Standard Life

Capital Requirements Directive

Pillar 3 disclosure for the year ended 31 December 2016

Scope and application 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.

Elevate Portfolio Services Limited (renamed from AXA Portfolio Services (APS) on 21/04/2017) was purchased by Standard Life Savings Limited (SLSL) on 31st October 2016 and became a consolidation group for CRD IV reporting purposes. This disclosure is the first one to include Elevate Portfolio Services Limited (EPS) as a subsidiary of Standard Life Savings Limited and, accordingly, neither of these firms will continue to publish individual disclosures from now on; the overall regulatory capital requirement for the Company is determined for the consolidated business.

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. Currently our platforms have approximately £47.3bn in assets under administration (AUA).

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').

CRDIV is based on the three 'pillars' of the Basel framework:

- 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 respectively; and
- Pillar 3 requires us to develop a set of disclosures which will allow market participants to assess key information about our underlying risks, risk management controls and capital position.

Under CRDIV the disclosure requirements are defined by Part 8 of the Regulations (Articles 431 to 455). This must be done in accordance with a formal disclosure document. 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 we believe that 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. Where we have considered a disclosure to be immaterial, we have stated this in the document.

In addition, 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. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

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 group's disclosures on the application of the UK Corporate Governance Code (including Diversity statement) and the FCA's Remuneration Code. The Pillar 3 disclosure is made available through the Media section of the Standard Life Aberdeen plc external website.

Enterprise Risk Management Framework

Standard Life's Enterprise Risk Management (ERM) framework enables a risk based approach to managing our business. It integrates concepts of strategic planning, operational management and internal controls to allow risks to be identified, assessed, controlled and monitored.

The framework is integrated into our System of Governance and is owned by the Standard Life Chief Risk Officer (CRO). The ERM Framework operates under five key components comprising Risk Culture, Risk Control Processes, Strategic Risk Management, Risk and Capital Models and Emerging Risks. The components of the framework operate together to support a holistic view of the risk experience of the business.

Risk Governance

We operate a Three Lines of Defence model of risk management, with clearly defined roles and responsibilities for committees and individuals.

First Line of Defence

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, 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 and control management systems within the Pensions and Savings Business is provided by the Group internal audit function.

Board of Directors

The Board comprises 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.

Risk Appetite and Capital

The Company articulates its risk appetite in both qualitative and quantitative terms. The amount of capital the Company holds is determined by assessing our risk exposure via the Individual Capital Adequacy Assessment Process.

Standard Life Aberdeen plc has defined the following risk principles to provide guidance to our business and help to drive our strategy in line with appetite for risk:

Risk Principles	
Long-term Value Creation	The Group only has appetite for rewarded risk, where the reward is commensurate to the risk.
	The Group's appetite for accepting risk is dependent on the expected return which should exceed the cost of capital
	Prices charged for our products should fully reflect all risks.
Informed Risk-Reward Decisions	The fair treatment of customers is paramount when assessing risks to be accepted.
	The Group has appetite for risk, where expertise exists or can be acquired to manage the risk or if the risk can be outsourced and any residual risk managed.
	Risks accepted should help maintain risk diversification and avoid excessive concentrations of risk.
Business Plan Objectives	The Group only has appetite for risks that are consistent with, and contribute to, the delivery of our business plan objectives.

The Company adopts qualitative risk appetite statements which support the risk principles and enable the setting of quantitative risk appetites to assist with driving particular risk mitigation activity and actions, or where additional control of the risk is deemed desirable. Quantitative risk appetites allow regular objective reporting of exposures against risk appetites.

Risk and Control Processes

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

Operational Risk and Control (ORAC) System

Standard Life Savings, along with the wider Pensions & Savings Business, has adopted the Group developed Operational Risk and Control (ORAC) system to support the efficient and effective execution of risk control processes.

Elevate Portfolio Services are currently transitioning to the Standard Life system, but currently record all relevant risk information.

Group Policy Framework

The purpose of the Group Policy Framework is to provide a consistent high level approach to managing the key risks faced by the Group, and to assist in ensuring that all Business Units operate effectively, efficiently, and in compliance with all applicable laws and regulations.

The Framework operates on three levels:

Governing principles, which articulate Standard Life's approach to managing our key risks at the highest level, and communicate how the Policy Framework supports the strategy.

Policies, which support the governing principles and 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.

Risk Assessment

Risk assessment is the process whereby risks which might adversely affect the Company's ability to meet its stated objectives are identified, assessed and quantified in order to minimise any adverse impact.

The aim of our operational risk assessment process is to identify and manage the operational risks which could threaten or stop the delivery of our strategic, financial and operational objectives and plan. These objectives and plans are set at both the company and Divisional level and in some cases, a Sub-divisional level.

Control Self Assessment

Control self assessment (CSA) is the process undertaken across the business to provide senior management with assurance over the design and operations of primary controls within key processes.

CSA is a means by which the business can evaluate and ensure that appropriate controls are in place to manage and mitigate the risks arising from their day-to-day business operations. This is required as Management are responsible and accountable for the internal control framework within their business and any handovers to other business areas.

Key Risk Indicators (KRIs)

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

Risk Events

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

This is important for a number of reasons:

- It enables actions to be taken in a timely manner to minimise the impact of the event, potentially stopping it becoming a more significant problem;
- Where customers are impacted, it helps demonstrate responsiveness to the concerns they will have, helping to maintain their trust;
- It provides clarity on the level of risk the business is exposed to, both at an individual (i.e. individual risk event) and aggregate (across all risk events) level. This provides confirmation that risks remain within appetite and supports decision-making on where to direct resources to remediate and mitigate control deficiencies; and
- It supports the management of capital, helping to inform what the capital requirements are (both regulatory and economic) and how capital is being utilised.

Risk Events are recorded and monitored on an ongoing basis through the use of the 'Risk Event' module on the ORAC system or via spreadsheets.

Management Awareness of Risks (MARs)

Standard Life Savings uses MARs to execute risk reporting and Elevate Portfolio Services produces similar risk reporting. These reports bring 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 and also drives risk ownership, visibility and engagement.

Reporting to Risk Committees

Regular reporting on the operation of the risk and control processes and on the key outputs of these processes is produced by the Risk function and the Pensions & Savings CRO and is reported, reviewed and acted upon through the Pensions and Savings ERMC and both the EPS and SLSL Risk and Capital Committees (RCC). In addition, there is regular reporting to the EPS and SLSL Boards.

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 platform 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 uses the SLA Group 'Operational Risk Capital Assessment Methodology' which 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.

The Business Risk module also captures persistency risk (through an increase in lapse rates) and business/concentration risk (through a decrease in projected new business). It also captures the impact from markets from a fall in AUA.

There is an impact on revenue due to Business Risk as we apply a percentage charge based on the value of clients' assets. The impact of Business Risk has been assessed by considering a number of stress scenarios.

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 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 SLA 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 (Own Funds 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. As a limited licence firm, 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 £25.6m establishes its Pillar 1 capital requirements. This is higher than the own funds requirements calculation 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 2016 are shown in the table below:

Exposure classes	Own funds capital requirement at 8% (£m)	Risk weighted exposure amounts (£m)
Corporates	0.5	6.4
Institutions	1.6	20.2
Retail	0.7	9.1
Collective Investment Undertakings (CUI)	1.9	23.8
Credit risk minimum capital requirements	**4.8**	**59.4**

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 all of the capital ratio or 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 tests are undertaken to determine the impact of severe events such as significant market downturn's on the firm's financial position or a significant operational loss. The capital requirements are determined as the level of loss that could occur at the 99.5% confidence interval.

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 2016 are shown in the table below:

2016	£m
Share capital	338.0
Audited reserves	(185.2)
Deductions from CET1 items	(0.2)
Common Equity Tier 1 Capital	**152.6**
Additional T1 Capital	0.0
Total Tier 1 Capital	**152.6**
Subordinated loan	0.0
Total Tier 2 Capital	**0.0**
Deductions from Total Capital	0.0
Total Capital Resource	**152.6**

The above capital resources are consistent with those disclosed on a regulatory basis in the notes to the statutory financial statements. 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 338,000,000 ordinary shares of £1 each.
- Audited reserves are retained earnings.
- Free deliveries are deducted from Common Equity Tier 1 items.

Tier 2 capital consists of:

- There is no Tier 2 capital

Remuneration disclosure

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

https://www.standardlife.com/dotcom/our-company/governance.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[1]	37	15
Fixed Remuneration (£)	9.9m	2.2m
Variable Remuneration (£)	13.6m	1.6m
Total (£)[2]	**23.5m**	**3.8m**

[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). The number of individuals reported has increased due to the consolidation of Elevate Portfolio Services Ltd into the figures reported and our continual re-evaluation of material risk takers to align with the latest regulatory guidance.

[2] The figures reflect the total remuneration paid to each MRT and has not been time apportioned to reflect the time spent on issues related to each entity.