

Solvency and Financial Condition Report

Aberdeen Asset Management Life and Pensions Limited
As at 31 December 2018



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1 Summary

1.1 Business and Performance Summary

Aberdeen Asset Management Life and Pensions Limited ('Aberdeen Life' or 'the Company') is a UK regulated subsidiary of Standard Life Aberdeen Group (SLA Group). In practice it serves as an efficient delivery mechanism for SLA Group's asset management business, Aberdeen Standard Investments (ASI), to deliver investment management services to UK institutional pension scheme clients and other UK insurance entities.

On 14 August 2017 Aberdeen Asset Management PLC (AAM) was acquired by Standard Life Aberdeen plc (SLA). AAM remains a holding company within the SLA Group structure as the immediate parent of Aberdeen Life. As a result of this corporate action, the Company's year-end was changed from 30 September to 31 December. Where given, prior year figures shown as '2017' in this report cover the 15 month period 1 October 2016 to 31 December 2017 or are as at the reporting date of 31 December 2017 as the context dictates. 2018 current year figures are for the twelve month period 1 January 2018 to 31 December 2018 or are as at 31 December 2018 as the context dictates.

The Company issues unit-linked investment policies (Trustee Investment Plans) to trustees of UK pension schemes and reinsurance policies to insurance companies covering unit-linked pension liabilities.

Key aspects of the contracts written are:

- There are no investment guarantees on the policies. The benefits payable are linked solely to the performance of the internal linked funds.
- The contracts all contain clauses that permit them to be terminated at the option of Aberdeen Life subject to three months' notice. The only charges on policies are fund management charges and there are no penalties on the customer taking a surrender value at any time.
- They include no material insurance risk. The contracts do have annuity options (on non-guaranteed terms), but Aberdeen Life has not written any annuity business and does not expect to do so.
- They permit Aberdeen Life to increase the level of fund charges, subject to a period of notice.
- The contracts include no element of member level administration (for Trustee Investment Plans) or policyholder level administration (for reinsurance). The contracts therefore leave Aberdeen Life solely with wholesale management of internal linked funds.

The Company also provides investment management services to UK pension schemes under segregated pension fund management mandates, for which it receives fees accordingly. These services were introduced in 2018. All business is written in the UK.

The Company's underwriting performance is limited to the excess of fund charges over expenses, which was valued at £0.35m for 2018 (£0.44m for 2017).

The Company's non-linked assets are prudently invested in cash deposits and a highly liquid short-term money market fund.

1.2 System of Governance Summary

The Aberdeen Life Board (the Board) has adopted the governance framework of the SLA Group, which it considers to be appropriate to the business of the Company. Additional arrangements have been established by the Board where necessary to address the requirements of Aberdeen Life as a UK insurance undertaking.

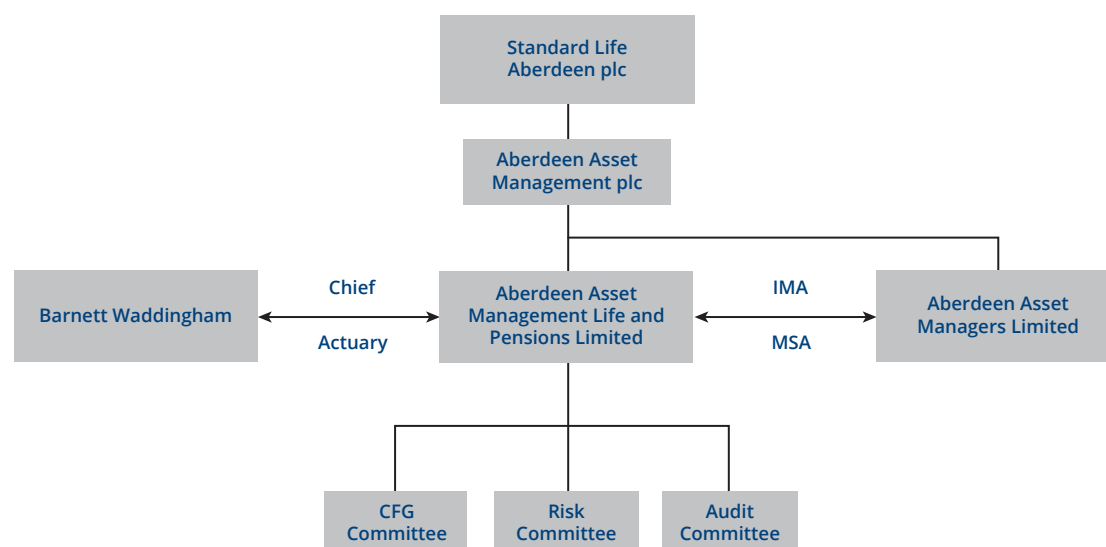
The Company has identified a range of key functions which are provided by Aberdeen Asset Managers Limited (AAML) via a Management Services Agreement (MSA) and an Investment Management Agreement (IMA). Individuals performing key functions are established as fit and proper through a robust framework of initial and ongoing assessment. All remuneration requirements comply fully with the provisions of Solvency II regulations. The Chief Actuary function is outsourced to an individual at an external company.

SLA Group operates a 'three lines of defence' risk management model:

- SLA's business lines are responsible for the identification and mitigation of risks and taking the lead with respect to implementing and maintaining appropriate controls.
- Oversight functions within the Risk Division oversee compliance with regulatory and legal requirements as well as monitoring operational, investment and counterparty risk.
- Independent assurance is provided by Internal Audit which recommends improvements to the control environment.

The three lines of defence model is supplemented by a range of risk related committees at divisional and operational business level. The SLA Board, executive directors and senior management have overarching responsibility to ensure, through the application of good corporate governance, the effective and strategic stewardship and risk management of the SLA Group.

An integrated risk management system, Shield, is used to identify, assess, track and report risk issues and events. Risk management uses a combination of top down strategic planning with bottom up risk assessment.



The Company carries out an Own Risk and Solvency Assessment (ORSA) annually and more frequently if required. The ORSA process is intended to identify, assess, monitor, manage and report on both short and long term risks and to determine the capital required to ensure that Aberdeen Life can continue to meet its solvency requirements. The ORSA enhances awareness of the risks faced by Aberdeen Life and the capital needed given those risk exposures. This awareness is used by Aberdeen Life as part of its decision making process.

Other than those associated with the ongoing integration of Aberdeen Asset Management into SLA Group, there has been no material change to the governance arrangements of the Company during the reporting period.

1.3 Risk Profile Summary

Aberdeen Life has limited exposure to underwriting risk and market risk. Shareholder assets are managed to limit liquidity risk and operational risk is effectively transferred to AAML as explained in section B.7.

Aberdeen Life has a high tolerance to group risk and, in general, accepts the risk without management, reflecting the rationale for the existence of Aberdeen Life. However, within group risk, Aberdeen Life closely manages AAML's obligations to compensate Aberdeen Life for any operational risk losses. In addition to the contractual protections given in the internal and external outsourcing agreements, Aberdeen Life also considers the capital position and the extent of insurance cover maintained by AAML in determining the ongoing security of the outsourcing arrangement.

Exposure to credit risk is limited by investing non-linked assets in a diverse portfolio of high quality, short term assets. Cash balances are normally limited to £2m exposure to a single counterparty.

1.4 Valuation for Solvency Purposes Summary

Aberdeen Life prepares its financial statements under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), with amendments to comply with the Companies Act 2006 where necessary. The valuation for solvency purposes differs only marginally to the financial statements and is discussed in section D.

1.5 Capital Management Summary

The Company aims to maintain sufficient capital out of retained profits to be treated as an entity with credit quality step 1 under Article 199 of the Commission Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The Company does not use any Solvency II transitional measures. At the reporting date the Company's:

- Solvency Capital Requirement (SCR) was £2.73m (2017: £1.58m).
- Minimum Capital Requirement (MCR) was £3.29m (2017: £3.25m).
- Own funds, all of which is "tier 1" capital, were £11.60m (2017: £10.72m).
- Tier 1 capital represented 425% (2017: 678%) of the SCR and 353% (2017: 330%) of the MCR.

The increase in the SCR and corresponding reduction in the percentage cover of the SCR is primarily due to the impact of the Company introducing investment management services in 2018. This is explained in sections D and E.

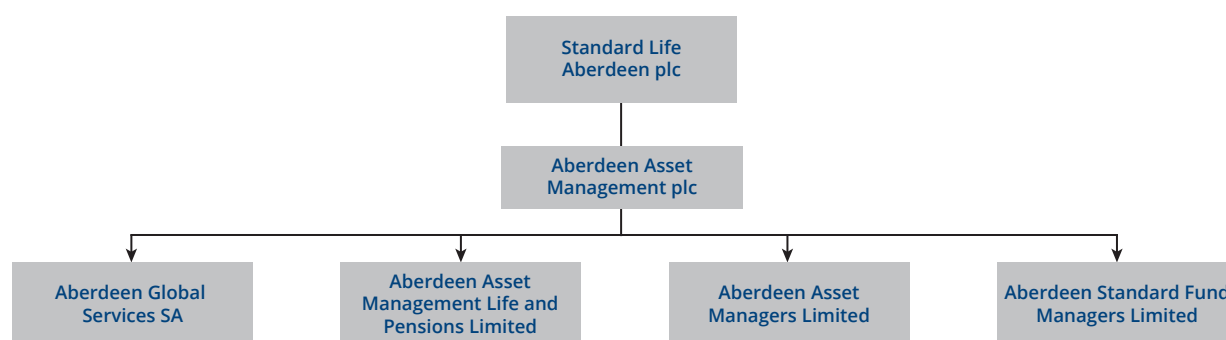
A Business and Performance

A.1 Business

Aberdeen Life is a private limited company. The Company is a wholly owned subsidiary of SLA and is incorporated and domiciled in England. AAM holds all of the ordinary share capital and voting rights in the Company. The ordinary shares of SLA are listed on the London Stock Exchange. Further information on the business of SLA Group is available in the SLA Annual Report and Accounts. The Company is authorised by the Prudential Regulation Authority (PRA), 20 Moorgate, London, EC2R 6DA and regulated by the Financial Conduct Authority (FCA), 25 North Colonnade, London,

EH14 5HS and PRA in the United Kingdom to conduct Classes I (life & annuity), III (linked long term) and VII (pension fund management) of long term insurance business. Financial supervision is undertaken by the PRA. The registered office is Bow Bells House, 1 Bread Street, London EC4M 9HH. The registered number is 03526143. The Company's Auditor is KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG.

SLA Group supervision is undertaken by the FCA. An extract of organisation structure showing the position of SLA Group companies directly relevant to Aberdeen Life is shown below:



The business of Aberdeen Life consists entirely of contracts with institutional customers for the provision of investment management on a wholesale basis. All business is written in the UK. The services are provided to institutional customers by three contract types:

- Trustee investment plans (TIPs). These are provided to trustees of occupational pension schemes and are classified as unit-linked insurance business, with the investment options being the Company's pooled funds (internal linked funds);
- Reinsurance contracts covering the unit-linked liabilities of third party life assurers. These contracts are structured in a similar way to TIPs and are intended as a means for third-party life assurers with 'open architecture' pension products to access the internal linked funds operated by Aberdeen Life. They are classified as unit-linked reinsurance accepted business.
- Segregated investment mandates (SIMs). These contracts are classified as pension fund management where the Company provides investment management services to pension schemes in respect of their assets. The assets remain the legal property of the scheme and are managed by Aberdeen Life in exchange for investment management fees.

The key characteristics of the TIP and Reinsurance contracts are that:

- There are no investment guarantees on the policies. The benefits payable are linked solely to the performance of the internal linked funds;
- The contracts all contain clauses that permit them to be terminated at the option of Aberdeen Life subject to three months' notice. It should be noted that the only charges on policies are fund management charges and that there are no penalties on the customer taking a surrender value at any time;
- They include no material insurance risk. The contracts do have annuity options (on non-guaranteed terms), but Aberdeen Life has not written any annuity business and does not expect to do so;
- They permit Aberdeen Life to increase the level of fund charges, subject to a period of notice;
- The contracts include no element of member level administration (for TIPs) or policyholder level administration (for reinsurance). The contracts therefore leave Aberdeen Life solely with wholesale management of internal linked funds;

The SIMs have similar characteristics. There is no investment guarantee, insurance risk, charge guarantee or member administration and all contracts can be terminated by Aberdeen Life at three months' notice. Regulatory permission to write the SIM business was obtained on 6 November 2018. This was the only significant event during the period.

A.2 Underwriting Performance

As described in the previous section, the policies written by the Company contain no guaranteed benefits and no investment

guarantees. All unit-linked policies are classified as investment contracts for accounting purposes and assets managed under SIM contracts are not included in the financial statements. The underwriting performance is limited to consideration of the excess of fee income over expenses and is shown in the table below.

Underwriting performance, year to 31 December 2018 and fifteen months to 31 December 2017

	As at 31 December 2018				As at 31 December 2017			
	SIM	Reinsurance accepted	TIP	Total	SIM	Reinsurance accepted	TIP	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Fee income	0.83	1.40	4.10	6.33	N/A	2.13	5.46	7.59
Expenses	0.79	1.32	3.87	5.98	N/A	2.01	5.15	7.16
Underwriting performance	0.05	0.11	0.19	0.35	N/A	0.12	0.31	0.44

A.3 Investment Performance

The income and expenses arising from the investments within the internal linked funds are fully offset by an equivalent change in the value of policyholder liabilities. Information on the performance of each internal linked fund is available on ASI's website at <https://institutional.aberdeen-asset.co.uk/en/ukinstitutional/pension-schemes/fund-centre/>.

The non-linked assets are invested in cash and the Aberdeen Liquidity Fund (Lux) – Sterling Fund, a short-term money market fund which provides access to a diversified pool of high credit quality assets as follows:

- Collective Investment Undertakings: Aberdeen Liquidity Fund (Lux) – Sterling Fund as at 31 December 2018 £10.26m (2017: £10.20m).
- In the 12 month period ended 31 December 2018 the Company received interest on these assets of £63,923 (15 months to 31 December 2017: £47,235).
- Cash and cash equivalents: Bank deposits as at 31 December 2018 £1.40m (2017: £1.57m).
- There was no income arising from bank deposits.

No material expenses were incurred in respect of the non-linked assets.

Aberdeen Life does not invest directly in any securitisations.

A.4 Performance of Other Activities

The Company has no financial or operating lease arrangements.

The Company had no other material income and expenses in the reporting period.

A.5 Any Other Information

There were no other material events which impacted on the performance of the Company during the reporting period.

B System of Governance

B.1 General Information on the system of governance

The Board has adopted the governance framework of the SLA Group, which it considers to be appropriate to the business of the Company. Additional arrangements have been established by the Board where necessary to address the requirements of Aberdeen Life 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 Aberdeen Life to AAML via a formal MSA. 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 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 Aberdeen Life 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 Aberdeen Life 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.

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

Client and Fund Governance Committee

The Client and Fund Governance Committee of Aberdeen Life 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 SIM contracts. There has been no other material change to the governance arrangements of the Company during the reporting period.

Diversity

In November 2011, the SLA Board approved the following Board Diversity statement:

The Board:

- believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, when undertaking a search for candidates, both executive and non-executive;
- recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness;
- believes that it should have a blend of skills, experience, independence, knowledge and gender amongst its individual members that is appropriate to its needs;
- believes that it should be able to demonstrate with conviction that any new appointee can make a meaningful contribution to its deliberations;
- is committed to maintaining its diverse composition;
- supports the Group Chief Executive's firm commitment to achieve and maintain a diverse workforce, both throughout the Group and within his Executive Team.

The Aberdeen Life Board has adopted the SLA Group governance arrangements in relation to diversity policies in line with the above statement as part of the evolving integrated governance arrangements and the SLA Board Charter, which also includes the terms of reference of the SLA Group Nominations and Governance Committees. Further detail are available at <https://standardlifeaberndeen.com/who-we-are/governance>.

Senior Managers and Certification Regime (SMCR)

On 10 December 2018 the SMCR was extended to Insurers and replaces the Senior Insurance Managers Regime (SIMR) and approved persons regime.

The SMCR consists of 3 parts:

- Senior Managers Regime (SMR), which focuses on individuals who hold key roles or have overall responsibilities for whole areas of relevant firms;
- Certification Regime, which applies to other staff who could pose a risk of significant harm to the firm or any of its customers;
- Conduct Rules, which are high level requirements that hold individuals to account.

Aberdeen Life has implemented SMCR and identified additional individuals who fall into the Certification Regime.

B.1.1 Key Functions

B.1.1.1 Overview

Key functions have been identified as the four mandatory functions required under Solvency II (actuarial, compliance, risk management and internal audit) and any other function that is of specific importance to the sound and prudent management of the Company.

A list of functions delegated to AAML (which may in turn rely on other companies within the SLA Group) is provided in the MSA and the IMA. Aberdeen Life has determined which are considered to be key functions by identifying those which would significantly impact the business commercially or have adverse impact on policyholders should the services fail or not perform effectively. The additional key functions identified are detailed in section B1.1.2.

All key functions, except the Actuarial Function, are outsourced to AAML. The Actuarial Function is outsourced to Barnett Waddingham LLP. In implementing the outsourcing arrangements, Aberdeen Life recognises the authority of the Key Function Holder (KFH) to carry out the relevant role on its behalf. This authority is supplemented by the scope of responsibilities included in the Company's Management Responsibility Map, and by the ability of any KFH or member of a key function to escalate any relevant matters to the Aberdeen Life Chief Executive or to the Board. Details of the individuals responsible for the key functions (KFHs) are also detailed in the Management Responsibilities Map which is reviewed and updated at least quarterly.

The terms of the outsourcing agreements are such that each outsourced service provider should maintain sufficient and appropriate resources to carry out the relevant key functions and must inform the Company of any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements. Aberdeen Life monitors the performance of the outsourcing arrangements and would escalate any actual or perceived resourcing concerns with the appropriate provider to consider any remedial actions necessary. The Company has also appointed individuals on the Board to oversee key functions and recorded this on the Management Responsibility Map. Such individuals may also escalate any relevant matters to the Board and/or within the wider SLA Group.

B.1.1.2 Summary of key functions, key function holders and responsibilities

Actuarial	Compliance
<p>Chief Actuary</p> <ol style="list-style-type: none"> 1. Provision of the Actuarial Function in accordance with Conditions Governing Business 6. 2. Provision of additional actuarial and consultancy services as requested by Aberdeen Life or as required by UK regulation, legislation or actuarial professional standards and guidance in relation to work that does not strictly fall under the remit of the Actuarial Function. 	<p>Senior Compliance Manager</p> <ol style="list-style-type: none"> 1. Communication of policy developments for Aberdeen Life. 2. Ensuring Group Remuneration policy is compliant with Solvency II. 3. Provision of day to day support to the Chief Executive on Senior Management Arrangements, Systems and Controls (SYSC) and SMCR requirements. 4. Maintenance of Aberdeen Life policies assigned by the Chief Executive.
Risk management	Internal audit
<p>Chief Risk Officer</p> <ol style="list-style-type: none"> 1. Performance of the ORSA. 2. Responsibility for the firm's obligations in relation to individual conduct rules for training and regulatory reporting. 3. Identification, measurement and reporting of risks across the Company. 4. Signs the ORSA for Aberdeen Life. 5. Setting of Risk Appetite for the delivery of strategy across the Company. 	<p>Group Internal Audit Director</p> <ol style="list-style-type: none"> 1. Provision of internal audit arrangements across the SLA Group. 2. Evaluation of internal control and other aspects of governance for Aberdeen Life.
Investment management	Operations and Outsourcing
<p>Chief Executive Officer of AAML</p> <ol style="list-style-type: none"> 1. Investment management services for Aberdeen Life. 	<p>Director of Operations</p> <ol style="list-style-type: none"> 1. All operational matters and outsourcing arrangements (except actuarial) for Aberdeen Life. This also includes oversight of internal suppliers, e.g. AAML. 2. Leadership for the back-office functions including Operations.

Distribution	Finance
<p>Global Head of Distribution</p> <ol style="list-style-type: none"> 1. Leadership of global distribution teams with a focus on co-ordinating global sales channels, further developing the client service model and ensuring that the product strategy is aligned with the group strategy. 2. Development of the UK institutional plans, in which Aberdeen Life is embedded. 3. Ensuring the Aberdeen Life Chief Executive and the key function holder for Finance are kept abreast of strategy and potential impact to the Aberdeen Life business. 	<p>Director of Financial Control and Reporting</p> <ol style="list-style-type: none"> 1. Production and integrity of the firm's financial information and regulatory reporting. 2. Management of the allocation and maintenance of the firm's capital and liquidity. 3. Maintenance of Aberdeen Life policies assigned by the Chief Executive.
Human resources	Legal
<p>Chief People Officer</p> <ol style="list-style-type: none"> 1. Development, communication and implementation of People policies. 2. Induction, training and professional development of all persons performing designated senior management functions on behalf of the Company other than members of the governing body and key function holders. 3. Regulatory references. 4. Responsibility for the Company's performance of its obligations under the employee certification regime. 5. Providing support to the Aberdeen Life Chairman for training and development of board members, especially non-executive directors. 6. The development and implementation of Human Resources strategy. 7. Provision of advice and guidance to the Chief Executive, senior managers and Group Remuneration Committee. Works closely with the Chairman of the Group Remuneration Committee. 8. Developing strategies and processes to attract motivate, develop and retain key staff. 	<p>General Counsel</p> <ol style="list-style-type: none"> 1. Provision of Legal function throughout Aberdeen Life and AAML, utilising external resource where appropriate and co-ordinating the management of the internal resource in all jurisdictions.

B.1.2 Remuneration

B.1.2.1 Overview

The SLA Group has an overarching [Remuneration Policy](#) that applies to all entities in the SLA Group. Aberdeen Life has reviewed the Group Remuneration Policy and is of the view that it:

- is consistent with Article 275 of the Delegated Regulation;
- is consistent with, and promotes sound and effective risk management;
- does not encourage risk-taking which is inconsistent with the risk profiles or the instruments constituting the internal linked funds;
- does not impair compliance with its duty to act in the best interests of each of the internal linked funds and its shareholder;
- recognises that different remuneration requirements may be applied within the SLA Group and achieves a high degree of consistency between different regimes and allows for day to day arrangements to be controlled at a group level.

The Board delegates decision making for Remuneration matters to the Group Remuneration Committee. The Chair of the Group Remuneration Committee holds the Senior Management Function Chair of the Remuneration Committee (SMF7) for the Company. The Board reviews any material changes to [Remuneration Policy](#) on an annual basis.

B.1.2.2 How the SLA Group remuneration policy and practices are consistent with and promote sound and effective risk management and do not encourage excessive risk taking
No supplementary pensions or early retirement schemes are in place for board members or KFHS.

SLA Group does not calculate individual awards directly on the basis of annual revenues or profit. Instead proposals are discretionary and based on a number of factors including multi-year performance and non-financial metrics, such as teamwork along with compliance and risk awareness.

Article 275 (2)(c) of the Delegated Regulation requires firms to defer a 'substantial portion of any variable remuneration' for a period of not less than three years. The SLA Group Policy is in line with this as it applies deferral of 75% of variable remuneration for a minimum of three years when variable remuneration reaches pre-defined levels such that a substantial proportion of variable remuneration is deferred. Solvency II also requires Aberdeen Life to ensure that the deferral period is correctly aligned with the nature of the business, its risk and the activities of the employees in question. Taking into account its business model, Aberdeen Life is of the opinion that the SLA Group remuneration deferral arrangements are appropriate.

The following information is publicly available and describe the Group's overarching principles and practice for remuneration

<https://www.standardlifeaberndeen.com/who-we-are/remuneration-disclosure>

B.1.3 Payments between Aberdeen Life and SLA Group

Aberdeen Life pays a share of its net revenues to SLA Group for services under the MSA and IMA. Aberdeen Life also makes dividend payments from time to time. No dividend was paid in the reporting period (2017 £nil).

B.2 Fit and Proper Requirements

All individuals performing an FCA or PRA Senior Management Function (SMF) role, KFH role or Certified role must be 'Fit' and 'Proper'.

The assessment of whether a person is 'Fit':

- Includes an assessment of the person's professional and formal qualifications, knowledge (including their awareness, and understanding, of all relevant regulatory requirements applying to the business area in which they work, control and manage) and relevant experience within the relevant financial sectors and whether these are adequate to enable sound and prudent management. Typically the requirements include possession of relevant qualifications and sufficient relevant experience within the SLA Group or similar organisations. Information is detailed in a document which is reviewed internally and sent to the relevant regulator as part of the application process;
- Takes account of the respective duties allocated to that person and, where relevant, the asset management, insurance, financial, accounting, actuarial and management skills of the person;
- In the case of board members, takes account of the respective duties allocated to individual members to ensure appropriate diversity of qualifications, knowledge and relevant experience to ensure that the business is managed and overseen in a professional manner;
- Takes into account interview performance against agreed competencies identified for the role.

The assessment of whether a person is 'Proper':

- Considers whether they are of good repute and integrity;
- Includes an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purpose of the assessment;
- Considers whether the person performs his or her key functions in accordance with the relevant conduct standards specified in Insurance – Conduct Standards 3 of the PRA rulebook and COCON of the FCA handbook;
- Considers references received. SLA must take reasonable steps to obtain appropriate references in accordance with PRA rules.

Ongoing competence:

Processes are in place to assess the competence of all employees on a regular basis, as well as to continue to assess employees' training needs. This is mainly done through the Performance Management Process. This process comprises the following four areas:

- Job Description
- Competencies
- Appraisal
- Continuing Professional Development (CPD)

B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

The Board is responsible for the management and oversight of all risks affecting Aberdeen Life. To achieve this, Aberdeen Life uses a comprehensive risk management framework which has been established by SLA Group and which the Board considers to be appropriate to Aberdeen Life's business model. The SLA Group risk framework is supplemented by specific additional arrangements established by the Board where necessary to address Aberdeen Life's business model.

B.3.1 Group risk management framework

SLA's approach to effective risk management is predicated on strong risk awareness and risk accountability across all lines of defence in our business. SLA believes this approach will deliver long-term value for clients, customers and shareholders, and protect their interests.

SLA aims to ensure that:

- well informed risk-reward decisions are taken in pursuit of business plan objectives;
- fiduciary responsibilities are prioritised;
- capital is delivered to areas where the most value can be created from the risks taken.

B.3.1.1 Risk culture

SLA seeks to promote a strong risk management culture throughout all of its businesses, including Aberdeen Life, and to encourage values and behaviours that steer how employees conduct their work and the decisions they make. SLA's risk culture is founded on a clear, consistent risk strategy, and designed to support delivery of strategic objectives:

- **Governance** - ensuring the right governance to facilitate the implementation of pre-emptive and proactive risk management decisions and learn from and remedy issues;
- **Awareness** - a group-wide awareness and understanding of the impact of decisions on risk; and
- **People** - ensuring the right people in the right roles, demonstrating the right behaviours with responsibilities clearly defined.

The SLA board members and senior management frequently communicate the importance of a strong risk culture to reinforce these expected values and behaviours and to enhance employee understanding and knowledge of risk.

B.3.1.2 Three lines of defence

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

- **First line** - Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the SLA Board to the SLA Co-Chief Executives and, through a system of delegated authorities and limits, to business managers.
- **Second line** - Risk oversight is provided by the SLA Chief Risk Officer and supported by the specialist Risk and Compliance function across the SLA Group as well as through established risk committees such as the group's Enterprise Risk Management

Committee (ERMC) and with reporting to the Risk and Capital Committee (RCC). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by SLA non-executive directors on the RCC.

- **Third line** - Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the SLA Audit Committee.

B.3.1.3 Risk and Control Assessment

Risk assessment is the process of identifying, assessing, controlling and monitoring operational risks that could threaten or stop delivery of our strategic, financial, conduct and operational objectives and plans. Risk definitions are:

- **Conduct Risk** - the risk that, through the SLA Group's culture, strategies, decision making and behaviours, fair outcomes are not delivered to clients;
- **Operational Risk** - the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events.

The Risk and Control Self-Assessment (RCSA) process is an integral part of the framework and is designed to integrate and co-ordinate risk identification and risk management efforts, and improve the understanding, control and oversight of operational and conduct risks. Assurance is provided through a quarterly risk and control sign off by business managers, which is overseen and challenged by the SLA Risk and Compliance Function. Its aim is to evaluate and ensure that the primary controls within key processes are documented and subject to regular assessment by business owners. It provides senior management with assurance over the effectiveness of the control environment across key business areas. The assessment includes a review of the adequacy of the design of the suite of controls and an assessment of the actual performance of those controls.

B.3.1.4 Risk Events

An operational 'risk event' is a risk that has materialised (i.e. has happened) as a result of a deficiency in the SLA Group's system of internal control or from an external event. It is defined as a specific occurrence that has happened as a result of human error, inadequate or failed internal processes or systems, or an external event that has, or has the potential to, negatively or positively impact our customers, clients, partners, shareholders and employees.

Risk events can occur in any part of the SLA Group and can significantly impact reputation and performance and may cause client, partner, shareholder and/or employee detriment, so must be identified quickly, understood and appropriately responded to. This is important for a number of reasons:

- It enables timely action to minimise the event's impact, preventing further significant problems for the Company, clients, partners, shareholders and employees;
- It demonstrates our responsiveness to clients', partners', shareholders' and employees' concerns and maintains their trust where they are impacted;

- It provides clarity on the level of risk the business is exposed to, both at an individual (each risk event) and aggregate (across all risk events) level and whether this is within or outwith risk appetite (amount of risk SLA Group is prepared to accept in pursuing its objectives);
- It supports decision-making on where to direct resources to remediate and mitigate control deficiencies; and
- It supports the management of capital, helping to inform what the capital requirements are (both regulatory and economic) and how capital is being utilised.

RCSAs and risk events and issues are recorded and monitored through the SLA risk system, Shield.

B.3.2 Additional Aberdeen Life risk framework

The SLA Group risk framework described above is the primary means of managing Aberdeen Life's operational risks. Any material changes to the Aberdeen Life business model are referred by the Board to the Aberdeen Life Risk Committee for scrutiny, monitoring and oversight to ensure that the Board's decisions are adequately informed.

Aberdeen Life controls market risk, underwriting risk, credit risk and liquidity risk through the design of its contracts and selection of non-linked investments. The extent of any such risks are assessed through the ORSA process and any proposed or necessary changes to contract terms or non-linked investments are escalated appropriately and are subject to sign-off by the Board. Other types of risk such as regulatory or legislative change are also assessed as part of the ORSA process. Aggregate risk is monitored through monthly review of key performance indicators including financial metrics and operational effectiveness as well as regulatory breaches and complaints.

The Aberdeen Life Risk Committee has oversight of the Board's overall risk governance process to give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure. The Risk Committee advises the Board on risk appetite and tolerance, in setting future strategy, taking into account the Board's overall degree of risk aversion and Aberdeen Life's current financial situation. Duties of the Risk Committee, as set out in its Terms of Reference, include ensuring that steps are taken to identify and control risks and providing input and challenge to the ORSA process.

B.3.3 ORSA

The ORSA process is intended to identify, assess, monitor, manage and report on both short and long term risks and to determine the capital required to ensure that Aberdeen Life can continue to meet its solvency requirements at all times.

The ORSA enhances awareness of the risks faced by Aberdeen Life and the capital needed given those risk exposures. This awareness is used by Aberdeen Life as part of its decision making process.

The ORSA process is broken down into a number of stages as follows:

- Review and approval of the ORSA Policy;
- Risk identification, review and assessment;
- Risk modelling methodology and assumption review;
- Determination of the base balance sheet;

- Risk modelling analysis, including assessment of capital requirements and ongoing compliance with solvency requirements;
- ORSA report update;
- ORSA report review, challenge and approval.

A number of stages in the process may be iterative, with feedback loops. For example, the risk modelling methodology and assumption review assessment may lead to changes being required to the ORSA Policy to adequately capture any revised approach.

The Chief Risk Officer is responsible for planning and initiating the annual ORSA cycle and for ensuring that all other relevant parties are aware of their roles and responsibilities and have committed appropriate time to the process. The Chief Executive and the Chief Actuary are involved in most stages of the ORSA process. Other key contributors are:

- SLA Operational Risk – involved in the risk identification, review and assessment;
- Finance – involved in determination of the base balance sheet.

The Risk Committee is responsible for providing initial challenge to the results of the ORSA process and the content of the ORSA report and thereafter proposing that the report be submitted for Board approval.

The Board is ultimately responsible for the ORSA. It takes an active role in setting the ORSA Policy and in accepting the results of the process by providing insight on the risks faced by Aberdeen Life and actions that might be taken and, where relevant, by providing challenge to the Policy, process, results of the process or presentation of the results.

The ORSA is used as a key input into business planning and forecasting (where scenario analysis is used to indicate forecast capital requirements under expected and potential strategies) and to inform strategic or material business decisions. In particular, the Board considers potential or necessary actions if the ORSA indicates that Aberdeen Life is failing to meet or may fail to meet its target solvency levels.

In normal circumstances the ORSA process is run on an annual basis. This is considered appropriate given the nature and scale of the business written by Aberdeen Life.

The ORSA process will also be followed outside of the annual cycle should there be a significant unexpected deterioration in own funds, a significant change in the risk profile of the business or an actual or planned strategic event such as the acquisition of business from another insurance entity. The Chief Executive will monitor the financial position of Aberdeen Life and internal and external events to identify when an ad-hoc ORSA process might be appropriate. The Board or Risk Committee can propose that the ORSA process be run at any time if there is deemed to be sufficient justification. In any event, the need to perform any ORSA outside of the normal annual cycle must be approved by the Board.

The Company has determined its own solvency needs by using a combination of stress and scenario tests including forward-looking projections that consider the projected solvency position in a central 'best estimate' scenario and a number of adverse scenarios. The Company has determined the capital required for

it to withstand adverse experience equivalent to that which might be encountered once every 200 years and holds a buffer above the level so determined.

Although Aberdeen Life does not maintain formal risk tolerance limits (given the simplicity of the business), the Board would consider possible and/or necessary actions if required capital is, or may become, unacceptable taking into account the risk, required capital and the specific circumstances. Such actions could include amendment to the risk management system to better control or mitigate those risks contributing to the capital requirement. Conversely, any proposed changes to the risk management system are considered to determine the likely impact on the Company's capital position.

B.4 Internal Control System

The framework is based around the Solvency II definition of operational risk which is 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'. The Company's management of operational risk is therefore aimed at identifying risks in existing processes and improving existing controls to reduce the likelihood of failure and the impact of losses. A key element of the internal control system is the three lines of defence described in B.3.1.

Aberdeen Life seeks continuous improvement to internal controls. The effective management of the risk process is overseen by SLA Group's Risk Division, facilitated through SLA Group's risk management system, Shield. This system is the central tool used by the business to manage risks arising through day to day operations. Shield also allows for linkage between risks, controls, events and issues, meaning any gaps or potential deficiencies are clearly highlighted. This assists SLA Group in improving its understanding, control and oversight of operational risks and in turn facilitates the achievement of its objectives.

SLA Group's compliance function sits within the Risk Division; a permanent and independent risk management function which is hierarchically and functionally independent from the SLA Group's operating units (first line).

The Risk and Compliance Leadership Team includes but is not limited to a Risk & Compliance Chief Operating Officer, a Chief Risk Officer for UK regulated entities (including Aberdeen Life) and a Head of Regulatory and Conduct who all report in to the Group Chief Risk Officer. Compliance Monitoring is undertaken on a Global basis with the Risk and Compliance Chief Operating Officer having responsibility for this. Compliance advisory (which includes the individual holding the Compliance Key Function role) falls under the responsibility of the Chief Risk Officer for UK regulated entities. Monitoring of regulatory policy developments is undertaken by the Head of Regulatory and Conduct.

B.5 Internal Audit Function

Internal Audit (IA) is a SLA Group function provided to Aberdeen Life via the MSA with AAML. IA is a global function working under a single mandate, a single methodology and to a single standard. IA's proposition, at the highest level, is split between offering independent advice, challenge and assurance across the whole business with access to all data, documents, premises and members of staff. This includes the provision of assurance over other sources of assurance within the 2nd and 1st lines. The function reports direct to the SLA Group Audit Committee. Day to day direction is delegated to Keith Skeoch as SLA Co-Chief Executive.

IA is governed by a charter that is reviewed annually and available on SLA's external website.

IA conducts a documented annual planning process with multiple inputs and drivers. These include work that is directed by the SLA board or regulators as well as work informed by risk events, business engagement, corporate strategy and, increasingly, by data driven insight. The plan is reinforced and refreshed by a series of continuous assessments reflecting changes in the business' risk profile and the SLA board's risk appetite. The plan is also informed by knowledge of the Company's risk profile. Issues identified are rated as high, medium or low and are entered, with a business action plan, onto SLA's risk management system, Shield, to be managed by the responsible business team. For high issues, the audit team will re-engage and support the business in ensuring that the solution implemented is valid and sustainable. Individual audit reports are distributed to the accountable executives and relevant team leaders as well as to a number of standing recipients including the SLA Co-Chief Executives, Chief Risk Officer and Regional Heads.

The SLA Group Audit Committee receives summary information to allow it to review the effectiveness of SLA Group's control environment.

The Aberdeen Life Audit Committee meets at least twice yearly and is updated on all relevant IA reports. The IA function attends these meetings, and also holds regular meetings with the Aberdeen Life Chief Executive. The Aberdeen Life Audit Committee may request that IA considers specific relevant topics or business areas for future audit work.

IA is committed to a philosophy of working to the highest ethical and professional standards and operates within the International Professional Practice Framework (IPPF) established by the Chartered Institute of Internal Auditors (CIIA). IA will comply with all relevant CIIA Standards and the Code of Ethics, or disclose non-conformance (subject to appropriate proportionality). IA also applies the recommendations from the Committee on Internal Audit Guidance for Financial Services on 'Effective Internal Audit in the Financial Services Sector (2017)'.

B.6 Actuarial Function

The Actuarial Function is outsourced to Barnett Waddingham LLP. The role of Chief Actuary is held by an appropriately qualified and experienced individual who is a Barnett Waddingham LLP partner. The Company's Chief Executive provides oversight and assesses the performance of the arrangement.

B.7 Outsourcing

B.7.1 Outsourced Services

Aberdeen Life relies on SLA Group to carry out all business functions other than the Actuarial Function. This outsourcing is governed by the MSA and IMA between Aberdeen Life and AAML. The MSA is such that AAML is liable for all operational risk losses in respect of the Aberdeen Life business, whether these occur as a result of a failure of AAML or as a result of a failure of a third-party provider and where that third party is unable or unwilling to compensate for any loss incurred. AAML may in turn rely on other parts of the SLA Group to carry out the contracted services. SLA Group operates a group wide risk and control framework which covers all services provided directly and indirectly to Aberdeen Life via the MSA and IMA.

Custody services are provided by Citibank N.A.(Citi) and fund administration services are provided by Citi and DST Systems. Actuarial services are outsourced to Barnett Waddingham LLP. The services provided by these third parties are subject to appropriate contractual arrangements that protect Aberdeen Life from losses incurred as a result of operational risk events.

All providers of outsourced services are located in the UK although some individual tasks may be carried out in a range of overseas locations.

A member of the Board is formally responsible for oversight of each Key Function. This includes oversight of outsourcing arrangements within the SLA Group as well as actuarial services.

In addition, oversight of services outsourced to AAML via the MSA is a standing agenda item for the Risk Committee and members are provided with information on the quarterly service review meetings between the Company's management team and key internal service providers for review and/or challenge.

B.7.2 Key Points of Outsourcing Policy

- AAML uses the SLA Group Outsourcing Risk Oversight Framework to ensure outsourcing risks are clearly defined and regularly assessed with on-going monitoring of underlying controls both internally and within its outsourced service providers. SLA Group chooses its service providers carefully and regularly monitors and supervises their performance to ensure that functions are being performed satisfactorily, and to ensure that the Group is fulfilling its regulatory obligations and its contractual obligations to clients.
- SLA Group understands that while a service or function can be outsourced, the underlying risks and controls remain its responsibility. SLA Group is fully committed to actively managing these risks within its risk appetite.
- A risk assessment is performed on all outsourcers to assess the levels of risk exposure and to ensure all critical/material outsourcers are identified. Initial due diligence is performed on potential outsourcers based on the risk assessment.
- There are standard governance and oversight activities agreed for all levels of outsourcer risk to ensure appropriate levels of governance and oversight activities are performed in line with the level of risk exposure.
- Oversight of outsourcing risks is performed across the SLA Group with risk based monitoring and testing of control design and performance in outsourcers, across the three lines of defence.
- Continuity of service is a key component of the SLA Group Outsourcing Risk Oversight Framework to ensure minimal impact to the Group and its clients in the event of a failure within one or more of its outsourcers or the sudden failure of a critical outsourcer.

B.8 Any Other Information

Systems of governance have been updated during 2018 as Aberdeen Life was integrated by SLA Group. There were also changes at group level due to the sale of Standard Life Assurance Limited, which means that SLA Group is no longer regulated under Solvency II at group level and the PRA is no longer the Group Supervisor. There is no other material information relating to the system of governance.

C Risk Profile

The SLA Board sets the group risk appetite to define the nature and level of risk that the SLA Co-Chief Executives and their delegates are permitted to take to deliver the firm's strategic objectives. It is defined through a combination of risk appetite statements and tolerances.

Risk appetite tolerances are measured against risk metrics and are monitored on an ongoing basis so that prompt action may be taken as risks escalate or if the tolerances are likely to be breached. Executive management is responsible for staying within the SLA Board's risk appetite and operating an appropriate risk framework to monitor and inform appropriate and timely risk taking.

Aberdeen Life adopts the high-level risk principles that guide the SLA Board's risk appetite when delivering its strategy and business plan objectives. These principles are in place to provide guidance to the business and help to drive business strategy in line with the SLA Board approved risk appetite:

- Risk appetites should be aligned with SLA's strategic objectives.
- Risk appetites take into account the interests of clients, shareholders and employees.
- Risk appetites should inform entity level Board risk governance and executive risk management.
- Risk appetites should be easy to apply, communicate and interpret.

Aberdeen Life also adopts the SLA Board's risk appetite statements across a number of key risk categories:

- **Operational Risk:** SLA maintains a number of significant business and operational processes. It has no appetite for significant process, operations and trade errors that are detrimental to its clients or customers or compromise its financial strength or its reputation. SLA will maintain a strong and well established risk management framework as a foundation for the effective management of process risk across the business.
- **Conduct:** SLA has no appetite for unfair customer outcomes or poor market conduct, whether through deliberate or negligent actions. Consistent with its values, where unfair outcomes arise, the Company will put it right in a fair and prompt manner.
- **Regulatory and Legal Risk:** SLA has no appetite to breach applicable laws, legislation or regulations, or to inadvertently breach contractual requirements. Where these are ambiguous or untested, it will take all reasonable steps to interpret and comply with their spirit and purpose, seek appropriate professional advice and ensure that fair outcomes for its customers, clients and other stakeholders are taken into consideration when determining the appropriate course of action. Where breaches are identified, the company will ensure

that these are resolved in a timely manner including, where appropriate, informing the relevant authorities.

- **Financial Risk:** SLA has no appetite to fail to maintain sufficient resources to meet its capital requirements and liabilities as they fall due. It will ensure it can do so under both normal conditions and an appropriate range of stressed scenarios. SLA has an appetite for market and credit risk exposures where these are required in pursuit of its business objectives. Exposures must be controlled to manage capital and liquidity requirements, concentration risk and the risk of financial loss.
- **Strategic Risk:** SLA has an appetite for strategic risk that arises as a consequence of pursuing its chosen business model. SLA will proactively identify and understand the strategic risks that it is exposed to, the options available to manage them and ensure that these inform strategy formation and business planning. SLA has a limited appetite for failing to deliver its business plan objectives as a result of underperformance that is within its direct control. Ongoing performance against the business plan will be closely monitored and prompt action taken to address any material adverse divergence.

Given the simplicity of the business and the risks accepted, Aberdeen Life does not, in general, set quantifiable risk tolerances and limits. Aberdeen Life's risk appetite is aligned with its capital management policy to maintain solvency cover at or above its target level under stressed conditions as measured under stress and scenario tests (allowing for management actions as appropriate) carried out as part of the company's ORSA.

Significant changes to the Aberdeen Life business model, operating model or risk profile may prompt a review of the risk appetite statement. Such circumstances might include:

- Changes in legislation regulation;
- Entering or writing a new class of insurance business;
- Significant changes to business strategy;
- Major industry changes or developments; and
- Material or key risk changes.

C.1 Underwriting risk

Underwriting risk means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

Aberdeen Life has zero tolerance for insurance risks other than lapse (surrender) and expense risk. Contracts include no guaranteed benefits and contain no economic insurance risk. Although TIP policies include annuity options (on non-guaranteed terms) no annuities are currently written. Therefore the Company

has no direct exposure to mortality or morbidity risks and does not transfer risks to special purpose vehicles.

Lapse risk is measured by the loss of assets under management which reduces future fund charge income and consequently potentially impacts both current and future years' profits.

Expense risk is measured by the impact on current and potentially future years' profit.

Aberdeen Life has a high tolerance to lapse risk and the consequent variation in fund charges earned as lapse risk is an inevitable part of insurance investment business. The risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received. This is achieved under the terms of the MSA between the Company and AAML whereby the majority of expenses payable are defined as a percentage of fund charge income. Aberdeen Life aims to minimise lapses by providing a dedicated client service team, which has been set up specifically to meet the needs of UK pension schemes.

Aberdeen Life's solvency position is not very sensitive to changes in lapse assumptions. If the best-estimate lapse rate is doubled, own funds reduce by £0.08m (2017: £0.03m), the SCR reduces by £0.10m (2017: £0.02m) and there is a 13% (2017: 8%) increase in SCR cover. Solvency cover is the Company's own funds divided by the SCR and the change in SCR cover is the SCR cover under the sensitivity less the SCR cover reported at the valuation date.

Aberdeen Life has a low tolerance to expense risk. As mentioned above, the majority of expenses (fee related expenses) are defined as a set percentage of fund charge income. Modest additional expenses are incurred. The expense risk on these additional expenses is managed by:

- Reducing fee-related expenses if retained fund charge income is otherwise insufficient to meet the additional expense.
- Close monitoring of the additional expense amounts and their justification.

An increase in expenses leads to an increase in required capital under the Solvency II standard formula (all else equal). This risk is managed in all but extreme circumstances by contractual provisions between Aberdeen Life and AAML which reduce fee related expenses if necessary such that retained fund charge income is sufficient to meet the increase in required capital together with the required margin of cover.

There has been no material change to underwriting risk or how it is measured over the reporting period.

The only material risk concentration is that individual policies may account for a significant percentage of assets under management. At 31 December 2018 the largest individual unit-linked policy accounted for 30% of the Company's unit-linked assets (2017: 30%). The largest SIM policy accounted for 46% of the assets managed under such contracts. (2017: N/A).

The nature of the expenses payable under the agreements between the Company and AAML are such that, while changes in experience will affect profitability, the Company is protected from making a loss in all but extreme circumstances (a significant rise in non-fee related expenses and/or a significant fall in assets under management).

Aberdeen Life's solvency position is not very sensitive to changes in expense assumptions. If the best-estimate of expenses not

defined in relation to fee income are increased by 25%, own funds reduce by £0.03m (2017: £0.04m), the SCR reduces by £0.03m (2017: £0.04m) and the SCR cover increases by 3% (2017: 13%).

The impact of adverse lapse and expense experience are considered in the ORSA under a number of scenarios.

These demonstrate that the Company is able to withstand extreme adverse lapse and/or expense experience whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full.

C.2 Market risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Shareholder assets, linked assets and assets managed under SIM contracts are considered separately.

Aberdeen Life has a low tolerance to market risk on shareholder assets. The shareholder assets are used to cover the SCR, the MCR and any technical provisions in excess of the linked assets, and are invested to preserve capital. Investments are located in the EU and limited to cash, short term bonds and short term money market instruments. Investment in short term bonds and money market instruments is achieved by investing in the Aberdeen Liquidity Fund (Lux) – Sterling Fund (Liquidity Fund), a money market UCITS fund.

Aberdeen Life has a high tolerance to market risk on linked assets and assets managed under SIM contracts. Aberdeen Life accepts that because it is conventional practice for investment charges to be expressed as a percentage of assets under management, its revenue from fund charges will be subject to market movements and the choices made by its customers on the allocation to different internal linked funds or investment strategies. This risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received.

The linked assets are managed in accordance with the investment mandate for the particular fund taking into account the prudent person principle requirements under the PRA Investments Rulebook and the permitted links rules included in the FCA Conduct of Business Sourcebook (COBS) 21. In particular, policyholder liabilities are fully matched with units established within the relevant internal linked funds and with assets of the same value.

Assets managed under SIM contracts are invested under client-specific investment mandates taking into account the prudent person principle requirements.

Aberdeen Life's solvency position is not very sensitive to changes in the market value of assets under management. If all managed asset values were to increase by 10%, own funds increase by £0.16m (2017: £0.09m), the SCR increases by £0.17m (2017: £0.09m) and SCR cover reduces by 20% (2017: 31%). If all managed asset values were to fall by 10%, own funds fall by £0.15m (2017: £0.04m), the SCR falls by £0.18m (2017: £0.03m) and SCR cover increases by 24% (2017: 11%).

There has been no material change to market risk or how it is measured over the reporting period.

The Company investigates the potential impact of market risks on its income and solvency position by way of stress and scenario tests that are carried out as part of the ORSA process. These demonstrate that Aberdeen Life is able to withstand extreme market falls whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of market risks on linked assets.

C.3 Credit risk

Credit risk means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

Service provision, shareholder assets, linked assets and assets managed under SIM contracts are considered separately.

Aberdeen Life has a low tolerance to credit risk in relation to third party service providers. The risk of a service provider defaulting on its obligations is primarily managed by initial and on-going due diligence of the service provider together with protections included in service contract terms. The terms of the MSA between the Company and AAML are such that Aberdeen Life would seek redress from SLA Group if a third party service provider was unable or unwilling to meet its financial obligations towards the Company.

Aberdeen Life has a low tolerance to credit risk in relation to shareholder assets. The risk is managed by limiting direct exposure to cash (bank) counterparties and investing other assets in a diversified portfolio of high quality short-term assets. The bank counterparties must meet the criteria set by the SLA Group Credit Risk Management Policy. For Aberdeen Life, cash balances are, in normal circumstances, limited to £2m to any single counterparty although this limit may be temporarily exceeded for operational reasons. Cash balances are monitored daily. Diversification of non-cash assets is achieved by investing in the Liquidity Fund.

The tolerance to credit risk in relation to linked assets depends upon the investment objectives of each fund, but is generally low and is managed according to individual fund mandates. Thresholds are set for each fund to limit cash at the custodian, with a daily sweep into the Liquidity Fund to diversify counterparty exposure and reduce risk.

The tolerance to credit risk in relation to SIM contracts depends upon client-specific investment objectives.

The risk to Aberdeen Life of fluctuations in charge income as a result of asset defaults in the linked funds or under SIM contracts is managed, where possible, by making expenses sensitive to the volume of charges received.

There are no material risk concentrations other than to bank counterparties, with such exposures managed as described above.

Aberdeen Life's solvency position is currently not very sensitive to the credit quality of its bank counterparties. If all bank counterparties are downgraded by one credit quality step, own funds are unchanged, the SCR increases by £0.02m (2017: £0.05m) and SCR falls by 3% (2017: 21%).

There has been no material change to credit risk or how it is measured over the reporting period.

The Company investigates the potential impact of credit risks on its income and solvency position by way of stress and scenario tests that are carried out as part of the ORSA process. These demonstrate that Aberdeen Life is able to withstand extreme credit events whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of credit risks on linked assets.

C.4 Liquidity risk

Liquidity risk means the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Shareholder assets, linked assets and assets managed under SIM contracts are considered separately.

Aberdeen Life has a low tolerance to liquidity risk in relation to shareholder assets. All shareholder assets are held in cash or in the Liquidity Fund which allows daily dealing. Given the nature and size of the Liquidity Fund, large redemptions can typically be made without impacting on the fund share price.

The linked assets are managed to provide appropriate liquidity, in normal circumstances, to allow policyholder redemptions to be met as they fall due. Fund managers use tools to project forward their cash balances and ensure that they have sufficient cash in the portfolio to meet obligations on a daily basis. In addition, Aberdeen Life has the contractual ability to suspend transactions where this is considered to be in the interests of policyholders.

Liquidity requirements for assets managed under SIM contracts depend upon client-specific requirements, noting that the assets managed under these contracts remain the legal property of the client.

There has been no material change to liquidity risk or how it is measured over the reporting period.

Given the nature of the business written by Aberdeen Life, the expected profit in future premiums calculated in accordance with Article 260(2) of the Delegated Regulation is zero.

C.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Aberdeen Life has a low tolerance to operational risk. Aberdeen Life considers operational risk in respect of internal processes, personnel or systems as being transferred to AAML or third party suppliers through outsourced service agreements. SLA Group operates an Operational Risk Management Policy which applies to all services carried out by AAML for Aberdeen Life.

Operational risk from external events is primarily managed by ensuring compliance with current regulation and legislation, and by maintaining the ability to react appropriately to external risks and issues. As part of its ORSA process, Aberdeen Life considers the impact of external influences on its business model and considers the management actions that might be taken to address any issues.

There has been no material change to operational risk or how it is measured over the reporting period.

C.6 Other material risks

Aberdeen Life has limited exposure to currency risk from overseas assets held within certain unit-linked funds or managed under certain SIM contracts. Exchange rate fluctuations will result in fluctuations in charges which are based on sterling-equivalent asset values. This risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received.

Aberdeen Life has a high tolerance to group risk and, in general, accepts the risk without management, reflecting the rationale for the existence of Aberdeen Life. However, within group risk, Aberdeen Life closely manages AAML's obligations to compensate Aberdeen Life for any operational risk losses. In addition to the contractual protections given in the internal and external outsourcing agreements, Aberdeen Life also considers the capital position and the extent of insurance cover maintained by AAML in determining the ongoing security of the outsourcing arrangement.

It should be noted that in the event of any significant group issues, Aberdeen Life has the ability to terminate all contracts at three months' notice.

Aberdeen Life does not write any outward reinsurance and does not hold any off-balance sheet positions.

C.7 Any other information

The risk profile of the Company has not been materially affected by the acquisition of AAM by SLA.

Aberdeen Life has entered into a number of SIM contracts with individual pension scheme clients. The potential risks involved in writing this business were evaluated, including an assessment of the potential impact on the Company's solvency position, and the review concluded that the addition of these clients was within the Company's risk appetite and did not introduce any new risks to the business that would require a revision of risk appetite.

There is no other material information regarding the risk profile of the Company.

D Valuation for Solvency Purposes

D.1 Assets

Aberdeen Life's assets are primarily those held to back unit-linked liabilities. The Solvency II valuation for each material class of asset is contained in Quantitative Reporting Template (QRT) reference S.02.01.02 and shown in the box below.

Article 75 of Directive 2009/138/EC requires that assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. This valuation basis is similar to the 'fair value' accounting concept which is defined within IFRS 13 as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.'

Aberdeen Life has prepared its financial statements in accordance with FRS 101 and the Companies Act 2006. This basis requires the measurement of assets and liabilities in accordance with IFRS 13 (in which the term "Fair value" is defined). Therefore the valuation of assets and liabilities required for the annual financial statements is consistent with that required for Solvency II.

At 31 December 2018, the value of assets for solvency purposes is equal to the value of assets reported in the financial statements. This was also the case at 31 December 2017.

The methodology for valuing and recognising these assets are summarised below:

Balance sheet category	Accounting policy	Further detail of balances	Financial Statements 31 Dec 2018 £m	Solvency II value 31 Dec 2018 £m	Solvency II value 31 Dec 2017 ³ £m	QRT S.02.01.02 Reference
Collective Investments Undertakings	Fair value – using quoted market prices in active ¹ markets	Investment in quoted liquidity funds	10.26	10.26	10.20	R0180
Assets held for index-linked and unit-linked contracts	Fair value – using quoted market prices in active ¹ markets or other valuation techniques as disclosed in the financial statements where necessary. (see below) ²	Assets held within the linked funds, primarily equities and holdings in collective funds. No properties are held directly	1,467.68	1,467.68	1,601.65	R0220
Insurance and intermediaries receivables	Fair value - due to short-term nature of the receivables no adjustment to valuation are required	Outstanding sales/ liquidations	0.32	0.32	3.45	R0360
Receivables (trade, not insurance)	Fair value - due to short-term nature of the receivables no adjustment to valuation are required	Accrued income Prepayments Other debtors	1.56	1.56	0.75	R0380
Cash and cash equivalents	Fair value – based on statement values	Cash balances held	1.40	1.40	1.57	R0410

¹ Active market as defined in International Financial Reporting Standard 13-Appendix 1.

² As at 31 December 2017 there was one asset held within a unit-linked fund (valued at £1,800k) which required an alternative valuation technique (as disclosed in the financial statements). It is the Company's policy to minimise holdings of assets which do not have a quoted market price in an active market. As at 31 December 2018 this fund was closed.

³ There was no difference between the financial statements and Solvency II value for these assets at 31 December 2017.

No other material assumptions or judgements have been used, (or contribute to uncertainty) in the valuation of assets.

D.2 Technical provisions

There are three lines of business, the TIP unit-linked insurance business, unit-linked reinsurance accepted on similar terms and SIM business. All business is pensions business.

The technical provisions at the valuation date are shown in the table below.

	As at 31 December 2018 (£m)				As at 31 December 2017 (£m)			
	SIM	TIP	Reinsurance accepted	Total	SIM	TIP	Reinsurance accepted	Total
Unit reserve	N/A	914.16	553.52	1,467.68	N/A	977.70	623.95	1,601.65
Value of in-force business	(0.71)	(0.22)	(0.13)	(1.06)	N/A	(0.03)	(0.02)	(0.05)
Risk margin	0.11	0.03	0.02	0.16	N/A	0.06	0.04	0.10
Total technical provisions	(0.60)	913.97	553.41	1,466.78	N/A	977.73	623.97	1,601.70

Given the similarities between them, the same methods are used to determine the technical provisions for all lines of business written. The assumptions used are also the same other than where highlighted below.

Technical provisions have been determined for unit-linked business as the sum of the unit reserve, value of the in-force business (VIF) and the risk margin. The SIM technical provisions are the sum of the VIF for that business and the risk margin.

The movement in technical provisions is dominated by the fall in the unit reserve of £133.97m. This reflects the net impact on the unit-linked business of full and partial surrenders over the reporting period and negative investment returns on the linked assets which have only been partially offset by new business. The effect from the introduction of SIM business is limited to VIF and risk margin impacts which are not material in relation to the technical provisions overall.

The VIF reflects the projected excess of income over expenses over the projection period. This is higher at 31 December 2018 by £1.01m, primarily due to the SIM business written towards the end of 2018. The SIM business generates additional fee income, increasing the VIF in normal circumstances. This increase in VIF is initially greater than would otherwise be expected as the fees payable under the terms of the IMA and MSA between Aberdeen Life and AAML are reduced to help ensure that the Company continues to meet its solvency targets.

The risk margin, which is a function of the operational risk SCR and life underwriting SCR, has increased by £0.06m due to:

- Higher operational risk SCR
 - The operational risk SCR for the Company is a function of the expenses incurred in the twelve months to the reporting date, which have increased slightly; and
- Higher life underwriting SCR
 - The life underwriting SCR is a function of the VIF and is higher as a result of the higher VIF.

D.2.1 Unit reserve and VIF

The unit reserve is the value of units allocated to in-force unit-linked contracts at the valuation date, as disclosed in the financial statements (unit liabilities). The unit reserve is reported as “technical provisions calculated as a whole” on form S.02.01.02 in Appendix 1.

The VIF has been determined, using recognised actuarial methods, as a best estimate calculation of the present value of the excess of policy charges over expenses, where a positive VIF is shown as a negative liability. The VIF is reported as the best estimate liability on form S.02.01.02 in Appendix 1.

A deterministic cash-flow projection method is used to calculate the VIF. Although the Company manages the business on a long-term basis, the VIF projection is limited to three months. This reflects the Company's ability to terminate all contracts subject to a three-month notice period. The use of a short projection period has been discussed with the PRA and is considered by the Board to be a proportionate simplification compared to performing a long-term projection in accordance with Delegated Regulation Article 56. The use of a long-term projection is considerably more subjective given the nature of the business. The use of the short-term projection at 31 December 2018 results in a prudent level of technical provisions compared to a long-term projection and does not understate the risks associate with the business.

The projection involves estimating the policy charges and expenses cash flows that the Company expects to receive and incur respectively in each month of the three-month projection period, based on the business in force at the valuation date and using best estimate projection assumptions. The policy charge cashflows are projected separately for the unit-linked and SIM business. Expense cashflows are projected in aggregate, using the separately projected policy charge cashflows where relevant. The net “charges less expenses” cash-flow in each month is then discounted to the valuation date to give a present value.

The policy charges cash flows are annual management charges (fee income) which are either deducted directly from unit-linked funds, or otherwise invoiced directly to policyholders.

The expenses cash flows fall into three categories:

- Expenses that are a percentage of net fee income received as contractually defined in the contractual agreements between the Company and AAML;
- Administration and custodian services charges as contractually defined in the services agreements between the Company and external third parties;
- Other expenses that are fixed or variable monetary amounts (direct expenses).

The administration and custodian service charges depend to an extent upon transaction volumes and are in part met by policyholders by way of recharges to the unit-linked funds used to determine policyholder benefits. The projected overall level of such fees and the split between the part met by policyholders and the part met by the Company is based on recent experience.

Net fee income is defined as fee income received less any fee rebates reimbursed to policyholders less the share of administration and custodian service charges met by the Company.

The assumption for direct expenses is based on the Company's expectations taking into account experience over the 12 months to the valuation date and any anticipated changes.

Economic assumptions are based on market data at the valuation date. Withdrawal assumptions are based on actual experience of the unit-linked business over a six year period to the valuation date, adjusted as necessary to make appropriate allowance for extraordinary events. There is currently insufficient experience data to derive credible withdrawal assumptions separately for the SIM business. It is assumed that the average rate of fee income on the in-force business at the valuation date is maintained throughout the projection period, with the average rate of fee income determined separately for the unit-linked and SIM business.

There is no obligation for policyholders to pay additional premiums other than, for some policies, where annual management charges are invoiced and paid by way of premiums. The technical provisions therefore include no allowance for additional premiums other than charges.

D.2.2 Risk margin

The risk margin has been assessed in accordance with the methodology set out in the Delegated Regulation as the cost of holding an adjusted SCR over the projected run-off of the business.

Given all business is projected over three months, the risk margin has been determined over a one year period, the minimum period allowed by the regulations. In accordance with the Delegated Regulation, it has been calculated on the result of the SCR at the valuation date but with the bank counterparty default and market risk module SCR set equal to zero on the assumption that these risks could be hedged if required.

The risk margin has been apportioned across the three lines of business in proportion to the respective VIF. This is considered a proportionate and appropriate approach as the amount of VIF is a

reasonable proxy for the risk associated with each line of business and the impact of using a different apportionment method would not be material to the overall technical provisions by line of business.

D.2.3 Simplifications

The use of a three-month projection period, reflecting the Company's ability to terminate all contracts subject to a three-month notice period, is a simplification. At 31 December 2018, a longer term projection period would lead to lower technical provisions.

The VIF has been determined using an aggregate approach. Under the aggregate approach, policy charge cashflows are projected in aggregate, split only between unit-linked and SIM business and expense cash flows are projected for the business as a whole, not at an individual policy level. The resulting VIF is then apportioned between the lines of business based on their respective anticipated contribution to fee income. This approach involves the following simplifying assumptions:

- A single rate of surrender is used across all funds and all lines of business. In reality, surrender rates are likely to vary by fund and line of business. However, surrender rates for the business written by the Company are very hard to predict as they will depend on a number of factors including relative investment performance, market sentiment over a particular fund, the individual circumstances of the policyholder and the size of the policyholder's investment with the Company. However, the VIF is relatively insensitive to the surrender assumptions and, given the value of the VIF compared to the total technical provisions, more granular assumptions are unlikely to lead to materially different technical provisions.
- The approach used to apportion the VIF between lines of business implicitly assumes that expenses defined as monetary amounts (as opposed to percentage of policy charges) are apportioned over individual policies on a pro rata basis based on the monetary amount of annual policy charge each policy is expected to generate. A different allocation of the monetary expenses would not change the overall VIF, given the way expenses are determined, but could affect the split of the total between the lines of business. Given that the Company considers monetary expenses at a company level, this implicit apportionment, effectively by ability to pay, is not unreasonable, especially taking into account the low materiality of the VIF compared to the total technical provisions.

D.2.4 Uncertainty associated with the value of technical provisions

The methodology employed is proportionate to the nature, scale and complexity of the risks accepted by the Company.

There are no material deficiencies in the data used for the technical provisions.

All business written is unit-linked pensions business or pensions investment management with no investment guarantees. The unit liabilities are matched by holding the assets upon which the unit liabilities are determined.

The Company has the unilateral right to terminate contracts subject to three months' notice. This is a typical policy clause for the type of business written by the Company, which is sold only to institutional investors and protects the Company against the

long-term impact of adverse experience. The expense agreements in place between the Company and others within the SLA Group are such that in normal circumstances the Company retains only a modest percentage of net fee income out of which it needs to meet direct expenses. The retained amount is however increased if it would otherwise be insufficient to cover the direct expenses. The extent of the retained net fee income in excess of direct expenses is currently also modest.

Although the VIF depends upon the projection assumptions, the result is small in comparison to the overall technical provisions, which are dominated by the value of the unit liabilities. Consequently, if different plausible assumptions or more complex methodology were to be used, the technical provisions would not be materially different.

D.2.5 Reconciliation with financial statements

All unit-linked contracts written by the Company are treated as investment contracts under applicable accounting rules.

The accounting treatment for such contracts is to value the contracts at 'fair value', essentially the market value of the assets within the unit-linked funds, and no less than the amount that would be payable on immediate surrender.

The assets managed by the Company under SIM contracts are not shown in the financial statements.

The technical provisions reported in the Company's financial statements are therefore taken as the unit liabilities of £1,467.68m. The technical provisions for solvency purposes are £0.09m lower than the technical provisions reported in the financial statements, reflecting the VIF and the risk margin held for solvency purposes.

D.2.6 Adjustments and transitional arrangements

A matching adjustment (as referred to in Article 77b of Directive 2009/138/EC) is not used.

A volatility adjustment (as referred to in Article 77d of Directive 2009/138/EC) is not used.

The transitional adjustment in respect to the risk-free interest rate-term structure (as referred to in Article 308c of Directive 2009/138/EC) is not used.

The transitional deduction in respect to technical provisions (as referred to in Article 308d of Directive 2009/138/EC) is not used.

D.2.7 Reinsurance

The Company has no recoverables from reinsurance contracts and has transferred no risks to special purpose vehicles.

D.2.8 Material changes in assumptions

The Company has made no material changes to assumptions since the previous reporting period.

D.3 Other Liabilities

At 31 December 2018, the value of other liabilities for solvency purposes was £2,827k (2017: £5,199k) which is higher than the value reported in the financial statements of £2,657k (2017: £5,199k) due to a higher deferred tax liability. The values, basis of valuation and explanation of balances held are shown below. References (in brackets) are also given to where amounts can be found on QRT S.02.01.02.

D.3.1 Trade and other payables

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. (Insurance & intermediaries payables £315k (R0820), Trade and other payables £2,257k (R0840)).

D.3.2 Deferred Taxation

A change in the basis of taxation for the Company, implemented in 2013, led to the recognition of profits that had previously been tax deductible. Under transitional arrangements those profits are recognised uniformly over the 10 year period commencing 1 January 2013. The deferred tax liability in the financial statements, £85k, is determined using the relevant rates of tax which apply over the remaining deferment period. The solvency valuation includes an additional deferred tax liability of £171k relating to notional tax on the sum of the VIF less the risk margin. (Deferred tax liabilities £255k (R0780)).

D.3.3 Contingent liabilities

The IFRS valuation (prescribed by IAS 37) defines a contingent liability as:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;
- b) A present obligation that arises from past events but is not recognised because; (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability will be disclosed under IFRS but not recognised. The Solvency II Directive states that contingent liabilities should be recognised if considered 'material'.

As at 31 December 2017 and 2018, the Company has concluded it holds no contingent liabilities.

D.4 Alternative methods for valuation

As at 31 December 2018, there were no assets held which required an alternative valuation technique.

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E Capital Management

E.1 Own funds

The Company seeks to maintain sufficient capital resources of appropriate quality to give policyholders assurance of our financial strength and to satisfy the requirements of the regulators. The capital management policy is designed to ensure that all capital requirements are met out of retained profits without the need to seek other forms of capital.

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. Own funds are predominately invested to preserve capital values, typically in a diverse portfolio of cash and short-dated instruments.

The Company performs financial projections under central and adverse scenarios to assess the capital required over a three-year business planning period.

E1.1 Capital Management Policy

The Company may distribute by way of dividend the full amount of distributable profits disclosed in the audited accounts each year, or other amount as agreed provided that, following such payment Aberdeen Life will continue to hold a level of cover, as deemed appropriate by the Board, above the appropriate regulatory requirement applicable to the Company, or such other amount as may be agreed and having regard to the Company's business plan. The Company's policy is to hold sufficient capital such that it may be treated under Article 199 of the Delegated Regulation as being equivalent to an entity with credit quality step 1 or any other maximum requirement applicable to the Company. This target has been set in order that the Company is able to demonstrate adequate financial strength but is not intended to represent any particular risk appetite.

The Board may cancel, amend or withhold dividends at any time prior to payment if such cancellation or amendment is necessary for the Company to meet regulatory requirements or its internal targets.

Prior approval by the PRA is not required by the Board for any dividend payment if the risk appetite of the company is maintained.

There have been no material changes to the capital management policy over the reporting period. Any change in the capital management policy will be approved by the Board.

The Company monitors its capital position on an ongoing basis.

Own funds at 31 December 2018 are as follows:

	As at 31 December 2018 (£m)	As at 31 December 2017 (£m)
Tier 1 unrestricted		
Ordinary share capital	1.50	1.50
Reconciliation reserve	10.10	9.22
Total own funds	11.60	10.72
Solvency Capital Requirement (SCR)	2.73	1.58
SCR cover	425%	678%
Minimum Capital Requirement (MCR)	3.29	3.25
MCR Cover	353%	330%

The total own funds have increased during the period, primarily due to the increase in the net of tax VIF less risk margin together with net of tax profits earned during the period. SCR cover has decreased due to the increase in SCR, discussed further in section E.2, more than offsetting the higher own funds.

The Company's MCR equals the €3.7m absolute floor as set out in regulation. The increase in MCR since 31 December 2017 is due to the weakening of Sterling: Euro exchange rates between 31 October 2017 and 31 October 2018, these being the dates, as set out in regulation, at which the exchange rate for the absolute floor are set for the previous and current reporting period respectively.

The reconciliation reserve comprises retained profits and the difference between the technical provisions and other liabilities for solvency purposes and the technical provisions and other liabilities reported in the financial statements.

The difference between equity shown in the financial statements and the excess of assets over liabilities used for solvency purposes arises from the combined impact of the VIF, the risk margin and the resultant Solvency II deferred tax liability (discussed in section D.3.2) that is not recognised in the financial statements but is reflected in the reconciliation reserve.

No basic own funds are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC. There are no ancillary own funds and no deductions made from the own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is determined using the standard formula. The SCR and MCR as at 31 December 2018 are shown below.

	As at 31 December 2018 (£m)	As at 31 December 2017 (£m)
Solvency Capital Requirement		
Operational risk	1.66	1.58
Market risk	1.01	0.27
Life underwriting risk	1.07	0.07
Counterparty default risk	0.16	0.16
Diversification across risk modules	-0.54	-0.13
Tax adjustment	-0.64	-0.38
Total SCR	2.73	1.58
Minimum Capital Requirement	3.29	3.25

The total SCR has increased by £1.15m to £2.73m at 31 December 2018 as a result of:

- An increase in both market risk and underwriting risk reflecting the higher VIF at 31 December 2018 and consequently the higher loss of value under the equity stress and mass lapse stress in particular;
- An increase in operational risk due to higher expenses incurred in the twelve months to 31 December 2018 compared to those incurred in the twelve months to 31 December 2017, driven primarily by the new fee income and associated expenses from the SIM business offset by a reduction in fee income due to falling assets under management on the unit-linked business over the year.
- An increase in the tax adjustment reflecting the higher SCR in aggregate.

The Company has not applied any of the simplifications outlined in Articles 88 to 112 of the Delegated Regulation. The Company is taking a proportionate and simplified approach to calculating the SCR for market risk in that all unit-linked assets and assets managed under SIM policies are assumed to be invested in 'Type 2' equities as defined in Article 168 of the Delegated Regulation. This approach has been confirmed as acceptable by the PRA subject to ongoing monitoring.

No undertaking specific parameters are used to calculate the SCR pursuant to Article 104(7) of Directive 2009/138/EC.

The Company has not made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC.

The Company is not required to use any undertaking specific parameters in accordance with Article 110 of Directive 2009/138/EC. No capital add-on has been applied to the SCR.

The MCR calculation is set out in the Delegated Regulation.

Given the nature of the Company's business, the required inputs to the calculation that are not defined under the regulations are limited to:

- The technical provisions excluding the risk margin for unit-linked life insurance and reinsurance obligations of £1,467.33m (2017: £1,601.60m);
- The technical provisions excluding the risk margin for other life insurance and reinsurance obligations (SIM business) of £-0.71m (2017: N/A), which are floored at £nil;
- The amount of capital at risk. Given payments made under the contracts issued by the Company are not directly contingent on death, the capital at risk is taken to be zero.

The MCR for the Company is currently based on the €3.7m monetary minimum set out in regulations.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the duration-based equity sub-module option as set out in Article 304 of Directive 2009/138/EC.

E.4 Differences between the standard formula and any internal model used

The Company is not using an internal model.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has complied fully with both the MCR and SCR during the reporting period.

E.6 Any other information

There is no other material information regarding the capital management of the Company.

F Validation

Approval by the Board of Directors of the Solvency and Financial Condition Report and Reporting Templates

Financial period ended 31 December 2018

We certify that:

1. The Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and
2. We are satisfied that:
 - (a) Throughout the financial year in question, Aberdeen Life has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
 - (b) It is reasonable to believe that Aberdeen Life has continued so to comply subsequently and will continue so to comply in future.



Helen Webster
Director and Chief Executive Officer
Aberdeen Asset Management Life and Pensions Limited
(Aberdeen Life)
Date: 29 March 2019

Appendix 1

Contents

The following QRTs are required for the SFCR:

QRT ref	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.02	Premiums, claims and expenses by country – Not reported as all business written in the UK
S.12.01.02	Life and Health SLT Technical Provisions
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – only Life or only non-life insurance or reinsurance activity

All figures are shown in £'000s.

S.02.01.02 Balance Sheet

		Solvency II value
CHM	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	10,257
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	10,257
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	1,467,681
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	0
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	0
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	315
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	1,555
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,399
R0420	Any other assets, not elsewhere shown	0
R0500	Total assets	1,481,207

		Solvency II value
CHM	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	Technical provisions - non-life (excluding health)	0
R0530	TP calculated as a whole	0
R0540	Best Estimate	0
R0550	Risk margin	0
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	-604
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	-604
R0660	TP calculated as a whole	0
R0670	Best Estimate	-715
R0680	Risk margin	111
R0690	Technical provisions - index-linked and unit-linked	1,467,386
R0700	TP calculated as a whole	1,467,681
R0710	Best Estimate	-349
R0720	Risk margin	54
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	255
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	315
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	2,257
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	Total liabilities	1,469,610
R1000	Excess of assets over liabilities	11,597

S.05.01.02 Premiums, claims and expenses by line of business

Line of Business for: Life insurance obligations										Life reinsurance obligations				Total
	Health insurance	Insurance with profit participation	Index-linked unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance						
CHM	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300					
Premiums written														
R1410	0	0	154,879	0	0	0	0	32,595	187,474					
R1420	0	0	0	0	0	0	0	0	0					
R1500	0	0	154,879	0	0	0	0	32,595	187,474					
Premiums earned														
R1510	0	0	0	0	0	0	0	0	0					
R1520	0	0	0	0	0	0	0	0	0					
R1600	0	0	0	0	0	0	0	0	0					
Claims incurred														
R1610	0	0	172,419	0	0	0	0	74,507	246,925					
R1620	0	0	0	0	0	0	0	0	0					
R1700	0	0	172,419	0	0	0	0	74,507	246,925					
Changes in other technical provisions														
R1710	0	0	46,007	0	0	0	0	28,510	74,518					
R1720	0	0	0	0	0	0	0	0	0					
R1800	0	0	46,007	0	0	0	0	28,510	74,518					
R1900	0	0	3,875	788	0	0	0	1,326	5,990					
R2500	Other expenses										0			
R2600	Total expenses										5,990			

S.12.01.02 Life and Health SLT Technical Provisions

CHM		Index-linked and unit-linked insurance				Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life insurance, including Unit-Linked)	Health insurance (direct business)		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)		
		Insurance with profit participation	Contracts without options and guarantees		Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees										
			C0020	C0030	C0040	C0050						C0060	C0070				C0080	C0090
R0010	Technical provisions calculated as a whole	0	914,157			0				0	553,524	1,467,681	0			0	0	0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0			0				0	0	0	0			0	0	0
Technical provisions calculated as a sum of BE and RM																		
Best Estimate																		
R0030	Gross Best Estimate	0		0	-217		-715	0	0	-132	-1,064			0	0	0	0	0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0	0		0	0	0	0	0			0	0	0	0	0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	0		0	-217		-715	0	0	-132	-1,064			0	0	0	0	0
R0100	Risk Margin	0	34			111				0	20	165	0			0	0	0
Amount of the transitional on Technical Provisions																		
R0110	Technical Provisions calculated as a whole	0	0			0				0	0	0	0			0	0	0
R0120	Best estimate	0		0	0		0	0	0	0	0	0				0	0	0
R0130	Risk margin	0	0			0				0	0	0	0			0	0	0
R0200	Technical provisions - total	0	913,974			-604				0	553,413	1,466,782	0			0	0	0

S.23.01.01 Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
CHM		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
R0010	Ordinary share capital (gross of own shares)	1,500	1,500		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	10,097	10,097			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
Deductions						
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	Total basic own funds after deductions	11,597	11,597	0	0	0
Ancillary own funds						
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	Total ancillary own funds	0			0	0
Available and eligible own funds						

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
R0500	Total available own funds to meet the SCR	11,597	11,597	0	0	0
R0510	Total available own funds to meet the MCR	11,597	11,597	0	0	
R0540	Total eligible own funds to meet the SCR	11,597	11,597	0	0	0
R0550	Total eligible own funds to meet the MCR	11,597	11,597	0	0	
R0580	SCR	2,728				
R0600	MCR	3,288				
R0620	Ratio of Eligible own funds to SCR	4.2508				
R0640	Ratio of Eligible own funds to MCR	3.5268				

	Reconciliation reserve	C0060	
R0700	Excess of assets over liabilities	11,597	
R0710	Own shares (held directly and indirectly)	0	
R0720	Foreseeable dividends, distributions and charges	0	
R0730	Other basic own fund items	1,500	
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0	
R0760	Reconciliation reserve	10,097	
	Expected profits		
R0770	Expected profits included in future premiums (EPIFP) - Life business	0	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0	
R0790	Total Expected profits included in future premiums (EPIFP)	0	

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
CHM		C0110	C0090	C0120
R0010	Market risk	1,007		
R0020	Counterparty default risk	164		
R0030	Life underwriting risk	1,069		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-539		
R0070	Intangible asset risk	0		
R0100	Basic Solvency Capital Requirement	1,700		

CHM	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,664
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-635
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	Solvency capital requirement excluding capital add-on	2,728
R0210	Capital add-on already set	0
R0220	Solvency capital requirement	2,728
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01 Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations			
CHM		C0010	
R0010	MCRNL Result	0	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
CHM		C0020	C0030
R0020	Medical expenses insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations			
CHM		C0040	
R0200	MCRL Result	10,271	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	Net (of reinsurance/ SPV) total capital at risk
CHM		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	1,467,332	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

CHM	Overall MCR calculation	C0070
R0300	Linear MCR	10,271
R0310	SCR	2,728
R0320	MCR cap	1,228
R0330	MCR floor	682
R0340	Combined MCR	1,228
R0350	Absolute floor of the MCR	3,288
		C0070
R0400	Minimum Capital Requirement	3,288

