

# **Pillar 3 Disclosures**

**31 December 2017**

**Aberdeen Standard Investments**

# Contents

1. Introduction	1
2. Basis and Frequency of Disclosure	2
3. Aberdeen Standard Investments Structure and Composition	2
4. Risk Governance	3
4.1 Our approach to risk management	3
4.2 Three lines of defence	3
4.3 Enterprise risk management framework	3
4.4 Internal capital adequacy assessment process ('ICAAP')	4
4.5 Risk universe	4
4.6 Roles and responsibilities	4
4.7 Risk appetite and capital	5
4.8 Risk control processes	6
5. Key Risks to Aberdeen Standard Investments	7
6. Capital Requirements and Resources	8
7. Remuneration Disclosure	11

The Pillar 3 Disclosures are available on our website:

[www.standardlifeaberdeen.com/investors/solvency-and-financial-condition-reports](http://www.standardlifeaberdeen.com/investors/solvency-and-financial-condition-reports)

The Standard Life Aberdeen Group's Annual report and accounts 2017 is also available on our website:

[www.standardlifeaberdeen.com/investors/financial-library](http://www.standardlifeaberdeen.com/investors/financial-library)

## 1. Introduction

Aberdeen Standard Investments is the investment arm of Standard Life Aberdeen. It provides a broad range of investment capabilities covering equities, fixed income, multi asset, alternative, real estate, quantitatIVES and money markets.

Aberdeen Standard Investments is subject to prudential oversight by the Financial Conduct Authority ('FCA'). For the purposes of this Pillar 3 disclosure it is also an FCA consolidation group.

The Capital Requirements Directive ('CRD', 'the Directive') of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. The CRD IV legislation consists of the latest Capital Requirements Directive (Directive 2103/36/EU) and the Capital Requirements Regulations (Regulation (EU) No. 575/2013, 'the Regulations'). In the United Kingdom the Directive has been implemented by our Regulator, the FCA, which has created rules and guidance through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'), and the Prudential Sourcebook for Investment Firms ('IFPRU').

The regulatory framework is based on three 'Pillars':

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

Our Pillar 1 and Pillar 2 assessments are both documented within an annual ICAAP report provided to the FCA.

The Pillar 3 disclosure requirements are defined by Part 8 of the Regulations (Articles 431 to 455). The disclosure of this document meets Aberdeen Standard Investments' obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if the information is not material. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Additionally, we may also omit one or more of the required disclosures where we regard the information as proprietary or confidential. In our view proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

## 2. Basis and Frequency of Disclosure

The purpose of these disclosures is to give information on Aberdeen Standard Investments' risk management objectives, policies, strategies and processes; the structure and organisation of the risk management function; the risk reporting and measurement systems; and policies for mitigating risk.

These disclosures should be read in conjunction with the risk and capital management and governance disclosures contained in the Standard Life Aberdeen plc Annual Report and Accounts which are available at [www.standardlifeaberdeen.com](http://www.standardlifeaberdeen.com).

These disclosures are updated and published annually following the completion of the annual financial statements and the publication of the Standard Life Aberdeen plc disclosures on the application of the UK Corporate Governance Code<sup>1</sup> (including Diversity Statement) and the FCA's Remuneration Code<sup>2</sup>. They may be updated more frequently if appropriate.

These disclosures are produced for the purpose of satisfying the Pillar 3 requirements. They have not been verified independently and do not constitute any form of financial statement and should not be relied upon in making any judgement about the financial position of Aberdeen Standard Investments or Standard Life Aberdeen plc.

The Pillar 3 disclosure report is available on the Standard Life Aberdeen plc website.

## 3. Aberdeen Standard Investments Structure and Composition

On 14 August 2017, Standard Life Aberdeen plc was formed as a result of a merger between Standard Life plc and Aberdeen Asset Management PLC. This also led to the creation of the investment arm of the business, under the Aberdeen Standard Investments brand. Aberdeen Standard Investments' business is conducted by a number of subsidiaries of the Aberdeen Asset Management PLC ('AAM') and Standard Life Investments (Holdings) Limited ('SLI') (both wholly owned subsidiary companies of Standard Life Aberdeen plc) heritage groups, located in various global jurisdictions. Many of the subsidiaries are subject to regulation in their home countries and most of the local regulation follows similar principles to those which apply in the UK.

As at 31 December 2017 in the UK Aberdeen Standard Investments had three IFPRU €125k limited licence firms and four BIPRU €50k limited licence firms and three other BIPRU firms as described in the table below:

Group Company	Regulatory Classification	Heritage Group
Aberdeen Asset Managers Limited	IFPRU 125k, MiFID firm	AAM
Aberdeen Asset Investments Limited	IFPRU 125k, MiFID firm	AAM
Parmenion Capital Partners LLP	IFPRU 125k firm	AAM
Aberdeen Investment Solutions Limited	BIPRU 50k, MiFID firm	AAM
Standard Life Investments Limited	BIPRU 50k, MiFID firm	SLI
Ignis Investment Services Limited	BIPRU 50k, MiFID firm	SLI
Standard Life Wealth Limited (Now known as Aberdeen Standard Capital Limited)	BIPRU 50k, MiFID firm	SLI
Standard Life Investments (Corporate Funds) Limited	Full Scope AIFM, Collective Portfolio Management Investment Firm, IPRU (INV) Chapter 11 & BIPRU	SLI
Standard Life Investments (Private Capital) Limited	Full Scope AIFM, Collective Portfolio Management Investment Firm, IPRU (INV) Chapter 11 & BIPRU	SLI
SL Capital Partners LLP	Full Scope AIFM, Collective Portfolio Management Investment Firm, IPRU (INV) Chapter 11 & BIPRU	SLI

<sup>1</sup> <https://www.standardlifeaberdeen.com/who-we-are/governance>

<sup>2</sup> <https://www.standardlifeaberdeen.com/who-we-are/remuneration-disclosure>

In addition at 31 December 2017 Aberdeen Standard Investments had the following other UK regulated companies, albeit these are not IFPRU or BIPRU firms and capital requirements are not assessed as part of the Capital Requirements Directive rules:

Group Company	Regulatory Classification	Heritage Group
SLTM Limited	UCITS, IPRU (INV) Chapter 11	SLI
Aberdeen Fund Managers Limited (Now known as Aberdeen Standard Fund Managers Limited)	UCITS & Full Scope AIFM, Collective Portfolio Management Firm, IPRU (INV) Chapter 11	AAM
Ignis Fund Managers Limited	UCITS & Full Scope AIFM, IPRU (INV) Chapter 11	SLI
Standard Life Investments (Mutual Funds) Limited	UCITS & Full Scope AIFM, Collective Portfolio Management Firm, IPRU (INV) Chapter 11	SLI
Aberdeen Asset Management Life and Pensions Limited (Now known as Aberdeen Standard Investments Life and Pensions Limited)	Insurance firm	AAM
Self Directed Investments Ltd	IPRU (Inv) Chapter 13 firm	AAM

## 4. Risk Governance

### 4.1. Our approach to risk management

The creation of Aberdeen Standard Investments has accelerated Standard Life Aberdeen's transition to becoming a world-class investment company. Effective risk management is an essential part of delivering this strategy.

Aberdeen Standard Investments' approach to risk management is predicated on strong risk awareness and risk accountability across all lines of defence in our business. We believe that this delivers long-term value for our clients, customers and shareholders, and protects their interests.

We aim to ensure that:

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

### 4.2. Three lines of defence

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

- ▶ **First line:** Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Standard Life Aberdeen plc Board to the Chief Executive<sup>3</sup> ('CEO') and, through a system of delegated authorities and limits, to business managers.
- ▶ **Second line:** Risk oversight is provided by the Chief Risk Officer. The Risk and Compliance function is organised so that there is a consistent view across all of our principal risks, especially conduct, regulatory and strategic risks, working closely with the first and third lines of defence.
- ▶ **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our Internal Audit function. This is independent from all other operational functions. It reports to the CEO but operates subject to supervision and challenge by the Standard Life Aberdeen plc Board's Audit Committee.

### 4.3. Enterprise Risk Management framework

Aberdeen Standard Investments operates a strong control environment, achieved through the adoption of Standard Life Aberdeen's Enterprise Risk Management ('ERM') Framework.

<sup>3</sup> As at 31 December 2017 Standard Life Aberdeen plc had a co-Chief Executive Structure.

The ERM framework ensures that risk is assessed, monitored, controlled and appropriately governed based on a common taxonomy and methodology. Most risks arise in the business (first line) and that is where they should be managed. The second line oversees business risk assessments and provides advice and challenge where necessary to help improve the control environment.

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

#### 4.4. Internal Capital Adequacy Assessment Process ('ICAAP')

The ERM framework supports a comprehensive ICAAP which covers:

- ▶ Awareness and understanding of the current and potential risks to the business including both financial and non-financial risks and their potential to affect both long and short-term value.
- ▶ The appetite to accept these risks and how we manage them.
- ▶ The assessment of capital requirements with respect to the risks.
- ▶ A forward-looking assessment of the risk and capital strength of Aberdeen Standard Investments over a multi-year time horizon in light of business plans, considering a range of potential stress scenarios.
- ▶ Accountability for the management of risks.
- ▶ A wind-down analysis which provided reassurance that Aberdeen Standard Investments has sufficient capital to ensure that in the event of ceasing its business, all client assets and investment contracts could be safely transferred to another investment management firm or returned to clients.

#### 4.5. Risk Universe

Aberdeen Standard Investments has developed a risk universe consisting of conduct, operational, financial, regulatory and legal and strategic risks. The universe is defined in terms of high-level risk categories and more detailed underlying risk descriptions. It provides a consistent taxonomy of risk which is used throughout the framework for assessing, monitoring and reporting. For example, the risks that form the scenarios assessed in the ICAAP also form the basis of the management information presented to the Enterprise Risk Management Committee ('ERMC'), Operational Risk Committee ('ORC') and Financial Risk & Capital Management Forum ('FRCMF').



#### 4.6. Roles and Responsibilities

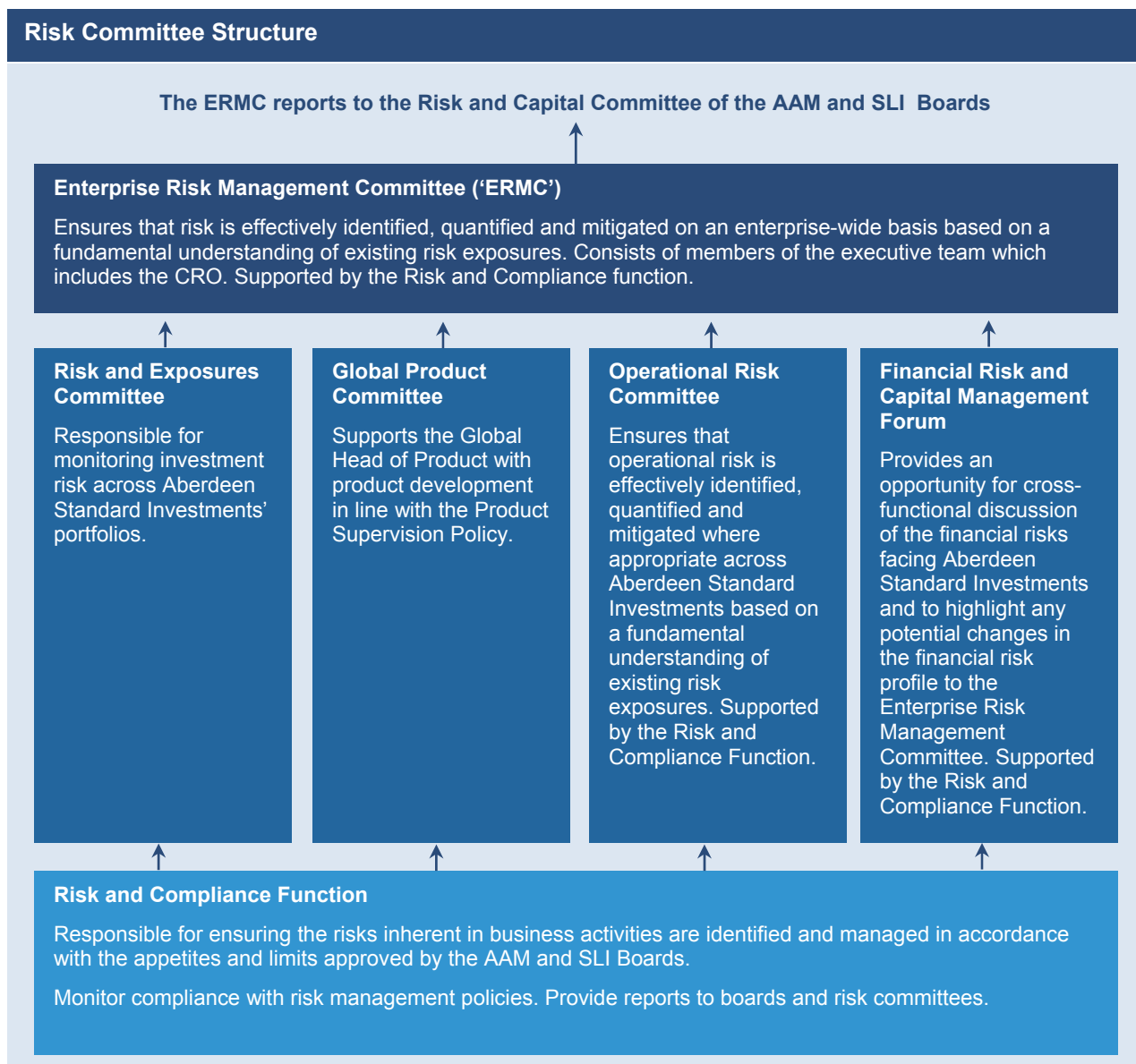
The AAM and SLI Boards of Directors have overall responsibility for the ERM Framework, internal control processes and for the ongoing review of their effectiveness. The ERM Framework is designed to manage, rather than eliminate, risk.

The Boards delegate responsibility for managing the ERM Framework to the CEO.

The CEO is responsible for the management of the internal control framework, including approving management and control policies. The ERMC has been constituted by the Chief Risk Officer ('CRO') to support the CEO and other accountable executives in the management of risks in Standard Life Aberdeen and to oversee the operation and effectiveness of the ERM Framework.

Regular reporting is produced by the Risk and Compliance Department and the CRO for relevant Risk Committees and Boards so that they can discharge their responsibilities effectively.

Internal Audit provide independent verification of the adequacy and effectiveness of the internal risk and control management systems. Internal Audit review controls against an assessment of business, technical and technology risks. The assessment looks to confirm that key controls are adequately designed, are reliable and are operating effectively. The team report to the Chief Internal Auditor who, to support the independence of Internal Audit, reports to the Chairman of the Standard Life Aberdeen plc Group Audit Committee.



#### 4.7. Risk Appetite and Capital

Aberdeen Standard Investments articulates its risk appetite in both quantitative and qualitative terms. The amount of capital held is determined by assessing risk exposures via the ICAAP.

##### Risk Principles

Standard Life Aberdeen has defined qualitative risk appetite principles and statements to provide guidance to the business and to help drive its strategy in line with appetite for risk. Aberdeen Standard Investments' risk strategy and risk principles are derived from Standard Life Aberdeen's strategy, recognising that achievement of business plan objectives will necessarily involve exposure to uncertain outcomes. The general principles adopted by Aberdeen Standard Investments are:

- ▶ Standard Life Aberdeen only has appetite for rewarded risks taken to support, and consistent with, delivering our strategic objectives.
- ▶ Standard Life Aberdeen will develop investment capabilities in areas consistent with the delivery of strategic objectives or where there is sufficient client demand.
- ▶ Standard Life Aberdeen only has appetite for risks that are adequately understood and controlled.
- ▶ Risks accepted should help maintain appropriate risk diversification and avoid excessive concentrations of risk.
- ▶ Standard Life Aberdeen will operate consistently, fairly and in line with regulatory and legal requirements.
- ▶ Standard Life Aberdeen will place customer and client interests at the heart of our strategy, business planning and decision making and we will not prioritise corporate or self-interest over the interests of our customers and clients.
- ▶ Standard Life Aberdeen will seek to attract and retain talented personnel to operate the business in line with accepted risks.

### **Qualitative Risk Appetite**

The role of the qualitative risk appetite statements is to set out in plain language for all stakeholders the aggregate level and types of uncertainty that we are willing to accept in order to achieve the business plan objectives. It is recognised that compliance with these statements will be considered within the context of practical limits and difficulties of minimising risk exposures. The qualitative risk appetites cover Conduct, Regulatory and Legal, Strategic, Financial, and a range of Operational Risks.

### **Quantitative Risk Appetite**

Aberdeen Standard Investments articulates its quantitative risk appetites in terms of tolerance limits, or thresholds, which ensure that the business is managed in line with the qualitative appetite statements. They provide limits within which executive management must operate in the interests of shareholders, customers, clients and other stakeholders. Quantitative risk appetites are set for a range of risks and are reviewed by appropriate Committees and Boards.

## **4.8. Risk Control Processes**

Operational Risk and Control Processes are the practices by which Aberdeen Standard Investments manages risk and which are used to identify, assess, control and monitor risk.

The procedural and system aspects are recorded on a Standard Life Aberdeen Group-wide risk system and encompass:

- ▶ Policy Framework (including policy compliance certification);
- ▶ Risk Assessment;
- ▶ Risk and Control Self Assessment ('RCSA');
- ▶ Key Risk Indicators; and
- ▶ Risk Events (i.e. significant control issues/risk incidents).

### **Policy Framework**

Aberdeen Standard Investments adopts the Standard Life Aberdeen policy framework which is in place to manage the material risks that the Group runs as a financial services company.

The risk policies are aimed at business management teams, and show the standards expected from each area to manage the key risks while being beneficial in running the business to deliver in line with strategic objectives.

The Code of Conduct ('the Code') and the Standard Life Aberdeen Group Policy Framework ('the Framework') articulate the standards of behaviour and actions required by all staff. These are designed to support the AAM and SLI Boards in meeting Aberdeen Standard Investments objectives.

The fair treatment of customers is integral to all of Aberdeen Standard Investments' business activities and is of fundamental importance to the Boards. The Conduct Policy applies to all companies, business units and functional areas and 'overarches' all other policies.

### **Risk Assessment**

This is a forward-looking risk assessment exercise, carried out by Risk and Compliance in conjunction with management. It assesses the impact and likelihood of key risk events happening within or otherwise affecting Aberdeen Standard Investments and informs wider risk considerations including risk appetite setting, the RCSA process and the ICAAP. The aim of the risk assessment process is to identify and manage the operational risks which could threaten or stop the delivery of strategic, financial and operational objectives and plans.

### **Risk Control Self Assessment**

RCSA is a key component of Aberdeen Standard Investments' ERM Framework and involves regular self assessment of specific controls by relevant business managers. RCSA is a means by which to evaluate and ensure that appropriate controls are in place to manage and mitigate the risks arising from the day-to-day business operations.

The key objective for RCSA is to provide senior management with assurance over the effectiveness of the operational control environment across key business processes. Whilst the process involves a regular self-certification aspect by each business area, good practice requires the effectiveness of business processes and controls to be subject to continuous challenge and monitoring by the business and Risk and Compliance.



## Key Risk Indicators

Key Risk Indicators ('KRIs') are a vital component of the ERM Framework as effective KRIs can identify potential issues before they materialise and can be used as a monitoring tool to provide a snapshot of current business exposure to a specific risk.

KRIs are a blend of performance indicators, control indicators and other management information that is focused on a particular risk.

## Risk Event Management

It is important that risk events are identified quickly, understood and an appropriate response taken which may include remediation and/or improvement in the control environment.

The ERM Framework supports the effective identification and management of risk events with processes and systems to record, report and escalate risk events, their causes and the progress and conclusion of the actions plans that result.

## 5. Key Risks to Aberdeen Standard Investments

Aberdeen Standard Investments completes ICAAP reporting which sets out the key risks to the business and demonstrates how Aberdeen Standard Investments has satisfied itself that it has sufficient capital.

The risks identified in the risk universe are assessed in the following ICAAP categories:

### Operational Risk

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

Aberdeen Standard Investments utilises a scenario based approach to determine the appropriate capital to hold against operational risk. The assessment is informed by a number of sources including historical loss data and the ongoing assessment of the control environment. In turn insight from the scenario assessment may be used to identify and prioritise further improvement in the control environment.

The capital assessment has taken full account of the elevated risk environment associated with the merger of Aberdeen Asset Management and Standard Life, and the subsequent integration of Aberdeen Asset Management and Standard Life Investments. Recognising the significant strategic dependence upon the successful delivery of the current change portfolio the ICAAP allowed for both the volume of change currently underway and the potential to incur additional costs in the pursuit of delivery.

### Market Risk

Market risk is the risk that a decline in the value of assets held on the balance sheet adversely impacts the profitability of the company. As Aberdeen Standard Investments does not operate a trading book, any exposure from investments made is only through seeding and co-investment activity, for which the potential risk of non-recovery is recognised under Credit Risk.

Foreign exchange risk is the principal part of market risk. Aberdeen Standard Investments manages foreign exchange risk by restricting holdings to permitted currencies and hedging those exposures where it considers this necessary. Supporting this, market risk exposures are monitored through the ERM Framework and through profit and loss scenarios carried out in the ICAAP.

### Credit Risk

Credit Risk is the risk of a counterparty of Aberdeen Standard Investments defaulting on deposited funds or on the likelihood of non-recovery of trade or non-trade debt. The primary credit risk exposures for Aberdeen Standard Investments are on management fees, seed money, co-investments and corporate cash balances placed with deposit-takers.

Credit concentration risk is minimised through Aberdeen Standard Investments' wide source of trade receivables, through close management of the seeding and co-investment programme and through establishing and monitoring suitable limits for approved banking and deposit counterparties.

The consequences for credit capital requirements are taken into account when making significant new investments and other capital management actions.

### Interest Rate Risk

Interest rate risk is the risk that Aberdeen Standard Investments will sustain losses from interest-bearing assets and liabilities. Due to current cash levels and the prevailing base rate, Aberdeen Standard Investments currently has minimal exposure to this risk.

### Insurance Risk

Insurance risk is the risk of financial loss arising due to insurance claims exceeding budgeted levels. Exposure to this risk is limited through reinsurance arrangements.

### Liquidity Risk

Liquidity risk is the risk that a company is unable to meet its cash-flow obligations.

Aberdeen Standard Investments closely monitors its actual and potential liquidity requirements to ensure that sufficient resources are available at all times, over and above regulatory capital requirements.

### Concentration Risk

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

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

### Remuneration Risk

Aberdeen Standard Investments promotes sound and effective risk management through a robust remuneration framework and it is considered no material risk exists relevant to capital requirements.

### Group Risk

Aberdeen Standard Investments receives some central services from the Standard Life Aberdeen Group under specific agreements. In the event of a catastrophic failure of the Standard Life Aberdeen Group, Aberdeen Standard Investments' maintenance of independent capital resources will enable it to protect its clients' assets. It is considered that the likelihood of such a scenario is remote as the Standard Life Aberdeen Group maintains a strong capital position specifically to protect its clients and shareholders.

### Other Risks

No other risk types are considered material or relevant.

## 6. Capital Requirements and Resources

Capital is held to ensure a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk based approach that explicitly takes into account management's view of specific risk exposures.

### Pillar 1 capital requirements (own funds requirements) are the greater of:

- ▶ The base capital resources requirement; or
- ▶ The sum of the Market and Credit Risk requirements; or
- ▶ The Fixed Overhead Requirement.

The base capital resources requirement is considered for individual subsidiaries. This is shown in the regulatory classification within the table in the 'Aberdeen Standard Investments Structure and Composition' section above.

Currently the Aberdeen Standard Investments' Fixed Overhead Requirement establishes its Pillar 1 capital requirements. This is higher than the calculated own funds requirement of £211.2m based on the Company's risk exposure types which is determined by market risk and credit risk exposures as follows:

	31/12/2017 (£'m)
Pillar 1 Capital Requirement	
Market Risk	63.4
Credit Risk	147.8

The market risk for firms relates to foreign exchange.

The Pillar 1 credit risk capital requirement is calculated in accordance with the standardised approach. The minimum capital requirements based on 8% of the risk weighted exposure amounts for each of the relevant exposure classes as at 31 December 2017 are shown in the table below:

Exposure classes	31/12/2017 (£'m)
Central government and central banks	10.1
Corporates	42.4
Institutions	29.4
Collective investment undertakings	48.7
Other items	17.2
<b>Total</b>	<b>147.8</b>

External Credit Assessment Institutions ('ECAI'): Aberdeen Standard Investments uses Standard and Poors to assess the credit quality of exposures which have an external credit rating. These are used for the institutional and central government or central bank exposure classes together with any counterparties within corporates which may have an external rating.

Pillar 2 capital requirements are determined using a risk based approach that explicitly takes into account management's view of specific risk exposures.

Stress testing is also undertaken to determine the impact of severe events such as significant market downturns on Aberdeen Standard Investments' financial position.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources (own funds) or repayment of liabilities by Aberdeen Standard Investments and its constituent entities.

### Capital Resources (Own Funds)

The disclosures on own funds included in this document relate to Aberdeen Standard Investments as consolidated on a regulatory basis. The regulatory basis of consolidation differs from the accounting consolidation as it excludes the insurance subsidiary, Aberdeen Asset Management Life and Pensions Limited (now known as Aberdeen Standard Investments Life and Pensions Limited).

Between Aberdeen Standard Investments' companies there are three classes of shares: ordinary share capital, perpetual cumulative capital notes and preference shares.

Tier 1 capital is the going concern capital which allows a firm to continue its activities and helps prevent insolvency. Tier 1 can be sub-divided into Common Equity Tier 1 ('CET1') and Additional Tier 1 ('AT1'). The highest form of Tier 1 capital is CET1 capital because it is the most effective at absorbing losses. Aberdeen Standard Investments' CET1 capital comprises ordinary shares, retained profits and certain other reserves.

At 31 December 2017, Common Equity Tier 1 is represented by ordinary shareholders' funds of £2,692m (core tier 1 capital before deductions). Deductions in arriving at total Tier 1 capital as at 31 December 2017 include goodwill and intangible assets of £1,528m, net of deferred tax.

In addition to our CET1 capital we have in place additional tier 1 capital. This capital consists of £100 million non-voting, perpetual, non-cumulative, redeemable preference shares (the 'preference shares').

The preference shares are unsecured, non-voting, perpetual, non-cumulative, contingent convertible preference shares in the capital of Aberdeen Asset Management PLC and the issuance consisted of 200,000,000 preference shares of nominal value of one pence each and a share premium of 49 pence each, fully paid in cash. The preference shares are not listed, traded or admitted to trading on any stock exchange or market. The shares rank pari passu, in priority to Aberdeen's ordinary shares and junior to the perpetual cumulative capital notes.

The holders of the preference shares are entitled to receive dividends out of the profits available for distribution and permitted by law to be distributed a non-cumulative preferential dividend at the fixed rate of 5% per annum on the total paid up amount of each preference share. Dividends are, however, due and payable only at the sole and absolute discretion of Aberdeen Asset Management PLC.

Upon the occurrence of a 'conversion trigger event', each preference share shall automatically and irrevocably convert into ordinary shares of Aberdeen Asset Management PLC (i.e., common equity tier 1 instruments), within one month of the occurrence of the 'conversion trigger event' or such shorter period as the FCA may require. A 'conversion trigger event' will be deemed to have occurred if the CET1 Ratio has fallen below 5.125%.

Tier 2 capital is 'gone concern' capital which is designed to ensure that depositors and senior creditors are repaid if the firm fails. From 1 March 2018 Aberdeen Standard Investments held no tier 2 capital. Previously USD 500 million perpetual cumulative capital notes qualified as Tier 2 capital, but was reclassified as a liability at 31 December 2017 following the announcement of its impending redemption.

Aberdeen Standard Investments' capital resources (own funds) at 31 December 2017 are shown in the table below.

<b>Capital Resources</b>	<b>31/12/2017 (£'m)</b>
Paid up capital instruments	711.8
Share premium	1,289.4
Retained earnings	64.7
Other reserves	626.4
<b>Common Equity Tier 1 ('CET1') Capital</b>	<b>2,692.3</b>
Additional Tier 1 capital	100
Total Tier 1 capital before deductions	2,792.3
Deductions:	
Goodwill & intangibles, net of deferred tax	(1,528.2)
Significant investments	(163.9)
Transitional adjustment	(3.1)
Total Tier 1 capital after deductions	1,097.1
Total Tier 2 capital	-
<b>Total Capital Resources</b>	<b>1,097.1</b>

The above capital resources are consistent with those disclosed on a regulatory basis in the notes to the individual entity statutory financial statements of AAM and SLI. Client assets and money are held separately from the companies' assets.

## 7. Remuneration Disclosure

Aberdeen Asset Management PLC merged with Standard Life plc on 14 August 2017. For the remainder of 2017, existing remuneration structures remained in place for the two heritage companies' staff.

### Remuneration Policy

Going forward Aberdeen Standard Investments remuneration operates in accordance with Standard Life Aberdeen's Remuneration Policies and Procedures, the details of which can be found at the following link:

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

### Quantitative disclosures

The following tables provide the qualitative remuneration disclosures for the 2017 financial year for the two heritage groups.

Following a change of financial year-end, 2017 remuneration disclosures for Aberdeen Asset Management PLC are for the fifteen month period from 1 October 2016 to 31 December 2017.

#### Standard Life Investments (Holdings) Limited and its subsidiaries

The following amounts were paid in fixed and variable remuneration to material risk takers. Fixed remuneration includes base salary and benefits. Fixed remuneration for non-executive directors and committee members comprises fees. Variable remuneration includes 2017 annual bonus awards paid in March 2018 and the maximum value of long term incentive awards granted in 2018 (which were based on performance in 2017).

Standard Life Investments (Holdings) Limited and its subsidiaries	Senior Management 12 months to end 2017	Other Code Staff 12 months to end 2017
Number of Code Staff	62	30
Fixed Remuneration (£'m)	13.4	4.6
Variable Remuneration (£'m)	46.2	9.6
Total (£'m)	59.5	14.1

#### Aberdeen Asset Management PLC and its subsidiaries

Remuneration is comprised of fixed pay (salary, non-contributory defined contribution pension and benefits in kind) and variable pay (defined as cash bonus and deferred awards). A significant proportion of variable pay (75%) is deferred into Standard Life Aberdeen plc shares and / or Aberdeen Standard Investment managed funds.

Aberdeen Asset Management PLC and its subsidiaries	Senior Management 15 months to end 2017	Material Risk Takers 15 months to end 2017
Number of Code Staff	24	270
Fixed remuneration (£'m)	10.4	94.5
Variable remuneration (£'m)	24.5	61.0
Total remuneration (£'m)	34.9	155.5

As at 31 December 2017, the amounts and forms of variable remuneration for Material Risk Takers, split into cash, shares, share-linked instruments and other types was as follows:

Aberdeen Asset Management PLC and its subsidiaries	Senior Management	Material Risk Takers
	15 months to end 2017	15 months to end 2017
	£'m	£'m
Cash	6.3	26
Aberdeen shares	11.3	16.7
Fund shares	6.9	18.3

As at 31 December 2017, the amounts of outstanding deferred remuneration for Material Risk Takers, split into vested and unvested portions is as follows:

Aberdeen Asset Management PLC and its subsidiaries	Senior Management	Material Risk Takers
	15 months to end 2017	15 months to end 2017
	£'m	£'m
Vested deferred share and fund awards	26.1	26.4
Unvested deferred share and fund awards	38.8	75.6

In the financial year from 1 October 2016 to 31 December 2017, there were no amounts of deferred remuneration awarded during the financial year, paid out or reduced through performance adjustments.

There were no new sign on payments made and therefore there are no individuals to report on in relation to the highest such award to a single person.

In the financial year from 1 October 2016 to 31 December 2017, there were 31 leavers identified as Material Risk Takers under CRD IV who were subject to severance pay as follows:

Aberdeen Asset Management PLC and its subsidiaries	Senior Management	Material Risk Takers
	15 months to end 2017	15 months to end 2017
	£'m	£'m
Severance Payments	2.5	14.9
Number of Individuals	2	29

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures have been calculated as at 31 December 2017 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at November 2018 and does not provide financial or legal advice.

**Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.**

Standard Life Aberdeen plc (SC286832), Standard Life Investments (Holdings) Limited (SC298143), Standard Life Investments Limited (SC123321), SL Capital Partners LLP (S0301408) and Standard Life Investments (Private Capital) Limited (SC184076), Standard Life Investments (Mutual Funds) Limited (SC123322), SLTM Limited (SC075550), Standard Life Investments (Corporate Funds) Limited (SC111488), Ignis Investment Services Limited (SC101825), Aberdeen Standard Capital Limited registered in Scotland (SC317950), Ignis Fund Managers Limited (SC085610) are registered in Scotland at 1 George Street, Edinburgh EH2 2LL , Aberdeen Asset Management PLC (SC082015), Aberdeen Asset Managers Limited registered in Scotland (SC108419) and Aberdeen Investment Solutions Limited are registered in Scotland (SC106723) at 10 Queen's Terrace, Aberdeen, AB10 1XL, Aberdeen Asset Investments Limited registered in England and Wales (00794936) is registered at Bow Bells House, 1 Bread Street, London EC4M 9HH. Self-Directed Investments Ltd (08081015) and Parmenion Capital Partners LLP (OC322243) are registered in England and Wales at Aurora (3rd Floor) Finzels Reach, Counterslip, Bristol, United Kingdom, BS1 6BX

All companies are authorised and regulated by the Financial Conduct Authority in the United Kingdom, except Ignis Fund Managers Limited, Standard Life Investments (Holdings) Limited and Standard Life Aberdeen plc.

[www.standardlifeaberdeen.com](http://www.standardlifeaberdeen.com) © 2019 Standard Life Aberdeen.