

**Aberdeen Asset Management Life and
Pensions Limited**

Annual Report and Financial Statements

Registered number 3526143

For the year ended 31 December 2018

Contents

Strategic Report	2-4
Directors' Report	5-6
Independent Auditor's Report to the members of Aberdeen Asset Management Life and Pensions Limited	7-12
Profit and Loss Account	13
Balance Sheet	14
Statement of Changes in Equity	15
Notes to the Financial Statements	16-31

Strategic Report

The Directors present their Strategic Report for Aberdeen Asset Management Life and Pensions Limited (“the Company”) for the year ended 31 December 2018, in accordance with section 414A of the Companies Act 2006.

Business review and future developments

The Company serves as an efficient delivery mechanism of investment services to institutional pension scheme clients (both defined benefit and defined contribution) and other insurance entities, through reinsurance of their unit-linked liabilities.

On 6 November 2018 the company received authorised permission by the Prudential Regulation Authority (“PRA”) to conduct Class VII (Pension Fund Management) of long term insurance business. Following the granting of this permission, a number of pension fund management clients from Standard Life Pension Funds Limited (“SLPF”) transferred to the company, on or after the date of permission being granted. Client management fees are received by the Company for investment advisory services provided to the client by the investment manager, Standard Life Investments Limited. Total assets for these clients (2018: £6.3 billion) are held off-balance sheet due to the nature of the contract. Fee income was recognised from the date of the signed client novation agreements to the close of this financial year (2018: £833k).

The Company is regulated by both the Financial Conduct Authority (“FCA”) for conduct of business matters and the PRA for prudential matters. The Company is authorised to conduct Class I (Life & Annuity), Class III (Linked Long Term) and Class VII (Pension Fund Management) of long term insurance business.

There are no conventional non-profit or with-profit contracts and no retail type insurance policies. The Company does not bear any insurance risk, as all benefits of the policies are tied to assets in the underlying internal linked funds by unit linking.

Brexit

While there remains unavoidable uncertainty due to Brexit, the business remains well positioned to benefit from the trends which are shaping the investment landscape. Exposure to Brexit has the potential to create volatility for our customers’ and clients’ investments and Standard Life Aberdeen (“SLA”) Group’s asset management distribution capability to UK clients. Active regulatory engagement and close monitoring of ongoing political debates are in place. However, the Board consider the risk to the Company from Brexit to be low due to the UK-centric nature of the business.

Provision of services

The Company has no employees. Services to the Company are provided by outsourcers as follows:

- Management Services by Aberdeen Asset Management PLC (“AAM PLC”);
- Investment management by Aberdeen Asset Managers Limited (“AAML”);
- Custody & administration by State Street Bank and Trust Company;
- Transfer agency by DST Services Inc.; and
- Actuarial function by Barnett Waddingham LLP.

In January 2019, the Company changed service provider for custody and administration to Citibank.

Strategic Report (continued)

Key performance indicators

The Company uses a number of financial performance measures to monitor the performance of the business against budget and prior year. Key financial metrics are measured and reported to management on a regular basis including those shown below:

	12 months to 31 Dec 2018 £000	15 months to 31 Dec 2017 £000
Assets under management ("AuM")	1,467,681	1,601,651
Fee income ¹	6,337	7,595
Profit for the financial period	103	359
Regulatory capital surplus	8,309	7,467

AUM has decreased by £134 million largely due to net policyholder outflows of £59 million and unrealised losses on investment of £191 million, partly offset by investment income of £120 million.

Fee income of £6.3 million in 2018 has decreased by £1.3 million compared to the prior reporting year, reflecting three months of additional revenue earned in the reporting period in 2017, partly offset by an increase in revenue due to clients newly novated in 2018.

Profit for the financial period of £0.1 million fell by £0.3 million (2017: £0.4 million). Profit before tax is broadly in line with the prior year once adjusting for the three extra months of additional income and expenses in 2017.

The Company has maintained capital resources in excess of the capital resources requirement over the period. The capital resources at the end of the period are £11,597k which exceeds the Solvency II capital resources requirement by £8,309k.

In addition, a number of non-financial performance indicators are used by the Board to monitor the activities of the Company. These include:

- fund management performance;
- performance and effectiveness of third party suppliers;
- compliance and regulatory matters.

¹ Re-presented in accordance with the Companies Act 2006, Schedule III on "Insurance Companies: Companies Act Individual Accounts" (see note 2).

Strategic Report (continued)

Risks

The SLA Group, of which Aberdeen Asset Management Life and Pensions Limited is part, has an established Enterprise Risk Management framework, integrating oversight of strategic planning, operational management of the business and internal control.

Accordingly, the principal risks and uncertainties of the SLA Group, which include those of the Company, are discussed fully in the SLA plc Annual Report and Accounts which does not form part of this report.

The list below does however provide a summary of the key risks facing Aberdeen Asset Management Life and Pensions Limited. Further details on each of the risks, together with how they link to the SLA Group's strategy, how they have evolved over the period and how they are managed can be found in the SLA Group's Annual Report and Accounts.

The principal risks to which the Company is most specifically exposed can be categorised as follows:

Operational risk: notably process execution failure and business continuity; talent management; change management; IT failure and security including cyber risk; third party oversight, including both outsourcing and supplier relationships; and the impact of inaccurate or incomplete information for financial management and decision making.

Conduct risk: specifically the risk that our behaviours, strategies, decisions and actions deliver unfair outcomes to our customers and clients and/or poor market conduct. We have no appetite for either of these.

Regulatory and legal risk: we operate in a highly regulated industry which has the potential to expose the Company to risks.

Strategic risks: notably investment performance; ensuring we meet the evolving needs of our clients and customers and adapting to preference changes. Geopolitical unrest and associated risks continue to be a key strategic risk and can impact the market in which we operate, impact our reputation and increase our capital exposure.

Financial risk: notably market risk; liquidity risk and counterparty failure.

Further information regarding the Company's financial risk management is given in note 20.

By order of the Board



A W Mitchell
Director

25 March 2019

Directors' Report

The Directors present their annual report and the audited financial statements for the period ended 31 December 2018.

Dividends

The Directors do not recommend a dividend payment to be made in respect of the period ended 31 December 2018 (2017: nil).

Directors

The Directors who held office during the period and to the date of this report were as follows:

O Thoresen	(Non-executive Chairman)
D J P Hare	(Non-executive Director)
H M Webster	(Chief Executive)
A W Mitchell	(Executive Director)

The Directors benefited from qualifying third party indemnity provisions which were in place during the financial period and at the date of signing the financial statements.

Chief Actuary

J A Hoskin of Barnett Waddingham LLP.

Policy on payment of creditors

As required by the policy terms, all life fund claims and settlements are normally paid once transactions are initiated. During 2018 these policy terms were amended from settlements within four working days to within three working days.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' Report (continued)

Statement of Directors' responsibilities

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 period. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework and Schedule 3 of the Companies Act 2006.

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 for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board



A W Mitchell
Director

25 March 2019

Independent Auditor's Report to the Members of Aberdeen Asset Management Life and Pensions Limited

1 Our opinion is unmodified

We have audited the financial statements of Aberdeen Asset Management Life and Pensions Limited ("the Company") for the year ended 31 December 2018 which comprise the Income statement, Balance Sheet, Statement of changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 14 August 2017. The period of total uninterrupted engagement is for the two financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 2 (Strategic Report).

The risk

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

Independent Auditor's Report to the Members of Aberdeen Asset Management Life and Pensions Limited (continued)

- Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- Assessing transparency – We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

We found the disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Novation of contracts

Refer to page 18 (accounting policy)

The risk

The contractual rights to administer certain pension fund management contracts were transferred to the Company during the year from a related party. The risk is that the transfer of these contracts is incorrectly accounted for.

Our response

We obtained evidence of the contract novations.

We obtained evidence from regulatory bodies that the Company has the correct regulatory permissions to manage this business.

We reviewed the commercial rationale for making such a transfer.

We assessed the accounting treatment for the transfer of these contracts by reference to accounting standards.

Our results

We found the accounting for these transactions to be acceptable.

Valuation of financial assets held to cover linked liabilities (2018: £1,467.7 million, 2017: £1,601.7 million).

Refer to pages 19 (accounting policy) and pages 25 (financial disclosures)

The risk

Subjective valuation

The Company has significant investments which are held at fair value, representing 99.1 per cent of total assets. The risk is that these investments are inappropriately valued.

Our response

Our valuation expertise

We used our own valuation specialists to provide independent valuations for all financial instruments in this area.

Independent Auditor's Report to the Members of Aberdeen Asset Management Life and Pensions Limited (continued)

Assessing transparency

We assessed whether the Company's disclosures in relation to the valuation of investments are compliant with the relevant financial reporting requirements and present the investments within the appropriate fair value hierarchy.

Our results

We found the valuation of investments to be acceptable.

Valuation of technical provisions for linked liabilities (2018: £1,467.7 million, 2017: £1,601.7 million)

Refer to page 20 (accounting policy) and pages 26 (financial disclosures)

The risk

Subjective valuation

The Company has significant liabilities to customers under investment contracts representing 99.8 per cent of the Company's total liabilities. The liabilities are required to be measured at fair value, which corresponds to the fair value of the financial instruments, in which the funds are invested.

The key determinants of the value of the liabilities are the value of the assets that the funds are invested in. The risk is that inappropriate fund values are utilised in determining the valuation of the contract liabilities.

Our response

Tests of details

We assessed the value of the investment contract liabilities by reference to the assets held to support them.

We agreed the carrying value of the liabilities to the third party that administers the schemes.

We assessed the control environment in place at the third party that administers the schemes.

Assessing transparency

We considered whether the Company's disclosures in relation to the determinants of the value of investment contract liabilities appropriately represent the liabilities.

Our results

We found the valuation of the investment contract liabilities to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £11 million (2017: £11 million), determined with reference to a benchmark of total assets, of which it represents 0.70% (2017: 0.5%).

We then selected Fee Income as the key metric for setting materiality for items that did not relate to the assets held to cover linked liabilities or the technical provision for linked liabilities. This gave a materiality of £110k (2017: £140k)

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £550k (2017: £550k) for the financial statements as a whole and £5.5k (2017: £7k) for items that did not relate to the assets held to cover linked liabilities or the technical provision for linked liabilities, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of Aberdeen Asset Management Life and Pensions Limited (continued)

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's Report to the Members of Aberdeen Asset Management Life and Pensions Limited (continued)

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the following areas as those most likely to have such an effect: permissions and supervisory oversight of the PRA and FCA recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Mostyn Wilson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

26 March 2019

Profit and Loss Account

For the year ended 31 December 2018

	Note	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 (re-presented ¹) £'000
Technical account – Long-term business			
Investment income	3	120,197	230,453
Unrealised (losses) gains on investments	3	(190,990)	22,086
Other technical income	4	6,337	7,595
		<u>(64,456)</u>	<u>260,134</u>
Change in other technical provisions for linked liabilities	16	71,862	(254,217)
Investment expenses	3	(5,385)	(6,456)
Realised foreign exchange (losses)	3	(18)	(11)
Tax attributable to the long term business	10	(1,480)	1,435
		<u>(6,883)</u>	<u>(5,032)</u>
Balance on the long-term account		<u>523</u>	<u>885</u>
Non-Technical account			
Balance on the long-term account		523	885
Tax attributable to the balance on the long-term business technical account	10	123	213
		<u>646</u>	<u>1,098</u>
Shareholders pre-tax profit from long-term business			
Investment income	3	64	47
Other expenses	6	(604)	(700)
Other income	5	22	-
		<u>128</u>	<u>445</u>
Profit on ordinary activities before tax			
Tax on profit on ordinary activities	10	(25)	(86)
		<u>103</u>	<u>359</u>
Profit for the financial year			

Revenue and profit for the financial year derive wholly from continuing operations in the UK.

There are no recognised gains or losses other than the profit for the current financial period and prior financial year. Accordingly, no statement of comprehensive income has been presented.

The notes on pages 16 to 31 form part of these financial statements.

¹ Re-presented in accordance with the Companies Act 2006, Schedule III on "Insurance Companies: Companies Act Individual Accounts" (see note 2).

Balance Sheet

As at 31 December 2018

		2018 £'000	2017 (re-presented ¹) £'000
ASSETS			
Investments			
Other financial investments	11	10,257	10,197
Assets held to cover linked liabilities	12	1,467,681	1,601,651
Debtors			
Debtors arising out of direct insurance operations	13	315	3,448
Other debtors	13	241	190
Other assets			
Cash at bank and in hand		1,399	1,571
Prepayments and accrued income			
Other prepayments and accrued income	14	1,314	559
Total assets		1,481,207	1,617,616
EQUITY AND LIABILITIES			
Capital and reserves:			
Called up share capital	15	1,500	1,500
Profit and loss account		9,369	9,266
Total equity		10,869	10,766
Technical provisions for linked liabilities	16	1,467,681	1,601,651
Provisions for other risks and charges			
Provision for Tax	10	85	107
Creditors			
Creditors arising out of direct insurance operations	17	315	1,925
Other creditors	17	2,257	3,167
Total liabilities		1,470,338	1,606,850
Total equity and liabilities		1,481,207	1,617,616

The notes on pages 16 to 31 form part of these financial statements.

The financial statements were approved by the Board of Directors on 25 March 2019 and were signed on its behalf by:



A W Mitchell
Director

¹ Re-presented in accordance with the Companies Act 2006, Schedule III on "Insurance Companies: Companies Act Individual Accounts" (see note 2).

Statement of Changes in Equity

As at 31 December 2018

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Balance at 30 September 2016	1,500	8,907	10,407
Profit for the period	-	359	359
Balance at 31 December 2017	1,500	9,266	10,766
Profit for the year	-	103	103
Balance at 31 December 2018	1,500	9,369	10,869

The notes on pages 16 to 31 form part of these financial statements.

Notes to the financial statements

1. General Information

The Company is a private company limited by share capital incorporated and domiciled in the UK. The address of its registered office is:

Bow Bells House
1 Bread Street
London
EC4M 9HH

The Company's business activities, together with expected future developments and key risks facing the Company, are detailed in the Strategic Report.

These financial statements were authorised for issue by the Board of Directors on 25 March 2019.

2. Accounting policies

The following accounting policies have been applied consistently to all periods presented when dealing with items which are considered material in relation to the Company's financial statements.

Disclosure Framework and Schedule 3 of the Companies Act 2006

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Basis of preparation

The Company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 ("FRS 100") as issued by the Financial Reporting Council. Accordingly, the financial statements for the year ended 31 December 2018 have been prepared in accordance with Schedule 3 of the Companies Act 2006. Due to the change in accounting reference date following the merger with SLA plc on 14 August 2017, the comparative year is for the 15 month period to 31 December 2017.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the certain disclosures. These include presentation of a cash-flow statement, standards not yet effective, key management compensation and transactions with group companies.

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006, as modified by the valuation of certain financial assets and liabilities at fair value through profit and loss as described below.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position including Brexit, are set out in the Strategic Report.

The Company has made a profit for the financial period and is forecast to make profits for the foreseeable future, has sufficient financial resources and a strong cash position. The Board believes that the Company holds adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

New interpretations and amendments to existing standards that have been adopted by the Company

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaced 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. A

Notes to the financial statements (continued)

detailed impact assessment was completed for all major revenue streams, reviewing contracts and analysing the revenue recognised. No significant impacts to profit or net assets were identified for the Company.

IFRS 9 Financial Instruments: Recognition and Measurement

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement'. There has been no material impact on the Company's financial performance or position and no comparative numbers have been adjusted following the adoption of IFRS 9.

Prior Period Re-presentation

Financial statements for the period ended 31 December 2017 were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 101 (FRS 101) Reduced Disclosure Framework. In 2018, the Company has adopted Schedule 3 of Companies Act 2006 as applicable to insurance companies for presentation of its financial statements and accordingly the comparative figures have been re-presented.

The following tables show the effect of the re-presentation on the prior year financial statements.

No recognition and measurement differences have arisen following this re-presentational change, nor has there been any change to key management judgements and estimates.

Effect of re-presentation on the Profit and Loss Account for 15 months to 31 December 2017

	Companies Act Schedule III 2017 £'000	FRS 101 as reported 2017 £'000
Fee income		7,584
Other technical income – Technical account	7,595	
Foreign exchange (losses) – Technical account	(11)	
	<u>7,584</u>	<u>7,584</u>
Investment return		252,539
Investment income – Technical account	230,453	
Unrealised gains on investments – Technical account	22,086	
	<u>252,539</u>	<u>252,539</u>
Expenses		(7,156)
Investment expenses - to the long term business – Technical account	(6,456)	
Investment expenses and charges - to the Non-Technical account	(700)	
	<u>(7,156)</u>	<u>(7,156)</u>
Taxation		1,562
Tax attributable to the long term business – Technical account	1,435	
Tax on profit on ordinary activities – Non-Technical account	127	
	<u>1,562</u>	<u>1,562</u>

Notes to the financial statements (continued)

Effect of representation on Balance Sheet as at 31 December 2017 (continued)

	Companies Act Schedule III 2017 £'000	FRS 101 as reported 2017 £'000
Cash and cash equivalents		30,643
Held in respect of liabilities to customers under investment contracts		1,582,776
Other financial investments	10,197	
Assets held to cover linked liabilities	1,601,651	
Cash at bank and in hand	1,571	
	1,613,419	1,613,419
Trade and other receivables		4,197
Debtors arising out of direct insurance operations	3,448	
Other debtors	190	
Other prepayments and accrued income	559	
	4,197	4,197

Product classification

Technical provisions for linked liabilities in the balance sheet relates to unit linked contracts classified as investment contracts. Long term contracts can either be classified as insurance or investment contracts. Contracts which transfer significant insurance risk are categorised as insurance contracts, and any long term contracts not considered to be insurance contracts are classified as investment contracts. The Company's long term contracts do not transfer significant insurance risk and hence are classified as investment contracts.

Novation of contracts

During the year a number of pension fund management contracts were transferred to the Company for nil consideration from Standard Life Pension Funds Limited ('SLPF'). SLPF is a related party but is not an entity under common control with the Company. No contract cost asset has been recognised as the contracts were acquired for nil consideration. All assets remain the property of the underlying pension schemes and as such are not recognised on the Company's balance sheet. These clients transferred to the Company following authorised permission received from the PRA in November 2018 to conduct Class VII (Pension Fund Management) insurance business. Management fees are received by the Company for investment advisory services provided to the client by the investment manager, Standard Life Investments Limited. These fees are accounted for in accordance with the accounting policy on Other technical income.

Notes to the financial statements (continued)

Financial instruments

The majority of the Company's financial assets and financial liabilities are designated at fair value through profit and loss, with the exception of certain receivables and payables held outside the Company's unit-linked funds which are stated at amortised cost.

Certain financial assets and financial liabilities held within the unit-linked funds, which under default accounting treatment would be recorded at amortised cost, are instead designated at fair value through profit and loss. Those assets and liabilities are held to match unit linked investment contract liabilities which reflect the fair value of the underlying assets and liabilities within the funds. This approach reduces measurement and recognition inconsistencies, and is consistent with the management and performance evaluation of the funds and their underlying assets and liabilities.

Other financial investments

Other financial investments comprise of short-term highly liquid investments with original maturities of three months or less.

Assets held to cover linked liabilities

This category comprises investments made pursuant to unit-linked policies under which the benefits payable to the policyholder are wholly or partly determined by reference to the value of the associated investments. Purchases and sales are recognised on the trade date, and transaction costs are recognised immediately in the Profit and Loss Account. Assets are originally recognised at cost, being the fair value of the consideration given, and are subsequently re-measured at fair value. The fair values of investments are based on current bid prices. If the market for a financial asset is not active, or in respect of unlisted securities, fair value is established using valuation techniques. These assets include cash and cash equivalents held to cover linked liabilities.

Fair value methodology

The fair values of financial assets and financial liabilities at fair value through profit and loss are determined as follows:

Level 1 – fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair value is derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices); and

Level 3 – fair value is derived from valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

Debtors

Receivable balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Balances are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment. In practice the carrying values equate to the fair values due to the short term nature of the amounts.

Balances are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment losses are recognised immediately in the Profit and Loss Account upon identification.

Cash at bank and in hand

Cash at bank and in hand comprise deposits held at call with banks.

Notes to the financial statements (continued)

Prepayments and accrued income

Financial statements are prepared on an accruals basis. These items represent income earned up to the balance sheet date but have not yet become receivable; and expenses pre-paid in the current year for future expenses to be recognised in a future reporting period.

Technical provisions for linked liabilities

The Company issues unit-linked investment contracts without fixed terms. The fair value of the liabilities is calculated by multiplying the number of units attributed to the policyholders by the bid price of the units. The liabilities under the contracts are accounted for as financial liabilities at fair value through profit and loss. This matches the accounting treatment of the underlying assets within the funds as referred to above. The value of the liabilities is impacted by, inter alia, policyholder premiums and claims.

Creditors

Balances are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. In practice the carrying values equate to the fair values due to the short term nature of the amounts.

Investment income

Investment income in the Technical account includes dividends from shares and collective investments, interest income and net realised fair value gains and losses from investments. Dividend income is recorded on the date on which the underlying stock is quoted ex dividend.

Investment income in the Non-Technical account includes interest income and is accounted for on an accruals basis.

Unrealised gains on investments

Net fair value gains and losses on investments for unrealised amounts.

Other technical income

Fee income is stated net of rebates, and is accounted for on an accruals basis.

Investment expenses

Expenses are accounted for on an accruals basis.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the profit and loss account in the reporting period. Current taxation is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years.

Tax attributable to the long-term business is included in the Technical account for long-term business. Other tax is included in the non-technical account. Within the Non-Technical account the balance transferred from the long-term business Technical account is grossed up for attributable tax using the appropriate enacted or substantively enacted tax rate. The tax on profit on ordinary activities, which appears in the non-technical account, comprises the tax attributable to the balance on the long-term business technical account and tax relating to the Investment income, Other Expenses and Other income which appear in the Non-Technical account.

Notes to the financial statements (continued)

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in thousands of pounds sterling, which is the Company’s presentational and functional currency.

Assets and liabilities in foreign currencies are translated into pounds sterling at the exchange rates ruling at the period end. Revenue transactions are translated at rates of exchange ruling at the time of the respective transactions.

Any exchange differences are dealt with in that part of the Profit and Loss Account in which the underlying transaction is reported.

Critical accounting estimates

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported income and expenses for the period. Although the estimates are based on management’s best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates.

There are no critical accounting estimates which are material to the financial statements.

3. Investment return

	Year ended to 31 Dec 2018 £’000	15 months to 31 Dec 2017 £’000
Investment income from equity investments	28,017	36,714
Realised gains on investments	92,180	193,739
Investment income – Technical account	120,197	230,453
Unrealised (losses) / gains on investments	(190,990)	22,086
Investment management expenses	(5,385)	(6,456)
Realised foreign exchange losses	(18)	(11)
Total investment return – Technical account	(76,196)	246,072
Investment income	64	47
Total investment return – Non Technical account	64	47
Total investment return	(76,132)	246,119

Investment management expenses in the Technical account relates to fees for investment management payable to fellow Group undertakings. Investment income in the Non-Technical account is interest earned from deposits with credit institutions (see note 11).

Notes to the financial statements (continued)

4. Other technical income

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Fee income from assets held to cover linked liabilities	5,504	7,595
Fund management fee income	833	-
Fee income	<u>6,337</u>	<u>7,595</u>

Other technical income comprises of fee income for £5.5m (2017: £7.6m) from assets held on the balance sheet to cover linked liabilities, and fund management fee income of £0.8m (2017: nil) from pension fund management clients transferred in 2018.

5. Other income

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Other income	<u>22</u>	<u>-</u>

Other income in 2018 relates to withholding tax recoveries relating to a closed fund.

6. Other expenses

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Amount paid to Group undertakings	(167)	(193)
Other	(437)	(507)
	<u>(604)</u>	<u>(700)</u>

Amounts owed to Group undertakings are interest free and repayable on demand.

7. Staff costs

The Company has no employees and therefore has incurred no direct staff costs.

8. Auditor's remuneration

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Statutory audit	73	77
Other	-	70
	<u>73</u>	<u>147</u>

Notes to the financial statements (continued)

9. Directors' emoluments

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Directors' emoluments	90	106

Directors' emoluments consist of fees payable to Non-Executive Directors. Those directors have not received any other form of remuneration for their services. For those directors who are employees of the SLA Group and whose services cover several companies within the Group, no apportionment of emoluments has been made to the Company. None of the Directors who held office during the year ending 31 December 2018 had any interest in the shares of the Company (2017: none).

10. Taxation

Analysis of the tax charge / (credit) / in the year / period

	Technical Account Year ended to 31 Dec 2018 £'000	Technical Account 15 months to 31 Dec 2017 £'000	Non-technical Account Year ended to 31 Dec 2018 £'000	Non-technical Account 15 months to 31 Dec 2017 £'000
Overseas with-holding tax	1,069	1,086	-	-
Deferred tax	(23)	(30)	-	-
Adjustments in respect of prior periods	234	(2,203)	-	-
Sub-total	1,280	(1,147)	-	-
Current tax charge/ (credit) on result for the year	200	(288)	(98)	(127)
Tax charge attributable to balance on long term business technical account	-	-	123	213
Tax charge/(credit) on the profit of ordinary activities	1,480	(1,435)	25	86

Notes to the financial statements (continued)

Reconciliation of tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19.0% (2017: composite rate of 19.4%). The differences are explained below:

	Technical Account	Technical Account	Non- technical Account	Non- technical Account
	Year ended to 31 Dec	15 months to 31 Dec	Year ended to 31 Dec	15 months to 31 Dec
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Profit before taxation	<u>2,003</u>	<u>(550)</u>	<u>128</u>	<u>445</u>
Current tax (2018: 19.0%, 2017: 19.4%)	380	(107)	25	86
Effects of:				
Overseas with-holding tax	1,069	1,086	-	-
Foreign tax deducted as an expense	(203)	(211)	-	-
Adjustments in respect of prior year	<u>234</u>	<u>(2,203)</u>	<u>-</u>	<u>-</u>
Tax charge/(credit) on the profit of ordinary activities	<u>1,480</u>	<u>(1,435)</u>	<u>25</u>	<u>86</u>

The UK tax rate for the year/period is 19.0% (2017: 19.4%). The tax rate was reduced from 20.0% to 19.0% effective from 1 April 2017 with a further reduction to 17.0% effective from 1 April 2020.

Provision for deferred tax

	Year ended to 31 Dec 2018 £'000	15 months to 31 Dec 2017 £'000
Deferred tax liability		
Balance brought forward	107	137
Origination and reversal of timing differences	(23)	(30)
Impact of change in UK tax rate	<u>1</u>	<u>-</u>
Balance carried forward	<u>85</u>	<u>107</u>

11. Other financial investments

	2018 £'000	2017 £'000
Short term money market funds	<u>10,257</u>	<u>10,197</u>

Notes to the financial statements (continued)

12. Assets held to cover linked liabilities

	2018 £'000	2017 £'000
Listed investments	967,944	1,136,614
Unit trust and OEICs	471,395	438,565
Cash and cash equivalents	21,614	18,558
Other net assets	6,728	7,914
	<u>1,467,681</u>	<u>1,601,651</u>

13. Debtors

	2018 £'000	2017 £'000
Direct insurance debtors	315	3,448
Amounts owed by Group undertakings	138	79
Other debtors	103	111
	<u>241</u>	<u>190</u>
	<u>556</u>	<u>3,638</u>

Amounts owed by Group undertakings are interest free and repayable on demand.

14. Other prepayments and accrued income

	2018 £'000	2017 £'000
Accrued income	1,311	545
Prepayments	3	14
	<u>1,314</u>	<u>559</u>

15. Share capital

	2018 £'000	2017 £'000
Authorised:		
50,000,000 (2017: 50,000,000) ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid:		
1,500,002 (2017: 1,500,002) ordinary shares of £1 each	<u>1,500</u>	<u>1,500</u>

Notes to the financial statements (continued)

16. Technical provisions for linked liabilities

	2018 £'000	2017 £'000
Balance at 1 January / 1 October	1,601,651	1,670,894
Change in technical provisions for the year		
- Gross amount	(71,862)	254,217
Deposits received from policyholders under investment contracts	187,474	275,773
Payments made to policyholder under investment contracts	(246,925)	(595,096)
Management and operating expenses from the fund	(2,657)	(4,137)
Balance at 31 December	<u>1,467,681</u>	<u>1,601,651</u>

17. Creditors

	2018 £'000	2017 £'000
Creditors arising out of direct insurance operations	315	1,925
Amounts owed to Group undertakings	1,051	345
Other creditors	191	1,524
Accruals	<u>1,015</u>	<u>1,298</u>
	2,257	3,167
	<u>2,572</u>	<u>5,092</u>

18. Capital management

The Company manages its capital to ensure that sufficient available capital resources are held to cover its capital resources requirements. The Company has no intention to seek additional forms of capital; therefore the capital management policy is designed to ensure that all capital requirements are met out of retained profits. Dividends will only be paid provided that, following any payment, the Company will continue to hold a level of cover above the appropriate regulatory requirement as deemed appropriate by the Board.

The key risk to regulatory capital relates to the inability of the business to earn enough revenue to cover the costs of administration in the event of closure to new business or adverse economic conditions. The Company manages this risk by ensuring that the form of all policy contracts allows termination by the Company on a period of notice of three months and by having an expense structure that is sensitive to the ability of the business to generate revenue from policy charges.

The following Solvency II information in the remainder of this note is not audited by KPMG LLP.

From 1 January 2016 the Company has been subject to the capital requirements of the Solvency II directive. The balance of available capital resources is monitored against the Company's Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). The SCR is calculated in accordance with the Solvency II Directive Standard Formula, and the MCR is based on the €3.7m monetary minimum set out in the regulations.

Notes to the financial statements (continued)

For year ending the 31 December 2018 the company held a MCR of £3.3 million (2017: £3.2 million) and a SCR of £2.7 million (2017: £1.6 million). As the MCR is higher than the SCR, this MCR position is adopted as the capital requirement for the company.

All of the Company's own funds are classified as Tier 1 basic own funds comprised of equity and retained earnings and are available to provide cover for both the SCR and the MCR without restriction.

This Company's own fund position was £11.6 million in 2018 (2017: £10.7 million).

19. Financial instruments

All financial assets and liabilities are valued using Level 1 in 2018, in accordance with the policy detailed in note 2. In 2017 all financial assets and liabilities were valued using Level 1 with the exception of one fixed income listed investment with a value of £1.8m which was valued using Level 2 techniques.

The fair values of the company's financial assets and liabilities equates to their carrying values.

20. Financial risk management

The Company is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market price risk;
- foreign exchange risk; and
- interest rate risk

In general, the vast majority of the Company's assets are held in unit-linked funds. The risks and rewards of those assets fall to the benefit of, or are borne by, the underlying policyholders and the value of the investment contract liabilities shown in the Company's balance sheet varies in line with the value of the assets held. The Company has no direct exposure to fluctuations in the value of assets which are held on behalf of policyholders, nor to fluctuations in the value of the assets arising from changes in market prices or credit default. The Company's exposure to these assets is limited to the revenue earned, which varies according to movements in the value of the assets.

Governance framework

The Board is responsible for the management and oversight of all risks affecting the Company. To achieve this, the Company uses the comprehensive risk management framework which was established by the Aberdeen Asset Management Group prior to its merger with Standard Life, with specific arrangements where necessary to address the requirements of the Company as a UK insurance undertaking. Transition to a new integrated governance structure as part of the SLA Group has taken place in 2018 and the governance is based on the SLA Group framework.

Day to day governance and risk control is delegated by the Company to wider group functions via a formal Management Services Agreement. Oversight of those services is carried out by a combination of committees within the risk control framework, and the dedicated committees established by the Company Board noted below.

The governance framework for the Company is based on the SLA Group framework, with specific arrangements where necessary to address the requirements of the Company as a UK insurance undertaking. Transition to a new integrated governance structure for Aberdeen Standard Investments as part of the SLA Group took place during 2018.

Day to day governance and risk control is delegated by the Company to AAML via a formal management services agreement. Investment management is delegated to AAML via a separate IMA. The Board considers the current system of governance appropriate for its business model, which is limited to offering unit-linked pension policies and

Notes to the financial statements (continued)

investment management contracts to trustees of approved UK pension schemes and unit-linked pension reinsurance policies to UK insurance companies.

The Board has established the following dedicated committees, which receive input from functional committees established by SLA Group as part of its group-wide risk management framework.

Risk Committee

The Risk Committee of the Company is responsible for reviewing risk management information relating to the Company. The Committee keeps under review in particular:

- The alignment of the SLA Group's strategy to the risk appetite and policy of the Company's Board
- Quality of the SLA Group's enterprise risk management framework and operating structure as a mitigation and key control to the Company's risks
- The extent to which risk assessment is in line with industry best practice and regulatory requirements.

Audit Committee

The Audit Committee of the Company monitors the integrity of the financial statements of the Company, reviewing significant financial reporting issues and judgements. The Committee reviews and challenges as appropriate:

- The consistency of, and any changes to accounting policies.
- Whether the Company has followed appropriate accounting standards and made appropriate estimates, assumptions and judgements, taking into account the view of the external auditor and the Chief Actuary.
- The clarity of disclosure in the Company's financial reports
- Annual internal audit plan, as informed by the Company's Board

The Committee also approves the terms of the external auditor's engagement.

Client and Fund Governance Committee

The Client and Fund Governance Committee of the Company assists the Chief Executive Officer in his or her responsibilities for oversight of any activity which has a direct impact on customer outcomes. This includes, but is not limited to:

- Investment performance.
- Client facing documents and communications.
- Product changes.
- Complaints.

The Committee is also responsible for reviewing decisions around unit dealing and pricing.

During the year, the Client and Fund Governance Committee was renamed from Unit Linked Governance Committee, reflecting the introduction of pension fund management contracts. There has been no other material change to the governance arrangements of the Company during the reporting period.

The Board considers that the current system of governance is adequate for its business model which is limited to offering unit-linked pension policies to trustees of approved UK pension schemes and UK insurance companies.

Notes to the financial statements (continued)

Market price risk

Market price risk is the risk that the fair value or future cash flows of financial instruments will change due to movements in market prices, other than foreign exchange rates or interest rates.

The Company does not hold any non-linked assets which are exposed to market price risk, nor does it directly bear the risk of market price movements in respect of assets within the unit-linked funds. However the Company is exposed to price risk indirectly, as its management fees earned are calculated as a percentage of assets under management which will be impacted by changes in the value of assets in the underlying funds.

A 10% fall in the value of stocks subject to market price risk would reduce profit before tax by approximately £73k per annum (2017: £83k).

A 10% increase in the value of stocks subject to market price risk would increase profit before tax by approximately £73k per annum (2017: £83k).

The Company pays a proportion of its net fees to a fellow Group company in respect of asset management services. The risk of market price movements is managed through an arrangement which reduces this amount, potentially to zero, in circumstances where the level of net fees falls to an unsupportable level. The sensitivity quoted above does not allow for this mitigating effect.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk in respect of its assets held outside the unit-linked funds, and in its exposure to clients.

The investment guidelines set an un-collateralised counterparty limit of £2.0 million for non-linked assets except for holdings in UCITS qualifying liquidity funds. This balances the need for diversification with the need for a practical level of bank balances to be operated.

The Company is exposed to a degree of counter-party risk with clients as its business model operates with a delay between dealing and settlement. This risk is managed by making an individual assessment during each client take-on.

For large initial premiums, or where the investment represents a significant part of the client's total assets, the Company may require investments to be prefunded to limit credit risk.

The Company is exposed to amounts recognised in fee income which have not yet been settled by clients. The credit quality of outstanding balances is monitored and there has been no significant level of default. As such, there are no concerns over the credit quality of these assets.

Notes to the financial statements (continued)

An analysis of relevant financial assets by ageing is given below:

2018	Cash and cash equivalents £'000	Debtors £'000	Total £'000
Neither past due nor impaired	1,399	466	1,865
Past due but not impaired	-	90	90
Impaired	-	-	-
Total	1,399	556	1,955

2017	Cash and cash equivalents £'000	Debtors £'000	Total £'000
Neither past due nor impaired	1,571	3,638	5,209
Past due but not impaired	-	-	-
Impaired	-	-	-
Total	1,571	3,638	5,209

An analysis of cash and cash equivalents by credit rating is given below:

	2018 £'000	2017 £'000
AA-	1,399	1,571

The balance of trade and other receivables primarily consists of short term amounts due in respect of unit cancellations.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from a counterparty defaulting on repayment of a contractual obligation; or from the inability to generate cash inflows as anticipated.

In respect of non-linked assets, the investment guidelines requires those assets to be held substantially in cash or short term deposits with approved credit institutions or holdings in UCITS liquidity funds.

In respect of unit-linked assets held to match policyholder liabilities, the vast majority are invested in marketable securities. Policy contracts and unit dealing cycles are designed to minimise liquidity risks from mismatches in timing between transactions with customers and transactions in the underlying securities.

As unit-linked liabilities are repayable on demand, no analysis by maturity date is provided.

Foreign exchange risk

The Company undertakes transactions in a number of currencies and foreign currency risk arises through fluctuations in foreign currency rates changing the fair value or future cash flows of financial instruments. The Company is exposed to a very small element of direct foreign currency risk from non-linked assets. The vast majority of foreign currency transactions are within the unit-linked funds where the direct currency risk is borne by the policyholders.

However the Company is exposed indirectly to this source of risk as its management fees earned are calculated as a percentage of assets under management, some of which will be impacted by foreign exchange movements.

Notes to the financial statements (continued)

A 10% fall in the value of stocks subject to foreign exchange risk would reduce profit before tax by approximately £360k per annum (2017: £400k).

A 10% increase in the value of stocks subject to foreign exchange risk would increase profit before tax by approximately £360k per annum (2017: £400k).

The Company pays a proportion of its net fees to a fellow Group company in respect of asset management services. The risk of foreign exchange movements is managed through an arrangement which reduces this amount, potentially to zero, in circumstances where the level of net fees falls to an unsupportable level. The sensitivity quoted above does not allow for this mitigating effect.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will change due to movements in market interest rates.

Direct interest rate risk

The Company's direct exposure to interest rate risk is in respect of non-linked interest earning assets, where the Company's policy is to hold investable assets in cash or UCITS liquidity funds. The Company does not hold interest bearing liabilities.

A decrease of 0.5 percentage points in interest rates would reduce profit before tax by approximately £60k per annum (2017: £60k).

An increase of 0.5 percentage points in interest rates would increase profit before tax by £60k per annum (2017: £60k).

Indirect interest rate risk

The Company is exposed to interest rate risk indirectly, as its management fees earned are calculated as a percentage of assets under management, some of which will be impacted by changes to interest rates. The level of fees earned which are linked to the value of such investments is a small proportion of the Company's revenue, therefore no sensitivity has been provided on the grounds of materiality.

21. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

22. Ultimate parent company and parent company of larger group

The Company's immediate parent company is AAM PLC and its ultimate parent company is SLA plc, which are both incorporated in the United Kingdom and registered in Scotland.

The results of the Company are consolidated in the Group accounts of SLA plc, the smallest group that the results are consolidated within, which are available to the public and may be obtained from 1 George Street, Edinburgh, EH2 2LL, or available to download from the website www.standardlifeaberndeen.com.