of this strategy is to provide a consistent approach to managing foreign exchange risks in the shareholder business. This includes, within certain parameters, minimising currency volatility within the regulatory surplus and reducing the currency risk relating to dividend receipts from overseas operations. The Group does not separately hedge translation of reported earnings from overseas operations in the consolidated financial statements.

**Participating business**

| | UK Sterling | | Euro | | Canada Dollar | | Hong Kong Dollar | | US Dollar | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Total assets | **34,617** | 38,106 | **9,811** | 9,618 | **818** | 889 | **41** | 28 | **2,049** | 1,571 | **1,125** | 1,116 | **48,461** | 51,328 |
| Total liabilities | **(39,237)** | (42,746) | **(8,105)** | (7,377) | **(813)** | (895) | **-** | - | **-** | (7) | **(1)** | (54) | **(48,156)** | (51,079) |
| | **(4,620)** | (4,640) | **1,706** | 2,241 | **5** | (6) | **41** | 28 | **2,049** | 1,564 | **1,124** | 1,062 | **305** | 249 |

There are no net investment hedges in the participating business. Other includes assets of £9m (2012: £23m) and liabilities of £1m (2012: £11m) in relation to derivatives used to manage currency risk exposures.

The foreign currency exposures shown above largely reflect the impact of financial assets being denominated in currencies other than the local currency of the operational geographic location. These exposures arise as a result of asset allocation decisions that are intended to meet the expectations of particular groups of policyholders or to improve the risk profile through diversification. The investment mandates used to manage the participating business contain limits to restrict the extent of foreign currency risk that can be taken and currency derivatives are held to provide economic hedges of some of the above exposures. These are typically short dated forward foreign exchange contracts, however the investment mandates do not normally require these contracts to be replaced on maturity providing the foreign currency risk is within limits.

### (b)(ii) Sensitivity to market risk analysis

The Group's profit after tax and equity are sensitive to variations in respect of the Group's market risk exposures and a sensitivity analysis is presented on the following pages. The analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security and property prices and to changes in interest rates as at the reporting date. For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is presented, while the other sensitivity factors remain unchanged. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

Changes in equity security and property prices and/or fluctuations in interest rates will affect non-participating unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked and segregated funds is included in the sensitivity analysis where there is an impact on the value of other statement of financial position items, the change in unit linked liabilities and the corresponding asset movement has not been presented. This is also true of the other with profits funds with the exception of the German With Profits Fund (GWPF). As at 31 December 2013 there is no direct impact of market risk on the sensitivity of GWPF. However, there is an indirect impact on the PBF due to a realistic Capital Support Arrangement (CSA) that was introduced during 2011 for the GWPF. This provides support by reducing the liability to transfer future annual management charges to the PBF hence increasing the assets on the statement of financial position to the extent necessary to avoid a realistic deficit (if possible). There is no impact on GWPF participating liabilities. If support is provided under the realistic CSA, there is an increase in expense reserves in the PBF. Further realistic support would be required for the decrease in interest rate sensitivity and this is included within the non-participating insurance contract liabilities in the table below.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked business, segregated fund business and other with profits fund business. For example, if the tests had been applied as at 1 January, the profit during the year would have varied due to the different level of funds under management. In illustrating the impact of equity/property risk, the assumption has been made, where relevant, that expectations of corporate earnings and rents remain unchanged and thus yields change accordingly. The sensitivities take into account the likely impact on individual Group companies of local regulatory standards under such a scenario.

The recourse cash flows have been determined in accordance with the Scheme and consider the extent to which shareholders participate in the investment returns and surpluses of the HWPF. The Scheme, and in particular the Capital Support Mechanism, requires the financial state of the HWPF to be considered before recourse cash flows are transferred to the Shareholder Fund and, under certain circumstances, the payment of recourse cash flow can be withheld to support the financial strength of the HWPF. Therefore, the HWPF has been treated as a whole for the purpose of this sensitivity analysis.

**Limitations**

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profit at the year end that the changes in market conditions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the sensitivity factors been applied at a date other than the reporting date.

For the participating business, in particular the HWPF and the GWPF, the risk to shareholders is that the assets of the fund are insufficient to meet the obligations to policyholders.

For the HWPF, whilst shareholders are only entitled to the recourse cash flows in respect of this business, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. The sensitivities presented in the table are not sufficiently severe to have restricted recourse cash flows in 2013 and 2012.

When assessing the impact of the sensitivity tests on the recourse cash flows, and in particular the risk that the assets of the HWPF may be insufficient to meet the obligations to policyholders, dynamic management actions have been assumed in a manner consistent with the relevant Principles and Practices of Financial Management (PPFM).

# 41. Risk management *continued*
## (b) Market risk *continued*
### (b)(ii) Sensitivity to market risk analysis *continued*

**Profit after tax sensitivity to market risk**

| 2013<br>Increase/(decrease) in profit after tax | Equity markets<br>+10%<br>£m | <br>-10%<br>£m | <br>+20%<br>£m | <br>-20%<br>£m | Property markets<br>+10%<br>£m | <br>-10%<br>£m | <br>+20%<br>£m | <br>-20%<br>£m | Interest rates<br>+1%<br>£m | <br>-1%<br>£m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Shareholder business** | | | | | | | | | | |
| **UK and Europe:** | | | | | | | | | | |
| Deferred acquisition costs | - | - | - | (4) | - | - | - | - | - | - |
| Assets backing non-participating liabilities | - | - | - | - | - | - | - | - | (436) | 530 |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | 420 | (510) |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | - | - | - | - | - | - | - | - | (23) | 27 |
| | **-** | **-** | **-** | **(4)** | **-** | **-** | **-** | **-** | **(39)** | **47** |
| **Canada:** | | | | | | | | | | |
| Assets backing non-participating insurance contract liabilities | 27 | (27) | 54 | (54) | 30 | (30) | 61 | (61) | (394) | 511 |
| Assets backing non-participating investment contract liabilities | - | - | - | - | - | - | - | - | (7) | 9 |
| Non-participating insurance contract liabilities | 2 | (5) | 6 | (14) | 22 | (25) | 37 | (48) | 397 | (536) |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | (5) | 7 | (9) | 16 | 20 | (20) | 40 | (40) | (38) | 45 |
| | **24** | **(25)** | **51** | **(52)** | **72** | **(75)** | **138** | **(149)** | **(42)** | **29** |
| **Standard Life Investments** | **3** | **(3)** | **5** | **(5)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Asia and Emerging Markets:** | | | | | | | | | | |
| Deferred acquisition costs | 2 | (2) | 3 | (3) | - | - | - | - | (3) | 3 |
| Assets backing non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Assets backing non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | - | - | - | - | - | - | - | - | - | - |
| | **2** | **(2)** | **3** | **(3)** | **-** | **-** | **-** | **-** | **(3)** | **3** |
| **Other** | **1** | **(1)** | **2** | **(2)** | **-** | **-** | **-** | **-** | **2** | **(2)** |
| **Total shareholder business** | **30** | **(31)** | **61** | **(66)** | **72** | **(75)** | **138** | **(149)** | **(82)** | **77** |
| **Participating business** | | | | | | | | | | |
| **UK and Europe:** | | | | | | | | | | |
| Recourse cash flow | - | - | - | - | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Canada:** | | | | | | | | | | |
| Assets backing participating insurance contract liabilities | 16 | (16) | 31 | (31) | 8 | (8) | 16 | (16) | (31) | 37 |
| Participating insurance contract liabilities | (16) | 16 | (31) | 31 | (8) | 8 | (16) | 16 | 31 | (37) |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total participating business** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **30** | **(31)** | **61** | **(66)** | **72** | **(75)** | **138** | **(149)** | **(82)** | **77** |

[1] The amounts in the table above are presented net of tax.
[2] A positive number represents a credit to the consolidated income statement.

For Canada's non-participating investment business, the liability does not change in the circumstances considered, as it is measured on an amortised cost basis. Given that some of the backing assets are measured at fair value through profit or loss (FVTPL), their value is sensitive to the circumstances considered. The mismatch in measurement bases is reflected in the sensitivity analysis reported in respect of Canada.

The Company within Other shareholder business and the shareholder business in Canada classify certain debt securities which back subordinated debt liabilities as assets available-for-sale (AFS). The shareholder business in Canada also classifies certain debt securities which back non-participating investment contract liabilities as AFS. This reduces the impact of the mismatch between the measurement bases used for these assets and the liabilities they are backing. The Group's sensitivity of profit after tax to changes in interest rates does not include the impact of changes in interest rates for these AFS assets.

Canada's non-participating insurance contract liabilities are valued using CALM, which seeks to find asset cash flows that match the expected future liability cash flows. The value placed on the actuarial liabilities is the value of the assets that provide the matching cash flows.

The Appointed Actuary's assumption for future cash flows from equity securities and property is not based on current dividend or rental yields, but is a long-term assumption based on historic average yields. In the event of a one-off fall in equity security and property values, the Appointed Actuary would not necessarily increase the assumed yields, and the assumed future cash flows from these assets would fall. Therefore additional assets would be required to cover the expected future liability cash flows.

| | Equity markets | | | | Property markets | | | | Interest rates | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | **+10%** | **-10%** | **+20%** | **-20%** | **+10%** | **-10%** | **+20%** | **-20%** | **+1%** | **-1%** |
| **Increase/(decrease) in profit after tax** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Shareholder business** | | | | | | | | | | |
| **UK and Europe:** | | | | | | | | | | |
| Deferred acquisition costs | - | - | - | (6) | - | - | - | - | - | - |
| Assets backing non-participating liabilities | - | - | - | - | - | - | - | - | (424) | 496 |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | 421 | (484) |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | - | - | - | - | - | - | - | - | (38) | 27 |
| | **-** | **-** | **-** | **(6)** | **-** | **-** | **-** | **-** | **(41)** | **39** |
| **Canada:** | | | | | | | | | | |
| Assets backing non-participating insurance contract liabilities | 26 | (26) | 52 | (52) | 32 | (32) | 65 | (65) | (514) | 670 |
| Assets backing non-participating investment contract liabilities | - | - | - | - | - | - | - | - | (5) | 5 |
| Non-participating insurance contract liabilities | 2 | (11) | 10 | (26) | 36 | (39) | 62 | (78) | 519 | (792) |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | (5) | 7 | (8) | 18 | 29 | (29) | 58 | (58) | (50) | 61 |
| | **23** | **(30)** | **54** | **(60)** | **97** | **(100)** | **185** | **(201)** | **(50)** | **(56)** |
| **Standard Life Investments** | **1** | **(1)** | **2** | **(2)** | **-** | **-** | **-** | **-** | **2** | **(2)** |
| **Asia and Emerging Markets:** | | | | | | | | | | |
| Deferred acquisition costs | 1 | (1) | 2 | (2) | - | - | - | - | 2 | (2) |
| Assets backing non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Assets backing non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - | - | - |
| Other assets and liabilities | - | - | - | - | - | - | - | - | (1) | 1 |
| | **1** | **(1)** | **2** | **(2)** | **-** | **-** | **-** | **-** | **1** | **(1)** |
| **Other** | **-** | **-** | **1** | **(1)** | **-** | **-** | **-** | **-** | **6** | **(6)** |
| **Total shareholder business** | **25** | **(32)** | **59** | **(71)** | **97** | **(100)** | **185** | **(201)** | **(82)** | **(26)** |
| **Participating business** | | | | | | | | | | |
| **UK and Europe:** | | | | | | | | | | |
| Recourse cash flow | - | - | - | - | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Canada:** | | | | | | | | | | |
| Assets backing participating insurance contract liabilities | 14 | (14) | 29 | (29) | 8 | (8) | 16 | (16) | (26) | 32 |
| Participating insurance contract liabilities | (14) | 14 | (29) | 29 | (8) | 8 | (16) | 16 | 26 | (32) |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total participating business** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **25** | **(32)** | **59** | **(71)** | **97** | **(100)** | **185** | **(201)** | **(82)** | **(26)** |

[1] The amounts in the table above are presented net of tax.
[2] A positive number represents a credit to the consolidated income statement.

# 41. Risk management *continued*

## (b) Market risk *continued*

### (b)(ii) Sensitivity to market risk analysis *continued*

**Equity sensitivity to market risk**

The shareholder business in Canada classifies certain debt securities which back non-participating investment contract liabilities and subordinated debt liabilities as AFS. The shareholder business in the Other reportable segment also classifies certain debt securities which back subordinated debt liabilities issued by the Company as AFS. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in the consolidated income statement. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result, the sensitivity of the Group's equity to variations in interest rate risk exposures differs from the sensitivity of the Group's profit after tax to variations in interest rate risk exposures.

Canada's equity sensitivity to a 1% increase in interest rates is (£61m) (2012: (£72m)) and to a 1% decrease in interest rates is £51m (2012: (£31m)). Other's equity sensitivity to a 1% increase in interest rates is (£16m) (2012: £6m) and to a 1% decrease in interest rates is £16m (2012: (£6m)). The sensitivity of the Group's total equity to a 1% increase in interest rates is (£119m) (2012: (£104m)) and a 1% decrease in interest rates is £117m (2012: £1m).

The sensitivity of the Group's total equity to variations in equity and property markets in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Group's profit after tax.

## (c) Credit risk

As described in the table on pages 178 to 179, the shareholder is exposed to credit risk from the shareholder and participating businesses and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets of these categories.

Quantitative credit risk disclosures are not provided in respect of the assets of the unit linked and segregated funds since the shareholder is not directly exposed to credit risks from these assets. The unit linked business includes £4,412m (2012: £4,790m) of assets that are held as reinsured external funds links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the insured external fund links. These exposures are actively monitored and managed by the Group and the Group considers the circumstances under which losses may arise to be very remote.

The shareholder is also not exposed to the credit risk from the assets held by third parties in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

The Group's credit risk exposure mainly arises from its investments in its financial instruments. Concentrations of credit risk are managed by setting maximum exposure limits to types of financial instruments and counterparties. The limits are established using the following controls:

| Financial instrument with credit risk exposure | Control |
|---|---|
| Cash and cash equivalents | Maximum counterparty exposure limits are set with reference to internal credit assessments. |
| Derivative financial instruments | Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. Refer to (c)(iii) for further details on collateral. |
| Debt securities | The Group's policy is to set exposure limits by name of issuer, sector and credit rating. |
| Loans | Portfolio limits are set by individual business units. These limits specify the proportion of the value of the total portfolio of mortgage loans and mortgage bonds that are represented by a single, or group of related counterparties, geographic area, employment status or economic sector, risk rating and loan to value percentage. |
| Reinsurance assets | The Group's policy is to place reinsurance only with highly rated counterparties. The policy restricts the Group from assuming concentrations of risk with few individual reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers. |
| Other financial instruments | Appropriate limits are set for other financial instruments to which the Group may have exposure at certain times, for example commission terms paid to intermediaries. |

Individual business units are responsible for implementing processes to ensure that credit exposures are managed within any limits that have been established and for the reporting of exposures and any limit breaches to the Group Credit Risk Committee.

The tables that follow provide an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB with rules followed for determining the credit rating to be disclosed when different credit ratings are assigned by different external rating agencies. For those financial assets that do not have credit ratings assigned by external rating agencies but where the Group has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated', with the exception of Canada's loans secured by mortgages. These mortgages have been analysed in the table based on the internal ratings assigned to them. If a financial

asset is neither rated by an external agency nor 'internally rated', it is classified as 'not rated'. The total amounts presented represent the Group's maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

## (c)(i) Credit exposure

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- A default against the terms of the instrument has occurred
- The issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process.

For Canada, the objective evidence that is taken into account in determining whether any impairment of loans has occurred includes:

- Loans to customers that are contractually 90 days in arrears with uncertainty as to collectability or asset not well secured
- Reasonable doubt as to collectability of full amount of principal and interest
- A significant decline in the value of a security underlying a mortgage unless reasonably assumed that mortgage terms and conditions will be met.

The tables below show the shareholder and participating businesses' exposure to credit risk from financial assets analysed by credit rating and country.

**Shareholder business**

An analysis of financial assets by credit rating is as follows:

| | Loans to associates and joint ventures | | Reinsurance assets | | Loans | | Derivative financial assets | | Debt Securities | | Receivables and other financial assets | | Cash and cash equivalents | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Neither past due nor impaired: | | | | | | | | | | | | | | | | |
| AAA | **-** | - | **-** | - | **1,867** | 1,950 | **-** | - | **1,139** | 1,867 | **-** | - | **31** | 78 | **3,037** | 3,895 |
| AA | **-** | - | **25** | 7 | **568** | 690 | **16** | 27 | **2,707** | 2,627 | **-** | - | **307** | 438 | **3,623** | 3,789 |
| A | **-** | - | **155** | 144 | **33** | 137 | **80** | 36 | **6,219** | 6,318 | **-** | - | **554** | 1,017 | **7,041** | 7,652 |
| BBB | **-** | - | **-** | - | **-** | 20 | **14** | - | **1,282** | 1,055 | **-** | - | **49** | 4 | **1,345** | 1,079 |
| Below BBB | **-** | - | **-** | - | **41** | 11 | **-** | - | **20** | 89 | **-** | - | **-** | - | **61** | 100 |
| Not rated | **17** | 16 | **-** | 19 | **21** | 23 | **1** | - | **93** | 164 | **453** | 496 | **12** | - | **597** | 718 |
| Internally rated | **-** | - | **2** | 5 | **-** | - | **-** | - | **356** | 303 | **-** | - | **-** | - | **358** | 308 |
| Past due | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **16** | 19 | **-** | - | **16** | 19 |
| Impaired | **-** | - | **-** | - | **19** | 24 | **-** | - | **-** | - | **-** | - | **-** | - | **19** | 24 |
| **Total** | **17** | 16 | **182** | 175 | **2,549** | 2,855 | **111** | 63 | **11,816** | 12,423 | **469** | 515 | **953** | 1,537 | **16,097** | 17,584 |

At 31 December 2013, receivables and other financial assets of £16m (2012: £19m) were past due by less than three months.

Shareholder exposure to loans of £2,549m (2012: £2,855m) primarily comprises the Canadian non-segregated funds commercial mortgage book. This mortgage book is deemed to be of very high quality. The Canadian mortgage book has an average loan to value of 39% (2012: 39%).

# 41. Risk management *continued*
## (c) Credit risk *continued*
### (c)(i) Credit exposure *continued*

An analysis of debt securities by country is as follows:

| | Government, Provincial and Municipal[1] | | Banks | | Other financial institutions | | Other corporate | | Other[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| UK | 360 | 302 | 507 | 607 | 889 | 844 | 955 | 743 | 69 | 74 | 2,780 | 2,570 |
| Canada | 2,463 | 3,441 | 354 | 179 | 265 | 290 | 1,929 | 2,211 | - | - | 5,011 | 6,121 |
| Australia | - | - | 108 | 85 | 17 | 6 | 4 | 9 | - | - | 129 | 100 |
| Austria | 20 | - | - | - | - | - | - | - | - | - | 20 | - |
| Belgium | - | - | 27 | 53 | - | - | 10 | 1 | - | - | 37 | 54 |
| Denmark | - | - | 4 | 5 | - | - | 15 | 6 | - | - | 19 | 11 |
| Finland | - | - | 45 | - | - | - | - | 1 | - | - | 45 | 1 |
| France | 22 | - | 236 | 228 | - | 4 | 432 | 402 | - | - | 690 | 634 |
| Germany | 302 | 315 | 84 | 114 | 1 | 22 | 328 | 208 | - | - | 715 | 659 |
| Greece | - | - | - | - | - | - | - | - | - | - | - | - |
| Ireland | - | - | - | - | 3 | 10 | - | 2 | - | - | 3 | 12 |
| Italy | - | - | 34 | 33 | - | 2 | 71 | 52 | - | - | 105 | 87 |
| Japan | - | 2 | 110 | 70 | 30 | 18 | 29 | 21 | - | - | 169 | 111 |
| Mexico | - | 1 | - | - | - | - | 82 | 77 | - | - | 82 | 78 |
| Netherlands | - | - | 398 | 286 | - | 1 | 14 | 154 | - | - | 412 | 441 |
| Norway | - | 1 | - | 21 | - | - | 37 | 39 | - | - | 37 | 61 |
| Portugal | - | - | - | - | - | - | - | - | - | - | - | - |
| Spain | - | - | 9 | 9 | - | - | 39 | 39 | - | - | 48 | 48 |
| Sweden | - | 1 | 26 | 58 | 1 | - | 59 | 60 | - | - | 86 | 119 |
| Switzerland | - | - | 54 | 78 | - | 11 | 22 | 13 | - | - | 76 | 102 |
| US | 12 | 12 | 229 | 173 | 456 | 424 | 314 | 364 | - | - | 1,011 | 973 |
| Other | - | 7 | 125 | 43 | 5 | 2 | 10 | 26 | 201 | 163 | 341 | 241 |
| **Total** | **3,179** | 4,082 | **2,350** | 2,042 | **1,667** | 1,634 | **4,350** | 4,428 | **270** | 237 | **11,816** | 12,423 |

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.

The shareholder exposure to Canadian debt securities predominately reflects assets held in the shareholder business in Canada.

**Participating business**

An analysis of financial assets by credit rating is as follows:

| | Reinsurance assets | | Loans | | Derivative financial assets | | Debt Securities | | Receivables and other financial assets | | Cash and cash equivalents | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Neither past due nor impaired: | | | | | | | | | | | | | | |
| AAA | - | - | - | - | - | - | 2,655 | 18,601 | - | - | 18 | - | 2,673 | 18,601 |
| AA | 5,895 | 6,665 | - | - | 96 | 16 | 14,466 | 3,945 | - | - | 261 | 498 | 20,718 | 11,124 |
| A | 88 | 60 | - | - | 341 | 683 | 3,966 | 4,701 | - | - | 715 | 989 | 5,110 | 6,433 |
| BBB | - | - | - | - | 25 | - | 1,605 | 1,528 | - | - | 33 | - | 1,663 | 1,528 |
| Below BBB | - | - | - | - | - | - | 473 | 693 | - | - | - | - | 473 | 693 |
| Not rated | - | - | 199 | 226 | 190 | 407 | 297 | 346 | 80 | 481 | 1 | 7 | 767 | 1,467 |
| Internally rated | 8 | 12 | - | - | - | - | 110 | 183 | - | - | - | - | 118 | 195 |
| Past due | - | - | - | - | - | - | - | - | 14 | 15 | - | - | 14 | 15 |
| Impaired | - | - | - | - | - | - | 6 | 8 | - | - | - | - | 6 | 8 |
| **Total** | **5,991** | 6,737 | **199** | 226 | **652** | 1,106 | **23,578** | 30,005 | **94** | 496 | **1,028** | 1,494 | **31,542** | 40,064 |

At 31 December 2013, based on the credit ratings assigned by two major external rating agencies, holdings in UK government debt have been classified as AA. These holdings were previously classified as AAA.

At 31 December 2013, receivables and other financial assets of £14m (2012: £15m) were past due by less than three months.

Not rated loans of £199m (2012: £226m) relate to very high quality mortgages in UK and Europe and Canada.

The shareholders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in principle to that described for market risk exposures in Section (b). As at 31 December 2013, the financial assets of the HWPF include £5,589m (2012: £6,136m) of assets (primarily debt securities) deposited back under the terms of an external annuity reinsurance transaction, the transaction having been structured in this manner specifically to mitigate credit risks associated with default of the reinsurer. Any credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

An analysis of debt securities by country is as follows:

| | Government, Provincial and Municipal[1] | | Banks | | Other financial institutions | | Other corporate | | Other[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| UK | 11,721 | 13,401 | 938 | 1,167 | 2,252 | 3,149 | 1,644 | 1,082 | 1 | - | 16,556 | 18,799 |
| Canada | 321 | 396 | 80 | 23 | 50 | 49 | 58 | 59 | - | - | 509 | 527 |
| Australia | - | 1 | 160 | 180 | 62 | 95 | 19 | 21 | - | - | 241 | 297 |
| Austria | - | 364 | 27 | 27 | - | - | - | 3 | - | - | 27 | 394 |
| Belgium | 1 | 286 | 15 | 24 | - | 68 | 21 | 21 | - | - | 37 | 399 |
| Denmark | - | 6 | 17 | 33 | - | - | 30 | 58 | - | - | 47 | 97 |
| Finland | - | 203 | 103 | 45 | 25 | 25 | 6 | 13 | - | - | 134 | 286 |
| France | 300 | 1,287 | 260 | 324 | 150 | 257 | 314 | 435 | - | - | 1,024 | 2,303 |
| Germany | 1,484 | 1,988 | 275 | 356 | 153 | 126 | 202 | 221 | - | - | 2,114 | 2,691 |
| Greece | - | - | - | - | - | - | - | 4 | - | - | - | 4 |
| Ireland | - | - | 10 | 5 | 11 | 56 | 15 | 13 | - | - | 36 | 74 |
| Italy | 4 | 2 | 17 | 74 | 69 | 42 | 128 | 89 | - | - | 218 | 207 |
| Japan | 11 | 33 | 210 | 32 | - | 1 | 11 | - | - | - | 232 | 66 |
| Mexico | - | - | - | - | - | - | 56 | 61 | - | - | 56 | 61 |
| Netherlands | - | 474 | 212 | 398 | 40 | 223 | 29 | 42 | - | - | 281 | 1,137 |
| Norway | - | 142 | 67 | 133 | 12 | 14 | 58 | 63 | - | - | 137 | 352 |
| Portugal | - | - | - | - | - | - | - | 1 | - | - | - | 1 |
| Spain | - | 5 | 24 | 24 | - | 6 | 82 | 82 | - | - | 106 | 117 |
| Sweden | 4 | 68 | 125 | 189 | 16 | 11 | 18 | 31 | - | - | 163 | 299 |
| Switzerland | - | - | 10 | 19 | 47 | 29 | 52 | 12 | - | - | 109 | 60 |
| US | - | 5 | 326 | 318 | 283 | 437 | 355 | 310 | - | - | 964 | 1,070 |
| Other | 26 | - | 74 | 62 | 171 | 252 | 73 | 206 | 243 | 244 | 587 | 764 |
| **Total** | 13,872 | 18,661 | 2,950 | 3,433 | 3,341 | 4,840 | 3,171 | 2,827 | 244 | 244 | 23,578 | 30,005 |

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.

### (c)(ii) Credit spreads

As at 31 December 2013, it is expected that an adverse movement in credit spreads of 50 basis points, with no change to default allowance, would result in a reduction to profit for the year of £28m (2012: £22m). A further reduction of £56m (2012: £61m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

# 41. Risk management *continued*

## (c) Credit risk *continued*

### (c)(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of derivative financial instruments is accepted from and provided to certain market counterparties to mitigate counterparty risk in the event of default. The use of collateral in respect of derivative financial instruments is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is calculated daily, based on the value of derivative transactions in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Any collateral moved under the terms of these agreements is transferred outright. With regard to either collateral pledged or accepted, the Group may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations. Furthermore, alternative collateral such as securities may be provided if acceptable to both parties.

Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close-out calculation of net counterparty exposure. At 2013, the Group had pledged £28m (2012: £8m) of cash and £21m (2012: £110m) of securities as collateral for derivative financial liabilities. At 31 December 2013, the Group had accepted £711m (2012: £811m) of cash and £189m (2012: £504m) of securities as collateral. None of the securities were sold or repledged at the year end.

### (c)(iv) Offsetting financial assets and liabilities

The Group does not offset financial assets and liabilities on the consolidated statement of financial position, as there are no unconditional rights to set off. Consequently, the gross amount of financial instruments presented on the consolidated statement of financial position is the net amount. The Group's over-the-counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement.

As noted in section (f), the Group also enters into securities lending arrangements. These arrangements are governed by an enforceable Securities Lending Agency Agreement which is considered to be a similar arrangement to a master netting agreement.

The Group does not hold any other financial instruments which are subject to master netting agreements or similar arrangements. The following table presents the effect of master netting agreements and similar arrangements.

| | | Related amounts not offset on the consolidated statement of financial position | | |
|---|---|---|---|---|
| **As at 31 December 2013** | **Gross amounts of financial instruments as presented on the consolidated statement of financial position £m** | **Financial instruments £m** | **Financial collateral pledged (received) £m** | **Net position £m** |
| **Financial assets** | | | | |
| Derivatives[1] | 1,226 | (397) | (736) | 93 |
| Securities lending | 146 | - | (146) | - |
| **Total financial assets** | **1,372** | **(397)** | **(882)** | **93** |
| **Financial liabilities** | | | | |
| Derivatives[1] | (428) | 397 | 29 | (2) |
| **Total financial liabilities** | **(428)** | **397** | **29** | **(2)** |

1 Only OTC derivatives subject to master netting agreements have been included above.

| | | Related amounts not offset on the consolidated statement of financial position | | |
|---|---|---|---|---|
| **As at 31 December 2012** | **Gross amounts of financial instruments as presented on the consolidated statement of financial position £m** | **Financial instruments £m** | **Financial collateral pledged (received) £m** | **Net position £m** |
| **Financial assets** | | | | |
| Derivatives[1] | 1,537 | (646) | (866) | 25 |
| Securities lending | 400 | - | (400) | - |
| **Total financial assets** | **1,937** | **(646)** | **(1,266)** | **25** |
| **Financial liabilities** | | | | |
| Derivatives[1] | (726) | 646 | 58 | (22) |
| **Total financial liabilities** | **(726)** | **646** | **58** | **(22)** |

1 Only OTC derivatives subject to master netting agreements have been included above.

### (c)(v) Credit risk on loans and receivables and financial liabilities designated as at fair value through profit or loss

#### (c)(v)(i) Loans and receivables

The Group holds a portfolio of financial instruments which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as at FVTPL. These instruments are included in debt securities on the consolidated statement of financial position. The Group's exposure to such financial instruments at 31 December 2013 was £193m (2012: £214m) of which £144m related to participating business (2012: £159m) and £49m related to shareholder business (2012: £55m). The fair value of these loans and receivables is calculated using a valuation technique which refers to the current fair value of other similar financial instruments in addition to other unobservable market data. During the year, fair value gains of £11m (2012: £8m) in relation to these loans and receivables were recognised in the consolidated income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was a gain of £8m (2012: £7m).

As described in Section (b), the Group risk management framework defines market risk as the risk that arises from the Group's exposure to market movements, which could result in the income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. The movement in the fair value of loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

#### (c)(v)(ii) Financial liabilities designated at FVTPL

The Group has designated unit linked non-participating investment contract liabilities as at FVTPL. As the fair value of the liability is based on the value of the underlying portfolio of assets, the movement, during the period and cumulatively, in the fair value of the unit linked non-participating investment contract liabilities, is only attributable to market risk.

## (d) Demographic and expense risk

As described in the table on pages 178 to 179, the shareholder is directly exposed to demographic and expense risk from shareholder business and participating business and, as a result, quantitative demographic and expense risk disclosures are provided in respect of these categories.

Demographic and expense risk is managed by assessing certain characteristics based on experience and statistical data and by making certain assumptions on the risks associated with the policy during the period that it is in-force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing demographic and expense risk exposures, the Group considers:

- Historic experience of relevant demographic and expense risks
- The potential for future experience to differ from that expected or observed historically
- The financial impact of variances in expectations
- Other factors relevant to their specific markets, for example obligations to treat customers fairly.

Reinsurance and other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Group's assessment of demographic and expense risk exposures.

### (d)(i) Elements of demographic and expense risk

The main elements of demographic and expense risk that give rise to the exposure are discussed below.

#### (d)(i)(i) Components of insurance risk as defined by IFRS 4 *Insurance Contracts*

**Longevity**

The Group defines longevity risk as the risk that the policyholder lives longer than expected and therefore gives rise to a loss. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities. This may arise from current experience differing from that expected, more volatility of experience than expected, or the rate of improvement in mortality being greater than anticipated.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than the Group's expectations and reported profits will be impacted as and when such variances are recognised in liabilities.

**Morbidity**

The Group defines morbidity risk as the risk that paid claims dependent on the state of health of a policyholder are either higher, more volatile, continue for a longer duration or start earlier than those assumed. This risk will be present on disability income, healthcare and critical illness contracts. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected, for example, due to non-disclosure.

Income protection contracts have the risk that claim duration may be longer than anticipated.

**Mortality**

The Group defines mortality risk as the risk that paid death claims are at a higher rate or are more volatile than assumed. This risk will exist on any contracts where the payment on death is greater than the reserve held. This includes the risk of anti-selection that results in a requirement to pay claims that the Group had not expected, for example due to non-disclosure.

# 41. Risk management *continued*

## (d) Demographic and expense risk *continued*

### (d)(i) Elements of demographic and expense risk *continued*

#### (d)(i)(ii) Other financial risks

**Persistency – withdrawals and lapse rates**

The Group defines persistency risk as the risk that business lapses or becomes paid-up at a different rate than assumed. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits arising from early retirements, surrenders – either partial or in full – and similar policyholder options.

Variances in persistency will affect equity holder profits to the extent that charges levied against policies are dependent upon the number of policies in force and/or the average size of those policies. The policies primarily relate to unit linked, unitised with profits and Canada's segregated fund business. Profit may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

**Expenses**

The Group defines expense risk as the risk that expense levels will be higher than assumed. This can arise from an increase in the unit costs of the Group or its businesses or an increase in expense inflation, either Group specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can result in an increase in liabilities or a reduction in expected future profit.

Profit is directly exposed to the risk of expenses being higher than otherwise expected. They can be further affected if it is considered necessary, or prudent, to increase provisions to reflect increased expectations of future costs of policy administration.

### (d)(ii) Sensitivity to demographic and expenses risk analysis

Recognition of profit after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the Group's insurance and investment contract liabilities, as described in Note 3.

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Group's most significant demographic and expense risk exposures, including exposure to persistency risk. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

| (Decrease)/increase in profit after tax and equity 2013 | Longevity | | Expenses | | Persistency | | Morbidity/ mortality | |
|---|---|---|---|---|---|---|---|---|
| | +5% £m | -5% £m | +10% £m | -10% £m | +10% £m | -10% £m | +5% £m | -5% £m |
| **Shareholder business** | | | | | | | | |
| **UK and Europe** | | | | | | | | |
| Reinsurance assets | - | - | - | - | - | - | 1 | (1) |
| Non-participating insurance contract liabilities | (99) | 93 | (7) | 8 | - | - | (1) | 1 |
| **Canada** | | | | | | | | |
| Non-participating insurance contract liabilities | (45) | 41 | (13) | 13 | 12 | (11) | (17) | 18 |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - |
| **Asia and Emerging Markets** | | | | | | | | |
| Deferred acquisition costs | - | - | - | - | (3) | 3 | - | - |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - |
| **Total shareholder business** | **(144)** | **134** | **(20)** | **21** | **9** | **(8)** | **(17)** | **18** |
| **Participating business** | | | | | | | | |
| **UK and Europe** | | | | | | | | |
| Recourse cash flows | (16) | 15 | (5) | 4 | 1 | (1) | (4) | 4 |
| **Total participating business** | **(16)** | **15** | **(5)** | **4** | **1** | **(1)** | **(4)** | **4** |
| **Total** | **(160)** | **149** | **(25)** | **25** | **10** | **(9)** | **(21)** | **22** |

When the sensitivities presented in the table above are applied to other with profits funds, there are no significant impacts on net liabilities after reinsurance, equity or profits for either investment or insurance contracts. Amounts in the table above are presented net of tax and reinsurance.

| (Decrease)/increase in profit after tax and equity 2012 | Longevity +5% £m | Longevity -5% £m | Expenses +10% £m | Expenses -10% £m | Persistency +10% £m | Persistency -10% £m | Morbidity/ mortality +5% £m | Morbidity/ mortality -5% £m |
|---|---|---|---|---|---|---|---|---|
| **Shareholder business** | | | | | | | | |
| **UK and Europe** | | | | | | | | |
| Reinsurance assets | - | - | - | - | - | - | 1 | (1) |
| Non-participating insurance contract liabilities | (100) | 94 | (6) | 6 | - | - | - | - |
| **Canada** | | | | | | | | |
| Non-participating insurance contract liabilities | (55) | 51 | (13) | 13 | 15 | (14) | (2) | 2 |
| Non-participating investment contract liabilities | - | - | - | - | - | - | - | - |
| **Asia and Emerging Markets** | | | | | | | | |
| Deferred acquisitions costs | - | - | - | - | - | - | - | - |
| Non-participating insurance contract liabilities | - | - | - | - | - | - | - | - |
| Non-participating investment contract liabilities | - | - | - | - | (2) | 2 | - | - |
| **Total shareholder business** | **(155)** | **145** | **(19)** | **19** | **13** | **(12)** | **(1)** | **1** |
| | | | | | | | | |
| **Participating business** | | | | | | | | |
| **UK and Europe** | | | | | | | | |
| Recourse cash flows | (19) | 18 | (10) | 9 | 2 | (2) | (5) | 5 |
| **Total participating business** | **(19)** | **18** | **(10)** | **9** | **2** | **(2)** | **(5)** | **5** |
| **Total** | **(174)** | **163** | **(29)** | **28** | **15** | **(14)** | **(6)** | **6** |

When the sensitivities presented in the table above are applied to other with profits funds, there are no significant impacts on net liabilities after reinsurance, equity or profits for either investment or insurance contracts. Amounts in the table above are presented net of tax and reinsurance.

For the participating business, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows from the HWPF, which have been determined in accordance with the Scheme and take into account the need to consider the impact of risk on the financial position of the HWPF before any recourse cash flows can be transferred to the SHF. The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. Refer to Section (b)(ii).

The shareholder business of UK and Europe currently bears longevity risk both on contracts written in the PBF and on contracts written in the HWPF for which the longevity risk has been transferred to the PBF.

**Limitations**

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented in the table. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the sensitivity analysis may vary as a consequence of the passage of time or as a consequence of changes in underlying market or financial conditions. The sensitivity analysis in respect of longevity risk has been performed on the relevant annuity business and presents, for a +5% longevity test, the impact of a 5% reduction in the underlying mortality rates (and vice versa). It has also been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rate.

# 41. Risk management *continued*

## (e) Liquidity risk

As described in the table on pages 178 to 179, the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked and segregated funds and, as a result, the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

The shareholder is not exposed to the liquidity risk from the assets held by third parties in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

Business units employ risk management techniques relevant to their product types with the objective of mitigating exposures to liquidity risk. For annuity, with profits, and unit linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. Business units actively manage and monitor the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. The Group's assets are analysed in Section (b)(i) and Section (c)(i) of this Note. For UK and Europe, the reinsurance treaty between the Group and Canada Life International Re provides for the cash settlement of amounts owed by Canada Life International Re.

For with profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds).

Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally passed onto policyholders in accordance with policyholders' reasonable expectations. Such losses are managed and mitigated through actively anticipating net disinvestment based on policyholder behaviour and seeking to execute sales of underlying assets in such a way that the cost to policyholders is minimised.

For non-participating unit linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary, deferral terms within the policy conditions applying to the majority of the Group's contracts are invoked. As at 31 December 2013 and 31 December 2012, none of the funds under management were subject to deferral.

Business units undertake periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour).

All business units are required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's policy framework. Oversight is provided both at a Group level and within the business unit. In addition, all business units benefit from membership of a larger Group to the extent that, centrally, the Group:

- coordinates strategic planning and funding requirements
- monitors, assesses and oversees the investment of assets within the Group
- monitors and manages risk, capital requirements and available capital on a group-wide basis
- maintains a portfolio of committed bank facilities
- maintains a Euro Medium Term Note Programme.

The Group's committed bank facilities are currently undrawn and there is no outstanding senior debt issued under the Euro Medium Term Note Programme.

Each business unit is responsible for the definition and management of its contingency funding plan.

Liquidity risk is managed by each business unit in consultation with the Group Capital Management function, which incorporates treasury management.

As a result of the policies and processes established to manage risk, the Group considers the extent of liquidity risk arising from its activities to be de-minimis.

### (e)(i) Maturity analysis

The tables that follow present the expected timing of the cash flows payable on the amounts recognised on the consolidated statement of financial position for the participating and non-participating contract liabilities of the Group as at the reporting date. To align with the risk management approach towards liquidity risk and existing management projections, the analysis that follows facilitates consideration of the settlement obligations of both insurance and investment contracts.

| 2013 | Within 1 year £m | 2-5 years £m | 6-10 years £m | 11-15 years £m | 16-20 years £m | Greater than 20 years £m | No defined maturity £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Shareholder business** | | | | | | | | |
| Non-participating insurance contract liabilities | 550 | 1,629 | 1,651 | 1,274 | 959 | 3,109 | - | **9,172** |
| Non-participating investment contract liabilities | 696 | 1,185 | 283 | 74 | 52 | 102 | - | **2,392** |
| Reinsurance liabilities | - | (1) | 3 | 9 | 13 | 292 | - | **316** |
| **Total shareholder business** | **1,246** | **2,813** | **1,937** | **1,357** | **1,024** | **3,503** | **-** | **11,880** |
| **Participating business** | | | | | | | | |
| Non-participating insurance contract liabilities | 811 | 2,852 | 2,754 | 1,908 | 1,197 | 1,602 | - | **11,124** |
| Participating insurance contract liabilities | 1,713 | 5,715 | 2,538 | 1,531 | 1,409 | 2,154 | - | **15,060** |
| Participating investment contract liabilities | 559 | 2,344 | 3,077 | 3,110 | 2,547 | 3,070 | - | **14,707** |
| Unallocated divisible surplus | - | - | - | - | - | - | 680 | **680** |
| **Total participating business** | **3,083** | **10,911** | **8,369** | **6,549** | **5,153** | **6,826** | **680** | **41,571** |
| **Unit linked and segregated funds** | | | | | | | | |
| Non-participating insurance contract liabilities | 4,161 | 1,573 | 1,284 | 535 | 226 | 237 | - | **8,016** |
| Non-participating investment contract liabilities | 7,958 | 26,518 | 23,871 | 15,638 | 9,500 | 11,782 | - | **95,267** |
| **Total unit linked and segregated funds** | **12,119** | **28,091** | **25,155** | **16,173** | **9,726** | **12,019** | **-** | **103,283** |
| **Total** | **16,448** | **41,815** | **35,461** | **24,079** | **15,903** | **22,348** | **680** | **156,734** |

| 2012 | Within 1 year £m | 2-5 years £m | 6-10 years £m | 11-15 years £m | 16-20 years £m | Greater than 20 years £m | No defined maturity £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **Shareholder business** | | | | | | | | |
| Non-participating insurance contract liabilities | 507 | 1,681 | 1,697 | 1,316 | 1,020 | 3,886 | - | **10,107** |
| Non-participating investment contract liabilities | 633 | 1,479 | 304 | 74 | 45 | 65 | - | **2,600** |
| Reinsurance liabilities | (1) | (2) | 2 | 7 | 14 | 361 | - | **381** |
| **Total shareholder business** | **1,139** | **3,158** | **2,003** | **1,397** | **1,079** | **4,312** | **-** | **13,088** |
| **Participating business** | | | | | | | | |
| Non-participating insurance contract liabilities | 833 | 2,965 | 2,961 | 2,144 | 1,398 | 1,932 | - | **12,233** |
| Participating insurance contract liabilities | 2,282 | 6,020 | 2,602 | 1,481 | 1,304 | 2,230 | - | **15,919** |
| Participating investment contract liabilities | 536 | 2,315 | 3,148 | 3,185 | 2,569 | 3,240 | - | **14,993** |
| Unallocated divisible surplus | - | - | - | - | - | - | 706 | **706** |
| **Total participating business** | **3,651** | **11,300** | **8,711** | **6,810** | **5,271** | **7,402** | **706** | **43,851** |
| **Unit linked and segregated funds** | | | | | | | | |
| Non-participating insurance contract liabilities | 3,463 | 1,387 | 1,112 | 443 | 163 | 142 | - | **6,710** |
| Non-participating investment contract liabilities | 7,022 | 22,422 | 20,164 | 13,267 | 8,152 | 10,574 | - | **81,601** |
| **Total unit linked and segregated funds** | **10,485** | **23,809** | **21,276** | **13,710** | **8,315** | **10,716** | **-** | **88,311** |
| **Total** | **15,275** | **38,267** | **31,990** | **21,917** | **14,665** | **22,430** | **706** | **145,250** |

# 41. Risk management *continued*

## (e) Liquidity risk *continued*

### (e)(i) Maturity analysis *continued*

The analysis that follows presents the undiscounted cash flows payable by remaining contractual maturity at the reporting date for all financial liabilities, including non-participating investment contract liabilities. Given that policyholders can usually choose to surrender, in part or in full, their unit linked contracts at any time, the non-participating investment contract unit linked liabilities of UK and Europe life and pensions business and segregated funds business in Canada presented in the table below have been designated as payable within one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The Group can delay settling liabilities to unit linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets. In this analysis, the maturity within one year includes liabilities that are repayable on demand.

| | Within 1 year | | 2-5 years | | 6-10 years | | 11-15 years | | 16-20 years | | Greater than 20 years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Shareholder business** | | | | | | | | | | | | | | |
| Non-participating investment contract liabilities | **1,666** | 1,654 | **482** | 710 | **291** | 341 | **87** | 84 | **62** | 52 | **117** | 74 | **2,705** | 2,915 |
| Subordinated liabilities | **106** | 106 | **397** | 408 | **685** | 712 | **408** | 401 | **278** | 288 | **757** | 785 | **2,631** | 2,700 |
| Borrowings | **47** | 18 | **11** | 13 | **-** | - | **-** | - | **-** | - | **-** | - | **58** | 31 |
| Other financial liabilities | **781** | 702 | **34** | 68 | **25** | 18 | **17** | 10 | **12** | 7 | **23** | 34 | **892** | 839 |
| **Total shareholder business** | **2,600** | 2,480 | **924** | 1,199 | **1,001** | 1,071 | **512** | 495 | **352** | 347 | **897** | 893 | **6,286** | 6,485 |
| **Participating business** | | | | | | | | | | | | | | |
| Borrowings | **10** | 9 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **10** | 9 |
| Other financial liabilities | **625** | 836 | **7** | 13 | **7** | 13 | **7** | 7 | **7** | 6 | **121** | 102 | **774** | 977 |
| **Total participating business** | **635** | 845 | **7** | 13 | **7** | 13 | **7** | 7 | **7** | 6 | **121** | 102 | **784** | 986 |
| **Unit linked and segregated funds** | | | | | | | | | | | | | | |
| Non-participating investment contract liabilities | **95,267** | 81,601 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **95,267** | 81,601 |
| Borrowings | **16** | 17 | **9** | 21 | **3** | 6 | **-** | - | **-** | - | **-** | - | **28** | 44 |
| Other financial liabilities | **558** | 368 | **13** | 24 | **17** | 24 | **6** | 11 | **6** | 11 | **74** | 182 | **674** | 620 |
| **Total unit linked and segregated funds** | **95,841** | 81,986 | **22** | 45 | **20** | 30 | **6** | 11 | **6** | 11 | **74** | 182 | **95,969** | 82,265 |
| **Total** | **99,076** | 85,311 | **953** | 1,257 | **1,028** | 1,114 | **525** | 513 | **365** | 364 | **1,092** | 1,177 | **103,039** | 89,736 |

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the above analysis along with interest payments on such instruments after 20 years. Also excluded are deposits received from reinsurers.

Deposits received from reinsurers reflect the liability to repay the deposit received from an external reinsurer under the reinsurance transaction referred to in Section (c). The timing and amount of the payment of the cash flows under this liability are defined by the terms of the treaty, under which there is no defined contractual maturity date to repay the deposit as at 31 December 2013 or 31 December 2012.

Refer to Note 23 for the maturity profile of undiscounted cash flows of derivative financial instruments.

The Group also had unrecognised commitments in respect of financial instruments as at 31 December 2013 of £377m and £nil with a contractual maturity of within one year and between one and five years respectively (2012: £317m and £1m).

## (f) Securities lending arrangements

The Group enters into securities lending arrangements as part of normal operating activities. Assets are pledged by third parties as collateral to support this activity. Collateral held by the Group in respect of securities lending agreements at the reporting date was £153m (2012: £420m) of securities. The fair value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the fair value fluctuates. The Group does not have the right to sell or repledge the collateral.

The loaned securities continue to be recognised on the consolidated statement of financial position and valued in accordance with the relevant Group accounting policy. All rights to income and gains or losses in respect of these assets remain with the Group.

Assets on loan are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Domestic government | **146** | 399 |
| International fixed income | **-** | 1 |
| **Total assets on loan** | **146** | 400 |

## (g) Operational risk

The Group defines operational risk as the risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk which is defined as the risk that through our culture, strategies, decision-making and behaviours we do not deliver good outcomes for our customers.

The policy framework, which includes the Group operational risk policy and the Group conduct risk policy, is used to support the management of operational and conduct risks. Business units adopt the relevant minimum standards and limits contained within these policies and are required to manage risk in accordance with the policies, taking mitigating action as appropriate to operate within appetites.

The types of operational risk to which the Group is exposed are identified using the following operational risk categories:

- Fraud or irregularities
- Regulatory or legal
- Customer treatment
- Business interruption
- Supplier failure
- Planning
- Process execution
- People.

Activities undertaken to ensure the practical operation of controls over financial risks, that is, market, credit, liquidity and demographic and expense risk, are treated as an operational risk.

Operational risk exposures are controlled using one or a combination of the following: modifying operations such that there is no exposure to the risk; accepting exposure to the risk and choosing not to control the risk; or accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment. The factors on which the level of control and nature of the controls implemented are based include:

- The potential cause and impact of the risk
- The likelihood of the risk being realised in the absence of any controls
- The ease with which the risk could be insured against
- The cost of implementing controls to reduce the likelihood of the risk being realised
- Operational risk appetite.

Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged by Group Risk in its role of 'second line of defence'. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of CSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the Group is willing to retain is defined using both quantitative limits, for example financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by each business unit and its exposure to these risks forms its operational risk profile. Each business unit is required to understand and review its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of CSA and a review of risk exposures relative to approved limits.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of each business unit is assessed and managed in accordance with established guidelines or standards.

**Strategic risk**

The Group defines strategic risk as the risk associated with the robustness of the strategic planning process and the threats to the achievement of the strategy. Strategic risks are considered across the Group through the business planning process. The strategic risks to which the Group is exposed are quantified in terms of profitability and severity and are reviewed on a regular basis.

# 42. Fair value of assets and liabilities

## (a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

**Level 1** Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3** Fair values measured using inputs that are not based on observable market data (unobservable inputs).

## (b) Financial investments and financial liabilities

An analysis of the Group's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes 21 and 34 and includes those financial assets and liabilities held at fair value.

## (c) Non-financial investments

An analysis of the Group's investment property and owner occupied property within property, plant and equipment in accordance with IAS 40 – *Investment property* and IAS 16 – *Property, plant and equipment* is presented in Notes 18 and 19 respectively and includes those assets held at fair value.

## (d) Methods and assumptions used to determine fair value of assets and liabilities

Information on the methods and assumptions used to determine fair values for each major category of instrument measured at fair value is given below.

**Investment property – 2013: £8,545m (2012: £8,565m), Investment property held for sale – 2013: £92m (2012: £nil) and owner occupied property – 2013: £172m (2012: £112m),**

The fair value of investment property and all owner occupied property is valued by external property valuation experts. The current use is considered the best indicator of the highest and best use of the Group's property from a market participants' perspective. No adjustment has been made for vacant possession for the Group's owner occupied property at 31 December 2013.

In UK and Europe valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards and predominantly an income capitalisation method is used. In Canada all valuations are completed in accordance with International Valuation Standards (IVS) and predominantly a discounted cash flow method is used. Both valuation techniques are income approaches as they consider the income that an asset will generate over its useful life and estimate fair value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate.

The determination of the fair value of investment property and all owner occupied property requires the use of estimates such as future cash flows from the assets for example, future rental income and discount rates applicable to those assets.

Where it is not possible to use an income approach a market approach will be used whereby comparisons are made to recent transactions with similar characteristics and locations to those of the Group's assets. Where appropriate, adjustments will be made by the valuer to reflect any differences.

Where an income approach, or a market approach with significant unobservable adjustments, has been used, valuations are predominantly based on unobservable inputs and accordingly these assets are categorised as level 3 within the fair value hierarchy. Where a market approach valuation does not include significant unobservable adjustments, these assets are categorised as level 2.

**Derivative financial assets – 2013: £1,767m (2012: £2,150m) and derivative financial liabilities – 2013: £795m (2012: £853m)**

The majority of the Group's derivatives are over-the-counter (OTC) derivatives which are fair valued using valuation techniques based on observable market data and are therefore categorised as level 2 investments within the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Group's risk management policies. At 31 December 2013 the residual credit risk is considered immaterial and therefore no credit risk adjustment has been made.

**Equity securities and interests in pooled investment funds – 2013: £90,316m (2012: £65,812m) and amounts seeded into funds – 2013: £29m (2012:£nil)**

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Unlisted equities are valued using an adjusted net asset value. The Group's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Group's private equity investments are carried out through European fund of funds structures, where the Group receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Where pooled investment funds have been seeded and the investments in the fund have been classified as held for sale, the costs to sell are assumed to be negligible. The fair value of pooled investment funds held for sale is calculated as equal to the observable unit price.

**Debt securities – 2013: £62,039m (2012: £73,301m)**
For debt securities, the Group has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Group has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

- **Government, including provincial and municipal, and supranational institution bonds**
  These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are categorised as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.
- **Corporate bonds listed or quoted in an established over-the-counter market including asset backed securities**
  These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are categorised as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are categorised as level 3 instruments.

  For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Group performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy.
- **Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit**
  These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The categorisation of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

**Non-participating investment contract liabilities – 2013: £95,267m (2012; £81,601m)**
The fair value of the non-participating investment contract liabilities is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately categorised as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are categorised within level 2 of the fair value hierarchy.

**Liabilities in respect of third party interest in consolidated funds – 2013: £11,803m (2012: £12,037m)**
The fair value of liabilities in respect of third party interest in consolidated funds is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets in which these funds are invested. When the underlying assets and liabilities are valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 2. Where the underlying assets and liabilities are not valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 3.

**Contingent consideration – 2013: £15m (2012: £nil)**
Contingent consideration has been recognised as a result of business combinations in the year as discussed in Note 1 – Business combinations, and has been valued using a valuation model. The inputs into the model include unobservable inputs due to assumptions made regarding expected movements in assets under management and therefore the liability is classified as level 3 in the fair value hierarchy.

# 42. Fair value of assets and liabilities *continued*

## (d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

### (d)(i) Fair value hierarchy for assets measured at fair value in the statement of financial position

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

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Investment property | - | - | 14 | 47 | 8,531 | 8,518 | 8,545 | 8,565 |
| Owner occupied property | - | - | 1 | 1 | 171 | 111 | 172 | 112 |
| Derivative financial assets | 541 | 613 | 1,226 | 1,537 | - | - | 1,767 | 2,150 |
| Equity securities and interests in pooled investment vehicles | 89,241 | 64,653 | 2 | 3 | 1,073 | 1,156 | 90,316 | 65,812 |
| Debt securities | 19,305 | 25,277 | 41,454 | 46,621 | 1,280 | 1,403 | 62,039 | 73,301 |
| Assets held for sale | 29 | - | - | - | 92 | - | 121 | - |
| **Total assets at fair value** | **109,116** | 90,543 | **42,697** | 48,209 | **11,147** | 11,188 | **162,960** | 149,940 |

There were no transfers between levels 1 and 2 during the year (2012: none). Refer to 42(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's assets measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 41 – Risk management.

| | Fair value hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Shareholder business** | | | | | | | | |
| Investment property | - | - | 14 | 47 | 417 | 474 | 431 | 521 |
| Owner occupied property | - | - | 1 | 1 | 45 | 32 | 46 | 33 |
| Derivative financial assets | 1 | - | 110 | 63 | - | - | 111 | 63 |
| Equity securities and interests in pooled investment vehicles | 175 | 182 | 2 | 3 | 18 | 12 | 195 | 197 |
| Debt securities | 904 | 834 | 9,980 | 10,606 | 932 | 983 | 11,816 | 12,423 |
| Assets held for sale | 29 | - | - | - | - | - | 29 | - |
| **Total shareholder business** | **1,109** | 1,016 | **10,107** | 10,720 | **1,412** | 1,501 | **12,628** | 13,237 |
| **Participating business** | | | | | | | | |
| Investment property | - | - | - | - | 1,995 | 2,048 | 1,995 | 2,048 |
| Owner occupied property | - | - | - | - | 126 | 79 | 126 | 79 |
| Derivative financial assets | 206 | 415 | 446 | 691 | - | - | 652 | 1,106 |
| Equity securities and interests in pooled investment vehicles | 14,021 | 8,380 | - | - | 671 | 699 | 14,692 | 9,079 |
| Debt securities | 13,735 | 17,701 | 9,668 | 12,085 | 175 | 219 | 23,578 | 30,005 |
| Assets held for sale | - | - | - | - | - | - | - | - |
| **Total participating business** | **27,962** | 26,496 | **10,114** | 12,776 | **2,967** | 3,045 | **41,043** | 42,317 |
| **Unit linked and segregated funds** | | | | | | | | |
| Investment property | - | - | - | - | 4,829 | 4,701 | 4,829 | 4,701 |
| Owner occupied property | - | - | - | - | - | - | - | - |
| Derivative financial assets | 246 | 135 | 493 | 546 | - | - | 739 | 681 |
| Equity securities and interests in pooled investment vehicles | 69,904 | 52,942 | - | - | 51 | 77 | 69,955 | 53,019 |
| Debt securities | 4,498 | 6,062 | 18,288 | 18,567 | 158 | 194 | 22,944 | 24,823 |
| Assets held for sale | - | - | - | - | 59 | - | 59 | - |
| **Total unit linked and segregated funds** | **74,648** | 59,139 | **18,781** | 19,113 | **5,097** | 4,972 | **98,526** | 83,224 |
| **Third party interest in consolidated funds and non-controlling interests** | | | | | | | | |
| Investment property | - | - | - | - | 1,290 | 1,295 | 1,290 | 1,295 |
| Owner occupied property | - | - | - | - | - | - | - | - |
| Derivative financial assets | 88 | 63 | 177 | 237 | - | - | 265 | 300 |
| Equity securities and interests in pooled investment vehicles | 5,141 | 3,149 | - | - | 333 | 368 | 5,474 | 3,517 |
| Debt securities | 168 | 680 | 3,518 | 5,363 | 15 | 7 | 3,701 | 6,050 |
| Assets held for sale | - | - | - | - | 33 | - | 33 | - |
| **Third party interest in consolidated funds and non-controlling interests** | **5,397** | 3,892 | **3,695** | 5,600 | **1,671** | 1,670 | **10,763** | 11,162 |
| **Total** | **109,116** | 90,543 | **42,697** | 48,209 | **11,147** | 11,188 | **162,960** | 149,940 |

### (d)(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position

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

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Non-participating investment contract liabilities | **-** | - | **95,267** | 81,601 | **-** | - | **95,267** | 81,601 |
| Liabilities in respect of third party interest in consolidated funds[1] | **-** | - | **10,557** | 10,832 | **1,246** | 1,205 | **11,803** | 12,037 |
| Derivative financial liabilities | **367** | 127 | **428** | 726 | **-** | - | **795** | 853 |
| Contingent consideration | **-** | - | **-** | - | **15** | - | **15** | - |
| **Total liabilities at fair value** | **367** | 127 | **106,252** | 93,159 | **1,261** | 1,205 | **107,880** | 94,491 |

[1] The comparative information has been restated to reflect the categorisation of third party interest in consolidated funds at level 3 rather than level 2.

There were no transfers between levels 1 and 2 during the period (2012: none). Refer to 42(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's liabilities measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 41 – Risk management.

| | Fair value hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Shareholder business** | | | | | | | | |
| Derivative financial liabilities | **5** | 2 | **36** | 21 | **-** | - | **41** | 23 |
| Contingent consideration | **-** | - | **-** | - | **15** | - | **15** | - |
| **Total shareholder business** | **5** | 2 | **36** | 21 | **15** | - | **56** | 23 |
| **Participating business** | | | | | | | | |
| Derivative financial liabilities | **48** | 7 | **81** | 41 | **-** | - | **129** | 48 |
| **Total participating business** | **48** | 7 | **81** | 41 | **-** | - | **129** | 48 |
| **Unit linked and segregated funds** | | | | | | | | |
| Non-participating investment contract liabilities | **-** | - | **95,267** | 81,601 | **-** | - | **95,267** | 81,601 |
| Derivative financial liabilities | **231** | 82 | **232** | 466 | **-** | - | **463** | 548 |
| **Total unit linked and segregated funds** | **231** | 82 | **95,499** | 82,067 | **-** | - | **95,730** | 82,149 |
| **Third party interest in consolidated funds and non-controlling interests** | | | | | | | | |
| Liabilities in respect of third party interest in consolidated funds | **-** | - | **10,557** | 10,832 | **1,246** | 1,205 | **11,803** | 12,037 |
| Derivative financial liabilities | **83** | 36 | **79** | 198 | **-** | - | **162** | 234 |
| **Third party interest in consolidated funds and non-controlling interests** | **83** | 36 | **10,636** | 11,030 | **1,246** | 1,205 | **11,965** | 12,271 |
| **Total** | **367** | 127 | **106,252** | 93,159 | **1,261** | 1,205 | **107,880** | 94,491 |

# 42. Fair value of assets and liabilities *continued*

## (d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

### (d)(iii) Reconciliation of movements in level 3 instruments

The movements during the year of level 3 assets and liabilities held at fair value are analysed below.

| | Investment property[1] | | Owner occupied property | | Equity securities and interests in pooled investment funds | | Debt securities | | Liabilities in respect of third party interest in consolidated funds | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **At 1 January** | **8,518** | 8,695 | **111** | 114 | **1,156** | 1,245 | **1,403** | 1,382 | **(1,205)** | (1,205) |
| Total gains/(losses) recognised in the consolidated income statement | **323** | 31 | **(3)** | (7) | **64** | 92 | **(78)** | 43 | **(45)** | 12 |
| Purchases | **666** | 670 | **-** | 1 | **94** | 82 | **369** | 414 | **7** | 6 |
| Settlement | **-** | - | **-** | - | **-** | - | **-** | - | **(3)** | (18) |
| Sales | **(773)** | (827) | **-** | - | **(254)** | (239) | **(224)** | (265) | **-** | - |
| Transfers in to level 3 | **-** | - | **-** | - | **15** | - | **194** | 27 | **-** | - |
| Transfers out of level 3 | **-** | - | **-** | - | **(9)** | - | **(304)** | (175) | **-** | - |
| Foreign exchange adjustment | **(102)** | (47) | **(5)** | (2) | **7** | (24) | **(80)** | (23) | **-** | - |
| Total gains recognised in revaluation of owner occupied property within other comprehensive income | **-** | - | **68** | 5 | **-** | - | **-** | - | **-** | - |
| Other | **(9)** | (4) | **-** | - | **-** | - | **-** | - | **-** | - |
| **At 31 December** | **8,623** | 8,518 | **171** | 111 | **1,073** | 1,156 | **1,280** | 1,403 | **(1,246)** | (1,205) |

[1] Includes investment property held for sale of £92m. Investment property held for sale at 31 December 2013 had an opening fair value at 1 January 2013 of £76m. There was no investment property held for sale at 31 December 2012.

Additionally, the Group incurred a contingent consideration liability during the year to 31 December 2013 of £15m as a result of a business combination. There were no significant movements in this liability between the acquisition date and 31 December 2013.

As at 31 December 2013, £142m of total gains (2012: losses £29m) were recognised in the consolidated income statement in respect of assets and liabilities held at fair value classified as level 3 at the year end. Of this amount £187m gains (2012: losses £41m) were recognised in investment return and £45m of losses (2012: gains of £12m) was recognised in change in liability for liabilities in respect of third party interest in consolidated funds in the consolidated income statement.

Transfers of equity securities and interests in pooled investment funds and debt securities into level 3 generally arise when external pricing providers stop providing a price or where the price provided is considered stale. Transfers of equity securities and interests in pooled investment funds and debt securities out of level 3 arise when acceptable prices become available from external pricing providers.

### (d)(iv) Sensitivity of level 3 instruments measured as at fair value on the statement of financial position to changes in key assumptions

**Effect of changes of significant unobservable assumptions to reasonable possible alternative assumptions**

For the majority of level 3 investments, the Group does not use internal models to value the investments but rather obtains valuations from external parties. The Group reviews the appropriateness of these valuations on the following basis:

- For investment property and owner occupied property (including property that is classified as held for sale), the valuations are obtained from external valuers and are assessed on an individual property basis. The principle assumptions will differ depending on the valuation technique employed and sensitivities are determined by flexing the key inputs listed in the table below using knowledge of the investment property market.
- Private equity fund valuations are provided by the respective managers of the underlying funds and are assessed on an individual investment basis, with an adjustment made for significant movements between the date of the valuation and the end of the reporting period. Sensitivities are determined by comparison to the private equity market.
- Corporate bonds are predominantly valued using single broker indicative quotes obtained from third party pricing. Sensitivities are determined by flexing the single quoted prices provided using a sensitivity to yield movements.
- The contingent consideration due to Newton Management Limited has been valued using an internally developed model. The principle assumptions relate to the expected asset retention at the settlement date and sensitivities have been determined by flexing this assumption.

The shareholder is directly exposed to movements in the value of level 3 investments held by the shareholder business (to the extent they are not offset by opposite movements in investment and insurance contract liabilities) however movements in level 3 securities held by the other risk segments are offset by an opposite movement in investment and insurance contract liabilities and therefore not included below. The sensitivities presented below are not sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders.

Changes in the assumptions to reasonably possible alternative assumptions would have the following impact on shareholder profit after tax or shareholder total assets or liabilities:

- For level 3 private equity investments a 10% increase or decrease in the value of the underlying funds at 31 December 2013 would not have a significant impact on profit after tax or total assets or liabilities
- For level 3 corporate bonds, increasing assumed yields at 31 December 2013 by 100bps would result in a decrease in profit after tax of £7m and a decrease in fair value of the corporate bonds of £85m. Decreasing assumed yields at 31 December 2013 by 100bps would result in an increase in profit after tax of £7m and an increase in fair value of the corporate bonds of £100m. As these assets back investment and insurance contract liabilities there would be a corresponding offset in profit after tax arising from the change in liability value
- For the contingent consideration a 10% increase or decrease in the asset retention rate at 31 December 2013 would not have a significant impact on profit after tax or total assets or liabilities

The table below presents quantitative information about the significant unobservable inputs for level 3 instruments:

| 2013 | Fair value £m | Valuation technique | Unobservable input | Range (weighted average) |
|---|---|---|---|---|
| Investment property and owner occupied property | 7,450 | Income capitalisation | Equivalent yield | 4.1% to 13.5% (6.1%) |
| | | | Estimated rental value by Square metre | £11 to £9,100 (£503) |
| Investment property and owner occupied property | 1,264 | Discounted cash flow | Internal rate of return | 6.0% to 10.8% (7.4%) |
| | | | Terminal capitalisation rate | 5.7% to 9.3% (6.6%) |
| Investment property and owner occupied property | 80 | Market comparison | Estimated value per square metre | £2 to £10,000 (£2,139) |
| Equity securities and interests in pooled investment funds (private equity investments) | 1,073 | Adjusted net asset value | Adjustment to net asset value[1] | N/A |
| Debt securities (corporate bonds) | 1,280 | Single broker | Single broker indicative price[2] | N/A |

1 A Group level adjustment is made for significant movements in private equity values.
2 Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices.

In addition, a valuation model has been used to determine the fair value of the contingent consideration. It has been assumed that 100% of the assets held at 31 December 2013 will be retained at the settlement date.

## (e) Fair value of assets and liabilities measured at amortised cost

The table below presents estimated fair values of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

| | Notes | 2013 Carrying value £m | 2012 Carrying value £m | 2013 Fair value £m | 2012 Fair value £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans secured by mortgages | 22 | **2,705** | 3,014 | **2,779** | 3,119 |
| **Liabilities** | | | | | |
| Non-participating investment contract liabilities | 33 | **2,392** | 2,600 | **2,545** | 2,697 |
| Subordinated notes | 36 | **728** | 744 | **795** | 790 |
| Subordinated guaranteed bonds | 36 | **502** | 502 | **571** | 553 |
| Mutual Assurance Capital Securities | 36 | **631** | 622 | **674** | 654 |

The estimated fair values of the instruments detailed above are calculated by discounting the expected future cash flows at current market rates, with the exception of subordinated liabilities, which are based on the quoted market offer price.

# 42. Fair value of assets and liabilities *continued*

## (e) Fair value of assets and liabilities measured at amortised cost *continued*

It is not possible to reliably calculate the fair value of participating investment contract liabilities. The assumptions and methods used in the calculation of these liabilities are set out in the accounting policies and Note 33. The carrying value of participating investment contract liabilities at 31 December 2013 was £14,707m (2012: £14,993m).

The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Assets** | | | | | | | | |
| Loans secured by mortgages | - | - | 2,779 | 3,119 | - | - | 2,779 | 3,119 |
| **Liabilities** | | | | | | | | |
| Non-participating investment contract liabilities | - | - | - | - | 2,545 | 2,697 | 2,545 | 2,697 |
| Subordinated notes | - | - | 795 | 790 | - | - | 795 | 790 |
| Subordinated guaranteed bonds | - | - | 571 | 553 | - | - | 571 | 553 |
| Mutual Assurance Capital Securities | - | - | 674 | 654 | - | - | 674 | 654 |

# 43. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

## (a) Change in operating assets

| | 2013 £m | 2012 £m |
|---|---|---|
| Investment property | (93) | 126 |
| Equity securities and interests in pooled investment funds | (22,179) | (7,606) |
| Debt securities | 7,918 | (6,629) |
| Derivative financial instruments | 400 | (173) |
| Reinsurance assets | 726 | (99) |
| Investments in associates and joint ventures | 15 | 50 |
| Receivables and other financial assets and other assets | 204 | 159 |
| Deferred acquisition costs | (8) | 3 |
| Loans | 146 | (150) |
| Assets held for sale | (121) | - |
| **Change in operating assets** | **(12,992)** | **(14,319)** |

## (b) Change in operating liabilities

| | 2013 £m | 2012 £m |
|---|---|---|
| Other financial liabilities and other liabilities | 60 | (85) |
| Deposits received from reinsurers | (548) | 100 |
| Pension and other post-retirement benefit provisions | (12) | (11) |
| Deferred income | (37) | (35) |
| Insurance contract liabilities | (1,019) | 3,826 |
| Investment contract liabilities | 14,401 | 6,798 |
| Change in liability for third party interest in consolidated funds | (2,907) | 782 |
| **Change in operating liabilities** | **9,938** | **11,375** |

### (c) Non-cash items relating to investing and financing activities

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Loss on disposal of property, plant and equipment | | - | 2 |
| Depreciation of property, plant and equipment | 7 | 14 | 16 |
| Amortisation of intangible assets | 7 | 30 | 24 |
| Impairment losses on property, plant and equipment | 7 | 5 | 7 |
| Impairment losses reversed on property, plant and equipment | 7 | (2) | - |
| Other interest cost | | 4 | 6 |
| Finance costs | | 108 | 77 |
| Share of profit from associates and joint ventures | 17 | (25) | (48) |
| **Non-cash and other items** | | **134** | 84 |

## 44. 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 of the territories in which it issues insurance and investment contracts, and it has complied in all 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.

## 45. Commitments

### (a) Capital commitments

As at 31 December 2013, capital expenditure that was authorised and contracted for, but not provided and incurred, was £383m (2012: £215m) in respect of investment property. Of this amount, £332m (2012: £185m) and £51m (2012: £30m) relates to the contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

### (b) Unrecognised financial instruments

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Commitments to extend credit with an original term to maturity of one year or less | 66 | 43 |
| Other commitments | 326 | 289 |

Included in other commitments is £284m (2012: £258m) 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.

# 45. Commitments *continued*

## (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:

| | 2013 £m | 2012 £m |
|---|---|---|
| Not later than one year | 31 | 33 |
| Later than one year and no later than five years | 58 | 84 |
| Later than five years | 69 | 80 |
| **Total operating lease commitments** | **158** | 197 |

# 46. Employee share-based payments

The Group has established a number of share-based payment schemes for employees. Details of these arrangements are as follows:

## Share options

### (i) Long-term incentive plans

The Group operates the following long-term incentive plans.

| Plan | Recipients | Conditions which must be met prior to vesting |
|---|---|---|
| **Long-term incentive plan (LTIP)** | Executives and senior management | Service and performance conditions as set out in the Directors' remuneration report |
| **Standard Life Investments long-term incentive plan (SLI LTIP)** | Executives and senior management of Standard Life Investments | Service and performance conditions as set out in the Directors' remuneration report |
| **Restricted stock plan (RSP)** | Executives (other than Directors) and senior management | Service, or service and performance conditions. These are tailored to the individual award |

All of the awards are equity-settled other than awards made under the SLI LTIP in respect of employees in the US, France and Asia which are cash-settled.

### (ii) Short-term incentive plan (annual bonus deferred shares)

The majority of the members of the executive and senior management including executive Directors participate in the Group annual bonus. Under the terms of the 2013 and 2012 annual bonus, half of any bonus earned by executive Directors and members of the executive team above 25% of salary will be settled in nil-cost options which are deferred for a period of two years, subject to the deferred amount being worth 10% or more of salary. Further details of the annual bonus are set out in the Directors' remuneration report.

Employees may forfeit some or all of awards made under any of the above share-based payment schemes if they leave the Group prior to the end of the awards vesting period.

### (iii) Sharesave (Save-as-you-earn)

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees in the UK and Ireland the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in the Company. The shares can be purchased at the end of the savings period at a predetermined price. Employees are granted a predetermined number of options based on the monthly savings amount and duration of their contract. The conditions attached to the options are that the employee remains in employment for three years after the grant date of the options and that the employee satisfies the monthly savings requirement. Settlement will be made in the form of shares.

## Share awards

### (iv) Share incentive plan

The Group operates a share incentive plan, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any year is £1,500. The Group offers to match the number of shares bought up to a value of £25 each month. The matching shares awarded under the share incentive plan are granted at the end of each month. The matching shares are generally subject to a three year service period.

## (a) Options granted

The number, weighted average exercise price and weighted average remaining contractual life for options outstanding during the year are as follows:

| | 2013 | | | | | 2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Long-term incentive plans (excluding RSP) | RSP | Short-term incentive plan | Sharesave | Weighted average exercise price for Sharesave | Long-term incentive plans (excluding RSP) | RSP | Short-term incentive plan | Sharesave | Weighted average exercise price for Sharesave |
| **Outstanding at 1 January** | **50,973,643** | **1,037,583** | **1,329,142** | **7,898,340** | **165p** | 56,694,804 | 680,328 | 1,615,174 | 7,421,611 | 157p |
| Granted | **7,633,734** | **2,423,381** | **414,117** | **1,516,288** | **271p** | 11,129,463 | 665,764 | 524,021 | 976,531 | 221p |
| Forfeited | **(7,339,754)** | **(222,202)** | **(206,088)** | **(473,957)** | **164p** | (3,546,930) | (53,723) | (46,312) | (464,880) | 157p |
| Exercised | **(15,222,137)** | **(558,609)** | **(851,163)** | **(185,589)** | **158p** | (13,284,740) | (254,786) | (763,741) | (34,922) | 157p |
| Expired | **-** | **-** | **-** | **(6,784)** | **171p** | (18,954) | - | - | - | - |
| Cancelled | **-** | **-** | **-** | **(61,941)** | **196p** | - | - | - | - | - |
| **Outstanding at 31 December** | **36,045,486** | **2,680,153** | **686,008** | **8,686,357** | **184p** | 50,973,643 | 1,037,583 | 1,329,142 | 7,898,340 | 165p |
| **Exercisable at 31 December** | **34,407** | **63,320** | **-** | **2,950** | **167p** | - | - | - | - | - |
| **Weighted average remaining contractual life of options outstanding (years)** | **1.41** | **2.62** | **1.21** | **2.58** | **-** | 1.65 | 1.46 | 1.14 | 3.31 | - |

The exercise price for options granted under long-term and short-term incentive schemes is nil. Fair value of options granted under the Group's incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

The following table shows the weighted average assumptions that were considered in determining the fair value of options granted during the year and the share price at exercise of options exercised during the year.

| | Long-term incentive plans (excluding RSP) | RSP | Short-term incentive plans | Sharesave |
|---|---|---|---|---|
| **Options granted during the year** | | | | |
| Grant date | 25 March 2013 | Throughout the year | 28 March 2013 | 14 October 2013 |
| Share price at grant date | 367p | 344p | 365p | 356p |
| Fair value at grant date | 367p | 344p | 365p | 79p |
| Exercise price | Nil | Nil | Nil | 272p (322¢) |
| Dividends | The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date | The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date | The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date | No dividend entitlement |
| Option term (years) | 3.23 | 1.51 | 3.24 | 3.58 |
| **Options exercised during the year** | | | | |
| Share price at time of exercise | 350p | 358p | 360p | 350p |

No departures from share option schemes are expected at grant date, with any leavers being accounted for on departure. In determining the fair value of options granted under the Sharesave scheme the historic volatility of the share price over a period of up to five years and a risk free rate determined by reference to swap rates was also considered.

# 46. Employee share-based payments *continued*

## (a) Options granted *continued*

The following table shows the range of exercise prices of options outstanding at 31 December 2013. All options are exercisable for a period of six months after the vesting date.

| | 2013<br>Number of options outstanding | 2012<br>Number of options outstanding |
|---|---|---|
| **Long-term incentive plans** | | |
| £nil | **38,725,639** | 52,011,226 |
| **Short-term incentive plan** | | |
| £nil | **686,008** | 1,329,142 |
| **Sharesave** | | |
| 157p | **6,281,020** | 6,923,107 |
| 221p-234p | **894,547** | 975,233 |
| 261p-272p | **1,510,790** | - |
| **Outstanding at 31 December** | **48,098,004** | 61,238,708 |

## (b) Share incentive plans

The terms and conditions of the ongoing arrangements are set out in the table below and are based on the weighted average number of awards.

| | 2013 | 2012 |
|---|---|---|
| Number of instruments granted[1] | **349,865** | 525,956 |
| Share price at date of grant | **361p** | 248p |
| Fair value per granted instrument at grant date | **361p** | 248p |

1 Included in the number of instruments granted are 58,657 (2012: 84,439; 2011: 112,121) rights to shares granted to eligible employees in Canada, Germany and Austria.

The fair value of instruments granted under the share incentive plan is calculated by reference to the share price at grant date. The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date. At the grant date all awards are expected to vest. No departures are expected at the grant date, with leavers being accounted for on departure.

## (c) Employee share-based payment expense

The amounts recognised as an expense in Note 8 for equity-settled share-based payment transactions with employees are as follows:

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| Share options granted under long-term incentive plans | **29** | 21 |
| Share options granted under Sharesave | **1** | 1 |
| Share options granted under short-term incentive plans | **1** | 2 |
| Matching shares granted under share incentive plans | **1** | 1 |
| | **32** | 25 |

Additionally, the Group incurred an expense for cash-settled share-based payment schemes of £4m in 2013 (2012: £3m). The liability for cash-settled share-based payments outstanding at 31 December 2013 is £5m (2012: £7m).

## 47. Related party transactions

### (a) Transactions with and balances from/(to) related parties

In the normal course of business, the Group enters into transactions with related parties that relate to insurance and investment management business.

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Sale to: | | |
| Associates | 16 | 13 |
| Joint ventures | 18 | 77 |
| Other related parties | 85 | 91 |
| | 119 | 181 |
| Purchase from: | | |
| Joint ventures | 24 | 21 |
| | 24 | 21 |

Sales to and amounts due from other related parties include management fees received/receivable from non-consolidated investment vehicles managed by Standard Life Investments.

The year end balances arising from transactions carried out by the Group with related parties are as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| **Due from related parties:** | | |
| Joint ventures | 22 | 26 |
| Other related parties | 8 | 2 |
| | 30 | 28 |

In addition to the amounts shown above, the Group's defined benefit pension plans have assets of £782m (2012: £845m) invested in investment vehicles managed by the Group.

### (b) Compensation of key management personnel

Key management personnel comprise 19 people (2012: 20 people) within the Group, including all Directors, both executive and non-executive and the direct reports of the position of Chief Executive. Detailed disclosures of Directors' remuneration for the year and transactions in which the Directors are interested are contained within the audited section of the Directors' remuneration report.

The summary of compensation of key management personnel is as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| Salaries and other short-term employee benefits | 8 | 10 |
| Post-employment benefits | 1 | 1 |
| Share-based payments | 6 | 6 |
| Termination benefits | 1 | - |
| **Total compensation of key management personnel** | 16 | 17 |

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

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

During the year to 31 December 2013, key management personnel and their close family members contributed £3.0m (2012: £1.2m) to products sold by the Group.

# 48. Capital statement

## Capital management policies and risk management objectives

Capital can be measured on a number of different bases, which are set out in the Strategic report Section 1.3 – Group financial overview. The capital statement shows capital based on definitions used for regulatory reporting purposes.

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

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

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

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

The formal procedures for identifying and assessing risks that could affect the capital position of the Group are described in the risk management policies set out in Note 41 – Risk management.

## Regulatory capital

The Group operates in a number of geographical regions, and local regulators, primarily the PRA, specify rules and guidance for the minimum level of capital required to meet local requirements.

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

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

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

## Capital structure

The Group is classified as an insurance group by the PRA. The largest regulated entity within the Group is Standard Life Assurance Limited (SLAL), which undertakes life assurance and pension business principally in the UK, Ireland and Germany.

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

Business written after demutualisation is written in the other long-term business funds, principally the Proprietary Business Fund (PBF).

The HWPF's capital resources of £4,700m at 31 December 2013 (2012: £3,968m) and future surplus arising can be used to provide support for the HWPF, enhance payments to with profits policyholders or, in relation to the recourse cash flows (as explained in accounting policy (v)), transfer defined amounts out of the fund to accrue to the benefit of equity holders. Additional restrictions are placed on the HWPF by the Scheme of Demutualisation (the Scheme), which provides that the recourse cash flows will be subject to a solvency test which restricts transfers of the recourse cash flows if, as a result of the transfer, the HWPF would have a realistic deficit or would have a regulatory surplus below the level which the board of SLAL considers necessary to declare bonuses, in accordance with reasonable benefit expectations of with profits policyholders, without creating a regulatory deficit.

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

The regulatory results of SLAL have the most significant impact on the Group capital position. The other significant components are insurance entities in Canada and Asia and non-insurance entities, including Standard Life Investments Limited and Standard Life plc.

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

| | **UK regulated life business** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2013** | **Heritage With Profits Fund[1] £m** | **Proprietary Business Fund £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 | - | - | 883 | 883 | 1,457 | 2,340 | 777 | **3,117** |
| Held within life assurance funds | - | 1,110 | - | 1,110 | - | 1,110 | - | **1,110** |
| **Equity attributable to ordinary equity holders of Standard Life plc** | **-** | **1,110** | **883** | **1,993** | **1,457** | **3,450** | **777** | **4,227** |
| **Unallocated divisible surplus** | **680** | **-** | **-** | **680** | **-** | **680** | **-** | **680** |
| **Other sources of capital** | | | | | | | | |
| Subordinated liabilities | - | - | - | - | 229 | 229 | 1,632 | **1,861** |
| Internal subordinated liabilities | - | - | 1,133 | 1,133 | - | 1,133 | (1,133) | **-** |
| | **-** | **-** | **1,133** | **1,133** | **229** | **1,362** | **499** | **1,861** |
| **Adjustments onto regulatory basis** | | | | | | | | |
| Changes to the valuation of contract liabilities | 4,159 | (39) | - | 4,120 | - | 4,120 | - | **4,120** |
| Exclusion of deferred acquisition costs and other inadmissible assets | (58) | (576) | (72) | (706) | (243) | (949) | (228) | **(1,177)** |
| Exclusion of deferred income | 72 | 233 | - | 305 | 1 | 306 | - | **306** |
| Changes to the valuation of other assets and liabilities | (38) | (524) | (181) | (743) | 94 | (649) | 251 | **(398)** |
| | **4,135** | **(906)** | **(253)** | **2,976** | **(148)** | **2,828** | **23** | **2,851** |
| **Total available capital resources to meet regulatory requirement** | **4,815** | **204** | **1,763** | **6,782** | **1,538** | **8,320** | **1,299** | **9,619** |
| Analysed as follows: | | | | | | | | |
| Capital not subject to constraints | - | - | 1,750 | 1,750 | 672 | 2,422 | 1,195 | **3,617** |
| Capital subject to constraints | 4,815 | 204 | 13 | 5,032 | 866 | 5,898 | 104 | **6,002** |
| **Total available capital resources** | **4,815** | **204** | **1,763** | **6,782** | **1,538** | **8,320** | **1,299** | **9,619** |
| Restricted assets within the long-term business fund | | | | | | | | **(1,225)** |
| **Regulatory capital resources** | | | | | | | | **8,394** |
| **Regulatory capital resources requirement** | | | | **3,846** | **701** | **4,547** | **45** | **4,592** |
| **Regulatory capital surplus** | | | | | | | | **3,802** |
| **Analysis of contract liabilities** | | | | | | | | |
| **Participating** | | | | | | | | |
| Insurance contracts | 14,393 | - | - | 14,393 | 667 | 15,060 | - | **15,060** |
| Investment contracts | 14,704 | - | - | 14,704 | 3 | 14,707 | - | **14,707** |
| **Total participating contract liabilities** | **29,097** | **-** | **-** | **29,097** | **670** | **29,767** | **-** | **29,767** |
| **Unit linked** | | | | | | | | |
| Insurance contracts | - | 4,910 | - | 4,910 | 3,106 | 8,016 | - | **8,016** |
| Investment contracts | 1,548 | 80,951 | - | 82,499 | 12,768 | 95,267 | - | **95,267** |
| **Total unit linked liabilities** | **1,548** | **85,861** | **-** | **87,409** | **15,874** | **103,283** | **-** | **103,283** |
| **Other non-participating** | | | | | | | | |
| Insurance contracts | 11,027 | 4,557 | - | 15,584 | 4,709 | 20,293 | 3 | **20,296** |
| Investment contracts | - | 293 | - | 293 | 2,099 | 2,392 | - | **2,392** |
| **Total other non-participating liabilities** | **11,027** | **4,850** | **-** | **15,877** | **6,808** | **22,685** | **3** | **22,688** |
| **Total contract liabilities** | **41,672** | **90,711** | **-** | **132,383** | **23,352** | **155,735** | **3** | **155,738** |

1 Capital resources amounting to £115m in respect of other with profits funds are disclosed within the Heritage With Profits Fund column. Participating contract liabilities amounting to £1,078m relating to the new with profits funds created at demutualisation are disclosed within the Heritage With Profits Fund column.

# 48. Capital statement *continued*

| 2012 (restated)[1] | UK regulated life business: Heritage With Profits Fund[2] £m | UK regulated life business: Proprietary Business Fund £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 |
|---|---|---|---|---|---|---|---|---|
| **Available capital resources** | | | | | | | | |
| **Equity holders' funds** | | | | | | | | |
| Held outside life assurance funds | - | - | 794 | 794 | 1,679 | 2,473 | 783 | **3,256** |
| Held within life assurance funds | - | 1,103 | - | 1,103 | - | 1,103 | - | **1,103** |
| **Equity attributable to ordinary equity holders of Standard Life plc** | **-** | **1,103** | **794** | **1,897** | **1,679** | **3,576** | **783** | **4,359** |
| **Unallocated divisible surplus** | **706** | **-** | **-** | **706** | **-** | **706** | **-** | **706** |
| **Other sources of capital** | | | | | | | | |
| Subordinated liabilities | - | - | - | - | 246 | 246 | 1,622 | **1,868** |
| Internal subordinated liabilities | - | - | 1,124 | 1,124 | - | 1,124 | (1,124) | **-** |
| | **-** | **-** | **1,124** | **1,124** | **246** | **1,370** | **498** | **1,868** |
| **Adjustments onto regulatory basis** | | | | | | | | |
| Changes to the valuation of contract liabilities | 3,288 | (11) | - | 3,277 | - | 3,277 | - | **3,277** |
| Exclusion of deferred acquisition costs and other inadmissible assets | (71) | (666) | (59) | (796) | (173) | (969) | (132) | **(1,101)** |
| Exclusion of deferred income | 84 | 255 | - | 339 | (1) | 338 | - | **338** |
| Changes to the valuation of other assets and liabilities | - | (553) | (38) | (591) | 85 | (506) | 259 | **(247)** |
| | **3,301** | **(975)** | **(97)** | **2,229** | **(89)** | **2,140** | **127** | **2,267** |
| **Total available capital resources to meet regulatory requirement** | **4,007** | **128** | **1,821** | **5,956** | **1,836** | **7,792** | **1,408** | **9,200** |
| Analysed as follows: | | | | | | | | |
| Capital not subject to constraints | - | - | 1,785 | 1,785 | 863 | 2,648 | 1,320 | **3,968** |
| Capital subject to constraints | 4,007 | 128 | 36 | 4,171 | 973 | 5,144 | 88 | **5,232** |
| **Total available capital resources** | **4,007** | **128** | **1,821** | **5,956** | **1,836** | **7,792** | **1,408** | **9,200** |
| Restricted assets within the long-term business fund | | | | | | | | **(1,210)** |
| **Regulatory capital resources** | | | | | | | | **7,990** |
| **Regulatory capital resources requirement** | | | | **3,092** | **786** | **3,878** | **41** | **3,919** |
| **Regulatory capital surplus** | | | | | | | | **4,071** |
| **Analysis of contract liabilities** | | | | | | | | |
| **Participating** | | | | | | | | |
| Insurance contracts | 15,203 | - | - | 15,203 | 716 | 15,919 | - | **15,919** |
| Investment contracts | 14,989 | - | - | 14,989 | 4 | 14,993 | - | **14,993** |
| **Total participating contract liabilities** | **30,192** | **-** | **-** | **30,192** | **720** | **30,912** | **-** | **30,912** |
| **Unit linked** | | | | | | | | |
| Insurance contracts | - | 4,196 | - | 4,196 | 2,514 | 6,710 | - | **6,710** |
| Investment contracts | 1,296 | 68,434 | - | 69,730 | 11,871 | 81,601 | - | **81,601** |
| **Total unit linked liabilities** | **1,296** | **72,630** | **-** | **73,926** | **14,385** | **88,311** | **-** | **88,311** |
| **Other non-participating** | | | | | | | | |
| Insurance contracts | 12,114 | 4,564 | - | 16,678 | 5,659 | 22,337 | 3 | **22,340** |
| Investment contracts | - | 301 | - | 301 | 2,299 | 2,600 | - | **2,600** |
| **Total other non-participating liabilities** | **12,114** | **4,865** | **-** | **16,979** | **7,958** | **24,937** | **3** | **24,940** |
| **Total contract liabilities** | **43,602** | **77,495** | **-** | **121,097** | **23,063** | **144,160** | **3** | **144,163** |

1 Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

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

## Movements in capital

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

| 2013 | UK regulated life business Heritage With Profits Fund £m | Proprietary Business Fund £m | Life business equity holders funds £m | Total UK regulated life business £m | Overseas life operations £m | Total life business £m | Other activities £m | Group total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January** | **4,007** | **128** | **1,821** | **5,956** | **1,836** | **7,792** | **1,408** | **9,200** |
| Methodology/modelling changes | (79) | 20 | - | (59) | - | (59) | - | **(59)** |
| Change in assumptions used to measure life assurance contract liabilities and experience differences | 23 | 60 | - | 83 | 1 | 84 | - | **84** |
| New business | (8) | (111) | - | (119) | (22) | (141) | - | **(141)** |
| Investment surplus | 1,484 | 95 | (29) | 1,550 | (22) | 1,528 | - | **1,528** |
| Equity holder/inter-fund transfers | (213) | (19) | 232 | - | 19 | 19 | (19) | **-** |
| Dividend transfers | - | - | (262) | (262) | (281) | (543) | (113) | **(656)** |
| Other factors | (399) | 31 | 1 | (367) | 7 | (360) | 23 | **(337)** |
| **At 31 December** | **4,815** | **204** | **1,763** | **6,782** | **1,538** | **8,320** | **1,299** | **9,619** |

Equity holder/inter-fund transfers of £213m (2012: £55m) includes the transfer from the HWPF to the PBF and additional expenses charged on German unitised with profits business.

| 2012 (restated)[1] | UK regulated life business Heritage With Profits Fund £m | Proprietary Business Fund £m | Life business equity holders funds £m | Total UK regulated life business £m | Overseas life operations £m | Total life business £m | Other activities £m | Group total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January** | **4,121** | **189** | **1,687** | **5,997** | **1,394** | **7,391** | **933** | **8,324** |
| Methodology/modelling changes | 520 | 12 | - | 532 | 8 | 540 | - | **540** |
| Change in assumptions used to measure life assurance contract liabilities and experience differences | (24) | 2 | - | (22) | 7 | (15) | - | **(15)** |
| New business | (13) | (95) | - | (108) | (23) | (131) | - | **(131)** |
| Investment surplus | 37 | 16 | 47 | 100 | 192 | 292 | - | **292** |
| Equity holder/inter-fund transfers | (55) | (153) | 208 | - | 147 | 147 | (147) | **-** |
| Dividend transfers | - | - | (249) | (249) | (143) | (392) | 61 | **(331)** |
| Issue of external subordinated liabilities | - | - | - | - | 246 | 246 | 498 | **744** |
| Other factors | (579) | 157 | 128 | (294) | 8 | (286) | 63 | **(223)** |
| **At 31 December** | **4,007** | **128** | **1,821** | **5,956** | **1,836** | **7,792** | **1,408** | **9,200** |

[1] Comparatives for the year ended 31 December 2012 have been restated to reflect retrospective application of changes to accounting policies as a result of an amendment to IAS 19 – *Employee Benefits*. Refer to Group accounting policies – (a) Basis of preparation.

As outlined in Note 36 – Subordinated liabilities, the Company issued £500m fixed rate subordinated notes on 4 December 2012. The subordinated notes are unguaranteed and have a legal final maturity in December 2042 with the first call date on 4 December 2022. The Standard Life Assurance Company of Canada (SLCC), a wholly owned subsidiary of the Company, issued CA$400m subordinated debenture notes on 21 September 2012 with a redemption date of 21 September 2022.

## UK regulated life business

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

Based on draft regulatory returns at 31 December 2013, SLAL had available capital resources of £6,782m (2012: £5,956m) and a CRR of £3,846m (2012: £3,092m). 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 £5,032m at 31 December 2013 (2012: £4,171m) 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 £1,538m (2012: £1,836m), which relate mainly to operations in Canada, also include operations in Asia. The Canadian regulator sets the minimum required capital for the Canadian regulated entities. It also requires certain assets to be held in trust to increase policyholder protection (vested assets). As a result of the combination of the capital requirement and vested assets, the overseas life capital subject to constraints amounted to £866m at 31 December 2013 (2012: £973m).

## 48. Capital statement *continued*

### Other activities

At 31 December 2013, capital resources of £1,299m (2012: £1,408m) and capital subject to constraints of £104m (2012: £88m) 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. The Group also provides such services in Ireland, Germany, Singapore and Dubai. 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. At Group level only subordinated liabilities issued to external parties are included in the Group's capital resources.

### 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 £5,019m (2012: £4,135m) is restricted to the level of the CRR of those funds of £3,846m (2012: £3,092m). 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 2013 is a surplus of £3,802m (2012: £4,071m). The decrease in the estimated regulatory capital surplus is as a result of the £302m special dividend payment and the acquisition of the private client division of Newton Management Limited.

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

### Contract liabilities

The process used to determine the assumptions that have the greatest effect on the measurement of contract liabilities (including options and guarantees), the quantified disclosure of those assumptions, and the terms and conditions of options and guarantees relating to life assurance contracts that could in aggregate have a material effect on future cash flows are disclosed in Note 3 – Business written in the Group's insurance entities and Note 33 – Insurance contracts, investment contracts and reinsurance contracts.

The sensitivity of contract liabilities to changes in market conditions, key assumptions and other variables, and assumptions about management actions in response to changes in market conditions, are disclosed in Note 41 – Risk management.

## 49. Investments in subsidiaries

The following are particulars of the Company's principal subsidiaries which are unlisted entities except where indicated:

| Name of subsidiary | Country of incorporation or residence | % of interest held[1] | Nature of business |
|---|---|---|---|
| Standard Life Assurance Limited | Scotland | 100 | Life assurance |
| Standard Life Investments (Holdings) Limited | Scotland | 100 | Holding company |
| Standard Life Investments Limited | Scotland | 100 | Investment management |
| Standard Life (Mauritius Holdings) 2006 Limited | Mauritius | 100 | Holding company |
| Standard Life Oversea Holdings Limited | Scotland | 100 | Holding company |
| Standard Life Employee Services Limited | Scotland | 100 | Support services |
| Standard Life Pension Funds Limited | Scotland | 100 | Life assurance |
| Standard Life Savings Limited | Scotland | 100 | Investment management |
| Standard Life European Private Equity Trust PLC[2, 3] | Scotland | 52 | Investment trust |
| Standard Life International Limited | Ireland | 100 | Life assurance |
| The Standard Life Assurance Company of Canada | Canada | 100 | Life assurance |
| Standard Life Mutual Funds Ltd | Canada | 100 | Collective investment products |
| Standard Life Investments (Mutual Funds) Limited | Scotland | 100 | Collective investment products |
| Standard Life Investments (Corporate Funds) Limited | Scotland | 100 | Collective investment products |
| SLTM Limited | Scotland | 100 | Collective investment products |
| Standard Life Client Management Limited | Scotland | 100 | Direct sales |
| Standard Life Wealth Limited | Scotland | 100 | Investment management |
| Standard Life (Asia) Limited | Hong Kong | 100 | Life assurance |
| Vebnet (Holdings) Limited | England | 100 | Holding company |

1 All issued share capital of the Company's principal subsidiaries is classified as ordinary.
2 Indicates listed entity.
3 Indicates the entity has had a different reporting date to the Group but has been consolidated consistently at 31 December 2013.

A complete list of the Company's subsidiaries is available as an attachment to the Company's Annual Return.

# Independent Auditors' Report to the Directors of Standard Life plc

## Report on the European Embedded Value – financial information

### Our opinion

In our opinion, the EEV financial information, defined below, for the year ended 31 December 2013 has been properly prepared, in all material respects, in accordance with the EEV basis set out in Notes 1 and 17 to the EEV financial information.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

The European Embedded Value financial information (the 'EEV financial information') basis, which is prepared by Standard Life plc (the 'Company'), comprises:

- the EEV consolidated statement of financial position as at 31 December 2013
- the EEV consolidated income statement and EEV consolidated statement of comprehensive income for the year then ended; and
- the notes to the EEV financial information, which includes the EEV basis set out in Notes 1 to 17 and other explanatory information.

The financial reporting framework that has been applied in its preparation is the EEV basis set out in Notes 1 and 17 to the EEV financial information.

### What an audit of the EEV financial information involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the EEV financial information sufficient to give reasonable assurance that the EEV financial information is free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors
- the overall presentation of the EEV financial information.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2013 to identify material inconsistencies with the audited EEV financial information and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Responsibilities for the EEV financial information and the audit

### Our responsibilities and those of the directors

The directors are responsible for the preparation of the EEV financial information in accordance with the EEV basis set out in Notes 1 and 17 to the EEV financial information.

Our responsibility is to audit and express an opinion on the EEV financial information in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's directors as a body in accordance with our letter of engagement dated 16 July 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
27 February 2014

Notes:

(a) The maintenance and integrity of the Standard Life plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# EEV consolidated income statement
## For the year ended 31 December 2013

| | Notes | Covered business £m | Non-covered business £m | 2013 Total £m | Covered business £m | Non-covered business £m | 2012 Total restated[1] £m |
|---|---|---|---|---|---|---|---|
| UK and Europe[2] | | 465 | 18 | 483 | 803 | 10 | 813 |
| Standard Life Investments[3] | 6(b) | 103 | 89 | 192 | 83 | 62 | 145 |
| Canada[2] | | 399 | (6) | 393 | 315 | (5) | 310 |
| Asia and Emerging Markets[2] | | 20 | (5) | 15 | 10 | (11) | (1) |
| Group corporate centre costs[2] | | - | (53) | (53) | - | (50) | (50) |
| Other[2] | | - | (12) | (12) | - | 24 | 24 |
| Look through elimination[3] | | (103) | - | (103) | (83) | - | (83) |
| Consolidation adjustment for different accounting bases[4] | | - | - | - | - | (75) | (75) |
| **EEV operating profit/(loss) before tax** | | **884** | **31** | **915** | 1,128 | (45) | 1,083 |
| **EEV non-operating items** | | | | | | | |
| Long-term investment return and tax variances | | 293 | - | 293 | 498 | - | 498 |
| Effect of economic assumption changes | | 168 | - | 168 | (106) | - | (106) |
| Restructuring and corporate transaction expenses | | (52) | (21) | (73) | (103) | (11) | (114) |
| Other EEV non-operating items | | - | (24) | (24) | - | (18) | (18) |
| Consolidation adjustment for different accounting bases[4] | | - | - | - | - | (42) | (42) |
| **EEV non-operating profit/(loss) before tax** | | **409** | **(45)** | **364** | 289 | (71) | 218 |
| **EEV profit/(loss) before tax** | | **1,293** | **(14)** | **1,279** | 1,417 | (116) | 1,301 |
| Tax attributable to: | | | | | | | |
| EEV operating profit | | (200) | (32) | (232) | (264) | 24 | (240) |
| EEV non-operating items | | (73) | 14 | (59) | (64) | 22 | (42) |
| **EEV attributed tax** | | **(273)** | **(18)** | **(291)** | (328) | 46 | (282) |
| **Total EEV profit/(loss) after tax** | | **1,020** | **(32)** | **988** | 1,089 | (70) | 1,019 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

2 The split of EEV operating profit has been updated to reflect changes in segmental reporting. Refer to Note 1 – Basis of preparation.

3 Standard Life Investments non-covered EEV operating profit of £89m (2012: £62m) represents operating profit of £192m (2012: £145m) after excluding profits of £103m (2012: £83m) which have been generated by life and pensions covered business. Refer to Note 6(b) – Standard Life Investments EEV operating profit before tax and Note 17 – EEV methodology.

4 This adjustment reflects the removal of accounting differences for the Canada subordinated liability as explained in Note 17 – EEV methodology.

# EEV earnings per share (EPS)
## For the year ended 31 December 2013

| | 2013 | 2012 restated[1] |
|---|---|---|
| **EEV operating profit after tax (£m)[2]** | **683** | 843 |
| Basic EPS (pence) | **28.9** | 35.9 |
| Weighted average number of ordinary shares outstanding (millions) | **2,362** | 2,351 |
| Diluted EPS (pence) | **28.7** | 35.6 |
| Weighted average number of ordinary shares outstanding for diluted earnings per share (millions) | **2,378** | 2,369 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.
2 EEV operating profit before tax of £915m (2012: £1,083m) less attributed tax on EEV operating profit of £232m (2012: £240m).

# EEV consolidated statement of comprehensive income
## For the year ended 31 December 2013

| | 2013 £m | 2012 restated[1] £m |
|---|---|---|
| **EEV profit after tax** | **988** | 1,019 |
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Remeasurement gains/(losses) on defined benefit pension plans[2] | **101** | (37) |
| Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss | **(8)** | 102 |
| Other[3] | **(22)** | (1) |
| **Total items that will not be reclassified subsequently to profit or loss** | **71** | 64 |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Fair value losses on cash flow hedges[2] | **-** | (1) |
| Net investment hedge[2] | **63** | 18 |
| Fair value losses on non-covered business financial assets designated as available-for-sale | **(18)** | - |
| Exchange differences on translating foreign operations[4] | **(201)** | (86) |
| Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss | **3** | - |
| **Total items that may be reclassified subsequently to profit or loss** | **(153)** | (69) |
| **Other comprehensive income for the year** | **(82)** | (5) |
| **Total comprehensive income for the year** | **906** | 1,014 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.
2 Consistent with the IFRS consolidated statement of comprehensive income.
3 Other primarily relates to the transfer of Standard Life Savings Limited to covered business. Refer to Note 1 – Basis of preparation.
4 Exchange differences primarily relate to Canada (loss £183m) and India (loss £28m).

# EEV consolidated statement of financial position

## As at 31 December 2013

| | Covered business £m | Non-covered business £m | 2013 Total £m | Covered business £m | Non-covered business £m | 2012 Total restated[1] £m |
|---|---|---|---|---|---|---|
| UK and Europe | 4,538 | 641 | 5,179 | 4,103 | 514 | 4,617 |
| Standard Life Investments | - | 305 | 305 | - | 255 | 255 |
| Canada | 2,094 | 1 | 2,095 | 2,317 | 1 | 2,318 |
| Asia and Emerging Markets | 333 | - | 333 | 297 | - | 297 |
| Group corporate centre | - | 444 | 444 | - | 640 | 640 |
| Other | - | 67 | 67 | - | 15 | 15 |
| **Total Group embedded value** | **6,965** | **1,458** | **8,423** | 6,717 | 1,425 | 8,142 |
| **Analysed by:** | | | | | | |
| Free surplus | 843 | 1,458 | 2,301 | 944 | 1,425 | 2,369 |
| Required capital | 1,243 | - | 1,243 | 1,348 | - | 1,348 |
| **Net worth** | **2,086** | **1,458** | **3,544** | 2,292 | 1,425 | 3,717 |
| Present value of in-force | 5,453 | - | 5,453 | 5,073 | - | 5,073 |
| Cost of required capital | (574) | - | (574) | (648) | - | (648) |
| **Total net assets** | **6,965** | **1,458** | **8,423** | 6,717 | 1,425 | 8,142 |
| **Equity** | | | | | | |
| Share capital | | | 238 | | | 236 |
| Shares held by trusts | | | (6) | | | (7) |
| Share premium reserve | | | 1,110 | | | 1,110 |
| Retained earnings on an IFRS basis | | | 1,391 | | | 1,441 |
| Other reserves | | | 1,494 | | | 1,579 |
| Additional retained earnings on an EEV basis | | | 4,196 | | | 3,783 |
| **Total equity** | | | **8,423** | | | 8,142 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

# EEV per share

## As at 31 December 2013

| | 2013 | 2012 restated[1] |
|---|---|---|
| **Total Group embedded value (£m)** | **8,423** | 8,142 |
| EEV per share (pence) | 353 | 343 |
| Diluted closing number of ordinary shares outstanding (millions) | 2,389 | 2,373 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

Approved on behalf of the Board of Directors on 27 February 2014 by the following Directors:

**Gerry Grimstone,** Chairman

**David Nish,** Chief Executive

# Notes to the EEV financial information

## 1. Basis of preparation

The European Embedded Value (EEV) basis results have been prepared in accordance with the EEV Principles and Guidance issued by the CFO Forum of European Insurance Companies. 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.

A detailed description of EEV methodology is provided in Note 17 – EEV methodology. There have been no significant changes to EEV methodology from that adopted in the previous reporting period.

### 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 Group 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 – *Operating segments*. The EEV segmentation has been prepared in a consistent manner, whilst also distinguishing between covered and non-covered business.

In February 2013, changes were announced in the way the Group manages its business. The offshore bond business in Ireland which was previously reported in Asia and Emerging Markets is now managed and reported as part of UK and Europe. Additionally, due to changes in the way the Group's segments are managed, some overhead costs which were previously reported in Other within non-covered business are now reported within Group corporate centre costs in non-covered business.

The IFRS reportable segments have been changed for the year ended 31 December 2013, as explained in Group financial statements Note 2(b) – Reportable segments – Group operating profit, revenue and asset information. EEV reporting segments and the formats of the EEV consolidated income statement and EEV consolidated statement of financial position have been amended and reflect the new IFRS reportable segments. Comparative amounts for 31 December 2012 have been restated on the same basis to allow more meaningful comparison.

### Business combinations

On 27 September 2013, Standard Life Wealth Limited (SLW), a wholly owned subsidiary of the Company, acquired the private client division of Newton Management Limited. Details of this transaction are included in Note 1 to the Group financial statements. SLW is a non-covered entity for EEV reporting and is therefore included in the EEV results on an IFRS basis. SLW is part of the UK and Europe segment.

### Standard Life Savings Limited

Standard Life Savings Limited, which was previously treated as a non-covered entity within UK and Europe with a look through in covered business relating to mutual funds profits, has been transferred to covered business on the closing EEV consolidated statement of financial position. In addition, to allow for the anticipated transfer of certain mutual funds business to Standard Life Investments during 2014, the PVIF of this business has been extinguished. The impact of these changes is to transfer £52m of net assets from non-covered business to covered business and to reduce closing PVIF by £21m, with no impact on EEV profit. From 1 January 2014, there will therefore no longer be a look through and transfer back of net worth in respect of Standard Life Savings Limited.

### Amendment to IAS 19 *Employee benefits*

As described in Group accounting policies (a) Basis of preparation within the Group financial statements, the amendment to IAS 19 *Employee Benefits* which is effective for accounting periods beginning on or after 1 January 2013 has impacted the IFRS accounting for the Group's defined benefit pension plans. In accordance with our EEV Methodology, the Group's pension plans are accounted for within the EEV results using their IFRS values. The amendment has been applied retrospectively and prior period comparatives have therefore been restated. Within the EEV consolidated income statement for the year ended 31 December 2012, EEV operating profit has reduced by £33m, other comprehensive income has increased by £33m and EEV net assets as at 31 December 2012 have increased by £4m.

### Impact of UK budget changes

The Finance Act 2013 reduced the UK corporation tax rate to 20% with effect from 1 April 2015. This reduced rate has been used as our best estimate assumption for UK corporation tax as at 31 December 2013.

# 2. Segmental analysis – covered business

## (a) Segmental EEV income statement

| | Notes | 2013 UK and Europe £m | 2013 Canada £m | 2013 Asia and Emerging Markets £m | 2013 Total £m | 2012 restated[1] UK and Europe £m | 2012 restated[1] Canada £m | 2012 restated[1] Asia and Emerging Markets £m | 2012 restated[1] Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Contribution from new business | 3 | **245** | **36** | **39** | **320** | 267 | 45 | 27 | 339 |
| Contribution from in-force business: | | | | | | | | | |
| Expected return on existing business | | **223** | **152** | **19** | **394** | 223 | 155 | 17 | 395 |
| Experience variances | 4 | **65** | **264** | **(8)** | **321** | 285 | 293 | (10) | 568 |
| Operating assumption changes | 5 | **(36)** | **(55)** | **(12)** | **(103)** | 56 | (164) | (7) | (115) |
| Development expenses | | **(24)** | **(12)** | **(20)** | **(56)** | (29) | (16) | (18) | (63) |
| Expected return on free surplus | | **(8)** | **14** | **2** | **8** | 1 | 2 | 1 | 4 |
| **EEV operating profit before tax** | | **465** | **399** | **20** | **884** | 803 | 315 | 10 | 1,128 |
| Long-term investment return and tax variances | | **271** | **30** | **(8)** | **293** | 359 | 128 | 11 | 498 |
| Effect of economic assumption changes | | **269** | **(115)** | **14** | **168** | (235) | 118 | 11 | (106) |
| Restructuring and corporate transaction expenses | | **(48)** | **(2)** | **(2)** | **(52)** | (101) | (2) | - | (103) |
| **EEV profit before tax** | | **957** | **312** | **24** | **1,293** | 826 | 559 | 32 | 1,417 |
| EEV attributed tax | | **(188)** | **(82)** | **(3)** | **(273)** | (189) | (135) | (4) | (328) |
| **EEV profit after tax** | | **769** | **230** | **21** | **1,020** | 637 | 424 | 28 | 1,089 |

[1] The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

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.

New business contribution of £320m is £19m lower than 2012, resulting from the combination of higher sales, with PVNBP up £3,610m to £22,903m, along with a lower PVNBP margin of 1.4% (2012: 1.8%).

The expected return on existing business of £394m is broadly unchanged from 2012.

Details of experience variances and operating assumption changes are provided in Note 4 – Experience variances and Note 5 – Operating assumption changes.

Development expenses of £56m were £7m lower than 2012, reflecting lower costs in UK and Europe and in Canada.

The £8m expected return on free surplus represents an increase of £4m from 2012. Higher opening free surplus in Canada contributed to a £12m increase, partly offset by a reduction of £9m in UK and Europe, reflecting the increased differential between the expected return on subordinated liabilities and the expected return on assets backing subordinated liabilities.

Long-term investment return and tax variances generated a profit of £293m, which includes a £333m profit from higher than expected investment returns.

The effect of economic assumption changes was an overall gain of £168m. The impact of changes to the long-term corporation tax rate in the UK was a profit of £123m (refer to Note 1 – Basis of preparation). Increased risk free rates were the main driver for both a loss of £625m from higher risk discount rates, which is explained in Note 13 – Principal economic assumptions – deterministic calculations – covered business, and for a profit of £692m from the use of higher future assumed investment returns.

Restructuring and corporate transaction expenses of £52m (2012: £103m) primarily represent the covered business costs associated with a number of restructuring programmes and Solvency 2.

# 2. Segmental analysis – covered business *continued*

## (b) Segmental analysis of movements in covered business EEV

| | 2013 | | | | 2012 restated[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m |
| **Opening covered business EEV** | **4,103** | **2,317** | **297** | **6,717** | 3,818 | 1,716 | 257 | 5,791 |
| **EEV profit after tax** | **769** | **230** | **21** | **1,020** | 637 | 424 | 28 | 1,089 |
| Internal capital transfers | **(280)** | **(281)** | **41** | **(520)** | (247) | 236 | 22 | 11 |
| Transfer back of surplus to Standard Life Investments | **(78)** | **(1)** | **-** | **(79)** | (60) | (2) | - | (62) |
| Transfer back of net worth to other non-covered business | **(8)** | **(6)** | **-** | **(14)** | (3) | (3) | - | (6) |
| Remeasurement gains/(losses) on defined benefit pension plans | **(7)** | **31** | **-** | **24** | (12) | (9) | - | (21) |
| Foreign exchange differences | **13** | **(183)** | **(25)** | **(195)** | (16) | (49) | (16) | (81) |
| Aggregate tax effect of items not recognised in income statement | **-** | **(8)** | **-** | **(8)** | - | 4 | - | 4 |
| Other | **26** | **(5)** | **(1)** | **20** | (14) | - | 6 | (8) |
| **Total other movements** | **(334)** | **(453)** | **15** | **(772)** | (352) | 177 | 12 | (163) |
| **Closing covered business EEV** | **4,538** | **2,094** | **333** | **6,965** | 4,103 | 2,317 | 297 | 6,717 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

Other within UK and Europe includes a £31m closing adjustment (comprising £52m net assets and (£21m) closing PVIF) to transfer Standard Life Savings Limited between non-covered business and covered business. Refer to Note 1 – Basis of preparation.

# 3. Analysis of new business contribution

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

| 2013 | NBC £m | Single premiums £m | Annualised regular premiums £m | PVNBP £m | PVNBP multiplier[1] | PVNBP margin[2] % |
|---|---|---|---|---|---|---|
| **UK:** | | | | | | |
| Fee | 157 | 12,301 | 983 | 16,712 | 4.5 | 0.9 |
| Spread/risk | 49 | 334 | - | 335 | - | 14.5 |
| UK | 206 | 12,635 | 983 | 17,047 | 4.5 | 1.2 |
| Europe | 39 | 1,593 | 39 | 2,029 | 11.2 | 1.9 |
| **UK and Europe** | **245** | **14,228** | **1,022** | **19,076** | **4.7** | **1.3** |
| Fee | 15 | 1,530 | 26 | 2,097 | 21.8 | 0.7 |
| Spread/risk | 21 | 317 | 37 | 797 | 13.0 | 2.7 |
| **Canada** | **36** | **1,847** | **63** | **2,894** | **16.6** | **1.3** |
| Wholly owned | 20 | 16 | 67 | 468 | 6.7 | 4.3 |
| Joint ventures | 19 | 70 | 89 | 465 | 4.4 | 4.0 |
| **Asia and Emerging Markets** | **39** | **86** | **156** | **933** | **5.4** | **4.2** |
| **Total covered business** | **320** | **16,161** | **1,241** | **22,903** | **5.4** | **1.4** |

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.

| 2012 | NBC £m | Single premiums £m | Annualised regular premiums £m | PVNBP £m | PVNBP multiplier[1] | PVNBP margin[2] % |
|---|---|---|---|---|---|---|
| **UK:** | | | | | | |
| Fee | 178 | 9,629 | 638 | 12,599 | 4.7 | 1.4 |
| Spread/risk | 71 | 462 | - | 463 | - | 15.3 |
| UK | 249 | 10,091 | 638 | 13,062 | 4.7 | 1.9 |
| Europe | 18 | 1,405 | 40 | 1,873 | 11.7 | 1.0 |
| **UK and Europe** | **267** | **11,496** | **678** | **14,935** | **5.1** | **1.8** |
| Fee | 16 | 1,545 | 57 | 2,555 | 17.7 | 0.6 |
| Spread/risk | 29 | 208 | 52 | 1,029 | 15.8 | 2.8 |
| **Canada** | **45** | **1,753** | **109** | **3,584** | **16.8** | **1.3** |
| Wholly owned | 14 | 8 | 41 | 252 | 6.0 | 5.4 |
| Joint ventures | 13 | 76 | 104 | 522 | 4.3 | 2.6 |
| **Asia and Emerging Markets** | **27** | **84** | **145** | **774** | **4.8** | **3.5** |
| **Total covered business** | **339** | **13,333** | **932** | **19,293** | **6.4** | **1.8** |

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

# 4. Experience variances

| | **2013** | | | | 2012 restated[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | **UK and Europe £m** | **Canada £m** | **Asia and Emerging Markets £m** | **Total £m** | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m |
| Lapses | **(27)** | **-** | **(7)** | **(34)** | (6) | - | (9) | (15) |
| Maintenance expenses | **(1)** | **4** | **(2)** | **1** | (8) | 11 | 1 | 4 |
| Mortality and morbidity | **(10)** | **-** | **1** | **(9)** | (5) | - | 1 | (4) |
| Tax | **59** | **117** | **-** | **176** | 14 | 23 | - | 37 |
| Other | **44** | **143** | **-** | **187** | 290 | 259 | (3) | 546 |
| **Total** | **65** | **264** | **(8)** | **321** | 285 | 293 | (10) | 568 |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

UK and Europe lapse variances include negative £31m from UK business, mainly due to the impact of higher transfer activity in corporate pensions prior to the full implementation of the Retail Distribution Review and increased net outflows from institutional pensions.

Tax variances include gains of £57m in UK and Europe and £11m in Canada following the settlement of various prior-year tax negotiations and adjustments to prior year tax provisions. Tax variances in Canada of £117m also include £84m from the release of future tax components of actuarial liabilities and £22m from lower than expected tax in the year.

Other variances in Canada of £143m include £104m from revised modelling of future actuarial liabilities and their interaction with tax variances, along with £38m from operating variances within segregated funds. Other UK and Europe variances include a £40m gain from lower TVOG, mainly reflecting improved modelling of guarantees.

For the year to 31 December 2012, the overall total of £546m of other variances includes £520m of gains from management actions. These consist of £96m in UK and Europe from a professional indemnity insurance claim; £119m variances in UK and Europe HWPF TVOG primarily from asset strategy changes and improved modelling of German business; £67m in UK and Europe from management actions that resulted in the use of higher investment returns for annuities; £90m in Canada from revised modelling of future cash flows, primarily for segregated fund business; and £148m in Canada from the sale of property and a renegotiation of an existing reinsurance arrangement.

# 5. Operating assumption changes

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m |
| Lapses | **(25)** | **(56)** | **(13)** | **(94)** | (3) | (53) | (7) | (63) |
| Maintenance expenses | **(40)** | **(52)** | **-** | **(92)** | 23 | (22) | - | 1 |
| Mortality and morbidity | **20** | **10** | **-** | **30** | 7 | 50 | 1 | 58 |
| Tax | **1** | **-** | **(1)** | **-** | - | - | - | - |
| Other | **8** | **43** | **2** | **53** | 29 | (139) | (1) | (111) |
| **Total** | **(36)** | **(55)** | **(12)** | **(103)** | 56 | (164) | (7) | (115) |

Lapse assumption losses of £25m in UK and Europe include a £12m loss from increased paid-up rates and a loss of £13m from other policy off-rates. Most of these changes arise from UK pensions business. Canada lapse assumption losses of £56m arise from increased lapse rates for group pensions, mutual funds and life business. Increased paid-up rates were the main source of the £13m loss within Asia and Emerging Markets.

Expense assumption losses of £40m in UK and Europe and £52m in Canada mainly arise from changes in investment related income and expenses that have been allocated to covered business.

The £20m gain from mortality assumption changes in UK and Europe mainly arises from annuities, reflecting updates from recent experience.

The £43m other assumption changes in Canada includes £18m from an update of commission assumptions and £32m from the impact of asset changes.

For the year to 31 December 2012, Canada lapse assumption losses of £53m arise from the impact of assuming higher surrenders within Group pension business, reflecting recent experience. The £50m gain from mortality assumption changes in Canada mainly arises from annuities. The adverse £139m other assumption changes in Canada include losses of £45m from the decision to impose a minimum inflation rate on expenses; £17m from a reduction in expected fee income from our existing group savings and retirement contracts; and £72m from assuming that we will earn lower fee income on the funds invested from future deposits.

# 6. Non-covered business

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

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

| 2013 | UK and Europe £m | Standard Life Investments £m | Canada, AEM, Group corporate centre and Other £m | Total non-covered business £m |
|---|---|---|---|---|
| **Opening EEV non-covered business net assets** | **514** | **255** | **656** | **1,425** |
| EEV operating (loss)/profit after tax | 12 | 66 | (79) | **(1)** |
| EEV non-operating loss after tax | (15) | - | (16) | **(31)** |
| Transfer back of net worth from covered business | 8 | 79 | 6 | **93** |
| Foreign exchange differences | - | (4) | (2) | **(6)** |
| Internal capital transfers | 90 | (94) | 524 | **520** |
| Distributions to equity holders | - | - | (656) | **(656)** |
| Other | 32 | 3 | 79 | **114** |
| **Closing EEV non-covered business net assets** | **641** | **305** | **512** | **1,458** |

Other in UK and Europe includes a negative £52m closing adjustment to transfer Standard Life Savings Limited from non-covered business to covered business. Refer to Note 1 – Basis of preparation. Other in UK and Europe also includes the change in the UK non-covered pension plan of £77m (2012: negative £13m) and the associated deferred tax asset of £nil (2012: positive £98m). Other in Canada, AEM, Group corporate centre and Other includes £63m positive net investment hedge movement (2012: £18m).

| 2012 (restated)[1] | UK and Europe £m | Standard Life Investments £m | Canada, AEM, Group corporate centre and Other £m | Total non-covered business[2] £m |
|---|---|---|---|---|
| **Opening EEV non-covered business net assets** | **393** | **256** | **903** | **1,552** |
| EEV operating profit/(loss) after tax | 31 | 45 | (40) | **36** |
| EEV non-operating loss after tax | (4) | (2) | (11) | **(17)** |
| Transfer back of net worth from covered business | 3 | 62 | 3 | **68** |
| Foreign exchange differences | - | (3) | (2) | **(5)** |
| Internal capital transfers | (2) | (106) | 97 | **(11)** |
| Distributions to equity holders | - | - | (331) | **(331)** |
| Other | 93 | 3 | 37 | **133** |
| **Closing EEV non-covered business net assets** | **514** | **255** | **656** | **1,425** |

1 The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

2 Excluding Group elimination. Refer to Note 7 – Movements in total EEV.

## (b) Standard Life Investments EEV operating profit before tax

Standard Life Investments covered business profits are included in EEV on a look through basis. This means that the profits from Standard Life Investments which are generated from life and pensions business are allocated to covered business. Therefore, the difference between third party non-covered business EEV operating profit before tax of £89m (2012: £62m) and operating profit for the Standard Life Investments business of £192m (2012: £145m) is the profit allocated to covered business.

| | 2013 £m | 2012 £m |
|---|---|---|
| Standard Life Investments third party non-covered business EEV operating profit before tax | **89** | 62 |
| Third party related covered business EEV operating profit before tax | **75** | 56 |
| **Total third party business EEV operating profit before tax** | **164** | 118 |
| Other covered business EEV operating profit before tax | **28** | 27 |
| **Standard Life Investments operating profit before tax** | **192** | 145 |

Total Standard Life Investments EEV operating profit allocated to covered business of £103m (2012: £83m) consists of third party related covered business EEV operating profit of £75m (2012: £56m) and other covered business EEV operating profit of £28m (2012: £27m).

Third party related covered business EEV operating profits relate to products actively marketed and sold to third parties through Standard Life Investments distribution channels. If these profits are added to the Standard Life Investments third party non-covered business EEV operating profits of £89m (2012: £62m), there are £164m (2012: £118m) of total third party related profits for Standard Life Investments. The proportion of Standard Life Investments operating profit before tax generated from third parties reflects new business flows into higher margin third party products and outflows from captive products.

# 7. Movements in total EEV

## (a) Analysis of profit and loss movements

| 2013 | Covered UK and Europe £m | Covered Canada £m | Covered Asia and Emerging Markets £m | Total non-covered £m | Group elimination £m | Total £m | Pence per share p |
|---|---|---|---|---|---|---|---|
| **Opening EEV** | **4,103** | **2,317** | **297** | **1,425** | **-** | **8,142** | **343** |
| New business contribution | 245 | 36 | 39 | - | - | **320** | |
| Contribution from in-force business | 220 | 363 | (19) | - | - | **564** | |
| Non-covered business | - | - | - | 31 | - | **31** | |
| **EEV operating profit before tax** | **465** | **399** | **20** | **31** | **-** | **915** | |
| Tax on EEV operating profit | (92) | (106) | (2) | (32) | - | **(232)** | |
| **EEV operating profit/(loss) after tax** | **373** | **293** | **18** | **(1)** | **-** | **683** | **29** |
| EEV non-operating profit/(loss) after tax | 396 | (63) | 3 | (31) | - | 305 | **13** |
| **EEV profit/(loss) after tax** | **769** | **230** | **21** | **(32)** | **-** | **988** | |
| Non-trading adjustments | (334) | (453) | 15 | 65 | - | **(707)** | |
| **Closing EEV** | **4,538** | **2,094** | **333** | **1,458** | **-** | **8,423** | **353** |

| 2012 (restated)[1] | Covered UK and Europe £m | Covered Canada £m | Covered Asia and Emerging Markets £m | Total non-covered £m | Group elimination £m | Total £m | Pence per share p |
|---|---|---|---|---|---|---|---|
| **Opening EEV** | **3,818** | **1,716** | **257** | **1,552** | **89** | **7,432** | **316** |
| New business contribution | 267 | 45 | 27 | - | - | **339** | |
| Contribution from in-force business | 536 | 270 | (17) | - | - | **789** | |
| Non-covered business | - | - | - | 30 | (75) | **(45)** | |
| **EEV operating profit/(loss) before tax** | **803** | **315** | **10** | **30** | **(75)** | **1,083** | |
| Tax on EEV operating profit | (187) | (76) | (1) | 6 | 18 | **(240)** | |
| **EEV operating profit/(loss) after tax** | **616** | **239** | **9** | **36** | **(57)** | **843** | **36** |
| EEV non-operating profit/(loss) after tax | 21 | 185 | 19 | (17) | (32) | **176** | **7** |
| **EEV profit/(loss) after tax** | **637** | **424** | **28** | **19** | **(89)** | **1,019** | |
| Non-trading adjustments | (352) | 177 | 12 | (146) | - | **(309)** | |
| **Closing EEV** | **4,103** | **2,317** | **297** | **1,425** | **-** | **8,142** | **343** |

[1] The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

## (b) Analysis of non-trading adjustments

| | 2013 £m | 2012 restated[1] £m |
|---|---|---|
| Items included in other comprehensive income | **(82)** | (5) |
| Other items: | | |
| Distributions to equity holders | **(656)** | (331) |
| Issue of share capital other than in cash | **2** | 1 |
| Shares acquired by employee trusts | **(11)** | (5) |
| Reserves credit for employee share-based payment schemes | **32** | 25 |
| Aggregate tax effect of items recognised directly in equity | **8** | 6 |
| **Total EEV non-trading adjustments** | **(707)** | (309) |

[1] The EEV comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

## 8. Reconciliation of EEV net assets to IFRS net assets and IGD regulatory capital resources

| | 31 December 2013 £m | 31 December 2012 restated[1] £m |
|---|---|---|
| **Net assets on an EEV basis** | **8,423** | 8,142 |
| Present value of in-force life and pensions business net of cost of capital | **(4,879)** | (4,425) |
| **EEV net worth** | **3,544** | 3,717 |
| Adjustment of long-term debt to market value | **100** | 77 |
| Canada marked to market adjustment | **-** | (19) |
| Sterling reserves | **55** | 25 |
| Valuation movement in available-for-sale assets backing investment contract liabilities | **(10)** | - |
| Deferred acquisition costs net of deferred income reserve | **423** | 382 |
| Deferred tax differences | **65** | 129 |
| Adjustment for share of joint ventures | **20** | 22 |
| Other | **30** | 26 |
| **Net assets attributable to equity holders on an IFRS basis** | **4,227** | 4,359 |
| Valuation adjustments for IGD | **(1,284)** | (1,034) |
| External subordinated liabilities | **1,861** | 1,868 |
| Capital in long-term business funds | **3,590** | 2,796 |
| **IGD regulatory capital resources[2]** | **8,394** | 7,989 |

1 The comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.
2 31 December 2012 based on final regulatory returns, 31 December 2013 based on estimated regulatory returns.

Reconciling items are shown net of tax where appropriate.

## 9. Group EEV capital and cash generation

### (a) Analysis of Group EEV capital and cash generation

| | Notes | 2013 Free surplus movement £m | 2013 Required capital movement £m | 2013 EEV net worth movement £m | 2012 Free surplus movement £m | 2012 Required capital movement £m | 2012 EEV net worth movement £m |
|---|---|---|---|---|---|---|---|
| Existing business | | **626** | **6** | **632** | 636 | (23) | 613 |
| New business strain | | **(386)** | **120** | **(266)** | (325) | 109 | (216) |
| Other covered business | | **269** | **(52)** | **217** | 389 | (64) | 325 |
| **Covered business operating capital and cash generation** | 9(c) | **509** | **74** | **583** | 700 | 22 | 722 |
| Non-covered business | | **(1)** | **-** | **(1)** | (21) | - | (21) |
| **EEV operating capital and cash generation** | 9(b) | **508** | **74** | **582** | 679 | 22 | 701 |
| **Non-operating capital and cash generation:** | | | | | | | |
| Covered business | | **(22)** | **(95)** | **(117)** | (320) | 57 | (263) |
| Non-covered business | | **(31)** | **-** | **(31)** | (49) | - | (49) |
| **EEV non-operating capital and cash generation** | | **(53)** | **(95)** | **(148)** | (369) | 57 | (312) |
| **Total EEV capital and cash generation** | | **455** | **(21)** | **434** | 310 | 79 | 389 |

# 9. Group EEV capital and cash generation *continued*

## (b) Reconciliation of operating profit to EEV operating capital and cash generation

| 2013 | UK and Europe £m | Standard Life Investments £m | Canada £m | Asia and Emerging Markets £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| Operating profit/(loss) before tax | 380 | 192 | 251 | (6) | (66) | **751** |
| Tax on operating profit | (48) | (47) | (51) | - | (3) | **(149)** |
| **Operating profit/(loss) after tax**[1] | **332** | **145** | **200** | **(6)** | **(69)** | **602** |
| Impact of different treatment of assets and actuarial reserves | (30) | - | (4) | (2) | - | **(36)** |
| DAC and DIR[2], intangibles, tax and other | 33 | - | 5 | (22) | - | **16** |
| Look through to investment management | 78 | (79) | 1 | - | - | **-** |
| **EEV operating capital and cash generation** | **413** | **66** | **202** | **(30)** | **(69)** | **582** |
| EEV operating profit/(loss) after tax – PVIF | (28) | - | 85 | 44 | - | **101** |
| EEV operating profit/(loss) after tax | 385 | 66 | 287 | 14 | (69) | **683** |

1 Group operating profit after tax consists of: Group operating profit before tax of £751m, tax charge on operating profit of (£141m) and share of joint ventures' and associates' tax expense of (£8m).
2 Deferred acquisition costs (DAC) and deferred income reserve (DIR).

| 2012 (restated)[1] | UK and Europe £m | Standard Life Investments £m | Canada £m | Asia and Emerging Markets £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| Operating profit/(loss) before tax | 393 | 145 | 353 | 3 | (27) | **867** |
| Tax on operating profit | (15) | (38) | (79) | - | (1) | **(133)** |
| **Operating profit/(loss) after tax** | **378** | **107** | **274** | **3** | **(28)** | **734** |
| Impact of different treatment of assets and actuarial reserves | (15) | - | - | (4) | - | **(19)** |
| DAC and DIR[2], intangibles, tax and other[3] | (5) | - | 59 | (11) | (57) | **(14)** |
| Look through to investment management | 60 | (62) | 2 | - | - | **-** |
| **EEV operating capital and cash generation** | **418** | **45** | **335** | **(12)** | **(85)** | **701** |
| EEV operating profit/(loss) after tax – PVIF | 229 | - | (100) | 13 | - | **142** |
| EEV operating profit/(loss) after tax | 647 | 45 | 235 | 1 | (85) | **843** |

1 The comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.
2 Deferred acquisition costs (DAC) and deferred income reserve (DIR).
3 The £59m DAC and DIR, intangibles, tax and other item in Canada includes £57m relating to the elimination of the consolidation adjustment for different accounting bases, following the redemption of inter-Group subordinated liabilities. There is an offsetting adjustment in Other.

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

### Total

| | Notes | 2013 Free surplus £m | 2013 Required capital £m | 2013 Net worth £m | 2013 PVIF net of cost of capital £m | 2013 Total £m | 2012 restated[1] Free surplus £m | 2012 restated[1] Required capital £m | 2012 restated[1] Net worth £m | 2012 restated[1] PVIF net of cost of capital £m | 2012 restated[1] Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening EEV** | | **944** | **1,348** | **2,292** | **4,425** | **6,717** | 655 | 1,296 | 1,951 | 3,840 | 5,791 |
| Contribution from new business | | **(386)** | **120** | **(266)** | **524** | **258** | (325) | 109 | (216) | 481 | 265 |
| Contribution from in-force business: | | | | | | | | | | | |
| Expected return | | **621** | **6** | **627** | **(322)** | **305** | 633 | (23) | 610 | (305) | 305 |
| Experience variances and operating assumption changes | | **321** | **(52)** | **269** | **(109)** | **160** | 442 | (64) | 378 | (38) | 340 |
| Development expenses | | **(52)** | **-** | **(52)** | **8** | **(44)** | (53) | - | (53) | 4 | (49) |
| Expected return on free surplus | | **5** | **-** | **5** | **-** | **5** | 3 | - | 3 | - | 3 |
| **EEV operating profit after tax** | 9(a) | **509** | **74** | **583** | **101** | **684** | 700 | 22 | 722 | 142 | 864 |
| Investment return and tax variances | | **(110)** | **1** | **(109)** | **343** | **234** | 22 | 11 | 33 | 353 | 386 |
| Effect of economic assumption changes | | **128** | **(96)** | **32** | **111** | **143** | (264) | 46 | (218) | 136 | (82) |
| Restructuring and corporate transaction expenses | | **(40)** | **-** | **(40)** | **(1)** | **(41)** | (78) | - | (78) | (1) | (79) |
| **EEV profit/(loss) after tax** | 2(b) | **487** | **(21)** | **466** | **554** | **1,020** | 380 | 79 | 459 | 630 | 1,089 |
| Internal capital transfers | | **(520)** | **-** | **(520)** | **-** | **(520)** | 11 | - | 11 | - | 11 |
| Transfer back of surplus to Standard Life Investments | | **(79)** | **-** | **(79)** | **-** | **(79)** | (62) | - | (62) | - | (62) |
| Transfer back of net worth to other non-covered business | | **(14)** | **-** | **(14)** | **-** | **(14)** | (6) | - | (6) | - | (6) |
| Remeasurement gains/(losses) on defined benefit pension plans | | **24** | **-** | **24** | **-** | **24** | (21) | - | (21) | - | (21) |
| Foreign exchange differences | | **(31)** | **(84)** | **(115)** | **(80)** | **(195)** | (9) | (27) | (36) | (45) | (81) |
| Aggregate tax effect of items not recognised in income statement | | **(8)** | **-** | **(8)** | **-** | **(8)** | 4 | - | 4 | - | 4 |
| Other | | **40** | **-** | **40** | **(20)** | **20** | (8) | - | (8) | - | (8) |
| **Closing EEV** | | **843** | **1,243** | **2,086** | **4,879** | **6,965** | 944 | 1,348 | 2,292 | 4,425 | 6,717 |

### UK and Europe

| | Notes | 2013 Free surplus £m | 2013 Required capital £m | 2013 Net worth £m | 2013 PVIF net of cost of capital £m | 2013 Total £m | 2012 restated[1] Free surplus £m | 2012 restated[1] Required capital £m | 2012 restated[1] Net worth £m | 2012 restated[1] PVIF net of cost of capital £m | 2012 restated[1] Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening EEV** | | **473** | **246** | **719** | **3,384** | **4,103** | 739 | 203 | 942 | 2,876 | 3,818 |
| Contribution from new business | | **(194)** | **20** | **(174)** | **372** | **198** | (172) | 25 | (147) | 354 | 207 |
| Contribution from in-force business: | | | | | | | | | | | |
| Expected return | | **446** | **4** | **450** | **(273)** | **177** | 427 | 4 | 431 | (259) | 172 |
| Experience variances and operating assumption changes | | **155** | **4** | **159** | **(135)** | **24** | 126 | 3 | 129 | 130 | 259 |
| Development expenses | | **(27)** | **-** | **(27)** | **8** | **(19)** | (26) | - | (26) | 4 | (22) |
| Expected return on free surplus | | **(7)** | **-** | **(7)** | **-** | **(7)** | - | - | - | - | - |
| **EEV operating profit/(loss) after tax** | | **373** | **28** | **401** | **(28)** | **373** | 355 | 32 | 387 | 229 | 616 |
| Investment return and tax variances | | **(37)** | **(8)** | **(45)** | **263** | **218** | (38) | 3 | (35) | 314 | 279 |
| Effect of economic assumption changes | | **36** | **(7)** | **29** | **187** | **216** | (170) | 9 | (161) | (20) | (181) |
| Restructuring and corporate transaction expenses | | **(38)** | **-** | **(38)** | **-** | **(38)** | (76) | - | (76) | (1) | (77) |
| **EEV profit after tax** | | **334** | **13** | **347** | **422** | **769** | 71 | 44 | 115 | 522 | 637 |
| Other movements | 2(b) | **(326)** | **1** | **(325)** | **(9)** | **(334)** | (337) | (1) | (338) | (14) | (352) |
| **Closing EEV** | | **481** | **260** | **741** | **3,797** | **4,538** | 473 | 246 | 719 | 3,384 | 4,103 |

[1] The comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

# 9. Group EEV capital and cash generation *continued*

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

### Canada

| | | 2013 | | | | | 2012 restated[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
| **Opening EEV** | | 441 | 1,061 | 1,502 | 815 | 2,317 | (99) | 1,059 | 960 | 756 | 1,716 |
| Contribution from new business | | (123) | 93 | (30) | 57 | 27 | (101) | 76 | (25) | 60 | 35 |
| Contribution from in-force business: | | | | | | | | | | | |
| Expected return | | 125 | - | 125 | (13) | 112 | 151 | (30) | 121 | (3) | 118 |
| Experience variances and operating assumption changes | | 170 | (57) | 113 | 41 | 154 | 318 | (65) | 253 | (157) | 96 |
| Development expenses | | (9) | - | (9) | - | (9) | (12) | - | (12) | - | (12) |
| Expected return on free surplus | | 9 | - | 9 | - | 9 | 2 | - | 2 | - | 2 |
| **EEV operating profit/(loss) after tax** | | 172 | 36 | 208 | 85 | 293 | 358 | (19) | 339 | (100) | 239 |
| Investment return and tax variances | | (67) | 10 | (57) | 80 | 23 | 59 | 7 | 66 | 31 | 97 |
| Effect of economic assumption changes | | 92 | (89) | 3 | (88) | (85) | (94) | 38 | (56) | 146 | 90 |
| Restructuring and corporate transaction expenses | | (1) | - | (1) | - | (1) | (2) | - | (2) | - | (2) |
| **EEV profit/(loss) after tax** | | 196 | (43) | 153 | 77 | 230 | 321 | 26 | 347 | 77 | 424 |
| Other movements | 2(b) | (300) | (82) | (382) | (71) | (453) | 219 | (24) | 195 | (18) | 177 |
| **Closing EEV** | | 337 | 936 | 1,273 | 821 | 2,094 | 441 | 1,061 | 1,502 | 815 | 2,317 |

### Asia and Emerging Markets

| | | 2013 | | | | | 2012 restated[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
| **Opening EEV** | | 30 | 41 | 71 | 226 | 297 | 15 | 34 | 49 | 208 | 257 |
| Contribution from new business | | (69) | 7 | (62) | 95 | 33 | (52) | 8 | (44) | 67 | 23 |
| Contribution from in-force business: | | | | | | | | | | | |
| Expected return | | 50 | 2 | 52 | (36) | 16 | 55 | 3 | 58 | (43) | 15 |
| Experience variances and operating assumption changes | | (4) | 1 | (3) | (15) | (18) | (2) | (2) | (4) | (11) | (15) |
| Development expenses | | (16) | - | (16) | - | (16) | (15) | - | (15) | - | (15) |
| Expected return on free surplus | | 3 | - | 3 | - | 3 | 1 | - | 1 | - | 1 |
| **EEV operating profit/(loss) after tax** | | (36) | 10 | (26) | 44 | 18 | (13) | 9 | (4) | 13 | 9 |
| Investment return and tax variances | | (6) | (1) | (7) | - | (7) | 1 | 1 | 2 | 8 | 10 |
| Effect of economic assumption changes | | - | - | - | 12 | 12 | - | (1) | (1) | 10 | 9 |
| Restructuring and corporate transaction expenses | | (1) | - | (1) | (1) | (2) | - | - | - | - | - |
| **EEV profit/(loss) after tax** | | (43) | 9 | (34) | 55 | 21 | (12) | 9 | (3) | 31 | 28 |
| Other movements | 2(b) | 38 | (3) | 35 | (20) | 15 | 27 | (2) | 25 | (13) | 12 |
| **Closing EEV** | | 25 | 47 | 72 | 261 | 333 | 30 | 41 | 71 | 226 | 297 |

[1] The comparative amounts have been restated to reflect retrospective application of changes to IAS 19 *Employee benefits*. Refer to Note 1 – Basis of preparation.

## 10. Time value of options and guarantees (TVOG)

| | 31 December 2013 £m | 31 December 2012 £m |
|---|---|---|
| UK and Europe | (55) | (156) |
| Canada | (40) | (58) |
| Asia and Emerging Markets | (5) | (7) |
| **Total** | **(100)** | (221) |

The UK and Europe TVOG reflects the value of shareholder exposure to with profit policyholder guarantees. The total comprises £42m for guarantees in the HWPF and £13m for guarantees in the GWPF. The value of this exposure has reduced by £101m during 2013. This arises from a post-tax operating profit of £18m and a post-tax non-operating profit of £83m. The operating profit includes a profit of £31m from revised modelling, a loss of £11m from assumption changes and a £3m loss from new business, whilst the non-operating profit largely reflects favourable assumption changes, particularly from the impact of increased risk free yields.

## 11. Market value of subordinated liabilities within covered business

| | 31 December 2013 £m | 31 December 2012 £m |
|---|---|---|
| UK and Europe | (1,245) | (1,207) |
| Canada | (238) | (260) |
| **Total** | **(1,483)** | (1,467) |

UK and Europe subordinated liabilities include Euro denominated subordinated guaranteed bonds. The impact of market value fluctuations in subordinated liabilities within covered business are reflected in non-operating profit as shown in Note 2(a) – Segmental EEV income statement.

## 12. PVIF monetisation profile

### (a) PVIF (gross of TVOG) emergence

| | In-force | | | | | | New business | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | PVIF | Cash emerging during years (£m) | | | | | PVIF | Cash emerging during years (£m) | | | | |
| **31 December 2013** | **£m** | **1-5** | **6-10** | **11-15** | **16-20** | **20+** | **£m** | **1-5** | **6-10** | **11-15** | **16-20** | **20+** |
| UK and Europe | 6,751 | 2,010 | 1,562 | 1,115 | 755 | 1,309 | 571 | 194 | 132 | 93 | 63 | 89 |
| Canada | 4,074 | 564 | 489 | 447 | 370 | 2,204 | 218 | 37 | 33 | 29 | 25 | 94 |
| Asia and Emerging Markets | 430 | 170 | 98 | 65 | 43 | 54 | 143 | 62 | 29 | 18 | 14 | 20 |
| **Total undiscounted** | **11,255** | **2,744** | **2,149** | **1,627** | **1,168** | **3,567** | **932** | **293** | **194** | **140** | **102** | **203** |
| **Total discounted** | **5,553** | **2,386** | **1,388** | **785** | **424** | **570** | **582** | **266** | **138** | **80** | **47** | **51** |

### (b) Reconciliation to closing PVIF

| | In-force Reconciliation of discounted PVIF | | | | New business Reconciliation of discounted PVIF | | | |
|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | **PVIF £m** | **Cost of capital £m** | **TVOG £m** | **Total £m** | **PVIF £m** | **Cost of capital £m** | **TVOG £m** | **Total £m** |
| UK and Europe | 3,966 | (114) | (55) | **3,797** | 385 | (10) | (3) | **372** |
| Canada | 1,318 | (457) | (40) | **821** | 100 | (20) | (23) | **57** |
| Asia and Emerging Markets | 269 | (3) | (5) | **261** | 97 | (1) | (1) | **95** |
| **Total** | **5,553** | **(574)** | **(100)** | **4,879** | **582** | **(31)** | **(27)** | **524** |

# 13. Principal economic assumptions – deterministic calculations – covered business

## (a) Wholly owned businesses

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | In-force business % | New business % | In-force business % | New business % |
| **Risk-free rate** | | | | |
| UK / SLIL | **3.01** | **1.74** | 1.74 | 1.93 |
| Europe | **1.94** | **1.32** | 1.32 | 1.83 |
| Canada | **3.16** | **2.32** | 2.32 | 2.17 |
| Hong Kong | **1.92** | **0.91** | 0.91 | 1.09 |
| **Corporate bond returns, excluding Canada**[1] | | | | |
| UK | **3.76** | **2.34** | 2.34 | 2.99 |
| Hong Kong | **2.73** | **1.66** | 1.66 | 3.41 |
| **Total investment returns (annuities)** | | | | |
| UK non index-linked annuities | **4.26** | [2] | 3.81 | [2] |
| UK index-linked annuities | **3.69** | [2] | 3.06 | [2] |
| **Equity returns** | | | | |
| Canada | **8.60** | | 8.60 | |
| Other | **Risk-free rate + 3%pa** | | Risk-free rate + 3%pa | |
| **Property returns** | | | | |
| Canada | **8.60** | | 8.60 | |
| Other | **Risk-free rate + 2%pa** | | Risk-free rate + 2%pa | |
| **Risk discount rate risk margin** | | | | |
| UK HWPF | **4.10** | **2.70** | 4.50 | 2.50 |
| UK PBF | **2.40** | **3.10** | 2.30 | 2.60 |
| Europe HWPF | **2.80** | **2.50** | 2.50 | 3.30 |
| Europe PBF | **1.50** | **1.60** | 1.30 | 1.70 |
| SLIL | **2.20** | **2.30** | 2.40 | 2.10 |
| Canada | **3.40** | **2.70** | 3.90 | 2.70 |
| Hong Kong | **2.90** | **2.90** | 2.90 | 2.90 |
| **Risk discount rate**[3] | | | | |
| UK HWPF | **7.11** | **4.44** | 6.24 | 4.43 |
| UK PBF | **5.41** | **4.84** | 4.04 | 4.53 |
| Europe HWPF | **4.74** | **3.82** | 3.82 | 5.13 |
| Europe PBF | **3.44** | **2.92** | 2.62 | 3.53 |
| SLIL | **5.21** | **4.04** | 4.14 | 4.03 |
| Canada | **6.56** | **5.02** | 6.22 | 4.87 |
| Hong Kong | **4.82** | **3.81** | 3.81 | 3.99 |
| **Expense inflation** | | | | |
| UK / SLIL | **4.00** | **3.39** | 3.39 | 3.37 |
| Europe (Germany) | **1.60** | **1.87** | 1.87 | 1.85 |
| Europe (Ireland) | **2.69** | **2.84** | 2.84 | 2.74 |
| Canada [4] | **1.50** | **1.50** | 1.50 | 0.00 |
| Hong Kong | **2.50** | **2.50** | 2.50 | 2.50 |

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

[2] For UK immediate annuity new business, economic assumptions are updated every quarter.

[3] Using the value of in-force as weights, the average risk discount rates for UK and Europe (excluding SLIL) were 6.16% and 3.88% respectively at 31 December 2013, and 5.03% and 3.09% respectively at 31 December 2012. Using the value of in-force for new business as weights, the average risk discount rates for UK and Europe (excluding SLIL) were 4.81% and 2.95% respectively at 31 December 2013, and 4.52% and 3.60% respectively at 31 December 2012.

[4] This represents the current rate. The rate in subsequent years is based on a moving 30-year bond yield less a 2% deduction, subject to a floor of 1.50% (with the exception of 31 December 2012 new business, where the rate is based on a moving 30-year bond yield less a 3% deduction, subject to a floor of 0.00%).

Risk margins have been updated at 31 December 2013 to reflect both the impact of market movements over the year and changes to the allowance for non-market risk, as well as any cost of required capital adjustment.

For UK, the reduction in the HWPF in-force business risk margin is due to a change in the allowance for longevity risk. The increase in the new business risk margin is primarily due to changes in business mix and asset allocations. For Canada, the reduction in the in-force business risk margin is largely due to an increase to the cost of required capital adjustment.

The impact of the changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 2(a) – Segmental EEV income statement. The amounts within these totals that relate to the changes in risk discount rate are for UK and Europe: loss £500m, for Canada: loss £123m, for Asia and Emerging Markets: loss £2m.

## (b) Asia and Emerging Markets – joint ventures

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

| | **31 December 2013 %** | 31 December 2012 % |
|---|---|---|
| India | **8.01** | 8.41 |
| China | **4.94** | 3.93 |

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 2013 by £22m (2012: £25m). Similarly, the 2013 pre-tax NBC has been reduced by £6m (2012: £6m) as an allowance for non-market risk.

# 14. Principal economic assumptions – stochastic calculations

### Parameters used in the economic scenario generator for UK and Europe

The level of TVOG is generally calculated using a stochastic projection. This requires an economic scenario generator which projects the relevant fund under a large number of different future economic scenarios. The economic scenario generator simulates future economic environments in a market consistent manner and allows option pricing techniques to be used to value TVOG.

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

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

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

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

**Dividend and rental yields**
Dividend yields are derived from current market observable yields (FTSE All Stocks for UK and Euro Stoxx 50 for Europe). Rental yields are derived from rental income on our actual portfolio of property (with a three month lag).

**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:

| | **31 December 2013** | | 31 December 2012 | |
|---|---|---|---|---|
| | **UK Sterling** | **Euro** | UK Sterling | Euro |
| | **Swap term (years)** | | Swap term (years) | |
| **Option term (years)** | **10** | **20** | 10 | 20 |
| **10** | **17.7%** | **19.2%** | 17.1% | 18.7% |
| **15** | **16.4%** | **18.2%** | 15.3% | 18.1% |
| **20** | **14.9%** | **17.1%** | 14.1% | 16.5% |
| **25** | **13.7%** | **n/a** | 13.1% | 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.

## 14. Principal economic assumptions – stochastic calculations *continued*

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

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| Term (years) | UK equities | European equities | UK equities | European equities |
| 10 | 22.3% | 22.8% | 26.1% | 24.2% |
| 15 | 22.6% | 22.7% | 26.4% | 24.1% |
| 20 | 23.0% | 23.3% | 26.8% | 24.6% |
| 25 | 23.9% | 23.6% | 27.7% | 24.8% |

**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 2013 and 15% for 31 December 2012.

Note 10 – Time value of options and guarantees (TVOG) also shows the value of TVOG in Canada and Asia and Emerging Markets, which are in addition to the UK and Europe TVOG. Where material, these values are also calculated using an economic scenario generator similar to that used for the HWPF and GWPF TVOG calculations, although market observed data is not always available at all durations.

## 15. Foreign exchange

The principal exchange rates applied are:

| Local currency: £ | Closing 31 December 2013 | Average to 31 December 2013 | Closing 31 December 2012 | Average to 31 December 2012 |
|---|---|---|---|---|
| Canada | 1.760 | 1.620 | 1.619 | 1.591 |
| Europe | 1.202 | 1.182 | 1.233 | 1.231 |
| India | 102.447 | 92.110 | 89.061 | 84.877 |
| China | 10.027 | 9.657 | 10.127 | 10.017 |
| Hong Kong | 12.842 | 12.183 | 12.599 | 12.331 |

## 16. Sensitivity analysis – economic and non-economic assumptions

The following table shows the sensitivity of the covered business embedded value and NBC to different scenarios.

The interest returns 1% higher and lower than base case scenarios include consequential changes in fixed interest asset values, reserving assumptions, risk discount rates and investment returns on equities and properties.

Under the 10% decrease in maintenance expenses scenario, 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.

Under the 10% decrease in lapse rates scenario, a 10% sensitivity on a base lapse assumption of 5% p.a. would represent a lapse rate of 4.5% p.a.

The prescribed minimum capital scenario shows the sensitivity of EEV results where economic capital has been used in the base EEV calculations.

Sensitivities to higher and lower assumed equity and property risk premiums in future investment earnings have not been calculated, as the effect of the risk premium is removed in setting the market risk margin in the risk discount rate. Demographic sensitivities represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change and impacts may partially offset one another.

| 31 December 2013 | Embedded value – covered business | | | | New business contribution | | | |
|---|---|---|---|---|---|---|---|---|
| | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m | UK and Europe £m | Canada £m | Asia and Emerging Markets £m | Total £m |
| **Base Value** | **4,538** | **2,094** | **333** | **6,965** | **245** | **36** | **39** | **320** |
| Risk discount rates +1% | (305) | (177) | (15) | **(497)** | (32) | (19) | (5) | **(56)** |
| Risk discount rates -1% | 356 | 223 | 17 | **596** | 38 | 23 | 6 | **67** |
| Interest returns +1% | (3) | 111 | (6) | **102** | 7 | (8) | (1) | **(2)** |
| Interest returns -1% | 14 | (115) | 6 | **(95)** | (9) | 11 | 2 | **4** |
| Fall in equity market values by 10% | (272) | (47) | (4) | **(323)** | (34) | (7) | - | **(41)** |
| Fall in property market values by 10% | (20) | (53) | (1) | **(74)** | (3) | (1) | - | **(4)** |
| Maintenance expenses -10% | 170 | 93 | 3 | **266** | 28 | 9 | 1 | **38** |
| Lapse rates -10% | 174 | 41 | 8 | **223** | 21 | 7 | 3 | **31** |
| Annuitant mortality -5% | (73) | (49) | - | **(122)** | (2) | (1) | - | **(3)** |
| Non-annuitant mortality -5% | 8 | 19 | 2 | **29** | 1 | 6 | - | **7** |
| Prescribed minimum capital | - | 123 | - | **123** | - | 8 | - | **8** |

The UK and Europe embedded value sensitivity numbers above include the movement in HWPF and GWPF TVOG. The HWPF and GWPF TVOG movement has a material impact only under the interest returns sensitivities, where it contributes £21m under the interest returns +1% sensitivity and (£31m) under the interest returns -1% sensitivity.

The UK and Europe new business contribution sensitivity numbers above include the movement in the GWPF TVOG. There is no new business in the HWPF TVOG. The GWPF TVOG movement has no material impact on new business contribution sensitivity numbers.

# 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 Group financial statements, unless otherwise stated.

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

UK and Europe covered business also includes:

- Non-insured self invested personal pension (SIPP) business
- Those elements of Wrap business that are contained within a long-term product wrapper, i.e. bonds, SIPPs and mutual funds
- Mutual funds sold by the UK business
- The Group's offshore bond business which is sold by Standard Life International Limited (SLIL).

Canada covered business also includes mutual funds.

Asia and Emerging Markets covered business consists of:

- The Group's business in Hong Kong (Standard Life (Asia) Limited)
- International savings and investment business in Singapore and Dubai sold by SLIL
- The Group's share of results in the JV in India (HDFC Standard Life Insurance Company Limited) and China (Heng An Standard Life Insurance Company Limited).

Standard Life Savings Limited has been transferred to covered business on the closing EEV statement of financial position. Refer to Note 1 – Basis of preparation.

## Non-covered business

The Group's non-covered business predominantly consists of:

- Within UK and Europe, Standard Life Wealth Limited, the Group's UK pension plan, other UK subsidiaries and until 31 December 2013, the non-covered results of Standard Life Savings Limited
- Within Standard Life Investments, the non-covered third party business of Standard Life Investments
- Within Other including Group corporate centre, Standard Life plc and other non life and pensions entities.

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

## 17. EEV methodology *continued*

### Transfer back of net worth from covered business

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

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

### Value of in-force covered business

The value of future equity holders' cash flows is calculated for each material business unit on an after-tax basis, projected using best estimate future assumptions. No allowance has been made for the change in reserving or required capital bases anticipated under Solvency 2. Allowance is made for external reinsurance and reinsurance within the Group. The cash flows include the profits and losses arising in Group companies providing investment management and other services where these relate to covered business, this is referred to as the 'look through' into service companies.

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.

### 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 (represented by a government bond yield) plus a risk margin. Separate risk margins are determined for market risk and non-market risk, with a reduction to allow for any cost of required capital (excluding double taxation cost) which is already reflected within the EEV.

The market risk margin effectively removes the impact of assuming higher than risk free returns on the discounted EEV result. In this way, the benefits of assuming higher than risk free investment returns on future cash flows are largely offset by using a higher discount rate. The market risk margin does not remove returns above risk free on illiquid assets (e.g. corporate bonds and mortgages) where these are matched to appropriate liabilities (e.g. immediate annuities).

The non-market risk margin is intended to allow for the risk that non-market experience in future years may differ from that assumed. Allowance has 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 allowed for are persistency, mortality, operational and expense risk assumptions. Benefits of diversification between risk types are allowed for in deriving the non-market risk margins in line with our internal capital model.

Separate risk discount rates are calculated for in-force and new business for the principal geographic segments (UK, Europe, SLIL UK, Canada and Hong Kong). In addition, for UK and Europe, separate risk margins are calculated for business that originated in the HWPF and the PBF.

Market risk margins and any cost of required capital adjustment are reviewed at each valuation date, with non-market risk margins generally reviewed in detail once a year.

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)
- Asia and Emerging Markets – required capital is generally based on the local statutory capital requirements.

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

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

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

**UK and Europe – HWPF**
The main source of TVOG in the Group EEV arises from the HWPF. Under the terms of the Scheme, equity holder cash flows from the HWPF are held back if required to cover HWPF liabilities on the Prudential Regulation 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.

# 17. EEV methodology *continued*

**Canada**

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

**Asia and Emerging Markets**

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

## Other economic assumptions

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

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

The Group's international savings and investment business, which is sold via branches in Singapore and Dubai, is included within Asia and Emerging Markets results but has the same other economic assumptions as the SLIL International bond business.

## Non-economic assumption changes

Non-economic assumptions for the main classes of business, including most expense assumptions, are reviewed in full on an annual basis. Other non-economic assumption changes, not relating to the full annual review of non-economic assumptions, may be reflected in the half year results, for example non-economic assumption changes resulting from management action or modelling changes.

## Expense assumptions

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

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

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

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

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

Restructuring and corporate transaction expenses are consistent with those identified in the Group operating profit adjustments. Refer to the Group financial statements Note 7 – Other administrative expenses for further detail. In addition, restructuring and corporate transaction expenses for covered business include associated impacts on PVIF and cost of required capital.

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

## Expenses – pension plans

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

## Other non-economic experience assumptions

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

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

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

## New business

**Definition of new business**

New business includes new policies written during the period and some increments to existing policies. The value of new business includes the value of expected renewal premiums where these are (i) contractual, (ii) non-contractual but reasonably predictable, or (iii) recurrent single premiums that are deemed likely to renew.

Additional considerations for each territory are noted below.

For the UK and Ireland:

- 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 when received.

For Germany, new business comprises new contracts written into the PBF with the exception of vesting annuities for tax layer 1 deferred annuities sold before September 2009. The NBC assumes a specific level of future premium indexation and also assumes that premiums on 'low start' policies increase at the end of the low start period.

For Canada, expected renewal premiums on new group pension and savings contracts are included at inception. Since all deposits (new and renewal) in individual segregated funds business attract a new business/first year commission, these deposits are treated as new business when received.

**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 calculated as total single premiums 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 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

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.

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

## Assets designated as available-for-sale under IFRS

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

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

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

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

## Subordinated liabilities

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

## 17. EEV methodology *continued*

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

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

### Foreign exchange

Embedded value and other items within the EEV consolidated 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 EEV consolidated statement of comprehensive income 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.

### EEV capital and cash generation

Covered business EEV operating capital and cash generation represents the EEV operating profit net worth (free surplus and required capital) on an after-tax basis. Non-covered business EEV operating capital and cash generation represents non-covered operating profit after tax as adjusted for Standard Life Investments look through profits after tax and the after-tax return on mutual funds which are recognised in covered business.

EEV non-operating capital and cash generation comprises covered business non-operating profit items (non-operating net worth movement after tax) and non-covered business non-operating profit items on an after-tax basis.

# Independent auditors' report to the members of Standard Life plc

## Our opinion

- In our opinion the Company financial statements, defined below:
- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

## What we have audited

The Company financial statements, which are prepared by Standard Life plc, comprise:

- the Company statement of financial position as at 31 December 2013
- the Company statement of comprehensive income for the year then ended
- the Company statement of changes in equity and statement of cash flows for the year then ended
- the Company accounting policies and the notes to the Company financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts 2013 (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

## What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the directors
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

# Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the Company financial statements are prepared is consistent with the Company financial statements
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made.

We have no exceptions to report arising from this responsibility.

### Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Company financial statements
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the Company financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other matters

We have reported separately on the Group financial statements of Standard Life plc for the year ended 31 December 2013.

Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
27 February 2014

(a) The maintenance and integrity of the Standard Life plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Company statement of comprehensive income
## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Revenue** | | | |
| Investment return | A | **714** | 578 |
| Other income | | **2** | - |
| **Total revenue** | | **716** | 578 |
| **Expenses** | | | |
| Administrative expenses | B | **70** | 71 |
| Finance costs | | **99** | 74 |
| **Total expenses** | | **169** | 145 |
| **Profit before tax** | | **547** | 433 |
| Tax credit | F | **19** | 15 |
| **Profit for the year** | | **566** | 448 |
| **Other comprehensive income that may be reclassified subsequently to profit or loss** | | | |
| Net changes in financial assets designated as available-for-sale | R | **(18)** | - |
| Tax effect relating to items that may be reclassified subsequently to profit or loss | F | **4** | - |
| **Total other comprehensive income for the year that may be reclassified subsequently to profit or loss** | | **(14)** | - |
| **Total comprehensive income for the year** | | **552** | 448 |

The Notes on pages 255 to 269 are an integral part of these financial statements.

# Company statement of financial position
## As at 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Assets** | | | |
| Investments in subsidiaries | G | **5,271** | 5,174 |
| Investments in associates and joint ventures | H | **123** | 104 |
| Loans to subsidiaries | J | **644** | 630 |
| Derivative financial assets | J | **54** | 18 |
| Equity securities and interests in pooled investment funds | J | **12** | 15 |
| Debt securities | J | **724** | 301 |
| Receivables and other financial assets | J | **55** | 66 |
| Other assets | M | **23** | 13 |
| Cash and cash equivalents | J | **182** | 763 |
| **Total assets** | | **7,088** | 7,084 |
| **Equity** | | | |
| Share capital | O | **238** | 236 |
| Shares held by trusts | P | **(10)** | (11) |
| Share premium reserve | | **1,110** | 1,110 |
| Retained earnings | Q | **601** | 650 |
| Other reserves | R | **3,383** | 3,418 |
| **Total equity** | | **5,322** | 5,403 |
| **Liabilities** | | | |
| Subordinated liabilities | S | **1,632** | 1,622 |
| Deferred tax liabilities | I | **1** | 1 |
| Derivative financial liabilities | K | **53** | 19 |
| Other financial liabilities | S | **80** | 39 |
| **Total liabilities** | | **1,766** | 1,681 |
| **Total equity and liabilities** | | **7,088** | 7,084 |

The financial statements on pages 245 to 269 were approved on behalf of the Board of Directors, on 27 February 2014, by the following Directors:

**Gerry Grimstone,** Chairman

**David Nish,** Chief Executive

The Notes on pages 255 to 269 are an integral part of these financial statements.

# Company statement of changes in equity

## For the year ended 31 December 2013

| 2013 | Notes | Share capital £m | Shares held by trusts £m | Share premium reserve £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **1 January** | | **236** | **(11)** | **1,110** | **650** | **3,418** | **5,403** |
| Profit for the year | | - | - | - | 566 | - | **566** |
| Other comprehensive income for the year | | - | - | - | - | (14) | **(14)** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **566** | **(14)** | **552** |
| Distributions to equity holders | | - | - | - | (636) | (20) | **(656)** |
| Issue of share capital other than in cash | O | 2 | - | - | - | - | **2** |
| Reserves credit for employee share-based payment schemes | R | - | - | - | - | 32 | **32** |
| Transfer to retained earnings for vested employee share-based payment schemes | Q,R | - | - | - | 33 | (33) | **-** |
| Shares acquired by employee trusts | | - | (11) | - | - | - | **(11)** |
| Shares distributed by employee trusts | Q | - | 12 | - | (12) | - | **-** |
| **31 December** | | **238** | **(10)** | **1,110** | **601** | **3,383** | **5,322** |

| 2012 | Notes | Share capital £m | Shares held by trusts £m | Share premium reserve £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **1 January** | | **235** | **(23)** | **1,110** | **525** | **3,418** | **5,265** |
| Profit for the year | | - | - | - | 448 | - | **448** |
| Other comprehensive income for the year | | - | - | - | - | - | **-** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **448** | **-** | **448** |
| Distributions to equity holders | | - | - | - | (331) | - | **(331)** |
| Issue of share capital other than in cash | O | 1 | - | - | - | - | **1** |
| Reserves credit for employee share-based payment schemes | R | - | - | - | - | 25 | **25** |
| Transfer to retained earnings for vested employee share-based payment schemes | Q,R | - | - | - | 25 | (25) | **-** |
| Shares acquired by employee trusts | | - | (5) | - | - | - | **(5)** |
| Shares distributed by employee trusts | Q | - | 17 | - | (17) | - | **-** |
| **31 December** | | **236** | **(11)** | **1,110** | **650** | **3,418** | **5,403** |

The Notes on pages 255 to 269 are an integral part of these financial statements.

# Company statement of cash flows
## For the year ended 31 December 2013

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **547** | 433 |
| Gains on financial instruments | A | **(3)** | (3) |
| Dividend income from subsidiaries | A | **(629)** | (499) |
| Interest income on loans to subsidiaries | A | **(37)** | (38) |
| Interest income on available-for-sale securities | A | **(8)** | - |
| Distributions from equity instruments | A | **(34)** | (34) |
| Interest payable on subordinated liabilities | | **99** | 74 |
| Movements in operating assets and liabilities | | **89** | 44 |
| **Net cash flows from operating activities** | | **24** | (23) |
| **Cash flows from investing activities** | | | |
| Loans issued to subsidiaries | | **(5)** | (8) |
| Loans repaid by subsidiaries | | **-** | 54 |
| Capital injections into existing subsidiaries | G | **(97)** | (131) |
| Interest received on loans to subsidiaries | A | **37** | 38 |
| Interest received on available-for-sale securities | | **10** | - |
| Distributions from equity instruments | A | **34** | 34 |
| Dividends received from subsidiaries | A | **629** | 499 |
| Purchase of equity securities, debt securities and derivatives | | **(433)** | (200) |
| Capital injections into associates and joint ventures | | **(19)** | (16) |
| **Net cash flows from investing activities** | | **156** | 270 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of subordinated liabilities, net of transaction costs | | **-** | 497 |
| Repayment of subordinated liabilities | | **-** | (50) |
| Dividends paid | | **(656)** | (331) |
| Interest paid | | **(96)** | (72) |
| Funding of shares acquired by trusts | | **(9)** | (5) |
| **Net cash flows from financing activities** | | **(761)** | 39 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(581)** | 286 |
| Cash and cash equivalents at the beginning of the year | N | **763** | 477 |
| **Cash and cash equivalents at the end of the year** | N | **182** | 763 |
| **Supplemental disclosures on cash flows from operating activities** | | | |
| Interest received | A | **3** | 4 |

The Notes on pages 255 to 269 are an integral part of these financial statements.

# Company accounting policies

## (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements.

### (a)(i) New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following new International Financial Reporting Standards (IFRS), International Accounting Standards (IASs) and amendments to existing standards which are effective by EU endorsement for annual periods beginning on or after 1 January 2013 unless otherwise stated:

**IFRS 13 *Fair Value Measurement***
IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not change requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. The standard has been applied prospectively and also requires specific disclosures on fair values. All fair values reported in the financial statements have been determined in accordance with IFRS 13. Additional disclosures have been provided in Note Y – Fair value of assets and liabilities.

**Amendment to IAS 1 *Presentation of Financial Instruments* (effective for annual periods beginning on or after 1 July 2012)**
The amendment to IAS 1 revised the way other comprehensive income is presented. As a result items that can subsequently be reclassified to profit or loss are presented separately from items that will never be reclassified to profit or loss in the statement of comprehensive income. The tax associated with each category is also shown separately. The amendment has affected presentation only.

**Amendment to IFRS 7 *Financial Instruments: Disclosures***
The amendment to IFRS 7 requires additional disclosures for financial assets and liabilities which are offset in the financial statements or are subject to enforceable master netting agreements or similar arrangements. The additional disclosures are presented in Note V – Risk management.

Additionally the Company has adopted the following amendments to existing standards which are effective by EU endorsement from 1 January 2013 and management considers that the implementation of these amendments has had no significant impact on the Company's financial statements:

- Amendment to IAS 19 *Employee Benefits*
- Amendment to IAS 12 *Income Taxes*: *Deferred Tax*
- *Annual Improvements to IFRS 2009-2011.*

### (a)(ii) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Company's annual accounting periods beginning on or after 1 January 2014. The Company has not early adopted the standards, interpretations and amendments described below:

**Amendment to IAS 32 *Financial Instruments: Presentation* (effective for annual periods beginning on or after 1 January 2014)**
The amendment to IAS 32 clarifies the circumstances in which financial assets and financial liabilities may be offset on the statement of financial position. The adoption of the amendment to IAS 32 is not expected to have a significant impact on the financial statements of the Company.

**IFRS 9 *Financial Instruments and subsequent amendments (amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition Disclosures* and *Hedge accounting* and *amendments to IFRS 9, IFRS 7 and IAS 39) (no stated mandatory effective date)***
IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows only two measurement categories for financial assets: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). Financial liabilities may be designated as at FVTPL. The amortised cost measurement basis is applied to most other financial liabilities. For financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised directly in other comprehensive income.

# Company accounting policies *continued*

## (a) Basis of preparation *continued*

### (a)(ii) Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company *continued*

*Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39* removes and replaces the current requirements for hedge effectiveness in IAS 39 and therefore the requirements for the application of hedge accounting. The new requirements change what qualifies as a hedged item and some of the restrictions on the use of some hedging instruments. The accounting and presentation requirements remain largely unchanged. However, entities will now be required to reclassify the gains and losses accumulated in equity on a cash flow hedge to the carrying amount of a non-financial hedged item when it is initially recognised. Additional disclosures on hedge accounting are also required.

The mandatory effective date for IFRS 9 has been removed however the standard as amended permits entities to adopt certain elements early without the need to adopt the entire standard. The standard including subsequent amendments has not yet been endorsed by the EU.

The impact of the adoption of IFRS 9 on the financial statements of the Company is currently being reviewed by management but is not expected to have a significant impact.

### (a)(iii) Standards, interpretations and amendments to existing standards that are not yet effective and are not relevant to the Company's operations or to the preparation of separate financial statements

- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2014)
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014)
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014)
- IAS 27 *Separate Financial Statements* (2011) (effective for annual periods beginning on or after 1 January 2014)
- IAS 28 *Investments in Associates and Joint Ventures* (2011) (effective for annual periods beginning on or after 1 January 2014)
- Amendment to IAS 36 *Impairment of Assets* (effective for annual periods beginning on or after 1 January 2014)
- International Financial Reporting Interpretations Committee (IFRIC) Interpretation 21 *Levies* (effective for annual periods beginning on or after 1 January 2014)
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 January 2014)
- Amendments to *IAS 19 Defined Benefit Plans: Employee Contributions (*effective for annual periods beginning on or after 1 January 2014*)*
- Annual improvements 2010 – 2012 cycle and Annual Improvements 2011 – 2013 cycle (effective for annual periods beginning on or after 1 July 2014)

### (a)(iv) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to make estimates and assumptions and exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The area where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the financial statements is:

| Financial statement area | Critical accounting judgements, estimates or assumptions | Related accounting policies and notes |
|---|---|---|
| Assets whose carrying value is subject to impairment testing | Determination of the recoverable amount | (b), (e), (g) and Notes G, H and V |

## (b) Subsidiaries, associates and joint ventures

Subsidiaries are all entities, including special purpose entities, over which the Company has the power to govern the financial and operating policies. Such power, generally but not exclusively, accompanies a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures are entities whereby the Company and other parties undertake an economic activity, which is subject to joint control arising from contractual agreement.

Investments in subsidiaries, associates and joint ventures are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount.

Investments in subsidiaries include loans to subsidiaries that meet the definition of equity instruments. Refer to (g) for more information on the measurement of loans to subsidiaries.

## (c) Foreign currency translation

The financial statements are presented in millions pound Sterling, which is the Company's functional currency.

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary items, such as equity securities held at FVTPL, are reported as part of the fair value gain or loss within investment return in the statement of comprehensive income. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line in the statement of comprehensive income.

## (d) Revenue recognition

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as at FVTPL, including investment income received (such as dividends and interest payments), are recognised in the statement of comprehensive income in the period in which they occur.

Changes in the fair value of derivative financial instruments that are not hedging instruments are recognised immediately in the statement of comprehensive income.

For debt securities classified as available-for-sale (AFS), interest income recognised in the statement of comprehensive income is calculated using the effective interest rate (EIR) method.

Unrealised gains and losses on AFS financial assets are recognised in other comprehensive income unless an impairment loss is recognised. On disposal any accumulated gain or loss previously recognised in other comprehensive income is recycled to the income statement.

For loans measured at amortised cost, interest income recognised in the statement of comprehensive income is calculated using the EIR method.

Dividend income and distributions from securities that are classified by the issuer as equity instruments are recognised in the statement of comprehensive income when the right to receive payment is established.

## (e) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, at least at each reporting date. An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price (fair value less costs to sell) and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit, or group of units, to which the asset belongs.

## (f) Income tax

The income tax expense is based on the taxable profits for the year, after adjustments in respect of prior years.

Deferred tax is provided using the statement of financial position liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Temporary differences arising from investments in subsidiaries and associates give rise to deferred tax only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and the timing of the reversal of that difference cannot be controlled.

Current and deferred tax is recognised in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly in equity respectively.

The income tax expense is determined using rates enacted or substantively enacted at the reporting date.

# Company accounting policies *continued*

## (g) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term. Financial assets classified as loans include deposits with credit institutions and loans to subsidiaries when the loan is classified as a financial liability by the subsidiary.

Loans are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are measured at amortised cost, using the EIR method, less any impairment losses. Revenue from financial assets classified as loans is recognised in the statement of comprehensive income on an EIR basis.

Impairment on individual loans is determined at each reporting date. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company. This would include a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred on loans carried at amortised cost, the amount of the impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan’s current carrying value. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Subsequent recoveries are credited to the statement of comprehensive income.

## (h) Equity securities, debt securities and derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition.

All of the Company’s equity securities and certain debt securities are designated as at fair value through profit or loss (FVTPL) as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis so as to maximise returns either for equity holders. All other debt securities are designated as available-for-sale (AFS).

All derivative instruments are classified as held for trading (HFT).

Equity securities, debt securities and derivatives are recognised at fair value on the trade date of the transaction. In the case of derivatives, where no initial premium is paid or received, the initial measurement value is nil. For instruments classified as HFT or designated as at FVTPL, directly attributable transaction costs are not included in the initial measurement value but are recognised in the statement of comprehensive income. AFS debt securities are initially recognised at fair value plus directly related transaction costs.

Where a valuation technique is used to establish the fair value of a financial instrument, a difference could arise between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. When unobservable market data has an impact on the valuation of derivatives, the entire initial change in fair value indicated by the valuation technique is recognised over the life of the transaction on an appropriate basis, or when the inputs become observable, or when the derivative matures or is closed out.

Instruments classified as HFT or as at FVTPL are measured at fair value with changes in fair value recognised in the statement of comprehensive income.

Debt securities designated as AFS are measured at fair value. For these instruments interest calculated using the effective interest method is recognised in the statement of comprehensive income. Other changes in fair value and any related tax are recognised in other comprehensive income and recorded in a separate reserve within equity until disposal or impairment, when the cumulative gain or loss is recognised in the statement of comprehensive income with a corresponding movement through other comprehensive income. An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows.

## (i) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Company recognises and measures financial guarantee contracts in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The Company initially recognises and measures a financial guarantee contract at its fair value. At each subsequent reporting date, the Company measures the financial guarantee contract at the higher of the initial fair value recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue* and the best estimate of the expenditure required to meet the obligations under the contract at the reporting date, determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

## (j) Cash and cash equivalents

Cash and cash equivalents include demand and term deposits, and other short-term investments with less than three months to maturity from the date of acquisition. Cash and cash equivalents are categorised for measurement purposes as loans and receivables and are therefore measured at amortised cost.

## (k) Equity

### (k)(i) Share capital and shares held by trusts

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in the share premium reserve. Incremental costs directly attributable to the issue of new equity instruments are shown in the share premium reserve as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments in a business combination are excluded from the consideration transferred.

If the Company purchases any of its equity instruments the consideration paid is treated as a deduction from total equity. Where such shares are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are treated as a realised profit in equity. If the proceeds exceed the purchase price, the excess over the purchase price is transferred to the share premium account.

### (k)(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under section 612 of the UK Companies Act 2006 are met, a sum equal to the difference between the issue value and nominal value is transferred to a 'merger reserve'.

## (l) Subordinated liabilities

Subordinated liabilities are initially recognised at the value of proceeds received net of issue expenses. The total finance costs are charged to the statement of comprehensive income over the relevant term of the instrument using the EIR method. The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period.

## (m) Pension costs and other post-retirement benefits

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and by the Group companies, determined by periodic actuarial calculations.

The sponsoring employer for the defined benefit plan is Standard Life Assurance Limited (SLAL), and therefore the net defined benefit cost of the plan is recognised by SLAL. As a result, the Company treats its participation in the defined benefit plan as a defined contribution plan. Consequently the costs of this scheme and the UK defined contribution scheme represent the contributions payable for the accounting period.

For the defined contribution scheme, the Company pays contributions to separately administered pension insurance schemes. The contributions are recognised in staff costs and other employee-related costs when they are due.

## (n) Provisions and contingent liabilities

Provisions for restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Contingent liabilities are disclosed if the future obligation is less than probable but greater than remote or if the obligation is probable but the amount cannot be reasonably estimated.

## (o) Dividend distribution

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by equity holders. Interim dividends on these shares are recognised in equity in the period in which they are paid.

## (p) Employee share-based payments

The Company operates share incentive plans for all employees, share-based long-term incentive plans for senior employees and may award annual performance shares to all eligible employees when the Group's profit targets are met. Further details of the schemes are set out in Note 46 of the Group financial statements. For share-based payment employee transactions, services received are measured at fair value.

Fair value of options granted under share incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

For cash-settled share-based payment transactions, services received are measured at the fair value of the liability using an option pricing model. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in the statement of comprehensive income for the year.

# Company accounting policies *continued*

## (p) Employee share-based payments *continued*

For equity-settled share-based payment transactions, the fair value of services received is measured by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at the grant date, which is the date that the Group and the employees have a shared understanding of the terms and conditions of the award. If that award is subject to an approval process then the grant date is the date when that approval is obtained. Market vesting conditions and non-vesting conditions, such as the requirement of employees to save in the Save-as-you-earn scheme, are included in the calculation of the fair value of the instruments at the date of grant. Vesting conditions which are not market conditions are included in assumptions about the number of instruments that are expected to vest. The charge in respect of the services received is recharged by the Company to the subsidiary which receives the services of the employees.

If the equity instruments granted vest immediately, the employees become unconditionally entitled to those equity instruments. Therefore, the Company immediately recognises an amount due from subsidiaries in respect of the services received in full with a corresponding credit to the equity compensation reserve in equity.

If the equity instruments do not vest until the employee has fulfilled specified vesting conditions, the Group presumes that the services to be rendered by the employee as consideration for those equity instruments will be received in the future, during the period of those vesting conditions (vesting period). Therefore, the Company recognises an amount due from subsidiaries in respect of those services as they are rendered during the vesting period with a corresponding credit to the equity compensation reserve in equity.

Cancellations of awards granted arise where non-vesting conditions attached to the award are not met during the vesting period. Cancellations are accounted for as an acceleration of vesting and the remaining unrecognised expense in respect of the fair value of the award is recognised immediately.

At each period end the Company reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the statement of comprehensive income with a corresponding adjustment to the equity compensation reserve.

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

## (q) Derecognition and offset of financial assets and liabilities

A financial asset (or a part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement, or
- The Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported on the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. When financial assets and liabilities are offset, any related interest income and expense is offset in the statement of comprehensive income.

# Notes to the Company financial statements

## A. Investment return

| | 2013 £m | 2012 £m |
|---|---|---|
| **Interest and similar income** | | |
| Cash and cash equivalents | **3** | 4 |
| Loans to subsidiaries | **37** | 38 |
| Debt securities | **8** | - |
| | **48** | 42 |
| **Income from subsidiary undertakings** | | |
| Dividend income | **629** | 499 |
| Distributions from equity instruments | **34** | 34 |
| | **663** | 533 |
| **Gains on financial instruments** | | |
| Equity securities and interests in pooled investment funds | **1** | 3 |
| Debt securities | **1** | - |
| Derivative financial instruments | **1** | - |
| | **3** | 3 |
| **Investment return** | **714** | 578 |

## B. Administrative expenses

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Staff costs and other employee-related costs | C | **51** | 57 |
| Other administrative expenses | | **19** | 14 |
| **Total administrative expenses** | | **70** | 71 |

## C. Staff costs and other employee-related costs

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **The aggregate remuneration payable in respect of employees was:** | | | |
| Wages and salaries | | **41** | 44 |
| Social security costs | | **5** | 7 |
| Pension costs | D | **4** | 5 |
| Employee share-based payments | | **1** | 1 |
| **Total staff costs and other employee-related costs** | | **51** | 57 |

| | 2013 | 2012 |
|---|---|---|
| **The average number of staff during the year was:** | | |
| Group corporate centre | **456** | 467 |
| Asia and Emerging Markets[1] | **31** | 80 |
| **Total average number of staff** | **487** | 547 |

[1] Staff who work in the Group's Asia and Emerging Markets business based in the UK.

The staff who manage the affairs of the Company are employed by Standard Life Employee Services Limited (SLESL), a wholly owned subsidiary of the Company. These costs are recharged to the Company and the amounts recharged are set out above.

Information in respect of compensation of key management personnel is provided in Note 47 of the Group financial statements and the audited section of the Directors' remuneration report on pages 70 to 98.

Details of the employee share-based payment schemes operated by the Company are given in Note 46 of the Group financial statements.

# D. Pension and other post-retirement benefit provisions

The staff who manage the affairs of the Company are members of a defined benefit pension plan and/or a defined contribution pension scheme operated by the Group for its employees in the UK. There is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit plan across the participating UK companies. The sponsoring employer for the defined benefit plan is SLAL, and therefore the net defined benefit cost of the plan is recognised by SLAL. As a result, the Company treats its participation in the defined benefit plan as a defined contribution plan. Contributions to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. The contributions to the defined contribution and the defined benefit plans recognised as an expense for the year ended 31 December 2013 were £4m (2012: £5m).

Further information on the Group's pension schemes is given in Note 37 of the Group financial statements.

# E. Auditors' remuneration

In 2013 auditors' remuneration amounted to £0.3m (2012: £0.3m) in respect of the audit of the Company's individual and Group financial statements. Auditors' remuneration for services other than the statutory audit of the Company is disclosed in Note 9 of the Group financial statements.

# F. Tax credit

## (a) Current year tax credit

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Current tax credit | | **19** | 13 |
| Deferred tax credit arising from the current year | I | **-** | 2 |
| **Total income tax credit** | | **19** | 15 |

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Company's UK profits for this accounting period are subject to tax at a rate of 23.25%.

The Finance Act 2013 further reduced the UK corporation tax rate to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. These rates have been applied in calculating the UK deferred tax position at 31 December 2013.

## (b) Tax relating to components of other comprehensive income

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| Current tax credit on net change of financial assets designated as available-for-sale | R | **4** | - |
| **Tax relating to each component of other comprehensive income that may be reclassified subsequently to profit or loss** | | **4** | - |

## (c) Reconciliation of tax credit

| | 2013 £m | 2012 £m |
|---|---|---|
| **Profit before tax** | **547** | 433 |
| Tax at UK corporation tax rate of 23.25% (2012: 24.5%) | **(127)** | (106) |
| Dividends not subject to UK corporation tax | **146** | 122 |
| Permanent differences | **-** | (1) |
| **Total income tax credit** | **19** | 15 |

# G. Investments in subsidiaries

| | 2013 £m | 2012 £m |
|---|---|---|
| **At 1 January** | **5,174** | 5,043 |
| Investment into existing subsidiaries | **97** | 131 |
| **At 31 December** | **5,271** | 5,174 |

Details of the Company's principal subsidiaries are given in Note 49 of the Group financial statements.

# H. Investments in associates and joint ventures

## (a) Investments in associates

The Company has a 25.3% (2012: 25.3%) interest in Tenet Group Limited, a company incorporated in England. The reporting date for Tenet Group Limited is 30 September as this is its year end date. This is different from the Company's year end date of 31 December.

## (b) Investments in joint ventures

The Company has a 50% (2012: 50%) interest in Heng An Standard Life Insurance Company Limited, a company incorporated in China.

# I. Tax assets and liabilities

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| Deferred tax liabilities | 1 | 1 |
| **Total tax liabilities** | **1** | 1 |

The amount of deferred tax liabilities expected to be settled after more than 12 months is £1m (2012: £1m).

There are no tax assets or current tax liabilities.

The Company has surrendered the benefit of its tax losses to underlying subsidiaries for a consideration of £23m (2012: £13m) which will be receivable within one year. Tax losses of £nil (2012: £8m) have been surrendered to a subsidiary for no consideration, resulting in an effective increase in the tax expense of £nil (2012: £2m). The Company has provided for deferred tax amounting to £1m (2012: £1m) in respect of unrealised gains on equity securities.

**Recognised deferred tax**

| | 2013<br>£m | 2012<br>£m |
|---|---|---|
| **Deferred tax liabilities comprise:** | | |
| Unrealised gains on investments | (1) | (1) |
| **Net deferred tax liabilities** | **(1)** | (1) |
| | | |
| **Movements in deferred tax liabilities comprise:** | | |
| **At 1 January** | **(1)** | (3) |
| Amounts credited to net profit | - | 2 |
| **At 31 December** | **(1)** | (1) |

## J. Financial investments

| 2013 | Notes | Designated at fair value through profit or loss £m | Held for trading £m | Available-for-sale £m | Loans and receivables £m | Total £m |
|---|---|---|---|---|---|---|
| Loans to subsidiaries | | - | - | - | 644 | **644** |
| Derivative financial assets | K | - | 54 | - | - | **54** |
| Equity securities and interests in pooled investment funds | | 12 | - | - | - | **12** |
| Debt securities | | 391 | - | 333 | - | **724** |
| Receivables and other financial assets | L | - | - | - | 55 | **55** |
| Cash and cash equivalents | N | - | - | - | 182 | **182** |
| **Total** | | **403** | **54** | **333** | **881** | **1,671** |

| 2012 | Notes | Designated at fair value through profit or loss £m | Held for trading £m | Available-for - sale £m | Loans and receivables £m | Total £m |
|---|---|---|---|---|---|---|
| Loans to subsidiaries | | - | - | - | 630 | **630** |
| Derivative financial assets | K | - | 18 | - | - | **18** |
| Equity securities and interests in pooled investment funds | | 15 | - | - | - | **15** |
| Debt securities | | 301 | - | - | - | **301** |
| Receivables and other financial assets | L | **-** | - | - | 66 | **66** |
| Cash and cash equivalents | N | - | - | - | 763 | **763** |
| **Total** | | **316** | **18** | **-** | **1,459** | **1,793** |

The amount of debt securities expected to be recovered or settled after more than 12 months is £334m (2012: £1m). Due to the nature of the equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

The amount of loans and receivables expected to be recovered or settled after more than 12 months is £644m (2012: £630m).

## K. Derivative financial instruments

The Company uses derivative financial instruments in order to reduce the risk from potential movements in foreign exchange rates, equity indices and interest rates, to reduce credit risk or to achieve efficient portfolio management. These instruments are designated as held for trading in the Company's financial statements.

Included within derivative financial instruments held for trading are certain forward foreign exchange contracts which for the Group hedge part of the currency translation risk of net investments in foreign operations. For details refer to Note 23 of the Group financial statements.

| | **2013** | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Contract amount £m** | **Fair value assets £m** | **Fair value liabilities £m** | Contract amount £m | Fair value assets £m | Fair value liabilities £m |
| **Foreign exchange forwards** | **1,706** | **54** | **53** | 1,483 | 18 | 19 |

The derivative liabilities of £53m (2012: £19m) are expected to be settled within 12 months. The derivative assets of £54m (2012: £18m) are expected to be recovered within 12 months.

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

| 2013 | Within 1 year £m | 2-5 years £m | Total £m |
|---|---|---|---|
| **Cash inflows** | | | |
| Derivative financial assets | 880 | 5 | **885** |
| Derivative financial liabilities | 821 | - | **821** |
| **Total** | **1,701** | **5** | **1,706** |
| **Cash outflows** | | | |
| Derivative financial assets | 829 | 5 | **834** |
| Derivative financial liabilities | 872 | - | **872** |
| **Total** | **1,701** | **5** | **1,706** |
| **Net derivative financial instruments cash flows** | **-** | **-** | **-** |

| 2012 | Within 1 year £m | 2-5 years £m | Total £m |
|---|---|---|---|
| **Cash inflows** | | | |
| Derivative financial assets | 743 | 10 | **753** |
| Derivative financial liabilities | 728 | 2 | **730** |
| **Total** | **1,471** | **12** | **1,483** |
| **Cash outflows** | | | |
| Derivative financial assets | 728 | 10 | **738** |
| Derivative financial liabilities | 743 | 2 | **745** |
| **Total** | **1,471** | **12** | **1,483** |
| **Net derivative financial instruments cash flows** | - | - | - |

## L. Receivables and other financial assets

| | 2013 £m | 2012 £m |
|---|---|---|
| Due from related parties | **54** | 63 |
| Other | **1** | 3 |
| **Total receivables and other financial assets** | **55** | 66 |

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

Receivables and other financial assets expect to be recovered within 12 months.

## M. Other assets

Other assets comprise amounts due from related parties in respect of Group relief, which are expected to be received within 12 months.

## N. Cash and cash equivalents

| | 2013 £m | 2012 £m |
|---|---|---|
| Demand and term deposits with original maturity of less than three months | 40 | 22 |
| Other short-term investments | 142 | 741 |
| **Total cash and cash equivalents** | **182** | 763 |

Demand and term deposits with original maturity of less than three months are subject to variable interest rates.

Other short-term investments include the Company's investments in money market funds, which are subject to a mixture of fixed and variable interest rates.

## O. Share capital

Details of the Company's share capital are given in Note 28 of the Group financial statements.

## P. Shares held by trusts

Shares held by trusts represents the Company's funding of the Employee Share Trust (EST) in relation to the acquisition of shares of the Company for delivery to employees under various employee share schemes.

## Q. Retained earnings

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **At 1 January** | | 650 | 525 |
| Profit for the year attributable to equity holders | | 566 | 448 |
| Dividends and appropriations | | (636) | (331) |
| Transfer from equity compensation reserve for vested employee share-based payments | R | 33 | 25 |
| Shares distributed by employee trusts | | (12) | (17) |
| **At 31 December** | | 601 | 650 |

Details of the dividends paid during the year by the Company are provided in Note 14 of the Group financial statements. Note 14 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2013.

In 2013, the total dividends and appropriations paid were £656m (2012: £331m). Of this, £636m (2012: £331m) was treated as a deduction from retained earnings and £20m (2012: £nil) was treated as a deduction from the special reserve.

## R. Reconciliation of movements in other reserves

| 2013 | Notes | Merger reserve £m | Equity compensation reserve £m | Special reserve £m | Available-for-sale financial assets £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 January** | | 3,108 | 49 | 261 | - | 3,418 |
| Reserves credit for employee share-based payment schemes | | - | 32 | - | - | 32 |
| Vested employee share-based payments | Q | - | (33) | - | - | (33) |
| Dividends and appropriations | | - | - | (20) | - | (20) |
| Fair value losses on available-for-sale financial assets | | - | - | - | (18) | (18) |
| Tax effect relating to items that may be reclassified subsequently to profit or loss | F | - | - | - | 4 | 4 |
| **At 31 December** | | 3,108 | 48 | 241 | (14) | 3,383 |
| **2012** | | | | | | |
| **At 1 January** | | 3,108 | 49 | 261 | - | 3,418 |
| Reserves credit for employee share-based payment schemes | | - | 25 | - | - | 25 |
| Vested employee share-based payments | Q | - | (25) | - | - | (25) |
| **At 31 December** | | 3,108 | 49 | 261 | - | 3,418 |

Further information on the merger reserve and special reserve is given in Note 31 of the Group financial statements.

## S. Financial liabilities

| 2013 | Notes | Held for trading £m | Financial liabilities measured at amortised cost £m | Total £m |
|---|---|---|---|---|
| Subordinated liabilities | T | - | 1,632 | **1,632** |
| Derivative financial liabilities | K | 53 | - | **53** |
| Other financial liabilities | U | - | 80 | **80** |
| **Total** | | **53** | **1,712** | **1,765** |

| 2012 | Notes | Held for trading £m | Financial liabilities measured at amortised cost £m | Total £m |
|---|---|---|---|---|
| Subordinated liabilities | T | - | 1,622 | **1,622** |
| Derivative financial liabilities | K | 19 | - | **19** |
| Other financial liabilities | U | - | 39 | **39** |
| **Total** | | **19** | **1,661** | **1,680** |

## T. Subordinated liabilities

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Principal amount | Carrying value £m | Principal amount | Carrying value £m |
| Subordinated notes: | | | | |
| 5.5% Sterling fixed/floating rate | **£500,000,000** | **499** | £500,000,000 | 498 |
| Subordinated guaranteed bonds: | | | | |
| 6.75% Sterling fixed rate perpetual | **£500,000,000** | **502** | £500,000,000 | 502 |
| Mutual Assurance Capital Securities: | | | | |
| 6.546% Sterling fixed rate perpetual | **£300,000,000** | **316** | £300,000,000 | 316 |
| 5.314% Euro fixed/floating rate perpetual | **€360,000,000** | **315** | €360,000,000 | 306 |
| **Subordinated liabilities** | | **1,632** | | 1,622 |

The principal amount of subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £53m (2012: £52m) is expected to be settled within 12 months.

Further information on the terms and conditions of the subordinated liabilities is given in Note 36 of the Group financial statements.

## U. Other financial liabilities

| | 2013 £m | 2012 £m |
|---|---|---|
| Collateral accepted in respect of derivative contracts | **47** | 10 |
| Loan notes arising on acquisition of subsidiary | **6** | 6 |
| Other | **28** | 23 |
| **Total other financial liabilities** | **81** | 39 |

The amount of other financial liabilities expected to be settled after more than 12 months is £6m (2012: £6m).

# V. Risk management

## (a) Overview

An overview of the Group risk management framework and policies is provided in Note 41 of the Group financial statements.

The Company is exposed to market, credit and liquidity risks.

## (b) Market risk

The Group defines market risk as 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 different amounts.

The most significant element of market risk for the Company arises from its exposure to fluctuations in interest rates and equity markets. The Company is exposed to fluctuations in the fair value of future cash flows of financial instruments caused by changes in market interest rates. Financial assets and liabilities which are subject to the most significant exposure to interest rate risk include corporate bonds, money market instruments, derivative financial instruments and subordinated liabilities. The Company is also exposed to fluctuations in the equity securities markets, and as a result, changes in the value of its holdings and the return on those holdings.

Market risk is managed through the Group market risk policy. The Company is required to manage risk in accordance with the policy and to take mitigating action as appropriate to operate within defined risk appetites. The Company ensures that risks remain within the approved market risk appetite through the use of a number of specific controls and techniques, including defined lists of permitted securities and/or application of investment constraints and the active use of derivatives to improve the matching characteristics of assets and liabilities.

The Company's investments and liabilities are generally held in its functional currency. However, for strategic and capital reasons the Company may hold investments and liabilities in other currencies. In these cases, derivative financial instruments may be employed to manage currency exposure so that the Company has no remaining significant exposure to foreign exchange fluctuations.

Derivative instruments may also be utilised to reduce risk arising from exposure to fluctuations in interest rates and equity indices. Transactions in derivatives are undertaken on a regulated market or are with an approved counterparty. In employing derivatives, the Company must always have sufficient cash and cash equivalents or underlying assets to cover any potential obligation or exercise right following reasonably foreseeable adverse variations.

### (b)(i) Market risk concentrations

The Group manages market risk concentrations by ensuring that exposure is divided among a number of instruments. For each type of asset within a portfolio, responsibility for setting adequately diversified benchmarks and for limiting the structure of market risk exposure is set by the Company.

The following table provides information regarding the market risk exposure of the Company at 31 December 2013 and 31 December 2012, showing diversification by asset type and geographic region.

The geographic classification for loans and cash and cash equivalents is determined by the currency of the underlying financial instruments.

| | Geography | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UK | | Europe | | Other | | Total | |
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Loans to subsidiaries | **316** | 316 | **315** | 306 | **13** | 8 | **644** | 630 |
| Derivative financial assets | **54** | 18 | **-** | - | **-** | - | **54** | 18 |
| Equity securities and interests in pooled investment funds | **-** | 4 | **-** | - | **12** | 11 | **12** | 15 |
| Debt securities | **519** | 181 | **150** | 120 | **55** | - | **724** | 301 |
| Cash and cash equivalents | **165** | 760 | **17** | 3 | **-** | - | **182** | 763 |
| | **1,054** | 1,279 | **482** | 429 | **80** | 19 | **1,616** | 1,727 |
| Receivables and other financial assets | | | | | | | **55** | 66 |
| **Financial investments** | | | | | | | **1,671** | 1,793 |

The market risk exposure to foreign currency assets is either matched by liabilities held in the same currency or managed using derivative financial instruments.

### (b)(ii) Sensitivity analysis – market risk

The table below illustrates the sensitivity of profit after tax and equity to reasonably possible variations in the key assumptions made in relation to the Company's most significant market risk exposures. The sensitivity analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security prices and to changes in interest rates as at the reporting date, assuming other assumptions remain unchanged. When illustrating the impact of equity risk, the expectations of corporate earnings remain unchanged. Correlation between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

| | Equity | | | | | | | | Interest | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | +20% | | -20% | | +10% | | -10% | | +1% | | -1% | |
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Impact on profit after tax | 2 | 3 | (2) | (3) | 1 | 1 | (1) | (1) | 1 | 6 | (1) | (6) |

**Equity sensitivity to market risk**

The company classifies certain debt securities which back subordinated debt liabilities as AFS. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in the income statement. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result the sensitivity of the Company's equity to variations in interest rate risk exposures differs from the sensitivity of the Company's profit after tax to variations in interest rate risk exposures.

The Company's equity sensitivity to a 1% increase in interest rates is (£17m) (2012: £6m) and to a 1% decrease in interest rates is £17m (2012: (£6m)).

The sensitivity of the Company's total equity to variations in equity markets in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Company's profit after tax.

**Limitations**

The sensitivity analysis is non-linear and larger or smaller impacts should not be derived from these results. The sensitivity analysis represents the impact on profits at the year end that the changes in assumptions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the tests been applied at a date other than the reporting date.

## (c) Credit risk

The Group defines credit risk as the risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform these obligations in a timely manner. It also includes the risk of a reduction in the value of assets due to widening of mortgage, bond and swap spreads.

Credit risk is managed through the Group credit risk policy. The Company is required to manage risk in accordance with the Group policy and to take mitigating action as appropriate to operate within defined risk appetites.

In managing credit risk, maximum counterparty exposure limits are used for financial instruments where the Company has significant credit risk.

For cash and cash equivalents, the Company maintains exposures within limits that are set with reference to internal credit assessments. For derivative financial instruments, maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. No credit limits are set in respect of loans to subsidiaries, where the main exposure is to SLAL, a wholly owned subsidiary undertaking, with long-term ratings of A+ from Standard & Poors' and A1 from Moody's. Any loans to subsidiaries require approval from the Group Enterprise Risk Management Committee prior to being transacted.

### (c)(i) Credit exposure of financial assets

The following table provides an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB. For those financial assets that do not have credit ratings assigned by external rating agencies but where the Company has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated'. If a financial asset is neither rated by an external agency nor 'internally rated', it is classified as 'not rated'. The total amounts presented represent the Company's maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

The total amount in the table below represents the Company's credit exposure to financial investments (excluding equity securities) at the year end without taking into account any collateral held.

# V. Risk management *continued*

## (c) Credit risk *continued*

### (c)(i) Credit exposure of financial assets *continued*

| | Loans to subsidiaries | | Derivative financial assets | | Debt Securities | | Receivables and other financial assets | | Cash and cash equivalents | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| AAA | - | - | - | - | 33 | - | - | - | - | - | 33 | - |
| AA | - | - | - | - | 122 | 25 | - | - | 2 | 2 | 124 | 27 |
| A | - | - | - | - | 478 | 275 | - | - | 36 | 18 | 514 | 293 |
| BBB | - | - | - | - | 90 | - | - | - | 2 | 2 | 92 | 2 |
| Not rated | 644 | 630 | 54 | 18 | 1 | 1 | 55 | 66 | 142 | 741 | 896 | 1,456 |
| **Total** | 644 | 630 | 54 | 18 | 724 | 301 | 55 | 66 | 182 | 763 | 1,659 | 1,778 |

The Company holds the majority of its cash and cash equivalents in a money market fund managed by a subsidiary company. This fund was previously internally rated as AAA, as it followed the guidelines prescribed by external rating agencies for money market funds seeking to achieve a AAA rating. The fund ceased to follow these guidelines in 2012 and, as a result, it is no longer considered appropriate to designate a AAA rating for this fund. However, the fund continues to invest in a range of counterparties that are externally rated, and uses concentration limits and maturity limits in managing its exposures.

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due. An allowance account is not used by the Company to record separately the impairment of assets by credit losses. Instead, the carrying amount of an asset subject to any impairment charge is directly reduced by the amount of the impairment. At 31 December 2013 and 31 December 2012, all financial assets were neither past due nor impaired.

### (c)(ii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of derivative financial instruments is accepted from and provided to certain market counterparties to mitigate counterparty risk in the event of default. The use of collateral in respect of derivative financial instruments is governed by formal bilateral agreements between the parties. The amount of collateral required by either party is calculated daily based on the value of derivative transactions in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Any collateral moved under the terms of these agreements is transferred outright. With regard to either collateral pledged or accepted the Company may request the return of, or be required to return, collateral to the extent it differs from that required under the daily margin calculations.

Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close-out calculation of net counterparty exposure. At 31 December 2013, the Company had pledged £nil (2012: £nil) of cash as collateral for derivative financial liabilities and accepted £47m (2012: £10m) of cash as collateral for derivative financial assets.

None of the collateral accepted has been sold or repledged at the year end.

### (c)(iii) Offsetting financial assets and liabilities

The Company offsets loans to/from subsidiaries where there is both an unconditional right of set off and an intention to settle on a net basis. The Company does not offset any other financial assets and liabilities in the statement of financial position, as there are no unconditional rights to set off.

The Company's over-the-counter (OTC) derivatives are all subject to an International Swaps and Derivative Association (ISDA) master agreement, which provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy. An ISDA master agreement is considered a master netting agreement. The Company does not hold any other financial instruments which are subject to master netting agreements or similar arrangements.

| As at 31 December 2013 | Gross amounts of financial instruments recognised £m | Gross amounts of financial instruments offset in the Company statement of financial position £m | Net amounts of financial instruments as presented in the Company statement of financial position £m | Related amounts not offset in the Company statement of financial position | | Net position £m |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments £m | Financial and cash collateral received £m | |
| **Financial assets** | | | | | | |
| Derivatives[1] | - | - | 54 | - | (47) | 7 |
| Loans to subsidiaries[2] | 72 | (72) | - | - | - | - |
| **Total financial assets** | **72** | **(72)** | **54** | **-** | **(47)** | **7** |
| **Financial liabilities** | | | | | | |
| Derivatives[1] | - | - | (53) | - | - | (53) |
| Loans from subsidiaries[2] | (72) | 72 | - | - | - | - |
| **Total financial liabilities** | **(72)** | **72** | **(53)** | **-** | **-** | **(53)** |

1 Only derivatives subject to master netting agreements have been included above
2 Only loans to/from subsidiaries that are offset are included above

| As at 31 December 2012 | Gross amounts of financial instruments recognised £m | Gross amounts of financial instruments offset in the Company statement of financial position £m | Net amounts of financial instruments as presented in the Company statement of financial position £m | Related amounts not offset in the Company statement of financial position | | Net position £m |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments £m | Financial and cash collateral received £m | |
| **Financial assets** | | | | | | |
| Derivatives[1] | - | - | 18 | - | (10) | 8 |
| Loans to subsidiaries[2] | 178 | (178) | - | - | - | - |
| **Total financial assets** | **178** | **(178)** | **18** | **-** | **(10)** | **8** |
| **Financial liabilities** | | | | | | |
| Derivatives[1] | - | - | (19) | - | - | (19) |
| Loans from subsidiaries[2] | (178) | 178 | - | - | - | - |
| **Total financial liabilities** | **(178)** | **178** | **(19)** | **-** | **-** | **(19)** |

1 Only derivatives subject to master netting agreements have been included above
2 Only loans to/from subsidiaries that are offset are included above

# V. Risk management *continued*

## (d) Liquidity risk

The Group defines liquidity risk as the risk that the business units are unable to realise investments and other assets in order to settle their financial obligations when they fall due, or can do so only at excessive cost.

Liquidity risk is managed through the Group liquidity and capital management policy. The Company is required to manage risk in accordance with the Group policy and to take mitigating action as appropriate to operate within defined risk appetites.

Liquidity risk is managed by the Company in consultation with the central Group capital management function, which incorporates treasury management. Liquidity risk is primarily managed by placing limits on the value of financial assets held which are neither quoted nor regularly traded on a recognised exchange and by maintaining a portfolio of committed bank facilities. The Company maintains a £500m syndicated revolving credit facility which is currently undrawn and was renewed on 5 March 2013 with maturity due in March 2018. The Company is also responsible for the definition and management of the contingency funding plan which operates on a continuous basis and is fully documented.

### (d)(i) Maturity analysis

The cash flows payable by the Company under its financial liabilities are analysed in the table that follows by remaining contractual maturities at the reporting date. The amounts shown are the contractual undiscounted cash flows.

| 2013 | Within 1 year £m | 2-5 years £m | 6-10 years £m | 11-15 years £m | 16-20 years £m | Greater than 20 years £m | Total £m |
|---|---|---|---|---|---|---|---|
| Subordinated liabilities | 97 | 363 | 427 | 408 | 278 | 757 | **2,330** |
| Other financial liabilities | 81 | - | - | - | - | - | **81** |
| **Total** | **178** | **363** | **427** | **408** | **278** | **757** | **2,411** |
| **2012** | | | | | | | |
| Subordinated liabilities | 96 | 369 | 423 | 401 | 288 | 785 | **2,362** |
| Other financial liabilities | 39 | - | - | - | - | - | **39** |
| **Total** | **135** | **369** | **423** | **401** | **288** | **785** | **2,401** |

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the table along with interest payments on such instruments after 20 years.

The Company ensures that it can meet its financial obligations as they fall due by maintaining suitable levels of liquid assets. The obligations arising from subordinated liabilities are offset by receipts arising from loans to subsidiaries and investments in subsidiaries. Refer to Note K – Derivative financial instruments, for the maturity profile of undiscounted cash flows of derivative financial instruments.

# W. Contingent liabilities, indemnities and guarantees

## (a) Legal proceedings and regulations

The Company, like other financial organisations, is subject to legal proceedings and complaints in the normal course of its business. 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 Company.

## (b) Issued share capital

The Scheme of Demutualisation of The Standard Life Assurance Company (SLAC) sets a 10-year time limit, ending in 2016, for those eligible members of SLAC who were not allocated shares at the date of demutualisation to claim their entitlement. 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) Indemnities and guarantees

During 2009, the Company provided an indemnity to the Standard Life Unclaimed Asset Trust (UAT) to cover any expenses, damages, losses and costs that cannot be recovered from the assets held within the UAT. The indemnity is for a maximum of £30m and gave rise to a liability of £nil at 31 December 2013 (2012: £nil).

Under the trust deed in respect of the Group's UK defined benefit pension plan, Standard Life Employee Services Limited (SLESL), the principal employer, must pay contributions to the pension scheme as the trustees' actuary may certify necessary. The Company has guaranteed the obligations of SLESL to the UK defined benefit pension plan for a period of 15 years from 10 July 2006, which gave rise to a liability of £nil at 31 December 2013 (2012: £nil).

# X. Related party transactions

## (a) Transactions with and balances from/(to) related parties

In the normal course of business, the Company enters into transactions with related parties. The year end balances arising from such transactions are as follows:

| | Notes | 2013 £m | 2012 £m |
|---|---|---|---|
| **Due from related parties:** | | | |
| Subsidiaries | | **77** | 76 |
| Loans to subsidiaries | J | **644** | 630 |
| | | **721** | 706 |

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

| | 2013 £m | 2012 £m |
|---|---|---|
| **Revenues from related parties:** | | |
| Subsidiaries | **700** | 571 |
| | **700** | 571 |
| **Expenses to related parties:** | | |
| Subsidiaries | **66** | 71 |
| | **66** | 71 |

Where financial instruments arising from transactions with related parties are offset in the statement of financial position, the net position is presented in the tables above.

## (b) Compensation of key management personnel

The Directors and key management personnel of the Company are considered to be the same as for the Group. Information on both Company and Group compensation paid to Directors and key management personnel can be found in Note 47 of the Group financial statements. Information on transactions with/from and balances from/to key management personnel and their close family members can also be found in Note 47 of the Group financial statements.

# Y. Fair value of assets and liabilities

## (a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

**Level 1** Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3** Fair values measured using inputs that are not based on observable market data (unobservable inputs).

## (b) Financial investments and financial liabilities

An analysis of the Company's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes J and S and includes those financial assets and liabilities held at fair value.

## (c) Methods and assumptions used to determine fair value of assets and liabilities

Information on the methods and assumptions used to determine fair values for each major category of instrument measured at fair value is given below.

**Derivative financial assets – 2013: £54m (2012: £18m) and derivative financial liabilities – 2013: £53m (2012: £19m)**
The Company's derivatives are over-the-counter (OTC) investments which are fair valued using valuation techniques based on observable market data and are therefore treated as level 2 investments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Group's risk management policies. At 31 December 2013 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

**Equity securities and interests in pooled investment funds – 2013: £12m (2012: £15m)**
Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore treated as level 1 instruments within the fair value hierarchy.

# Y. Fair value of assets and liabilities *continued*

## (c) Methods and assumptions used to determine fair value of assets and liabilities *continued*

Unlisted equities are valued using an adjusted net asset value. The Company's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Company's private equity investments are carried out through European fund of funds structures, where the Company receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

**Debt securities – 2013: £724m (2012: £301m)**
For debt securities, the Company has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Company has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

- **Government, including provincial and municipal, and supranational institution bonds**
  These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are treated as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.
- **Corporate bonds (listed or quoted in an established over the counter market including asset backed securities)**
  These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are treated as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote the instruments are treated as level 3 instruments.

  For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Company performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are treated as level 3 instruments within the fair value hierarchy.
- **Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit**
  These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.

### (c)(i) Fair value hierarchy for financial instruments measured at fair value in the statement of financial position

The following table sets out an analysis of financial assets and liabilities measured at fair value by level of the fair value hierarchy.

| | Fair value hierarchy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Assets** | £m | £m | £m | £m | £m | £m | £m | £m |
| Derivative financial assets | - | - | 54 | 18 | - | - | 54 | 18 |
| Equity securities and interests in pooled investment funds | 12 | 11 | - | - | - | 4 | 12 | 15 |
| Debt securities | 71 | - | 652 | 300 | 1 | 1 | 724 | 301 |
| **Total** | 83 | 11 | 706 | 318 | 1 | 5 | 790 | 334 |
| **Liabilities** | | | | | | | | |
| Derivative financial liabilities | - | - | 53 | 19 | - | - | 53 | 19 |
| **Total** | - | - | 53 | 19 | - | - | 53 | 19 |

There were no significant transfers between level 1 and level 2 in the year.

### (c)(ii) Reconciliation of movements in level 3 instruments

During the year, there were £4m of disposals (2012: £nil) of level 3 equity securities.

### (c)(iii) Sensitivity of level 3 financial instruments measured at fair value to changes in key assumptions

There is no significant sensitivity of level 3 financial instruments measured at fair value in relation to changes in key assumptions.

## (d) Fair value of financial assets and liabilities measured at amortised cost

The table below presents estimated fair values of financial assets and liabilities whose carrying value does not approximate fair value. Fair values of financial assets and financial liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

| | Notes | 2013 Carrying value £m | 2012 Carrying value £m | 2013 Fair value £m | 2012 Fair value £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to subsidiaries | J | **644** | 630 | **687** | 662 |
| **Liabilities** | | | | | |
| Subordinated notes | T | **499** | 498 | **557** | 533 |
| Subordinated guaranteed bonds | T | **502** | 502 | **571** | 553 |
| Mutual Assurance Capital Securities | T | **631** | 622 | **674** | 654 |

The estimated fair values of loans to subsidiaries are determined with reference to quoted market prices determined using observable market inputs. The fair values of subordinated liabilities are based on the quoted market offer price. The Company does not consider its loans to subsidiaries to be impaired.

The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| **Assets** | | | | | | | | |
| Loans to subsidiaries | **-** | - | **674** | 654 | **13** | 8 | **687** | 662 |
| **Liabilities** | | | | | | | | |
| Subordinated notes | **-** | - | **557** | 533 | **-** | - | **557** | 533 |
| Subordinated guaranteed bonds | **-** | - | **571** | 553 | **-** | - | **571** | 553 |
| Mutual Assurance Capital Securities | **-** | - | **674** | 654 | **-** | - | **674** | 654 |

# Supplementary information

## 1. Group assets under administration and net flows

Group assets under administration (AUA) represent the IFRS gross assets of the Group adjusted to include third party AUA, which are not included on the consolidated 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 2013

| | Opening AUA at 1 Jan 2013 £bn | Gross flows £bn | Redemptions £bn | Net flows £bn | Market and other movements £bn | Closing AUA at 31 Dec 2013 £bn |
|---|---|---|---|---|---|---|
| **Fee business** | | | | | | |
| UK retail new | 28.7 | 5.9 | (2.8) | 3.1 | 6.8 | 38.6 |
| UK retail old | 31.7 | 0.6 | (3.2) | (2.6) | 4.4 | 33.5 |
| **UK retail** | **60.4** | **6.5** | **(6.0)** | **0.5** | **11.2** | **72.1** |
| Corporate | 24.5 | 4.3 | (2.3) | 2.0 | 2.7 | 29.2 |
| **UK retail and corporate** | **84.9** | **10.8** | **(8.3)** | **2.5** | **13.9** | **101.3** |
| Institutional pensions | 21.3 | 5.2 | (3.3) | 1.9 | 2.1 | 25.3 |
| Conventional with profits | 4.1 | 0.1 | (1.6) | (1.5) | 0.3 | 2.9 |
| **UK total** | **110.3** | **16.1** | **(13.2)** | **2.9** | **16.3** | **129.5** |
| Europe | 13.6 | 2.4 | (1.2) | 1.2 | 0.9 | 15.7 |
| Standard Life Investments third party | 83.0 | 22.8 | (12.7) | 10.1 | 4.3 | 97.4 |
| Canada | 15.9 | 2.8 | (2.2) | 0.6 | 0.8 | 17.3 |
| Asia and Emerging Markets (wholly owned) | 0.2 | 0.1 | (0.1) | - | 0.1 | 0.3 |
| Consolidation/eliminations[1] | (42.3) | (10.5) | 6.0 | (4.5) | (3.3) | (50.1) |
| **Total fee business** | **180.7** | **33.7** | **(23.4)** | **10.3** | **19.1** | **210.1** |
| **Spread/risk** | | | | | | |
| UK | 15.3 | 0.6 | (1.3) | (0.7) | - | 14.6 |
| Europe | 0.5 | - | - | - | - | 0.5 |
| Canada | 9.9 | 1.0 | (1.2) | (0.2) | (1.3) | 8.4 |
| **Total spread/risk business** | **25.7** | **1.6** | **(2.5)** | **(0.9)** | **(1.3)** | **23.5** |
| Assets not backing products in long-term savings business | 8.5 | - | - | - | (1.1) | 7.4 |
| Joint ventures | 1.5 | 0.4 | (0.2) | 0.2 | (0.1) | 1.6 |
| Other corporate assets | 2.0 | - | - | - | - | 2.0 |
| Other consolidation/eliminations[1] | (0.3) | - | - | - | (0.1) | (0.4) |
| **Group assets under administration** | **218.1** | **35.7** | **(26.1)** | **9.6** | **16.5** | **244.2** |
| **Group assets under administration managed by:** | | | | | | |
| Standard Life Group entities | 176.0 | | | | | 194.7 |
| Other third party managers | 42.1 | | | | | 49.5 |
| **Total** | **218.1** | | | | | **244.2** |

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

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

| | Opening AUA at 1 Jan 2012 £bn | Gross flows £bn | Redemptions £bn | Net flows £bn | Market and other movements £bn | Closing AUA at 31 Dec 2012 £bn |
|---|---|---|---|---|---|---|
| **Fee business** | | | | | | |
| UK retail new | 23.7 | 5.2 | (2.4) | 2.8 | 2.2 | 28.7 |
| UK retail old | 32.1 | 0.8 | (3.9) | (3.1) | 2.7 | 31.7 |
| **UK retail** | **55.8** | **6.0** | **(6.3)** | **(0.3)** | **4.9** | **60.4** |
| Corporate | 22.0 | 3.0 | (1.8) | 1.2 | 1.3 | 24.5 |
| **UK retail and corporate** | **77.8** | **9.0** | **(8.1)** | **0.9** | **6.2** | **84.9** |
| Institutional pensions | 17.5 | 4.2 | (2.4) | 1.8 | 2.0 | 21.3 |
| Conventional with profits | 5.3 | 0.1 | (1.5) | (1.4) | 0.2 | 4.1 |
| **UK total** | **100.6** | **13.3** | **(12.0)** | **1.3** | **8.4** | **110.3** |
| Europe | 11.5 | 2.1 | (1.0) | 1.1 | 1.0 | 13.6 |
| Standard Life Investments third party | 71.8 | 17.6 | (11.5) | 6.1 | 5.1 | 83.0 |
| Canada | 14.3 | 2.8 | (2.0) | 0.8 | 0.8 | 15.9 |
| Asia and Emerging Markets (wholly owned) | 0.1 | 0.1 | - | 0.1 | - | 0.2 |
| Consolidation/eliminations[1] | (35.5) | (8.3) | 4.6 | (3.7) | (3.1) | (42.3) |
| **Total fee business** | **162.8** | **27.6** | **(21.9)** | **5.7** | **12.2** | **180.7** |
| **Spread/risk** | | | | | | |
| UK | 14.4 | 0.7 | (1.2) | (0.5) | 1.4 | 15.3 |
| Europe | 0.5 | - | - | - | - | 0.5 |
| Canada | 10.3 | 0.9 | (1.3) | (0.4) | - | 9.9 |
| **Total spread/risk business** | **25.2** | **1.6** | **(2.5)** | **(0.9)** | **1.4** | **25.7** |
| Assets not backing products in long-term savings business | 8.5 | - | - | - | - | 8.5 |
| Joint ventures | 1.2 | 0.4 | (0.2) | 0.2 | 0.1 | 1.5 |
| Other corporate assets | 1.6 | - | - | - | 0.4 | 2.0 |
| Other consolidation/eliminations[1] | (0.9) | - | - | - | 0.6 | (0.3) |
| **Group assets under administration** | **198.4** | **29.6** | **(24.6)** | **5.0** | **14.7** | **218.1** |
| **Group assets under administration managed by:** | | | | | | |
| Standard Life Group entities | 163.3 | | | | | 176.0 |
| Other third party managers | 35.1 | | | | | 42.1 |
| **Total** | **198.4** | | | | | **218.1** |

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

# 1. Group assets under administration and net flows *continued*

## Group assets under administration
## 12 months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Opening AUA at 1 Jan 2013 £bn | Gross flows £bn | Redemptions £bn | Net flows £bn | Market and other movements £bn | Closing AUA at 31 Dec 2013 £bn |
|---|---|---|---|---|---|---|---|
| **UK** | | | | | | | |
| UK retail new fee business | F | 28.7 | 5.9 | (2.8) | 3.1 | 6.8 | 38.6 |
| UK retail old fee business | F | 31.7 | 0.6 | (3.2) | (2.6) | 4.4 | 33.5 |
| **UK retail fee business** | | **60.4** | **6.5** | **(6.0)** | **0.5** | **11.2** | **72.1** |
| Corporate pensions | F | 24.5 | 4.3 | (2.3) | 2.0 | 2.7 | 29.2 |
| **UK retail and corporate fee business** | | **84.9** | **10.8** | **(8.3)** | **2.5** | **13.9** | **101.3** |
| Institutional pensions | F | 21.3 | 5.2 | (3.3) | 1.9 | 2.1 | 25.3 |
| Conventional with profits | F | 4.1 | 0.1 | (1.6) | (1.5) | 0.3 | 2.9 |
| **UK total fee business** | F | **110.3** | **16.1** | **(13.2)** | **2.9** | **16.3** | **129.5** |
| Annuities | S/R | 15.3 | 0.6 | (1.3) | (0.7) | - | 14.6 |
| Assets not backing products | | 6.5 | - | - | - | (0.8) | 5.7 |
| **UK long-term savings** | | **132.1** | **16.7** | **(14.5)** | **2.2** | **15.5** | **149.8** |
| **Europe** | | | | | | | |
| Fee | F | 13.6 | 2.4 | (1.2) | 1.2 | 0.9 | 15.7 |
| Spread/risk | S/R | 0.5 | - | - | - | - | 0.5 |
| **Europe long-term savings** | | **14.1** | **2.4** | **(1.2)** | **1.2** | **0.9** | **16.2** |
| **UK and Europe long-term savings** | | **146.2** | **19.1** | **(15.7)** | **3.4** | **16.4** | **166.0** |
| **Canada**[1] | | | | | | | |
| Corporate pensions fee | F | 12.0 | 1.8 | (1.5) | 0.3 | 0.7 | 13.0 |
| Corporate pensions spread/risk | S/R | 3.6 | 0.3 | (0.4) | (0.1) | (0.3) | 3.2 |
| **Corporate pensions** | | **15.6** | **2.1** | **(1.9)** | **0.2** | **0.4** | **16.2** |
| Corporate benefits | S/R | 0.6 | 0.4 | (0.3) | 0.1 | (0.2) | 0.5 |
| Retail fee | F | 3.9 | 1.0 | (0.7) | 0.3 | 0.1 | 4.3 |
| Retail spread/risk | S/R | 5.7 | 0.3 | (0.5) | (0.2) | (0.8) | 4.7 |
| Asset not backing products | | 2.0 | - | - | - | (0.3) | 1.7 |
| **Canada long-term savings** | | **27.8** | **3.8** | **(3.4)** | **0.4** | **(0.8)** | **27.4** |
| **Asia and Emerging Markets** | | | | | | | |
| Wholly owned long-term savings | F | 0.2 | 0.1 | (0.1) | - | 0.1 | 0.3 |
| Joint ventures long-term savings | | 1.5 | 0.4 | (0.2) | 0.2 | (0.1) | 1.6 |
| **Asia and Emerging Markets long-term savings** | | **1.7** | **0.5** | **(0.3)** | **0.2** | **-** | **1.9** |
| **Total worldwide long-term savings** | | **175.7** | **23.4** | **(19.4)** | **4.0** | **15.6** | **195.3** |
| Other corporate assets | | 2.0 | - | - | - | - | 2.0 |
| Standard Life Investments third party assets under management | | 83.0 | 22.8 | (12.7) | 10.1 | 4.3 | 97.4 |
| Consolidation and elimination adjustments[2,3] | | (42.6) | (10.5) | 6.0 | (4.5) | (3.4) | (50.5) |
| **Group assets under administration** | | **218.1** | **35.7** | **(26.1)** | **9.6** | **16.5** | **244.2** |

1 Canada categories have been revised to align with other business segments. The main changes are that group products are now referred to as corporate and individual products as retail.

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

3 Consolidation and elimination adjustments closing AUA includes Standard Life Investments third party insurance contracts of £35.3bn (31 December 2012: £31.4bn), UK mutual funds and other £13.0bn (31 December 2012: £8.9bn) and Canada mutual funds of £1.5bn (31 December 2012: £1.6bn).

## 2. Long-term savings operations net flows

### 12 months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Gross flows 12 months to 31 Dec 2013 £m | Redemptions 12 months to 31 Dec 2013 £m | Net flows 12 months to 31 Dec 2013 £m | Gross flows 12 months to 31 Dec 2012 £m | Redemptions 12 months to 31 Dec 2012 £m | Net flows 12 months to 31 Dec 2012 £m |
|---|---|---|---|---|---|---|---|
| **UK** | | | | | | | |
| Retail new fee business | F | **5,931** | **(2,862)** | **3,069** | 5,170 | (2,417) | 2,753 |
| Retail old fee business | F | **662** | **(3,304)** | **(2,642)** | 871 | (3,928) | (3,057) |
| **UK retail fee business** | | **6,593** | **(6,166)** | **427** | 6,041 | (6,345) | (304) |
| Corporate pensions | F | **4,241** | **(2,260)** | **1,981** | 2,971 | (1,747) | 1,224 |
| **UK retail and corporate fee business** | | **10,834** | **(8,426)** | **2,408** | 9,012 | (8,092) | 920 |
| Institutional pensions | F | **5,184** | **(3,277)** | **1,907** | 4,199 | (2,367) | 1,832 |
| Conventional with profits | F | **89** | **(1,539)** | **(1,450)** | 129 | (1,576) | (1,447) |
| **UK total fee business** | | **16,107** | **(13,242)** | **2,865** | 13,340 | (12,035) | 1,305 |
| Spread/risk | S/R | **544** | **(1,198)** | **(654)** | 699 | (1,229) | (530) |
| **UK long-term savings** | | **16,651** | **(14,440)** | **2,211** | 14,039 | (13,264) | 775 |
| **Europe** | | | | | | | |
| Fee | F | **2,382** | **(1,228)** | **1,154** | 2,074 | (936) | 1,138 |
| Spread/risk | S/R | **27** | **(34)** | **(7)** | 41 | (32) | 9 |
| **Europe long-term savings** | | **2,409** | **(1,262)** | **1,147** | 2,115 | (968) | 1,147 |
| **UK and Europe long-term savings** | | **19,060** | **(15,702)** | **3,358** | 16,154 | (14,232) | 1,922 |
| **Canada** | | | | | | | |
| Corporate pensions fee | F | **1,796** | **(1,548)** | **248** | 1,852 | (1,352) | 500 |
| Corporate pensions spread/risk | S/R | **240** | **(352)** | **(112)** | 197 | (421) | (224) |
| **Corporate pensions** | | **2,036** | **(1,900)** | **136** | 2,049 | (1,773) | 276 |
| Corporate benefits | S/R | **436** | **(354)** | **82** | 452 | (360) | 92 |
| Retail fee | F | **1,046** | **(722)** | **324** | 943 | (628) | 315 |
| Retail spread/risk | S/R | **305** | **(471)** | **(166)** | 240 | (516) | (276) |
| **Canada long-term savings** | | **3,823** | **(3,447)** | **376** | 3,684 | (3,277) | 407 |
| **Asia and Emerging Markets** | | | | | | | |
| Wholly owned long-term savings | F | **105** | **(25)** | **80** | 76 | (21) | 55 |
| Joint ventures long-term savings[1] | | **411** | **(180)** | **231** | 410 | (161) | 249 |
| **Asia and Emerging Markets long-term savings** | | **516** | **(205)** | **311** | 486 | (182) | 304 |
| **Total worldwide long-term savings** | | **23,399** | **(19,354)** | **4,045** | 20,324 | (17,691) | 2,633 |

[1] The method used by our Indian JV, HDFC Standard Life Insurance Company Limited, to calculate redemptions has been revised. The new method has been applied from April 2013 and implemented from Q4 2013 and has an impact of reducing redemptions in 2013 by £15m. Prior period comparatives have not been restated.

# 2. Long-term savings operations net flows *continued*

### Three months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Gross flows 3 months to 31 Dec 2013 £m | Redemptions 3 months to 31 Dec 2013 £m | Net flows 3 months to 31 Dec 2013 £m | Gross flows 3 months to 31 Dec 2012 £m | Redemptions 3 months to 31 Dec 2012 £m | Net flows 3 months to 31 Dec 2012 £m |
|---|---|---|---|---|---|---|---|
| **UK** | | | | | | | |
| Retail new fee business | F | **1,298** | **(818)** | **480** | 1,233 | (658) | 575 |
| Retail old fee business | F | **147** | **(769)** | **(622)** | 178 | (1,046) | (868) |
| **UK retail fee business** | | **1,445** | **(1,587)** | **(142)** | 1,411 | (1,704) | (293) |
| Corporate pensions | F | **1,635** | **(529)** | **1,106** | 708 | (512) | 196 |
| **UK retail and corporate fee business** | | **3,080** | **(2,116)** | **964** | 2,119 | (2,216) | (97) |
| Institutional pensions | F | **875** | **(674)** | **201** | 1,067 | (855) | 212 |
| Conventional with profits | F | **19** | **(314)** | **(295)** | 28 | (436) | (408) |
| **UK total fee business** | | **3,974** | **(3,104)** | **870** | 3,214 | (3,507) | (293) |
| Spread/risk | S/R | **106** | **(286)** | **(180)** | 215 | (306) | (91) |
| **UK long-term savings** | | **4,080** | **(3,390)** | **690** | 3,429 | (3,813) | (384) |
| **Europe** | | | | | | | |
| Fee | F | **707** | **(432)** | **275** | 637 | (282) | 355 |
| Spread/risk | S/R | **5** | **(8)** | **(3)** | 11 | (8) | 3 |
| **Europe long-term savings** | | **712** | **(440)** | **272** | 648 | (290) | 358 |
| **UK and Europe long-term savings** | | **4,792** | **(3,830)** | **962** | 4,077 | (4,103) | (26) |
| **Canada** | | | | | | | |
| Corporate pensions fee | F | **511** | **(362)** | **149** | 470 | (353) | 117 |
| Corporate pensions spread/risk | S/R | **85** | **(86)** | **(1)** | 51 | (105) | (54) |
| **Corporate pensions** | | **596** | **(448)** | **148** | 521 | (458) | 63 |
| Corporate benefits | S/R | **101** | **(82)** | **19** | 116 | (92) | 24 |
| Retail fee | F | **307** | **(193)** | **114** | 261 | (175) | 86 |
| Retail spread/risk | S/R | **96** | **(117)** | **(21)** | 60 | (128) | (68) |
| **Canada long-term savings** | | **1,100** | **(840)** | **260** | 958 | (853) | 105 |
| **Asia and Emerging Markets** | | | | | | | |
| Wholly owned long-term savings | F | **28** | **(7)** | **21** | 20 | (8) | 12 |
| Joint ventures long-term savings[1] | | **90** | **(39)** | **51** | 99 | (45) | 54 |
| **Asia and Emerging Markets long-term savings** | | **118** | **(46)** | **72** | 119 | (53) | 66 |
| **Total worldwide long-term savings** | | **6,010** | **(4,716)** | **1,294** | 5,154 | (5,009) | 145 |

[1] The method used by our Indian JV, HDFC Standard Life Insurance Company Limited, to calculate redemptions has been revised. The new method has been applied from April 2013 and implemented from Q4 2013 and has an impact of reducing redemptions in 2013 by £15m. Prior period comparatives have not been restated.

## 15 months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Net flows | | | | |
|---|---|---|---|---|---|---|
| | | **3 months to 31 Dec 2013 £m** | 3 months to 30 Sept 2013 £m | 3 months to 30 Jun 2013 £m | 3 months to 31 Mar 2013 £m | 3 months to 31 Dec 2012 £m |
| **UK** | | | | | | |
| Retail new fee business | F | **480** | 859 | 906 | 824 | 575 |
| Retail old fee business | F | **(622)** | (663) | (692) | (665) | (868) |
| **UK retail fee business** | | **(142)** | 196 | 214 | 159 | (293) |
| Corporate pensions | F | **1,106** | 341 | 272 | 262 | 196 |
| **UK retail and corporate fee business** | | **964** | 537 | 486 | 421 | (97) |
| Institutional pensions | F | **201** | (143) | 857 | 992 | 212 |
| Conventional with profits | F | **(295)** | (465) | (388) | (302) | (408) |
| **UK total fee business** | | **870** | (71) | 955 | 1,111 | (293) |
| Spread/risk | S/R | **(180)** | (164) | (157) | (153) | (91) |
| **UK long-term savings** | | **690** | (235) | 798 | 958 | (384) |
| **Europe** | | | | | | |
| Fee | F | **275** | 309 | 320 | 250 | 355 |
| Spread/risk | S/R | **(3)** | (4) | (1) | 1 | 3 |
| **Europe long-term savings** | | **272** | 305 | 319 | 251 | 358 |
| **UK and Europe long-term savings** | | **962** | 70 | 1,117 | 1,209 | (26) |
| **Canada** | | | | | | |
| Corporate pensions fee | F | **149** | (8) | (15) | 122 | 117 |
| Corporate pensions spread/risk | S/R | **(1)** | 9 | (59) | (61) | (54) |
| **Corporate pensions** | | **148** | 1 | (74) | 61 | 63 |
| Corporate benefits | S/R | **19** | 21 | 21 | 21 | 24 |
| Retail fee | F | **114** | 79 | 65 | 66 | 86 |
| Retail spread/risk | S/R | **(21)** | (39) | (45) | (61) | (68) |
| **Canada long-term savings** | | **260** | 62 | (33) | 87 | 105 |
| **Asia and Emerging Markets** | | | | | | |
| Wholly owned long-term savings | F | **21** | 20 | 21 | 18 | 12 |
| Joint ventures long-term savings | | **51** | 55 | 27 | 98 | 54 |
| **Asia and Emerging Markets long-term savings** | | **72** | 75 | 48 | 116 | 66 |
| **Total worldwide long-term savings** | | **1,294** | 207 | 1,132 | 1,412 | 145 |

# 3. Investment operations

## 12 months ended 31 December 2013

### Third party assets under management by geography

| | | Opening AUM at 1 Jan 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|---|
| **UK** | Wholesale | 14,815 | 7,157 | (3,659) | 3,498 | 1,980 | 5,478 | 20,293 |
| | Institutional | 39,437 | 5,919 | (4,649) | 1,270 | 2,210 | 3,480 | 42,917 |
| | | **54,252** | **13,076** | **(8,308)** | **4,768** | **4,190** | **8,958** | **63,210** |
| **Europe** | Wholesale | 2,457 | 2,215 | (1,144) | 1,071 | 224 | 1,295 | 3,752 |
| | Institutional | 5,550 | 1,135 | (407) | 728 | 338 | 1,066 | 6,616 |
| | | **8,007** | **3,350** | **(1,551)** | **1,799** | **562** | **2,361** | **10,368** |
| **Canada** | Wholesale | 3,626 | 824 | (725) | 99 | 149 | 248 | 3,874 |
| | Institutional | 9,397 | 1,759 | (1,031) | 728 | (354) | 374 | 9,771 |
| | | **13,023** | **2,583** | **(1,756)** | **827** | **(205)** | **622** | **13,645** |
| **US** | Institutional | **1,997** | **2,694** | **(550)** | **2,144** | **107** | **2,251** | **4,248** |
| **Asia Pacific** | Wholesale | 416 | 921 | (203) | 718 | (14) | 704 | 1,120 |
| | Institutional | 823 | 48 | (321) | (273) | 132 | (141) | 682 |
| | | **1,239** | **969** | **(524)** | **445** | **118** | **563** | **1,802** |
| **India** | Wholesale | 3,306 | (46) | - | (46) | (363) | (409) | 2,897 |
| | Cash funds | 1,196 | 129 | - | 129 | (145) | (16) | 1,180 |
| | | **4,502** | **83** | **-** | **83** | **(508)** | **(425)** | **4,077** |
| **Total** | Wholesale | 24,620 | 11,071 | (5,731) | 5,340 | 1,976 | 7,316 | 31,936 |
| | Institutional | 57,204 | 11,555 | (6,958) | 4,597 | 2,433 | 7,030 | 64,234 |
| | Cash funds | 1,196 | 129 | - | 129 | (145) | (16) | 1,180 |
| **Total third party AUM** | | **83,020** | **22,755** | **(12,689)** | **10,066** | **4,264** | **14,330** | **97,350** |

### Third party assets under management by asset class

| | Opening AUM at 1 Jan 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|
| Equities | 18,326 | 2,326 | (3,216) | (890) | 2,105 | 1,215 | 19,541 |
| Fixed Income | 27,342 | 4,513 | (3,319) | 1,194 | (1,749) | (555) | 26,787 |
| Multi Asset[1] | 22,055 | 12,503 | (4,661) | 7,842 | 2,260 | 10,102 | 32,157 |
| Real Estate | 6,525 | 612 | (334) | 278 | 49 | 327 | 6,852 |
| MyFolio | 2,241 | 1,834 | (364) | 1,470 | 273 | 1,743 | 3,984 |
| Other[2] | 6,531 | 967 | (795) | 172 | 1,326 | 1,498 | 8,029 |
| **Total third party AUM** | **83,020** | **22,755** | **(12,689)** | **10,066** | **4,264** | **14,330** | **97,350** |

### Third party investment products and insurance contracts and total AUM

| | Opening AUM at 1 Jan 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|
| Third party investment products | 51,612 | 15,789 | (8,400) | 7,389 | 3,077 | 10,466 | 62,078 |
| Third party insurance contracts | 31,408 | 6,966 | (4,289) | 2,677 | 1,187 | 3,864 | 35,272 |
| **Total third party AUM** | **83,020** | **22,755** | **(12,689)** | **10,066** | **4,264** | **14,330** | **97,350** |
| **Total AUM** | **167,723** | | | | | | **184,113** |

[1] Comprises suite of global absolute return strategies and balanced funds.
[2] Comprises cash and private equity.

Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2013. 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.

## Three months ended 31 December 2013

### Third party assets under management by geography

| | | Opening AUM at 1 Oct 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|---|
| **UK** | Wholesale | 18,370 | 1,837 | (1,057) | 780 | 1,143 | 1,923 | 20,293 |
| | Institutional | 42,791 | 1,199 | (1,163) | 36 | 90 | 126 | 42,917 |
| | | **61,161** | **3,036** | **(2,220)** | **816** | **1,233** | **2,049** | **63,210** |
| **Europe** | Wholesale | 3,527 | 651 | (334) | 317 | (92) | 225 | 3,752 |
| | Institutional | 6,683 | 184 | (297) | (113) | 46 | (67) | 6,616 |
| | | **10,210** | **835** | **(631)** | **204** | **(46)** | **158** | **10,368** |
| **Canada** | Wholesale | 3,818 | 212 | (186) | 26 | 30 | 56 | 3,874 |
| | Institutional | 9,622 | 575 | (295) | 280 | (131) | 149 | 9,771 |
| | | **13,440** | **787** | **(481)** | **306** | **(101)** | **205** | **13,645** |
| **US** | Institutional | **3,863** | **491** | **(190)** | **301** | **84** | **385** | **4,248** |
| **Asia Pacific** | Wholesale | 1,128 | 134 | (53) | 81 | (89) | (8) | 1,120 |
| | Institutional | 674 | 12 | (24) | (12) | 20 | 8 | 682 |
| | | **1,802** | **146** | **(77)** | **69** | **(69)** | **-** | **1,802** |
| **India** | Wholesale | 2,870 | (233) | - | (233) | 260 | 27 | 2,897 |
| | Cash funds | 853 | 297 | - | 297 | 30 | 327 | 1,180 |
| | | **3,723** | **64** | **-** | **64** | **290** | **354** | **4,077** |
| **Total** | Wholesale | 29,713 | 2,601 | (1,630) | 971 | 1,252 | 2,223 | 31,936 |
| | Institutional | 63,633 | 2,461 | (1,969) | 492 | 109 | 601 | 64,234 |
| | Cash funds | 853 | 297 | - | 297 | 30 | 327 | 1,180 |
| **Total third party AUM** | | **94,199** | **5,359** | **(3,599)** | **1,760** | **1,391** | **3,151** | **97,350** |

### Third party assets under management by asset class

| | Opening AUM at 1 Oct 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|
| Equities | 19,575 | 722 | (942) | (220) | 186 | (34) | 19,541 |
| Fixed Income | 27,000 | 965 | (1,076) | (111) | (102) | (213) | 26,787 |
| Multi Asset[1] | 30,457 | 2,381 | (1,213) | 1,168 | 532 | 1,700 | 32,157 |
| Real Estate | 6,592 | 189 | (99) | 90 | 170 | 260 | 6,852 |
| MyFolio | 3,514 | 471 | (95) | 376 | 94 | 470 | 3,984 |
| Other[2] | 7,061 | 631 | (174) | 457 | 511 | 968 | 8,029 |
| **Total third party AUM** | **94,199** | **5,359** | **(3,599)** | **1,760** | **1,391** | **3,151** | **97,350** |

### Third party investment products and insurance contracts and total AUM

| | Opening AUM at 1 Oct 2013 £m | Gross flows £m | Redemptions £m | Net flows £m | Market and other movements £m | Net movement in AUM £m | Closing AUM at 31 Dec 2013 £m |
|---|---|---|---|---|---|---|---|
| Third party investment products | 59,105 | 4,025 | (2,661) | 1,364 | 1,609 | 2,973 | 62,078 |
| Third party insurance contracts | 35,094 | 1,334 | (938) | 396 | (218) | 178 | 35,272 |
| **Total third party AUM** | **94,199** | **5,359** | **(3,599)** | **1,760** | **1,391** | **3,151** | **97,350** |
| **Total AUM** | **179,571** | | | | | | **184,113** |

[1] Comprises suite of global absolute return strategies and balanced funds.
[2] Comprises cash and private equity.

Funds denominated in foreign currencies have been translated to Sterling using the closing exchange rates at 31 December 2013. Investment fund flows are translated at average exchange rates. Gains and losses arising from the translation of funds denominated in foreign currencies are included in the market and other movements column.

# 4. Long-term savings operations new business

## 12 months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Single premiums 12 months to 31 Dec 2013 £m | Single premiums 12 months to 31 Dec 2012 £m | New regular premiums 12 months to 31 Dec 2013 £m | New regular premiums 12 months to 31 Dec 2012 £m | PVNBP[1] 12 months to 31 Dec 2013 £m | PVNBP[1] 12 months to 31 Dec 2012 £m | Change % | Change in constant currency % |
|---|---|---|---|---|---|---|---|---|---|
| **UK** | | | | | | | | | |
| Retail new fee business | F | **5,277** | 4,483 | **71** | 84 | **5,666** | 4,909 | **15%** | **15%** |
| Retail old fee business | F | **197** | 358 | **18** | 17 | **243** | 396 | **(39%)** | **(39%)** |
| **UK retail fee business** | | **5,474** | 4,841 | **89** | 101 | **5,909** | 5,305 | **11%** | **11%** |
| Corporate pensions | F | **1,956** | 892 | **882** | 535 | **5,885** | 3,397 | **73%** | **73%** |
| **UK retail and corporate fee business** | | **7,430** | 5,733 | **971** | 636 | **11,794** | 8,702 | **36%** | **36%** |
| Institutional pensions | F | **4,871** | 3,896 | **12** | 2 | **4,918** | 3,897 | **26%** | **26%** |
| **UK total fee business** | | **12,301** | 9,629 | **983** | 638 | **16,712** | 12,599 | **33%** | **33%** |
| Spread/risk | S/R | **334** | 462 | **-** | - | **335** | 463 | **(28%)** | **(28%)** |
| **UK long-term savings** | | **12,635** | 10,091 | **983** | 638 | **17,047** | 13,062 | **31%** | **31%** |
| **Europe** | | | | | | | | | |
| Fee | F | **1,567** | 1,370 | **39** | 40 | **2,003** | 1,838 | **9%** | **6%** |
| Spread/risk | S/R | **26** | 35 | **-** | - | **26** | 35 | **(26%)** | **(30%)** |
| **Europe long-term savings** | | **1,593** | 1,405 | **39** | 40 | **2,029** | 1,873 | **8%** | **6%** |
| **UK and Europe long-term savings** | | **14,228** | 11,496 | **1,022** | 678 | **19,076** | 14,935 | **28%** | **27%** |
| **Canada** | | | | | | | | | |
| Corporate pensions fee | F | **484** | 602 | **26** | 57 | **1,051** | 1,612 | **(35%)** | **(34%)** |
| Corporate pensions spread/risk | S/R | **118** | 74 | **3** | 8 | **182** | 216 | **(16%)** | **(14%)** |
| **Corporate pensions** | | **602** | 676 | **29** | 65 | **1,233** | 1,828 | **(33%)** | **(31%)** |
| Corporate benefits | S/R | **1** | 1 | **34** | 44 | **417** | 680 | **(39%)** | **(38%)** |
| Retail fee | F | **1,046** | 943 | **-** | - | **1,046** | 943 | **11%** | **13%** |
| Retail spread/risk | S/R | **198** | 133 | **-** | - | **198** | 133 | **49%** | **52%** |
| **Canada long-term savings** | | **1,847** | 1,753 | **63** | 109 | **2,894** | 3,584 | **(19%)** | **(18%)** |
| **Asia and Emerging Markets** | | | | | | | | | |
| **Wholly owned long-term savings** | F | **16** | 8 | **67** | 41 | **468** | 252 | **86%** | **84%** |
| India | | **49** | 33 | **77** | 94 | **388** | 435 | **(11%)** | **(3%)** |
| China | | **21** | 43 | **12** | 10 | **77** | 87 | **(11%)** | **(14%)** |
| **Joint ventures long-term savings** | | **70** | 76 | **89** | 104 | **465** | 522 | **(11%)** | **(5%)** |
| **Asia and Emerging Markets long-term savings** | | **86** | 84 | **156** | 145 | **933** | 774 | **21%** | **25%** |
| **Total worldwide long-term savings** | | **16,161** | 13,333 | **1,241** | 932 | **22,903** | 19,293 | **19%** | **19%** |

[1] Present value of new business premiums (PVNBP) is the industry measure of insurance new business sales under the EEV methodology, calculated as 100% of single premiums plus the expected present value of new regular premiums.

New business gross sales for overseas operations are calculated using average exchange rates.

## Three months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | Single premiums 3 months to 31 Dec 2013 £m | Single premiums 3 months to 31 Dec 2012 £m | New regular premiums 3 months to 31 Dec 2013 £m | New regular premiums 3 months to 31 Dec 2012 £m | PVNBP[1] 3 months to 31 Dec 2013 £m | PVNBP[1] 3 months to 31 Dec 2012 £m | Change % | Change in constant currency % |
|---|---|---|---|---|---|---|---|---|---|
| **UK** | | | | | | | | | |
| Retail new fee business | F | **1,102** | 1,063 | **15** | 15 | **1,196** | 1,134 | **5%** | **5%** |
| Retail old fee business | F | **35** | 58 | **5** | 4 | **43** | 68 | **(37%)** | **(37%)** |
| **UK retail fee business** | | **1,137** | 1,121 | **20** | 19 | **1,239** | 1,202 | **3%** | **3%** |
| Corporate pensions | F | **1,014** | 174 | **230** | 112 | **2,192** | 690 | **218%** | **218%** |
| **UK retail and corporate fee business** | | **2,151** | 1,295 | **250** | 131 | **3,431** | 1,892 | **81%** | **81%** |
| Institutional pensions | F | **795** | 919 | **-** | 2 | **795** | 919 | **(13%)** | **(13%)** |
| **UK total fee business** | | **2,946** | 2,214 | **250** | 133 | **4,226** | 2,811 | **50%** | **50%** |
| Spread/risk | S/R | **66** | 156 | **-** | - | **66** | 156 | **(58%)** | **(58%)** |
| **UK long-term savings** | | **3,012** | 2,370 | **250** | 133 | **4,292** | 2,967 | **45%** | **45%** |
| **Europe** | | | | | | | | | |
| Fee | F | **420** | 408 | **13** | 17 | **559** | 685 | **(18%)** | **(20%)** |
| Spread/risk | S/R | **5** | 10 | **-** | - | **5** | 10 | **(50%)** | **(54%)** |
| **Europe long-term savings** | | **425** | 418 | **13** | 17 | **564** | 695 | **(19%)** | **(21%)** |
| **UK and Europe long-term savings** | | **3,437** | 2,788 | **263** | 150 | **4,856** | 3,662 | **33%** | **32%** |
| **Canada** | | | | | | | | | |
| Corporate pensions fee | F | **209** | 154 | **7** | 17 | **340** | 419 | **(19%)** | **(15%)** |
| Corporate pensions spread/risk | S/R | **57** | 24 | **-** | 2 | **88** | 58 | **52%** | **57%** |
| **Corporate pensions** | | **266** | 178 | **7** | 19 | **428** | 477 | **(10%)** | **(6%)** |
| Corporate benefits | S/R | **1** | - | **11** | 14 | **176** | 214 | **(18%)** | **(14%)** |
| Retail fee | F | **307** | 261 | **-** | - | **307** | 261 | **18%** | **24%** |
| Retail spread/risk | S/R | **74** | 33 | **-** | - | **74** | 33 | **124%** | **136%** |
| **Canada long-term savings** | | **648** | 472 | **18** | 33 | **985** | 985 | **-** | **5%** |
| **Asia and Emerging Markets** | | | | | | | | | |
| **Wholly owned long-term savings** | F | **5** | 2 | **21** | 14 | **158** | 89 | **78%** | **77%** |
| India | | **8** | 6 | **16** | 25 | **77** | 111 | **(31%)** | **(18%)** |
| China | | **2** | 7 | **3** | 3 | **16** | 18 | **(11%)** | **(11%)** |
| **Joint ventures long-term savings** | | **10** | 13 | **19** | 28 | **93** | 129 | **(28%)** | **(17%)** |
| **Asia and Emerging Markets long-term savings** | | **15** | 15 | **40** | 42 | **251** | 218 | **15%** | **23%** |
| **Total worldwide long-term savings** | | **4,100** | 3,275 | **321** | 225 | **6,092** | 4,865 | **25%** | **26%** |

[1] Present value of new business premiums (PVNBP) is the industry measure of insurance new business sales under the EEV methodology, calculated as 100% of single premiums plus the expected present value of new regular premiums. The PVNBP figures for the three months to 31 December 2013 and 31 December 2012 exclude the full impact of year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was a decrease in total PVNBP of £518m (2012: increase £6m).

New business gross sales for overseas operations are calculated using average exchange rates.

# 4. Long-term savings operations new business *continued*

## 15 months ended 31 December 2013

| | Fee (F) – Spread/risk (S/R) | PVNBP | | | | |
|---|---|---|---|---|---|---|
| | | **3 months to 31 Dec 2013[1] £m** | 3 months to 30 Sep 2013 £m | 3 months to 30 Jun 2013 £m | 3 months to 31 Mar 2013 £m | 3 months to 31 Dec 2012[1] £m |
| **UK** | | | | | | |
| Retail new fee business | F | **1,196** | 1,512 | 1,527 | 1,437 | 1,134 |
| Retail old fee business | F | **43** | 48 | 60 | 83 | 68 |
| **UK retail fee business** | | **1,239** | 1,560 | 1,587 | 1,520 | 1,202 |
| Corporate pensions | F | **2,192** | 1,200 | 1,499 | 1,319 | 690 |
| **UK retail and corporate fee business** | | **3,431** | 2,760 | 3,086 | 2,839 | 1,892 |
| Institutional pensions | F | **795** | 1,003 | 1,434 | 1,686 | 919 |
| **UK total fee business** | | **4,226** | 3,763 | 4,520 | 4,525 | 2,811 |
| Spread/risk | S/R | **66** | 82 | 95 | 92 | 156 |
| **UK long-term savings** | | **4,292** | 3,845 | 4,615 | 4,617 | 2,967 |
| **Europe** | | | | | | |
| Fee | F | **559** | 481 | 504 | 450 | 685 |
| Spread/risk | S/R | **5** | 5 | 7 | 9 | 10 |
| **Europe long-term savings** | | **564** | 486 | 511 | 459 | 695 |
| **UK and Europe long-term savings** | | **4,856** | 4,331 | 5,126 | 5,076 | 3,662 |
| **Canada** | | | | | | |
| Corporate pensions fee | F | **340** | 159 | 189 | 386 | 419 |
| Corporate pensions spread/risk | S/R | **88** | 25 | 43 | 75 | 58 |
| **Corporate pensions** | | **428** | 184 | 232 | 461 | 477 |
| Corporate benefits | S/R | **176** | 95 | 126 | 135 | 214 |
| Retail fee | F | **307** | 240 | 235 | 264 | 261 |
| Retail spread/risk | S/R | **74** | 49 | 45 | 30 | 33 |
| **Canada long-term savings** | | **985** | 568 | 638 | 890 | 985 |
| **Asia and Emerging Markets** | | | | | | |
| **Wholly owned long-term savings** | F | **158** | 118 | 117 | 93 | 89 |
| India | | **77** | 72 | 49 | 190 | 111 |
| China | | **16** | 19 | 19 | 23 | 18 |
| **Joint ventures long-term savings** | | **93** | 91 | 68 | 213 | 129 |
| **Asia and Emerging Markets long-term savings** | | **251** | 209 | 185 | 306 | 218 |
| **Total worldwide long-term savings** | | **6,092** | 5,108 | 5,949 | 6,272 | 4,865 |

[1] The three month period to 31 December 2013 and 31 December 2012 exclude the full impact of year end changes to non-economic assumptions. The effect of changes to year end non-economic assumptions was a decrease in total PVNBP of £518m (2012: increase £6m).

# Shareholder information

## Registered office

Standard Life plc
Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH
Scotland

Company registration number: SC286832

Phone: **0800 634 7474*** or **0131 225 2552***

For shareholder services call **0845 113 0045***

## Registrar

Capita Registrars Limited (trading as Capita Asset Services)

## Auditors

PricewaterhouseCoopers LLP

## Solicitors

Slaughter and May

## Brokers

JP Morgan Cazenove
Deutsche Bank

# Shareholder services

We offer a wide range of shareholder services, some details of which are included on the following pages. If you need any further information about any of these services, please:

- contact our registrar, Capita, on **0845 113 0045*** if calling from the UK. International (and non-0845) numbers for Capita can be found on the last page of this report
- visit our share portal at **www.standardlifeshareportal.com**

# Sign up for ecommunications

By registering at **www.standardlifeshareportal.com** you can receive your shareholder communications electronically. The benefits include:

- email alerts when documents like the Annual Report and Accounts and AGM guide are available online
- online voting instructions for the Annual General Meeting
- being able to download your dividend tax vouchers when you need them
- viewing your Standard Life Share Account statement online.

All our ecommunications contain the same information as paper versions. By registering you are helping us to reduce the amount of paper we use and the impact we make on the environment.

# Dividends

You can choose to receive your dividends as cash – paid directly into your bank account or by cheque – or you can sign up for the dividend reinvestment plan (DRIP) where your dividends will be reinvested in additional ordinary shares.

You can receive cash dividends in a number of ways. This includes automatic local currency payments for shareholders who live in certain countries outside the UK, and a choice of some major currencies for transfers to banks outside the UK. You can find out more about these shareholder services at **www.standardlife.com/shareholders**

* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

## Preventing unsolicited mail

By law, the Company has to make certain details from its share register publicly available. Because of this, it is possible that some registered shareholders could receive unsolicited mail. You may also receive telephone calls with offers to buy shares at a discount or sell your shares at a premium or be asked to complete confidentiality agreements. Remember, if it sounds too good to be true, it probably is. You can find more information about this at the Financial Conduct Authority's website **www.fca.org.uk/consumers/scams**

If you are a certificated shareholder, your name and address may appear on a public register. Using a nominee company to hold your shares can help protect your privacy. You can transfer your shares into the Company-sponsored nominee account – the Standard Life Share Account – by contacting Capita, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please contact:

Mailing Preference Service (MPS)
DMA House
70 Margaret Street
London
W1W 8SS

You can also register online at **www.mpsonline.org.uk**

## Analysis of registered shareholdings as at 31 December 2013

| Range of shares | Number of holders | % of total holders | Number of shares | % of total shares |
|---|---|---|---|---|
| 1,000 | 58,082 | 54.07 | 27,112,703 | 1.14 |
| 1,001 - 5,000 | 42,535 | 39.60 | 90,308,300 | 3.80 |
| 5,001 - 10,000 | 4,126 | 3.84 | 27,785,065 | 1.17 |
| 10,001 - 100,000 | 2,170 | 2.02 | 50,335,744 | 2.12 |
| 100,000+[1] | 503 | 0.47 | 2,181,074,918 | 91.77 |
| **Totals** | **107,416** | **100** | **2,376,616,730** | **100** |

[1] These figures include the Company-sponsored nominee – the Standard Life Share Account – which had 1,128,016 participants holding 947,113,201 shares and the Unclaimed Asset Trust, which had 72,678 participants holding 27,164,341 shares.

## Financial calendar for 2014

| | |
|---|---|
| Ex-dividend date for 2013 final dividend | **9 April** |
| Record date for 2013 final dividend | **11 April** |
| 2014 Q1 trading results and interim management statement | **30 April** |
| Last date for DRIP elections for 2013 final dividend | **30 April** |
| Annual General Meeting | **13 May** |
| Dividend payment date (2013 final dividend) | **22 May** |
| 2014 half year results | **5 August** |
| Ex-dividend date for 2014 interim dividend | **10 September** |
| Record date for 2014 interim dividend | **12 September** |
| Last date for DRIP elections for 2014 interim dividend | **24 September** |
| 2014 Interim dividend payment date | **21 October** |
| 2014 Q3 trading results and interim management statement | **29 October** |

## Glossary

### Acquisition expenses
Expenses related to the procurement and processing of new business written, including a share of overheads.

### Annuity
A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums. If the annuity commences immediately after the payment of the sum, it is termed an immediate annuity. If it commences at some future date, it is termed a deferred annuity.

### Assets under administration (AUA)
A measure of the total assets that the Group administers on behalf of individual customers and institutional clients. It includes those assets for which the Group provides investment management services, as well as those assets that the Group administers where the customer has made a choice to select an external third party investment manager. Assets under administration reflect the value of the IFRS gross assets of the Group adjusted, where appropriate, for consolidation adjustments, inter-company assets and intangible assets. In addition, the definition includes third party assets administered by the Group which are not included on the consolidated statement of financial position.

### Assets under management (AUM)
A measure of the total assets that Standard Life Investments manages on behalf of individual customers and institutional clients, for which they receive a fee.

### Assumptions
Variables applied to data used to project expected outcomes.

### Back book management
We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Back book management includes all non-expense related operating variances and assumption changes for covered business plus those development costs directly related to back book management initiatives and, for non-covered business, specific costs attributed to back book management.

### Board
The board of Directors of the Company.

### Burnthrough costs
Burnthrough costs are an estimate of the value of the potential shareholder support that could be required to meet policyholder benefits in a participating fund. It is usually the case that shareholders participate in the profit or surpluses generated within a participating fund only to a limited extent. However, there could be unfavourable outcomes in the future when the assets of the participating fund are no longer sufficient to pay the benefits of the policyholders of that fund. This would be described as a 'burnthrough event' and could require some level of financial support from shareholders. The burnthrough cost is normally calculated by projecting a large number of possible future economic outcomes, taking an average over all of these outcomes.

### Business unit underlying performance
Business unit underlying performance is operating profit before tax after excluding the impact of spread/ risk operating actuarial assumption changes, specific management actions, group centre costs and group centre capital management in the reporting period.

### Capital resources (CR)
Capital resources include the assets in excess of liabilities, valued on a regulatory basis, and certain other components of capital.

### Capital resources requirement (CRR)
A company must hold capital resources in excess of the capital resources requirement. The CRR represents the total of the individual capital resources requirements (ICRR) of each regulated company in the Group.

### CFO Forum
A high-level discussion group formed and attended by the Chief Financial Officers of major European listed, and some non-listed, insurance companies.

### Company
Standard Life plc.

### Constant currency
Eliminates the effects of exchange rate fluctuations and is used when calculating financial performance on a range of measures.

### Core
We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Core includes new business contribution, expected return and development costs for covered business, excluding those development costs directly related to back book management initiatives and, for non-covered business, operating profit excluding specific costs attributable to back book management.

### Covered business
The business covered by the EEV methodology. This should include any contracts that are regarded by local insurance supervisors as long-term or life insurance business and may cover other long-term life insurance, short-term life insurance such as group risk business and long-term accident and health business. Where short-term healthcare is regarded as part of or ancillary to a company's long-term life insurance business, then it may be regarded as long-term business. For covered business within the Standard Life Group please refer to the EEV methodology within the consolidated EEV supplementary information.

### Deferred acquisition costs (DAC)
The method of accounting whereby acquisition costs on long-term business are deferred on the consolidated statement of financial position as an asset and amortised over the life of those contracts. This leads to a smoothed recognition of up front expenses instead of the full cost in the year of sale.

### Deferred income reserve (DIR)
The method of accounting whereby front end fees that relate to services to be provided in future periods are deferred on the consolidated statement of financial position as a liability and amortised over the life of those contracts. This leads to a smoothed recognition of up front income instead of the full income in the year of sale.

### Development costs
Costs that are considered to be non-recurring and are reported separately from other expenses in the EEV movement analysis.

### Director
A director of the Company.

### Discounting
The reduction to present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money. The choice of a discount rate will usually greatly influence the value of insurance provisions, and may give indications on the conservatism of provisioning methods.

### Dividend cover
This is a measure of how easily a company can pay its dividend from profit. It is calculated as profit for the year attributable to equity holders of Standard Life plc divided by the total dividend for that financial period.

### Earnings before interest and tax (EBIT)
EBIT is defined as earnings before interest, taxation, foreign exchange gains and losses, fair value movements on certain derivatives, restructuring costs and non-controlling interest.

### EBIT margin
This is an industry measure of performance for investment management companies. It is calculated as EBIT divided by net revenue.

### Earnings per share (EPS)
EPS is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, for example share awards and share options awarded to employees.

### Economic assumptions
Assumptions in relation to future interest rates, investment returns, inflation and tax. These assumptions, and variances in relation to these assumptions, are treated as non-operating profits/(losses) under EEV.

### Efficiency
We choose to analyse our EEV operating profit before tax in the three components which reflect the focus of our business effort – core, efficiency and back book management. Efficiency includes covered business variances and assumption changes, which relate to maintenance expenses.

### European Embedded Value (EEV)
The value to equity shareholders of the net assets plus the expected future profits on in-force business from a life assurance and pensions business. Prepared in accordance with the EEV Principles and Guidance issued in May 2004 by the CFO Forum and the Additional Guidance issued in October 2005 and the Revised Interim Transitional Guidance issued in September 2012. EEV reports the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty inherent in future assumptions, the costs of holding required capital, the value of free surplus and TVOG (see TVOG).

### EEV operating profit
Covered business EEV operating profit represents profit generated from new business sales and the in-force book of business, based on closing non-economic and opening economic assumptions.

Non-covered business EEV operating profit represents operating profit.

### EEV operating capital and cash generation
This is a measure of the underlying shareholder capital and cash flow of the Group.

Covered business EEV operating capital and cash generation represents the EEV operating profit net worth (free surplus and required capital) on an after-tax basis.

Non-covered business EEV operating capital and cash generation represents non-covered operating profit after tax.

### Executive team
The executive team is responsible for the day-to-day running of the Group and comprises: the Chief Executive, Chief Executive – UK and Europe, President and Chief Executive Officer – Canada, Chief Executive – Standard Life Investments, the Group Company Secretary and General Counsel, the Group Operations Officer, Chief Financial Officer and the Chief Risk Officer.

### Expected return on EEV
Anticipated results based on applying opening assumptions to the opening EEV.

### Experience variances
Current period differences between the actual experience incurred over the period and the assumptions used in the calculation of the embedded value, excluding new business non-economic experience variances which are captured in new business contribution.

### Fee based business
Fee based business is a component of operating profit and is made up of products where we generate revenue primarily from asset management charges (AMCs), premium based charges and transactional charges. AMCs are earned on products such as SIPP, corporate pensions and mutual funds, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with the major indirect Group exposure to rising or falling markets coming from higher or lower AMCs.

### Financial options and guarantees
Terms relating to covered business conferring potentially valuable guarantees underlying, or options to change, the level and nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.

### Free surplus
The amount of capital and any surplus allocated to, but not required to support, the in-force business covered by the EEV.

### Global Absolute Return Strategies (GARS)
A discretionary multi-asset fund provided under several regulated pooled and segregated structures globally by Standard Life Investments. Their investment objective is to deliver consistent positive returns at a level exceeding the risk-free rate by an average of 5% per annum, and to do so with as little risk as possible.

### Group capital surplus
This is a regulatory measure of our financial strength and compares the Group's capital resources to its capital resources requirements in accordance with the Insurance Groups Directive.

### Group, Standard Life Group or Standard Life
Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006, the Company and its subsidiaries.

### Group underlying performance
Group underlying performance is Group operating profit before tax after excluding the impact of spread/ risk operating actuarial assumption changes and specific management actions in the reporting period.

### Heritage With Profits Fund (HWPF)
The Heritage With Profits Fund contains all existing business – both with profits and non profit – written before demutualisation in the UK, Irish or German branches, with the exception of the classes of business which the Scheme of Demutualisation allocated to the Proprietary Business Fund. The HWPF also contains increments to existing business.

### Individual Capital Assessment (ICA)
The process by which the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) requires insurance companies to make an assessment of the regulated company's own capital requirements, which is then reviewed and agreed by the FCA and PRA.

### In-force
Long-term business which has been written before the period end and which has not terminated before the period end.

### Internal rate of return (IRR)
A measure of rate of return on an investment and so an indicator of capital efficiency. The IRR is equivalent to the discount rate at which the present value of the after-tax cash flows expected to be earned over the lifetime of new business written is equal to the capital invested to support the writing of the business.

### International Financial Reporting Standards (IFRS)
International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are required to be prepared in accordance with IFRS.

### Investment grade
Debt securities with a credit rating of BBB or higher.

### Key performance indicators (KPI)
This is a measure by reference to which the development, performance or position of the business can be measured effectively.

### Look through
EEV covered business profits include the profits and losses arising in Group companies providing investment management and other services, where these relate to covered business. This is referred to as the 'look through' into service companies.

### Maintenance expenses
Expenses related to the servicing of the in-force book of business (including investment management and termination expenses and a share of overheads).

### Mutual fund
A collective investment vehicle enabling investors to pool their money, which is then invested in a diverse portfolio of stocks or bonds, enabling investors to achieve a more diversified portfolio than they otherwise might have done by making an individual investment.

### Net flows
Net flows represent gross inflows less redemptions. For long-term savings business, gross inflows are premiums and deposits recognised in the period on a regulatory basis (excluding any switches between funds). Redemptions are claims and annuity payments (excluding any reinsurance transactions and switches between funds).

### Net worth
The market value of shareholders' funds and the shareholders' interest in the surplus held in the non profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets per regulatory returns.

### New business contribution (NBC)
The expected present value of all future cash flows attributable to the equity holder from new business, as included within EEV operating profit.

### New business strain (NBS)
Costs involved in acquiring new business (such as commission payments to intermediaries, expenses, reserves) affecting the insurance company's financial position at that point and where all of the income from that new business (including premiums and investment income) has not yet been received and will not be received until a point in the future. To begin with, therefore, a strain may be created where cash outflows exceed inflows.

### NBS margin
New business strain as a percentage of PVNBP sales (see PVNBP).

### Non-covered business
Mainly includes Standard Life Investments third party and other businesses not associated with the life assurance and pensions business. Non-covered business excludes Standard Life Investments look through profits and the return on mutual funds which are recognised in covered business. Non-covered business is excluded from the EEV methodology and is included within the Group EEV on an IFRS basis.

### Non-economic assumptions
Assumptions in relation to future levels of mortality, morbidity, persistency and expenses. These assumptions, and variances in relation to these assumptions, are included as operating profit/(loss) under EEV.

### Non-participating/non-profit policy
A policy, including a unit linked policy, which is not a participating/with profits policy.

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

Operating profit also excludes the impact of the following items:

- Restructuring costs and 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
- Where Canadian insurance contract liabilities have changed as a result of a challenge, by either management or a tax authority, to an uncertain tax treatment which has resulted in a change in deferred tax assets for prior years
- 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.

### Participating/with profits policy
A policy where, in addition to guaranteed benefits specified in the policy, additional bonuses may be payable from relevant surplus. The declaration of such bonuses (usually annually) reflects, amongst other things, the overall investment performance of the fund of which the policy forms part.

### Personal pension plan
An individual pension arrangement with particular tax advantages whereby individuals who are self-employed or those who are not members of employer-sponsored pension scheme arrangements can make provision for retirement or provide benefits for their dependents in a tax efficient manner.

### Present value of in-force business (PVIF)
The present value of the projected future distributable profits after tax attributable to equity holders from the covered business in-force at the valuation date, adjusted where appropriate to take account of TVOG (see TVOG).

### Present value of new business premiums (PVNBP)
The industry measure of insurance new business sales under the EEV methodology. It is calculated as 100% of single premiums plus the expected present value of new regular premiums.

### Profit contribution
Profit contribution reflects the income and expenses directly attributable to each of the UK lines of business. It differs from operating profit due to the exclusion of indirect expenses, such as overheads, and capital management.

### Proprietary Business Fund
The Proprietary Business Fund in Standard Life Assurance Limited (SLAL) contains, among other things, certain classes of business – pension contribution insurance policies, income protection plan policies and a number of SIPP policies written before demutualisation, as well as most new insurance business written after demutualisation in the UK, Ireland and Germany.

### PVNBP margin
PVNBP margin is NBC expressed as a percentage of PVNBP.

### Recourse cash flow (RCF)
Certain cash flows arising in the HWPF on specified blocks of UK and Irish business, which are transferred out of the fund on a monthly basis and accrue to the ultimate benefit of equity holders, as determined by the Scheme of Demutualisation.

### Regular premium
A regular premium contract (as opposed to a single premium contract), is one where the policyholder agrees at inception to make regular payments throughout the term of the contract.

### Required capital
The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to equity holders is restricted.

### Return on equity (RoE)
The annualised post-tax profit on an IFRS basis expressed as a percentage of the opening IFRS equity, adjusted for time apportioned dividends paid to equity holders. Operating RoE is based on operating profit after tax and total RoE is based on IFRS profit after tax attributable to equity holders.

### Scheme of Demutualisation (the Scheme)
The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

### SICAV
A SICAV (société d'investissement à capital variable) is an open-ended collective investment scheme common in Western Europe. SICAVs can be cross-border marketed in the EU under the Undertakings for Collective Investment in Transferable Securities (UCITS) directive.

### Single premium
A single premium contract (as opposed to a regular premium contract), involves the payment of one premium at inception with no obligation for the policyholder to make subsequent additional payments.

### SIPP
A self invested personal pension which provides the policyholder with greater choice and flexibility as to the range of investments made, how those investments are managed, the administration of those assets and how retirement benefits are taken.

### SLAC
The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

### SLAL
Standard Life Assurance Limited.

### SLIL
Standard Life International Limited.

### Spread/risk based business
Spread/risk based business is a component of operating profit and mainly comprises products where we provide a guaranteed level of income for our customers in return for an investment. A good example of this product line is annuities. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount we pay to customers and the actual return on the assets over the period of the contract.

### Spread/risk margin
Spread/risk margin reflects the margin earned on spread/risk business. This includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes.

### Time value of options and guarantees (TVOG)
Represents the potential additional cost to equity holders where a financial option or guarantee exists which affects policyholder benefits and is exercisable at the option of the policyholder.

### Total shareholder return
This is a measure of the overall return to shareholders and includes the movement in the share price and any dividends paid and reinvested.

### UK corporate
UK corporate provides workplace pensions, savings and benefits to UK employers and employees. These are sold through corporate benefit consultants, independent financial advisers, or directly to employers.

### UK retail
This relates to business where we have a relationship with the customer either directly or through an independent financial adviser. We analyse this type of business into new and old categories. Retail new includes the products, platforms, investment solutions and services of our UK retail business that we continue to market actively to our customers. Retail old includes business that was predominantly written before demutualisation.

### Undiscounted payback period
A measure of capital efficiency that measures the time at which the value of expected undiscounted cash flows (after tax) is sufficient to recover the capital invested to support the writing of new business.

### Unit linked policy
A policy where the benefits are determined by reference to the investment performance of a specified pool of assets referred to as the unit linked fund.

### Wrap platform
An investment platform which is essentially a trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

# Contact details

| | Visit | Mail | Phone |
|---|---|---|---|
| **UK and Ireland**<br>If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar: | **www.standardlifeshareportal.com** | **questions@standardlifeshares.com**<br>Address:<br>Standard Life Shareholder Services<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU | 0845 113 0045*<br>+44 (0)20 3367 8224*<br>+353 (0) 1431 9829* |
| **Germany and Austria**<br>If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar: | **www.standardlifeshareportal.com/de** | **fragen@standardlifeshares.de**<br>Address:<br>Standard Life Aktionärsservice<br>Postfach 20 01 43<br>60605 Frankfurt am Main<br>Germany | +49 (0)6196 76 93 130 |
| **Canada**<br>If you have any questions about voting at the Annual General Meeting, dividends or your shareholding, please contact our registrar: | **www.standardlifeshareportal.com**<br>(English)<br>**www.standardlifeshareportal.com/fr**<br>(French) | **questions@standardlifeshares.ca**<br>Address:<br>Standard Life Shareholder Services<br>PO Box 4636<br>Station A<br>Toronto M5W 7A4 | 1-866-982-9939 |

* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

## Secretary, registered office and head office

Malcolm J Wood
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Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2013 (unless otherwise indicated).

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