

Notes to the EEV financial information

1. Basis of preparation

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

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

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

A detailed description of EEV methodology is provided in Note 16. There have been no significant changes to EEV methodology from that adopted in the 2006 *Annual Report and Accounts* except as noted below.

Comparatives

On 10 July 2006, The Standard Life Assurance Company (SLAC) demutualised and the shares of a new holding company for the Group, Standard Life plc, were listed on the London Stock Exchange. This resulted in the parent company of the Group being a mutual insurer for the period before 10 July 2006, and the parent company of the Group being equity holder owned for the period from 10 July 2006.

As a result, the EEV results for the comparative period comprise proforma results for the period 1 January 2006 to 10 July 2006, and audited EEV results for the period 10 July 2006 to 31 December 2006. Since the results for the year are a combination of unaudited and audited results, only the audited period 10 July 2006 to 31 December 2006 is used as a comparative for the year ended 31 December 2007.

The investment management result for both periods includes the profits of other general insurance operations managed by Standard Life Investments (SLI). In previous periods, all general insurance was included under healthcare and general insurance.

Covered business

A detailed description of EEV covered business is provided within the EEV methodology in Note 16. The categories of business included within covered business have been expanded since the Interim Results 2007 to include certain mutual funds sold in the UK and Canada. This change has been reflected in the results by processing an opening adjustment in the EEV, capturing the PVIF as at 1 January 2007 within covered business and removing any related intangibles, e.g. deferred acquisition costs, from the opening net assets of non-covered business. The movement in the EEV of those mutual funds during the year ended 31 December 2007 is reflected in the covered business EEV movement with changes in net worth transferred back to non-covered business for inclusion in their closing net asset position. There is no restatement of the results for 10 July to 31 December 2006.

Assumptions

In the year ended 31 December 2007 corporation tax rates reflect the changes that will take effect in the UK from 1 April 2008 and in Germany from 1 January 2008, and the changes in Canadian tax rates applied from 2007.

On 14 February 2008 we announced the reinsurance of part of our UK immediate annuity portfolio to Canada Life International Re. The impact of this transaction has not been reflected in these results for the year ended 31 December 2007.

Continuous Improvement Programme

In March 2007, we announced our aim to reduce underlying costs by a further £100m by 2009. £9m of costs associated with progressing this initiative have already been incurred and are included in restructuring and corporate transaction expenses.

2. Segmental analysis – covered business

(a) Segmental EEV income statement

12 months to 31 December 2007

| | Notes | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|---------------------------------------|-------|------------|--------------|--------------|-------------|--------------------|-------------|
| Contribution from new business | 3 | 282 | 37 | 26 | - | - | 345 |
| Contribution from in-force business: | | | | | | | |
| Expected return on existing business | | 288 | 88 | 25 | - | - | 401 |
| Experience variances | 4 | (116) | 31 | (5) | - | 42 | (48) |
| Operating assumption changes | 5 | 139 | 21 | (12) | - | - | 148 |
| Development expenses | | (11) | (2) | (9) | - | - | (22) |
| Expected return on free surplus | | 24 | 3 | 1 | (12) | - | 16 |
| Operating profit before tax | | 606 | 178 | 26 | (12) | 42 | 840 |
| Investment return and tax variances | | (105) | 80 | (10) | - | 18 | (17) |
| Effect of economic assumption changes | | (56) | 71 | - | - | 12 | 27 |
| Restructuring expenses | | (6) | - | - | - | - | (6) |
| Profit before tax | | 439 | 329 | 16 | (12) | 72 | 844 |
| Attributed tax | | (123) | (92) | (5) | 1 | (21) | (240) |
| Profit after tax | | 316 | 237 | 11 | (11) | 51 | 604 |

Period 10 July to 31 December 2006

| | Notes | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|---------------------------------------|-------|------------|--------------|--------------|-------------|--------------------|-------------|
| Contribution from new business | 3 | 84 | 17 | 4 | - | - | 105 |
| Contribution from in-force business: | | | | | | | |
| Expected return on existing business | | 136 | 47 | 15 | - | - | 198 |
| Experience variances | 4 | 49 | (8) | (7) | - | 28 | 62 |
| Operating assumption changes | 5 | (55) | 27 | 5 | - | 3 | (20) |
| Development expenses | | (6) | - | (7) | - | - | (13) |
| Expected return on free surplus | | 6 | (3) | 1 | (7) | - | (3) |
| Operating profit before tax | | 214 | 80 | 11 | (7) | 31 | 329 |
| Investment return and tax variances | | 142 | 55 | 6 | - | 26 | 229 |
| Effect of economic assumption changes | | 159 | (36) | 14 | - | 3 | 140 |
| Restructuring expenses | | - | - | - | - | - | - |
| Profit before tax | | 515 | 99 | 31 | (7) | 60 | 698 |
| Attributed tax | | (154) | (30) | (9) | 1 | (18) | (210) |
| Profit after tax | | 361 | 69 | 22 | (6) | 42 | 488 |

An analysis of profit after tax by territory is provided in Note 9.

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

2. Segmental analysis – covered business *continued*

(a) Segmental EEV income statement *continued*

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

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

The 2007 income statements for the UK and Europe reflect the changes in corporation tax rates in the UK and Germany. These changes are:

- in the UK, reduction from 30% in 2007 to 28% from 1 April 2008; and
- in Germany, from 40% in 2007 to 30% commencing 1 January 2008.

The one off impact of these reductions in the long-term corporation tax rates amounts to a gain of £68m (UK £50m, Europe £18m) and has been included within the effect of economic assumption changes line.

The changes in Canadian corporation tax rates from 2007 have resulted in a total gain of £26m, of which negative £15m emerges through investment return and tax variances, and £41m emerges through the effect of economic assumption changes.

The 2007 income statement for Canada includes the effect of changes in accounting policy following the implementation on 1 January 2007 of the Canadian Institute of Chartered Accountants Handbook Section 3855 *Financial Instruments – Recognition and Measurement*, issued by the Canadian Accounting Standards Board. This provides new valuation methods, principally moving equity and bond asset values and related liabilities to a market value basis. The impact of this change amounts to a gain of £20m which has been included within the effect of economic assumption changes line.

(b) Segmental analysis of movements in EEV

12 months to 31 December 2007

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

Capital movements mainly reflect dividend transfers to Standard Life plc.

Opening adjustments in the UK and Canada reflect the inclusion of certain mutual funds in covered business as explained in the basis of preparation Note 1.

Period 10 July to 31 December 2006

| | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|--|--------------|--------------|--------------|-------------|--------------------|--------------|
| Opening EEV | 3,082 | 917 | 263 | 55 | (134) | 4,183 |
| Opening adjustments | - | - | - | - | - | - |
| Opening adjusted EEV | 3,082 | 917 | 263 | 55 | (134) | 4,183 |
| Profit after tax | 361 | 69 | 22 | (6) | 42 | 488 |
| Internal capital transfers | (66) | - | (7) | 2 | - | (71) |
| Transfer back of surplus to SLI | (9) | - | - | - | - | (9) |
| Transfer back of mutual funds net worth | - | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | - | 9 | 1 | - | - | 10 |
| Foreign exchange differences | 2 | (94) | (8) | (2) | - | (102) |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Closing EEV | 3,370 | 901 | 271 | 49 | (92) | 4,499 |

(c) Segmental analysis of opening and closing EEV

12 months to 31 December 2007

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

2. Segmental analysis – covered business *continued***(c) Segmental analysis of opening and closing EEV** *continued*

Period 10 July to 31 December 2006

| | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|-----------------------------|--------------|--------------|--------------|-------------|--------------------|--------------|
| Analysis of EEV | | | | | | |
| Free surplus | 686 | 12 | (11) | 55 | - | 742 |
| PVIF | 2,388 | 635 | 274 | - | (134) | 3,163 |
| Required capital | 15 | 545 | - | - | - | 560 |
| Cost of capital | (7) | (275) | - | - | - | (282) |
| Opening adjusted EEV | 3,082 | 917 | 263 | 55 | (134) | 4,183 |
| Analysis of EEV | | | | | | |
| Free surplus | 656 | 24 | (9) | 49 | - | 720 |
| PVIF | 2,693 | 601 | 278 | - | (92) | 3,480 |
| Required capital | 32 | 526 | 4 | - | - | 562 |
| Cost of capital | (11) | (250) | (2) | - | - | (263) |
| Closing EEV | 3,370 | 901 | 271 | 49 | (92) | 4,499 |

3. Analysis of new business contribution

The following table sets out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out in Note 16.

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

12 months to 31 December 2007

| | NBC £m | New Business Sales | | PVNBP Margins ² % |
|-------------------------------|------------|--------------------------|--------------|---------------------------------|
| | | PVNBP ¹ £m | APE £m | |
| Individual pensions | 123 | 5,302 | 588 | 2.3 |
| Group pensions ³ | 60 | 2,817 | 545 | 2.1 |
| Institutional pensions | 17 | 2,015 | 202 | 0.8 |
| Savings and investments | 34 | 2,672 | 275 | 1.3 |
| Annuities | 54 | 494 | 49 | 11.0 |
| Protection | (6) | 24 | 4 | (23.7) |
| UK | 282 | 13,324 | 1,663 | 2.1 |
| Canada | 37 | 1,654 | 157 | 2.3 |
| Europe | 26 | 1,179 | 125 | 2.2 |
| Other | - | 266 | 49 | - |
| Total covered business | 345 | 16,423 | 1,994 | 2.1 |

Period 10 July to 31 December 2006

| | NBC £m | New Business Sales | | PVNBP Margins ² % |
|-------------------------------|------------|--------------------|------------|---------------------------------|
| | | PVNBP £m | APE £m | |
| Individual pensions | 34 | 2,612 | 289 | 1.3 |
| Group pensions ³ | 17 | 1,036 | 205 | 1.7 |
| Institutional pensions | 1 | 1,580 | 158 | 0.1 |
| Savings and investments | 12 | 950 | 95 | 1.2 |
| Annuities | 28 | 262 | 26 | 10.6 |
| Protection | (8) | 19 | 3 | (45.0) |
| UK | 84 | 6,459 | 776 | 1.3 |
| Canada | 17 | 810 | 70 | 2.1 |
| Europe | 4 | 466 | 53 | 1.0 |
| Other | - | 138 | 16 | - |
| Total covered business | 105 | 7,873 | 915 | 1.3 |

¹ The present value of new business premiums (PVNBP) new business sales are different from those in the full year new business press release issued on 30 January 2008 as they incorporate year end non-economic assumption changes.

² PVNBP margins are calculated on the underlying unrounded numbers.

³ Includes Retail trustee investment plan.

4. Experience variances

12 months to 31 December 2007

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

The UK lapse variance includes £4m in respect of with profits bonds and Homeplan which saw lapse rates fall during the course of the year from a peak in February. The decreases may be partly explained by the announcement in July 2007 that we had started to distribute the residual estate of the HWPF to our with profits policyholders. Out of the remaining UK variance, £16m relates to unit linked bonds where lapse rates rose significantly in the latter half of the year, in response to the downturn in the UK commercial property market, general market volatility and also due to proposed changes to UK capital gains tax announced in October as part of the pre-budget report. The lapse variance in Europe largely arises from life business in Ireland.

'Other' includes an adverse variance of £83m in respect of UK deferred annuities. This needs to be considered in conjunction with £274m of UK assumption change effects due to deferred annuities, which are reported through the 'Other' line in operating assumption changes.

The overall impact of our review of the methodology, data and modelling of UK group deferred annuities amounts to an EEV operating profit before tax benefit of £191m, consisting of an increase to free surplus due to reserve releases of £143m and PVIF and cost of capital increases of £48m. The deferred annuity book arises mostly from closed final salary schemes and bulk buy out annuities. Old final salary schemes are typically an area where data can be poor quality and approximations have to be made in the valuation of liabilities for future benefits. During 2007, an extensive sampling exercise was conducted which enabled the data for valuation purposes to be greatly improved and allowed remodelling of the business on a more accurate basis, including modelling some business that had previously not been modelled. In addition, as a result of the more accurate modelling, we were able to recognise the margins expected when the deferred annuities vest into immediate annuities which are written in the UK equity holder owned funds. Note that the vesting of these deferred annuities into immediate annuities is not reported as new business as there is no open market option on these contracts at the point of vesting.

4. Experience variances *continued*

The HWPF TVOG variance reflects interest rate hedging for HWPF annuities, refinements to the interaction of dynamic management actions across UK and German business, and the modelling of the distribution of the HWPF residual estate to with profits policyholders.

Period 10 July to 31 December 2006

| | UK £m | Canada £m | Europe £m | HWPF TVOG £m | Total £m |
|-------------------------|-----------|--------------|--------------|--------------------|-------------|
| Lapses | (7) | - | (3) | - | (10) |
| Maintenance expenses | 2 | 3 | - | - | 5 |
| Mortality and morbidity | 28 | - | - | - | 28 |
| Tax | (3) | 14 | - | - | 11 |
| Other | 29 | (25) | (4) | 28 | 28 |
| Total | 49 | (8) | (7) | 28 | 62 |

5. Operating assumption changes

12 months to 31 December 2007

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

The UK assumption changes for lapses are made up of changes to assumptions for pensions and life with profits contracts of £88m, £154m in respect of unit linked bonds, and £7m for other UK contracts. In 2006 and 2007 the UK saw heightened lapse experience on pensions, due to A day, and on with profits policies generally, due to the long-term decline in consumer appetite for with profits products coinciding with the demutualisation of SLAC and flotation of Standard Life plc. That adverse experience has peaked and lapse rates have stabilised since the second quarter of 2007. The assumption changes now align the best estimate assumptions for pensions and with profits life policies with actual experience.

The lapse rates on UK unit linked bonds deteriorated significantly in the latter half of 2007 due to the downturn in the UK commercial property market, general market volatility and the uncertainty regarding proposed capital gains tax changes. There remains significant uncertainty around the near term experience and what the long-term impact will be. Therefore, we have made assumption changes in light of recent experience and allowing for the uncertainty, amounting to £92m, within the overall £154m of assumption changes for unit linked bonds.

Lapse assumption changes in Europe arise in Ireland and are also in respect of aligning the best estimates with the long-term assumptions following the peaking of lapse rates. The positive lapse assumption change in Canada mainly relates to Group Segregated and Main Fund contracts where experience has been better than expected.

All territories have made positive changes to maintenance expense assumptions reflecting the impact of changes made to their expense bases related to the Continuous Improvement Programme and other initiatives.

Mortality and morbidity assumptions in the UK and in Canada have been revised to reflect valuation annuity reserve strengthening.

'Other' includes £274m in respect of deferred annuities described in Note 4, with the balance mainly arising from other reserving changes, including the impact of adopting PS06/14 'Prudential changes for insurers'.

Period 10 July to 31 December 2006

| | UK £m | Canada £m | Europe £m | HWPF TVOG £m | Total £m |
|-------------------------|-------------|--------------|--------------|--------------------|-------------|
| Lapses | (107) | (49) | (4) | - | (160) |
| Maintenance expenses | 26 | 22 | 12 | - | 60 |
| Mortality and morbidity | 26 | 35 | 2 | - | 63 |
| Tax | - | - | - | - | - |
| Other | - | 19 | (5) | 3 | 17 |
| Total | (55) | 27 | 5 | 3 | (20) |

6. Non-covered business

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

(a) Segmental analysis – non-covered business

12 months to 31 December 2007

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

Opening adjustments relate to the elimination of £13m of opening deferred acquisition costs in respect of those mutual funds transferred to covered business.

6. Non-covered business *continued***(a) Segmental analysis – non-covered business** *continued*

10 July to 31 December 2006

| | Investment management | Banking | Healthcare | Other including Group Corporate Centre | UK pension scheme deficit | Total non- covered business |
|--|--------------------------|---------|------------|--|---------------------------------|-----------------------------------|
| | £m | £m | £m | £m | £m | £m |
| Opening EEV net assets | 120 | 322 | 120 | 447 | (197) | 812 |
| Opening adjustments | 5 | - | (5) | - | - | - |
| Opening adjusted EEV | 125 | 322 | 115 | 447 | (197) | 812 |
| Profit after tax | 16 | 34 | 3 | (35) | 9 | 27 |
| Transfer back of net worth from covered business | 9 | - | - | - | - | 9 |
| Foreign exchange differences | - | - | - | (3) | - | (3) |
| Internal capital transfers | - | - | - | 11 | 60 | 71 |
| Distributions to equity holders | - | - | - | 192 | - | 192 |
| Other | - | (1) | - | 14 | (12) | 1 |
| Closing EEV net assets | 150 | 355 | 118 | 626 | (140) | 1,109 |

Opening adjustments relate to the transfer of general insurance from Healthcare and general insurance to Investment management.

(b) Investment management EEV profits before tax

Investment management profits are included in EEV on a look through basis. This means that the profits from investment management generated from the life and pensions business are allocated to covered business. However, the excluded life and pension profits include £13m (10 July to 31 December 2006: £1m) of profits relating to products which are actively marketed and sold to third parties through investment management distribution channels. If these profits are added to the third party profits disclosed for non-covered business there are £61m (10 July to 31 December 2006: £26m) of third party related profits for investment management.

| | 12 months to 31 December 2007 | 10 July to 31 December 2006 |
|--|----------------------------------|--------------------------------|
| | £m | £m |
| Life and pensions look through profits before tax | 35 | 14 |
| Third party related life and pensions profits before tax | (13) | (1) |
| Life and pensions look through profits before tax excluding third party profits | 22 | 13 |
| Third party related life and pensions profits before tax | 13 | 1 |
| Third party related profits before tax | 48 | 25 |
| Total third party related profits before tax | 61 | 26 |
| Total EEV operating profit before tax | 83 | 39 |
| Profit on part disposal of joint venture | 17 | - |
| Total EEV profit before tax | 100 | 39 |

(c) Other EEV operating profits before tax

| | 12 months to 31 December 2007 | 10 July to 31 December 2006 |
|--|----------------------------------|--------------------------------|
| | £m | £m |
| Canada non-life subsidiaries | 4 | 2 |
| Mutual funds transferred to covered business | (4) | n/a |
| Canada non-life subsidiaries excluding transfers to covered business | - | 2 |
| Standard Life Savings Limited | (50) | (14) |
| Mutual funds transferred to covered business | 25 | n/a |
| Standard Life Savings excluding transfers to covered business | (25) | (14) |
| Standard Life plc income | 33 | 18 |
| Other | (3) | 1 |
| Other non-covered business EEV operating profits before tax | 5 | 7 |

All figures shown are IFRS underlying profits.

The covered business results for 2007 include certain mutual funds sold in the UK and Canada. In previous periods these were included in other non-covered business. There is no restatement of the results for 10 July to 31 December 2006. A detailed description of EEV covered business is provided within the EEV methodology in Note 16.

7. EEV – reconciliation of movements in consolidated balance sheet

| | 12 months to 31 December 2007 | Period 10 July to 31 December 2006 |
|--|----------------------------------|---------------------------------------|
| | £m | £m |
| Opening EEV | 5,608 | 4,995 |
| Opening adjustments | 19 | - |
| Opening adjusted EEV | 5,627 | 4,995 |
| Total recognised income for the period | 774 | 406 |
| Distributions to equity holders | (197) | - |
| Capital injections | - | 192 |
| Reserves credit for employee share-based payment schemes | 12 | 15 |
| Vested employee share-based payment schemes | (5) | - |
| Closing EEV | 6,211 | 5,608 |

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

8. Reconciliation of EEV net assets to IFRS net assets

| | 31 December 2007 £m | 31 December 2006 £m |
|---|------------------------|------------------------|
| Net assets on an EEV basis | 6,211 | 5,608 |
| Present value of in-force life and pensions business | (3,327) | (3,217) |
| EEV net worth | 2,884 | 2,391 |
| Adjustment of long-term debt to market value | (4) | 92 |
| Canadian mark-to-market | 112 | 244 |
| Deferred acquisition costs net of deferred income reserve | 245 | 127 |
| Other | 45 | 24 |
| Net assets on an IFRS basis | 3,282 | 2,878 |

Reconciling items are shown net of tax where appropriate.

9. Analysis of covered business EEV PVIF and net worth movements (net of tax)**(a) Total**

12 months to 31 December 2007

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

Period 10 July to 31 December 2006

| | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|--|-----------------------|---------------------------|--------------------|---|--------------|
| Opening EEV | 742 | 560 | 1,302 | 2,881 | 4,183 |
| Opening adjustments | - | - | - | - | - |
| Opening adjusted EEV | 742 | 560 | 1,302 | 2,881 | 4,183 |
| Contribution from new business | (184) | 22 | (162) | 235 | 73 |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | 12 | 12 | 125 | 137 |
| Expected return transfer to net worth | 255 | (20) | 235 | (235) | - |
| Experience variances | 8 | 10 | 18 | 27 | 45 |
| Operating assumption changes | 37 | (12) | 25 | (39) | (14) |
| Development expenses | (9) | - | (9) | - | (9) |
| Expected return on free surplus | (2) | - | (2) | - | (2) |
| Operating profit after tax | 105 | 12 | 117 | 113 | 230 |
| Investment return and tax variances | 2 | 31 | 33 | 128 | 161 |
| Effect of economic assumption changes | (54) | 11 | (43) | 140 | 97 |
| Restructuring expenses | - | - | - | - | - |
| Profit after tax | 53 | 54 | 107 | 381 | 488 |
| Internal capital transfers | (74) | 3 | (71) | - | (71) |
| Transfer back of surplus to SLI | (9) | - | (9) | - | (9) |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | 10 | - | 10 | - | 10 |
| Foreign exchange differences | (2) | (55) | (57) | (45) | (102) |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | - | - | - | - | - |
| Closing EEV | 720 | 562 | 1,282 | 3,217 | 4,499 |

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued***(b) UK and HWPF TVOG**

12 months to 31 December 2007

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

Period 10 July to 31 December 2006

| | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|--|-----------------------|---------------------------|--------------------|---|--------------|
| Opening EEV | 686 | 15 | 701 | 2,247 | 2,948 |
| Opening adjustments | - | - | - | - | - |
| Opening adjusted EEV | 686 | 15 | 701 | 2,247 | 2,948 |
| Contribution from new business | (150) | 14 | (136) | 194 | 58 |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | - | - | 95 | 95 |
| Expected return transfer to net worth | 172 | - | 172 | (172) | - |
| Experience variances | 13 | 2 | 15 | 40 | 55 |
| Operating assumption changes | 12 | - | 12 | (49) | (37) |
| Development expenses | (4) | - | (4) | - | (4) |
| Expected return on free surplus | 5 | - | 5 | - | 5 |
| Operating profit after tax | 48 | 16 | 64 | 108 | 172 |
| Investment return and tax variances | 8 | 1 | 9 | 109 | 118 |
| Effect of economic assumption changes | (13) | - | (13) | 126 | 113 |
| Restructuring expenses | - | - | - | - | - |
| Profit after tax | 43 | 17 | 60 | 343 | 403 |
| Internal capital transfers | (66) | - | (66) | - | (66) |
| Transfer back of surplus to SLI | (9) | - | (9) | - | (9) |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | - | - | - | - | - |
| Foreign exchange differences | 2 | - | 2 | - | 2 |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | - | - | - | - | - |
| Closing EEV | 656 | 32 | 688 | 2,590 | 3,278 |

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued***(c) Canada**

12 months to 31 December 2007

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

Period 10 July to 31 December 2006

| | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|--|-----------------------|---------------------------|--------------------|---|-------------|
| Opening EEV | 12 | 545 | 557 | 360 | 917 |
| Opening adjustments | - | - | - | - | - |
| Opening adjusted EEV | 12 | 545 | 557 | 360 | 917 |
| Contribution from new business | (7) | 7 | - | 12 | 12 |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | 12 | 12 | 21 | 33 |
| Expected return transfer to net worth | 41 | (20) | 21 | (21) | - |
| Experience variances | 1 | 8 | 9 | (15) | (6) |
| Operating assumption changes | 18 | (12) | 6 | 13 | 19 |
| Development expenses | - | - | - | - | - |
| Expected return on free surplus | (2) | - | (2) | - | (2) |
| Operating profit after tax | 51 | (5) | 46 | 10 | 56 |
| Investment return and tax variances | (5) | 30 | 25 | 13 | 38 |
| Effect of economic assumption changes | (41) | 11 | (30) | 5 | (25) |
| Restructuring expenses | - | - | - | - | - |
| Profit after tax | 5 | 36 | 41 | 28 | 69 |
| Internal capital transfers | - | - | - | - | - |
| Transfer back of surplus to SLI | - | - | - | - | - |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | 9 | - | 9 | - | 9 |
| Foreign exchange differences | (2) | (55) | (57) | (37) | (94) |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | - | - | - | - | - |
| Closing EEV | 24 | 526 | 550 | 351 | 901 |

9. Analysis of covered business EEV PVIF and net worth movements (net of tax) *continued***(d) Europe and Other**

12 months to 31 December 2007

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

Period 10 July to 31 December 2006

| | Free surplus £m | Required capital £m | Net worth £m | PVIF net of cost of capital £m | Total £m |
|--|--------------------|------------------------|-----------------|--------------------------------------|-------------|
| Opening EEV | 44 | - | 44 | 274 | 318 |
| Opening adjustments | - | - | - | - | - |
| Opening adjusted EEV | 44 | - | 44 | 274 | 318 |
| Contribution from new business | (27) | 1 | (26) | 29 | 3 |
| Contribution from in-force business: | | | | | |
| Expected return on existing business | - | - | - | 9 | 9 |
| Expected return transfer to net worth | 42 | - | 42 | (42) | - |
| Experience variances | (6) | - | (6) | 2 | (4) |
| Operating assumption changes | 7 | - | 7 | (3) | 4 |
| Development expenses | (5) | - | (5) | - | (5) |
| Expected return on free surplus | (5) | - | (5) | - | (5) |
| Operating profit after tax | 6 | 1 | 7 | (5) | 2 |
| Investment return and tax variances | (1) | - | (1) | 6 | 5 |
| Effect of economic assumption changes | - | - | - | 9 | 9 |
| Restructuring expenses | - | - | - | - | - |
| Profit after tax | 5 | 1 | 6 | 10 | 16 |
| Internal capital transfers | (8) | 3 | (5) | - | (5) |
| Transfer back of surplus to SLI | - | - | - | - | - |
| Transfer back of mutual funds net worth | - | - | - | - | - |
| Actuarial gains on defined benefit pension schemes | 1 | - | 1 | - | 1 |
| Foreign exchange differences | (2) | - | (2) | (8) | (10) |
| Aggregate tax effect of items not recognised in income statement | - | - | - | - | - |
| Other | - | - | - | - | - |
| Closing EEV | 40 | 4 | 44 | 276 | 320 |

10. Time value of options and guarantees (TVOG)

| | 31 December 2007 £m | 31 December 2006 £m |
|--------------------|------------------------|------------------------|
| UK and Europe HWPF | (41) | (92) |
| Canada | (13) | (13) |
| Europe – Other | (2) | (2) |
| Total | (56) | (107) |

The fall in the provision for HWPF TVOG is largely driven by UK experience variances from interest rate hedging for HWPF annuities, refinements to the interaction of dynamic management actions across UK and German business, and the modelling of the distribution of the HWPF residual estate to with profits policyholders.

11. Market value of subordinated liabilities within covered business

| | 31 December 2007 £m | 31 December 2006 £m |
|--------------|------------------------|------------------------|
| UK | (1,643) | (1,691) |
| Canada | (207) | (198) |
| Total | (1,850) | (1,889) |

Subordinated liabilities within EEV covered business are based on the market value of the debt. The free surplus shown in Note 2(c) is net of these liabilities.

12. Principal economic assumptions – deterministic calculations – covered business**(a) Gross investment returns and expense inflation**

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

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

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

| At 31 December 2006 | UK % | Canada % | Europe % |
|---------------------------------|---------|-------------|-------------|
| Gross investment returns | | | |
| Risk free | 4.83 | 4.11 | 3.95 |
| Corporate bonds | 5.40 | * | n/a |
| Equities | 7.83 | 8.60 | 6.95 |
| Property | 6.83 | 8.60 | 5.95 |
| Other | | | |
| Expense inflation: | 3.97 | ** | |
| Germany | | | 2.55 |
| Ireland | | | 3.46 |

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

** 1.69% in 2006 decreasing by 0.10% per year to 1.19% in 2011 and later years.

(b) Risk discount rates – in-force business

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

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

| At 31 December 2006 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|-----------------|--------------------------------------|-------------|------------------|--|
| Risk margin – in-force business | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 1.75 | 1.55 | 1.70 | 1.75 | 1.55 |
| Non-market risk | 1.30 | 0.25 | 1.80 | 1.30 | 0.25 |
| Total | 3.05 | 1.80 | 3.50 | 3.05 | 1.80 |
| Cost of capital adjustment | (0.05) | (0.10) | (1.00) | (0.05) | (0.10) |
| Risk margin after cost of capital adjustment | 3.00 | 1.70 | 2.50 | 3.00 | 1.70 |
| Risk discount rates – in-force business | | | | | |
| Risk free | 4.83 | 4.83 | 4.11 | 3.95 | 3.95 |
| Risk margin* | 3.00 | 1.70 | 2.50 | 3.00 | 1.70 |
| Risk discount rate | 7.83 | 6.53 | 6.61 | 6.95 | 5.65 |

* Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.9% and 2.8% respectively.

12. Principal economic assumptions – deterministic calculations – covered business *continued***(b) Risk discount rates – in-force business** *continued*

Increases in market risk margins generally arise from changes in asset allocations, product mix and reserving changes.

Non-market risk margins have increased due to:

- UK and Europe HWPF – mainly as a result of changes in product mix and an increased allowance for various non-market risks;
- UK and Europe equity holder owned funds – predominantly to reflect the increased allowance for persistency and credit risks; and in
- Canada – mainly to reflect the change in product mix over the year.

The impact of all these changes in risk discount rates has been included in the effect of economic assumption changes shown in Note 2(a). The amounts within these totals that relate to the changes in risk discount rates are for the UK (£55m negative), for Europe (£23m negative) and for Canada (£54m negative).

(c) Risk discount rates – new business

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

* As the new business contribution is calculated using start of period economic assumptions the risk free rates shown here represent market yields at 31 December 2006.

** Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.8% and 2.9% respectively.

| Period 10 July to 31 December 2006 | UK HWPF % | UK equity holder owned funds % | Canada % | Europe HWPF % | Europe equity holder owned funds % |
|---|-----------------|--------------------------------------|-------------|------------------|--|
| Risk margin – new business | | | | | |
| Risk margin before cost of capital adjustment: | | | | | |
| Market risk | 2.05 | 1.80 | 1.60 | 2.05 | 1.80 |
| Non-market risk | 0.35 | 1.10 | 2.05 | 0.35 | 1.10 |
| Total | 2.40 | 2.90 | 3.65 | 2.40 | 2.90 |
| Cost of capital adjustment | - | (0.10) | (0.95) | - | (0.10) |
| Risk margin after cost of capital adjustment | 2.40 | 2.80 | 2.70 | 2.40 | 2.80 |
| Risk discount rates – new business | | | | | |
| Risk free * | 4.67 | 4.67 | 4.60 | 4.23 | 4.23 |
| Risk margin** | 2.40 | 2.80 | 2.70 | 2.40 | 2.80 |
| Risk discount rate | 7.07 | 7.47 | 7.30 | 6.63 | 7.03 |

* As the new business contribution is calculated using start of period economic assumptions the risk free rates shown here represent market yields at 10 July 2006.

** Using the value of in-force business as weights, the weighted average risk margins for the UK and Europe were 2.7% and 2.8% respectively.

13. Principal economic assumptions – stochastic calculations

The level of the TVOG is generally calculated by an economic scenario generator (ESG) which projects the relevant fund under a large number of different future economic scenarios. A detailed description of the methodology applied in the relevant funds is provided in Note 16.

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

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

- cash returns;
- bond returns;
- inflation;
- equity returns;
- property returns;
- dividend yields; and
- rental yields.

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

13. Principal economic assumptions – stochastic calculations *continued*

Parameters used in ESG

Cash and bond returns

These variables are calibrated using the following instruments:

- conventional Government bond yields adjusted to allow for any ‘convenience premium’ associated with Government bond prices; and
- a range of swaption prices.

Inflation

This variable is calibrated using the following instruments:

- conventional Government bond yields;
- index-linked Government bond yields; and
- Central Bank inflation targets.

Equity returns

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

Property returns

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

Dividend and rental yields

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

Correlations

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

- equity/property = 0.2;
- equity/bonds = 0.2; and
- property/bonds = 0.1.

14. Foreign exchange

A description of the approach to the currency translation for foreign entities is provided in Note 16.

The principal exchange rates applied are:

| | Closing 31 December 2007 | Average to 31 December 2007 | Closing 31 December 2006 | Average 10 July to 31 December 2006 |
|--------------------------|--------------------------------|-----------------------------------|--------------------------------|---|
| Local currency: £ | | | | |
| Canada | 1.965 | 2.148 | 2.278 | 2.090 |
| Ireland | 1.362 | 1.459 | 1.484 | 1.466 |
| Germany | 1.362 | 1.459 | 1.484 | 1.466 |
| India | 78.460 | 82.831 | 86.623 | 83.528 |
| China | 14.540 | 15.214 | 15.276 | 14.693 |
| Hong Kong | 15.521 | 15.616 | 15.221 | 14.334 |

15. Sensitivity analysis – economic and non-economic assumptions

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

The sensitivities tested were:

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

Embedded value:

31 December 2007

| | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|--|--------------|--------------|--------------|-------------|--------------------|--------------|
| Embedded value | 3,588 | 1,276 | 335 | 86 | (41) | 5,244 |
| Risk discount rate +1% | (175) | (115) | (16) | - | - | (306) |
| Risk discount rate -1% | 201 | 145 | 19 | - | - | 365 |
| Interest returns +1% | (70) | 12 | (3) | - | 11 | (50) |
| Interest returns - 1% | 55 | (59) | 1 | - | (3) | (6) |
| Fall in equity / property market values by 10% | (148) | (67) | (10) | - | 3 | (222) |
| Maintenance expenses -10% | 89 | 45 | 8 | - | - | 142 |
| Lapse rates -10% | 115 | 72 | 6 | - | 3 | 196 |
| Annuitant mortality -5% | (100)* | (36) | (3) | - | - | (139) |
| Non-annuitant mortality -5% | 9 | 5 | - | - | 3 | 17 |
| Prescribed minimum capital | - | 75 | - | - | - | 75 |

* Note the impact of the reinsurance of the immediate annuity portfolio to Canada Life International Re is not included in these results as at 31 December 2007.

New business contribution:

12 month to 31 December 2007

| | UK £m | Canada £m | Europe £m | Other £m | HWPF TVOG £m | Total £m |
|----------------------------------|------------|--------------|--------------|-------------|--------------------|-------------|
| New business contribution | 282 | 37 | 26 | - | - | 345 |
| Risk discount rate +1% | (39) | (4) | (6) | - | - | (49) |
| Risk discount rate -1% | 45 | 5 | 7 | - | - | 57 |
| Interest returns +1% | 41 | - | - | - | - | 41 |
| Interest returns - 1% | (50) | (1) | (1) | - | - | (52) |
| Maintenance expenses -10% | 16 | 4 | 3 | - | - | 23 |
| Lapse rates -10% | 20 | 5 | 1 | - | - | 26 |
| Annuitant mortality -5% | (3) | (2) | - | - | - | (5) |
| Non-annuitant mortality -5% | 1 | - | - | - | - | 1 |
| Prescribed minimum capital | - | 1 | - | - | - | 1 |

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

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

16. EEV methodology

Covered business

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

The Group's covered business is its life assurance and pensions businesses in the United Kingdom, Canada, Europe (Germany including Austria, and Ireland) and Other (Asia Pacific), as well as the current and future profits and losses from Standard Life Investments (SLI) arising on its management of funds relating to the life and pensions businesses. As the businesses included in 'other' are not material in the context of the Group they have been included at their IFRS value.

UK covered business also includes:

- non-insured self invested personal pension (SIPP) business;
- those elements of Wrap business that are contained within a long-term product wrapper i.e. Bonds, SIPPs and mutual funds; and
- mutual funds sold by UK financial services, excluding mutual funds administered on legacy systems.

Canada covered business also includes mutual funds.

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

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

Value of in-force covered business

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

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

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

Free surplus

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

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

Allowance for risk

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

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

Risk discount rates

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

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

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

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

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

The values of the risk discount rates used for this reporting period are provided in Note 12.

Required capital

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

We have set required capital to be the higher of regulatory capital and our own internally assessed risk-based capital requirement. In determining the required capital for purposes of assessing EEV, we exclude any required capital which is provided by the existing surplus in the HWPF, as this capital is provided by policyholders. Any required capital in excess of that provided by the existing surplus in the HWPF would need to be provided by assets in the equity holders' fund. Projections show that the surplus in the HWPF is expected, on best estimate assumptions, to cover this level of required capital at the valuation date and in future years.

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

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

16. EEV methodology *continued*

Time value of financial options and guarantees (TVOG)

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

UK and Europe – HWPF

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

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

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

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

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

UK and Europe – Other

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

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

Canada

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

Other economic assumptions

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

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

Details of the assumptions used for this reporting period are provided in Note 12.

Non-economic assumptions

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

Expense assumptions

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

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

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

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

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

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

Expenses – pension scheme deficits

Pension scheme deficits have been included in accordance with International Accounting Standard (IAS) 19 *Employee Benefits*.

Other non-economic experience assumptions

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

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

Lapse rate assumptions in the UK have been set by reference to expected future trends. Lapse assumptions on unit linked bonds assume that lapse experience will become even more adverse in 2008 before settling down to a level which is higher than the opening assumptions.

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

16. EEV methodology *continued*

New business

Definition of new business

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

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

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

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

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

For Ireland, new business comprises:

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

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

New business contribution

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

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

PVNB and APE

New business sales are expressed on two bases: present value of new business premiums (PVNB) and annual premium equivalent (APE). The PVNB calculation is equal to the total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate NBC, except that the PVNB is discounted using the relevant opening risk free rate rather than the risk discount rate. APE is equal to the total of regular premiums plus 10% of single premiums received during the applicable period.

Tax

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

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

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

Subordinated liabilities

The liabilities in respect of the UK subordinated guaranteed bonds and Mutual Assurance Capital Securities plus the subordinated debt issued by the Canadian companies form part of covered business and have been deducted at market value within the EEV.

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

Foreign exchange

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

Details of the exchange rates applied are provided in Note 14.