

# **Pillar 3 Disclosures**

**31 December 2019**

**Standard Life Aberdeen Group**

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The Pillar 3 Disclosures for the Group and its subsidiaries are available on our website [www.standardlifeaberdeen.com/annualreport](http://www.standardlifeaberdeen.com/annualreport)

The Group's Annual report and accounts 2019 is also available on our website [www.standardlifeaberdeen.com/annualreport](http://www.standardlifeaberdeen.com/annualreport)

## 1. Introduction

Standard Life Aberdeen is a FTSE 100 investment company. It offers active asset management to institutional, wholesale and strategic insurance clients around the world, and wealth management, financial planning and advice services in the UK.

Together we invest for a better future. Our strategy is to build a vibrant and value-creating purpose-led organisation, with the current and future needs of our stakeholders at the heart of all we do.

- ▶ For our clients and customers, this means building solutions to create wealth and help meet their needs
- ▶ For our employees, it means creating an environment where everyone can thrive
- ▶ For society, it means promoting positive change through how we operate and invest
- ▶ For our shareholders, it means turning opportunities into sustainable long-term returns

This document sets out the Pillar 3 disclosures for Standard Life Aberdeen plc and its relevant subsidiaries as at 31 December 2019 (SLA, SLA group, or the Group). It fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), referred to collectively as 'CRD IV'.

SLA is supervised by the Financial Conduct Authority (FCA) under the CRD IV regulatory regime for group prudential supervisory purposes.

The regulatory framework is based on three 'Pillars':

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

These Pillar 3 disclosures are made as at 31 December 2019, which is SLA's accounting reference date. The Pillar 3 disclosures are not subject to audit and have been produced solely for the purpose of satisfying the Pillar 3 regulatory requirements. Additional relevant information can be found in the Group's Annual report and accounts (ARA) for the year ended 31 December 2019 (2019 ARA), which is available on the SLA corporate website at [www.standardlifeaberdeen.com/annualreport](http://www.standardlifeaberdeen.com/annualreport)

The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event, as discussed in note 47 of the 2019 ARA. On 12 May 2020, SLA issued an AGM statement which included an update on the impact of COVID-19 on the business which is available at [www.standardlifeaberdeen.com/investors/shareholder-information/shareholder-meetings](http://www.standardlifeaberdeen.com/investors/shareholder-information/shareholder-meetings)

## 2. Summary capital position

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

	Total regulatory capital £m	CET1 capital £m	Tier 2 capital £m	Total risk exposure £m	Capital ratio (CET1) %	Capital ratio (T1) %	Capital ratio (Total) %
2019	2,792	2,229	563	4,564	48.8	48.8	61.2
2018	1,709	1,128	581	4,055	27.8	27.8	42.2

The Pillar 1 capital requirement at 31 December 2019 was £365m. Further details are set out in Section 7.

## 3. Risk governance and risk management

### 3.1 Our approach to risk management

A strong risk and compliance culture flows from our purpose and values and is fundamental to how we manage the business. Effective risk-based decision-making is essential to the delivery of the right outcomes for our clients, customers and all our stakeholders. Ultimate accountability for risk management rests with the Board who oversee the effectiveness of the Enterprise Risk Management (ERM) framework. The Board has delegated authority to the Chief Executive and his team to manage the Group.

### 3.2 Three lines of defence

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

- ▶ **First line:** Day-to-day risk management
- ▶ **Second line:** Risk oversight is provided by the Risk and Compliance function
- ▶ **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our internal audit function

The Board is responsible for the adequacy of the risk management arrangements of the Group as detailed in the 2019 ARA on page 62.

Governance arrangement details including key directorships and skills held by members of the Board, the Board appointment process, the approach to Board composition, balance and diversity, and meetings of the Risk and Capital Committee are set out in the 2019 ARA in the Board of Directors, Corporate governance statement and Directors' report sections.

### 3.3 Enterprise Risk Management Framework

Alongside our corporate transformation, we have continued to evolve and strengthen the ERM framework and embed it in the activities of the Group. This ensures that the framework keeps pace with industry standards and is appropriate for the risk profile of the business.

During 2019, key improvements to the ERM framework included:

- ▶ Streamlining the policy framework to support the running of our Group in all locations
- ▶ Completing the roll-out of our risk system, Shield, so that it can be used by all our people
- ▶ Strengthening our risk appetite framework by introducing new risk tolerances to support governance and risk management
- ▶ Extending and refining our risk taxonomy to support better articulation and discussion of the risks
- ▶ Continuing the programme to refresh Risk and Control Self-Assessments (RCSA) across our global functions
- ▶ Implementing a single internal capital adequacy assessment process across SLA
- ▶ Extending the Senior Manager and Certification Regime across all of our UK regulated subsidiaries, including training and support for our senior managers and certified staff

## Enterprise Risk Management Framework – major components



### Risk and compliance culture

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

### Risk appetites

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

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

The risk appetites are defined through a combination of:

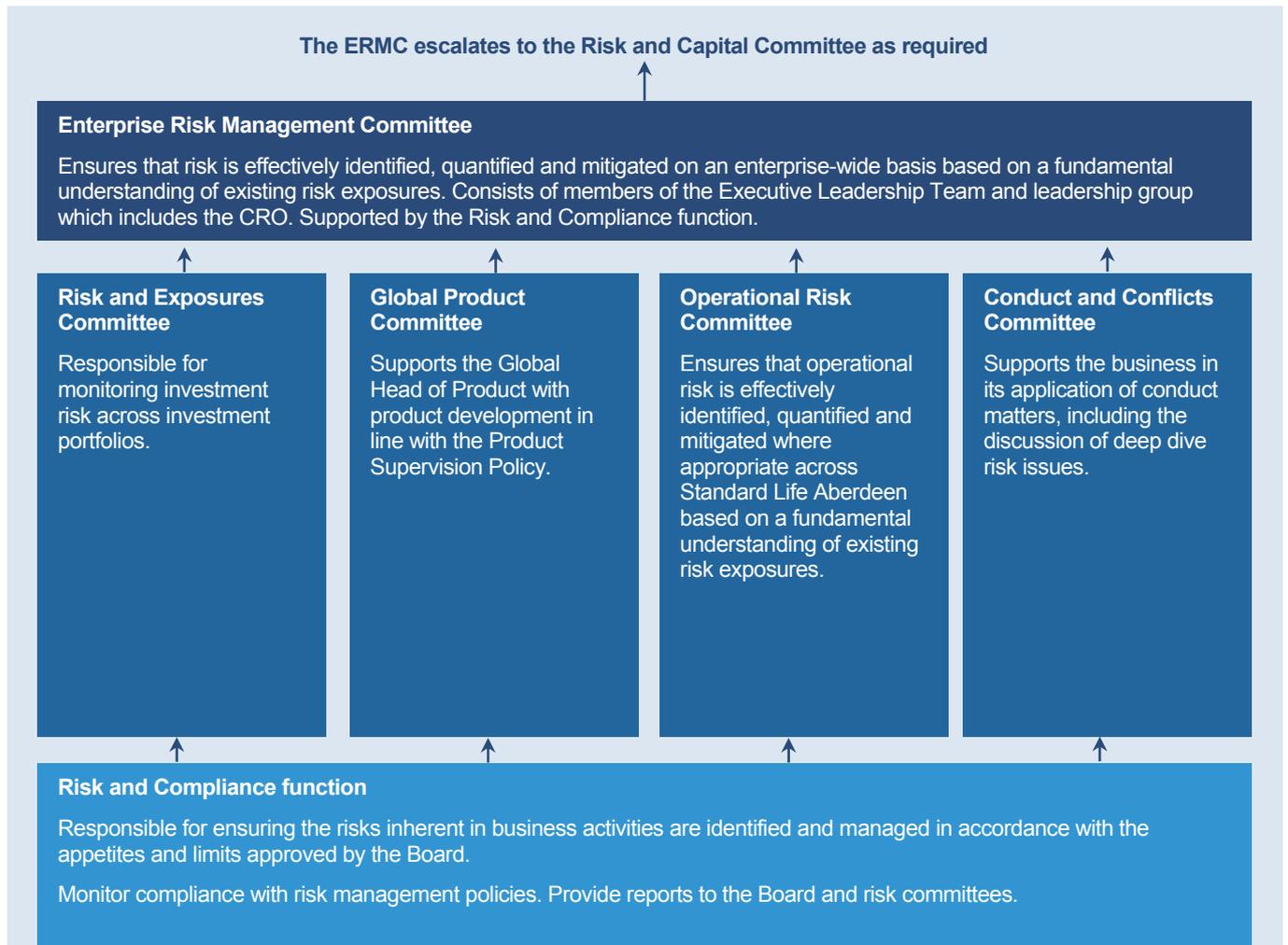
- ▶ High level risk principles
- ▶ Risk appetite statements for each main risk category within the domain of the risk taxonomy, to facilitate the management of risks by the business in line with the Board's appetite
- ▶ Risk metrics are measured against tolerances and will be monitored on an ongoing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

### Risk governance and reporting

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

The Board delegates responsibility for managing the ERM framework to the Chief Executive, who chairs the ERMC.

## Risk committee structure

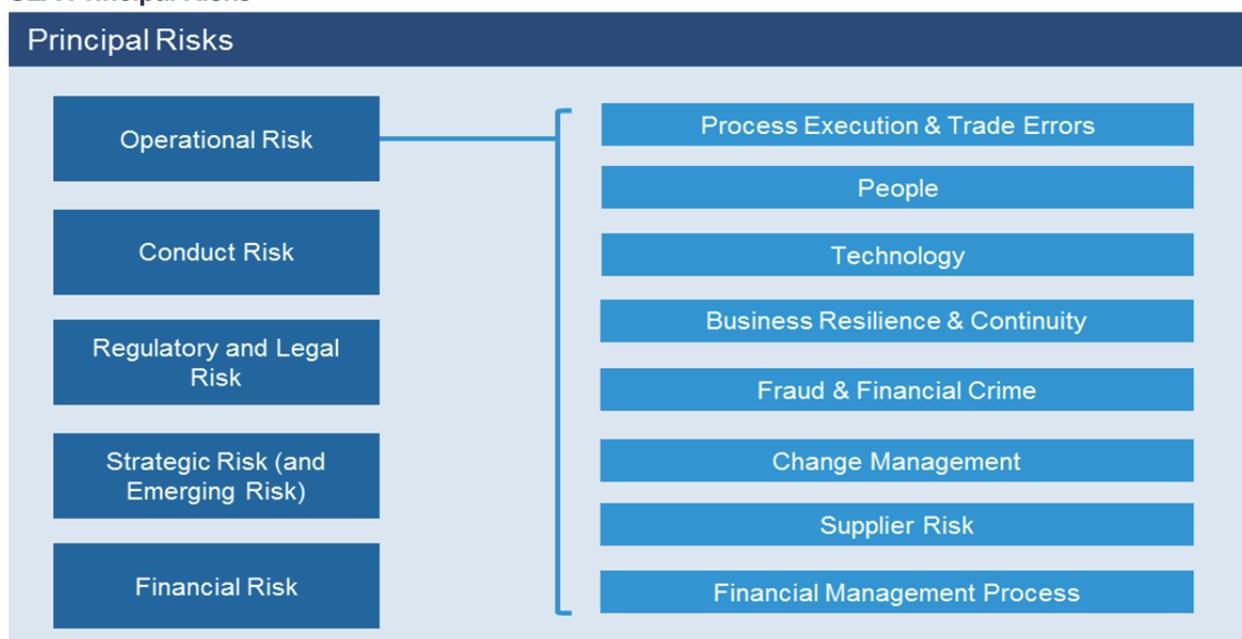


## Risk taxonomy

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

All risks are grouped under twelve principal risks. Of these, eight of the principal risks are operational in nature. These eight risks form the scenarios assessed by the ICAAP as well as forming the basis of the management information presented to the ERMC and Operational Risk Committee. Further detail on the principal risks can be found in the risk management section of the 2019 ARA on pages 44 to 48.

## SLA Principal Risks



### Group policies

The Risk Policy Framework is in place to manage the material risks that SLA run as a financial services company. The policy framework sets out clear expectations for policy owners so that policies can be kept under review on an ongoing basis and so that any policy breaches can be managed and escalated.

### Risk and Control Self-Assessment

The RCSA 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. Business objectives are identified along with relevant risks to achieving those objectives and the controls in place to mitigate the risks.

### Key controls & testing

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

### Strategic and emerging risks

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the vision of the business. Ongoing performance against the business plan is closely monitored and prompt action taken to address any material adverse divergence.

Strategic and emerging risks that could impact the business are assessed on an ongoing basis by gathering insights from across the business and external screening. A quarterly Executive Risk Survey is completed using the risk taxonomy to identify the top risks to the business. Regular assessments of the business plan are performed.

### Issues, events & action tracking

The logging and tracking of issues, events and actions is a critical activity to ensure good risk discipline. We have consolidated the tracking of all issues, events and actions onto one risk system called Shield.

### Reasonable steps

The application of the Senior Managers and Certification Regime (SMCR) was extended to investment managers in December 2019. A key objective of this regime is to ensure that the roles and responsibilities of senior managers are clear and that these managers can demonstrate they are taking reasonable steps in performing their duties.

### Metrics & indicators

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

### Risk capital assessment

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

## Modelling

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

## 4. Key risks to Standard Life Aberdeen

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

### 4.1 Operational risk

#### Operational risk

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

The Policy Framework is used to support the management of operational risks across SLA and is an integral part of the overall ERM framework for managing risks in the Group. The Policy Framework sets out expectations and requirements for how we define, manage and embed the policies throughout the business. The types of operational risk to which the Group is exposed are identified using the following operational risk categories:

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

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

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

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

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

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

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

#### Remuneration risk

Remuneration risk is the risk that pay and incentive structures contribute to inappropriate risk taking. SLA promotes sound and effective risk management through a robust remuneration framework. Responsible risk-taking is promoted through a series of measures which are set out in Remuneration Policies and Procedures. Remuneration disclosure, including details of where these policies can be found, is set out in Section 10. Governance of SLA's remuneration practice is provided through the SLA Remuneration Committee.

## 4.2 Conduct risk

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

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

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

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

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

## 4.3 Regulatory and legal risk

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

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

## 4.4 Strategic risk (and emerging risk)

### Strategic risk

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

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

### Concentration risk

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

The Group manages this risk by seeking to diversify the business by investment activity (asset management, platforms and wealth) and within asset management by asset class, clients and geography

## 4.5 Financial risk

### Market risk

Market risk is the exposure to the possibility of a loss due to a change in market prices or income, interest rates or foreign exchange rates.

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

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

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

### Equity risk

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

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

### Interest rate risk

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

The main financial assets held by the Group which give rise to interest rate risk are debt securities and cash and cash equivalents. There is also interest rate risk for the Group from its defined benefit pension plans.

### Foreign currency risk

SLA's financial assets and liabilities are generally held in the local currency of its operational geographic locations. Foreign currency risk arises where adverse movements in currency exchange rates impact the value of revenues received from, and the value of assets and liabilities held in, currencies other than GBP. SLA manages this risk through the use of limits on the amount of foreign currency risk that is permitted.

The principal source of foreign currency risk arises from SLA's investments in overseas subsidiaries, joint ventures and associates. In addition, on 18 October 2017, SLA issued US dollar subordinated notes with a principal amount of US\$750m. The related cash flows expose SLA to foreign currency risk on the principal and coupons payable. SLA manages the foreign exchange risk with a cross-currency swap which is designated as a cash flow hedge.

SLA generally does not hedge the currency exposure relating to revenue and expenditure, nor does it hedge translation of overseas profits in the income statement. SLA does not hedge translational risk relating to balance sheet net assets. SLA uses derivative contracts to reduce or eliminate currency risk arising from seed capital and co-investment activity.

### Credit risk

The exposure to the possibility of financial loss due to a counterparty failing to meet contractual payments.

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

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

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

### Group risk

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

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

### Liquidity risk

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

The Group has a liquidity risk policy and process in place for monitoring, assessing and controlling liquidity risk.

The framework ensures that liquidity risks and which entities in the Group have the exposure are identified. Stress testing of these risks is performed to understand the quantum of risk under stressed conditions. This then informs the level of liquid resources that need to be maintained. Where appropriate this is enhanced with external credit facilities and the Group has a syndicated revolving credit facility of £400m which was undrawn at 31 December 2019.

Contingency funding plans are also maintained to ensure that if liquidity risk did materialise, the process and procedures are already in place to assist with resolving the issue.

Regular monitoring of liquid assets is performed and projections undertaken (under both base and stressed conditions) to understand the outlook.

## 5. Basis of consolidation

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

- ▶ The regulatory consolidation excludes insurance undertakings and non-financial undertakings. Insurance entities are subject to a separate regulatory framework.
- ▶ The regulatory consolidation excludes Collective Investment Undertakings (CIUs), which are consolidated under IFRS but do not meet the definition of an institution or a financial institution under CRD IV. Consolidated CIUs primarily relate to seed capital investments and the Aberdeen Liquidity Fund (Lux). The Group's interest in CIUs is recognised at the carrying value of the financial asset in the regulatory consolidation.
- ▶ The regulatory consolidation includes our investment in HDFC Asset Management Company, which is an associate of the Group, on a fully consolidated basis and our investment in Virgin Money Unit Trust Managers Limited, which is a joint venture of the Group, on a proportionally consolidated basis.

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

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

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

A summarised Group structure chart is included in Appendix 1.

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

Financial accounting to regulatory scope reconciliation	IFRS Group balance sheet (audited)	Deconsolidation of entities not included in regulatory consolidation	Inclusion of these entities as investments in subsidiaries	Consolidation of associates/joint ventures	Regulatory balance sheet
31 December 2019	£m	£m	£m	£m	£m
<b>Assets</b>					
Intangible assets	1,707	(29)	–	56	1,734
Pension and other post-retirement benefit assets	1,163	–	–	–	1,163
Investments in subsidiaries	–	–	1,455	–	1,455
Investments in associates and joint ventures accounted for using the equity method	1,509	–	–	(167)	1,342
Property, plant and equipment	266	(1)	–	5	270
Deferred tax assets	74	–	–	–	74
Financial investments	2,115	(1,031)	–	384	1,468
Receivables and other financial assets	560	2	–	31	593
Current tax recoverable	9	–	–	6	15
Other assets	55	(1)	–	–	54
Assets held for sale	767	(766)	18	–	19
Cash and cash equivalents	1,615	(621)	–	10	1,004
Assets backing unit linked liabilities (excluding held for sale)	1,582	(1,582)	–	–	–
<b>Total Assets</b>	<b>11,422</b>	<b>(4,029)</b>	<b>1,473</b>	<b>325</b>	<b>9,191</b>
<b>Liabilities</b>					
Third party interest in consolidated funds	119	(119)	–	–	–
Subordinated liabilities	655	–	–	–	655
Pension and other post-retirement benefit provisions	55	–	–	–	55
Deferred income	67	–	–	–	67
Deferred tax liabilities	87	–	–	1	88
Current tax liabilities	19	(1)	–	–	18
Derivative financial liabilities	3	–	–	–	3
Other financial liabilities	1,315	(10)	–	34	1,339
Provisions	102	–	–	–	102
Other liabilities	5	–	–	–	5
Liabilities of operations held for sale	747	(747)	–	–	–
Unit linked liabilities (excluding held for sale)	1,582	(1,582)	–	–	–
<b>Total Liabilities</b>	<b>4,756</b>	<b>(2,459)</b>	<b>–</b>	<b>35</b>	<b>2,332</b>
<b>Total Equity</b>	<b>6,666</b>	<b>(1,570)</b>	<b>1,473</b>	<b>290</b>	<b>6,859</b>
Non-controlling interests	(102)	–	–	(290)	(392)
<b>Equity attributable to equity shareholders of Standard Life Aberdeen plc</b>	<b>6,564</b>	<b>(1,570)</b>	<b>1,473</b>	<b>–</b>	<b>6,467</b>

## 6. Regulatory own funds

### 6.1 Overview

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

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

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

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

Capital resources and requirements disclosed in this document reflect the position on signing of the 2019 ARA. At this point 2019 year end profits are included in capital resources.

### 6.2 Tier 1 capital

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

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

SLA group Tier 1 capital	2019 £m	2018 £m
Share capital	327	353
Treasury shares (shares held by trusts)	(134)	(115)
Share premium reserve	640	640
Retained earnings	2,886	2,778
Other reserves	2,845	3,782
<b>Equity attributable to equity holders of SLA plc (Audited)</b>	<b>6,564</b>	<b>7,438</b>
CRR prudential consolidation adjustments (per CRR Articles 18 and 43)	(97)	(89)
<b>Equity attributable to equity holders of SLA plc (Prudential basis)</b>	<b>6,467</b>	<b>7,349</b>
Deductions for intangible assets, net of related deferred tax liabilities (per CRR Article 36)	(1,644) <sup>1</sup>	(3,275)
Deductions for defined benefit pension fund assets (per CRR Article 36)	(1,163)	(1,111)
Deductions for significant investments in financial sector entities (SIIFSE) and deferred tax (per CRR Article 36)	(1,066) <sup>2</sup>	(1,332)
Other deductions and adjustments, including provision for foreseeable dividend (per CRR Articles 26, 33, 36, 38)	(365) <sup>3</sup>	(503)
<b>Common Equity Tier 1 capital resources (CET1)</b>	<b>2,229</b>	<b>1,128</b>

<sup>1</sup> The £1,644m (2018: £3,275m) deduction represents £1,734m (2018: £3,372m) for intangible assets net of £90m (2018: £97m) for related deferred tax liabilities.

<sup>2</sup> Net of a 17.65% threshold exemption amount of £303m (SIIFSE) (2018: £149m) and £31m (deferred tax) (2018: £20m).

<sup>3</sup> Other deductions relate to the foreseeable dividend of £321m (2018: £345m), £nil (2018: £137m) of share buyback not yet transacted, £40m (2018: £27m) of deferred tax assets that rely on future profitability excluding those arising from temporary differences, and the cash flow hedge reserve of £4m (2018: £(6)m).

Further detail on the equity attributable to equity holders of SLA plc can be found in Notes 26 to 29 of the 2019 ARA.

Significant investments in financial sector entities at 31 December 2019 include the Group's Phoenix and HDFC Life Insurance Company Limited associate investments.

## 6.3 Tier 2 capital

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

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

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

More detail on this subordinated debt instrument can be found in Note 33 Subordinated Liabilities of the 2019 ARA. The full terms and conditions of the debt instrument can be found on the Group's website at [www.standardlifeaberdeen.com/investors-for-debt-investors](http://www.standardlifeaberdeen.com/investors-for-debt-investors)

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

## 6.4 Exposure to equities and interest rate risk

The Group has exposures to equities and interest rate risk not included in the trading book as described in Section 4.5. Details of the exposures are set out in Note 38 (Financial instruments risk management) of the 2019 ARA including sensitivity analysis to Group profit after tax and Group equity to upward and downward movements to equity prices and interest rates.

## 7. Capital requirements

### 7.1 Group Pillar 1 capital requirement

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

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

At 31 December 2019, the Group credit and market risk requirements of £365m established its Pillar 1 capital requirements.

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

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

The following table summarises the Group's Pillar 1 capital requirement:

	2019		2018	
	Risk-weighted exposure £m	8% capital requirement £m	Risk-weighted exposure £m	8% capital requirement £m
<b>Pillar 1 capital requirement</b>				
<b>Credit risk</b>	<b>3,553</b>	<b>284</b>	2,587	207
<b>Market risk</b>				
In respect of foreign exchange risk	1,011	81	694	55
<b>Total market risk</b>	<b>1,011</b>	<b>81</b>	694	55
<b>Credit and market risk combined</b>	<b>4,564</b>	<b>365</b>	3,281	262
<b>Fixed overhead requirement</b>	<b>4,144</b>	<b>332</b>	4,055	324
<b>Total Pillar 1 capital requirement</b>	<b>4,564</b>	<b>365</b>	4,055	324

## 8. Pillar 1 credit risk capital requirements

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

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

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

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

<b>31 December 2019</b>	<b>Total exposure (pre weighting) £m</b>	<b>Total risk-weighted exposure £m</b>	<b>8% capital requirement £m</b>
Central government or central banks	119	36	3
Regional governments or local authorities	5	1	–
Public sector entities	27	7	1
Multilateral development banks	22	–	–
Institutions	645	284	23
Corporates	549	476	38
Retail exposures	11	8	1
In default	11	16	1
Particularly high risk	88	131	10
Institutions and corporates with a short-term credit assessment	1,721	362	29
Units or shares in collective investment undertakings	851	851	68
Equity exposures	390	858	68
Other items	478	523	42
<b>Total credit risk</b>	<b>4,917</b>	<b>3,553</b>	<b>284</b>

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

## 8.2 Risk weights

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

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

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

### Credit Exposure Summary by Credit Quality Step

Credit quality step	1	2	3	4	5	6	Other	Total
Credit Risk Exposure Amount	£m	£m	£m	£m	£m	£m	£m	£m
2019	1,660	778	184	6	2	–	2,287	4,917
2018	804	1,720	154	19	–	–	1,633	4,330

## 9. Pillar 1 market risk capital requirements

### 9.1 Market risk measurement

The Group's capital requirement for market risk required under Article 92 of the CRR is calculated based on the Group's exposure to foreign exchange risk. The Group applies the standard rules to determine its capital requirement for these exposures.

### 9.2 Foreign exchange position risk measurement

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

#### Foreign exchange positions subject to capital charge

	2019	2018
	£m	£m
Position subject to capital charge	1,011	694
<b>Market risk capital requirement</b>	<b>81</b>	<b>55</b>

## 10. Remuneration disclosure

Details of Remuneration Policies and Procedures can be found on our website at [www.standardlifeaberdeen.com/who-we-are/remuneration-disclosure](http://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 2019.

During 2019 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 all awards made in respect of the 2019 performance year.

	2019 Senior Management	2019 Other Code Staff
Number of Code Staff <sup>2</sup>	27	121
Fixed Remuneration (£)	8.2m	28m
Variable Remuneration (£)	8.8m	36.7m
<b>Total<sup>3</sup> (£)</b>	<b>17m</b>	<b>64.7m</b>

<sup>1</sup> Senior Management comprises Executive Directors, Non-executive Directors and Executive Committee members and the Company Secretary.

<sup>2</sup> These figures reflect the material risk takers identified under CRD IV regulations.

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



## Appendix 2 – Own funds disclosures

<b>Common Equity Tier 1 (CET1) capital: Instruments and reserves</b>		<b>2019 £m</b>	<b>2018 £m</b>	<b>Regulation (EU) No 575/2013 Article Reference</b>
1	Capital instruments and the related share premium accounts	833	878	26(1), 27, 28, 29
2	Retained earnings	2,886	2,778	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	2,748	3,693	26(1)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(321)	(482)	26(2)
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>6,146</b>	<b>6,867</b>	
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
8	Intangible assets (net of related tax liability)	(1,644)	(3,275)	36(1)(b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (Art 36.1 & 38)	(40)	(27)	36(1)(c), 38
11	Fair value reserves relating to gains or losses on cash flow hedges (Art 33.a)	(4)	6	33(1)(a)
15	Defined-benefit pension fund assets	(1,163)	(1,111)	36(1)(e), 41
22	Amounts exceeding the threshold in accordance with Article 48(1)	(1,066)	(1,332)	48(1)
23	Of the amount reported in 22, the amount of direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities as described in Articles 36.1.i and 48.1.b.	(1,063)	(1,318)	36(1)(c), 48(1)(b)
25	Of the amount reported in 22, the amount of deferred tax assets arising from temporary timing differences as described in Articles 36.1.c, 38 and 48.1.a.	(3)	(14)	36(1)(c), 38, 48(1)(A)
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(3,917)</b>	<b>(5,739)</b>	
29	<b>Common Equity Tier 1 capital</b>	<b>2,229</b>	<b>1,128</b>	
44	<b>Additional Tier 1 (AT1) capital</b>	<b>–</b>	<b>–</b>	
45	<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>2,229</b>	<b>1,128</b>	
46	Capital instruments and the related share premium accounts	563	581	62, 63
58	<b>Tier 2 Capital</b>	<b>563</b>	<b>581</b>	
59	<b>Total Capital</b>	<b>2,792</b>	<b>1,709</b>	
60	<b>Total risk weighted assets</b>	<b>4,564</b>	<b>4,055</b>	
<b>Capital ratios and buffers</b>				
61	Common Equity Tier 1 (as a percentage of total risk exposure)	48.8%	27.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure)	48.8%	27.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure)	61.2%	42.2%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as a percentage of risk exposure amount)	–	–	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	–	–	
66	Of which: countercyclical buffer requirement	–	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure)	42.8%	21.8%	CRD 128
<b>Amounts below the threshold for deduction (before risk weighting)</b>				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below threshold and net of eligible short positions)	–	–	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below threshold and net of eligible short positions)	303	149	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary differences (amount below threshold, net of related tax liability where the conditions in Article 38(3) are met)	31	20	36(1)(c), 38, 48

### Appendix 3 – Capital instruments’ main features template

Capital instruments’ main features template			
1	Issuer	Standard Life Aberdeen plc	Standard Life Aberdeen plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BF8Q6K64	XS1698906259
3	Governing law(s) of the instrument	United Kingdom	English law, except for subordinated provisions which are governed by Scots law
Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Share Capital	Dated Subordinated Debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£327m	£563m
9	Nominal amount of instrument	13 61/63 pence	\$750m
9a	Issue price	N/A	100.00%
9b	Redemption price	N/A	100.00%
10	Accounting classification	Shareholders’ equity	Liability – amortised cost
11	Original date of issuance	22/10/2018	18/10/2017
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	30/06/2028
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Tax and regulatory event calls at 100%
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend / coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	4.25%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step-up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instruments type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description or write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Subordinate to (a) unsubordinated creditors and (b) subordinated creditors which are not Tier 2 Capital, Additional Tier 1 Capital or otherwise ranking junior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures have been calculated as at 31 December 2019 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at May 2020 and does not provide financial or legal advice.

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