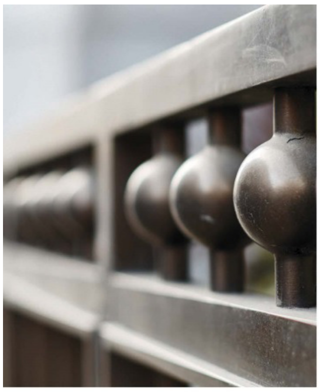
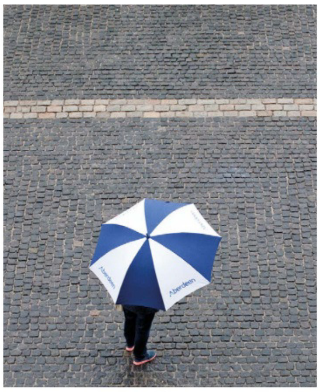
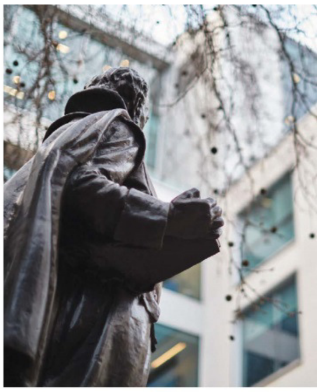
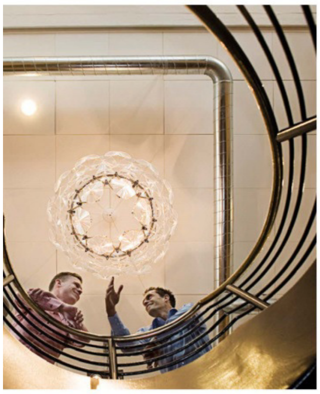
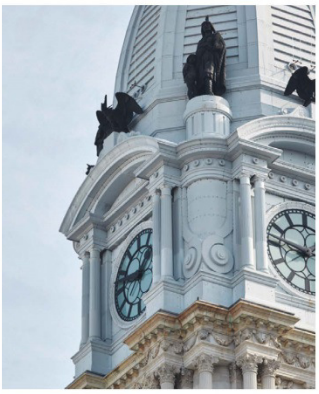
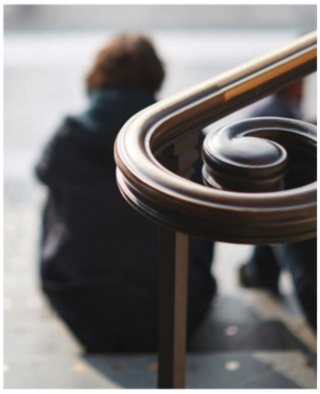
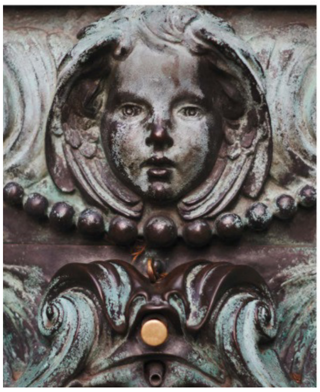
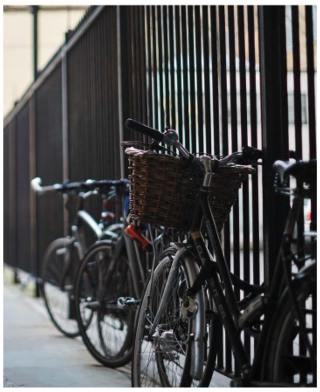
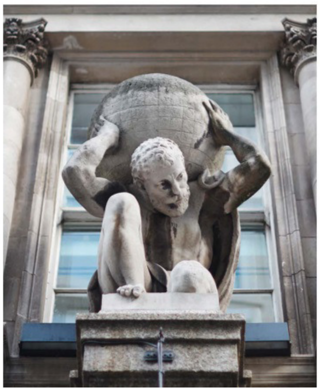
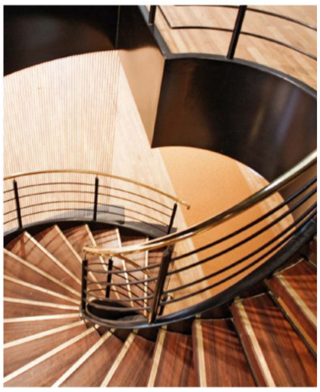
Solvency and Financial Condition Report

Aberdeen Asset Management Life and Pensions Limited

As at 31 December 2017

Aberdeen

Solvency and Financial Condition Report

Contents

1 Summary

1.1 Business and Performance Summary

Aberdeen Asset Management Life and Pensions Limited ('Aberdeen Life' or 'the Company') is a UK regulated subsidiary of Standard Life Aberdeen Group (SLA) 'SLA Group'. In practice it serves as an efficient delivery mechanism for its asset management business, Aberdeen Standard Investments (ASI), to deliver investment management services to UK institutional pension scheme clients and other UK insurance entities.

On 14 August 2017 Aberdeen Asset Management plc (AAM) was acquired by Standard Life Aberdeen plc (SLA). AAM remains a holding company within the SLA Group structure as the immediate parent of Aberdeen Life. As a result of this corporate action, the Company's year-end was changed from 30 September to 31 December. Figures shown as '2017' in this report cover the 15 month period 1 October 2016 to 31 December 2017 or are as at the reporting date of 31 December 2017 as the context dictates. Where given, 2016 prior year figures are for the twelve month period 1 October 2015 to 30 September 2016 or are as at the previous reporting date of 30 September 2016 as the context dictates.

The Company issues unit-linked investment policies (trustee investment plans) to trustees of UK pension schemes and reinsurance policies to insurance companies covering unit-linked pension liabilities.

Key aspects of the contacts written are:

- There are no investment guarantees on the policies. The benefits payable are linked solely to the performance of the internal linked funds.
- The contracts all contain clauses that permit them to be terminated at the option of Aberdeen Life subject to three months' notice. The only charges on policies are fund management charges and there are no penalties on the customer taking a surrender value at any time.
- They include no material insurance risk. The contracts do have annuity options (on non-guaranteed terms), but Aberdeen Life has not written any annuity business and does not expect to do so.
- They permit Aberdeen Life to increase the level of fund charges, subject to a period of notice.
- The contracts include no element of member level administration (for trustee investment plans) or policyholder level administration (for reinsurance). The contracts therefore leave Aberdeen Life solely with wholesale management of internal linked funds.
- All business is written in the UK.

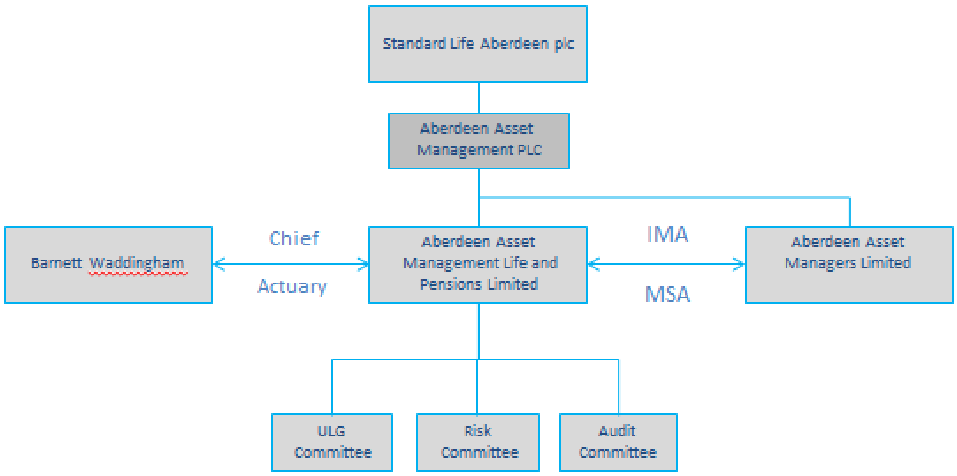
The Company's underwriting performance is limited to the excess of fund charges over expenses, which was valued at £0.44m for 2017(£0.26m for 2016).

The Company's non-linked assets are prudently invested in cash deposits and a highly liquid short-term money market fund.

1.2 System of Governance Summary

The governance framework of Aberdeen Life is based on the framework which applies to AAM and all its subsidiary companies (AAM Group). Additional arrangements have been established by the Board where necessary to address the requirements of Aberdeen Life as a UK insurance undertaking.

The Company has identified a range of key functions which are provided by Aberdeen Asset Managers Limited (AAML) via a Management Services Agreement (MSA) and an Investment Management Agreement (IMA). Individuals performing key functions are established as fit and proper through a robust framework of initial and ongoing assessment. All remuneration requirements comply fully with the provisions of Solvency II regulations. The Chief Actuary function is outsourced to an individual from an external company.



AAM Group operates a 'three lines of defence' risk management model:

- AAM Group's Business lines are responsible for the identification and mitigation of risks and taking the lead with respect to implementing and maintaining appropriate controls.
- Oversight functions within the Risk Division oversee compliance with regulatory and legal requirements as well as monitoring operational, investment and counterparty risk.
- Independent assurance is provided by Internal Audit who recommend improvements to the control environment.

The three lines of defence model is supplemented by a range of risk related committees at divisional and operational business level. The SLA Group Board, executive directors and senior management have overarching responsibility to ensure, through the application of good corporate governance, the effective and strategic stewardship and risk management of the SLA Group.

An integrated risk management system, Sword, is used to identify, assess, track and report risk issues and events. Risk management uses a combination of top down strategic planning with bottom up risk assessment.

The Company carries out an Own Risk and Solvency Assessment (ORSA) annually and more frequently if required. The ORSA process is intended to identify, assess, monitor, manage and report on both short and long term risks and to determine the capital required to ensure that Aberdeen Life can continue to meet its solvency requirements. The ORSA enhances awareness of the risks faced by Aberdeen Life and the capital needed given those risk exposures. This awareness is used by Aberdeen Life as part of its decision making process.

Other than those associated with the change in ownership, there has been no material change to the governance arrangements of the Company during the reporting period.

1.3 Risk Profile Summary

Aberdeen Life has limited exposure to underwriting risk and market risk. Shareholder assets are managed to limit liquidity risk and operational risk is effectively transferred to AAML as shown on the diagram in Section A.1.

Aberdeen Life has a high tolerance to group risk and, in general, accepts the risk without management, reflecting the rationale for the existence of Aberdeen Life. However, within group risk, Aberdeen Life closely manages AAML's obligations to compensate Aberdeen Life for any operational risk losses. In addition to the contractual protections given in the internal and external outsourcing agreements, Aberdeen Life also considers the capital position and the extent of insurance cover maintained by AAML in determining the ongoing security of the outsourcing arrangement.

Exposure to credit risk is limited by investing non-linked assets in a diverse portfolio of high quality, short term assets. Cash balances are normally limited to £2m exposure to a single counterparty.

1.4 Valuation for Solvency Purposes Summary

Aberdeen Life has elected to prepare its financial statements under FRS 101 'Reduced Disclosure Framework'. The valuation for solvency purposes differs only marginally to the financial statements and is discussed in section D.

1.5 Capital Management Summary

The Company aims to maintain sufficient capital out of retained profits to be treated as an entity with credit quality step 1 under Article 199 of the Commission Delegated Regulation (EU) 2015/35 (the Delegated Regulation). The Company does not use any Solvency II transitional measures. At the reporting date the Company's:

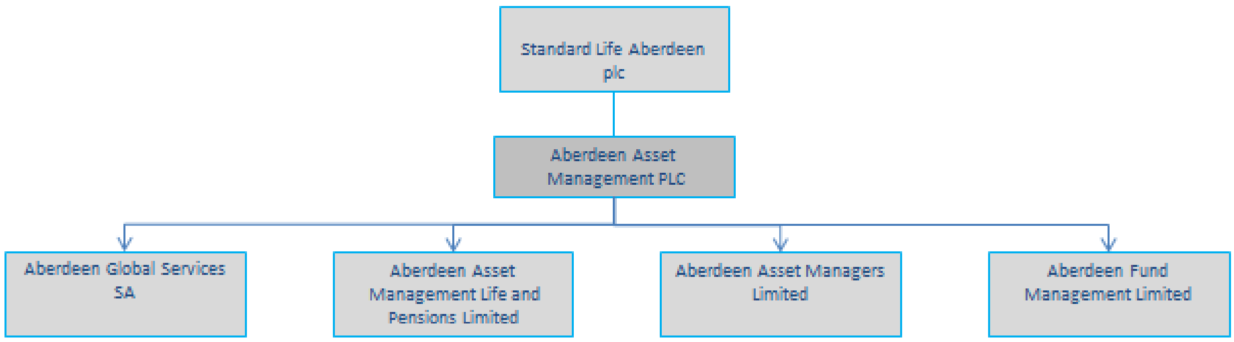
- Solvency Capital Requirement (SCR) was £1.58m (2016: £1.73m)
- Minimum Capital Requirement (MCR) was £3.25m (2016: £2.66m)
- Own funds, all of which is "tier 1" capital, were £10.72m (2016: £10.39m)
- Tier 1 capital represented 678% (2016: 602%) of the Solvency Capital Requirement (SCR) and 330% (2016: 391%) of the Minimum Capital Requirement (MCR).

A Business and Performance

A.1 Business

Aberdeen Life is a private limited company. The Company is a wholly owned subsidiary of AAM and is incorporated and domiciled in England. AAM holds all of the ordinary share capital and voting rights in the Company. On 14 August 2017 AAM was acquired by Standard Life Aberdeen plc (SLA). AAM remains a holding company within the SLA Group structure as the immediate parent of Aberdeen Life. The ordinary shares of SLA are listed on the London Stock Exchange. Further information on the business of SLA Group is available in the SLA Group Solvency and Financial Condition Report (SFCR). The Company is authorised by the Prudential Regulation Authority (PRA), 20 Moorgate, London, EC2R 6DA and regulated by the Financial Conduct Authority (FCA), 25 North Colonnade, London, EH14 5HS and PRA in the United Kingdom to conduct Classes I (Life & Annuity) and III (Linked Long Term) of long term insurance business. Financial supervision is undertaken by the PRA. The registered office is Bow Bells House, 1 Bread Street, London EC4M 9HH. The registered number is 03526143. The Company's Auditor is KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG.

SLA Group supervision is undertaken by the PRA. An extract of organisation structure showing the position of AAM Group companies directly relevant to Aberdeen Life is shown below:



The business of Aberdeen Life consists entirely of contracts with institutional customers for the provision of investment management on a wholesale basis through the use of pooled funds (internal linked funds). These funds are provided to institutional customers by two contract types:

- Trustee investment plans (TIPs). These are provided to trustees of occupational pension schemes and are classified as unit-linked insurance business;
- Reinsurance contracts covering the unit-linked liabilities of third party life assurers. These contracts are structured in a similar way to TIPs and are intended as a means for third-party life assurers with 'open architecture' pension products to access the internal linked funds operated by Aberdeen Life. They are classified as unit-linked reinsurance accepted business.

The key characteristics of these contracts are that:

- There are no investment guarantees on the policies. The benefits payable are linked solely to the performance of the internal linked funds;
- The contracts all contain clauses that permit them to be terminated at the option of Aberdeen Life subject to three months' notice. It should be noted that the only charges on policies are fund management charges and that there are no penalties on the customer taking a surrender value at any time;
- They include no material insurance risk. The contracts do have annuity options (on non-guaranteed terms), but Aberdeen Life has not written any annuity business and does not expect to do so;

- They permit Aberdeen Life to increase the level of fund charges, subject to a period of notice;
- The contracts include no element of member level administration (for TIPs) or policyholder level administration (for reinsurance). The contracts therefore leave Aberdeen Life solely with wholesale management of internal linked funds;
- All business is written in the UK.

As part of the SLA Group, AAM and its subsidiaries have moved the accounting reference date from 30 September to 31 December. This has resulted in a 15 month reporting period from 1 October 2016 to 31 December 2017. Other than the acquisition by SLA, there were no significant events during the period.

A.2 Underwriting Performance

As described in the previous section, the policies written by the Company contain no guaranteed benefits and no investment guarantees. All policies are classified as investment contracts for accounting purposes. The underwriting performance is limited to consideration of the excess of fee income over expenses and is shown in the table below.

Underwriting performance, fifteen months to 31 December 2017 and year to 30 September 2016

	As at 31 December 2017			As at 30 September 2016*		
	Reinsurance accepted £m	Unit-linked Insurance £m	Total £m	Reinsurance accepted £m	Unit-linked Insurance £m	Total £m
Fee income	2.13	5.46	7.59	1.75	5.20	6.95
Expenses	2.01	5.15	7.16	1.68	5.01	6.69
Underwriting performance	0.12	0.31	0.44	0.07	0.19	0.26

*30 September 2016 data was not subject to audit

A.3 Investment Performance

The income and expenses arising from the investments within the internal linked funds are fully offset by an equivalent change in the value of policyholder liabilities. Information on the performance of each internal linked fund is available on Aberdeen Standard Investment's website at https://institutional.aberdeen-asset.co.uk/en/ukinstitutional/pension-schemes/fund-centre/.

The non-linked assets are invested in cash and the Aberdeen Liquidity Fund (Lux) – Sterling Fund, a short-term money market fund which provides access to a diversified pool of high credit quality assets as follows:

- Collective Investment Undertakings: Aberdeen Liquidity Fund (Lux) – Sterling Fund as at 31 December 2017 £10.2m (2016: £9.85m).
- In the 15 month period ended 31 December 2017 the Company received interest on these assets of £47,235 (12 months to 30 September 2016: £66,235).
- Cash and cash equivalents: Bank deposits as at 31 December 2017 £1.57m (2016: £2.18m).
- There was no income arising from bank deposits.

No material expenses were incurred in respect of the non-linked assets.

Aberdeen Life does not invest directly in any securitisations.

A.4 Performance of Other Activities

The Company has no financial or operating lease arrangements.

The Company had no other material income and expenses in the reporting period.

A.5 Any Other Information

The Company replaced both its Non-Executive Directors with new appointees during the period to ensure continued independence. There were no other material events which impacted on the performance of the Company during the reporting period.

B System of Governance

B.1 General Information on the system of governance

The governance framework for Aberdeen Life is based on the AAM Group framework prior to its acquisition by SLA, with specific arrangements where necessary to address the requirements of Aberdeen Life as a UK insurance undertaking. Transition to a new integrated governance structure for Aberdeen Standard Investments as part of the SLA Group is currently being planned and will take place during 2018.

Day to day governance and risk control is delegated by Aberdeen Life to AAML via a formal MSA. Investment management is delegated to AAML via a separate IMA. The Aberdeen Life Board (the Board) considers the current system of governance appropriate for its business model, which is limited to offering unit-linked pension policies to trustees of approved UK pension schemes and UK insurance companies.

The Board has established the following dedicated committees, which receive input from functional committees established by AAM Group as part of its group-wide risk management framework.

- Risk Committee

This Committee meets at least four times a year and has oversight of the Board's overall risk governance process to give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure and management. The Committee advises the Board on risk appetite and tolerance in setting future strategy, taking into account the Board's overall degree of risk aversion and the Company's current financial situation.

- Audit Committee

This Committee meets at least twice a year to, inter alia, monitor the integrity of the financial statements of the Company, review and challenge accounting policies, review internal controls and compliance and approve the terms of the auditor's engagement.

- Unit-linked Governance Committee

This Committee meets at least twice a year to, inter alia, review the output from activity delegated to AAML under the MSA which has an impact on customer outcomes. This includes decisions around arrangements for unit dealing and pricing as well as product changes.

Further information on SLA's governance arrangements is included in Section B the SLA Group SFCR. Other than the change in ownership structure, there has been no material change to the governance arrangements of the Company during the reporting period.

Diversity

In November 2011, the SLA Board approved the following Board Diversity statement:

The Board:

- believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, when undertaking a search for candidates, both executive and non-executive;
- recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness;
- believes that it should have a blend of skills, experience, independence, knowledge and gender amongst its individual members that is appropriate to its needs;
- believes that it should be able to demonstrate with conviction that any new appointee can make a meaningful contribution to its deliberations;
- is committed to maintaining its diverse composition;
- supports the Group Chief Executive's firm commitment to achieve and maintain a diverse workforce, both throughout the Group and within his Executive Team.

The Aberdeen Life Board is subject to the group governance arrangements in relation to diversity policies in line with the above statement as part of the evolving integrated governance arrangements and the SLA Board Charter, which also includes the terms of reference of the SLA Group Nominations and Governance Committees. Further detail are available at https://standardlifeaberdeen.com/who-we-are/governance.

B.1.1 Key Functions

B.1.1.1 Overview

Key functions have been identified as the four mandatory functions required under Solvency II (actuarial, compliance, risk management and internal audit) and any other function that is of specific importance to the sound and prudent management of the Company.

A list of functions delegated to AAML (which may in turn rely on other companies within the AAM Group) is provided in the MSA and the IMA. Aberdeen Life has determined which are considered to be key functions by identifying those which would significantly impact the business commercially or have adverse impact on policyholders should the services fail or not perform effectively. The six additional key functions identified are detailed in section B1.1.2.

All key functions, except the Actuarial Function, are outsourced to AAML. The Actuarial Function is outsourced to Barnett Waddingham LLP. In implementing the outsourcing arrangements, Aberdeen Life recognises the authority of the Key Function Holder (KFH) to carry out the relevant role on its behalf. This authority is supplemented by the scope of responsibilities included in the Company's Governance/Responsibility Map, and the ability of any KFH or member of a key function to escalate any relevant matters to the Aberdeen Life Chief Executive or to the Board. Details of the individuals responsible for the key functions (KFHs) are also detailed in the Governance Map which is reviewed and updated at least quarterly. All KFHs, apart from the Chief Actuary, are senior managers within the SLA Group.

The terms of the outsourcing agreements are such that each outsourced service provider should maintain sufficient and appropriate resources to carry out the relevant key functions and must inform the Company of any development which may have a material impact on its ability to carry out the outsourced functions and activities effectively and in compliance with applicable laws and regulatory requirements. Aberdeen Life monitors the performance of the outsourcing arrangements and would escalate any actual or perceived resourcing concerns with the appropriate provider to consider any remedial actions necessary. The Company has also appointed individuals on the Board to oversee key functions and recorded this on the Governance Map. Such individuals may also escalate any relevant matters to the Board and/or within the wider SLA Group.

B.1.1.2 Summary of key functions, key function holders and responsibilities

Actuarial	**Compliance**
Chief Actuary	Senior Compliance Manager
1. Provision of the Actuarial Function in accordance with Conditions Governing Business 6. 2. Provision of additional actuarial and consultancy services as requested by Aberdeen Life or as required by UK regulation, legislation or actuarial professional. standards and guidance in relation to work that does not strictly fall under the remit of the Actuarial Function.	1. Communication of policy developments for Aberdeen Life. 2. Ensuring Group Remuneration policy is compliant with Solvency II. 3. Provision of day to day support to the Chief Executive on SYSC and SIMR requirements. 4. Ensuring that the firm has complied with the obligation to ensure that every person who performs a key function is fit and proper and to provide and obtain regulatory references (shared with Chief People Officer). 5. Maintenance of Aberdeen Life policies assigned by the Chief Executive.
Risk management	**Internal audit**
Global Head of Business Risk	Group Internal Audit Director
1. Performance of the ORSA. 2. Identification, measurement and reporting of risks across ASI. 3. Setting of Risk Appetite for the delivery of strategy across the Company.	1. Provision of internal audit arrangements across the SLA Group. 2. Evaluation of internal control and other aspects of governance for Aberdeen Life.

Investment management	**Operations and Outsourcing**
Chief Executive Officer of AAML Chief Executive Officer of AAML who performs investment management services for Aberdeen Life.	Director of Operations 1. All operational matters and outsourcing arrangements (except actuarial) for Aberdeen Life. This also includes oversight of internal suppliers, e.g. AAML. 2. Leadership for the back-office functions including Operations. 3. Provision and oversight of change management functions for the AAM Group.
Distribution	**Finance**
Global Head of Distribution 1. Leadership of global distribution teams with a focus on co-ordinating global sales channels, further developing the client service model and ensuring that the product strategy is aligned with the group strategy. 2. Development of the UK institutional plans, which embeds the Aberdeen Life. 3. Ensuring the Aberdeen Life Chief Executive and the Key Function Holder for Finance are kept abreast of strategy and potential impact to the Aberdeen Life Business.	Director of Financial Control and Reporting 1. Production and integrity of the firm's financial information and regulatory reporting. 2. Management of the allocation and maintenance of the firm's capital and liquidity. 3. Maintenance of Aberdeen Life policies assigned by the Chief Executive.
Human resources	**Legal and Company Secretariat**
Chief People Officer 1. Development, communication and implementation of People policies. 2. Ensuring policies and procedures for the induction, training and professional development for all the firm's key function holders (other than members of the firm's governing body). 3. Ensuring that the firm has complied with the obligation to ensure that every person who performs a key function is fit and proper and to provide and obtain regulatory references. 4. Provision of support to the Aberdeen Life chairman for training and development of board members, especially NEDs. 5. Provision of advice and guidance to the CEO, senior managers and Group Remuneration Committee. Works closely with the Chairman of the Group Remuneration Committee. 6. Development of strategies and processes to attract motivate, develop and retain key staff.	General Counsel 1. Provision of Legal and Company Secretarial functions throughout Aberdeen Life and AAML, utilising external resource where appropriate and co-ordinating the management of the internal resource in all jurisdictions.

B.1.2 Remuneration

B.1.2.1 Overview

The AAM Group has an overarching Remuneration Policy that applies to all entities in the AAM Group. Aberdeen Life has reviewed the Group Remuneration Policy and is of the view that it:

- Is consistent with Article 275 of the Delegated Regulation;

- is consistent with, and promotes sound and effective risk management;
- does not encourage risk-taking which is inconsistent with the risk profiles or the instruments constituting the internal linked funds;
- does not impair compliance with its duty to act in the best interests of each of the internal linked funds and its shareholder;
- recognises that different remuneration requirements may be applied within the AAM Group and achieves a high degree of consistency between different regimes and allows for day to day arrangements to be controlled at a group level.

The Board delegates decision making for Remuneration matters to the Group Remuneration Committee in accordance with Group Governance arrangements. The Chair of the Group Remuneration Committee holds the Senior Insurance Management Function Chair of the Remuneration Committee (SIMF12) for the Company. Transition to a new integrated governance structure for ASI as part of the SLA Group is currently being planned and will take place during 2018. The Board reviews any material changes to the Aberdeen Life Remuneration Policy on an annual basis.

B.1.2.2 Key points of the policy

No supplementary pensions or early retirement schemes are in place for board members or KFHs.

The AAM Group's aggregate variable pay pool, in which all its staff participate, is approved by the Group Remuneration Committee each year. The aggregate pool is normally capped at no more than 25% of pre-bonus operating profit, unless exceptional circumstances justify a higher cap.

AAM Group does not calculate individual awards directly on the basis of annual revenues or profit. Instead proposals are discretionary and based on a number of factors including multi-year performance and non-financial metrics, such as teamwork along with compliance and risk awareness.

Article 275 (2)(c) of the Delegated Regulation requires firms to defer a 'substantial portion of any variable remuneration' for a period of not less than three years. The AAM Group Policy is in line with this as it applies deferral of 75% of variable remuneration for three years (five years for Group Management Board) when variable remuneration reaches pre-defined levels such that a substantial proportion of variable remuneration is deferred. Solvency II also requires Aberdeen Life to ensure that the deferral period is correctly aligned with the nature of the business, its risk and the activities of the employees in question. Taking into account its business model, Aberdeen Life is of the opinion that the AAM Group remuneration deferral arrangements are appropriate.

The following information is publicly available and describe the Group's overarching principles and practice for remuneration. Future remuneration structures are under review, however the arrangements described in this disclosure remain in place until the review is completed.

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

B.1.3 Payments between Aberdeen Life and AAM Group

Aberdeen Life pays a share of its net revenues to AAM Group for services under the MSA and IMA. Aberdeen Life also makes dividend payments from time to time; no dividend was paid in the reporting period (2016: £3m).

B.2 Fit and Proper Requirements

All individuals performing an FCA Controlled Function Holder (CFH) role, PRA Senior Insurance Management Function (SIMF) role, KFH role or Key Function Performer (KFP) role as identified by the Company in accordance with PRA rules and guidance, or a Senior Manager role, as defined in the AAM Group Fit and Proper policy, collectively referenced as 'Senior Managers', must be 'Fit' and 'Proper'. Also defined in the policy is that Senior Managers must ensure that they are aware of, and understand, all relevant regulatory requirements applying to the business area in which they work, control and manage.

The assessment of whether a person is 'fit':

- Includes an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the relevant financial sectors and whether these are adequate to enable sound and prudent management. Typically the requirements include possession of relevant qualifications and sufficient relevant experience within the AAM Group or similar organisations. Information is detailed in a document which is reviewed by Compliance and sent to the relevant Regulator as part of the application process;

- Takes account of the respective duties allocated to that person and, where relevant, the asset management, insurance, financial, accounting, actuarial and management skills of the person;
- In the case of board members, takes account of the respective duties allocated to individual members to ensure appropriate diversity of qualifications, knowledge and relevant experience to ensure that the business is managed and overseen in a professional manner;
- Takes into account interview performance against agreed competencies identified for the role.

The assessment of whether a person is ‘proper’:

- Considers whether they are of good repute and integrity;
- Includes an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purpose of the assessment;
- Considers whether the person performs his or her key functions in accordance with the relevant conduct standards specified in Insurance – Conduct Standards 3 of the PRA rulebook and COCON of the FCA handbook;
- Considers references received. Aberdeen must take reasonable steps to obtain appropriate references from the person’s current and previous employers, and from organisations at which that person served as, or is currently, a CFH, SIMF, PRA Senior Management Function or a non-executive director, covering at least the past six years.

Ongoing competence:

Processes are in place to assess the competence of all employees on a regular basis, as well as to continue to assess employee’s training needs. This is mainly done through the Performance Management Process. This process comprises the following four areas:

1. Job Description – compiling job descriptions gives a complete picture of how specific roles fulfil a function within the AAM Group.
2. Competencies – these provide the individual with a map or indication of the behaviours that will be expected and valued.
3. Appraisal – this has four elements; Performance Summary, Objectives, Development and Competence. The Performance Summary reviews the staff member’s performance in relation to their responsibilities as per the job description and objectives/development needs. The objectives look at the extent to which the staff member has achieved their objectives and sets objectives for the next year. Development provides opportunity to create a development plan for any skills or knowledge deficiencies. The Competence element examines knowledge and skills against a framework detailing the required knowledge and skills for the department or team.
4. Continuing Professional Development (CPD) – CPD is a personal commitment to keeping professional knowledge up to date and improving capabilities. It focuses on what individuals have learned and how they develop throughout their career. Senior Managers are specifically obliged to complete at least 35 hours CPD to enable them to evidence on-going competence. All CPD activities must be logged promptly. The compliance department oversees CPD.

B.3 Risk Management System Including the Own Risk and Solvency Assessment (ORSA)

The Board is responsible for the management and oversight of all risks affecting Aberdeen Life. To achieve this, Aberdeen Life uses a comprehensive risk management framework which has been established by AAM Group and which the Board considers to be appropriate to Aberdeen Life’s business model. The AAM Group risk framework is supplemented by specific additional arrangements established by the Board where necessary to address Aberdeen Life’s business model.

B.3.1 Group risk management framework

AAM Group employs a ‘three lines of defence’ model as a basis for its risk management framework. These are described as follows:

- AAM Group’s business lines are responsible for the identification and mitigation of risks and taking the lead with respect to implementing and maintaining appropriate controls.
- AAM Group’s control oversight functions within the Risk Division oversee compliance with regulatory and legal requirements as well as monitoring operational, investment and counterparty risk.
- Independent assurance is provided by Internal Audit who recommend improvements to the control environment.

The three lines of defence model is supplemented by a range of risk related committees at divisional and operational business level. The AAM Group Board, executive directors and senior management have overarching responsibility to ensure, through the application of good corporate governance, the effective and strategic stewardship and risk management of AAM Group.

The assessment of risks is conducted using a top down approach that is complemented by a bottom up assessment process. The top down approach considers the external environment and the strategic planning process to identify the most consequential and significant risks to shareholder value. The bottom up approach ensures a comprehensive risk assessment process that identifies and prioritises key risks; analyses data to verify key trends; and provides management with a view of events that could impact the achievement of business and process objectives.

The risk management framework is facilitated through AAM Group's risk management system, Sword, which supports risk identification, assessment, issue tracking, monitoring, assurance and reporting. Risk events are captured by the business and assessed and approved through a workflow by the second line of defence. Lessons learned from risk events can require specific reports and periodic updates. Issues can also be raised when there are control failings and inefficient processes identified or through regular continuous monitoring or deep dive reviews by the second and third line of defence teams.

The Risk and Control Self-Assessment ("RCSA") process is an integral part of the framework and is designed to integrate and co-ordinate risk identification and risk management efforts, and improve the understanding, control and oversight of operational risks.

Business lines undertake RCSAs to review the key operational risks and controls and the impact and likelihood of these risks arising. These risk assessments are monitored on a regular basis to ensure the business continually understands the risks it faces. First and second line assurance is provided through a quarterly control sign off and annual risk sign off. This assists the Group in improving our understanding, control and oversight of operational risks and in turn facilitates the achievement of both individual department and Group-wide objectives.

B.3.2 Additional Aberdeen Life risk framework

The AAM Group risk framework described above is the primary means of managing Aberdeen Life's operational risks. Any material changes to the Aberdeen Life business model are referred by the Board to the Aberdeen Life Risk Committee for scrutiny, monitoring and oversight to ensure that the Board's decisions are adequately informed.

Aberdeen Life controls Market risk, Underwriting Risk, Credit Risk and Liquidity Risk through the design of its contracts and selection of non-linked investments. The extent of any such risks are assessed through the ORSA process and any proposed or necessary changes to contract terms or non-linked investments are escalated appropriately and are subject to sign-off by the Board. Other types of risk such as regulatory or legislative change are also assessed as part of the ORSA process. Aggregate risk is monitored through monthly review of key performance indicators including financial metrics and operational effectiveness as well as regulatory breaches and complaints.

The Aberdeen Life Risk Committee has oversight of the Board's overall risk governance process to give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure. The Risk Committee advises the Board on risk appetite and tolerance, in setting future strategy, taking into account the Board's overall degree of risk aversion and Aberdeen Life's current financial situation. Duties of the Risk Committee, as set out in its Terms of Reference, include ensuring steps are taken to identify and control risks and providing input and challenge to the ORSA process.

B.3.3 ORSA

The ORSA process is intended to identify, assess, monitor, manage and report on both short and long term risks and to determine the capital required to ensure that Aberdeen Life can continue to meet its solvency requirements at all times.

The ORSA enhances awareness of the risks faced by Aberdeen Life and the capital needed given those risk exposures. This awareness is used by Aberdeen Life as part of its decision making process.

The ORSA process is broken down into a number of stages as follows:

- Review and approval of the ORSA Policy;
- Risk identification, review and assessment;
- Risk modelling methodology and assumption review;
- Determination of the base balance sheet;

- Risk modelling analysis, including assessment of capital requirements and ongoing compliance with solvency requirements;
- ORSA report update;
- ORSA report review, challenge and approval.

A number of stages in the process may be iterative, with feedback loops. For example, the risk modelling methodology and assumption review assessment may lead to changes being required to the ORSA Policy to adequately capture any revised approach.

The Chief Risk Officer is responsible for planning and initiating the annual ORSA cycle and for ensuring that all other relevant parties are aware of their roles and responsibilities and have committed appropriate time to the process. The Chief Executive and the Chief Actuary are involved in most stages of the ORSA process. Other key contributors are:

- AAM Operational Risk – involved in the risk identification, review and assessment;
- Finance – involved in determination of the base balance sheet.

The Risk Committee is responsible for providing initial challenge to the results of the ORSA process and the content of the ORSA report and thereafter proposing that the report be submitted for Board approval.

The Board is ultimately responsible for the ORSA. It takes an active role in setting the ORSA Policy and in accepting the results of the process by providing insight on the risks faced by Aberdeen Life and actions that might be taken and, where relevant, by providing challenge to the Policy, process, results of the process or presentation of the results.

The ORSA is used as a key input into business planning and forecasting (where scenario analysis is used to indicate forecast capital requirements under expected and potential strategies) and to inform strategic or material business decisions. In particular, the Board considers potential or necessary actions if the ORSA indicates that Aberdeen Life is failing to meet or may fail to meet its target solvency levels.

In normal circumstances the ORSA process is run on an annual basis. This is considered appropriate given the nature and scale of the business written by Aberdeen Life.

The ORSA process will also be followed outside of the annual cycle should there be a significant unexpected deterioration in own funds, a significant change in the risk profile of the business or an actual or planned strategic event such as the acquisition of business from another insurance entity. The Chief Executive will monitor the financial position of Aberdeen Life and internal and external events to identify when an ad-hoc ORSA process might be appropriate. The Board or Risk Committee can propose that the ORSA process be run at any time if there is deemed to be sufficient justification. In any event, the need to perform any ORSA outside of the normal annual cycle must be approved by the Board.

The Company has determined its own solvency needs by using a combination of stress and scenario tests including forward-looking projections that consider the projected solvency position in a central ‘best estimate’ scenario and a number of adverse scenarios. The Company has determined the capital required for it to withstand adverse experience equivalent to that which might be encountered once every 200 years and holds a buffer above the level so determined.

Although Aberdeen Life does not maintain formal risk tolerance limits (given the simplicity of the business), the Board would consider possible and/or necessary actions if required capital is, or may become, unacceptable taking into account the risk, required capital and the specific circumstances. Such actions include amendment to the risk management system to better control or mitigate those risks contributing to the capital requirement. Conversely, any proposed changes to the risk management system are considered to determine the likely impact on the Company’s capital position.

B.4 Internal Control System

The framework is based around the Solvency II definition of operational risk which is ‘the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events’. The Company’s management of operational risk is therefore aimed at identifying risks in existing processes and improving existing controls to reduce the likelihood of failure and the impact of losses. A key element of the internal control system is the three lines of defence described in B.3.1.

Aberdeen Life seeks continuous improvement to internal controls. The effective management of the risk process is overseen by AAM Group’s Business Risk team, facilitated through AAM Group’s risk management system, Sword. This system is the central tool used by the business to manage risks arising through day to day operations. Sword also allows for linkage between risks, controls, events and issues, meaning any gaps or potential deficiencies are clearly highlighted. This assists AAM Group in improving its understanding, control and oversight of operational risks and in turn facilitates the achievement of its objectives.

AAM Group's compliance function sits within the Risk Division; a permanent and independent risk management function which is hierarchically and functionally independent from the AAM Group's operating units (first line). The Global Head of ASI Compliance reports directly to the ASI Chief Risk Officer, ensuring independence of risk oversight.

B.5 Internal Audit Function

The Internal Audit function (IA) is provided to Aberdeen Life by AAML via the MSA. The IA function is a permanent and independent function which is hierarchically and functionally independent from both the first and second lines of defence. IA is responsible for providing an independent assessment of SLA Group's control environment. It reports directly to SLA Group's Audit Committee which and has an additional reporting line to the Group Co-Chief Executive.

IA prepares a risk-based audit plan covering the SLA Group's operations including key third parties. The audit plan is determined by the results of a risk assessment process which considers the inherent risks and the associated control environment to determine the residual risk of each business area. The audit plan is prepared on a '6 + 6' basis, giving detailed plans for the coming two quarters and including key audit themes likely to be audited over the following six months. The plan is approved by the SLA Group Audit Committee. IA also undertakes a programme of Continuous Assurance which summarises the evolving risks in the business and may lead to changes in the audit plan during the year.

IA reports the results of its assessments to the Executive Directors, Head of Division, Head of Department and managers who have to address issues raised in the report. Reports include an overall rating in respect of control design and effectiveness, and a rating on the management of risk. The SLA Group Audit Committee receives summary information to allow it to review the effectiveness of the Group's control environment.

The Aberdeen Life Audit Committee meets at least twice yearly and receives all relevant IA reports. The IA function attends these meetings, and also holds regular meetings with the Aberdeen Life Chief Executive as part of the Continuous Assurance programme.

B.6 Actuarial Function

The Actuarial Function is outsourced to Barnett Waddingham LLP. The role of Chief Actuary is held by an appropriately qualified and experienced individual who is a Barnett Waddingham LLP partner. The Company's Chief Executive provides oversight and assesses the performance of the arrangement.

The SLA Actuarial Function is responsible for providing information to the Board on the capital adequacy of the SLA Group and for consolidating the AL results into group reporting as required.

B.7 Outsourcing

B.7.1 Outsourced Services

Aberdeen Life relies on AAM Group to carry out all business functions other than the Actuarial Function. This outsourcing is governed by the MSA and IMA between Aberdeen Life and AAML. The MSA is such that AAML is liable for all operational risk losses in respect of the Aberdeen Life business, whether these occur as a result of a failure of AAML or as a result of a failure of a third-party provider and where that third party is unable or unwilling to compensate for any loss incurred. AAML may in turn rely on other parts of the AAM Group to carry out the contracted services. AAM Group operates a group wide risk and control framework which covers all services provided directly and indirectly to Aberdeen Life via the MSA and IMA.

Custody services are provided by State Street Bank and Trust Company (State Street) and fund administration services are provided by State Street and DST Systems. Actuarial services are outsourced to Barnett Waddingham LLP. The services provided by these third parties are subject to appropriate contractual arrangements that protect Aberdeen Life from losses incurred as a result of operational risk events.

All providers of outsourced services are located in the UK although some individual tasks may be carried out in a range of overseas locations.

A member of the Board is formally responsible for oversight of each Key Function. This includes oversight of outsourcing arrangements within the AAM Group as well as actuarial services.

In addition, oversight of services outsourced to AAML via the MSA is a standing agenda item for the Risk Committee and members are provided with information on the quarterly service review meetings between the Company's management team and key internal service providers for review and/or challenge.

B.7.2 Key Points of Outsourcing Policy

- AAML uses the AAM Group Global Outsourcing Risk Oversight Framework to ensure outsourcing risks are clearly defined and regularly assessed with on-going monitoring of underlying controls both internally and within its outsourced service providers. The AAM Group chooses its service providers carefully and regularly monitors and supervises their performance to ensure that functions are being performed satisfactorily, and to ensure that AAM Group is fulfilling its regulatory obligations and its contractual obligations to clients.
- The AAM Group understands that while a service or function can be outsourced, the underlying risks and controls remain its responsibility. The AAM Group is fully committed to actively managing these risks within its risk appetite.
- A risk assessment is performed on all outsourcers to assess the levels of risk exposure and to ensure all critical/material outsourcers are identified. Initial due diligence is performed on potential outsourcers based on the risk assessment.
- There are standard governance and oversight activities agreed for all levels of outsourcer risk to ensure appropriate levels of governance and oversight activities are performed in line with the level of risk exposure.
- Oversight of outsourcing risks is performed across the AAM Group with risk based monitoring and testing of control design and performance in outsourcers – across the three lines of defence.
- Continuity of service is a key component of the AAM Group Global Outsourcing Risk Oversight Framework to ensure minimal impact to the AAM Group and its clients in the event of a failure within one or more of its outsourcers or the sudden failure of a critical outsourcer.

B.8 Any Other Information

Systems of governance are under review as the AAM Group is integrated by SLA into its combined ASI business unit. There is no other material information relating to the system of governance.

C Risk Profile

The primary measurement used by Aberdeen Life for assessing financial risk is the loss or reduction in future profit which would be seen in the management accounts or financial statements either immediately or over time.

In addition, Aberdeen Life considers the impact of risks on capital requirements and on the continued viability of the business.

Aberdeen Life is risk-averse. Given the simplicity of the business and the risks accepted, Aberdeen Life does not, in general, set quantifiable tolerances. Tolerances are defined with reference to the following scale:

- Low: We will prioritise managing these risks over the returns associated and will only undertake associated activities that carry low residual risk.
- Moderate: We are willing to undertake activity to a certain degree of risk in pursuit of strategic objectives, provided that the risk is controllable.
- High: We are willing to undertake activity to maximise opportunities and reward even if there is a high degree of risk. We will take the necessary steps to implement the required control framework to manage these risks.

C.1 Underwriting risk

Underwriting risk means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

Aberdeen Life has zero tolerance for insurance risks other than lapse (surrender) and expense risk. Contracts include no guaranteed benefits and contain no economic insurance risk. Although TIP policies include annuity options (on non-guaranteed terms) no annuities are currently written. Therefore the Company has no direct exposure to mortality or morbidity risks and does not transfer risks to special purpose vehicles.

Lapse risk is measured by the loss of assets under management which reduces future fund charge income and consequently potentially impacts both current and future years' profits. Expense risk is measured by the impact on current and potentially future years' profit.

Aberdeen Life has a high tolerance to lapse risk and the consequent variation in fund charges earned as lapse risk is an inevitable part of insurance investment business. The risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received. This is achieved under the terms of the MSA between the Company and AAML whereby the majority of expenses payable are defined as a percentage of fund charge income. Aberdeen Life aims to minimise lapses on its unit-linked funds by providing a dedicated client service team, which has been set up specifically to meet the needs of UK pension schemes.

Aberdeen Life's solvency position is not very sensitive to changes in lapse assumptions. If the best-estimate lapse rate is doubled, own funds reduce by £0.03m and the SCR reduce s by £0.02m.

Aberdeen Life has a low tolerance to expense risk. As mentioned above, the majority of expenses (fee related expenses) are defined as a set percentage of fund charge income. Modest additional expenses are incurred. The expense risk on these additional expenses is managed by:

- Reducing fee-related expenses if retained fund charge income is otherwise insufficient to meet the additional expense
- Close monitoring of the additional expense amounts and their justification

An increase in expenses leads to an increase in required capital under the Solvency II standard formula (all else equal). This risk is managed in all but extreme circumstances by contractual provisions between Aberdeen Life and AAML which reduce fee related expenses if necessary such that retained fund charge income is sufficient to meet the increase in required capital together with the required margin of cover.

There has been no material change to underwriting risk or how it is measured over the reporting period.

The only material risk concentration is that individual policies may account for a significant percentage of assets under management. At 31 December 2017 the largest individual policy accounted for 30% of the Company's unit-linked assets (2016: 24%).

The nature of the expenses payable under the agreements between the Company and AAML are such that, while changes in experience will affect profitability, the company is protected from making a loss in all but extreme circumstances (a significant rise in non-fee related expenses and/or a significant fall in assets under management). The impact of adverse lapse and expense experience are considered in the ORSA under a number of scenarios. These demonstrate that the Company is able to withstand extreme adverse lapse and/or expense experience whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full.

Aberdeen Life's solvency position is not very sensitive to changes in expense assumptions. If the best-estimate of expenses not defined in relation to fee income are increased by 25%, own funds reduce by £0.05m and the SCR reduces by £0.03m.

C.2 Market risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Shareholder assets and linked assets are considered separately.

Aberdeen Life has a low tolerance to market risk on shareholder assets. The shareholder assets are used to cover the SCR, the MCR and any technical provisions in excess of the linked assets, and are invested to preserve capital. Investments are located in the EU and limited to cash, short term bonds and short term money market instruments. Investment in short term bonds and money market instruments is achieved by investing in the Aberdeen Liquidity Fund (Lux) – Sterling Fund (Liquidity Fund), a money market UCITS fund.

Aberdeen Life has a high tolerance to market risk on linked assets. Aberdeen Life accepts that because it is conventional practice for investment charges to be expressed as a percentage of assets under management, its revenue from fund charges will be subject to market movements and the choices made by its customers on the allocation to different internal linked funds. This risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received.

The linked assets are managed in accordance with the investment mandate for the particular fund taking into account the prudent person principle requirements under the PRA Investments Rulebook and the permitted links rules included in the FCA Conduct of Business Sourcebook (COBS) 21. In particular, policyholder liabilities are fully matched with units established within the relevant internal linked funds and with assets of the same value.

There has been no material change to market risk or how it is measured over the reporting period.

The Company investigates the potential impact of market risks on its income and solvency position by way of stress and scenario tests that are carried out as part of the ORSA process. These demonstrate that Aberdeen Life is able to withstand extreme market falls whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of market risks on linked assets.

C.3 Credit risk

Credit risk means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of counterparty default risk, or spread risk, or market risk concentrations.

Service provision, shareholder assets and linked assets are considered separately.

Aberdeen Life has a low tolerance to credit risk in relation to third party service providers. The risk of a service provider defaulting on its obligations is primarily managed by initial and on-going due diligence of the service provider together with protections included in service contract terms. The terms of the MSA between the Company and AAML are such that Aberdeen Life would seek redress from AAM Group if a third party service provider was unable or unwilling to meet its financial obligations towards the Company.

Aberdeen Life has a low tolerance to credit risk in relation to shareholder assets. The risk is managed by limiting direct exposure to cash (bank) counterparties and investing other assets in a diversified portfolio of high quality short-term assets. The bank counterparties must meet the criteria set by the AAM Group Credit Risk Management Policy. Cash balances are, in normal circumstances, limited to £2m to any single counterparty although this limit may be temporarily exceeded for operational reasons. Cash balances are monitored daily. Diversification of non-cash assets is achieved by investing in the Liquidity Fund.

The tolerance to credit risk in relation to linked assets depends upon the investment objectives of each fund, but is generally low and is managed according to individual fund mandates. Thresholds are set for each fund to limit cash at the custodian, with a daily sweep into the Liquidity Fund to diversify counterparty exposure and reduce risk.

There are no material risk concentrations other than to bank counterparties, with such exposures managed as described above.

The risk to Aberdeen Life of fluctuations in fund charge income as a result of asset defaults in the linked funds is managed, where possible, by making expenses sensitive to the volume of charges received.

There has been no material change to credit risk or how it is measured over the reporting period.

The Company investigates the potential impact of credit risks on its income and solvency position by way of stress and scenario tests that are carried out as part of the ORSA process. These demonstrate that Aberdeen Life is able to withstand extreme credit events whilst continuing to meet regulatory capital requirements and without impacting on its ability to meet policyholder obligations in full, but recognising that policyholder obligations will reflect the impact of credit risks on linked assets.

C.4 Liquidity risk

Liquidity risk means the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.

Shareholder assets and linked assets are considered separately.

Aberdeen Life has a low tolerance to liquidity risk in relation to shareholder assets. All shareholder assets are held in cash or in the Liquidity Fund which allows daily dealing. Given the nature and size of the Liquidity Fund, large redemptions can typically be made without impacting on the fund share price.

The linked assets are managed to provide appropriate liquidity, in normal circumstances, to allow policyholder redemptions to be met as they fall due. Fund managers use tools to project forward their cash balances and ensure that they have sufficient cash in the portfolio to meet obligations on a daily basis. In addition, Aberdeen Life has the contractual ability to suspend transactions where this is considered to be in the interests of policyholders.

There has been no material change to liquidity risk or how it is measured over the reporting period.

Given the nature of the business written by Aberdeen Life, the expected profit in future premiums calculated in accordance with Article 260(2) of the Delegated Regulation is zero.

C.5 Operational risk

Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

Aberdeen Life has a low tolerance to operational risk. Aberdeen Life considers operational risk in respect of internal processes, personnel or systems as being transferred to AAML or third party suppliers through outsourced service agreements. AAM Group operates an Operational Risk Management Policy which applies to all services carried out by AAML for Aberdeen Life.

Operational risk from external events is primarily managed by ensuring compliance with current regulation and legislation, and by maintaining the ability to react appropriately to external risks and issues. As part of its ORSA process, Aberdeen Life considers the impact of external influences on its business model and considers the management actions that might be taken to address any issues.

There has been no material change to operational risk or how it is measured over the reporting period.

C.6 Other material risks

Aberdeen Life has limited exposure to currency risk from overseas assets held within certain unit-linked funds. Exchange rate fluctuations will result in fluctuations in fund charges which are based on sterling-equivalent asset values. This risk of fluctuations in income is managed, where possible, by making expenses sensitive to the volume of charges received.

Aberdeen Life has a high tolerance to group risk and, in general, accepts the risk without management, reflecting the rationale for the existence of Aberdeen Life. However, within group risk, Aberdeen Life closely manages AAML's obligations to compensate Aberdeen Life for any operational risk losses. In addition to the contractual protections given in the internal and external outsourcing agreements, Aberdeen Life also considers the capital position and the extent of insurance cover maintained by AAML in determining the ongoing security of the outsourcing arrangement.

It should be noted that in the event of any significant group issues, Aberdeen Life has the ability to terminate all contracts at three months' notice.

Aberdeen Life does not write any outward reinsurance and does not hold any off-balance sheet positions.

C.7 Any other information

The risk profile of the Company has not been materially affected by the acquisition of AAM by SLA. There is no other material information regarding the risk profile of the Company.

D Valuation for Solvency Purposes

D.1 Assets

Aberdeen Life's assets are primarily those held to back unit-linked liabilities. The Solvency II valuation for each material class of asset is contained in Quantitative Reporting Template (QRT) reference S.02.01 and shown in the box below.

Article 75 of the Solvency II Directive requires that assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. This valuation basis is similar to the 'fair value' accounting concept which is defined within IFRS 13 as 'the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants.'

Aberdeen Life has elected to prepare its financial statements under FRS 101 'Reduced Disclosure Framework'. This basis requires the measurement of assets and liabilities in accordance with IFRS 13 (in which the term "Fair value" is defined). Therefore the valuation of assets and liabilities required for the annual financial statements is consistent with that required for Solvency II.

At 31 December 2017, the value of assets for solvency purposes is equal to the value of assets reported in the financial statements. At 30 September 2016, the value of assets for solvency purposes differed from the value reported in the financial statements by a notional deferred tax asset adjustment related to the recognition of the risk margin after deduction of the value of in-force business (see section D.2). A similar adjustment has not been made at 31 December 2017.

The methodology for valuing and recognising these assets are summarised below:

Balance sheet category (£'000s)	Accounting policy	Further detail of balances	Financial Statements 31 December 2017 £'000	Solvency II value £'000	Reference
Collective Investments Undertakings	Fair value – using quoted market prices in active* markets	Investment in quoted liquidity funds	10,197	10,197	R0180
Assets held for index-linked and unit-linked contracts	Fair value – using quoted market prices in active* markets or other valuation techniques as disclosed in the financial statements where necessary. (see below)**	Assets held within the linked funds, primarily equities and holdings in collective funds. No properties are held directly.	1,601,651	1,601,651	R0220
Insurance and intermediaries receivables	Fair value - due to short-term nature of the receivables no adjustment to valuation are required	Outstanding sales/liquidations	3,449	3,449	R0360
Receivables (trade, not insurance)	Fair value - due to short-term nature of the receivables no adjustment to valuation are required	Accrued income Prepayments Other debtors	748	748	R0380
Cash and cash equivalents	Fair value – based on statement values	Cash balances held	1,571	1,571	R0410

* Active market as defined in International Financial Reporting Standard 13-Appendix A
** As at 31 December 2017 there was one asset held within a unit-linked fund (valued at £1,800k) which required an alternative valuation technique (as disclosed in the financial statements). It is the Company's policy to minimise holdings of assets which do not have a quoted market price in an active market

No other material assumptions or judgements have been used, (or contribute to uncertainty) in the valuation of assets.

D.2 Technical provisions

There are two lines of business, unit-linked insurance business comprising trustee investment plans (direct business) and unit-linked reinsurance accepted on similar terms (reinsurance business). All business is pensions business.

The technical provisions at the valuation date are shown in the table below.

	As at 31 December 2017 (£m)			As at 30 September 2016* (£m)		
	Direct	Reinsurance	Total	Direct	Reinsurance	Total
Unit reserve	977.70	623.95	1,601.65	902.03	768.86	1,670.89
Value of in-force business	(0.03)	(0.02)	(0.05)	(0.05)	(0.05)	(0.10)
Risk margin	0.06	0.04	0.10	0.06	0.06	0.12
Total technical provisions	**977.73**	**623.97**	**1,601.70**	**902.04**	**768.87**	**1,670.91**

*-30 September 2016 data was not subject to audit

** As at 30 September 2016 the unit liability was included as part of the best estimate liabilities. Guidance from the PRA issued in December 2017 recommended that unit liabilities should be classified as "technical provisions calculated as a whole". For consistency the presentation of the 30 September 2016 position has been updated to reflect the PRA's guidance rather than that previously disclosed. The total technical provisions as at 30 September 2016 are unchanged from those previously disclosed.

Given the similarities between the two, the same methods and assumptions are used to determine the technical provisions for both lines of business written.

Technical provisions have been determined as the sum of the unit reserve, value of the in-force business (VIF) and the risk margin.

The movement in technical provisions is dominated by the fall in the unit reserve of £69.24m. This reflects the net impact of full and partial surrenders over the reporting period which have only been partially offset by new business and positive investment returns on the linked assets.

The VIF reflects the projected excess of income over expenses over the projection period. This is lower at 31 December 2017 by £0.04m, primarily due to the reduction in the value of linked assets.

The risk margin, which is a function of operational risk SCR and life underwriting SCR, has reduced by £0.02m due to:

- Lower operational risk SCR
    - The operational risk SCR for the Company is a function of the expenses incurred in the twelve months to the reporting date, which have reduced; and
- Lower life underwriting SCR
    - The life underwriting SCR is a function of the VIF and is lower as a result of the lower VIF.

D.2.1 Unit reserve and VIF

The unit reserve is the value of units allocated to in-force contracts at the valuation date, as disclosed in the financial statements (unit liabilities). Following guidance issued by the PRA in November 2017, the unit reserve is reported as "technical provisions calculated as a whole" on form S.02.01.02 in Appendix 1.

The VIF has been determined, using recognised actuarial methods, as a best estimate calculation of the present value of the excess of policy charges over expenses, where a positive VIF is shown as a negative liability. The VIF is reported as the best estimate liability on form S.02.01.02 in Appendix 1.

A deterministic cash-flow projection method is used to determine the VIF. Although the Company manages the business on a long-term basis, the VIF projection is limited to three months. This reflects the Company's ability to terminate all contracts subject to a three-month notice period. The use of a short projection period has been discussed with the PRA and is considered by the Board to be a proportionate simplification compared to performing a long-term projection in accordance with Delegated Regulation Article 56. The use of a long-term projection is considerably more subjective given the nature of the business and does not lead to a materially different result.

The projection involves estimating the policy charges and expenses cash flows that the Company expects to receive and incur respectively in each month of the three month projection period, based on the business in force at the valuation date and using a single set of best estimate projection assumptions. The net cash-flow in each month is then discounted to the valuation date to give a present value.

The policy charges cash flows are annual management charges (fee income) which are either deducted directly from unit-linked funds, or otherwise invoiced directly to policyholders.

The expenses cash flows fall into three categories:

- Expenses that are a percentage of net fee income received as contractually defined in the contractual agreements between the Company and AAML;
- Administration and custodian services charges as contractually defined in the services agreements between the Company and external third parties;
- Other expenses that are fixed or variable monetary amounts (direct expenses).

The administration and custodian service charges depend to an extent upon transaction volumes and are in part met by policyholders by way of recharges to the unit-linked funds used to determine policyholder benefits. The projected overall level of such fees and the split between the part met by policyholders and the part met by the Company is based on recent experience.

Net fee income is defined as fee income received less any fee rebates reimbursed to policyholders less the share of administration and custodian service charges met by the Company.

The assumption for direct expenses is based on the Company's expectations taking into account experience over the 12 months to the valuation date and any anticipated changes.

Economic assumptions are based on market data at the valuation date and withdrawal assumptions are based on actual experience over a six year period to the valuation date, adjusted as necessary to make appropriate allowance for extraordinary events. It is assumed that the average rate of fee income on the in-force business at the valuation date is maintained throughout the projection period.

There is no obligation for policyholders to pay additional premiums other than, for some policies, where annual management charges are invoiced and paid by way of premiums. The technical provisions therefore include no allowance for additional premiums other than charges.

D.2.2 Risk margin

The risk margin has been assessed in accordance with the methodology set out in the Delegated Regulation as the cost of holding an adjusted SCR over the projected run-off of the business.

Given all business is projected over three months, the risk margin has been determined over a one year period, the minimum period allowed by the regulations. In accordance with the Delegated Regulation, it has been calculated on the result of the SCR at the valuation date but with the bank counterparty default and market risk module SCR set equal to zero on the assumption that these risks could be hedged if required.

The risk margin has been apportioned across the two lines of business in proportion to the respective unit liabilities. This is considered a proportionate and appropriate approach as the amount of unit liabilities is a reasonable proxy for the risk associated with each line of business and the impact of using a different apportionment method would not be material to the overall technical provisions by line of business.

D.2.3 Simplifications

The use of a three-month projection period, reflecting the Company's ability to terminate all contracts subject to a three-month notice period, is a simplification. A longer term projection period would not lead to materially different technical provisions.

The VIF has been determined using an aggregate approach. Under the aggregate approach, the VIF cash flows are projected for the business as a whole, not at an individual policy level. The resulting VIF is then apportioned between direct business and reinsurance business based on the respective unit liabilities at the valuation date. This approach involves the following simplifying assumptions:

- A single rate of surrender is used across all funds and both lines of business. In reality, surrender rates are likely to vary by fund and line of business. However, surrender rates for the business written by the Company are very hard to predict as they will depend on a number of factors including relative investment performance, market sentiment over a particular fund, the individual circumstances of the policyholder and the size of the policyholder's investment with the Company. However, the VIF is relatively insensitive to the surrender assumptions and given the value of the VIF compared to the total technical provisions, more granular assumptions are unlikely to lead to materially different technical provisions.
- The approach, whereby the VIF is apportioned between direct and reinsurance contracts by reference to the value of unit liabilities, implicitly assumes that expenses defined as monetary amounts (as opposed to percentage of policy charges) are apportioned over individual policies on a pro rata basis based on the monetary amount of annual policy charge each policy is expected to generate. A different allocation of the monetary expenses would not change the overall VIF, given the way expenses are determined, but could

affect the split of the total between direct and reinsured business. Given that the Company considers monetary expenses at a company level, this implicit apportionment, effectively by ability to pay, is not unreasonable, especially talking into account the low materiality of the VIF compared to the total technical provisions.

D.2.4 Uncertainty associated with the value of technical provisions

The methodology employed is proportionate to the nature, scale and complexity of the risks accepted by the Company.

There are no material deficiencies in the data used for the technical provisions.

All business written is unit-linked pensions business with no investment guarantees. The unit liabilities are matched by holding the assets upon which the unit liabilities are determined.

The Company has the unilateral right to terminate contracts subject to three months' notice. This is a typical policy clause for the type of business written by the Company, which is sold only to institutional investors and protects the Company against the long-term impact of adverse experience. The expense agreements in place between the Company and others within the AAM Group are such that in normal circumstances the Company retains only a modest percentage of net fee income out of which it needs to meet direct expenses. The retained amount is however increased if it would otherwise be insufficient to cover the direct expenses. The extent of the retained net fee income in excess of direct expenses is currently also modest.

Although the VIF depends upon the projection assumptions, the result is small in comparison to the overall technical provisions, which are dominated by the value of the unit liabilities. Consequently, if different plausible assumptions or more complex methodology were to be used, the technical provisions would not be materially different.

D.2.5 Reconciliation with financial statements

All contracts written by the Company are treated as investment contracts under applicable accounting rules. The accounting treatment for such contracts is to value the contracts at 'fair value', essentially the market value of the assets within the unit-linked funds, and no less than the amount that would be payable on immediate surrender. The technical provisions reported in the Company's financial statements are therefore taken as the unit liabilities of £1,601.65m. The technical provisions for solvency purposes are £0.05m higher than the technical provisions reported in the financial statements, reflecting the VIF and the risk margin held for solvency purposes.

D.2.6 Adjustments and transitional arrangements

A matching adjustment (as referred to in Article 77b of Directive 2009/138/EC) is not used.

A volatility adjustment (as referred to in Article 77d of Directive 2009/138/EC) is not used.

The transitional adjustment in respect to the risk-free interest rate-term structure (as referred to in Article 308c of Directive 2009/138/EC) is not used.

The transitional deduction in respect to technical provisions (as referred to in Article 308d of Directive 2009/138/EC) is not used.

D.2.7 Reinsurance

The Company has no recoverables from reinsurance contracts and has transferred no risks to special purpose vehicles.

D.2.8 Material changes in assumptions

The Company has made no material changes to assumptions since the previous reporting period.

D.3 Other Liabilities

At 31 December 2017, the value of other liabilities for solvency purposes is equal to the value reported in the financial statements. The values, basis of valuation and explanation of balances held are shown below.

D.3.1 Trade and other payables

Balances are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. In practice the carrying values equate to the fair values due to the short term nature of the amounts. (Insurance & intermediaries payables £3,449k (RO820), Trade and other payables £1,642k (RO840)

D.3.2 Deferred Taxation

The value of the assets and liabilities held in accordance with the Solvency II Directive is identical to the value used for the purposes of our tax calculation at 31 December 2017. The deferred tax impact of the VIF and risk margin at 31 December 2017 is referred to in section D.1. (£107k, RO780)

A change in the basis of taxation for the Company, implemented in 2013, led to the recognition of profits that had previously been tax deductible. Under transitional arrangements those profits are recognised uniformly over the 10 year period commencing 1 January 2013. The deferred tax liability is determined using the relevant rates of tax which apply over the remaining deferment period.

D.3.3 Contingent liabilities

The IFRS valuation (prescribed by IAS 37) defines a contingent liability as:

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity

b) A present obligation that arises from past events but is not recognised because; (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability

A contingent liability will be disclosed under IFRS but not recognised. The Solvency II Directive states that contingent liabilities should be recognised if considered 'material'.

As at 31 December 2017, the Company has concluded it holds no contingent liabilities, unchanged from 30 September 2016.

D.4 Alternative methods for valuation

As at 31 December 2017 there was one asset held within a unit-linked fund (valued at £1,800k) which required an alternative valuation technique (as disclosed in the financial statements). It is the Company's policy to minimise holdings of assets which do not have a quoted market price in an active market

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes.

E Capital Management

E.1 Own funds

The Company seeks to maintain sufficient capital resources of appropriate quality to give policyholders assurance of our financial strength and to satisfy the requirements of the regulators. The capital management policy is designed to ensure that all capital requirements are met out of retained profits without the need to seek other forms of capital.

All of the Company's own funds are classified as Tier 1 basic own funds comprised of equity and retained earnings and are available to provide cover for both the SCR and the MCR without restriction. Own funds are predominately invested to preserve capital values, typically in a diverse portfolio of cash and short-dated instruments.

The Company performs financial projections under central and adverse scenarios to assess the capital required over a three-year business planning period.

E1.1 Capital Management Policy

The Company may distribute by way of dividend the full amount of distributable profits disclosed in the audited accounts each year, or other amount as agreed provided that, following such payment Aberdeen Life will continue to hold a level of cover, as deemed appropriate by the Board, above the appropriate regulatory requirement applicable to the Company, or such other amount as may be agreed and having regard to the Company's business plan. The Company's policy is to hold sufficient capital such that it may be treated under Article 199 of the Delegated Regulation as being equivalent to an entity with credit quality step 1 or any other maximum requirement applicable to the Company. This target has been set in order that the Company is able to demonstrate adequate financial strength but is not intended to represent any particular risk appetite.

The Board may cancel, amend or withhold dividends at any time prior to payment if such cancellation or amendment is necessary for the Company to meet regulatory requirements or its internal targets.

Prior to approval of any dividend payment, the Board will seek the non-objection of the PRA where required to do so.

There have been no material changes to the capital management policy over the reporting period. Any change in the capital management policy will be approved by the Board.

The Company monitors its capital position on an ongoing basis.

Own funds at 31 December 2017 are as follows:

	As at 31 December 2017 (£m)	**As at 30 September 2016* (£m)**
Tier 1 unrestricted		
Ordinary share capital	1.50	1.50
Reconciliation reserve	9.22	8.89
Total own funds	**10.72**	**10.39**
Solvency Capital Requirement (SCR)	1.58	1.73
SCR cover	**678%**	**602%**
Minimum Capital Requirement (MCR)	3.25	2.66
MCR Cover	**330%**	**391%**

*30 September 2016 data was not subject to audit

The total own funds have increased during the period, primarily due to the retention of net of tax profits earned during the period. SCR cover has increased due to the increase in own funds and the decrease in SCR, discussed further in section E.2.

The Company's MCR equals the €3.7m absolute floor as set out in regulation. The increase in MCR since 30 September 2016 is due to the weakening of Sterling: Euro exchange rates between 29 October 2015 and 31 October 2017, these being the dates, as set out in regulation, at which the exchange rate for the absolute floor are set for the previous and current reporting period respectively.

The reconciliation reserve comprises retained profits and the difference between the technical provisions for solvency purposes and the technical provisions reported in the financial statements.

The difference between equity shown in the financial statements and the excess of assets over liabilities used for solvency purposes is not material. The difference arises solely from the combined impact of the VIF and the risk margin that is not recognised in the financial statements but is reflected in the reconciliation reserve.

No basic own funds are subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of directive 2009/138/EC. There are no ancillary own funds and no deductions made from the own funds.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR is determined using the standard formula. The SCR and MCR as at 31 December 2017 is shown below.

	As at 31 December 2017 (£m)	As at 30 September 2016* (£m)
Solvency Capital Requirement		
Operational risk	1.58	1.87
Market risk	0.27	0.21
Life underwriting risk	0.07	0.09
Counterparty default risk	0.16	0.09
Diversification across risk modules	(0.13)	(0.10)
Tax adjustment	(0.38)	(0.44)
Total SCR	**1.58**	**1.73**
Minimum Capital Requirement	**3.25**	**2.66**

*30 September 2016 data was not subject to audit

The total SCR has reduced by £0.15m to £1.58m at 31 December 2017 as a result of:

- A reduction in Operational risk due to lower expenses incurred in the twelve months to 31 December 2017 compared to those incurred in the twelve months to 30 September 2016;
- An increase in market risk primarily due to an increase in concentration risk from the non-linked assets partially offset by a reduction in equity risk due to the lower VIF (there being less VIF to "lose" under the equity stress);
- A reduction in underwriting risk primarily due to the lower VIF;
- An increase in counterparty default risk due to an expected recovery from Group companies in relation to tax partially offset by lower cash holding as at 31 December 2017;
- A reduction in the tax adjustment due to lower a SCR in aggregate and a reduction in Corporation tax rate over the period.

The Company has not applied any of the simplifications outlined in Articles 88 to 112 of the Delegated Regulation. The Company is taking a proportionate and simplified approach to calculating the SCR for market risk in that all unit-linked assets are assumed to be invested in 'Type 2' equities as defined in Article 168 of the Delegated Regulation. This approach has been confirmed as acceptable by the PRA subject to ongoing monitoring.

No undertaking specific parameters are used to calculate the SCR pursuant to Article 104(7) of Directive 2009/138/EC.

The Company has not made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC.

The Company is not required to use any undertaking specific parameters in accordance with Article 110 of Directive 2009/138/EC. No capital add-on has been applied to the SCR.

The MCR calculation is set out in the Delegated Regulation. Given the nature of the Company's business, the required inputs to the calculation that are not defined under the regulations are limited to:

- The technical provisions excluding the risk margin for unit-linked life insurance and reinsurance obligations of £1,601.60m (£1,670.80m in 2016)

- The amount of capital at risk. Given payments made under the contracts issued by the Company are not directly contingent on death, the capital at risk is taken to be zero.

The MCR for the Company is currently based on the €3.7m monetary minimum set out in regulations.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company does not use the duration-based equity sub-module option as set out in Article 304 of Directive 2009/138/EC.

E.4 Differences between the standard formula and any internal model used

The Company is not using an internal model.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

The Company has complied fully with both the MCR and SCR during the reporting period.

E.6 Any other information

There is no other material information regarding the capital management of the Company.

F Validation

Approval by the Board of Directors of the Solvency and Financial Condition Report and Reporting Templates

Financial period ended 31 December 2017

We certify that:

1. The Solvency and Financial Condition Report (SFCR) has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

2. We are satisfied that:

    (a) Throughout the financial year in question, Aberdeen Life has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and

    (b) It is reasonable to believe that Aberdeen Life has continued so to comply subsequently and will continue so to comply in future.

Helen Webster

Helen Webster

Director and Chief Executive Officer

Aberdeen Asset Management Life and Pensions Limited (Aberdeen Life)

Date: 2 May 2018

Report of the external independent auditor to the Directors of Aberdeen Asset Management Life and Pensions Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by Aberdeen Asset Management Life and Pensions Limited as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Aberdeen Asset Management Life and Pensions Limited as at 31 December 2017, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S02.01.02 S12.01.02, S23.01.01, S25.01.21, S28.01.01 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S05.01.02, S05.02.01;

- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Aberdeen Asset Management Life and Pensions Limited as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Aberdeen Asset Management Life and Pensions Limited in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

- the directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the

Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations. which have been modified by the approval(s) and modifications granted by the PRA under The Solvency 2 Regulations 2015 and section 138A of FSMA respectively.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Relevant Elements of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Aberdeen Asset Management Life and Pensions Limited statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

Mostyn Wilson for and on behalf of KPMG LLP
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
2 May 2018

- The maintenance and integrity of Standard Life Aberdeen plc's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Appendix 1

Contents

The following QRTs are required for the SFCR:

QRT ref	QRT Template name
S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses
S.05.02	Premiums, claims and expenses by country – Not reported as all business written in the UK
S.12.01	Life and Health SLT Technical Provisions
S.23.01	Own Funds
S.25.01	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01	Minimum Capital Requirement – only Life or only non-life insurance or reinsurance activity

All figures are shown in £'000s

S.02.01.02 Balance Sheet

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	10,197
R0080	Property (other than for own use)	0
R0090	Holdings in related undertakings, including participations	0
R0100	Equities	0
R0110	Equities - listed	0
R0120	Equities - unlisted	0
R0130	Bonds	0
R0140	Government Bonds	0
R0150	Corporate Bonds	0
R0160	Structured notes	0
R0170	Collateralised securities	0
R0180	Collective Investments Undertakings	10,197
R0190	Derivatives	0
R0200	Deposits other than cash equivalents	0
R0210	Other investments	0
R0220	Assets held for index-linked and unit-linked contracts	1,601,651
R0230	Loans and mortgages	0
R0240	Loans on policies	0
R0250	Loans and mortgages to individuals	0
R0260	Other loans and mortgages	0
R0270	Reinsurance recoverables from:	0
R0280	Non-life and health similar to non-life	0
R0290	Non-life excluding health	0
R0300	Health similar to non-life	0
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	0
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	0
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,449
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	748
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	1,571
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	1,617,616

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	0
R0520	Technical provisions – non-life (excluding health)	0
R0530	TP calculated as a whole	0
R0540	Best Estimate	0
R0550	Risk margin	0
R0560	Technical provisions - health (similar to non-life)	0
R0570	TP calculated as a whole	0
R0580	Best Estimate	0
R0590	Risk margin	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	Technical provisions - health (similar to life)	0
R0620	TP calculated as a whole	0
R0630	Best Estimate	0
R0640	Risk margin	0
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	0
R0660	TP calculated as a whole	0
R0670	Best Estimate	0
R0680	Risk margin	0
R0690	Technical provisions – index-linked and unit-linked	1,601,700
R0700	TP calculated as a whole	1,601,651
R0710	Best Estimate	-53
R0720	Risk margin	102
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	107
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	3,449
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	1,642
R0850	Subordinated liabilities	0
R0860	Subordinated liabilities not in Basic Own Funds	0
R0870	Subordinated liabilities in Basic Own Funds	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	1,606,898
R1000	**Excess of assets over liabilities**	10,717

S.05.01.02 Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life-reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	0	0	229,708	0	0	0	0	46,065	275,773
R1420	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1500	Net	0	0	229,708	0	0	0	0	46,065	275,773
	Premiums earned									
R1510	Gross	0	0	0	0	0	0	0	0	0
R1520	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1600	Net	0	0	0	0	0	0	0	0	0
	Claims incurred									
R1610	Gross	0	0	297,950	0	0	0	0	297,147	595,096
R1620	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1700	Net	0	0	297,950	0	0	0	0	297,147	595,096
	Changes in other technical provisions									
R1710	Gross	0	0	143,915	0	0	0	0	106,166	250,081
R1720	Reinsurers' share	0	0	0	0	0	0	0	0	0
R1800	Net	0	0	143,915	0	0	0	0	106,166	250,081
R1900	**Expenses incurred**	0	0	5,148	0	0	0	0	2,009	7,157
R2500	**Other expenses**									0
R2600	**Total expenses**									7,157

S.12.01.02 Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	977,704			0			0	623,946	1,601,651	0			0	0	0
R0020	**Total Recoverables from reinsurance/SPV and Finite Re** after the adjustment for expected losses due to counterparty default associated to TP as a whole	0	0			0			0	0	0	0			0	0	0
	Technical provisions calculated as a sum of BE and RM																
	Best Estimate																
R0030	**Gross Best Estimate**	0		0	-32		0	0	0	-21	-53		0	0	0	0	0
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	0		0	0		0	0	0	0	0		0	0	0	0	0
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	0		0	-32		0	0	0	-21	-53		0	0	0	0	0
R0100	**Risk Margin**	0	62			0			0	40	102	0			0	0	0
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0			0	0	0	0			0	0	0
R0120	Best estimate	0		0	0		0	0	0	0	0		0	0	0	0	0
R0130	Risk margin	0	0			0			0	0	0	0			0	0	0
R0200	**Technical provisions - total**	0	977,734			0			0	623,965	1,601,700	0			0	0	0

S.23.01.01 Own Funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated					
R0010	Ordinary share capital (gross of own shares)	1,500	1,500		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	9,217	9,217			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	0
R0290	**Total basic own funds after deductions**	10,717	10,717	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0

	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	10,717	10,717	0	0	0
R0510	Total available own funds to meet the MCR	10,717	10,717	0	0	
R0540	Total eligible own funds to meet the SCR	10,717	10,717	0	0	0
R0550	Total eligible own funds to meet the MCR	10,717	10,717	0	0	
R0580	**SCR**	1,582				
R0600	**MCR**	3,251				
R0620	**Ratio of Eligible own funds to SCR**	6.7762				
R0640	**Ratio of Eligible own funds to MCR**	3.2970				

	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	10,717				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	0				
R0730	Other basic own fund items	1,500				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	9,217				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	0				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0				
R0790	**Total Expected profits included in future premiums (EPIFP)**	0				

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	273		
R0020	Counterparty default risk	163		
R0030	Life underwriting risk	66		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-125		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	377		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,582
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-378
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	1,582
R0210	Capital add-on already set	0
R0220	**Solvency capital requirement**	1,582
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01 Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCRNL Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expenses insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	0	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCRL Result	11,211

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	1,601,598	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

	Overall MCR calculation	C0070
R0300	Linear MCR	11,211
R0310	SCR	1,582
R0320	MCR cap	712
R0330	MCR floor	395
R0340	Combined MCR	712
R0350	Absolute floor of the MCR	3,251

		C0070
R0400	**Minimum Capital Requirement**	3,251