

Standard Life Assurance Limited

Annual Financial Statements
for the year ended 31 December 2015

Registration no: Scotland Number SC286833

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Directors and officers

Directors

John Gill
Mark Hesketh
Paul Matthews
Luke Savage
Keith Skeoch
Ranjit Singh

Company Secretary

Frances Horsburgh

Registered Office

Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH

Registered Number

SC286833

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Level 4, Atria One,
144 Morrison Street,
Edinburgh
EH3 8EX

Report by the Directors

The directors present their report and the audited financial statements of Standard Life Assurance Limited (the Company) for the year ended 31 December 2015. The Company is an insurance company incorporated in Scotland (registration number SC286833).

Results and dividend

The result of the Company was a profit after tax attributable to shareholders of £122m (2014: £327m) which has been transferred to retained earnings. No interim dividend was paid in 2015 (2014: £nil). The directors recommend the payment of a cash dividend of £170m in respect of 2015 (2014: £190m) to be paid in March 2016.

Directors

The names of the current directors are listed on page 2. The changes to directors during the year are shown below:

David Nish (resigned 05 August 2015)

Keith Skeoch (appointed 05 August 2015)

The appointment of directors is not subject to retirement by rotation.

Directors liability insurance

During 2015, the Company maintained directors' and officers' liability insurance on behalf of its Directors and officers to provide cover should any legal action be brought against them. This liability insurance qualifies as a 3rd party indemnity and was in force at 18 February 2016.

Statement of disclosure of information to the auditors

In accordance with applicable company law, as the Company's directors, we certify that:

- So far as we are aware, there is no relevant information of which the Company's auditors are unaware; and
- As the directors of the Company we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



On behalf of the Board of Directors
Mark Hesketh, Director
Edinburgh
18 February 2016

Strategic Report

Review of Business

The main activities of the Company consist of the provision of life assurance and pension products in the UK, Ireland and Germany. Business is written in Ireland and Germany via branches. The assets and liabilities of the Canadian branch were transferred to the Manulife Group during the year (See note 23).

A review of the life and pensions business of the Standard Life Group, which includes the Company, is discussed in the UK and Europe section of the Strategic Report in the Group's Annual Report and Accounts which does not form part of this report. A summary of the key aspects is given below.

The Company performed well in 2015 considering the volatile markets and we look forward with confidence and optimism to delivering sustained growth as we continue to drive the business forward and respond to the changing needs of our customers and other key stakeholders. We aim to be customers' first choice for their life savings and aim to achieve this by providing engaging, digital-led solutions which can adapt to customers' needs over their lifetimes. We remain focused on maximising the generation of cash profit to support the progressive dividend policy of the Standard Life Group (the Group) and to create the capacity to reinvest in growing our business.

2015 saw the implementation of significant new regulations within the UK. The pension freedoms, effective from 6 April 2015, have provided customers with increased flexibility when accessing income in retirement. This resulted in operational challenges across the industry, with unprecedented levels of customer contact as our customers sought to understand their options. The increased complexity of options means call times lengthened considerably. Feedback from customers shows that they really value the thorough approach we take but one consequence is that customers have had to wait longer to speak to our experts than we would have liked. We are recruiting, training and improving processes to respond and help deliver this valuable service more quickly and efficiently. Our drawdown propositions provide customers with the quality and choice to make the most of their retirement.

In a market influenced by regulatory change, our workplace business continues to build scale. In April 2015, we upgraded pension schemes to ensure that all schemes used for auto enrolment complied with new regulations capping charges for Qualifying Workplace Pension Schemes.

The challenges arising from a prolonged low interest rate environment have been felt in a number of European jurisdictions. In Germany, we believe the level of guarantees typically provided by insurers have become unsustainable. Our German business with-profits book is no longer open to new business with the focus being on unit linked business.

In the July 2015 UK Budget, the Chancellor announced a Green Paper consultation on pension tax relief. We have engaged constructively in the debate to help ensure that any changes to tax relief balance the short-term fiscal savings with the long-term need to ensure that UK citizens are incentivised to save for retirement.

The Solvency II regime came into force in January 2016 bringing consistency to the way EU insurers manage capital and risk. We have enhanced our controls, risk models, technology and processes. Our internal model application has been approved by the Prudential Regulation Authority which means the capital we hold will be directly related to the risks we are exposed to and will take account of the benefits of the risk management tools we have in place.

Key performance indicators

The directors of Standard Life plc manage the Group operations on a business segment basis. The development, performance and position of the life and pensions business of the Group, which includes the Company, is discussed in the UK and Europe section of the Strategic Report in the Group's Annual Report and Accounts which does not form part of this report.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the risk management section within the Strategic Report in the Group's Annual Report and Accounts which does not form part of this report.

The level of funds we have under management and administration determines a significant part of our income from life and pensions. These funds are affected by changes in equity and bond markets.

The Company has robust plans in place to ensure that the Company and its subsidiaries have access to sufficient funding to meet operating requirements.

Financial risk management

The Company manages its various financial risks as outlined in Note 38 of the financial statements.

Strategic Report *continued*

Employees

The majority of the staff who manage the affairs of the Company are employed by Standard Life Employee Services Limited (SLES), a related party and their costs are recharged to the Company.

The Company is committed to engaging with employee representatives on a broad range of issues, including consultation on any major business change. The Company has a Partnership Agreement with VIVO, the Standard Life Staff Association, which outlines how the Company and VIVO will work on shared objectives including employment security, terms and conditions, equality and diversity and health and safety.

The Company is committed to an equal opportunities policy. The sole criterion for selection or promotion is the suitability of any applicant for the job regardless of ethnic origin, religion, sex, marital status or disablement.

The Company will continue to employ, arrange for retraining, or retire on disability pension any member of staff who becomes disabled, as may be appropriate.

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 Company. All employees are encouraged to participate in the Group share schemes.

Environmental matters and social and community issues

Information about environmental matters, including the impact of the Company's business on the environment, and information on social and community issues is given in the Sustainability Report in the Group's Annual Report and Accounts which does not form part of this report.



On behalf of the Board of Directors
Mark Hesketh, Director
Edinburgh
18 February 2016

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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 IFRSs as endorsed by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' report to the members of Standard Life Assurance Limited

Report on the financial statements

Our opinion

In our opinion, Standard Life Assurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Financial Statements (the "Annual Report"), comprise:

- Income statement and the statement of comprehensive income for the year then ended;
- Statement of financial position as at 31 December 2015;
- Statement of changes in equity for the year then ended
- Statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report by the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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; and
- the overall presentation of the financial statements.

Independent Auditors' report to the members of Standard Life Assurance Limited
continued

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited 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.



Stephanie Bruce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
18 February 2016

Income statement for the year ended 31 December 2015

		2015 £m	2014 £m
Notes			
Revenue			
Gross earned premium		1,408	1,559
Premium ceded to reinsurers		(91)	(136)
Net earned premium		1,317	1,423
Investment return	3	4,260	11,919
Fee income	4	592	590
Other income		32	20
Total net revenue		6,201	13,952
Expenses			
Claims and benefits paid		4,198	4,130
Claim recoveries from reinsurers		(580)	(602)
Net insurance benefits and claims		3,618	3,528
Change in reinsurance assets	29	563	(176)
Change in insurance and participating contract liabilities	29	(2,328)	3,239
Change in non-participating investment contract liabilities	29	3,386	5,345
Change in unallocated divisible surplus	29	(128)	23
Expenses under arrangements with reinsurers	5	42	639
Administrative expenses	6	803	775
Finance costs		20	36
Total expenses		5,976	13,409
Profit before tax		225	543
Tax expense attributable to policyholders' returns	9	28	162
Profit before tax attributable to equity holders		197	381
Total Tax expense		69	182
Less: Tax expense attributable to policyholders' returns		(28)	(162)
Tax expense attributable to shareholders' profits	9	41	20
Profit for the year		156	361
Attributable to:			
Non shareholders		34	34
Shareholders		122	327
Total profit attributable to equity holders		156	361

The notes on pages 14 to 105 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2015

		Shareholders' equity	Non shareholders' equity	Total equity
		2015	2015	2015
	Notes	£m	£m	£m
Profit for the year		122	34	156
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement gains on defined benefit pension plans	33	168	-	168
Total items that will not be reclassified to profit or loss		168	-	168
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(12)	-	(12)
Total items that may be reclassified subsequently to profit or loss		(12)	-	(12)
Total other comprehensive income		156		156
Total comprehensive income for the year		278	34	312

		Shareholders' equity	Non shareholders' equity	Total equity
		2014	2014	2014
	Notes	£m	£m	£m
Profit for the year		327	34	361
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement gains on defined benefit pension plans	33	292	-	292
Total items that will not be reclassified to profit or loss		292	-	292
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(18)	-	(18)
Total items that may be reclassified subsequently to profit or loss		(18)	-	(18)
Total other comprehensive income		274		274
Total comprehensive income for the year		601	34	635

The notes on pages 14 to 105 form an integral part of these financial statements.

Statement of financial position as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Intangible assets	11	64	39
Deferred acquisition costs	12	589	621
Investments in associates	13	4,513	4,060
Investments in subsidiaries	14	53,945	52,877
Investment property	15	5,800	5,050
Property and equipment	16	31	118
Pension and other post-retirement benefit assets	33	897	760
Deferred tax assets	17	7	8
Reinsurance assets	29	5,496	6,024
Loans	19	131	169
Derivative financial assets	20	1,572	1,703
Equity securities and interests in pooled investment funds	18	42,143	42,828
Debt securities	18	31,605	32,017
Receivables and other financial assets	21	496	410
Other assets	22	201	236
Assets held for sale	23	40	961
Cash and cash equivalents	24	2,016	1,765
Total assets		149,546	149,646
Equity			
Shareholders' equity:			
Share capital	25	21	20
Share premium	25	71	39
Retained earnings	26	1,813	1,695
Other reserves	27	539	569
Total shareholders' equity		2,444	2,323
Non shareholders' equity:			
Subordinated notes	28	502	502
Total non shareholders' equity		502	502
Total equity		2,946	2,825
Liabilities			
Non-participating insurance contract liabilities	29	16,108	17,356
Non-participating investment contract liabilities	29	92,728	88,055
Participating contract liabilities	29	29,615	31,209
Deposits received from reinsurers	30	5,134	5,642
Borrowings	31	14	19
Subordinated liabilities	32	317	611
Pension and other post-retirement benefit provisions	33	33	44
Deferred income	34	233	271
Current tax liabilities	17	58	128
Deferred tax liabilities	17	176	175
Derivative financial liabilities	20	138	188
Other financial liabilities	35	1,990	2,102
Other liabilities	36	56	60
Liabilities held for sale	23	-	961
Total liabilities		146,600	146,821
Total equity and liabilities		149,546	149,646

The financial statements on pages 14 to 105 were approved by the Board of Directors on 18 February 2016 and signed on its behalf by



Mark Hesketh

Statement of changes in equity for the year ended 31 December 2015

		Share capital	Share premium	Retained earnings	Other reserves	Total shareholders' equity	Non shareholders' equity	Total Equity
		2015	2015	2015	2015	2015	2015	2015
	Notes	£m	£m	£m	£m	£m	£m	£m
At 1 January		20	39	1,695	569	2,323	502	2,825
Profit for the year		-	-	122	-	122	34	156
Other comprehensive income / (expense) for the year		-	-	168	(12)	156	-	156
Total comprehensive income / (expense) for the year		-	-	290	(12)	278	34	312
Issue of share capital		1	32	-	-	33	-	33
Dividends and appropriations	10	-	-	(190)	-	(190)	(34)	(224)
Transfer between reserves on impairment of investment in subsidiary		-	-	18	(18)	-	-	-
At 31 December		21	71	1,813	539	2,444	502	2,946

		Share capital	Share premium	Retained earnings	Other reserves	Total shareholders' equity	Non shareholders' equity	Total equity
		2014	2014	2014	2014	2014	2014	2014
	Notes	£m	£m	£m	£m	£m	£m	£m
At 1 January		20	14	1,372	587	1,993	502	2,495
Profit for the year		-	-	327	-	327	34	361
Other comprehensive income / (expense) for the year		-	-	292	(18)	274	-	274
Total comprehensive income / (expense) for the year		-	-	619	(18)	601	34	635
Issue of share capital		-	25	-	-	25	-	25
Dividends and appropriations	10	-	-	(296)	-	(296)	(34)	(330)
At 31 December		20	39	1,695	569	2,323	502	2,825

The notes on pages 14 to 105 form an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2015

	Notes	2015 £m	2014 ¹ £m
Cash flows from operating activities			
Profit before tax		225	543
Adjusted for:			
Reversal of Impairment on property and equipment	6	(1)	(4)
Amortisation of intangible assets	6	7	5
Amortisation of deferred acquisition costs	6	81	84
Finance costs		20	36
Foreign exchange gain		(10)	(10)
Net decrease in operating assets and liabilities	37	1,372	584
Adjustment for non-cash movements in investment income		(707)	(647)
Taxation paid		(137)	(101)
Change in unallocated divisible surplus	29	(128)	23
Gain on disposal of property and equipment		(6)	-
Impairment losses on intangible assets	6	2	-
Net cash flows from operating activities		718	513
Cash flows from investing activities			
Purchase of intangibles	11	(34)	(12)
Proceeds from sale of property and equipment		98	-
Net cash flows from investing activities		64	(12)
Cash flows from financing activities			
Dividends paid		(190)	(296)
Interest paid		(41)	(42)
Repayment of other borrowings		(2)	(3)
Proceeds from issue of share capital		33	25
Repayment of subordinated debt		(282)	-
Appropriations		(34)	(34)
Net cash flows from financing activities		(516)	(350)
Net increase in cash and cash equivalents		266	151
Cash and cash equivalents at the beginning of the year		1,757	1,633
Effects of exchange rate changes on cash and cash equivalents		(13)	(27)
Cash and cash equivalents at the end of the year	24	2,010	1,757
Supplemental disclosures on cash flows from operating activities			
Interest received		1,120	1,238
Dividends received		1,319	1,309
Rental income received on investment property		262	245

¹ Cash and cash equivalents at end of the 2014 includes cash and cash equivalents in respect of operations held for sale

The Company's operating portfolio of investment assets includes unit trusts and other investment funds that are classified for financial reporting purposes as subsidiaries. Cash flows in relation to these assets are classified as operating cash flows.

Notes to the financial statements

1. Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRIC), 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 investment property, owner occupied property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements, unless otherwise stated.

(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 (IFRSs), International Accounting Standards (IASs), interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2015 unless otherwise stated. The Company's accounting policies have been updated to reflect these.

Interpretation or amendment	Effective Date ¹	Detail
IFRIC 21 <i>Levies</i>	17 June 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.
Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	1 February 2015	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.
Annual improvements 2010-2012 cycle and Annual improvements 2011-2013 cycle	1 February 2015 and 1 July 2014 respectively	These annual improvement cycles make 11 minor amendments to existing standards.

¹ For annual periods beginning on or after.

Management considers the implementation of the above interpretations and amendments to existing standards has had no significant impact on the Company's financial statements.

(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 after 1 January 2015. The Company has not early adopted the standards, amendments and interpretations described below:

IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, and related interpretations. IFRS 15 provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. Extensive new disclosure requirements including estimate and judgement thresholds will also be introduced.

The Company's revenue generated from the following contracts are exempt from this standard:

- Lease contracts within IAS 17;
- Insurance contracts within IFRS 4;
- Financial instruments as covered within IAS 39, IFRS 9, 10 and 11; and
- Investments in associates and joint ventures within IAS 28.

During 2015 the IASB has issued an exposure draft with clarifications to the standard and delayed the mandatory adoption date until 1 January 2018. The Company does not intend to early adopt the standard which has not been endorsed by the EU. A detailed impact assessment was commenced in 2015, by the Group reviewing contracts and analysing the revenue recognised. From the work completed to date, no material impacts to profit or net assets have been identified. Further analysis of the revenues generated by investment contracts within our insurance businesses will be completed in 2016.

Notes to the financial statements *continued*

1. Accounting Policies *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***

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative 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 classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss may now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI.

Additionally IFRS 9 amends the current requirements for assessing hedge effectiveness in IAS 39 and also amends what qualifies as a hedged item and some of the restrictions on what qualifies as a hedging instrument. The accounting and presentation requirements for designated hedging relationships remain largely unchanged.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements. The standard has not yet been endorsed by the EU.

An Exposure Draft was issued by the IASB in December 2015 proposing amendments to IFRS 4 Insurance Contracts. The amendments are intended to address the consequences of the different effective dates of IFRS 9 and the new insurance contracts standard by permitting insurers to either defer implementation of IFRS 9 to align with the implementation of the new insurance standard, if they satisfy criteria regarding the predominance of their insurance activities, or apply an overlay approach to remove incremental volatility from the income statement.

An initial high level assessment has been undertaken of the impact of implementing IFRS 9. It is not expected that the implementation will have a significant impact on the classification of financial assets and financial liabilities, with the Company continuing to classify the majority of these instruments as FVTPL in line with the current accounting policy. It is possible that based on the business model being applied on the adoption date of IFRS 9 certain portfolios of debt securities in the shareholder business risk segment may be classified as either FVTPL or FVOCI (at 31 December 2015 these portfolios have a fair value of £0.6bn compared to total financial assets of £136bn). The implementation of the new impairment model and the revised requirements for the application of hedge accounting are not expected to have a significant impact.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

The IASB issued the new standard on leases in January 2016. Management are currently reviewing the new requirements and the impact on the Company's financial statements will be assessed in due course. The standard has not yet been endorsed by the EU.

Other

There are no other new standards, interpretations and amendments to existing standards that have been published that are expected to have a significant impact on the consolidated financial statements of the Company.

(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 period. 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 financial statements are as follows:

- Classification of insurance, reinsurance and investment contracts – Assessment of the significance of insurance risk transferred, and treatment of contracts which have insurance, non-participating investment and participating investment elements. Refer Note 29.
- Participating contracts, non-participating insurance contracts and reinsurance contracts – Determination of the valuation interest rates, and investment returns; determination of longevity and mortality assumptions and determination of expense. Refer Note 29.
- Defined benefit pension plans – Determination of UK pension plan assumptions for mortality, discount rate and inflation. Refer Note 33.
- Investment property and owner occupied property – Determination of the fair value of investment property and owner occupied property. Refer to Note 15 and 40
- Financial instruments at fair value through profit or loss - Determination of the fair value of private equity investments, debt securities categorised as level 3 in the fair value hierarchy and over-the-counter derivatives. Refer Note 40
- Assets whose carrying value is subject to impairment testing – refer to (b),(c),(j), (k),(q), (r) and Notes 11,12,13, 14 and 19
- Contingent liabilities - assessment of whether the Company has a contingent liability in a relation to conduct matters – refer Note 41

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(b) Subsidiaries

Subsidiaries are all entities, including structured entities which the Company is considered to control.

The Company has two categories of investment in subsidiaries: operating subsidiaries that undertake the activities of the Company and investment subsidiaries whose primary function is to generate capital or income growth through holding investments. Investment subsidiaries are held at fair value through profit or loss (FVTPL) since they are managed on a fair value basis. Equity investments in operating subsidiaries are held at cost less any impairment charge. Loans to subsidiaries are classified as loans and accounted for in line with (q).

(c) Associates

Associates are entities over which the Company has significant influence but not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee either directly or through another Group company acting as defacto agent. The Company considers itself to have significant influence over entities when, if through the Company's holding in a fund and if another Group company is the investment manager, it has decision making power over the relevant activities of that entity. Where the Company has an investment in associate, a portion of which is held indirectly through a mutual fund, unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at FVTPL in accordance with IAS 39.

(d) Structured entities

The Company has investments in a range of investment vehicles including open-ended investment companies (OEIC's), unit trusts and limited partnerships. These vehicles are structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity and as such are classified as structured entities. The Company's ownership interest in these vehicles can vary from day to day based on the Company and third party participation in them. The control assessment of each of these entities considers the rights of the Company to direct the relevant activities of the vehicle, its exposure to variability of returns and the ability to affect those returns using its power. In addition, the removal rights of other investors that may affect the capacity of the Company to direct the relevant activities are also taken into account. Where the Company is deemed to control such vehicles, they are presented as subsidiaries. Where the Company has an investment but not control over these types of entities, the investment is classified as an investment in associate where the Company has significant influence, or as equity securities and pooled investment funds in the statement of financial position.

(e) Foreign currency translation

The financial statements are presented in millions pounds Sterling, which is the Company's presentation currency.

The statement of financial position of the Company's branches that have a different functional currency than the Company'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 are recognised in other comprehensive income. 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 income statement but is recognised in other comprehensive income (refer also to (x)(iii)).

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 income statement.

Translation differences on non-monetary items, such as equity securities held at FVTPL, are reported as part of the fair value gain or loss in the income statement. Translation differences on financial assets and liabilities held at amortised cost are included in foreign exchange gains or losses in the income statement.

(f) Business combinations outside the scope of IFRS 3 *Business Combinations*

The Company accounts for business combinations that involve other entities in the Group and are outside the scope of IFRS 3 *Business Combinations* using merger accounting principles. 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.

Where such a business combination involves;

- a change in the operation of with profits funds which changes the measurement of participating contract liabilities and the present value of future profits (PVFP) on non-participating contracts with corresponding changes to the unallocated divisible

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(f) Business combinations outside the scope of IFRS 3 *Business Combinations*

surplus, these changes are not recognised in the change in participating contract liabilities, the change in the PVFP on non-participating contracts and the change in unallocated divisible surplus in the income statement. The liabilities are recognised at their revised valuation basis in the statement of financial position.

- the transfer to the Company of net assets from a subsidiary with a carrying value that is less than the corresponding reduction required to the carrying value of the investment in subsidiary, the impact is recognised in other comprehensive income.

(g) 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 (h)(ii). Life and pensions business contracts that are not considered to be insurance contracts are classified as investment contracts.

The Company has written life and pensions business 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 Company. 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.

(h) Revenue recognition

(h)(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 income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

The fee income associated with non-participating investment contracts is dealt with under policy (h)(iv).

(h)(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.

(h)(iii) Net investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified as FVTPL, including investment income received (such as interest payments) are recognised in the 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 income statement.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

- (h) Revenue recognition *continued*
- (h)(iii) Net investment return *continued*

For loans measured at amortised cost, interest income recognised in the income statement is calculated using the effective interest rate (EIR) method.

Dividend income is recognised in the income statement when the right to receive payment is established. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

(h)(iv) Fee 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 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 the Company 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.

(i) Expense recognition

(i)(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 income statement.

Deposit accounting is also applied to contracts with reinsurers that do not qualify as reinsurance contracts under policy (g).

(i)(ii) Claims and benefits paid

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the 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.

(i)(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 income statement.

(i)(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.

(i)(v) Change in unallocated divisible surplus (UDS)

The change in UDS recognised in the income statement comprises the movement in the UDS during the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the income statement as it is also recognised in other comprehensive income.

(i)(vi) 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 income statement as expenses under arrangements with reinsurers.

(i)(vii) Administrative expenses

Administrative expenses are recognised on an accruals basis.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(j) 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 income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets 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.

(k) Intangible assets

Intangible assets, including internally developed software and software purchased from third parties, are recognised in the statement of financial position if it is probable that the relevant future economic benefits attributable to the assets will flow to the Company and their cost 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 carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of between 6 and 10 years of the intangible asset. Impairment losses are calculated and recorded on an individual basis in a manner consistent with policy (h). Amortisation commences at the time from which an intangible asset is available for use.

(l) Deferred acquisition costs

(l)(i) 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.

(l)(ii) 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 Company 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.

(m) Investment property

Property held for long-term rental yields or investment gain that is not occupied by the Company 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 disposal. Gains or losses arising from changes in the fair value are recognised in the income statement. Investment property is not depreciated.

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 Company. 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.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(m) Investment property *continued*

Rental income from investment property is recognised in the 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.

(n) Property and equipment

Owner occupied property consists of property occupied by the Company. 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.

Increases in the fair value of owner occupied property are recognised in the revaluation reserve in equity. Decreases in the fair value of owner occupied property that offset previous increases in the same asset are recognised in other comprehensive income. All other decreases are charged to the income statement for the period.

Owner occupied property is depreciated on a straight-line basis over its estimated useful life, generally between thirty and fifty 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 assets and the costs attributable to bring the asset to its working condition for its intended use. Depreciation on equipment is charged to the income statement on a straight-line basis over their estimated useful lives of between two and fifteen years. The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

(o) Taxation

Current tax 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.

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 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 Company is able to control the timing of the reversal.

The tax expense is determined using rates enacted or substantively enacted at the reporting date.

The Company's long-term business in the UK and Ireland is subject to tax on policyholders' investment returns on certain products and to tax on shareholder profits. Policyholder tax is accounted for as a current tax and is included within the total tax expense. The total tax expense is analysed between shareholder tax and policyholder tax in the Company's income statement. Shareholder tax represents current and deferred tax on profits attributable to shareholders. Policyholder tax represents current and deferred tax on investment returns attributable to policyholders.

(p) Reinsurance assets

Reinsurance assets arise under contracts that are classified as reinsurance contracts (refer to policy (g)).

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.

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 income statement

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(q) 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 or that it has designated as FVTPL. Financial assets classified as loans include deposits with credit institutions, 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 at FVTPL, 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 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 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 income statement. Subsequent recoveries are credited to the 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 ongoing review to determine whether they remain impaired or past due.

(r) Equity securities, debt securities and derivatives including embedded derivatives

Management determines the classification of equity securities, debt securities and derivatives at initial recognition.

All of the Company's equity securities and 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 derivative instruments are classified as held for trading (HFT), except those designated as part of a hedging relationship.

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 income statement.

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 income statement.

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.

(s) Financial guarantee contracts

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*.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(t) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits, 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 are therefore measured at amortised cost. For the purposes of the statement of cash flows cash and cash equivalents also include bank overdrafts, which are included in borrowings on the statement of financial position.

(u) Non current assets held for sale

Assets and liabilities which have been classified as held for sale are presented separately in the statement of financial position. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated costs that are directly attributable to the disposal (excluding finance costs and current tax expense).

(v) Equity

(v)(i) Share capital and non shareholders' equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. An instrument is classified as an equity instrument 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 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 in the cost of acquisition.

If the Company or its subsidiaries acquire any equity instruments of the Company, any 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 equity instruments are sold, if the proceeds are equal to or less than the purchase price paid, the proceeds are recognised in retained earnings. If the proceeds exceed the purchase price, the excess over the purchase price is recognised in the share premium reserve if the sale is of equity instruments held by the Company as treasury shares under Companies Act 2006 and directly in retained earnings in other cases.

(v)(ii) Merger reserve

If the Company issues shares at a premium and the conditions for merger relief under s612 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'.

(w) Measurement - insurance and participating investment contract liabilities

For insurance contracts and participating investment contracts IFRS 4 Insurance Contracts permits the continued application of accounting policies that were being used at the date of transition to IFRS, 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 Company therefore applies accounting policies determined in accordance with the Association of British Insurers Statement of Recommended Practice issued in 2005 (ABI SORP) as described below. As permitted under the ABI, the Company 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 branches.

(x) Measurement - Participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities;
- Participating investment contract liabilities;
- PVFP on non-participating contracts, which is treated as a deduction from the gross participating contract liabilities; and
- Unallocated divisible surplus.

The policy for measuring each component is noted below.

(x)(i) Participating insurance and investment contract liabilities

Participating contract liabilities arising under contracts issued by a with profits fund falling within the scope of the PRA's realistic capital regime are measured on a PRA realistic basis. Under this approach the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(x) Participating contract liabilities *continued*

(x)(i) Participating insurance and investment contract liabilities *continued*

- With profits benefits reserves (WPBR) for the fund as determined under the PRA realistic basis; plus
- Future policy related liabilities (FPRL) for that fund as determined under the PRA realistic basis; less
- Any amounts due to shareholders included in FPRL; less
- The portion of future profits on non-participating contracts included in FPRL not due to shareholders, where this portion can be separately identified.

The WPBR is primarily based on the retrospective calculation of accumulated asset 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.

The Company's principal with profits fund is the Heritage With Profits Fund (HWPF). 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 the Board of the Company 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 Company's Shareholder Fund or Proprietary Business Fund (PBF) and thus accrue to the ultimate benefit of equity holders of Standard Life plc. Under the Scheme such transfers are subject to constraints 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.

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 of 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 reduce 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 the Company 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 (y)(i)).

(x)(ii) 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 directly or indirectly, of this value. 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 the 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 the UDS.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(x) Participating contract liabilities *continued*

(x)(iii) Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the Company'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 shareholders.

In relation to the HWPF, amounts are considered to be allocated to shareholders 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 Shareholder Fund or PBF of the Company. When the HWPF enters into a contingent loan agreement and the securitisation receipt transferred to the Shareholder Fund 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 shareholders 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:

- (i) 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.
- (ii) the recourse cash flows are recognised as they emerge as an addition to shareholders' 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.

(y) Non-participating contract liabilities

(y)(i) Non-participating insurance contracts

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 PRA requirements.

(y)(ii) Non-participating investment contracts

Unit linked non-participating investment contracts are separated into two components being an investment management services component and a financial liability. All fees and related administrative expenses are deemed to be associated with the investment management services component (see h(iv), l(ii), (dd)). The financial liability component is designated at FVTPL as it is implicitly managed on a fair value basis as its 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.

(z) Liability adequacy test

The Company 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 income statement.

(aa) 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 income statement over the period of the borrowings on an EIR basis.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(bb) 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 income statement 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.

(cc) Pension costs and other post retirement benefits

The Group operates two types of pension plans for staff:

- Defined benefit plans where the scheme is obligated to provide pension payments upon retirement to members as defined by the scheme rules; and
- Defined contribution plans where the Group has agreed to contribute to a member's pension plan but has no further payment obligations once the contributions have been paid.

The Company is the sponsoring employer for the defined benefit plans for the Group's employees in the UK, Germany and Ireland and therefore recognises the total net defined cost of the plans. The Group's liabilities in relation to its defined benefit plans are determined by annual actuarial calculations, carried out by independent actuaries. The Group has funded these liabilities in relation to its principal defined benefit plans by ring-fencing assets in an independent trustee-administered fund. The Group has further smaller defined benefit plans which are unfunded.

The statement of financial position must reflect assets or liabilities relating to each defined benefit pension plan. The liability recognised is the present value of the defined benefit obligation (estimated future cash flows are discounted using the yields on high quality corporate bonds) less the fair value of plan assets, if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if the Company considers that it has an unconditional right to a refund. The amount of surplus recognised will be limited by tax and expenses.

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 the statement of 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 Company pays contributions to publicly or privately administered pension insurance plans. The Company 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.

(dd) Deferred income

Front-end fees on service contracts, including investment management service contracts are deferred as a liability and amortised to the income statement over the period services are provided.

(ee) 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 possible obligations of the Company of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability. Contingent assets are disclosed if the inflow of economic benefits is probable, but not virtually certain.

(ff) Dividends and appropriations

Final dividends on share capital classified as equity instruments are recognised in equity when they have been approved by shareholders. Interim dividends on these shares are recognised in equity in the period in which they are paid. Coupon payments on debt instruments classified as equity instruments are recognised as appropriations of equity in the period in which they are paid.

(gg) 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 Company is the lessee, payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Notes to the financial statements *continued*

1. Accounting Policies *continued*

(gg) Leases *continued*

Where the Company is the lessor, lease income from operating leases is recognised in the 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 Company has not entered into any material finance lease arrangements as either the lessor or lessee.

(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 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 or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in 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 income statement.

2. Fund structures and insurance, investment and reinsurance contract terms

The Company operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company (SLAC) 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)

(a) Fund Structure

(a)(i) 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.

(a)(ii) 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 and investment 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.

Notes to the financial statements *continued*

2. Fund structures and insurance, investment and reinsurance contract terms *continued*

(a) Fund Structure *continued*

(a)(ii) Insurance and investment contracts issued before demutualisation *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 the Company 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 shareholders 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.

(a)(iii) Canada

The only Canadian business written by the PBF was in respect of stacking policies and structured settlement assignment policies as detailed below:

- Managing the portfolio of stacking business - a "second position" insurance on accumulation contracts and vested annuities, which had been issued by SLAC in conjunction with, and subsequently indemnity reinsured with Standard Life Assurance Company of Canada (SLCC), up to the time of demutualisation.
- The issuing of new stacking business, in conjunction with, and indemnity reinsured with SLCC.
- The issuing of structured settlement annuities to SLCC, in the case of third party structured settlement assignment policies issued by SLCC. These annuities are indemnity reinsured with SLCC.

On 31 December 2015 the Canadian branch was sold.

(b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below.

(b)(i) Insurance and investment contracts issued since demutualisation

UK annuity-in-payment contracts

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 based on the increase in the UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2015 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £373m (2014: £373m) and this represents approximately 9% (2014: 9%) 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 38 (b)(ii) below, 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 2015 is £348m (2014: £343m) and this represents approximately 9% (2014: 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 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

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.

Notes to the financial statements *continued*

2. Fund structures and insurance, investment and reinsurance contract terms *continued*

(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

(b)(i) Insurance and investment contracts issued since demutualisation *continued*

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 the Company, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the Company's statement of financial position.

UK unit linked investment bonds

Unit linked investment bonds (e.g. Capital Investment Bond) are single premium whole 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.

German unitised with profits deferred annuity contracts

German unitised with profits deferred annuities contracts were written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. These contracts were closed to new business in 2015. 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) 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 Company 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 38, 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 Company 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 Company'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 Company.

When setting payout levels, the Company 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 Company reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

Notes to the financial statements *continued*

2. Fund structures and insurance, investment and reinsurance contract terms *continued*

(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

(b)(ii) Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued*

In normal circumstances the Company 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 Company has no right to reduce benefits as defined in the relevant contractual terms and conditions. The Company 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 Company aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The Company 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 Company may, at its discretion, make fair deductions to reflect its assessment of the cost of guarantees. The Company 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 shareholder profits in 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

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 (g)) 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

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.

Notes to the financial statements *continued*

2. Fund structures and insurance, investment and reinsurance contract terms *continued*

(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*

(b)(ii) Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued*

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 Company 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 affected 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

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

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 (g)) 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

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 (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.

The Company 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 the Company holds a ring fenced pool of assets within the HWPF. See Note 38 on credit exposure and Note 5 - 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.

Notes to the financial statements *continued***2. Fund structures and insurance, investment and reinsurance contract terms *continued*****(b) Insurance, investment and reinsurance contract terms including guarantees and options *continued*****(b)(ii) Insurance and investment contracts issued before demutualisation and related reinsurance contracts *continued***

The longevity risk on certain non-participating annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk on certain annuities has been transferred to the PBF.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2015 is £2,869m (2014: £3,127m) and this represents approximately 33% (2014: 33%) of the total liability for UK annuity in payment contracts held within the HWPF.

The total liability at 31 December 2015 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,811m (2014: £1,972m) and this represents approximately 21% (2014: 21%) of the total liability for UK annuity in payment 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

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

3. Investment return

	2015	2014
	£m	£m
Financial instruments other than those at FVTPL		
Interest income		
Cash and cash equivalents	18	18
Loans	21	14
Other	7	8
Impairment losses on subsidiaries	(50)	-
Foreign exchange gains on instruments other than at FVTPL	9	10
Gains/losses on financial instruments other than those at FVTPL	5	50
Financial instruments at FVTPL		
Dividend income	2,081	1,997
Investment in associates	189	116
Investment in subsidiaries	582	2,687
Equity securities and interests in pooled investment funds	666	744
Debt securities	23	4,095
Derivative financial instruments	69	1,496
Loans	3	-
Gains/losses on financial instruments held at FVTPL	3,613	11,141
Investment property		
Rental income	265	240
Net fair value gains on investment property	377	488
	642	728
Total investment return	4,260	11,919

(Gains/(losses) other than dividend income

Notes to the financial statements *continued***4. Fee income**

		2015	2014
	Notes	£m	£m
Fee income on investment contracts at fair value		556	559
Fee income deferred during the year	34	(24)	(30)
Amortisation of deferred income	34	60	61
Total fee income		592	590

5. Expenses under arrangements with reinsurers

		2015	2014
		£m	£m
Interest payable on deposits from reinsurers		34	32
Premium Adjustments		8	607
Expenses under arrangements with reinsurers		42	639

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 the Company a corresponding amount is repaid from the deposit. Accrued interest and accrued Premium Adjustments are presented in deposits received from reinsurers in the statement of financial position.

6. Administrative expenses

		2015	2014
	Notes	£m	£m
Commission expenses		159	180
Other interest expenses		7	6
Staff costs and other employee related costs	7	218	179
Impairment losses (reversed)/ recognised on property and equipment	16	(1)	(4)
Impairment losses on intangible assets	11	2	-
Amortisation of intangible assets	11	7	5
Investment management expenses		169	163
Other		223	230
		784	759
Acquisition costs deferred during the year	12	(62)	(68)
Amortisation of deferred acquisition costs	12	81	84
Total administrative expenses		803	775

Notes to the financial statements *continued***7. Staff costs and other employee related costs**

Staff who manage the affairs of the Company are employed by Standard Life Employee Services Limited (SLES�), another subsidiary of Standard Life plc. The staff costs recharged to the Company are set out below.

		2015	2014
	Notes	£m	£m
The aggregate remuneration payable in respect of employees was:			
Wages and salaries		161	152
Social security costs		18	17
Other pension costs:			
Defined benefit plan	33	26	5
Defined contribution plan		13	5
Total staff costs and other employee related costs	6	218	179

		2015	2014
The average number of staff during the year was:			
United Kingdom		2,760	2,768
International		533	528
Total average number of staff		3,293	3,296

8. Auditors' remuneration

In 2015 auditors' remuneration amounted to £0.6m (2014: £0.5m) in respect of the audit of the Company's financial statements. Auditors' remuneration for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of Standard Life plc, the Company's ultimate controlling party, are required to disclose fees in respect of non-audit services on a consolidated basis.

9. Tax expense

The tax expense is attributed as follows:

	2015	2014
	£m	£m
Tax expense attributable to policyholders' returns	28	162
Tax expense attributable to shareholders' profits	41	20
Total tax expense	69	182

The standard rate of UK corporation tax for the accounting period is 20.25% (2014: 21.5%). The UK tax rate will reduce to 19% from 1 April 2017 and 18% from 1 April 2020. These future rate changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2015.

Notes to the financial statements *continued***9. Tax expense** *continued***(a) Tax expense**

	Notes	2015 £m	2014 £m
Current tax:			
United Kingdom		53	162
International		7	6
Adjustment to tax expense in respect of prior years		7	(7)
Total current tax		67	161
Deferred tax:			
Deferred tax expense arising from the current year		4	27
Adjustment to deferred tax expense in respect of prior years		(2)	(6)
Total deferred tax	17	2	21
Total tax expense		69	182
Attributable to shareholders' profits		41	20

Unrecognised tax losses of £nil from previous years were used to reduce current tax expense (2014: £nil). Unrecognised losses of £3m were used to reduce deferred tax expense (2014: £10m)

(b) Reconciliation of tax expense

	2015 £m	2014 £m
Profit before tax	225	543
Tax at 2015: 20.25% (2014: 21.50%)	46	117
Policyholder tax (net of tax at UK standard rate)	22	128
Permanent differences	-	(13)
Temporary timing differences	-	(2)
Different tax rates	(12)	(25)
Adjustment to current tax expense in respect of prior years	7	(7)
Recognition of previously unrecognised tax credit	-	(10)
Deferred tax not recognised	9	-
Adjustment to deferred tax expense in respect of prior years	(2)	(6)
Other	(1)	-
Total tax expense for the year	69	182

10. Dividends and appropriations

The directors have proposed a final dividend for the year of 11 pence per ordinary share (2014: 12.35 pence), £170m (2014: £190m). There was no interim dividend paid for 2015 (2014: nil).

An appropriation of £34m (2014: £34m) was paid to Standard Life plc in the year in respect of the sterling subordinated guaranteed bonds.

Notes to the financial statements *continued***11. Intangible assets**

	Notes	2015 £m	2014 £m
Gross amount			
At 1 January		80	69
Additions		34	12
Foreign exchange adjustment		(1)	(1)
At 31 December		113	80
Accumulated amortisation			
At 1 January		(41)	(36)
Amortisation charge for the year	6	(7)	(5)
Impairment charge	6	(2)	-
Foreign exchange adjustment		1	-
At 31 December		(49)	(41)
Carrying amount at 1 January		39	33
Carrying amount at 31 December		64	39

Intangible assets are all internally generated and relate to capitalised software development costs.

12. Deferred acquisition costs

	Notes	2015 £m	2014 £m
At 1 January		621	655
Additions during the year	6	62	68
Amortisation charge	6	(81)	(84)
Foreign exchange adjustment		(13)	(18)
At 31 December		589	621

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £511m (2014: £542m).

Included in deferred acquisition costs above are costs deferred on investment contracts (known as deferred origination costs) amounting to £407m (2014: £444m).

13. Investments in associates

	Notes	2015 £m	2014 £m
Investments in associates measured at FVTPL	18	4,513	4,060
Total investments in associates		4,513	4,060

A complete list of the Company's associates, is included in Note 45.

Notes to the financial statements *continued***14. Investments in subsidiaries**

The investments in subsidiaries balance comprises:

		2015	2014
	Notes	£m	£m
Equity investments – held at cost		400	413
Equity investments – held at FVTPL	18	53,330	52,219
Loans	18	215	245
Total investments in subsidiaries		53,945	52,877

(a) The movement in equity investments held at cost during the year was as follows:

		2015	2014
	Notes	£m	£m
At 1 January		413	388
Additions		37	25
Impairment losses		(50)	-
At 31 December		400	413

Standard Life International Limited, a subsidiary of the Company, announced the closure of its branch in Dubai in November 2014 and of its branch in Singapore in June 2015. In light of these closures the Company has recognised an impairment charge and reduced the carrying value of Standard Life International Limited by £50m.

(b) The movement in equity investments held at FVTPL during the year was as follows:

		2015	2014
	Notes	£m	£m
At 1 January		52,219	47,758
Fair value gains		533	2,606
Acquisitions of controlling interest or increase of interest held		35,067	32,707
Cessation of controlling interest or disposal of interest held		(34,100)	(30,271)
Foreign exchange adjustment		(389)	(581)
At 31 December	18	53,330	52,219

(c) The movement in loans during the year was as follows:

		2015	2014
	Notes	£m	£m
At 1 January		245	194
Additions		10	63
Settlement		(32)	(7)
Foreign exchange adjustment		(8)	(5)
At 31 December	18	215	245

Notes to the financial statements *continued***14. Investments in subsidiaries *continued***

(d) The following are particulars of the Company's significant subsidiaries held at cost at 31 December 2015, all of which are unlisted entities except where noted:

Name of subsidiary	Country of Incorporation or registration	% interest held		Nature of business
		2015	2014	
Standard Life Lifetime Mortgages Limited	Scotland	100%	100%	Mortgage finance
Standard Life Pension Funds Limited	Scotland	100%	100%	Life assurance
Standard Life Savings Limited	Scotland	100%	100%	Investment management
Standard Life Investment Funds Limited	Scotland	100%	100%	Life assurance
Standard Life Assurance Company 2006 *	Scotland	100%	100%	Life assurance
Standard Life International Limited	Ireland	100%	100%	Life assurance
Standard Life Client Management	Scotland	100%	100%	Investment management

* The Standard Life Assurance Company 2006 is a sole member company with the Company being the sole member.

(e) The following are particulars of the Company's significant investment in subsidiaries held at FVTPL at 31 December 2015, all of which are unlisted entities except where noted:

Name of subsidiary	Country of Incorporation or registration	% interest held		Nature of business
		2015	2014	
SLI Global Absolute Return Strategies Trust**	Scotland	68%	71%	OEIC ****
SLTM - Standard Life UK Government Bond Trust **	Scotland	100%	100%	Unit trust
SICAV Euro Government All Stocks Fund-SF-EB	Luxembourg	100%	100%	OEIC ****
SLTM - Standard Life Short Dated UK Government Bond**	Scotland	100%	93%	Unit trust
Standard Life European Trust II **	Scotland	100%	100%	Unit trust
Standard Life Pacific Basin Trust**	Scotland	96%	98%	OEIC ****
SLI (Global Liquidity Funds) Sterling VNAV Liquidity Fund	Ireland	69%	57%	OEIC****
Standard Life Investment Company III	Scotland	73%	75%	OEIC ****
SLTM - Standard Life Multi-Asset Trust **	Scotland	100%	98%	Unit trust
SLTM - Standard Life UK Corporate Bond Trust **	Scotland	100%	62%	Unit trust
Standard Life International Trust	Scotland	100%	100%	Unit trust

** Indicates the entity has a different reporting date to the Company.

**** Open ended investment company (OEIC).

A complete list of the Company's subsidiaries, including unit trusts and OEICs is included in Note 45.

Notes to the financial statements *continued***15. Investment property**

	Notes	2015 £m	2014 £m
At 1 January		5,050	4,161
Additions - acquisitions		283	319
Additions - subsequent expenditure		217	167
Net fair value gains		377	488
Foreign exchange adjustment		(1)	(4)
Disposals		(105)	(107)
Reclassified as held for sale during the year		(40)	-
Other		19	26
At 31 December		5,800	5,050

The fair value of investment property can be analysed as:

Freehold	4,050	3,519
Long leasehold	1,684	1,469
Short leasehold	66	62
	5,800	5,050

The rental income arising from investment property during the year amounted to £265m (2014: £240m), which is included in investment return (set out in Note 3). Direct operating expenses (included within other administrative expenses) arising in respect of such property during the year amounted to £21m (2014: £21m).

The methods and assumptions used to determine fair value for investment property and property under development are discussed in Note 40 – Fair value of assets and liabilities. All property 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.

The valuations are prepared in accordance with Royal Institution of Chartered Surveyors valuation standards or local equivalents. 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.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment property were as follows:

	2015 £m	2014 £m
Not later than one year	265	238
Later than one year and no later than five years	893	803
Later than five years	3,320	2,828
Total operating lease receivables	4,478	3,869

Notes to the financial statements *continued***16. Property and equipment**

		Owner occupied property £m	Equipment £m	Total £m
	Notes			
Cost or valuation				
At 1 January 2015		118	4	122
Disposals		(92)	-	(92)
Impairment losses recognised	6	-	-	-
Impairment losses reversed	6	1	-	1
Revaluations	27	4	-	4
At 31 December 2015		31	4	35
Accumulated depreciation				
At 1 January 2015		-	(4)	(4)
At 31 December 2015		-	(4)	(4)
Carrying amount at 31 December 2015		31	-	31

		Owner occupied property £m	Equipment £m	Total £m
	Notes			
Cost or valuation				
At 1 January 2014		110	4	114
Impairment losses recognised	6	(1)	-	(1)
Impairment losses reversed	6	5	-	5
Revaluations	27	4	-	4
At 31 December 2014		118	4	122
Accumulated depreciation				
At 1 January 2014		-	(4)	(4)
At 31 December 2014		-	(4)	(4)
Carrying amount at 31 December 2014		118	-	118

If owner occupied property was measured using the cost model, the carrying amounts would be £28m (2014: £135m). 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 the same as those for investment property set out in Note 15 – Investment property and are discussed in Note 40 – Fair value of assets and liabilities.

Notes to the financial statements *continued***17. Tax assets and liabilities**

	Notes	2015 £m	2014 £m
Current tax recoverable	22	142	163
Deferred tax assets		7	8
Total tax assets		149	171
Current tax liabilities		58	128
Deferred tax liabilities		176	175
Total tax liabilities		234	303

There are no current tax assets or liabilities expected to be recoverable or payable in more than 12 months (2014: £nil).

(a) Recognised deferred tax

	Notes	2015 £m	2014 £m
Deferred tax assets comprise:			
Actuarial liabilities		5	5
Losses carried forward		6	9
Realised losses on investments		-	1
Depreciable assets		31	34
Deferred income		20	30
Insurance related items		5	4
Tax acquisition expenses		7	9
Temporary timing differences		15	4
Other		3	-
Gross deferred tax assets		92	96
Less: offset against deferred tax liabilities		(85)	(88)
Net deferred tax assets		7	8
Deferred tax liabilities comprise:			
Unrealised gains on investment securities		146	139
Deferred acquisition costs		108	121
Insurance related items		6	2
Temporary timing differences		1	1
Gross deferred tax liabilities		261	263
Less: offset against deferred tax assets		(85)	(88)
Net deferred tax liabilities		176	175
Movements in deferred tax assets/(liabilities) comprise:			
At 1 January		(167)	(148)
Amounts debited to net profit	9	(2)	(21)
Exchange differences		-	2
At 31 December		(169)	(167)

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 £6m (2014: £10m) for the Company has been recognised in respect of the losses of various subsidiaries and realised losses on investment securities. 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.

Notes to the financial statements *continued***17. Tax assets and liabilities *continued***

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/ (liabilities):

- Tax reserves of the German branch of the Company of £26m (2014: £37m).
- Losses carried forward of £40m (2014: £nil)
- Unrealised investment and trading losses of £20m (2014: £17m).

18. Financial investments

		2015	2014
	Notes	£m	£m
Financial investments at FVTPL:			
Classified as held for trading:			
Derivative financial assets	20	1,572	1,703
Total financial investments designated as held for trading		1,572	1,703
Designated upon recognition:			
Equity securities and interests in pooled investment funds	40	42,143	42,828
Debt securities	40	31,605	32,017
Investments in associates	13	4,513	4,060
Investments in subsidiaries	14	53,330	52,219
Total financial investments designated upon initial recognition		131,591	131,124
Total financial investments at FVTPL		133,163	132,827
Loans and receivables:			
Loans	19	131	169
Receivables and other financial assets	21	496	410
Investments in subsidiaries – loans	14	215	245
Cash and cash equivalents	24	2,016	1,765
Assets held for sale – receivables and other financial assets	23	-	9
Total loans and receivables		2,858	2,598
Total financial investments		136,021	135,425

The amount of debt securities expected to be recovered after more than 12 months is £28,545m (2014: £29,831m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

19. Loans

		2015	2014
	Notes	£m	£m
Loans comprise:			
Loans secured by mortgages	40	63	80
Loans secured on policies		3	4
Deposits with banks in excess of 3 months		65	85
Total loans	18	131	169

Loans with variable rates and fixed interest rates are £67m and £64m respectively (2014: £84m and £85m respectively). Loans that are expected to be recovered after more than 12 months are £114m (2014: £143m).

Notes to the financial statements *continued***20. Derivative financial instruments**

The Company 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 achieve efficient portfolio management or for the transfer of risk between business units.

All derivative instruments have been classified as held for trading and are not part of a designated hedge relationship.

The following table provides an analysis of derivative instruments:

	Contract amount £m	2015 Fair value assets £m	Fair value liabilities £m	Contract amount £m	2014 Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Futures	2,401	9	24	2,510	5	58
Options	2,834	453	1	4,019	269	55
Interest rate derivatives:						
Interest rate swaps	4,072	408	15	3,959	535	27
Options	-	-	-	68	13	-
Interest rate floors	63	11	-	-	-	-
Swaptions	5,290	662	1	4,484	764	-
Foreign exchange derivatives:						
Forwards	2,991	20	46	3,436	41	20
Other derivatives:						
Inflation rate swaps	268	-	16	1,039	10	17
Credit default swaps	781	4	2	-	-	-
Bond derivatives:						
Futures	3,633	5	33	4,293	66	11
Total derivative financial instruments held for trading	22,333	1,572	138	23,808	1,703	188

Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

31 December 2015	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	1,156	227	205	54	61	464	2,167
Derivative financial liabilities	2,138	5	3	-	-	-	2,146
Total cash inflows	3,294	232	208	54	61	464	4,313
Cash outflows							
Derivative financial assets	(964)	-	(13)	(31)	(22)	-	(1,030)
Derivative financial liabilities	(2,240)	(13)	(6)	(13)	(11)	(27)	(2,310)
Total cash outflows	(3,204)	(13)	(19)	(44)	(33)	(27)	(3,340)
Net derivative financial instruments cash flows	90	219	189	10	28	437	973

Notes to the financial statements *continued***20. Derivative financial instruments** *continued*

Cash inflows and outflows are presented on a net basis where the Company is required to settle this net.

31 December 2014	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	1,998	220	254	138	101	383	3,094
Derivative financial liabilities	1,084	-	-	-	-	-	1,084
Total cash inflows	3,082	220	254	138	101	383	4,178
Cash outflows							
Derivative financial assets	(2,404)	(2)	(1)	(13)	-	-	(2,420)
Derivative financial liabilities	(1,178)	(18)	(9)	(2)	(1)	(16)	(1,224)
Total cash outflows	(3,582)	(20)	(10)	(15)	(1)	(16)	(3,644)
Net derivative financial instruments cash flows	(500)	200	244	123	100	367	534

21. Receivables and other financial assets

	Notes	2015 £m	2014 £m
Amounts receivable on direct insurance business		83	98
Amounts receivable on reinsurance contracts		1	1
Outstanding sales of investment securities		36	32
Accrued income		89	84
Due from related parties		100	41
Other		187	154
Receivables and other financial assets	18	496	410

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 £48m (2014: £31m).

22. Other assets

	Notes	2015 £m	2014 £m
Current tax recoverable	17	142	163
Prepayments		18	14
Other		41	59
Total other assets		201	236

The amount of other assets expected to be recovered after more than 12 months is £nil (2014: £nil).

Notes to the financial statements *continued***23. Assets and liabilities held for sale**

The assets and liabilities of held for sale for the year ended 31 December 2014 related to the business of Canada branch which was sold to the Manulife Group on 31 December 2015. The assets and liabilities held for sale for the year ended 31 December 2015 relate to two investment properties for which contracts have been exchanged during 2015 but the sales have not completed.

	Financial assets							
	Designated as at fair value through profit or loss		Loans and receivables		Insurance contracts		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Assets held for sale								
Reinsurance assets	-	-	-	-	-	952	-	952
Investment property	40	-	-	-	-	-	40	-
Receivables and other financial assets	-	-	-	9	-	-	-	9
Total assets held for sale	40	-	-	9	-	952	40	961

	Financial liabilities							
	Designated as at fair value through profit or loss		Amortised cost		Insurance contracts		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Liabilities held for sale								
Non-participating insurance contract liabilities	-	-	-	-	-	651	-	651
Non-participating investment contract liabilities	-	-	-	310	-	-	-	310
Total liabilities held for sale	-	-	-	310	-	651	-	961

24. Cash and cash equivalents

	Notes	2015	2014
		£m	£m
Cash at bank and in hand		228	287
Money at call and short notice		147	149
Demand, term deposits and debt instruments with less than three months to maturity from acquisition		1,641	1,329
Total cash and cash equivalents	18	2,016	1,765

	Notes	2015	2014
		£m	£m
Cash and cash equivalents		2,016	1,765
Bank overdrafts	31	(6)	(8)
Total cash and cash equivalents for statement of cash flows		2,010	1,757

Cash in hand is non-interest bearing. All other cash and cash equivalents are subject to variable interest rates.

Notes to the financial statements *continued***25. Share capital****Authorised share capital****Issued share capital**

The allotted, issued and paid up share capital of the Company at the year end was:

	2015	2015	2014	2014
	Number	£'000	Number	£'000
Ordinary shares of £0.01 each	1,500,000,000	15,000	1,500,000,000	15,000
Ordinary shares of £0.01 each, £1 paid	70,800,000	708	39,000,000	390
Non-voting 'B' Ordinary shares of £1 each	5,000,000	5,000	5,000,000	5,000
Total	1,575,800,000	20,708	1,544,000,000	20,390

The following table summarises the movement in the £0.01 ordinary shares during the year:

	2015	2015	2014	2014
	Number	£'000	Number	£'000
At 1 January	1,539,000,000	15,390	1,514,000,000	15,140
Share issue	31,800,000	318	25,000,000	250
At 31 December	1,570,800,000	15,708	1,539,000,000	15,390

All the £0.01 ordinary shares in issue in the Company rank *pari passu* and carry the same voting rights and the rights to receive dividends and other distributions declared or paid by the Company.

In 2015 31,800,000 (2014:25,000,000) £0.01 ordinary shares were issued at a price of £1 each. This resulted in the creation of £32m (2014: £25m) share premium, giving total share premium of £71m (2014: £39m).

The holders of 'B' ordinary shares are entitled to a discretionary non-cumulative dividend accruing at a specified rate per annum. The 'B' ordinary shares do not confer any further right of participating in the profits or assets of the Company other than as specified.

26. Retained earnings

	Notes	2015 £m	2014 £m
At 1 January		1,695	1,372
Profit for the year attributable to shareholders		122	327
Remeasurement gains on defined benefit pension plans	33	168	292
Dividends paid		(190)	(296)
Transfer from merger reserve due to impairment		18	
At 31 December		1,813	1,695

Notes to the financial statements *continued***27. Movements in other reserves**

The movement in the Company's other reserves during the year is as follows:

	Notes	Revaluation of owner occupied property £m	Foreign currency translation £m	Capital contribution reserve £m	Merger reserve £m	Special reserve £m	Restructuring reserve £m	Total £m
At 1 January 2015		-	(2)	14	42	661	(146)	569
Revaluation of owner occupied property	16	4	-	-	-	-	-	
Exchange differences on translating foreign operations		-	(12)	-	-	-	-	(12)
With profits fund: Associated UDS movement recognised in equity	29	(4)						
Transfer to retained earnings due to impairment		-	-	-	(18)	-	-	(18)
At 31 December 2015		-	(14)	14	24	661	(146)	539

	Notes	Revaluation of owner occupied property £m	Foreign currency translation £m	Capital contribution reserve £m	Merger reserve £m	Special reserve £m	Restructuring reserve £m	Total £m
At 1 January 2014		-	16	14	42	661	(146)	587
Revaluation of owner occupied property	16	4						
Exchange differences on translating foreign operations		-	(18)	-	-	-	-	(18)
With profits fund: Associated UDS movement recognised in equity	29	(4)						
At 31 December 2014		-	(2)	14	42	661	(146)	569

Capital contribution reserve: On 10 July 2006 Standard Life plc made a capital contribution of £200k to the Company. In August 2010 Standard Life plc made an additional capital contribution to the Company of £14m.

Merger reserve: On demutualisation of The Standard Life Assurance Company (SLAC) on 10 July 2006 the demutualisation shares issued by the Company qualified for merger relief under section 131 of the UK Companies Act 1985 (which has now been superseded by section 612 of the UK 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 book value of subsidiaries at the time of demutualisation and nominal value of the shares was transferred to the merger reserve. Immediately after demutualisation of SLAC certain subsidiaries that had been transferred to the Shareholder Fund were distributed, as a dividend in specie, to Standard Life plc. The element of the merger reserve that relates to the subsidiaries that were transferred to Standard Life plc was realised as a result of the dividend in specie. The impairment charge arising following the classification of Standard Life Bank plc in the investment in subsidiaries held for sale category in 2009 and the subsequent sale of Standard Life Bank plc in 2010 led to the element of the merger reserve attributable to Standard Life Bank plc being transferred to retained earnings. Following a Part VII transfer on 31 December 2011 the element of the merger reserve attributable to SLIF (£2m) was released. As set out in Note 14 the carrying value of Standard Life International Limited was reduced by an impairment charge of £50m in 2015, and the element (£18m) of the merger reserve attributable to Standard Life International Limited was released.

Special reserve: On 21 July 2006, the Court of Session confirmed the cancellation of the Company's entire share premium account of £1,766m. Following the reduction, a special reserve was created for the same amount against which was written off the sum of £1,005m, being the debit reserve which arose from the application of merger accounting principles to the demutualisation transaction and which represented the difference between the fair value and the book value of the life business assets and liabilities of SLAC at the time they were transferred to the Company. The special reserve forms part of the Company's distributable profits for the purpose of section 830 of the Companies Act 2006. In 2012, a dividend of £100m was paid from the special reserve.

Restructuring reserve: On 31 December 2011, the long term business of SLIF, a wholly owned subsidiary of the Company, was transferred to the Company, under a Scheme of Transfer pursuant to Part VII of the Financial Services and Markets Act 2000. Following the Part VII transfer £146m was transferred to the restructuring reserve being the difference between the net assets transferred under the scheme and the value of the investment in subsidiary. Following merger accounting principles this reserve was created to reflect this balance in equity.

Notes to the financial statements *continued***28. Non shareholders' equity**

The carrying value of the 6.75% £500,000,000 non shareholders' equity at the year end is as follows:

	2015	2014
	£m	£m
Principal	486	486
Accrued interest	16	16
Total	502	502

The subordinated guaranteed bonds, issued to Standard Life plc, 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 5 year benchmark gilt on the reset date. The Company can elect to defer the payment of the interest on the bonds. Interest will accrue on any deferral at the then current rate of interest on the bonds.

In accordance with the requirements of IAS 32 *Financial Instruments: Presentation*, the subordinated guaranteed bonds are classified as non shareholders' equity. Interest and accrued interest on any deferral are treated as profit attributable to non shareholders and amounted to £34m (2014: £34m).

29. Insurance contracts, investment contracts and reinsurance contracts

	Notes	2015	2014
		£m	£m
Non-participating contract liabilities			
Non-participating insurance contracts	29(a)	16,108	17,356
Non-participating investment contracts	29(b)	92,728	88,055
		108,836	105,411
Participating contract liabilities			
Participating insurance contracts	29(a)	14,283	15,397
Participating investment contracts	29(a)	14,716	15,191
Unallocated divisible surplus	29(d)	616	621
		29,615	31,209

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts** *continued*

a) The movement during the year in insurance contract liabilities, participating investment contract liabilities and reinsurance assets is as follows:

	Participating insurance contract liabilities £m	Non participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurers' share of liabilities (reinsurance assets) £m	Net 2015 £m
At 1 January 2015	15,397	17,356	15,191	47,944	(6,024)	41,920
Expected change	(1,042)	(873)	(902)	(2,817)	388	(2,429)
Methodology/modelling changes	17	26	(22)	21	-	21
Effect of changes in:						
Economic assumptions	147	(533)	(17)	(403)	143	(260)
Non-economic assumptions	(226)	(48)	182	(92)	8	(84)
Effect of:						
Economic experience	315	8	152	475	14	489
Non-economic experience	107	29	142	278	10	288
New business	37	146	27	210	-	210
Total change in contract liabilities	(645)	(1,245)	(438)	(2,328)	563	(1,765)
Recapture of business from subsidiary	-	-	-	-	3	3
Movements in assets held for sale during the year	-	42	-	42	(42)	-
Foreign exchange adjustment	(469)	(45)	(37)	(551)	4	(547)
At 31 December 2015	14,283	16,108	14,716	45,107	(5,496)	39,611

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 net of reinsurance of £84m includes a decrease of £44m in respect of participating business which is primarily in respect of changes in 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 £40m (net of reinsurance) in respect of non-participating business, which primarily relates to changes in mortality.

Economic assumptions reflects changes in fixed income yields, leading to higher valuation interest 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.

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts *continued***

	Participating insurance contract liabilities £m	Non - participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurers' share of liabilities (reinsurance assets) £m	Net 2014 £m
At 1 January 2014	14,393	17,000	14,703	46,096	(6,826)	39,270
Expected change	(1,014)	(730)	(701)	(2,445)	360	(2,085)
Methodology/modelling changes	(3)	(82)	44	(41)	-	(41)
Effect of changes in:						
Economic assumptions	356	1,633	(343)	1,646	(421)	1,225
Non-economic assumptions	37	(67)	(53)	(83)	7	(76)
Effect of:						
Economic experience	2,106	76	1,333	3,515	(73)	3,442
Non-economic experience	79	51	252	382	(8)	374
New business	42	201	22	265	(41)	224
Total change in contract liabilities	1,603	1,082	554	3,239	(176)	3,063
Reclassified as held for sale	-	(651)	-	(651)	952	301
Foreign exchange adjustment	(599)	(75)	(66)	(740)	26	(714)
At 31 December 2014	15,397	17,356	15,191	47,944	(6,024)	41,920

Non participating insurance contracts - Principal assumptions

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 and Irish annuity business and German non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used. The valuation interest rates used are:

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts** *continued*

Non-participating	2015	2014
1. Business held within the PBF Annuities		
Individual/group		
life	3.05%	2.69%
pensions	3.05%	2.69%
linked to RPI	(0.47%)	(0.72%)
2. Business held within the HWPF Annuities		
Individual/group		
Non-linked		
life	2.30%	2.20%
pensions: reinsured externally	2.35%	2.15%
pensions: not reinsured externally	2.80%	2.55%
deferred annuities	2.80%	2.55%
Linked to RPI		
reinsured externally	(0.60%)	(0.80%)
not reinsured externally	(0.45%)	(0.90%)
deferred annuities	(1.00%)	(1.95%)

Mortality rates

The future mortality assumptions are based on historical experience with an allowance for future mortality improvement in annuities. The Company's own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2015	2014
Annuities		
Individual and group in deferment	Males: 67.0% AMC00 Females: 65.2% AFC00	Males: 71.5% AMC00 Females: 70.8% AFC00
Individual after vesting (business written after 10 July 2006)	Males: 92.6% RMC00 Females: 100.3% RFC00	Males: 92.2% RMC00 Females: 99.5% RFC00
Individual after vesting (business written prior to 10 July 2006)	Males: 97.1% RMC00 Females: 104.0% RFC00	Males: 96.7% RMC00 Females: 103.7% RFC00
Group after vesting (business written after 10 July 2006)	Males: 112.1% RMV00 Females: 119.9% WA00	Males: 111.1% RMV00 Females: 115.0% WA00
Group after vesting (business written prior to 10 July 2006)	Males: 111.6% RMV00 Females: 120.8% WA00	Males: 110.7% RMV00 Females: 115.8% 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. This is based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2013 model with long-term improvement rates of 1.8% for males and 1.5% for females in 2015 (unchanged from 2014). 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.

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts** *continued*

The Company's parameterisation of the CMI_2013 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 the Company's historic experience.

Expenses

The assumptions for future policy expense levels are determined from the Company'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 3.12% (2014: 3.61%) 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 unutilised 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.

Business in Ireland

The assumptions for Irish business are derived in a similar manner to those above.

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 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 shareholders 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:

		2015	2014
	Notes	£m	£m
Participating contract liabilities before apportionment		28,890	30,512
Apportionment of non-participating PVFP		109	76
		28,999	30,588
Participating insurance contracts		14,283	15,397
Participating investment contracts		14,716	15,191
Participating contract liabilities after apportionment		28,999	30,588
Unallocated divisible surplus before apportionment		1,599	1,657
Apportionment of non-participating PVFP		(983)	(1,036)
Unallocated divisible surplus after apportionment	29(d)	616	621

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts** *continued*

The economic assumptions for the calculation of the present value of future profits on non-participating insurance and investment contracts are shown in the table below:

	2015	2014
Risk discount rate	3.91% - 4.12%	3.06% - 3.27%
Investment returns		
Equity securities	2.01%	1.86%
Property	2.01%	1.86%
Fixed Interest – annuity/protection	2.22%	2.07%
Fixed Interest – other business	2.01%	1.86%
Expense inflation	3.12%	3.61%

The table above shows the changes in the basis between 2014 and 2015. 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.

The expense and mortality assumptions are best estimate assumptions determined from the Company'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) Change in non-participating investment contract liabilities is as follows:

	Notes	2015 £m	2014 £m
At 1 January		88,055	82,743
Contributions		12,549	11,289
Initial charges and reduced allocations		-	(3)
Account balances paid on surrender and other terminations in the year		(10,585)	(10,251)
Investment return and related benefits		3,386	5,345
Foreign exchange adjustment		(226)	(317)
Recurring management charges		(450)	(441)
Reclassified as held for sale		-	(310)
Movement in assets held for sale in the year		(1)	-
At 31 December		92,728	88,055

(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 38 – 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.

Notes to the financial statements *continued***29. Insurance contracts, investment contracts and reinsurance contracts**
continued

(d) Movement in unallocated divisible surplus (UDS)

	Notes	2015 £m	2014 £m
At 1 January		621	514
Revaluation of owner occupied property		4	4
Part VII transfer		37	-
Other		-	(1)
Change in UDS not recognised in the income statement		41	3
Change in UDS recognised in the income statement		(128)	23
Foreign exchange adjustment		82	81
At 31 December		616	621

On 11 March 2015, the Company received £37.5m of cash from the Standard Life Assurance Company 2006. This related to a transfer of residual assets on a subsequent transfer date under the Scheme of Demutualisation, being a continuation of the Part VII transfer which was sanctioned by the Court of Session on 9 June 2006. Full details of the impact of demutualisation were provided in the Company's 2006 financial statements.

30. Financial liabilities

	Notes	2015 £m	2014 £m
Financial liabilities at FVTPL:			
Classified as held for trading:			
Derivative financial liabilities	20	138	188
Total financial liabilities classified as held for trading		138	188
Designated upon recognition:			
Non-participating contract liabilities		92,724	88,051
Non-participating contract liabilities held for sale		-	651
Total financial liabilities designated upon initial recognition		92,724	88,702
Total financial liabilities at FVTPL		92,862	88,890
Financial liabilities measured at amortised cost:			
Non-participating contract liabilities		4	4
Non-participating contract liabilities held for sale		-	310
Deposits received from reinsurers		5,134	5,642
Borrowings	31	14	19
Subordinated liabilities	32	317	611
Other financial liabilities	35	1,990	2,102
Total financial liabilities recognised at amortised cost		7,459	8,688
Total financial liabilities		100,321	97,578

Notes to the financial statements *continued***31. Borrowings**

		2015	2014
	Notes	£m	£m
Bank overdrafts	24	6	8
Other		8	11
Total borrowings	30	14	19

Bank overdrafts are subject to variable interest rates. The carrying amount of bank overdrafts disclosed above reasonably approximate the fair values as at the year end. Other borrowings relate to mortgage loans.

The amount of borrowings expected to be settled after more than 12 months is £6m (2014: £8m).

32. Subordinated liabilities

(a) The subordinated liabilities balance is made up of:

		2015	2014
	Notes	£m	£m
Subordinated intercompany loans – Mutual Assurance Capital Securities			
6.546% £300,000,000 intercompany loan		317	317
5.314% €360,000,000 intercompany loan		-	294
Total subordinated liabilities	30	317	611

Subordinated liabilities are considered current if the contractual repricing or maturity dates are within one year.

The principal amount of the Sterling subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on subordinated liabilities of £20m (2014: £34m) is expected to be settled within 12 months.

Mutual Assurance Capital Securities (MACS)

The sterling denominated MACS bear interest at a rate of 6.546% per annum payable annually in arrears on 6 January. 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.

On 6 January 2015 the Company redeemed the outstanding principal of €360,000,000 on its 5.314% Euro fixed/floating rate perpetual Mutual Assurance Capital securities.

Subordinated loan note

The Company issued a subordinated loan note for £100 to its parent, Standard Life plc on 10 July 2006. The loan note at all times ranks senior to ordinary share capital and junior to Innovative Tier 1 capital of the Company. 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.

(b) Financial Guarantees

The payment of principal and interest in respect of the MACS has been irrevocably and unconditionally guaranteed by the Company. The claims of the bondholders to payment under the guarantee will rank below the claims of all senior creditors of the Company including policyholders. These guarantees are considered financial guarantee contracts (see accounting policy (s)) and were initially recognised at fair value. The fair value at 31 December 2015 is £nil (2014: £nil). The Company also provides a guarantee to the external guaranteed bonds bondholders (as this financial guarantee contract is a subordinated liability that is measured at nil)

33. Pension and other post-retirement benefit provisions

The details of the defined benefit and defined contribution pension plans operated by the Group in the United Kingdom, Republic of Ireland and Germany are outlined below. The Company is the sponsoring employer for the defined benefit plans. As there is no contractual agreement or policy for charging the net defined benefit cost of the defined benefit plans across the participating companies, the Company recognises the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

In December 2014, following a consultation with employees, the Group announced that the UK staff defined benefit pension plan would be closed to future accrual effective April 2016. From April 2016, all UK employees will accrue a pension through an enhanced defined contribution plan.

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions** *continued*

The Trustees of the UK defined benefit plan set the investment strategy to protect the funding ratio of the Trustees' funding position. The funding position is a Trustee measure that reflects the amount of assets required to pay future benefits and it is this position that determines contributions that the Group pays into the plan. Whilst the IAS 19 surplus of the UK scheme has increased significantly over 2015 the funding ratio has remained comparatively stable.

	Defined benefit	Defined contribution
UK	<p>The Company's largest defined benefit plan is for employees based in the UK. It closed to new entrants in November 2004 and changed from a final salary basis to a revalued career average salary basis in 2008. Employees will stop accruing further defined benefit pension under the plan from April 2016.</p> <p>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) The Trustees perform regular valuations to check that the statutory funding objective continues to be met.</p> <p>The trustees, after consulting with the employer, 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 needed, to restore funding to the level of the technical provisions. No recovery plan is currently required.</p> <p>At the 31 December 2013 triennial actuarial valuation the plan was 112% funded on the Trustees' technical provisions basis.</p> <p>The administrative expenses of this plan for the year ended 31 December 2015 were met by the plan. The administrative expenses of this plan for the year ended 31 December 2014 were met by the Group.</p>	<p>The Company currently contributes 9% of pensionable salary to each employee's plan.</p> <p>In December 2014 the Group announced that the contribution rate will be increased in April 2016 to 12% plus a further employer contribution (matching employee contributions) of up to 4%. Separate arrangements exist for some employees e.g. those in the executive job family.</p> <p>All UK employees will be offered membership of the plan from April 2016 – including those currently in the defined benefit plan.</p> <p>The Company has no further payment obligation once the contributions are paid.</p>
Other	<p>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.</p> <p>At the last actuarial valuation effective 1 January 2013 the Plan was 99% funded on an ongoing basis. The effective date of the next valuation is 1 January 2016.</p> <p>The Group operates a small unfunded defined benefit plan for employees in Germany.</p>	<p>The Company contributes 9% of members' pensionable salaries to a group flexible retirement plan.</p>

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

Defined contribution plans

The contributions by the Company to defined contribution plans recognised as an expense are £13m (2014: £5m).

Defined benefit plans**(a) Contributions to plans**

The following table shows the actual contributions made to the plans by all participating companies:

	2015	2014
	£m	£m
UK	6	37
Other	1	1

Expected contributions for all participating companies to the plans in 2016 are as follows:

	Defined benefit	Defined contribution
	2016	2016
	£m	£m
UK	-	29
Other	1	1

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions** *continued***(b) Analysis of amounts recognised in the income statement**

		2015	2014
	Notes	£m	£m
Current service cost		51	25
Interest income		(27)	(20)
Past service cost and gains/losses on settlement		-	-
Administration expenses		2	-
Charge recognised in the income statement	7	26	5

The amounts in the table above relate to the total defined benefit cost of the plans adjusted for the contributions made to the plans by other participating companies.

During 2015 the terms of a plan amendment to the UK defined benefit plan were agreed which resulted in closure to future accrual from April 2016. This plan amendment did not generate a past service cost. An additional pension contribution of 6% of pensionable salary into the defined contribution plan for eligible members of the defined benefit plan on 16 March 2015 was made on 16 April 2015. A further additional contribution of 6% will be made on 16 April 2016. These contributions have been accrued over the vesting period and are included in current service cost.

(c) Analysis of amounts recognised in the statement of financial position

	2015			2014		
	UK	Other	Total	UK	Other	Total
	£m	£m	£m	£m	£m	£m
Present value of funded obligation	(2,525)	(85)	(2,610)	(2,816)	(98)	(2,914)
Present value of unfunded obligation	-	(8)	(8)	-	(8)	(8)
Fair value of plan assets	3,936	60	3,996	3,990	62	4,052
Effect of limit on plan surpluses	(514)	-	(514)	(414)	-	(414)
Net asset/(liability) in the statement of financial position	897	(33)	864	760	(44)	716

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 and an additional small deferred tax adjustment.

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions *continued*****(d) Movement in the net defined benefit asset**

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
	£m	£m	£m	£m	£m
At 1 January 2015	(2,922)	4,052	1,130	(414)	716
Current service cost	(53)	-	(53)	-	(53)
Administrative expenses	(2)	-	(2)	-	(2)
Interest (expense)/income	(101)	128	27	-	27
Total expense recognised in the income statement	(156)	128	(28)	-	(28)
Remeasurements:					
Return on plan assets, excluding amounts included in interest (expense)/income	-	(73)	(73)	-	(73)
Loss from change in demographic assumptions	-	-	-	-	-
Gain from change in financial assumptions	226	-	226	-	226
Experience gains	115	-	115	-	115
Change in effect of limit on plan surpluses	-	-	-	(100)	(100)
Remeasurements (losses)/gains recognised in other comprehensive income	341	(73)	268	(100)	168
Exchange differences	4	(3)	1	-	1
Employer contributions	-	7	7	-	7
Benefit payments	115	(115)	-	-	-
At 31 December 2015	(2,618)	3,996	1,378	(514)	864

The following table shows the comparatives for the year ended 31 December 2014:

	Present value of obligation	Fair value of plan assets	Total	Effect of limit on plan surpluses	Total
	£m	£m	£m	£m	£m
At 1 January 2014	(2,410)	3,052	642	(233)	409
Current service cost	(45)	-	(45)	-	(45)
Interest (expense)/income	(108)	129	21	-	21
Total expense recognised in the income statement	(153)	129	(24)	-	(24)
Remeasurements:					
Return on plan assets, excluding amounts included in interest (expense)/income	-	896	896	-	896
Loss from change in demographic assumptions	(56)	-	(56)	-	(56)
Loss from change in financial assumptions	(375)	-	(375)	-	(375)
Experience gains	8	-	8	-	8
Change in effect of limit on plan surpluses	-	-	-	(181)	(181)
Remeasurements (losses)/gains recognised in other comprehensive income	(423)	896	473	(181)	292
Exchange differences	5	(4)	1	-	1
Employer contributions	-	38	38	-	38
Benefit payments	59	(59)	-	-	-
At 31 December 2014	(2,922)	4,052	1,130	(414)	716

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions** *continued***(e) 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 40 – 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 Company's funded plans at 31 December 2015 is as follows:

	UK		Other		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Assets measured at fair value based on Level 1 inputs						
Derivatives	7	38	-	-	7	38
Equity securities and pooled investment vehicles	850	1,220	48	49	898	1,269
Debt securities	2,029	1,239	-	-	2,029	1,239
Total assets measured at fair value based on Level 1 inputs	2,886	2,497	48	49	2,934	2,546
Assets measured at fair value based on Level 2 or 3 inputs						
Derivatives	(9)	827	(3)	13	(12)	840
Equity securities and pooled investment vehicles	185	92	-	-	185	92
Debt securities	589	325	-	-	589	325
Qualifying insurance policies	4	4	-	-	4	4
Total assets measured at fair value based on Level 2 or 3 inputs	769	1,248	(3)	13	766	1,261
Cash and cash equivalents	281	245	15	-	296	245
Total	3,936	3,990	60	62	3,996	4,052

Derivative financial instruments are used to modify the profile of the assets of the plan to better match the plan's liabilities and to execute specific strategies as defined within the plan's investment guidelines. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above. Pooled investment vehicles are used so that the pension plans can 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.

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions *continued*****(f) Principal assumptions**

	2015 UK %	2014 UK %
Discount rate	3.70%	3.6%
Rates of inflation:		
Consumer Price Index (CPI)	2.15%	2.5%
Retail Price Index (RPI)	3.15%	3.4%

The most significant non-economic assumption is mortality post-retirement. The assumptions (along with sample complete expectations of life) are illustrated below:

2015	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
				NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	30	32	32	34

2014	Table	Improvements	Normal Retirement Age (NRA)	Expectation of life from NRA			
				Male, age today		Female, age today	
				NRA	40	NRA	40
UK	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%.	60	29	32	31	34

(g) Risk**(g)(i) Risks and mitigating actions**

The Company's statement of financial position is exposed to movements in the net defined benefit plans' net asset. In particular, the statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the UK plan. By offering post retirement defined benefit pension plans the Company 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 Company.
Yields/discount rate	Falls in yields would in isolation be expected to increase the defined benefit 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 IAS19 basis, which is expected to minimise the plan's need to rely on support from the Company.
Inflation	Rises in inflation expectations would in isolation be expected to increase the defined benefit 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 IAS19 basis, which is expected to minimise the plan's need to rely on support from the Company. 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 longevity assumptions are performed to ensure assumptions remain appropriate.

Notes to the financial statements *continued***33. Pension and other post-retirement benefit provisions** *continued***(g) Risk** *continued***(g)(ii) Sensitivity to principal assumptions**

The sensitivity of the UK defined benefit plan's net assets to the principal assumptions is disclosed below.

		2015		2014	
	Change in assumption	(Increase)/decrease in present value of obligation	Increase/(decrease) in fair value of plan assets	(Increase)/decrease in present value of obligation	Increase/(decrease) in fair value of plan assets
Yield/discount rate	Decrease 1%	(729)	1,312	(837)	1262
	Increase 1 %	526	(896)	596	(900)
Rates of inflation	Decrease 1%	459	(823)	539	(780)
	Increase 1 %	(635)	1,178	(827)	1,111
Life expectancy	Decrease 1 year	55	-	62	-
	Increase 1 year	(55)	-	(62)	-

(g)(iii) Duration of defined benefit obligation

	2015 UK years	2014 UK years
Pensioner	17	16
Non pensioner	27	28

34. Deferred income

	Notes	2015 £m	2014 £m
At 1 January		271	305
Additions during the year	4	24	30
Released to the income statement as fee income	4	(60)	(61)
Foreign exchange adjustment		(2)	(3)
At 31 December		233	271

The amount of deferred income expected to be settled after more than 12 months is £176m (2014: £212m).

35. Other financial liabilities

	Notes	2015 £m	2014 £m
Amounts payable on direct insurance business		318	283
Amounts payable on reinsurance contracts		7	5
Due to related parties		145	82
Outstanding purchases of investment securities		153	165
Accruals and deferred income		63	57
Cash collateral held in respect of derivative assets		1,043	1,233
Other		261	277
Total other financial liabilities	30	1,990	2,102

The amount of other financial liabilities expected to be settled after more than 12 months is £19m (2014: £17m).

Notes to the financial statements *continued***36. Other liabilities**

	2015	2014
	£m	£m
Provisions	4	5
Group Relief	1	16
Taxes payable	51	39
Total other liabilities	56	60

The amount of other liabilities expected to be settled after more than 12 months is £1m (2014: £3m)

	Legal provisions	Other provisions	Total provisions
	£m	£m	£m
At 1 January 2015	1	4	5
Charges/(credited) to the income statement:	-	-	-
Used during the year	-	-	-
Used during the year	-	(1)	(1)
Other	-	-	-
At 31 December 2015	1	3	4

	Legal provisions	Other provisions	Total provisions
	£m	£m	£m
At 1 January 2014	3	10	13
Charges/(credited) to the income statement:	-	-	-
Additional provisions	-	-	-
Unused amounts reversed	-	-	-
Used during the year	-	(4)	(4)
Other	(2)	(2)	(4)
At 31 December 2014	1	4	5

Other provisions - other provisions comprise obligations in respect of compensation, staff entitlements and reorganisations.

Notes to the financial statements *continued***37. Change in operating assets and liabilities**

	2015 £m	2014 £m
Change in operating assets:		
Investment property	(773)	(867)
Pension and other post-retirement benefit assets	22	(12)
Equity securities and interests in pooled investment funds	657	1,690
Debt securities	308	(2,368)
Derivative net assets/(liabilities)	49	(972)
Reinsurance assets	565	(176)
Investments in associates*	(474)	(450)
Investment in subsidiaries*	(951)	(6,556)
Receivables and other financial assets and other assets	77	120
Deferred acquisition costs	(61)	(68)
Loans	33	38
	(548)	(9,621)
Change in operating liabilities:		
Other financial liabilities and other liabilities	(110)	1,004
Deposits received from reinsurers	(507)	53
Deferred income	(36)	(31)
Insurance contract liabilities	(1,889)	2,685
Investment contract liabilities	4,462	6,494
	1,920	10,205
Net decrease in operating assets and liabilities	1,372	584

*Investments in certain investment vehicles have been classified as operating activities due to the nature of the underlying transactions.

38. Risk management**(a) Overview**

The Company's risk management activities support the creation of long-term value by ensuring well-informed risk-reward decisions are taken in pursuit of the Company's business plan objectives and by ensuring capital is delivered to areas where most value can be created for the risks taken.

The Company adopts the risk management framework used by the Group in 2015 to identify, assess, control and monitor risks as set out in the Group 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

Notes to the financial statements *continued***38. Risk management *continued*****(a) Overview *continued***

For the purposes of managing risks to the Company's financial assets and financial liabilities, the Company considers the following categories

Risk	Definition
Market	The risk that arises from the Company'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 <i>Insurance Contracts</i> and other financial risks.
Expense	The risk that expense levels will be higher than assumed. This can arise from an increase in the unit costs of the company or an increase in expense inflation, either company specific or relating to economic conditions. This risk will be present on contracts where the Company cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.
Liquidity	The risk that the Company 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 costs.
Operational	The risk of adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.
Conduct	<p>The risk that through our behaviours, strategies, decisions and actions the Company do not do the right thing and/or do not behave in a manner which:</p> <ul style="list-style-type: none"> • pays due regard to treating our customers and clients fairly • is consistent with our disclosures and setting of customer and client expectations • supports the integrity of financial markets
Strategic	The risk associated with the robustness of the planning process and threats to achieving the Company's strategy.

The Group's appetite for each of the risks is set out in the Strategic Report in the Group's Annual Report and Accounts. 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 Company's statement of financial position can be split into three categories (risk segments) which give the shareholder different exposures to the risks listed above. 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 it incorporates the activities of the Company excluding participating funds. It incorporates the Shareholder Fund (SHF) and Proprietary Business Fund (PBF) excluding unit linked funds.

Participating business

Participating business refers to the assets and liabilities of the participating funds of the Company.

It incorporates the following funds: Heritage With Profits Fund (HWPF), UK Smoothed Managed With Profits Fund (UKSMWPF), German With Profits Fund (GWPF) and German Smoothed Managed With Profits Fund (GSMWPF). It also 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.

Notes to the financial statements *continued***38. Risk management** *continued***(a) Overview** *continued***Unit linked funds**

Unit linked funds refers to the assets and liabilities of the Company's unit linked funds.

It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked fund contract or the liabilities for insurance features or financial guarantees contained within the unit linked fund contract. Such cash flows and liabilities are included in shareholder business or participating business.

Further explanation of the fund structures is given in Note 2.

The table below sets out how the shareholder is exposed to the market, credit, demographic and expense risk and liquidity risk at the reporting date arising from the three risk segments of assets and liabilities:

Risk	Shareholder business	Participating business	Unit linked funds
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 liabilities.	The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are largely 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 arises from the changes in the value of future profits earned on unit linked funds due to market movements.
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 not have sufficient resources to meet its obligations (burnthrough from the with profits funds). If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are largely 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 funds due to market movements.
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts and other contracts written containing insurance features that are invested in unit linked funds or in the GWPF. 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 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 unit linked fund contracts, but it is not the assets or liabilities of the fund which gives rise to this exposure.
Liquidity	The shareholder is directly exposed to the liquidity risk from the shareholder business.	If a with profits fund cannot meet its obligations the shareholder will be exposed to the shortfall in the fund and will be required to meet the policyholder claims and benefits as they fall due.	If a unit linked fund cannot meet its obligations due to the nature of the assets it is invested the shareholder may be required to meet the policyholder claims and benefits as they fall due.

The shareholder is exposed to operational risk arising across the three 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.

Notes to the financial statements *continued***38. Risk management** *continued***(a) Overview** *continued*

The table that follows provides an analysis of the statement of financial position showing the Company's assets and liabilities by risk segment. This categorisation has been used to present the information in this note.

The table below provides an analysis of the statement of financial position by category of assets and liabilities. This categorisation has been used to present the information in this Note.

	Notes	Shareholder business £m	Participating business £m	Unit Linked funds £m	Total Company £m
31 December 2015					
Intangible assets		64	-	-	64
Deferred acquisition costs		545	44	-	589
Investments in associates		-	574	3,939	4,513
Investments in subsidiaries		962	20,045	32,938	53,945
Investment property		-	1,058	4,742	5,800
Property and equipment		-	31	-	31
Pension and other post-retirement benefit assets		897	-	-	897
Deferred tax assets		7	-	-	7
Reinsurance assets		34	5,462	-	5,496
Loans		1	66	64	131
Derivative financial assets		1	1,466	105	1,572
Equity securities		-	3,104	24,385	27,489
Interests in pooled investment funds		-	67	14,587	14,654
Debt securities		5,885	13,339	12,381	31,605
Receivables and other financial assets		506	(185)	175	496
Other assets		64	25	112	201
Assets held for sale		-	-	40	40
Cash and cash equivalents		87	810	1,119	2,016
Total assets		9,053	45,906	94,587	149,546
Non-participating contract liabilities		5,176	9,555	94,105	108,836
Participating contract liabilities		-	29,615	-	29,615
Deposits received from reinsurers		-	5,134	-	5,134
Borrowings		3	2	9	14
Subordinated liabilities		317	-	-	317
Pension and other post-retirement benefit provisions		33	-	-	33
Deferred income		182	51	-	233
Current tax liabilities		8	3	47	58
Deferred tax liabilities		83	60	33	176
Derivative financial liabilities		7	57	74	138
Other financial liabilities		261	1,424	305	1,990
Other liabilities		37	5	14	56
Liabilities held for sale		-	-	-	-
Total liabilities		6,107	45,906	94,587	146,600

Notes to the financial statements *continued***38. Risk management** *continued***(a) Overview** *continued*

31 December 2014		Shareholder business	Participating business	Unit Linked funds	Total Company
	Notes	£m	£m	£m	£m
Intangible assets		39	-	-	39
Deferred acquisition costs		568	53	-	621
Investments in associates		-	585	3,475	4,060
Investments in subsidiaries		1,197	22,644	29,036	52,877
Investment property		-	860	4,190	5,050
Property and equipment		3	115	-	118
Pension and other post-retirement benefit assets		760	-	-	760
Deferred tax assets		8	-	-	8
Reinsurance assets		32	5,992	-	6,024
Loans		-	84	85	169
Derivative financial assets		6	1,609	88	1,703
Equity securities		-	3,690	25,258	28,948
Interests in pooled investment funds		17	97	13,766	13,880
Debt securities		5,852	13,681	12,484	32,017
Receivables and other financial assets		573	(331)	168	410
Other assets		54	23	159	236
Assets held for sale		961	-	-	961
Cash and cash equivalents		256	288	1,221	1,765
Total assets		10,326	49,390	89,930	149,646
Non-participating contract liabilities		5,247	10,753	89,411	105,411
Participating contract liabilities		-	31,209	-	31,209
Deposits received from reinsurers		-	5,642	-	5,642
Borrowings		-	6	13	19
Subordinated liabilities		611	-	-	611
Pension and other post-retirement benefit provisions		44	-	-	44
Deferred income		210	61	-	271
Current tax liabilities		13	70	45	128
Deferred tax liabilities		47	79	49	175
Derivative financial liabilities		-	15	173	188
Other financial liabilities		324	1,550	228	2,102
Other liabilities		44	5	11	60
Liabilities held for sale		961	-	-	961
Total liabilities		7,501	49,390	89,930	146,821

Notes to the financial statements *continued*

38. Risk management *continued*

(b) Market risk

As described in the table in section (a), the shareholder is exposed to market risk from shareholder business and participating business and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating business.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked 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 funds.

The Company 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 equity holder 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 business and participating business 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 of the funds 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 HWPF are principally managed to support the liabilities of the HWPF and are appropriately diversified by both asset class and geography.

The key considerations in asset and liability management of the HWPF are:

- The economic liability and how this varies with market conditions
- The need to invest assets supporting participating business in a manner consistent with the participating policyholders' reasonable expectations and the HWPF's 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 Company is exposed are equity and property risk, interest rate risk and foreign currency risk which are discussed below.

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 40 – Fair value of assets and liabilities and Note 15 – Investment Property.

(b)(i)(i) Equity risk

The Company 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 Company's shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in shareholder business and the Company's 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 or a share of performance are taken.

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices.

Notes to the financial statements *continued***38. Risk management** *continued***(b) Market risk** *continued***(b)(i) Elements of market risk** *continued***(b)(i)(i) Equity risk** *continued*

The tables below show the shareholder business and participating business exposure to different equity and property markets, arising from investments owned directly by the Company.

Equity exposure – by country

	Shareholder business		Participating business		Total	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
UK	-	-	2,798	3,287	2,798	3,287
Canada	-	-	13	11	13	11
Germany	-	-	11	5	11	5
Ireland	-	-	53	45	53	45
Netherlands	-	-	81	96	81	96
Switzerland	-	-	79	119	79	119
Other	-	-	69	127	69	127
Total	-	-	3,104	3,690	3,104	3,690

(b)(i)(ii) Property risk

The Company is subject to property 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
- 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 property
- Geographic area
- Property type
- Development property under construction

Investment Property exposure – by sector

	Shareholder business		Participating business	
	2015	2014	2015	2014
	£m	£m	£m	£m
Office	-	-	751	578
Industrial	-	-	261	251
Retail	-	-	15	-
Other	-	-	31	31
Total	-	-	1,058	860

The Company does not hold any Residential investment property.

Notes to the financial statements *continued***38. Risk management** *continued***(b) Market risk** *continued***(b)(i) Elements of market risk** *continued***(b)(i)(iii) 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 Company which give rise to interest rate risk are debt securities, loans, cash and cash equivalents. Insurance and investment contract liabilities exposed to interest rate risk principally comprise non-unit linked liabilities. Other financial liabilities subject to interest rate risk include derivative financial instruments, subordinated liabilities and borrowings.

Shareholder business

In line with the Group's ERM Framework, the Company is required to manage its interest rate exposures in line with the Company's qualitative risk appetite statements and quantitative risk limits. The Company typically uses a combination of cash flow and duration matching techniques to manage their interest rate risk. 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.

(b)(i)(iv) Foreign currency risk

The Company's financial assets are generally held in the local currency of its operational geographical locations principally to assist with 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 Company manages the risk profile through the use of limits on the amount of foreign currency risk that is permitted.

The tables below summarise the Company's exposure to foreign currency risk, in sterling. The tables do not include the impact of derivative financial instruments which are used to hedge the Company's exposure to foreign currency risk.

Shareholder business currency risk exposure

	UK Sterling		Euro		Canada Dollar		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	8,045	7,769	1,004	1,588	3	965	1	4	9,053	10,326
Total liabilities	(5,707)	(5,833)	(390)	(698)	-	(961)	(10)	(9)	(6,107)	(7,501)
Total	2,338	1,936	614	890	3	4	(9)	(5)	2,946	2,825

Included within assets are £1m (2014: £4m) and in liabilities £2m (2014: £nil) in relation to derivatives used to manage currency risk exposures. Currency derivatives are held to provide economic hedges on some of the above exposures, including hedging euro denominated assets into sterling.

Notes to the financial statements *continued***38. Risk management** *continued***(b) Market risk** *continued***(b)(i) Elements of market risk** *continued***(b)(i)(iv) Foreign currency risk** *continued***Participating business currency risk exposure**

	UK Sterling		Euro		Canada Dollar		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total assets	35,604	39,421	10,056	9,462	-	-	246	507	45,906	49,390
Total liabilities	(36,795)	(40,284)	(9,093)	(9,106)	-	-	(18)	-	(45,906)	(49,390)
Total	(1,191)	(863)	963	356	-	-	228	507	-	-

Included within assets are £1m (2014: £21m) and in liabilities £19m (2014: £1m) 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.

(b)(ii) Sensitivity analysis – market risk

The Company's profit after tax and equity are sensitive to variations in respect of the Company's market risk exposures and a sensitivity analysis is presented in the tables that follow. 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 business has been included in the sensitivity analysis where there is an impact on the value of other statement of financial position, 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 2015 there is no direct impact of market risk on the sensitivity of GWPF. However there is an indirect impact on PBF due to a realistic Capital Support Arrangement that was introduced during 2011 for the GWPF. This provides support by reducing the liability to transfer future annual management charges (AMCs) to the PBF hence increasing the assets on the balance sheet to the extent necessary to avoid a realistic deficit (if possible). There is no impact on GWPF participating liabilities. At 31 December 2015 support is provided under the realistic Capital Support Agreement and there is an increase in expense reserves in the PBF. Further realistic support may be required for changes in interest rates and the sensitivity of 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 these contracts. 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 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 of the Company's profit after tax and equity 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 reporting date 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.

Notes to the financial statements *continued***38. Risk management** *continued***(b) Market risk** *continued***(b)(i) Elements of market risk** *continued***(b)(ii) Sensitivity analysis – market risk** *continued*

For the participating business, in particular, the HWPF and the GWPF, the risk to equity holders is that the assets of the fund are insufficient to meet the obligation 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 2015 and 2014. 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 PPFM.

The following tables present the impact which would have resulted from the given change in underlying assumptions at the year end.

31 December 2015	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
Increase/(decrease) in profit after tax and equity	£m	£m	£m	£m	£m	£m
Participating business						
Recourse cash flow	-	-	-	-	-	-
Shareholder business						
Non-par insurance contract liabilities	-	-	-	-	538	(642)
Assets backing non-par liabilities	-	-	-	-	(569)	691
Other assets and liabilities	-	-	-	-	(17)	18
Total	-	-	-	-	(48)	67

¹ The amounts in the table above are presented net of tax.

² The interest rate sensitivity is a parallel shift subject to a floor of -30bps.

31 December 2014	Equity		Property		Interest	
	+10%	-10%	+10%	-10%	+1%	-1%
Increase/(decrease) in profit after tax and equity	£m	£m	£m	£m	£m	£m
Participating business						
Recourse cash flow	-	-	-	-	-	-
Shareholder business						
Non-par insurance contract liabilities	-	-	-	-	567	(702)
Assets backing non-par liabilities	-	-	-	-	(595)	721
Other assets and liabilities	-	-	-	-	(10)	11
Total	-	-	-	-	(38)	30

¹ The amounts in the table above are presented net of tax.

² The interest rate sensitivity is a parallel shift subject to a floor of nil.

Notes to the financial statements *continued***38. Risk management** *continued***(c) Credit risk**

As described in section (a), the shareholder is exposed to credit risk from shareholder business and participating business 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 funds since the shareholder is not directly exposed to credit risks from these assets. Included in unit linked funds are assets which are held as reinsured external fund links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the reinsured external fund link. These exposures are actively monitored and managed by the Company and the Company considers the circumstances under which losses may arise to be very remote.

c)(i) Credit exposure

The Company'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
<i>Cash and cash equivalents</i>	Maximum counterparty exposure limits are set with reference to internal credit assessments.
<i>Derivative financial instruments</i>	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. Further details on collateral can be found in section (c)(iii).
<i>Debt securities</i>	The Company's policy is to set exposure limits by name of issuer, sector and credit rating.
<i>Loans</i>	Portfolio limits are set to specify the proportion of the value of the total portfolio of mortgage loans that are represented by single or a group of related counterparties, geographic area, employment status or economic sector, risk rating and loan to value percentage.
<i>Reinsurance assets and interests in pooled investment funds</i>	The Company's policy is to place reinsurance only with highly rated counterparties. The policy restricts the Company from assuming concentrations of risk with few individual external reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers.
<i>Other financial instruments</i>	Appropriate limits are set for other financial instruments to which the Company may have exposure at certain times, for example, commission terms paid to intermediaries.

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. For those financial assets that do not have credit ratings 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'. 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.

For reinsurance assets, where the counterparty is part of a group and a rating only exists for the parent of the group, then, where appropriate the rating of the parent company has been used.

The analysis presents assets that are neither past due nor impaired, assets that are past due and assets that are impaired.

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; and
- the issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process.

Financial assets held by custodians are properly segregated from the proprietary assets of the custodian and are free of the entitlements of creditors of the custodian in accordance with market conventions.

Notes to the financial statements *continued***38. Risk management** *continued*(c) **Credit risk** *continued*(c)(i) **Credit exposure** *continued***Shareholder business**

An analysis of financial assets by credit rating is as follows:

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Receivables and other financial assets		Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
AAA	612	466	-	-	-	-	-	-	-	-	-	-	612	466
AA	1,297	1,280	-	-	44	45	-	-	23	20	-	-	1,364	1,345
A	1,651	2,341	-	-	40	210	1	6	8	7	-	-	1,700	2,564
BBB	1,220	982	-	-	3	1	-	-	-	-	-	-	1,223	983
Below BBB	87	20	-	-	-	-	-	-	-	-	-	-	87	20
Not rated	-	-	1	-	-	-	-	-	-	2	500	563	501	565
Internally rated	1,018	763	-	-	-	-	-	-	3	3	-	-	1,021	766
	5,885	5,852	1	-	87	256	1	6	34	32	500	563	6,508	6,709
Past due	-	-	-	-	-	-	-	-	-	-	6	10	6	10
Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	5,885	5,852	1	-	87	256	1	6	34	32	506	573	6,514	6,719

At 31 December 2015, receivables and other financial assets of £6m (2014: £10m) were past due by less than three months.

An analysis of debt securities by country is as follows:

	Government		Banks		Other financial institutions		Other corporate		Other ¹		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK	471	456	232	252	1,248	1,219	1,464	1,227	-	-	3,415	3,154
Canada	-	4	-	-	-	-	-	-	-	-	-	4
Australia	-	-	39	37	-	5	9	10	-	-	48	52
Austria	22	25	-	-	-	-	-	-	-	-	22	25
Belgium	-	-	-	-	-	-	11	11	-	-	11	11
Denmark	-	-	-	15	-	-	4	4	-	-	4	19
France	191	199	22	39	-	-	296	338	-	-	509	576
Germany	250	86	-	70	1	1	213	269	-	-	464	426
Ireland	-	-	-	-	-	3	-	-	-	-	-	3
Italy	-	-	27	35	-	-	74	86	-	-	101	121
Japan	-	-	-	39	-	-	22	32	-	-	22	71
Mexico	-	-	-	-	-	-	98	105	-	-	98	105
Netherlands	20	-	137	230	-	-	24	24	-	-	181	254
Norway	-	-	-	-	-	-	39	40	-	-	39	40
Spain	-	-	1	1	-	-	38	50	-	-	39	51
Sweden	-	-	-	-	1	1	58	66	-	-	59	67
Switzerland	-	-	-	31	-	-	7	7	-	-	7	38
UAE	26	27	-	-	-	-	-	-	-	-	26	27
US	-	-	181	185	118	119	291	277	-	-	590	581
Other	11	12	-	-	49	-	10	11	180	204	250	227
Total	991	809	639	934	1,417	1,348	2,658	2,557	180	204	5,885	5,852

¹ This balance primarily consists of securities held in supranationals.

Notes to the financial statements *continued***38. Risk management** *continued*(c) Credit risk *continued*(c)(i) Credit exposure *continued***Participating business****An analysis of financial assets by credit rating is as follows:**

	Debt securities		Loans		Cash and cash equivalents		Derivative financial assets		Reinsurance assets		Receivables and other financial assets		Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
AAA	2,697	2,442	-	-	-	-	-	-	-	-	-	-	2,697	2,442
AA	6,275	6,362	-	-	279	61	-	49	5,436	5,961	-	-	11,990	12,433
A	2,709	3,173	-	-	467	227	638	1,249	19	21	-	-	3,833	4,670
BBB	981	951	-	-	64	-	425	-	-	-	-	-	1,470	951
Below BBB	361	408	-	-	-	-	-	-	-	-	-	-	361	408
Not rated	34	26	3	4	-	-	403	311	-	3	(190)	(338)	250	6
Internally rated	281	313	63	80	-	-	-	-	7	7	-	-	351	400
	13,338	13,675	66	84	810	288	1,466	1,609	5,462	5,992	(190)	(338)	20,952	21,310
Past due	-	-	-	-	-	-	-	-	-	-	5	7	5	7
Impaired	1	6	-	-	-	-	-	-	-	-	-	-	1	6
Total	13,339	13,681	66	84	810	288	1,466	1,609	5,462	5,992	(185)	(331)	20,958	21,323

At 31 December 2015, receivables and other financial assets of £5m (2014: £7m) were past due by less than three months.

The Shareholders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in purpose to that disclosed for market risk exposures in Section (b). The financial assets of the HWPF include £5,134m (2014: £5,642m) 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 reinsurer default. Credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

Notes to the financial statements *continued***38. Risk management** *continued***(c) Credit risk** *continued***(c)(i) Credit exposure** *continued*

An analysis of debt securities by country is as follows:

	Government		Banks		Other financial institutions		Other corporate		Other ¹		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK	4,237	4,787	599	691	1,609	1,682	1,217	1,345	-	-	7,662	8,505
Canada	2	34	-	-	9	10	-	-	-	-	11	44
Australia	-	-	70	90	19	25	33	40	-	-	122	155
Austria	91	28	4	7	-	-	-	-	-	-	95	35
Belgium	176	1	6	10	-	-	11	12	-	-	193	23
Denmark	-	-	6	5	-	-	10	15	-	-	16	20
Finland	57	-	12	-	-	-	4	5	-	-	73	5
France	597	277	87	111	17	12	265	297	-	-	966	697
Germany	1,779	1,755	55	38	107	103	140	164	-	-	2,081	2,060
Ireland	-	-	9	6	3	3	12	12	-	-	24	21
Italy	-	-	27	31	8	10	102	119	-	-	137	160
Japan	10	11	4	-	-	-	1	10	-	-	15	21
Mexico	-	-	-	-	-	-	41	45	-	-	41	45
Netherlands	122	25	81	112	40	44	33	30	-	-	276	211
Norway	17	18	6	16	-	-	63	72	-	-	86	106
Portugal	-	-	-	-	-	-	5	3	-	-	5	3
Russia	-	-	-	-	-	-	-	7	-	-	-	7
Singapore	45	48	-	-	-	-	-	-	-	-	45	48
Spain	-	4	11	8	5	-	37	46	-	-	53	58
Sweden	-	-	47	33	6	8	11	14	-	-	64	55
Switzerland	-	-	49	36	58	35	56	55	-	-	163	126
US	13	14	224	267	161	197	358	345	-	-	756	823
Other	35	40	3	3	56	82	107	135	254	193	455	453
Total	7,181	7,042	1,300	1,464	2,098	2,211	2,506	2,771	254	193	13,339	13,681

¹ This balance primarily consists of securities held in supranationals.

Notes to the financial statements *continued***38. Risk management** *continued***(c) Credit risk** *continued***(c)(ii) Offsetting financial assets and liabilities**

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 offsets loans to/from its parent where there is 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 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:

	Gross amounts of financial instruments recognised	Gross amounts of financial instruments offset in the statement of financial position	Net amounts of financial instruments as presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net position
				Financial instruments	Financial and cash collateral pledged (received)	
As at 31 December 2015	£m	£m	£m	£m	£m	£m
Financial assets						
OTC derivatives	-	-	1,105	(64)	(1,038)	3
Total financial assets	-	-	1,105	(64)	(1,038)	3
Financial liabilities						
OTC derivatives	-	-	(80)	64	14	(2)
Total financial liabilities	-	-	(80)	64	14	(2)

	Gross amounts of financial instruments recognised	Gross amounts of financial instruments offset in the statement of financial position	Net amounts of financial instruments as presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net position
				Financial instruments	Financial and cash collateral pledged (received)	
As at 31 December 2014	£m	£m	£m	£m	£m	£m
Financial assets						
OTC derivatives	-	-	1,362	(65)	(1,257)	40
Total financial assets	-	-	1,362	(65)	(1,257)	40
Financial liabilities						
OTC derivatives	-	-	(67)	65	1	(1)
Total financial liabilities	-	-	(67)	65	1	(1)

(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 in respect of derivative financial instruments 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. 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 31 December 2015, the Company had pledged £nil (2014: £1m) of cash and £14m (2014: £nil) of securities as collateral for derivative financial liabilities. At 31 December 2015, the Company had accepted £1,043m (2014: £1,247m) of cash and £10m (2014: £10m) of securities as collateral. None of the above securities were sold or repledged at the year end.

Notes to the financial statements *continued*

38. Risk management *continued*

(c) Credit risk *continued*

(c)(iv) Credit spreads

As at 31 December 2015, 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 £23m (2014: £24m). A further reduction of £46m (2014: £39m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(c)(v) Credit risk on loans and receivables and financial liabilities designated as FVTPL

(c)(v)(i) Loans and receivables

The Company holds a number 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 FVTPL. These instruments are included in debt securities in the statement of financial position.

The Company's exposure to such financial instruments at 31 December 2015 was £586m (2014: £442m). The fair value of these instruments is calculated using a valuation technique which refers to the inputs derived from prices for other similar financial instruments in addition to other unobservable market data. During the year fair value loss of £4m (2014: £22m gain) in relation to these instruments were recognised in the income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was a gain of £2m (2014: loss of £3m).

As described in (a) above, market risk is defined by the Company in its risk management framework as the risk that arises from the Company's exposure to market movements, which could result in the value of 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 the loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

(c)(v)(ii) Financial liabilities

The Company has designated unit-linked non-participating investment contract liabilities as 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 participating investment contract liabilities is only attributable to market risk.

(d) Demographic and expense risk

As described in section (a), 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 Company 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 variance in expectations; and
- Other factors relevant to their specific markets, for instance, obligations to treat customers fairly.

Reinsurance or other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Company'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 Company's exposure are discussed below.

(d)(i)(i) Components of insurance risk as defined by IFRS 4 *Insurance Contracts*

Longevity

The Company defines longevity risk as the risk that a policyholder lives longer than expected and therefore gives rise to a loss to the Company. This is relevant for contracts where payments are made until the death of the policyholder, e.g. annuity contracts. The risk 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 expected and reported profits will be impacted as and when such variances are recognised in liabilities.

Notes to the financial statements *continued*

38. Risk management *continued*

- (d) Demographic and expense risk *continued*
- (d)(i) Elements of demographic and expense risk *continued*
- (d)(i)(i) Components of insurance risk as defined by IFRS 4 *Insurance Contracts continued*

Morbidity

The Company 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 income protection and critical illness contracts. This includes the risk of anti-selection that results in a requirement to pay claims that the Company 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 Company 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 Company had not expected (for example due to non-disclosure).

Persistency – withdrawals and lapse rates

The Company 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, and risks arising from early retirements, surrenders (partial or in full) and similar policyholder options.

Variances in persistency will affect shareholder 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. This risk is primarily relevant for unit linked and unitised with profits business. Profits may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

Expenses

The Company 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 Company or an increase in expense inflation, either Company specific or relating to economic conditions. This risk will be present on contracts where the Company cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.

Shareholder profits are 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 liabilities to reflect increased expectations of future costs of policy administration.

(d)(ii) Sensitivity analysis – demographic and expense risk

Recognition of profits after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the Company's insurance and investment contract liabilities - as described in Note 2.

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Company'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.

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).

Notes to the financial statements *continued***38. Risk management** *continued***(d) Demographic and expense risk** *continued***(d)(ii) Sensitivity analysis – demographic and expense risk** *continued*

The shareholder business currently bears longevity risk both on contracts written in the PBF and on contracts written in the HWPF for which longevity risk has been transferred to the PBF.

31 December 2015	Longevity		Expenses		Persistency		Morbidity / mortality	
Increase/(decrease) on profit after tax and equity	+5%	-5%	+10%	-10%	+10%	-10%	+5%	-5%
	£m	£m	£m	£m	£m	£m	£m	£m
Participating business								
Recourse cash flow	(17)	16	(3)	3	-	-	(3)	3
Shareholder business								
Non-participating insurance contract liabilities	(111)	104	(7)	7	1	(1)	(1)	1
Reinsurance assets	-	-	-	-	-	-	1	(1)
Total	(128)	120	(10)	10	1	(1)	(3)	3

31 December 2014	Longevity		Expenses		Persistency		Morbidity / mortality	
Increase/(decrease) on profit after tax and equity	+5%	-5%	+10%	-10%	+10%	-10%	+5%	-5%
	£m	£m	£m	£m	£m	£m	£m	£m
Participating business								
Recourse cash flow	(13)	12	(3)	3	-	-	(3)	3
Shareholder business								
Non-participating insurance contract liabilities	(117)	110	(7)	6	1	(1)	(1)	1
Reinsurance assets	-	-	-	-	-	-	1	(1)
Total	(130)	122	(10)	9	1	(1)	(3)	3

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 tables above are presented net of tax and reinsurance.

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 above. 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 stress 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 rates.

(e) Liquidity risk

As described in section (a), the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked funds and as a result the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

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. The Company actively manages and monitors the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. 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.

Notes to the financial statements *continued*

38. Risk management *continued*

(e) Liquidity risk *continued*

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 being 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 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 Company's contracts are invoked. As at 31 December 2015 and 31 December 2014 none of the funds under management were subject to deferral.

The Company undertakes 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).

The Company is required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's risk policy framework. Oversight is provided both at a Group level and within the Company. In addition, the Company benefits 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 (currently undrawn) of committed bank facilities

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 with the objective of managing exposure to liquidity risk, the Company considers the extent of liquidity risk arising from its activities to be de-minimis.

(e)(i) Maturity analysis

The following tables present the expected timing of the cash flows payable on the amounts recognised on the statement of financial position for the insurance and investment contract liabilities of the Company 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.

Notes to the financial statements *continued***38. Risk management** *continued*(e) Liquidity risk *continued*(e)(i) Maturity analysis *continued*

31 December 2015	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
Participating business								
Non-linked:								
Non-participating insurance contract liabilities	692	2,454	2,387	1,639	1,015	1,369	-	9,556
Participating insurance contract liabilities	2,044	3,668	2,535	1,939	2,019	2,077	-	14,282
Participating investment contract liabilities	582	2,518	3,228	3,175	2,492	2,721	-	14,716
Unallocated divisible surplus	-	-	-	-	-	-	616	616
	3,318	8,640	8,150	6,753	5,526	6,167	616	39,170
Shareholder business								
Non-linked:								
Non-participating insurance contract liabilities	289	1,079	1,167	948	717	972	-	5,172
Non-participating investment contract liabilities	1	1	1	1	-	-	-	4
	290	1,080	1,168	949	717	972	-	5,176
Unit Linked Business								
Non-participating insurance contract liabilities	194	631	363	96	45	52	-	1,381
Non-participating investment contract liabilities	8,982	29,421	24,353	14,358	8,084	7,526	-	92,724
	9,176	30,052	24,716	14,454	8,129	7,578	-	94,105
Total	12,784	39,772	34,034	22,156	14,372	14,717	616	138,451

Notes to the financial statements *continued***38. Risk management** *continued*(e) Liquidity risk *continued*(e)(i) Maturity analysis *continued*

31 December 2014	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
Participating business								
Non-linked:								
Non-participating insurance contract liabilities	723	2,599	2,598	1,853	1,195	1,785	-	10,753
Participating insurance contract liabilities	1,533	5,138	2,715	1,740	1,865	2,406	-	15,397
Participating investment contract liabilities	634	2,634	3,415	3,300	2,533	2,675	-	15,191
Unallocated divisible surplus	-	-	-	-	-	-	621	621
	2,890	10,371	8,728	6,893	5,593	6,866	621	41,962
Non-linked:								
Non-participating insurance contract liabilities	278	1,045	1,146	949	738	1,087	-	5,243
Non-participating investment contract liabilities	-	1	1	1	1	-	-	4
	278	1,046	1,147	950	739	1,087	-	5,247
Non-participating insurance contract liabilities	177	644	378	83	38	40	-	1,360
Non-participating investment contract liabilities	7,930	26,772	23,028	14,148	8,269	7,904	-	88,051
	8,107	27,416	23,406	14,231	8,307	7,944	-	89,411
Total	11,275	38,833	33,281	22,074	14,639	15,897	621	136,620

Notes to the financial statements *continued***38. Risk management** *continued***(e) Liquidity risk** *continued***(e)(i) Maturity analysis** *continued*

The tables below present the undiscounted cash flows payable by remaining contractual maturity at the reporting date and include the non-participating investment contract liabilities. The analysis excludes 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 Company's non-participating investment contract unit linked liabilities presented in the table below have been designated as less than one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The Company 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.

As required by IFRS 7 the amounts presented in the table below are the contractual undiscounted cash flows, whereas the Company manages inherent liquidity risk based on expected discounted cash flows.

31 December 2015	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
Participating business							
Other financial liabilities	1,362	5	11	5	5	95	1,483
	1,362	5	11	5	5	95	1,483
Shareholder business							
Non-participating investment contracts	4	-	-	-	-	-	4
Subordinated liabilities	20	79	67	60	24	-	250
Other financial liabilities	214	3	1	-	-	-	218
	238	82	68	60	24	-	472
Unit Linked funds							
Non-participating investment contracts	92,725	-	-	-	-	-	92,725
Other financial liabilities	264	11	9	8	8	15	315
	92,989	11	9	8	8	15	93,040
Total	94,589	98	88	73	37	110	94,995

Notes to the financial statements *continued***38. Risk management** *continued*(e) **Liquidity risk** *continued*(e)(i) **Maturity analysis** *continued*

31 December 2014	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
Participating business							
Other financial liabilities	1,491	10	17	10	10	240	1,778
	1,491	10	17	10	10	240	1,778
Shareholder business							
Non-participating investment contracts	4	-	-	-	-	-	4
Subordinated liabilities	34	105	98	90	36	-	363
Other financial liabilities	351	4	2	-	-	-	357
	389	109	100	90	36	-	724
Unit Linked funds							
Non-participating investment contracts	88,051	-	-	-	-	-	88,051
Other financial liabilities	167	12	9	7	7	99	301
	88,218	12	9	7	7	99	88,352
Total	90,098	131	126	107	53	339	90,854

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.

Refer to Note 20 for the maturity profile of undiscounted cash flows of derivative financial instruments.

Deposits received from reinsurers' reflect the liability to repay the deposit received from an external reinsurer, in order to limit the Company's counterparty credit exposure, under a reinsurance transaction. 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 2015.

Notes to the financial statements *continued*

38. Risk management *continued*

(f) Operational and conduct risk

The Company defines operational risk as the risk of loss, or adverse consequences for the Company'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 behaviours, strategies, decisions and actions the Company, or individuals within the Company, do not do the right thing and/or do not behave in a manner which:

- pays due regard to treating our customers and clients fairly
- is consistent with our disclosures and setting of customer and client expectations
- supports the integrity of financial markets

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.

The types of operational risk that the Company is exposed to are identified using the following operational risk categories:

- fraud and irregularities;
- regulatory and legal;
- customer treatment;
- business interruption and system failure;
- third party failure;
- planning;
- process execution;
- information security; and
- people.

Activities undertaken to ensure the practical operation of controls over financial risk, 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 level of control and nature of the controls implemented are based on, amongst other considerations:

- 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; and
- 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 the Risk Function. Independent assurance as to the effectiveness of the CSA process is provided by Group Internal Audit. 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 Company is willing to retain is defined using both quantitative limits, e.g. financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by the Company and its exposure to these risks forms its operational risk profile. The Company understands and reviews 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 the Company are assessed and managed in accordance with established guidelines or standards.

The Financial Conduct Authority commenced in 2015 a sample-based review of non-advised annuity sales from a selection of firms across the industry in which Standard Life has been participating. We have carried out analysis including an initial sampling of historical sales and work is ongoing to understand the implications for relevant components of the Standard Life annuity population. The outcome and consequences are uncertain but could include requirements to compensate customers and could have an adverse effect on the Group's profits and/or financial position. Please also refer to Note 41 of the financial statements.

Notes to the financial statements *continued*

38. Risk management *continued*

Strategic risk

The Company 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 as part of the UK and Europe business planning processes. The impact (financial and non-financial) and probability of the strategic risks to which the Company is exposed are assessed as part of this process and are reviewed on a regular basis.

(g) Capital

Capital management policies and objectives

Managing capital is the on-going process of determining and maintaining the quantity and quality of capital appropriate for the Company, and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Company consider our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the PRA.

There are two primary objectives of capital management in the Company. 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 Company and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the Company's regulatory solvency position. The second objective is to create shareholder value by driving profit attributable to shareholders.

The capital requirements of the Company are routinely forecast on a periodic basis, and the requirements are assessed against both forecast available capital and 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. Capital plans are ultimately subject to approval by the Board.

Regulatory capital

The Company undertakes life assurance and pension business principally in the UK, Ireland and Germany and is regulated by the PRA. The PRA specifies rules and guidance for the minimum level of capital required to meet regulatory requirements. The PRA requires all insurance companies to maintain Capital Resources (CR) in excess of their Capital Resources Requirement (CRR). CR includes the assets in excess of liabilities, valued on the 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 Company this applies to its mutual assurance capital securities.

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

The Company's regulatory solvency position is determined using the PRA's 'twin peaks' approach, which requires liabilities to be valued on both the realistic and the 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. The Company's CRR also includes the capital requirements of its regulated related undertakings.

Capital structure

Life assurance and pensions business is written within the long term business funds of the Company. These long term business funds are distinct from the shareholder fund. Business written prior to demutualisation, and the increments to that business, are written in the HWPF. Business written after demutualisation is written in the PBF. Any surplus within the PBF is attributable to shareholders.

The HWPF's capital resources 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 shareholders.

Capital requirement

Based on the Company's draft regulatory return at 31 December 2015 the Company had available capital resources of £5.7bn (2014: £5.9bn) and a CRR of £3.5bn (2014: £3.6bn). The capital resources are based on the value of assets and liabilities valued on the regulatory basis, and the CRR reflects the application of the realistic peak.

The Company has not breached any regulatory capital requirements at any time during the year.

Notes to the financial statements *continued***39. Structured entities**

A structured entity is defined as an entity where control is not necessarily held through voting rights linked to ownership stake but rather through rights arising from contractual agreements that give power to direct the relevant activities. The Company's interests in structured entities is comprised of investments in a range of investment vehicles. The principal types of structured entities in which the Company has an interest include:

- Pooled investment funds managed internally and externally, including OEICs, SICAV, unit trusts and limited partnerships.
- Debt securitisation vehicles which issue asset backed securities.

The Company has not provided any non-contractual financial or other support to any structured entities and there are no current intentions to do so.

Investments in structured entities

The following table shows the carrying value of the Company's investments in structured entities by line items in the statement of financial position and by risk segment as defined in Note 38 – Risk management.

	Shareholder business		Participating business		Unit linked funds		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Investments in associates	-	-	574	585	3,939	3,475	4,513	4,060
Investments in subsidiaries	499	702	19,954	22,544	32,877	28,973	53,330	52,219
Interests in pooled investment funds	-	17	67	97	14,587	10,243	14,654	10,357
Debt securities	573	358	1,165	534	1,163	723	2,901	1,615

The asset value of these structured entities including the portion in which the Company has no interest is as follows:

	2015 £m	2014 £m
Investments in associates	30,193	28,598
Investments in subsidiaries	71,812	69,503
Debt securities	53,081	28,693
Total	155,086	126,794

The Company's maximum exposure to loss in respect of the interests presented above is the carrying value of the Company's investment. As noted in Note 38 – Risk management, the shareholder is not exposed to market or credit risk in respect of investments held in the unit linked funds.

Additional information on how the Company manages its exposure to risk can be found in Note 38 – Risk management.

A complete list of the Company's subsidiaries, including unit trusts and OEICs is included in Note 45.

40. 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 18 and 30 and includes those financial assets and liabilities held at fair value.

(c) Non-financial investments

An analysis of the Company's investment property and owner occupied property within property and equipment in accordance with IAS 40 – *Investment property* and IAS 16 – *Property, plant and equipment* is presented in notes 15 and 16 respectively and includes those assets held at fair value.

Notes to the financial statements *continued*

40. Fair value of assets and liabilities *continued*

(d) Methods and assumptions used to determine fair value of assets and liabilities

The Company uses the methods applied by Group to determine fair values for each major category of financial instrument measured at fair value. Information on these methods and assumptions is given below.

Investment property

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 Company's property from a market participants' perspective. In UK and Europe valuations are completed in accordance with the RICS Valuation Standards and predominantly the income capitalisation method is used. This method considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through application of an appropriate discount rate. The determination of the fair value of investment 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 Company'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.

Derivative financial assets

The majority of 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.

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 treated 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 Company's risk management policies. At 31 December 2015 and 31 December 2014 the residual credit risk is considered immaterial and no credit risk adjustment has been made.

Investments in associates at FVTPL, Investments in subsidiaries at FVTPL, Equity securities and interests in pooled investment funds

Investments in associates at FVTPL and subsidiaries at FVTPL are valued in the same manner as the Company's equity securities and interests in pooled investment funds.

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 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 categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Debt securities

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.

Notes to the financial statements *continued*

40. Fair value of assets and liabilities *continued*

(d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

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.
- Commercial mortgages
These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy is level 3.

Non-participating investment contract liabilities

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 classified as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are classified within level 2 of the fair value hierarchy.

Notes to the financial statements *continued***40. 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 that follows presents an analysis of the Company's assets measured at fair value by level of the fair value hierarchy for each category as set out in Note 38 – Risk management.

	Level 1		Level 2		Level 3		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m
Shareholder business								
Investment in subsidiaries and associates	499	702	-	-	-	-	499	702
Investment property	-	-	-	-	-	-	-	-
Owner occupied property	-	-	-	-	-	3	-	3
Derivative financial assets	-	-	1	6	-	-	1	6
Equity securities and interests in pooled investment vehicles	-	-	-	-	-	17	-	17
Debt securities	989	862	4,267	4,648	629	342	5,885	5,852
Total shareholder business	1,488	1,564	4,268	4,654	629	362	6,385	6,580
Participating business								
Investment in subsidiaries and associates	3,514	3,405	16,586	19,323	428	401	20,528	23,129
Investment property	-	-	-	-	1,058	860	1,058	860
Owner occupied property	-	-	-	-	31	115	31	115
Derivative financial assets	403	311	1,063	1,298	-	-	1,466	1,609
Equity securities and interests in pooled investment vehicles	3,171	3,781	-	-	-	6	3,171	3,787
Debt securities	7,105	7,116	6,094	6,389	140	176	13,339	13,681
Assets held for sale	-	-	-	-	-	-	-	-
Total participating business	14,193	14,613	23,743	27,010	1,657	1,558	39,593	43,181
Unit linked funds								
Investment in subsidiaries and associates	5,987	4,770	30,829	27,678	-	-	36,816	32,448
Investment property	-	-	-	-	4,742	4,190	4,742	4,190
Owner occupied property	-	-	-	-	-	-	-	-
Derivative financial assets	64	29	41	59	-	-	105	88
Equity securities and interests in pooled investment vehicles	38,970	39,024	-	-	2	-	38,972	39,024
Debt securities	5,074	5,205	7,292	7,279	15	-	12,381	12,484
Assets held for sale	-	-	-	-	40	-	40	-
Total unit linked funds	50,095	49,028	38,162	35,016	4,799	4,190	93,056	88,234
Total Company								
Investment in subsidiaries and associates	10,000	8,877	47,415	47,001	428	401	57,843	56,279
Investment property	-	-	-	-	5,800	5,050	5,800	5,050
Owner occupied property	-	-	-	-	31	118	31	118
Derivative financial assets	467	340	1,105	1,363	-	-	1,572	1,703
Equity securities and interests in pooled investment vehicles	42,141	42,805	-	-	2	23	42,143	42,828
Debt securities	13,168	13,183	17,653	18,316	784	518	31,605	32,017
Assets held for sale	-	-	-	-	40	-	40	-
Total financial assets at fair value	65,776	65,205	66,173	66,680	7,085	6,110	139,034	137,995

There were no significant transfers between Levels 1 and 2 during the year (2014: none).

Notes to the financial statements *continued***40. Fair value of assets and liabilities** *continued***(d) Methods and assumptions used to determine fair value of assets and liabilities** *continued***(d)(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position**

The table that follows presents an analysis of the Company's liabilities measured at fair value by level of the fair value hierarchy for each category as set out in Note 38 – Risk management.

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Shareholder business								
Non-participating investment contract liabilities	-	-	4	-	-	-	4	-
Derivative financial liabilities	-	-	7	-	-	-	7	-
Total shareholder business	-	-	11	-	-	-	11	-
Participating business								
Non-participating investment contract liabilities	-	-	-	-	-	-	-	-
Derivative financial liabilities	34	14	23	1	-	-	57	15
Total participating business	34	14	23	1	-	-	57	15
Unit linked funds								
Non-participating investment contract liabilities	-	-	92,724	88,051	-	-	92,724	88,051
Derivative financial liabilities	24	110	50	63	-	-	74	173
Total unit linked funds	24	110	92,774	88,114	-	-	92,798	88,224
Total Company								
Non-participating investment contract liabilities	-	-	92,728	88,051	-	-	92,728	88,051
Derivative financial liabilities	58	124	80	64	-	-	138	188
Total financial liabilities at fair value	58	124	92,808	88,115	-	-	92,866	88,239

There were no transfers between levels 1 and 2 during the year (2014: nil)

Notes to the financial statements *continued***40. 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, excluding assets and liabilities held for sale, are analysed below:

	Investment property		Owner occupied property		Equity securities and interests in pooled investment funds		Debt securities		Investment in subsidiaries and associates	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	5,050	4,161	118	110	23	3	518	330	401	491
Total gains/(losses) recognised in the income statement	377	487	-	-	(1)	(6)	1	45	71	36
Purchases	501	647	-	-	-	27	357	374	62	11
Issue	-	-	-	-	-	-	-	-	-	-
Disposal proceeds	(104)	(269)	(92)	-	(29)	-	(111)	(64)	(57)	(28)
Transfers in to level 3	-	-	-	-	9	-	46	452	-	(29)
Transfers out of level 3	-	-	-	-	-	(1)	(27)	(619)	-	-
Foreign exchange adjustment	(1)	(3)	-	-	-	-	-	-	-	-
Total gains/(losses) recognised in revaluation of owner occupied property within other comprehensive income	-	-	5	8	-	-	-	-	-	-
Other	(23)	27	-	-	-	-	-	-	(49)	(80)
At 31 December	5,800	5,050	31	118	2	23	784	518	428	401

As at 31 December 2015, £319m of total gains, (2014: £422m of gains) were recognised in the income statement for assets and liabilities held at fair value classified as level 3 at year end.

During the year, £27m (2014: £302m) of debt securities were transferred from level 3 to level 2 and £46m (2014: £184m) of debt securities were transferred to level 3 from level 2. Transfers into level 3 generally arose when external pricing providers stopped providing a price or where the price provided was considered stale. Transfers out of level 3 arose when acceptable prices became available from external pricing providers or when the inputs become observable.

(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 level 3 investments, other than commercial mortgages and unquoted bonds, the Company does not use internal models to value the investments but rather obtains valuations from external parties. The Company 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 following table 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.
- Unquoted corporate bonds are valued using internal models on an individual instrument basis. Sensitivities are determined by adjusting internally estimated credit spreads.
- Commercial mortgage valuations are obtained from internal models on an individual instrument basis. Sensitivities are determined by adjusting the spread added to the current base rate.

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). 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 the shareholder is not directly exposed to such movements unless they are sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders.

Changing unobservable inputs in the measurement of the fair value of level 3 financial assets to reasonably possible alternative assumptions would not have a significant impact on profit for the year or total assets.

Notes to the financial statements *continued*40. Fair value of assets and liabilities *continued*(d) Methods and assumptions used to determine fair value of assets and liabilities *continued*

(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 *continued*

The table below presents information about the significant unobservable inputs for level 3 instruments:

31 December 2015	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
			Equivalent Yield Estimated rental value per square metre	3.43%-15.51%(5.24%) £3-£2,422(£378)
Investment property and owner occupied property	5,720	Income capitalisation	Equivalent Yield Estimated rental value per hotel room	4.60%-8.48%(5.87%) £995-£13,748(£8,813.73)
Investment property and owner occupied property	111	Market comparison	Capital Value per unit (square metre)	£2-£14,604.47(£4,399.62)
Investment in subsidiaries and associates, equity securities and interests in pooled investment funds (Private equity investments)	428	Adjusted net asset value	Adjustment to net asset value ⁱ	N/A
Debt securities (unquoted corporate bonds)	402	Single broker	Single quoted price ⁱⁱ	N/A
Debt securities (commercial mortgages)	382	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (unquoted corporate bonds)	270	Discounted cash flow	Credit spread	0.2% to 4.0% (1.9%)
Debt securities (other)	132	Single broker	Single broker indicative price ²	N/A
31 December 2014	Fair value £m	Valuation technique	Unobservable input	Range (Weighted Average)
			Equivalent Yield Estimated rental value per square metre	3.75%-9.20%(5.62%) £11-£2,422(£360)
Investment property and owner occupied property	5,061	Income capitalisation	Equivalent Yield Estimated rental value per hotel room	4.99%-7.30%(6.25%) £760-£11,905 (£8,355)
Investment property and owner occupied property	107	Market comparison	Capital Value per unit (square metre)	£1.95-£9,467 (£1,792)
Investment in subsidiaries and associates, equity securities and interests in pooled investment funds (Private equity investments)	401	Adjusted net asset value	Adjustment to net asset value ⁱ	N/A
Debt securities (unquoted corporate bonds)	313	Single broker	Single quoted price ⁱⁱ	N/A
Debt securities (commercial mortgages)	205	Discounted cash flow	Internal Underwriting rating	1.9% to 2.6% (2.1%)
Debt securities (unquoted corporate bonds)	129	Discounted cash flow	Credit spread	0.1% to 4.0% (1.5%)
Debt securities (other)	186	Single broker	Single broker indicative price ²	N/A

ⁱ An adjustment is made for significant movements in private equity values.

ⁱⁱ 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.

Notes to the financial statements *continued***40. Fair value of assets and liabilities** *continued***(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	As recognised in statement of financial position line item	Classified as held for sale	Classified as held for sale	Total Carrying value	2014 Total Carrying value	2015 Fair value	2014 Fair value
		2015	2015	2014				
		£m	£m	£m	£m	£m	£m	£m
Assets								
Loans secured by mortgages	19	63	-	-	63	80	60	76
Liabilities								
Non-participating investment contract liabilities	29	4	-	310	4	315	4	361
Subordinated liabilities	32	317	-	-	317	611	345	643

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.

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 notes 2 and 29. The carrying value of participating investment contract liabilities at 31 December 2015 was £14,716m (2014: £15,191m). The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

(e) Fair value of assets and liabilities measured at amortised cost

The table below presents the instruments as detailed above measured at fair value by level of the fair value hierarchy.

	Level 2		Level 3		Total	
	2015	2014	2015	2014	2015	2014
	£m	£m	£m	£m	£m	£m
Assets						
Loans secured by mortgages	60	76	-	-	60	76
Liabilities						
Non-participating investment contract liabilities	4	4	-	357	4	361
Subordinated liabilities	345	643	-	-	345	643

Notes to the financial statements *continued*

41. Contingent liabilities

(a) Annuity sales

Following an earlier thematic review which concluded in 2014, the Financial Conduct Authority (FCA) commenced in mid-2015 a sample-based review of non-advised annuity sales from a selection of firms across the industry in which Standard Life has been participating. This review has focussed on processes for identifying and explaining eligibility for enhanced annuity options.

The Group has cooperated with the FCA's requests for information and has carried out analysis including an initial sampling of historical sales. We are currently analysing the implications of this sample for relevant components of our annuity population. We do not expect to know the outcome of the FCA's review until later in 2016.

The outcome and consequences of our further analysis and the FCA review are uncertain but it is possible that, for relevant components of our annuity population, these consequences could include requirements to compensate customers who could have obtained a more favourable annuity rate. Ahead of Standard Life completing further analysis and learning the outcome of the FCA's review, it is not practicable to determine an estimate of the financial effect of this contingent liability. In addition, it is possible that any financial impact may be mitigated by the Group's professional indemnity insurance.

(b) Legal proceedings and regulations

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

The Company is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with these regulations.

42. Commitments

(a) Capital commitments

As at 31 December 2015, capital expenditure that was authorised and contracted for, but not provided and incurred, was £231m (2014: £323m) in respect of investment property. Of this amount, £204m (2014: £287m) and £27m (2014: £36m) relates to contractual obligations to purchase, construct, or develop investment property and repair, maintain or enhance investment property respectively.

(b) Unrecognised financial commitments

The Company has £110m unrecognised financial commitments of which £92m relate to private equity (2014: £154m).

Notes to the financial statements *continued***43. Related party transactions****(a) Transactions with and balances due from/to related parties**

In the normal course of business, the Company enters into transactions with related parties that relate to insurance and investment management business.

The following are details of significant transactions with related parties (including subsidiaries) during the year:

	2015	2014
	£m	£m
Revenue:		
Subsidiary - insurance contracts	-	-
Subsidiary - investment contracts	1	17
Subsidiary - other	34,965	29,058
Fellow subsidiary - insurance contracts	-	-
Fellow subsidiary - other	13	11
Associates	542	319
Total revenue	35,521	29,405
Expenses:		
Subsidiary - insurance contracts	-	1
Subsidiary - investment contracts	-	-
Subsidiary - other	35,147	32,727
Parent	54	70
Fellow subsidiary - insurance contracts	-	8
Fellow subsidiary - other	479	512
Associates	819	640
Total expenses	36,499	33,958

Transactions shown under 'Revenue: Subsidiary – other' and 'Associates' relate primarily to the disposal of holdings in/dividends received from subsidiaries and associates and repayment of loans to /interest received from subsidiaries.

Transactions shown under 'Revenue: Fellow subsidiary - Insurance contracts/Investment contracts' and 'Expenses: Fellow Subsidiary/Subsidiary - Insurance contracts/Investment contracts' relate to premiums and/or contributions less claims and/or withdrawals on reinsurance ceded.

Transactions shown under 'Expenses: Subsidiary – other' and 'Associate' relate primarily to the purchases of holdings in subsidiaries and associates, additional loans to subsidiaries and costs incurred by the Company on behalf of subsidiaries, which include interest, fund management fees and commission.

Transactions shown under 'Expenses: Parent' relate to interest paid on intercompany loans.

Transactions shown under 'Expenses: Fellow subsidiary – other' relate primarily to intercompany recharges from SLESL, which include staff costs and office accommodation costs.

Notes to the financial statements *continued***43. Related party transactions** *continued*

The year end balances arising from transactions with related parties are as follows:

	2015 £m	2014 £m
Due from related parties:		
Subsidiary - insurance contracts	-	3
Subsidiary - investment contracts	-	-
Subsidiary - other	29	30
Subsidiary - loans	215	245
Fellow subsidiary - insurance contracts	-	653
Fellow subsidiary - investment contracts	-	301
Fellow subsidiary - other	72	20
Associates	-	-
Total due from related parties	316	1,252
Due to related parties:		
Subsidiary - insurance contracts	8	9
Subsidiary - other	68	55
Fellow subsidiary - other	78	33
Parent	317	1,123
Associates	-	-
Other related parties	-	-
Total due to related parties	471	1,220

1. Comparatives for the year ended 31 December 2014 have been restated to reflect retrospective application of changes to accounting policies as a result of new IFRSs adopted in the period. Refer to accounting policies 1(a) Basis of Preparation.

Amounts due from/to subsidiary/associates/fellow subsidiary include reinsurance assets, insurance liabilities arising from reinsurance ceded and accepted, and intercompany receivables/payables.

Amounts due from/to parent and other related parties include intercompany receivables/payables.

In addition to the amounts shown above, the defined pension plan has assets of £697m (2014: £832m) invested in investment vehicles managed by a fellow subsidiary.

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

Key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Company, comprised 12 people (2014: 12 people) and included all directors of the Company.

Compensation of key management personnel was:

	2015 £'000	2014 £'000
Salaries and other short-term employee benefits	4,794	4,148
Post-employment benefits	942	1,028
Termination benefits	152	-
Share based payments	1,699	1,416
Compensation payments	14	27
Total compensation of key management personnel	7,601	6,619

A number of the key management personnel of the Company are also key management personnel of other entities within the Standard Life Group. However, for the purposes of this note an apportionment of the total compensation paid to the key management personnel of the Company by the Group has been made based on an estimate of the services rendered to the Company.

Notes to the financial statements *continued***43. Related party transactions** *continued*

Of the amounts disclosed above the following is in respect of the directors of the Company during the year:

	2015	2014
	£'000	£'000
Aggregate emoluments	3,025	2,988
Details of the highest paid director		
Aggregate emoluments and benefits payable under long term incentive schemes (excluding shares)	1,452	1,272

The directors are participants in a Long Term Incentive Plan (LTIP) operated by the Group. At 31 December 2015, 6 directors were entitled to receive share awards under the LTIP (2014: 6 directors).

At 31 December 2015, no retirement benefits were accruing to directors (2014: nil directors) under a defined benefit plan operated by the Group.

The highest paid director had unapportioned accrued pension benefits of £136k at 31 December 2015 (2014: £150k).

None of the directors have any interest in the share capital of the Company.

(c) Transactions with and balances due from/to key management personnel

All transactions between key management and Group companies during the year are equivalent to those available to all employees of the Company.

During the period to 31 December 2015 key management personnel and their close family members contributed £6,301k (2014: £5,008k) to products sold by companies within the Group. This primarily relates to investment and life and pension products. The outstanding value at 31 December 2015 was £12m (2014: £15m) for unit-linked products including insurance, pensions and investments products. Additionally, the total sum assured on non unit-linked insurance products was £nil (2014: £nil). At 31 December 2015 key management personnel had outstanding loans of £nil (2014: £nil).

44. Events after the reporting period

There are no other events after the reporting date other than the dividend disclosed in Note 10.

Notes to the financial statements *continued***45. Related undertakings**

The particulars of the Company's related undertakings at 31 December 2015 are listed below:

Subsidiaries

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
15 Ramirez de Arellano SA	Spain	Ordinary Shares	100%
1825 Financial Planning Limited	United Kingdom	Ordinary Shares	100%
28 Ribera del Loira SA	Spain	Ordinary Shares	100%
330 Avenida de Aragon SL	Spain	Ordinary Shares	100%
Andaes Sarl	Luxembourg	Ordinary Shares	59%
Bardol Inversiones SL	Spain	Ordinary Shares	59%
Bechtel Properties Limited	United Kingdom	Ordinary Shares	100%
City Road (Jersey) Limited	Jersey	Ordinary Shares	100%
Crawley Unit Trust	Jersey	Unit Trust	100%
Edmundsbury Nominee (No. 1) Limited	United Kingdom	Ordinary Shares	100%
Edmundsbury Nominee (No. 2) Limited	United Kingdom	Ordinary Shares	100%
ESP General Partner Limited Partnership	United Kingdom	Limited Partnership	50%
ESP II General Partner Limited Partnership	United Kingdom	Limited Partnership	46%
European Strategic Partners	United Kingdom	Limited Partnership	76%
European Strategic Partners II "C"	United Kingdom	Limited Partnership	50%
Extra Verde Property BV	Netherlands	Ordinary Shares	59%
Ezraya Sp zoo	Poland	Ordinary Shares	59%
Falcon II Pavlova s.r.o.	Czech Republic	Ordinary Shares	59%
G Park Management Company Limited	United Kingdom	Preference shares	0.3%
Gallion Reach Shopping Park Unit Trust	Jersey	Unit Trust	50%
Gallions Reach Shopping Park (Nominee) Limited	United Kingdom	Ordinary Shares	100%
Gallions Reach Shopping Park Limited Partnership	United Kingdom	Limited Partnership	50%
Genesis Business Park (Freehold) Nominee 3 Limited	United Kingdom	Ordinary Shares	100%
Genesis Business Park (Leasehold) Nominee 1 Limited	United Kingdom	Ordinary Shares	100%
Genesis Business Park (Leasehold) Nominee 2 Limited	United Kingdom	Ordinary Shares	100%
GRAF Almeda Park SL	Spain	Ordinary Shares	59%
GRAF Jersey Esplanade Limited	Jersey	Ordinary Shares	59%
GRAF Jersey Holding Limited	Jersey	Ordinary Shares	59%
GRAF Jersey Ireland Holding Limited	Jersey	Ordinary Shares	59%
GRAF Jersey Ireland Property Limited	Jersey	Ordinary Shares	59%
Gresham Developments Limited	Anguilla	Ordinary Shares	100%
High Street Nominee No. 1 Limited	Jersey	Ordinary Shares	100%
High Street Nominee No. 2 Limited	Jersey	Ordinary Shares	100%
Hundred Sarl	Luxembourg	Ordinary Shares	100%
Ibis (748) Limited	United Kingdom	Ordinary Shares	100%
Ibis (749) Limited	United Kingdom	Ordinary Shares	100%
Iceni Nominees (No. 2) Limited	United Kingdom	Ordinary Shares	100%
Iceni Nominees (No. 2A) Limited	United Kingdom	Ordinary Shares	100%
Inesia SA	Luxembourg	Ordinary Shares	100%

Notes to the financial statements *continued***45. Related undertakings** *continued*

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
Inhoco 3107 Limited	United Kingdom	Ordinary Shares	100%
Invest Park 3 Sp. Z.o.o.	Poland	Ordinary Shares	41%
Lake Meadows Management Company Limited	United Kingdom	Ordinary Shares	100%
Lincoln St Marks (One) Limited	United Kingdom	Ordinary Shares	100%
Lincoln St Marks (Two) Limited	United Kingdom	Ordinary Shares	100%
Lothian Development II (Nederland) BV L	Netherlands	Ordinary Shares	100%
Lothian Development II SA	Belgium	Ordinary Shares	100%
Lothian Development III (Nederland) BV	Netherlands	Ordinary Shares	100%
Lothian Development III SA	Belgium	Ordinary Shares	100%
Lothian Development V (Nederland) BV	Netherlands	Ordinary Shares	100%
Maidenhead Office Park Management Company Limited	United Kingdom	Ordinary Shares	100%
Martinford Portfolio Inc.	Bahamas	Ordinary Shares	100%
Nordown Developments Limited	United Kingdom	Ordinary Shares	100%
North American Strategic Partners (Feeder) 2006	United Kingdom	Limited Partnership	75%
North American Strategic Partners (Feeder) 2008 LP	United Kingdom	Limited Partnership	100%
North American Strategic Partners GP LP	United Kingdom	Limited Partnership	80%
North American Strategic Partners LP	USA	Limited Partnership	100%
OVG Projecten LXXIII BV	Netherlands	Ordinary Shares	59%
Panker Invest Sarl	Luxembourg	Ordinary Shares	59%
Pitcroft Properties Limited	United Kingdom	Ordinary Shares	100%
PLC Poland 20 Sp zoo	Poland	Ordinary Shares	59%
PLC Poland 25 Sp zoo	Poland	Ordinary Shares	59%
PLC Poland 34 Sp zoo	Poland	Ordinary Shares	59%
Property Corporate Director 1 Limited	United Kingdom	Ordinary Shares	100%
Property Corporate Director 2 Limited	United Kingdom	Ordinary Shares	100%
Ravensbourne Retail Park Limited	United Kingdom	Ordinary Shares	100%
Retail Park Hana a.s.	Czech Republic	Ordinary Shares	59%
Retail Park Ostrava a.s.	Czech Republic	Ordinary Shares	59%
Seabury Assets Fund plc			
The Euro VNAV Liquidity Fund	Ireland	OEIC	58%
The Sterling VNAV Liquidity Fund	Ireland	OEIC	69%
No.1 Fund	Ireland	OEIC	52%
Select Brazil Nominee Limited	United Kingdom	Ordinary Shares	59%
Select Japan (GK Holdings UK) Limited	United Kingdom	Ordinary Shares	59%
Select Japan (TK Holdings UK) Limited	United Kingdom	Ordinary Shares	59%
Select Japan GK	Japan	Limited by members	59%
Select Malta Holdings Limited	Malta	Ordinary Shares	59%
Select Property Holdings (Mauritius) Limited	Mauritius	Ordinary Shares	59%
SL (NEWCO) Limited	United Kingdom	Ordinary Shares	100%
SL Capital Infrastructure I LP	United Kingdom	Limited Partnership	45%
SLA Belgium No. 1. SA	Luxembourg	Ordinary Shares	100%

Notes to the financial statements *continued***45. Related undertakings** *continued*

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
SLA Germany No.1 S.a r.l.	Luxembourg	Ordinary Shares	100%
SLA Germany No.2 S.a.r.l	Luxembourg	Ordinary Shares	100%
SLA Germany No.3 S.a.r.l	Luxembourg	Ordinary Shares	100%
SLA Ireland No.1 Sarl	Luxembourg	Ordinary Shares	100%
SLA Netherlands No.1 B.V.	Netherlands	Ordinary Shares	100%
SLACOM (No.8) Limited	United Kingdom	Ordinary Shares	100%
SLACOM (No.9) Limited	United Kingdom	Ordinary Shares	100%
SLACOM (No.10) Limited	United Kingdom	Ordinary Shares	100%
SLIF Property Investment GP Limited	United Kingdom	Ordinary Shares	100%
Standard Life Active Plus Bond Trust	United Kingdom	Unit Trust	100%
Standard Life Agency Services Limited	United Kingdom	Ordinary Shares	100%
Standard Life Anniversary Appeal	United Kingdom	N/A	50%
Standard Life Assurance (HWPF) Luxembourg S.a r.l.	Luxembourg	Ordinary Shares	100%
Standard Life Charity Fund	United Kingdom	N/A	100%
Standard Life Client Management Limited	United Kingdom	Ordinary Shares	100%
Standard Life European Private Equity Trust plc	United Kingdom	Ordinary Shares	40%
Standard Life European Trust	United Kingdom	Unit Trust	98%
Standard Life European Trust II	United Kingdom	Unit Trust	100%
Standard Life Global Equity Trust II	United Kingdom	Unit Trust	100%
Standard Life International Ltd	Ireland	Ordinary Shares	100%
Standard Life Investment Funds Limited	United Kingdom	Ordinary Shares	100%
Standard Life Investment Company			
Emerging Market Debt Fund	United Kingdom	OEIC	85%
Global Emerging Markets Equity Income Fund	United Kingdom	OEIC	76%
Global Emerging Markets Equity	United Kingdom	OEIC	52%
Global Equity Unconstrained Fund	United Kingdom	OEIC	36%
Japanese Equity Growth Fund	United Kingdom	OEIC	44%
UK Opportunities Fund	United Kingdom	OEIC	69%
Standard Life Investment Company II			
Standard Life Investments Corporate Debt Fund	United Kingdom	OEIC	100%
Standard Life Investments Ethical Corporate Bond Fund	United Kingdom	OEIC	54%
Standard Life Investments Global REIT Fund	United Kingdom	OEIC	42%
Standard Life Investments European Ethical Equity Fund	United Kingdom	OEIC	95%
Standard Life Investment Company III			
MyFolio Managed I Fund	United Kingdom	OEIC	72%
MyFolio Managed II Fund	United Kingdom	OEIC	68%
MyFolio Managed III Fund	United Kingdom	OEIC	75%
MyFolio Managed IV Fund	United Kingdom	OEIC	57%
MyFolio Managed V Fund	United Kingdom	OEIC	66%
MyFolio Managed Income I Fund	United Kingdom	OEIC	52%
MyFolio Managed Income II Fund	United Kingdom	OEIC	52%

Notes to the financial statements *continued***45. Related undertakings** *continued*

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
MyFolio Managed Income III Fund	United Kingdom	OEIC	52%
MyFolio Managed Income IV Fund	United Kingdom	OEIC	51%
MyFolio Managed Income V Fund	United Kingdom	OEIC	58%
MyFolio Market I Fund	United Kingdom	OEIC	46%
MyFolio Market II Fund	United Kingdom	OEIC	53%
MyFolio Market III Fund	United Kingdom	OEIC	63%
MyFolio Market IV Fund	United Kingdom	OEIC	63%
MyFolio Market V Fund	United Kingdom	OEIC	70%
MyFolio Multi-Manager Income I Fund	United Kingdom	OEIC	48%
MyFolio Multi-Manager Income II Fund	United Kingdom	OEIC	42%
MyFolio Multi-Manager Income III Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager Income IV Fund	United Kingdom	OEIC	41%
MyFolio Multi-Manager Income V Fund	United Kingdom	OEIC	54%
MyFolio Multi-Manager I Fund	United Kingdom	OEIC	52%
MyFolio Multi-Manager II Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager III Fund	United Kingdom	OEIC	60%
MyFolio Multi-Manager IV Fund	United Kingdom	OEIC	51%
MyFolio Multi-Manager V Fund	United Kingdom	OEIC	55%
Enhanced-Diversification Growth Fund	United Kingdom	OEIC	81%
Standard Life Investments Brent Cross General Partner Limited	United Kingdom	Ordinary Shares	48%
Standard Life Investments Dynamic Distribution Fund	United Kingdom	Unit Trust	49%
Standard Life Investments Global Absolute Return Strategies Fund	United Kingdom	Unit Trust	68%
Standard Life Investments Global Real Estate Fund	United Kingdom	Unit Trust	59%
Standard Life Investments Global SICAV			
European Equity Unconstrained	Luxembourg	SICAV	90%
European Equities	Luxembourg	SICAV	68%
Euro Government All Stocks	Luxembourg	SICAV	100%
Global REIT	Luxembourg	SICAV	79%
Global Focused Strategies	Luxembourg	SICAV	56%
Absolute Return Global Bond Strategies	Luxembourg	SICAV	63%
Japanese Equities	Luxembourg	SICAV	56%
Global High Yield Bond	Luxembourg	SICAV	38%
Emerging Market Corporate Bond	Luxembourg	SICAV	87%
Global Bond	Luxembourg	SICAV	87%
Global Corporate Bond	Luxembourg	SICAV	84%
Global Equities	Luxembourg	SICAV	90%
India Equities	Luxembourg	SICAV	79%
Global Inflation-linked Bond	Luxembourg	SICAV	59%
Global Emerging Markets Equity Unconstrained	Luxembourg	SICAV	81%
Global Emerging Markets Local Currency Debt	Luxembourg	SICAV	54%

Notes to the financial statements *continued***45. Related undertakings** *continued*

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
Standard Life Investments Strategic Bond Fund	United Kingdom	Unit Trust	50%
Standard Life Investments UK PDF Investment Limited Partnership	United Kingdom	Limited Partnership	39%
Standard Life Investments UK Property Feeder Trust			
Standard Life Investments UK Property Accumulation Feeder Fund	United Kingdom	Unit Trust	41%
Standard Life Investments UK Retail Park Trust	Jersey	Unit Trust	54%
Standard Life Investments UK Shopping Centre Trust	Jersey	Unit Trust	48%
Standard Life Japan Trust	United Kingdom	Unit Trust	81%
Standard Life Lifetime Mortgages Limited	United Kingdom	Ordinary Shares	100%
Standard Life Master Trust Co. Ltd	United Kingdom	Ordinary Shares	100%
Standard Life Multi-Asset Trust	United Kingdom	Unit Trust	100%
Standard Life North American Trust	United Kingdom	Unit Trust	53%
Standard Life Pacific Basin Trust	United Kingdom	Unit Trust	97%
Standard Life Pan European Trust	United Kingdom	Unit Trust	100%
Standard Life Pension Funds Limited	United Kingdom	N/A	100%
Standard Life Property Company Limited	United Kingdom	Ordinary Shares	100%
Standard Life Savings Limited	United Kingdom	Ordinary Shares	100%
Standard Life Savings Nominees Limited	United Kingdom	Ordinary Shares	100%
Standard Life Short Dated UK Government Bond Trust	United Kingdom	Unit Trust	100%
Standard Life Trustee Company Limited	United Kingdom	Ordinary Shares	100%
Standard Life UK Corporate Bond Trust	United Kingdom	Unit Trust	100%
Standard Life UK Equity General Trust	United Kingdom	Unit Trust	100%
Standard Life UK Government Bond Trust	United Kingdom	Unit Trust	100%
Tarascon United SA	Bahamas	Ordinary Shares	100%
Telles Holding Sarl	Luxembourg	Ordinary Shares	59%
The Heritable Securities and Mortgage Investment Association Ltd.	United Kingdom	Ordinary Shares	100%
The Standard Life Assurance Company 2006	United Kingdom	N/A	100%
The Standard Life Assurance Company of Europe (Nederland) BV	Netherlands	Ordinary Shares	100%
Welbrent Property Investment Company Limited	United Kingdom	Ordinary Shares	100%
Whiteleys of Bayswater Limited	United Kingdom	Ordinary Shares	100%

Associates

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
Castlepoint LP	United Kingdom	Ordinary Shares	21%
Castlepoint General Partner Limited	United Kingdom	Ordinary Shares	15%
ESP II General Partner Limited Partnership	United Kingdom	Limited Partnership	1%
European Strategic Partners 2006 B LP	United Kingdom	Limited Partnership	10%
European Strategic Partners 2008 'B' LP	United Kingdom	Limited Partnership	4%
Ignis UK Property (PAIF)	United Kingdom	OEIC	4%
Ignis UK Property Fund (Feeder)	United Kingdom	Unit Trust	5%

Notes to the financial statements *continued***45. Related undertakings** *continued*

Name of Related Undertaking	Country of incorporation or residence	Share Class	% Holding
PGPL2 Sp zoo	Poland	Ordinary Shares	15%
PGPL7 Sp zoo	Poland	Ordinary Shares	30%
PLC Poland 1 Sp zoo	Poland	Ordinary Shares	30%
PLC Poland 30 Sp zoo	Poland	Ordinary Shares	30%
Standard Life Equity Income Trust PLC	United Kingdom	Ordinary Shares	1%
Standard Life Investment Company			
AAA Income Fund	United Kingdom	OEIC	5%
UK Ethical Fund	United Kingdom	OEIC	13%
UK Gilt Fund	United Kingdom	OEIC	5%
Global Smaller Companies Fund	United Kingdom	OEIC	9%
Higher Income Fund	United Kingdom	OEIC	17%
Global Equity Income Fund	United Kingdom	OEIC	5%
UK Smaller Companies Fund	United Kingdom	OEIC	25%
American Equity Unconstrained Fund	United Kingdom	OEIC	3%
Investment Grade Corporate Bond Fund	United Kingdom	OEIC	5%
European Equity Growth Fund	United Kingdom	OEIC	1%
European Equity Income Fund	United Kingdom	OEIC	0%
UK Equity High Income Fund	United Kingdom	OEIC	14%
UK Equity Growth Fund	United Kingdom	OEIC	3%
UK Equity Recovery Fund	United Kingdom	OEIC	34%
Short Duration Credit Fund	United Kingdom	OEIC	1%
Standard Life Investment Company II			
Standard Life Investments Global Index Linked Bond Fund	United Kingdom	OEIC	2%
Standard Life Investments UK Equity Income Unconstrained Fund	United Kingdom	OEIC	2%
Standard Life Investments UK Equity Unconstrained Fund	United Kingdom	OEIC	16%
Standard Life Investment Property Income Trust	Guernsey	Ordinary Shares	9%
Standard Life Investments European Property Growth Fund L.P.	United Kingdom	Limited Partnership	7%
Standard Life Investments Global SICAV			
European Corporate Bond	Luxembourg	SICAV	29%
Global Absolute Return Strategies	Luxembourg	SICAV	23%
Euro Smaller Companies	Luxembourg	SICAV	35%
Total Return Credit	Luxembourg	SICAV	16%
China Equities	Luxembourg	SICAV	9%
Standard Life Investments Liquidity Fund	Ireland	Ordinary Shares	1%
Standard Life UK Smaller Companies Trust plc	United Kingdom	Ordinary Shares	6%

Notes to the financial statements *continued*

46. Ultimate parent undertaking and controlling party

The ultimate parent and controlling party of the Company is Standard Life plc. \

Under s400 of the Companies Act 2006 the Company has taken the exemption from preparing consolidated financial statements since it is a wholly owned subsidiary of Standard Life plc. Copies of Standard Life plc consolidated financial statements can be obtained from The Company Secretary, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.