

Scope and application of the requirements

The disclosures in this document are made in respect of the group of companies consolidated under Standard Life Investments (Holdings) Limited ('Standard Life Investments'), a wholly owned subsidiary of Standard Life plc. The primary activity of Standard Life Investments is the provision of discretionary investment management services.

Background

The Capital Requirements Directive ('the Directive') created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, implementation of the Directive's requirements is managed by Standard Life Investments' regulator, the Financial Conduct Authority ('FCA'), which maintains rules and guidance through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The Directive consists of three 'Pillars':

- ▶ Pillar 1 sets out the minimum capital requirement that companies need to retain to meet their credit, market and operational risk;
- ▶ Pillar 2 requires each company, and the FCA, to take a view on whether the company needs 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
- ▶ Pillar 3 requires each company to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Chapter 11 of BIPRU sets out the provision for Pillar 3 disclosure. This must be complied with by the provision of a formal disclosure document.

The disclosure of this document meets Standard Life Investments' obligation with respect to Pillar 3.

The rules allow a company to omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criterion of whether the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where a company considers a disclosure to be immaterial, it will have stated this in the document.

In addition, a company may also omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the competitive position of a company. Information is considered to be confidential where there are obligations binding a company to confidentiality with customers, suppliers and counterparties. Where a company has omitted information for either of these two reasons it must state this in the relevant section with reasons for the omission.

Enterprise Risk Management Framework

To protect the interest of its clients, Standard Life Investments operates a strong control environment throughout the company. This is achieved through an Enterprise Risk Management Framework ('ERM Framework'), which provides integrated, robust corporate governance processes to allow Standard Life Investments risks to be identified, assessed, monitored and controlled.

The ERM Framework is consistent with that operated across the Standard Life plc group ('the Group').

Key Risks to Standard Life Investments

Standard Life Investments, in accordance with the Directive, is required to complete an ICAAP. The ICAAP document sets out the key risks to the business and demonstrates how Standard Life Investments has satisfied itself that it has sufficient capital.

The ICAAP also involves:

- ▶ Profit and loss scenarios – These are scenarios that are used to assess the financial impact of events that do not follow Standard Life Investments' economic assumptions.
- ▶ Reverse stress testing – This is a 'forward-looking' management tool used to identify the nature and severity of potential events at which Standard Life Investments' business model becomes unviable.
- ▶ A wind-down analysis – This provides reassurance that Standard Life 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.

Standard Life Investments has identified and assessed the following key risks within the ICAAP:

Operational Risk

Operational risk is defined as ‘the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events’. Standard Life Investments utilises a scenario based approach to capitalising operational risk.

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 Standard Life 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 a principal part of market risk. Standard Life Investments manages foreign exchange risk by restricting holdings to permitted currencies and hedging those exposures where it considers this necessary.

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

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

Interest Rate Risk

Interest rate risk is the risk that Standard Life Investments will sustain losses from interest-bearing assets and liabilities. Due to current cash levels and the prevailing base rate, Standard Life 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. Standard Life Investments closely monitors its liquidity position ensuring that sufficient capital, over and above its regulatory capital requirements, is reserved.

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. Standard Life Investments’ strategy is to diversify its earnings by continually growing its capability in selected product areas and increasing its global reach, which reduces this risk.

Remuneration Risk

Standard Life Investments promotes sound and effective risk management through a robust remuneration framework and it is considered no material risk exists.

Standard Life Investments Group Risk

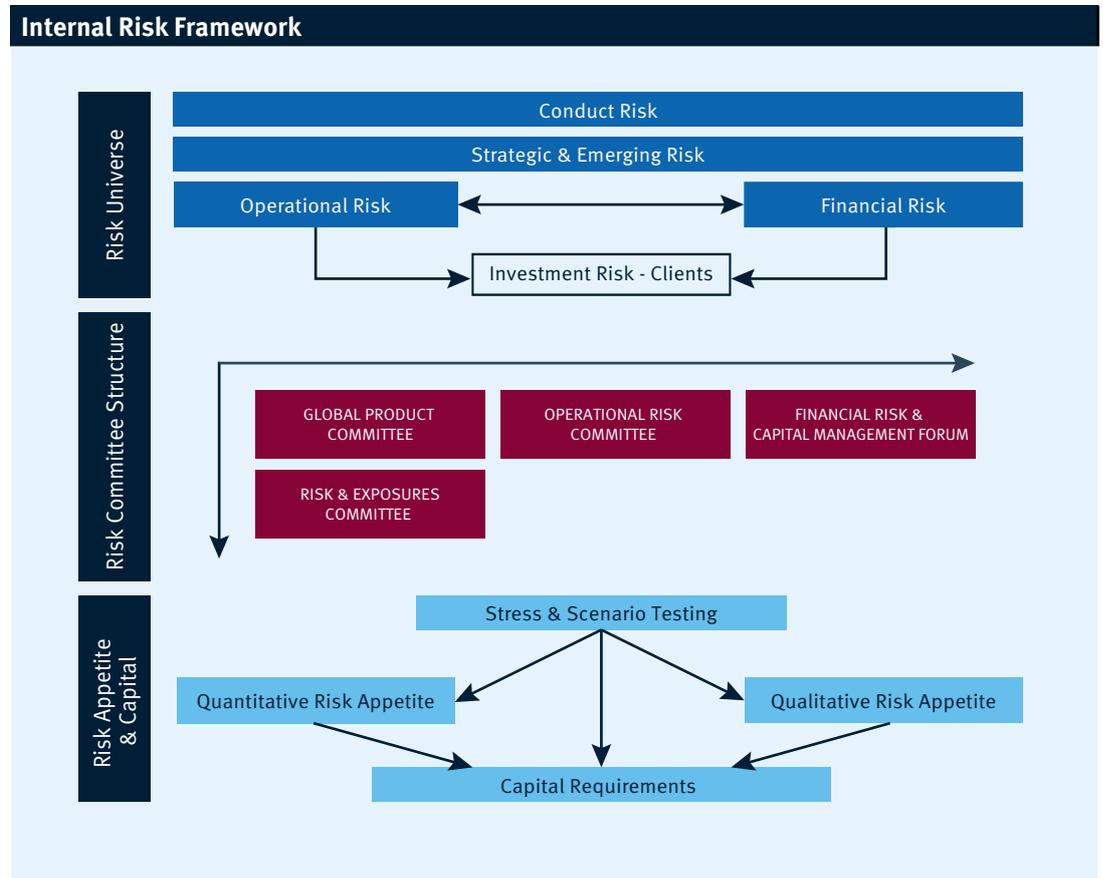
Standard Life Investments receives some central services from the Group under specific agreements. In the event of a catastrophic failure of the Standard Life Group, Standard life Investments’ maintenance of independent capital resources will enable it to protect its clients’ assets. It is considered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

Other Risks

No other risk types are considered material or relevant.

Risk Universe

Standard Life Investments has developed a risk universe consisting of operational, financial, emerging and strategic risks (conduct risk is considered and reported on as part of the Operational Risk processes). The universe is defined in terms of high-level risk categories and more detailed underlying risk descriptions. It provides a consistent definition 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 ('ERM'), Operational Risk Committee ('ORC') and Financial Risk & Capital Management Forum ('FRCMF').



Risk Governance

The ERM Framework

The Board 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 and can only provide reasonable, not absolute, assurance against material misstatement or loss.

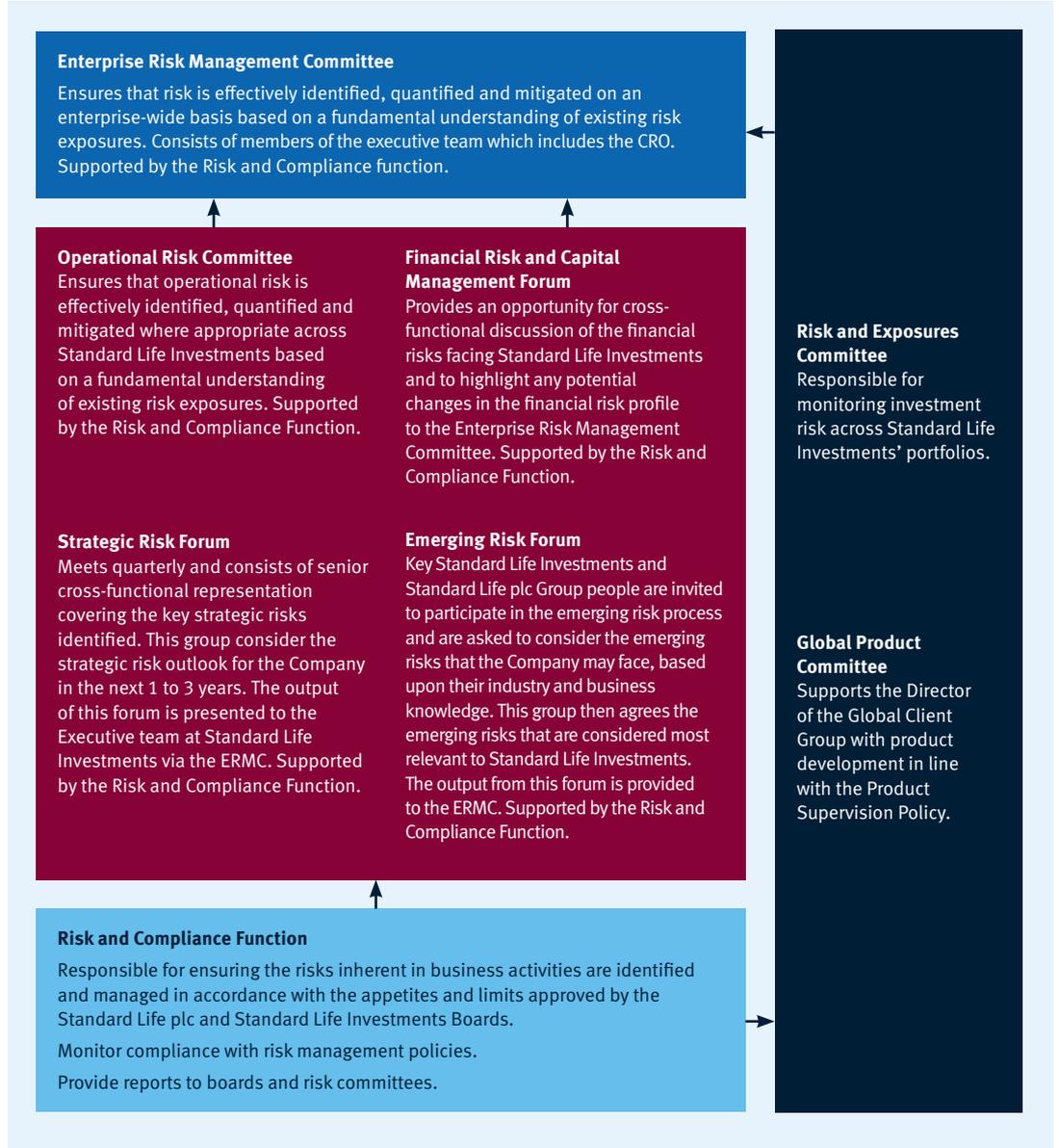
The Board delegates responsibility for managing the ERM Framework to the Chief Executive Officer ('CEO').

The CEO is responsible for the management of the internal control and risk framework, including approving management and control policies. The ERM has been constituted by the CEO to support management of risks and oversee compliance with the ERM Framework.

Regular reporting is produced by the Risk and Compliance Department and the Chief Risk Officer ('CRO') for the Risk Committees and Boards of Standard Life Investments and Standard Life plc including appropriate, timely and quality information so that they can discharge their responsibilities effectively.

Group Internal Audit ('GIA') provide independent verification of the adequacy and effectiveness of the internal risk and control management systems. GIA 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 Group Internal Audit Director ('GIAD') and, to support the independence of Internal Audit, the GIAD reports to the Chairman of the Group Audit Committee.

Risk Committee Structure



Risk Appetite and Capital

Standard Life 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 plc 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. The Standard Life Investments' risk strategy and risk principles are derived from the Group's strategy, recognising that achievement of business plan objectives will necessarily involve exposure to uncertain outcomes. The general principles adopted by Standard Life Investments are:

- ▶ The Group only has appetite for rewarded risk;
- ▶ The Group only has appetite for risks that are consistent with the delivery of our business plan objectives;

- ▶ The fair treatment of customers is paramount when assessing risks to be accepted;
- ▶ Prices charged for products should fully reflect all risks;
- ▶ The Group has appetite for risk, where expertise exists or can be acquired to manage the risk or if the risk can be transferred and any residual risk managed;
- ▶ The Group's appetite for accepting risk is dependent on the expected return and should exceed the cost of capital; and
- ▶ Risks accepted should help maintain risk diversification and avoid excessive concentrations of risk.

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 (forward-looking and existing business), Market, Credit, Demographic and Expense, Persistency, Operational, Reputational and Liquidity risks.

Quantitative Risk Appetite

Standard Life Investments articulates its quantitative risk appetites in terms of limits, or thresholds, which ensure that the business is managed in line with qualitative appetite statements. They provide parameters within which executive management must operate and are designed to protect the company's capital. Quantitative risk appetites are set for a range of operational and financial risks and are reviewed by appropriate Committees and Boards.

Risk Control Processes

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

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

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

Policy Framework

The Group policy framework is in place to manage the material risks that the Group runs as a financial services company. The risk policies are aimed at business unit management teams, and show the standards expected from each area to manage the key risks while being beneficial in running the business to deliver the Group strategy.

The Code of Conduct ('the Code') and the Group policy framework ('the Framework') articulate the standards of behaviour and actions required by all staff. These are designed to support the Standard Life Plc Board in meeting its objectives.

The fair treatment of customers is integral to all of Standard Life Investments business activities and is of fundamental importance to the Board.

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 at Standard Life Investments and informs wider risk considerations including risk appetite setting, the CSA 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.

Control Self-Assessment

Control Self-Assessment ('CSA') is a key component of Standard Life Investments' ERM Framework and involves regular self-assessment of specific controls by relevant business managers. CSA 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 CSA 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 Events

An operational risk event is defined as a specific occurrence that has happened as a result of human error, inadequate or failed internal processes, systems or an external event. This has, or has the potential to, negatively or positively impact our customers, clients, partners, shareholders and employees.

It is important that risk events are identified quickly, understood and an appropriate response taken. The ERM Framework supports the effective identification and management of risk events.

Capital 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 are the greater of:

- ▶ Standard Life Investments' main consolidated regulated entity base resource capital requirement of €50,000; or
- ▶ The sum of the Market and Credit Risk requirements; or
- ▶ The Fixed Overhead Requirement.

It is Standard Life Investments' experience that the Fixed Overhead Requirement at 31 December 2016 establishes its Pillar 1 capital requirement.

There are no current or unforeseen material, or practical impediments, to the prompt transfer of capital resources or repayment of liabilities by Standard Life Investments.

Capital Resources	
2016	£m
Share Capital	567.5
Audited reserves	224.4
Core Tier 1 Capital	791.9
Total tier 1 Capital before deductions	791.9
Material holdings	(111.1)
Intangible assets	(311.9)
Total Tier 1 Capital	368.9
Total capital resource	368.9

Remuneration

Details of Remuneration Policies and Procedures can be found at the following link:

<http://www.standardlife.com/dotcom/our-company/governance/fca-remuneration-code-disclosure.page>

These details together with the table below satisfy the Pillar 3 remuneration disclosures for the year ended 31 December 2016.

During 2016 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 2016 annual bonus awards paid in March 2017 and the target value of long term incentive awards granted in 2017 (which were based on performance in 2016).

	2016 Senior Management	2016 Other Code Staff
Number of Code Staff	41	13
Fixed Remuneration (£m)	11.2	2.0
Variable Remuneration (£m)	23.1	3.2
Total (£m)	34.3	5.2

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Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (Hong Kong) Limited is licensed with and regulated by the Securities and Futures Commission in Hong Kong and is a wholly-owned subsidiary of Standard Life Investments Limited.

Standard Life Investments Limited (ABN 36 142 665 227) is incorporated in Scotland (No. SC123321) and is exempt from the requirement to hold an Australian financial services licence under paragraph 911A(2)(l) of the Corporations Act 2001 (Cth) (the 'Act') in respect of the provision of financial services as defined in Schedule A of the relief instrument no.10/0264 dated 9 April 2010 issued to Standard Life Investments Limited by the Australian Securities and Investments Commission. These financial services are provided only to wholesale clients as defined in subsection 761G(7) of the Act. Standard Life Investments Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws.

Standard Life Investments Limited, a company registered in Ireland (904256) 90 St Stephen's Green Dublin 2, is authorised and regulated in the UK by the Financial Conduct Authority.

Standard Life Investments (USA) Limited is registered as an Exempt Market Dealer in Canada and as an Investment Adviser with the US Securities and Exchange Commission. Standard Life Investments (Corporate Funds) Limited is registered as an Investment Adviser with the US Securities and Exchange Commission.

Calls may be monitored and/or recorded to protect both you and us and help with our training.

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