

Pillar 3 Disclosures

31 December 2018

Standard Life Aberdeen Group

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The Pillar 3 Disclosures for the Group and its subsidiaries are available on our website www.standardlifeaberdeen.com/annualreport

The Group's Annual report and accounts 2018 is also available on our website www.standardlifeaberdeen.com/annualreport

1. Introduction

We invest for a better future. We develop products and services for evolving client needs and create meaningful relationships with all of our stakeholders. Our business is transforming in line with our vision. The merger with Aberdeen Asset Management and the sale of the UK and European insurance business to Phoenix Group Holdings (Phoenix) in the last two years marked the culmination of the transformation to a capital-light, broad-based, investment company.

Our strategic objectives now reflect the new shape of our business and our priorities for the future, with our transformation programme progressing to support the delivery of our potential.

This document sets out the Pillar 3 disclosures for Standard Life Aberdeen plc and its relevant subsidiaries as at 31 December 2018 (SLA, SLA group, or the Group). It fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), referred to collectively as 'CRD IV'.

SLA is supervised by the Financial Conduct Authority (FCA) under the CRD IV regulatory regime for group prudential supervisory purposes, following the sale of SLA's UK and European insurance business to Phoenix in August 2018. Prior to this date, SLA was regulated as an insurance group subject to Solvency II.

The regulatory framework is based on three 'Pillars':

- ▶ Pillar 1 sets out the minimum capital requirement that we are required to hold
- ▶ Pillar 2 requires us, and the FCA, to take a view on whether we need to hold additional capital against firm-specific risks not covered by Pillar 1. This is assessed by implementing the Internal Capital Adequacy Assessment Process (ICAAP), and the regulator's Supervisory Review and Evaluation Process (SREP) of our ICAAP.
- ▶ Pillar 3 requires us to publish a set of disclosures which will allow market participants to assess key information about our underlying risks, risk management controls and capital position

These Pillar 3 disclosures are made as at 31 December 2018, which is SLA's accounting reference date. The Pillar 3 disclosures are not subject to audit and have been produced solely for the purpose of satisfying the Pillar 3 regulatory requirements. Additional relevant information can be found in the Group's Annual report and accounts (ARA) for the year ended 31 December 2018 (2018 ARA), which is available on the SLA corporate website at www.standardlifeaberdeen.com/annualreport

2. Summary capital position and requirements

Under CRD IV, institutions are required to meet the following own funds requirements: a Common Equity Tier 1 (CET1) capital ratio of 4.5%, a Tier 1 (T1) capital ratio of 6%, and a total capital ratio of 8%. The Group's total regulatory capital consists of both Tier 1 and Tier 2 capital. All of the Group's Tier 1 regulatory capital is CET1. The capital ratios are calculated as the relevant regulatory capital divided by the total risk exposure. The Group's key regulatory metrics are shown in the following table.

	Total regulatory capital £m	CET1 capital £m	Tier 2 capital £m	Total risk exposure £m	Capital ratio (CET1) %	Capital ratio (T1) %	Capital ratio (Total) %
2018	1,709	1,128	581	4,055	27.8	27.8	42.2

The Pillar 1 capital requirement at 31 December 2018 was £324m. Further details are set out in Section 7.

3. Risk governance and risk management

3.1 Our approach to risk management

Effective risk management is an essential part of delivering our corporate strategy. Our approach is predicated on strong risk awareness and risk accountability across all lines of defence in our business. We believe that this delivers long-term value for our clients, customers and shareholders, and protects their interests.

We aim to ensure that:

- ▶ Our decision-making is attentive to both risk and reward in pursuit of our business plan objectives and strong client outcomes
- ▶ Our responsibilities to clients and customers are prioritised
- ▶ Capital is appropriately rewarded for the risks that are taken

The Board is responsible for the risk management framework of the Group as detailed in the 2018 ARA on page 60.

Governance arrangement details including key directorships and the policy on diversity are set out in the 2018 ARA in the Board of Directors, Corporate governance statement and Directors' report sections.

3.2 Three lines of defence

We operate 'three lines of defence' in the management of risk so that there are clearly defined roles and responsibilities within our Enterprise Risk Management Framework (ERMF):

- ▶ **First line:** Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board of Directors of SLA (Board) to the Chief Executive Officer of SLA (CEO) and, through a system of delegated authorities and limits, to business managers
- ▶ **Second line:** Risk oversight is provided by the Chief Risk Officer (CRO). The Risk and Compliance function is organised so that there is a consistent view across all of our principal risks, especially conduct, regulatory and strategic risks working closely with the first and third lines of defence.
- ▶ **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our Internal Audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

3.3 Enterprise Risk Management Framework

As part of our corporate transformation, we have taken the opportunity to refresh our ERMF. This also ensures that we continue to raise standards in risk management as we build a world-class investment company. Specifically, we have made changes across all the key building blocks of our framework so that they better support the management of risk in our transformed business.

The ERMF ensures that risk is assessed, monitored, controlled and appropriately governed based on a common taxonomy and methodology. The major components of the ERMF can be grouped into four areas related to how we govern, assess, monitor and control risks. Most risks arise in the business (first line) which is where they should be managed. The second line oversees business risk assessments and provides advice, assurance and challenge where necessary.

- ▶ **Risk governance:** Our governance drives how we make decisions on current and future risks drawing on our assessment, monitoring and control processes. We seek to ensure that risk decisions are taken at the right level. Most risk decisions are taken within our business functions but certain decisions will be taken in senior executive committees or at Board level.
- ▶ **Risk assessment:** All three lines of defence have their own processes for assessing risk thoroughly in line with their respective roles. There are well developed processes for coordinating viewpoints, challenging specific assessments and escalating points of difference that might warrant action.
- ▶ **Risk monitoring:** The ongoing monitoring of risks and the performance of key controls is a critical activity to allow us to keep track of developments, drive action and ensure appropriate capital allocation
- ▶ **Risk control:** We operate processes so that risk is mitigated using controls with clearly identified control-owners. The effectiveness of controls is reviewed on a regular basis.

Enterprise Risk Management Framework – major components



Risk and compliance culture

A strong risk and compliance culture flows from our corporate mission and values and is fundamental to how we manage the business. The three lines of defence model sets the frame for appropriate risk accountability within the business. This is further embedded through our training programme of face-to-face and e-learning modules in addition to our risk and compliance business partner interactions.

Risk appetites

The Risk Appetite Framework (RAF) defines a common framework to enable the Board and the CEO and their delegates to communicate, understand and control the types and levels of risk SLA is willing to accept in pursuit of its strategy and business plan objectives. It provides a framework to ensure that risk decisions are taken at the appropriate level in the firm.

Risk appetite statements are set at Board level and are monitored at an Executive and Board level. Additional lower level risk appetite statements may be set to support local areas or boards. These appetites are reviewed annually.

The risk appetites are defined through a combination of:

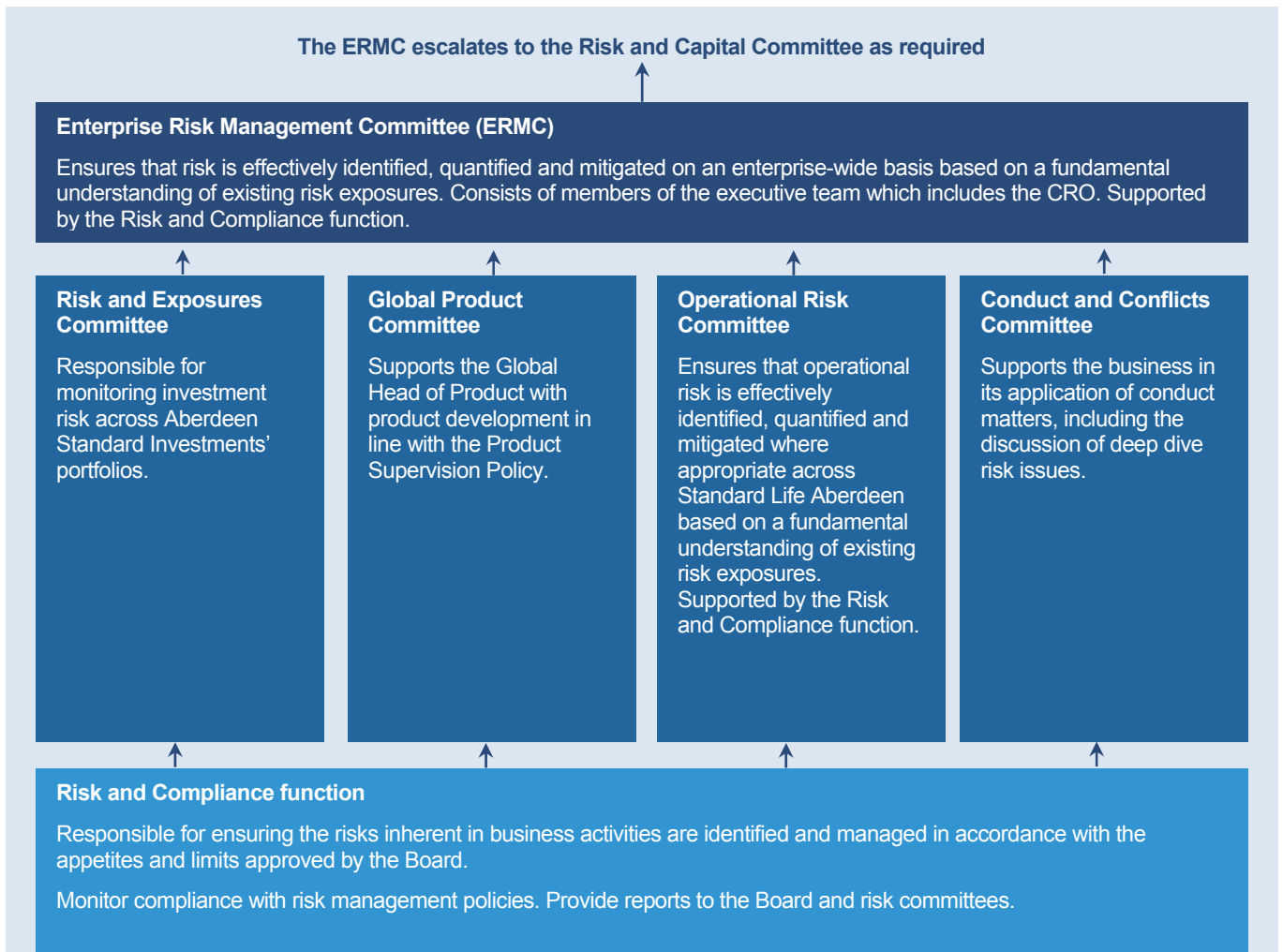
- ▶ High level risk principles
- ▶ Risk Appetite Statements for each main risk category within the domain of the Risk taxonomy, to facilitate the management of risks by the business in line with the Board's appetite
- ▶ Tolerances which are measured against risk metrics and will be monitored on an ongoing basis so that prompt action may be taken as risks escalate or if the tolerances are likely to be breached

Risk governance and reporting

The key Risk governance committees at SLA group include the Board-level Risk and Capital Committee (RCC), the Enterprise Risk Management Committee (ERMC) and sub-committees.

The Board delegates responsibility for managing the ERMF to the CEO, who chairs the ERMC.

Risk committee structure



Risk taxonomy

The Risk taxonomy is at the core of the ERMF. This provides a comprehensive, common set of risk categories used within SLA. This supports clear management and oversight of risks throughout the business and across the three lines of defence.

All risks are grouped under 12 principal risks. Of these, 8 of the principal risks are operational in nature. These risks form the scenarios assessed in the Pillar 2A chapter of the ICAAP as well as forming the basis of the management information presented to the ERMC and ORC. Further detail on the principal risks can be found in the Risk management section of the 2018 ARA on pages 40 to 47.

SLA Principal Risks



Group policies

SLA has adopted a new framework for managing risks consistently throughout our global activities. Each policy sets standards that are framed within the Board's Risk Appetite. The policy framework sets out clear expectations for policy owners so that policies can be kept under review on an ongoing basis and so that any policy breaches can be managed and escalated.

Risk Controls Self Assessment

The Risk Control Self Assessment (RCSA) methodology has been updated and is being rolled out across SLA through a series of business workshops. Business objectives are identified along with relevant risks to achieving those objectives and the controls in place to mitigate the risks.

Key controls & testing

Key controls are identified for each operational unit as part of the RCSA approach. Testing and monitoring of these controls are carried out on a risk prioritisation basis both by the business and through regular testing and thematic reviews.

Strategic and emerging risks

Strategic and emerging risks that could impact the business are assessed on an ongoing basis by gathering insights from across the business. Executives hold quarterly risk discussions for their divisions to consider risk management. A quarterly Executive Risk Survey is completed using the taxonomy to identify the top risks to the business.

Issues, events & action tracking

The logging and tracking of issues, events and actions is a critical activity to ensuring good risk discipline. We are in the process of consolidating all tracking of issues, events and actions onto one risk system called Shield. This will complete in Q1 2020.

Reasonable steps

Senior Managers and Certification Regime (SMCR) is in the process of roll out for SLA, ready for delivery by December 2019. A key element of this rollout is ensuring that the relevant senior managers have a clear view of their roles and responsibilities and can demonstrate they have taken reasonable steps in performing these roles. A comprehensive programme has been underway since 2018 to deliver the key components of SMCR and to prepare staff for this new regime.

Metrics & indicators

In order to support the risk governance and risk management processes of SLA, metrics have been defined to help monitor levels of risk and the quality of controls. These are adapted for the various risk subcommittees and corporate subsidiary boards, as appropriate.

Risk capital assessment

SLA assesses its need to hold capital against risk exposures through the ICAAP processes. Where we believe it is necessary to hold capital against a risk exposure we will do so however some risks are best managed through controls and processes. Additionally, we assess our capital position on a forward looking basis through stress and scenario testing to support management and the Board take risk informed decisions.

Modelling

Model oversight is performed by Risk and Compliance to safeguard the organisation from Model Risk, through effective model validation and model governance / oversight. The Model Oversight team act as a governance group for front office quantitative investment models and systems, as well as acting as a model validation group for any models not falling in scope of the first line quantitative risk team, or where models cannot be validated by the first line due to conflicts of interest.

4. Key risks to Standard Life Aberdeen

For the purposes of measuring risk under CRD IV, the Group considers the following categories:

4.1 Operational risk

Operational risk

We define operational risk as the risk that people, processes, systems, or external events impede the Group's ability to meet its strategic objectives. This risk is a function of internal controls, process efficiency, employee conduct, third party oversight, physical security, integrity of data and business resiliency. Operational risk also includes the breakdown of processes to comply with laws, regulations or directives.

The Group conduct and operational risk policy framework is used to support the management of operational risks across SLA.

The types of operational risk to which the Group is exposed are identified using the following operational risk categories:

- ▶ Process execution and trade errors
- ▶ People
- ▶ Technology
- ▶ Business resilience and continuity
- ▶ Fraud and financial crime
- ▶ Change management
- ▶ Supplier risk
- ▶ Financial management process

Activities undertaken to ensure the practical operation of controls over financial risks, that is, market, credit and liquidity, are treated as an operational risk.

Operational risk exposures are controlled using one or a combination of the following: modifying operations to mitigate the exposure to the risk; accepting exposure to the risk; or accepting exposure to the risk and controlling the exposure by risk transfer or risk treatment. The factors on which the level of control and nature of the controls implemented are based include:

- ▶ The potential cause and impact of the risk
- ▶ The likelihood of the risk being realised in the absence of any controls
- ▶ The cost of implementing controls to reduce the likelihood of the risk being realised
- ▶ Operational risk appetite

RCSA is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged on a risk basis by the Risk and Compliance function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the RCSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of RCSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the Group is willing to tolerate is defined using risk appetite statements and Board-approved tolerances.

The impact of a new product, a significant change, or any one-off transaction on the operational risk profile of SLA is assessed and managed in accordance with established guidelines or standards.

Remuneration risk

SLA promotes sound and effective risk management through a robust remuneration framework.

4.2 Conduct risk

The risk that through our behaviours, strategies, decisions and actions the Group delivers unfair outcomes to our customers/clients and/or poor market conduct.

Conduct risk can occur across multiple areas and from multiple sources, including the crystallisation of an operational risk.

The Group has a single conduct and operational risk framework that utilises the tools outlined under operational risk to ensure the appropriate identification and management of conduct risk.

The following conduct risk policy standards have defined outcomes against which conduct risk is assessed within the Group:

- ▶ Culture
- ▶ Proposition design
- ▶ Communication and information
- ▶ Advice and distribution
- ▶ Service
- ▶ Barriers
- ▶ Proposition performance
- ▶ Market integrity

4.3 Regulatory and legal risk

The risk of regulatory or legal sanction, reputational damage or financial consequences as a result of a failure to comply with, or adequately allow for changes in, all applicable laws and legislation, contractual requirements or regulations in any of the countries in which the Group operates.

SLA has in place procedures to identify, report and analyse all regulatory compliance breaches. Additionally, SLA has procedures in place to identify, assess and monitor the impact of changes to laws, regulations and rules, prescribed practices and external regulatory events in jurisdictions where they choose to carry on regulated financial services activity.

4.4 Strategic risk (and emerging risk)

Strategic risk

Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.

Strategic risks are considered across the Group through the business planning process. The strategic risks to which the Group is exposed are reviewed on a regular basis.

Concentration risk

Concentration risk is the risk that a company will suffer from lack of diversification, investing too heavily in one industry, one geographical area, or one type of security.

The Group reduces this risk through its strategy to diversify earnings by continually growing its capability in selected product areas and increasing its global reach.

4.5 Financial risk

Market risk

Market risk is the risk of financial loss as a result of adverse financial market movements.

SLA's revenues are exposed to market risk and there is also shareholder exposure to market risk as a result of seed capital and co-investment holdings.

Seed capital is typically invested in quoted funds. The Group sets limits for investing in seed capital and co-investment activity and regularly monitors exposures arising from these investments. The Group will consider hedging its exposure to market and currency risk in respect of seed capital investments where it is appropriate and efficient to do so. The Group will also consider hedging its exposure to currency risk in respect of co-investments where it is appropriate and efficient to do so. Other market risks associated with co-investments are not hedged given the need for the Group's economic interests to be aligned with those of the co-investors.

The main elements of market risk to which the Group is exposed are equity risk, interest rate risk and foreign currency risk as described below:

Equity risk

The Group is exposed to the risk of adverse equity market movements which could result in losses. The Group's shareholders are exposed to the following sources of equity risk:

- ▶ Direct equity shareholdings of SLA and the Group's defined benefit pension plans
- ▶ The indirect impact from changes in the value of equities on AUM and AUA from which charges are taken

Interest rate risk

Interest rate risk is the risk that arises from exposures to changes in the shape and level of yield curves which could result in losses due to the value of financial assets and liabilities changing.

The main financial assets held by the Group which give rise to interest rate risk are debt securities and cash and cash equivalents.

Foreign currency risk

The Group's financial assets and liabilities are generally held in the local currency of its operational geographic locations. Foreign currency risk arises where adverse movements in currency exchange rates impact the value of revenues received from, and the value of assets and liabilities held in, currencies other than GBP. Foreign currency risk for shareholders also arises from the Group's investments in overseas subsidiaries, and in joint ventures and associates accounted for using the equity method.

The Group generally does not hedge the currency exposure relating to revenue and expenditure, nor does it hedge translation of overseas profits in the income statement. Where appropriate, the Group may use derivative contracts to reduce or eliminate currency risk arising from individual transactions or seed capital and co-investment activity. On 18 October 2017, the Group issued US dollar subordinated notes with a principal amount of US\$750m. The related cash flows expose the Group to foreign currency risk on the principal and coupons payable. The Group manages the foreign exchange risk with a cross-currency swap which is designated as a cash flow hedge.

Credit risk

The risk of financial loss as a result of the failure of a counterparty, issuer or borrower to meet their obligations or perform them in a timely manner.

The Group's credit risk exposure mainly arises from its holdings in financial instruments. Exposures to credit risk and concentrations of credit risk are managed by setting exposure limits for different types of financial instruments and counterparties. The limits are established using the following controls:

Financial instrument with credit risk exposure	Control
Cash and cash equivalents	Maximum counterparty exposure limits are set with reference to internal credit assessments.
Derivative financial instruments	Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented.
Debt securities	The Group's policy is to set exposure limits by name of issuer, sector and credit rating.
Other financial instruments	Appropriate limits are set for other financial instruments to which the Group may have exposure at certain times.

Group Treasury perform central monitoring of exposures against limits and are responsible for the escalation of any limit breaches to the CRO.

Group risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships with other entities in the same group or by risks which may affect the financial position of the whole group (e.g. reputational contagion).

The regulated firms in the Group maintain independent capital resources to protect customers and clients interests. It is considered that the likelihood of SLA Group failure is remote as the Group maintains a strong capital position specifically to protect its customers and clients.

Liquidity risk

The risk that the Group does not have access to liquid resources which are adequate in amount and quality to ensure it can meet its liabilities as they fall due.

The Group operates a Liquidity Risk Framework which identifies liquidity risks, assesses the impacts of those risks and puts in place appropriate plans to manage and monitor those risks. The Group holds a buffer of liquid resources as well as bank facilities to manage its liquidity risk. The top company of the Group, Standard Life Aberdeen plc, has a £400m revolving credit facility which was undrawn at 31 December 2018.

5. Basis of consolidation

These disclosures relate to the Group on a consolidated basis. The Group's regulatory or prudential scope of consolidation differs from the accounting basis of consolidation used in the group financial statements prepared under IFRS in that:

- ▶ The regulatory consolidation excludes insurance undertakings and non-financial undertakings. Insurance entities are subject to a separate regulatory framework.
- ▶ The regulatory consolidation excludes Collective Investment Undertakings (CIUs), which are consolidated under IFRS but do not meet the definition of an institution or a financial institution under CRD IV. Consolidated CIUs primarily relate to seed capital investments and the Aberdeen Liquidity Fund (Lux). The Group's interest in CIUs are recognised at the carrying value of the financial asset in the regulatory consolidation.

The main insurance and non-financial entities that are excluded from the regulatory consolidation are:

- ▶ Aberdeen Standard Investments Life and Pensions Limited and The Standard Life Assurance Company 2006, which are insurance undertakings
- ▶ Standard Life (Asia) Limited, which is a third country insurance undertaking
- ▶ Focus Solutions Group Limited, Threesixty Support LLP and the Standard Life Foundation, which are non-financial undertakings

All insurance and non-financial entities are brought back onto the regulatory balance sheet as investments in subsidiaries other than the Standard Life Foundation (the Foundation). The Foundation is a charity and therefore it is excluded as the net assets of the Foundation are not available to absorb losses of the Group.

A summarised Group structure chart is included in Appendix 1.

Reconciliation of financial position – financial accounting to regulatory scope of consolidation

Financial accounting to regulatory scope reconciliation	IFRS Group balance sheet (audited) £m	Deconsolidation of entities not included in regulatory consolidation £m	Inclusion of these entities as investments in subsidiaries £m	Regulatory balance sheet £m
31 December 2018				
Assets				
Intangible assets	3,404	(32)	–	3,372
Investments in subsidiaries	–	–	942	942
Investments in associates and joint ventures accounted for using the equity method	1,444	1	–	1,445
Property, plant and equipment	61	–	–	61
Pension and other post-retirement benefit assets	1,111	–	–	1,111
Deferred tax assets and current tax recoverable	67	–	–	67
Derivative financial assets	21	(3)	–	18
Equity securities and interests in pooled investment funds	2,030	(1,614)	–	416
Debt securities	1,723	(838)	–	885
Receivables and other financial assets	708	(18)	–	690
Other assets	46	–	–	46
Assets held for sale	762	(682)	18	98
Cash and cash equivalents	1,140	(255)	–	885
Total Assets	12,517	(3,441)	960	10,036
Liabilities				
Non-participating investment contract liabilities	1,468	(1,468)	–	–
Third party interest in consolidated funds	254	(254)	–	–
Subordinated liabilities	1,081	–	–	1,081
Pension and other post-retirement benefit provisions	38	–	–	38
Deferred income	75	–	–	75
Deferred and current tax liabilities	123	(1)	–	122
Derivative financial liabilities	6	(2)	–	4
Other financial liabilities	1,162	(6)	–	1,156
Provisions and other liabilities	114	(4)	–	110
Liabilities of operations held for sale	657	(657)	–	–
Total Liabilities	4,978	(2,392)	–	2,586
Total Equity	7,539	(1,049)	960	7,450
Non-controlling interests	(101)	–	–	(101)
Equity attributable to equity shareholders of Standard Life Aberdeen plc	7,438	(1,049)	960	7,349

6. Regulatory own funds

6.1 Overview

Regulatory capital is recognised as either Tier 1 or Tier 2 depending on the characteristics of the capital items. SLA group's regulatory capital consists of both Tier 1 and Tier 2 capital.

Certain capital deductions and regulatory adjustments are made against the Group's capital items, reflecting the different regulatory treatment for capital adequacy purposes. Capital deductions include deductions for goodwill, other intangible assets and the defined benefit pension surplus adjusted for deferred tax. Regulatory adjustments are required where certain thresholds are exceeded, including adjustments for holdings of Tier 1 instruments of financial sector entities and deferred tax assets. Group capital after capital deductions and regulatory adjustments represents group regulatory own funds for capital adequacy purposes.

The composition of the Group's regulatory capital is shown in the table below and also in Appendix 2 (the Own Funds Disclosure template as required in Commission Implementing Regulation (EU) No 1423/2013).

Other than regulatory capital requirements and local laws there is no material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent and its subsidiaries.

6.2 Tier 1 capital

Tier 1 capital can be sub-divided into CET1 and Additional Tier 1 (AT1). The highest form of Tier 1 capital is CET1 capital because it is the most effective at absorbing losses. CET1 capital includes share premium, retained profits and certain other reserves. The Group does not hold any AT1 capital.

The following table summarises the Group's Tier 1 (i.e. CET1) capital.

SLA group Tier 1 capital – 31 December 2018	Amount £m
Share capital	353
Treasury shares (shares held by trusts)	(115)
Share premium reserve	640
Retained earnings	2,778
Other reserves	3,782
Equity attributable to equity holders of SLA plc (Audited)	7,438
CRR prudential consolidation adjustments (per CRR Articles 18 and 43)	(89)
Equity attributable to equity holders of SLA plc (Prudential basis)	7,349
Deductions for intangible assets, net of related deferred tax liabilities (per CRR Article 36) ¹	(3,275)
Deductions for defined benefit pension fund assets (per CRR Article 36)	(1,111)
Deductions for significant investments in financial sector entities (SIIFSE) and deferred tax (per CRR Article 36) ²	(1,332)
Other deductions and adjustments, including provision for foreseeable dividend (per CRR Articles 26, 33,36, 38) ³	(503)
Common Equity Tier 1 capital resources (CET1)	1,128

¹ The £3,275m deduction represents £3,372m for intangible assets net of £97m for related deferred tax liabilities.

² Net of a 17.65% threshold exemption amount of £149m (SIIFSE) and £20m (deferred tax).

³ Other deductions relate to the foreseeable dividend of £345m, £137m of share buyback not yet transacted, £27m deferred tax assets that rely on future profitability excluding those arising from temporary differences and the cash flow hedge reserve (£6m).

Further detail on the equity attributable to equity holders of SLA plc can be found in Notes 26 to 29 of the 2018 ARA.

Significant investments in financial sector entities at 31 December 2018 include the Group's Phoenix and HDFC Life Insurance Company Limited associate investments.

6.3 Tier 2 capital

The Tier 2 capital resources reflect the carrying value of the following subordinated debt:

- ▶ 750m USD 4.25% fixed rate, due 30 June 2028

This subordinated debt instrument meets the Tier 2 conditions detailed in CRR Article 63, and hence can be counted as Tier 2 capital resources.

More detail on this subordinated debt instrument can be found in Note 34 Subordinated Liabilities of the 2018 ARA. The full terms and conditions of the debt instrument can be found on the Group's website at www.standardlifeaberdeen.com/investors/for-debt-investors

The Capital Instruments' Main Features template for this subordinated debt instrument, as required by CRR Article 437 and Commission Implementing Regulation (EU) No 1423/2013, can be found in Appendix 3.

6.4 Exposure to equities and interest rate risk

The Group has exposures to equities and interest rate risk not included in the trading book as described in section 4.5. Details of the exposures are set out in Note 39 (Risk management) of the 2018 ARA including sensitivity analysis to Group profit after tax and Group equity to upward and downward movements to equity prices and interest rates.

7. Capital requirements

7.1 Group Pillar 1 capital position

The Group's Pillar 1 regulatory capital requirement (own funds requirement) is the greater of:

- ▶ The sum of the credit and market risk requirements
- ▶ The fixed overhead requirement (FOR)

Currently the Group's FOR of £324m establishes its Pillar 1 capital requirements. The FOR is higher than the calculated Pillar 1 own funds requirement of £262m for credit and market risk at 31 December 2018.

The Pillar 1 credit risk capital requirement is calculated in accordance with the standardised approach.

The Pillar 1 market risk capital requirement relates to foreign exchange only and is calculated in accordance with the standard approach.

The following table summarises the Group's Pillar 1 capital position.

	Risk-weighted exposure £m	8% capital requirement £m
Pillar 1 capital position – 31 December 2018		
Credit risk	2,587	207
Market risk		
In respect of foreign exchange risk	694	55
Total market risk	694	55
Credit and market risk combined	3,281	262
Fixed overhead requirement	4,055	324
Total Pillar 1 capital requirement	4,055	324

8. Pillar 1 credit risk capital requirements

8.1 Calculating the Group's credit risk exposure, risk weighted exposure and capital requirement

The Group's credit risk exposure for Pillar 1 capital purposes is calculated from the accounting value of the relevant instruments adjusted for capital and regulatory adjustments described in Section 6.1, with an addition for the potential future exposure of derivatives.

The Group's risk-weighted exposure is calculated by applying risk weights predefined by the CRR to the credit risk exposures. The Pillar 1 credit risk capital requirement is then calculated as 8% of the risk weighted exposure.

The table below provides an analysis of credit risk capital requirements by exposure class.

31 December 2018	Total exposure (pre weighting) £m	Total risk-weighted exposure £m	8% capital requirement £m
Central government or central banks	39	74	6
Regional governments or local authorities	7	2	–
Public sector entities	19	6	–
Multilateral development banks	23	–	–
Institutions	1,734	477	38
Corporates	789	688	55
Retail exposures	133	100	8
In default	5	7	1
Particularly high risk	57	86	7
Institutions and corporates with a short-term credit assessment	788	163	13
Units or shares in collective investment undertakings	239	239	19
Equity exposures	235	483	39
Other items	262	262	21
Total credit risk	4,330	2,587	207

8.2 Risk weights

The risk weight is based on the exposure class to which the exposure is assigned, the credit quality of the relevant counterparty and maturity. The Group assesses the credit quality of its counterparties with reference to credit assessments conducted by External Credit Assessment Institutions (ECAI's) for all exposure classes. The primary ECAI used by the Group is Standard & Poor's. Standard & Poor's ratings are recognised as an eligible ECAI by regulators and are used to assess the credit quality of all exposures, where available. If a Standard & Poor's rating is unavailable, a rating from an alternative ECAI is used, which may include Moody's or Fitch. For more material exposures, more than one ECAI credit rating is used.

Each exposure is mapped to one of six credit quality steps based on its credit rating. Where no credit rating can be obtained from an endorsed ECAI, the exposure is categorised as unrated. Unrated exposures (included in Other in the table below) are risk weighted based on exposure class and include seed capital, equity investments, trade and other receivables, tax assets and fixed assets.

The following table provides the credit risk exposure split by credit quality step.

Credit Exposure Summary by Credit Quality Step

Credit quality step	1 £m	2 £m	3 £m	4 £m	5 £m	6 £m	Other £m	Total £m
Credit Risk Exposure Amount	804	1,720	154	19	-	-	1,633	4,330

9. Pillar 1 market risk capital requirements

9.1 Market risk measurement

The Group's own fund requirement for market risk required under Article 92 of the CRR is calculated based on the Group's exposure to foreign exchange risk. The Group has no settlement risk or commodities risk. The Group applies the standard rules to determine its own funds requirement for these exposures.

9.2 Foreign exchange position risk measurement

The net open positions in each currency are assessed to determine an overall net foreign exchange position, which is then multiplied by 8% to calculate the Group's capital requirement. These net open positions allow for derivatives.

Foreign exchange positions subject to capital charge

	2018 £m
Position subject to capital charge	694
Market risk capital requirement	55

10. Remuneration disclosure

Details of Remuneration Policies and Procedures can be found on our website at www.standardlifeaberdeen.com/who-we-are/remuneration-disclosure

These details together with the table below satisfy the Pillar 3 remuneration disclosures for the year ended 31 December 2018.

During 2018 the following amounts were paid in fixed and variable remuneration to material risk takers. Fixed remuneration includes base salary and benefits. Fixed remuneration for non-executive directors and committee members comprises fees. Variable remuneration includes 2018 annual bonus awards paid in March 2019.

	2018 Senior Management ¹	2018 Other Code Staff
Number of Code Staff ²	32	194
Fixed Remuneration (£)	8.7m	45.1m
Variable Remuneration (£)	3.8m	29.2m
Total³ (£)	12.5m	74.3m

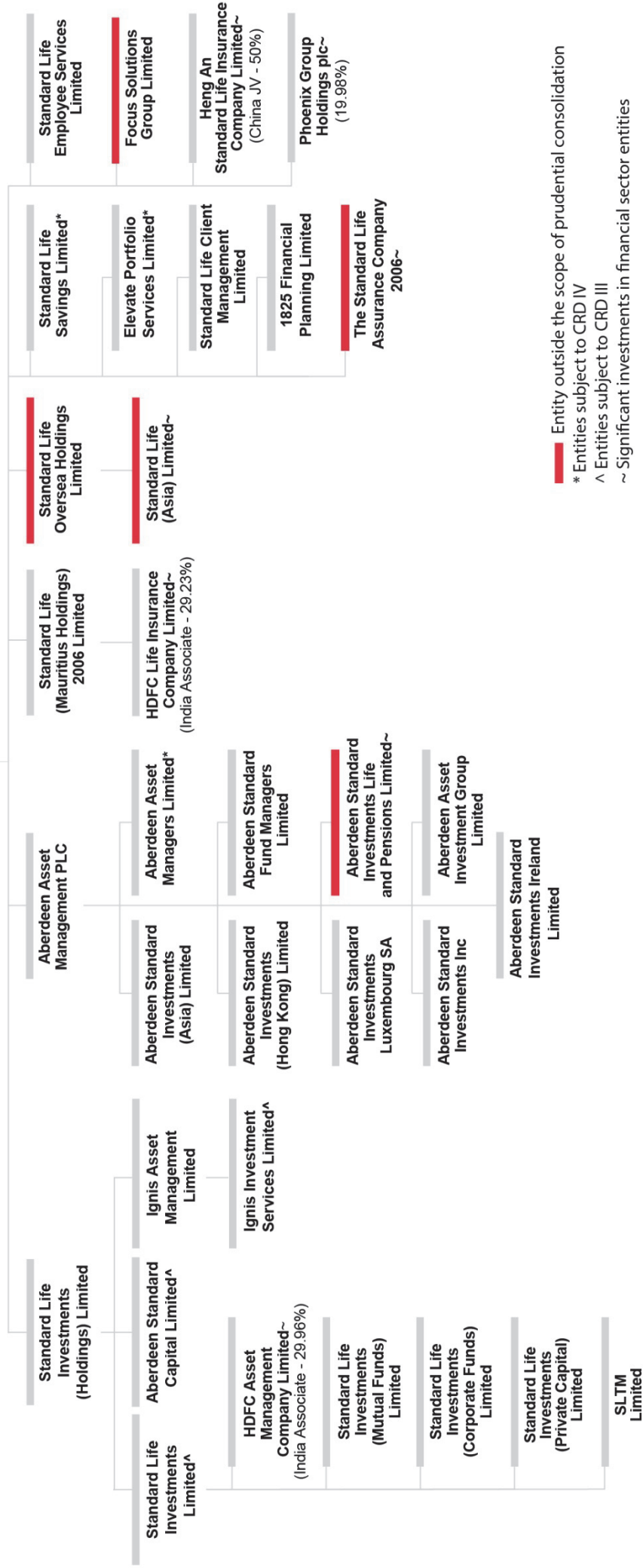
¹ Senior Management comprises of executive Directors, Non-executive Directors and Executive Committee members. For the avoidance of doubt, the Company Secretary is included.

² These figures reflect the material risk takers identified under CRD IV regulations.

³ The figures reflect the total remuneration paid to each material risk taker for their work across the Standard Life Aberdeen Group and has not been time apportioned to reflect the time spent on issues related to each entity within the Group.

Appendix 1 – Summarised Group structure chart at 31 December 2018

Standard Life Aberdeen plc



— Entity outside the scope of prudential consolidation

* Entities subject to CRD IV

^ Entities subject to CRD III

~ Significant investments in financial sector entities

Appendix 2 – Own funds disclosures

		2018 £m	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital: Instruments and reserves			
1	Capital instruments and the related share premium accounts	878	26(1), 27, 28 ,29
2	Retained earnings	2,778	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	3,693	26(1)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(482)	26(2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	6,867	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liability)	(3,275)	36(1)(b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (Art 36.1 & 38)	(27)	36(1)(c), 38
11	Fair value reserves relating to gains or losses on cash flow hedges (Art 33.a)	6	33(1)(a)
15	Defined-benefit pension fund assets	(1,111)	36(1)(e), 41
22	Amounts exceeding the threshold in accordance with Article 48(1)	(1,332)	48(1)
23	Of the amount reported in 22, the amount of direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities as described in Articles 36.1.i and 48.1.b.	(1,318)	36(1)(c), 48(1)(b)
25	Of the amount reported in 22, the amount of deferred tax assets arising from temporary timing differences as described in Articles 36.1.c, 38 and 48.1.a.	(14)	36(1)(c), 38, 48(1)(A)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(5,739)	
29	Common Equity Tier 1 capital	1,128	
44	Additional Tier 1 (AT1) capital	–	
45	Tier 1 Capital (T1 = CET1 + AT1)	1,128	
46	Capital instruments and the related share premium accounts	581	62, 63
58	Tier 2 Capital	581	
59	Total Capital	1,709	
60	Total risk weighted assets	4,055	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure)	27.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure)	27.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure)	42.2%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)	–	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	–	
66	Of which: countercyclical buffer requirement	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure)	21.8%	CRD 128
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below threshold and net of eligible short positions)	–	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below threshold and net of eligible short positions)	149	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary differences (amount below threshold, net of related tax liability where the conditions in Article 38(3) are met)	20	36(1)(c), 38, 48

Appendix 3 – Capital instruments’ main features template

Capital instruments’ main features template			
1	Issuer	Standard Life Aberdeen plc	Standard Life Aberdeen plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BF8Q6K64	XS1698906259
3	Governing law(s) of the instrument	United Kingdom	English law, except for subordinated provisions which are governed by Scots law
Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Share Capital	Dated Subordinated Debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£353m	£581m
9	Nominal amount of instrument	13 61/63 pence	\$750m
9a	Issue price	N/A	100.00%
9b	Redemption price	N/A	100.00%
10	Accounting classification	Shareholders’ equity	Liability – amortised cost
11	Original date of issuance	22/10/2018	18/10/2017
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	30/06/2028
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Tax and regulatory event calls at 100%
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend / coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	4.25%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step-up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instruments type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description or write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Subordinate to (a) unsubordinated creditors and (b) subordinated creditors which are not Tier 2 Capital, Additional Tier 1 Capital or otherwise ranking junior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2018 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at November 2019 and does not provide financial or legal advice.

Standard Life Aberdeen plc is registered in Scotland (SC286832) at 1 George Street, Edinburgh EH2 2LL.

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