SLS Group – Pillar 3 disclosure

For the year ended 31 December 2017

Scope and applications of the requirements

The disclosures in this document are made in respect of the Standard Life Savings Group ('the Company') and cover both of the following legal entities:

- Standard Life Savings Limited (Registered number: SC180203).
- Elevate Portfolio Services Limited (Registered number: 01128611).

Any reference to the Standard Life Savings Group or 'the Company' in this disclosure includes both of the above companies.

The Company is a wholly owned subsidiary of Standard Life Assurance Ltd ('SLAL') and its ultimate controlling party is Standard Life Aberdeen plc ('SLA plc'). The Company is a financial services platforms service provider that offers clients and intermediaries access to a diverse range of investment products through technology platforms. At the year ending 31 December 2017 our platforms had approximately £57bn in assets under administration (AUA).

On 23 February 2018 SLA plc announced its intention to enter into a strategic partnership with Phoenix Group, including the sale of SLAL, the current parent of the Company. Following completion of the deal, it is intended that the Company will remain part of the Standard Life Aberdeen Group and that SLA plc will become the sole shareholder. Subject to obtaining appropriate regulatory approvals of the Phoenix transaction, the new Standard Life Aberdeen Group operating model is expected to take effect during the third quarter of 2018.

Background

The Capital Requirements Directive ('CRD') of the European Union created a revised regulatory capital framework (known as CRD IV) across Europe governing how much capital credit institutions and investment firms must retain. The CRD IV legislation consists of the latest Capital Requirements Directive (Directive 2013/36/EU, 'the Directive') 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 specifically in the Prudential Sourcebook for Investment Firms ('IFPRU').

The CRD IV framework is based on three 'pillars':

- Pillar 1 sets out the minimal capital requirements 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. These are the Internal Capital Adequacy Assessment Process ('ICAAP') and the regulator's Supervisory Review and Evaluation ('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.

The Pillar 1 and Pillar 2 assessments are both documented within the 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 our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if the information is immaterial. 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 believe that the information is regarded 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.

No information has been omitted on the basis of materiality or proprietary or confidential information in this set of disclosures.

Frequency and means of disclosure

The Pillar 3 disclosures will be made annually following the completion of the entity's annual financial statements and the publication of the Standard Life Aberdeen plc disclosures on the application of the UK Corporate Governance Code (including Diversity statement)[1] and the FCA's Remuneration Code.

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

Enterprise Risk Management Framework

Standard Life Savings Group operates a strong control environment throughout the Company. This is achieved through the Standard Life Aberdeen group's Enterprise Risk Management Framework ('ERM Framework'), which the Company adopts. The ERM framework enables a risk based approach to managing our business and integrates concepts of strategic planning, operational management and internal controls. The Internal Capital Adequacy Assessment Process (ICAAP) supports our implementation of the ERM Framework and is how we identify, assess, control and monitor the risks that inform our capital requirements.

Standard Life Aberdeen's Risk and Compliance function is responsible for the design and implementation of the ERM framework. The ERM Framework operates under five key components comprising Risk Culture, Risk Control Processes, Strategic Risk Management, Risk and Capital Models and Emerging Risks, which operate together to support a holistic view of our risk experience.

Risk Governance

Standard Life Savings Group operates a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for committees and individuals. This ensures that there is clear accountability for risk-taking within the individuals' areas of responsibility. Our ICAAP and risk policy framework fully embed conduct risk and include our approach to managing risk across our business.

First Line of Defence

The first line of defence refers to the individuals directly involved in business operations who are responsible for day to day risk management. They carry out the processes and procedures needed to maintain risk within the acceptable levels, and are also responsible for identifying, assessing, maintaining/controlling, reporting on and giving assurance over risk. Management confirm the operation of their controls on a quarterly basis through the control self-assessment process.

Second Line of Defence

Risk oversight is provided by the Chief Risk Officer and supported by established risk committees. These management committees are supported by specialist risk management and compliance functions.

Third Line of Defence

Independent verification of the adequacy and effectiveness of the internal risk management system is provided by the Group Internal Audit function (GIA). GIA is independent from all other operational functions. It operates subject to supervision and challenge by the Group Audit Committee. This ensures that there is no undue influence, control or constraint placed upon the function.

Risk Committee and Board of Directors

The Risk Committee is comprised of Non-Executive Directors who are determined by the Board to be independent. The role of the Risk Committee is to provide oversight and challenge of, and advice to, the Board on:

- the Standard Life Savings Group's current risk strategy, material risk exposures and future risk strategy and their impact on levels and allocation of capital and dividend paying capacity;
- the structure and implementation of the Group's Enterprise Risk Management Framework (ERMF) in the context of the Company and its suitability to react to forward-looking issues and the changing nature of risks;
- changes to the risk appetite framework and quantitative risk limits; and
- the risk aspects of major investments, major product developments and other corporate transactions undertaken.

The Board comprises both executive directors and non-executive directors, who have the necessary skills and experience to lead and control the company. The Board is responsible for setting the company's strategy and risk appetite and for ensuring that management establishes business plans to execute the strategy within acceptable parameters.

Chief Executive

The Board has delegated day-to-day management of the Company to the Chief Executive who is responsible for managing the Company in the context of the Board's business plan, strategy and risk appetite. Regular reporting to the Board allows the directors to monitor progress against the business plan and to ensure that the business is independently controlled in the context of the Board's risk appetite for the Company.

[1] https://www.standardlifeaberdeen.com/who-we-are/governance

Risk Appetite and Capital

The Company's risk appetite is articulated in our Risk Appetite Framework, which consists of high level risk principles, risk preferences, qualitative risk appetite statements and quantitative risk metrics. The amount of capital the Company holds is determined by assessing our risk exposure via the Individual Capital Adequacy Assessment Process.

The high-level risk principles provide guidance on the Company's risk preferences when delivering strategy and business plan objectives.

Risk Principles

1. The Group only has appetite for rewarded risks taken to support, and consistent with, delivering our strategic objectives.
2. The Group will develop investment capabilities in areas consistent with the delivery of strategic objectives or where there is sufficient client demand.
3. The Group only has appetite for risks that are adequately understood and controlled.
4. Risks accepted should help maintain appropriate risk diversification and avoid excessive concentrations of risk.
5. The Group will operate consistently, fairly and in line with regulatory and legal requirements.
6. The Group 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.
7. The Group will seek to attract and retain talented personnel to operate the business in line with accepted risks.

The risk preferences classify the extent of the risk we are willing to accept to achieve our business plan objectives. The qualitative risk appetite statements articulate the level and types of these risks. The quantitative risk metrics define our risk appetite, tolerance and capacity at a granular level to monitor and manage these risks.

Risk Control Processes

Risk control processes are the practices by which we manage risk and are used to identify, assess, control and monitor risk.

Operational Risk and Control System

Standard Life Savings Group adopts the SLA plc group-wide Operational Risk and Control (ORAC) system to support the efficient and effective execution of risk control processes.

Standard Life Aberdeen Group Risk Policy Framework

The purpose of the SLA plc Group Risk Policy Framework is to provide a consistent high level approach to managing the key risks faced by the SLA plc group, and to assist in ensuring that all business units and entities, including Standard Life Savings Group, operate effectively, efficiently, and in compliance with all applicable laws and regulations.

The Framework operates on three levels:

- Governing principles, which articulate SLA plc's approach to managing our key risks at the highest level, and communicate how the Risk Policy Framework supports the strategy;
- Risk Policies, which contain clear standards stating what is required to be done; and
- Procedures, controls and communications, which are designed and implemented to meet the policy standards in a manner appropriate to that business.

Operational Risk Assessment

Risk assessment is the process whereby operational risks which might adversely affect the Company's ability to meet its stated business objectives are identified, assessed and managed in order to minimise any adverse impact. Conducting the risk assessment process increases the likelihood of meeting our business objectives and plans because we have identified up-front what can go wrong and taken action to prevent this.

Within SLA plc, it is mandatory for all business units to establish, own and operate risk assessment processes. The recording, ongoing monitoring and management of the risks identified through these processes is enabled through the use of 'risk registers' which are held on the ORAC Risk System.

The registers detail a range of information, captured through the risk assessment process, including a description of the risk, details of the likely causes and impacts, an assessment of the risk in impact and likelihood terms, details of the responses to the risk and, details of the 'owner' for each risk. Responsibility for implementing a risk assessment process including appropriate responses, and the creation and on-going management of a risk register rests with business directors and managers. They will be supported in this by their business unit risk team.

Control Self-Assessment

Control Self-Assessment (CSA) is a self-assessment tool, its purpose being to ensure that the primary controls within key processes (that help manage key risks) are documented and subject to regular assessment by business owners. The assessment includes a review of the adequacy of the design of the suite of controls, an assessment of the actual performance of those controls, evidence to support control performance and an overall effectiveness conclusion.

The results of the CSA certification process provides senior management with assurance over the effectiveness/quality of the control environment operated across the key business processes. CSA results may also lead to designing new procedures or changing existing procedures or the introduction of new controls in order to reduce the probability of control failures.

Key Risk Indicators

Effective key risk indicators (KRIs) aim to identify potential issues before they materialise and are used as a monitoring tool to provide a snapshot of the current business exposure to specific risks.

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

Specific Conduct Risk Indicators (CRIs) have been developed to monitor conduct risk. Business Units undertake reporting and analysis against agreed CRIs and include; Culture, Design, Communications and Information, Distribution, Service, Barriers, Performance and Market Integrity. These measures help support the management of risks that arise through our behaviours, strategies, decisions and actions the firm, or individuals within the firm, do not do the right thing and behave in the expected manner.

Risk events

A risk event is a risk that has materialised as a result of a deficiency in our system of internal control or an external event. Since they can have a significant impact on our customers, the company's reputation and performance, we aim to identify and understand them quickly to ensure that an appropriate response is taken.

Action Plan Management

Action Plan Management is an important aspect of the operational risk control framework. Its purpose is to:

- Ensure that control improvement work is identified, what is required is clearly expressed, ownership is clear and that target dates are set;
- Demonstrate active management of the control environment;
- Prioritise control improvement work;
- Provide progress on work to allow source owners to determine the impact of outstanding actions i.e. risk exposure and;
- Provide management with an overall assessment of work against their control environment.

Management Awareness of Risks

Management Awareness of Risks (MARs) is a tool that brings managers' risks and control issues together in one place. It gives managers the information to manage and assess their risks more effectively. It provides the link between granular controls and issues from control self-assessment and those key risks being actively managed. MARs drives risk ownership, visibility and engagement and the Risk function hold quarterly challenge sessions with business managers in relation to their risk identification and management.

Reporting to Risk Committees

To support the SLSL and EPSL Risk Committee and Boards in taking a forward looking view of risks specific to the Company a Risk Scorecard is produced by the Risk function. This scorecard feeds into the SLSL and EPSL Board packs and includes information on risk events, control self-assessments and MARs

Key risks

The Company has identified and assessed the key risks to the delivery of our strategy. This includes consideration of the relevant categories of risk in accordance with IFPRU 2.2.7R(2). The key risks are discussed below.

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'.

Operational risks are owned by business management and managed according to the ERM Framework as described above.

Centralisation to drive efficiencies and expertise, as well as, continued investment in our platforms are key to managing the risk that our platform operations and technology are not scalable to adequately support current and/or future planned business levels and AUA growth.

The Company's Operational risk capital assessment methodology adopts a scenario based approach to capitalising operational risk. This approach blends the expert opinion of management with internal / external loss data to assess specific risk exposures. The capital requirements are assessed from modelled loss distributions as the loss which could occur at the 99.5th percentile confidence interval.

Our approach requires us to consider risks across the following categories:

- Process Execution
- Customer, Products & Practices
- Fraud & Irregularities
- Regulatory & Legal
- Third Party Failure
- Business Interruption & System Failure
- People
- Security

The range of possible scenarios is reviewed at least annually and is subject to approval by the Board as part of the formal governance arrangements around the ICAAP.

Business risk

Business Risk is defined as any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

There is an impact on our revenue due to Business Risk as we apply a percentage charge based on the value of clients' assets.

Therefore, when assessing our Business Risk we make prudent allowance for potential adverse persistency experience and also for adverse market movements significantly reducing AuA.

Other non-key risks

Credit Risk is the risk incurred whenever the Company is exposed to loss if a counterparty fails to perform its financial obligations, including failure to perform them in a timely manner. The only credit risk to the Company is through cash balances and debtors on the balance sheet. Credit exposures are managed according to the Standard Life Aberdeen Group Credit Risk Policy in order to minimise the level of exposure.

Market Risk is the risk that as a result of market movements, the Company may be exposed to fluctuations in the value of their assets, the amount of their liabilities or the income from their assets. Sources of general Market Risk include movements in interest rates, equities, exchange rates and real estate prices. The Company does not trade on its own account, client assets and money are held separately from the Company's assets, and the majority of the balance sheet comprises cash or other short term deposits. Consequently, the impact of market or interest rate risk on the Company's balance sheet is minimal. Market Risk exposures are managed according to the Standard Life Aberdeen Group Market Risk Policy.

Liquidity Risk arises when a business unit, although solvent, does not have sufficient financial resources available to meet its obligations as they fall due, or can secure them only at excessive cost. The key Liquidity Risk for the Company is ensuring that there are sufficient funds available to meet the Client Money Funding requirements in existence for the volumes of business that the Company is writing. There are active management controls in place to monitor and minimise the level of pre-funding required.

In addition, the Company has an appropriate amount of liquidity funding available through a significant level of working capital maintained (mainly cash) as well as a number of other funding options via the Standard Life Aberdeen group. Liquidity exposures are managed according to the Standard Life Aberdeen Group Liquidity & Capital Management Policy.

The following risks as per IFPRU 2.2.7R(2) are not considered significant for the Company due to the nature of the business operating model:

- Concentration risk
- Residual risk
- Securitisation risk
- Interest rate risk
- Risk of excessive leverage
- Pension obligation risk
- Group risk

Capital Requirements

Capital is held to ensure a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. In addition, the capital requirement must be sufficient to cover the cost of an orderly wind-down of the Company's operations.

Pillar 1 capital requirements (i.e. own funds requirements) are detailed within Articles 92 – 97 of the Regulations. For limited licence firms, the Pillar 1 capital requirements are the greater of:

- Base capital requirement of €125,000; or the higher of
- Sum of credit, market, settlement risk et al own funds requirements (i.e. sum of the risks referred to in points (a) to (d) and (f) of Article 92(3)) subject to Article 92(4); or
- Fixed Overhead Requirement.

Currently the Company's Fixed Overhead Requirement of £25.5m establishes its Pillar 1 capital requirements. This is higher than the calculated own funds requirement of £5.3m based on the Company's risk exposure types as per Article 92(3) which is determined solely by credit risk exposures as the other risk types are not applicable to the Company.

Credit risk has been calculated based on year-end balances using the standardised approach as per Articles 111-141 of the Regulations. The minimum capital requirements based on 8% of the risk weighted exposure amounts for each of the relevant exposures classes as at 31 December 2017 are shown in the table below:

Exposure classes	Risk weighted exposure amounts £m	Own funds capital requirement at 8% £m
Corporates	3.1	0.2
Institutions	21.0	1.7
Retail	21.3	1.7
Collective Investment Undertakings (CUI)	21.3	1.7
Credit risk minimum capital requirements	**66.7**	**5.3**

In addition, all qualifying regulated entities under CRD IV must also satisfy the minimum own funds requirements as set out Article 92 of the regulations:

- Core Equity Tier 1 capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%.

The Company satisfies the capital ratio thresholds and minimum own funds requirements above.

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 the firm's financial position.

There is no current or unforeseen material, or practical impediments, to the prompt transfer of capital resources or repayments of liabilities within the Company.

Capital Resources (Own Funds)

The Company's capital resources (own funds) at 31 December 2017 are shown in the table below:

2017	£m*
Share capital	70.0
Audited reserves	84.4
Deductions from CET1 items	(3.1)
Common Equity Tier 1 Capital	**151.3**
Additional T1 Capital	0.0
Total Tier 1 Capital	**151.3**
Subordinated loan	0.0
Total Tier 2 Capital	**0.0**
Deductions from Total Capital	0.0
Total Capital Resources	**151.3**

*Note – figures in table include rounding.

The above capital resources are consistent with those disclosed on a regulatory basis in the notes to the individual entity statutory financial statements of Standard Life Savings Ltd and Elevate Portfolio Services Ltd. Client assets and money are held separately from the Company's assets, and the majority of the Company's balance sheet comprises cash or other short term deposits.

Tier 1 capital consists of:

- Ordinary share capital represented by 70,000,000 ordinary shares of £1 each.
- Audited reserves refers to retained earnings.
- Deferred tax assets that rely on future profits and free deliveries are deducted from Common Equity Tier 1 items.

The Company has no Tier 2 capital.

Remuneration disclosure

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

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

These details together with the table below satisfy the Pillar 3 remuneration disclosures for the year ended 31 December 2017.

During 2017 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).

	2017 Senior Management	2017 Other Code Staff
Number of Code Staff (1)	48	18
Fixed Remuneration (£)	11.2m	3.1m
Variable Remuneration (£)	18.9m	2.8m
Total (£) (2)	**30.1m**	**5.9m**

1) These figures reflect the material risk takers in respect of both CRD IV regulated firms (Standard Life Savings Limited and Elevate Portfolio Services Ltd).

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