Pillar 3 Disclosures

31 December 2020

Standard Life Aberdeen Group

Contents

The Pillar 3 Disclosures for the Group and its subsidiaries are available on our website **www.standardlifeaberdeen.com/annualreport**

The Group's Annual report and accounts 2020 is also available on our website **www.standardlifeaberdeen.com/annualreport**

1. Introduction

Standard Life Aberdeen is a FTSE 100 investment company. Standard Life Aberdeen's strategy is to deliver client led growth. It operates across three 'vectors' which reflect how we interact with clients: **Investments** – a global asset management business serving institutional and wholesale clients; **Adviser** – a UK financial adviser technology platform that helps financial advisers and the firms they work for deliver advice over the length and breadth of the UK; and **Personal** – a high-potential UK wealth and savings business. Through these three vectors Standard Life Aberdeen has the full ecosystem of capabilities to enable our clients to be better investors.

This document sets out the Pillar 3 disclosures for Standard Life Aberdeen plc and its relevant subsidiaries as at 31 December 2020 (SLA, SLA group, or the Group). It fulfils the regulatory disclosure requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), referred to collectively as 'CRD IV'.

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

The regulatory framework is based on three 'Pillars':

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

These Pillar 3 disclosures are made as at 31 December 2020, which is SLA's accounting reference date. The Pillar 3 disclosures are not subject to audit and have been produced solely for the purpose of satisfying the Pillar 3 regulatory requirements. Additional relevant information can be found in the Group's Annual report and accounts (ARA) for the year ended 31 December 2020 (ARA 2020), which is available on the SLA corporate website at **www.standardlifeaberdeen.com/annualreport**

2. Summary capital position

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

	Total regulatory capital	CET1 capital	Tier 2 capital	Total risk exposure	Capital ratio (CET1)	Capital ratio (T1)	Capital ratio (Total)
	£m	£m	£m	£m	%	%	%
2020	**3,397**	**2,851**	**546**	**6,353**	**44.9**	**44.9**	**53.5**
2019	2,792	2,229	563	4,564	48.8	48.8	61.2

The Pillar 1 capital requirement at 31 December 2020 was £508m. Further details are set out in Section 7.

3. Risk governance and risk management

3.1 Our approach to risk management

A strong risk and compliance culture flows from our purpose and values and is fundamental to how SLA manages its business. Effective risk management is an essential part of delivering SLA's corporate strategy. SLA's approach is predicated on risk awareness and risk accountability across all lines of defence; this supports delivery of long-term value for clients, customers and shareholders, and protects their interests.

SLA aims to ensure that:

- Decision making is attentive to both risk and reward in pursuit of the business objectives and good client outcomes
- Responsibilities to clients and customers are prioritised
- Capital is appropriately rewarded for the risks that are taken

The Board is responsible for the adequacy of the risk management arrangements of the Group as detailed on page 56 of the ARA 2020 which sets out the conclusion from the annual review of internal control.

Governance arrangement details including key directorships and skills held by members of the Board, the Board appointment process, the approach to Board composition, balance and diversity, and meetings of the Risk and Capital Committee are set out in the ARA 2020 in the Board of Directors, Corporate Governance statement and Directors' report sections.

3.2 Three lines of defence

SLA operates 'three lines of defence' in the management of risk so that there are clearly defined roles and responsibilities within the ERM Framework:

- **First line:** Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board to the Chief Executive Officer and, through a system of delegated authorities and limits, to business managers
- **Second line:** Risk oversight is provided by the Chief Risk Officer. The Risk and Compliance function is organised so that there is a consistent view across all of SLA's principal risks working closely with the first and third lines of defence.
- **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by Internal Audit. This is independent from all other operational functions and operates subject to supervision and challenge by the Audit Committee.

The three lines of defence model is supplemented by a range of risk-related committees at divisional and operational business level. The Board and Executive Leadership Team (ELT) have overarching responsibilities to ensure, through the application of good corporate governance, the effective and strategic stewardship and risk management of SLA.

3.3 Enterprise Risk Management Framework

The Enterprise Risk Management (ERM) framework underpins risk management throughout our business. SLA continually evolves the ERM framework to meet the changing needs of the group and to make sure it keeps pace with industry best practice and the risk profile of the business. In 2020, improvements to the framework included:

- Strengthening our Risk Appetite framework by introducing new risk tolerances to support governance and risk management
- Extending and refining our risk taxonomy so we can describe risk more accurately
- Extending the Senior Managers and Certification Regime (SMCR) across all of our UK regulated subsidiaries including the roll-out of training on conduct rules and other support for our senior managers and certified employees

Enterprise Risk Management Framework – major components

Culture

The development and ongoing support of a strong risk culture is at the core of the ERM framework.

A strong risk and compliance culture is fundamental to how the business is managed. SLA seeks to promote a strong risk management culture throughout the business and encourage values and behaviours that steer how employees conduct their work and the decisions they make. The risk culture is founded on a clear, consistent risk strategy, and is designed to support delivery of strategic objectives.

Senior management frequently communicate the importance of a strong risk culture to reinforce these expected values and behaviours and to enhance employee understanding and knowledge of risk. For all colleagues there is an expectation that:

- They must act with integrity
- They must act with due skill, care and diligence
- They must be open and cooperative with the FCA, the PRA and other regulators
- They must pay due regard to the interests of customers and treat them fairly
- They must observe proper standards of market conduct

Accountability

Strong risk culture is predicated on clear accountability. Accountability is about the right behaviours and also clarity of roles and responsibilities.

Within the UK, the SMCR has three main components:

- Senior Managers Regime
- Certification Regime
- Conduct rules

Together these components provide regulatory accountability for Senior Managers, enhanced vetting for certified persons who perform certain functions in the firm, and rules of conduct that apply to all non-ancillary staff members.

SMCR is designed to ensure that the relevant senior managers have a clear view of their roles and responsibilities and can demonstrate they have taken reasonable steps in performing these roles.

Clarity of accountability and responsibilities is critical to sound management and the efficient running of the business.

Risk Appetite

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

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

The risk appetites are defined through a combination of:

- High-level risk principles
- Risk appetite statements
- Risk metrics measured against tolerances

Policies

SLA has a Policy Framework which allows key governing principles to be articulated across the group and for specific subsidiaries where necessary. Each policy has an owner with accountability to know how the policy is operating and to ensure that the policy is current.

Policies are in place to manage the material risks that SLA runs as a financial services company. Risk policies are aimed at business unit/functional management teams and capture the standards expected from each area to manage the key risks while being beneficial in running the business to deliver the strategy.

Reporting and escalation

Regular reporting is produced by Risk and Compliance and the Chief Risk Officer which provides the risk committees/forums and the relevant regulated legal entity and Group boards with appropriate, timely and quality information so that they can discharge their responsibilities effectively.

Risk and Control Self-Assessment

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

Business objectives are identified along with relevant risks to achieving those objectives and the controls in place to mitigate the risks. All risks identified by RCSAs are maintained in the risk library . Risks are assessed using a 4x4 matrix for impact and likelihood as well as gross and net scores to ascertain the impact of key controls. Assurance is provided through sign-off by business managers, which is overseen and challenged by Risk and Compliance. The aim of RCSA is to evaluate and ensure that the primary controls within key processes are documented and subject to regular assessment by business owners. RCSA provides senior management with assurance over the effectiveness of the control environment across key business areas. The assessment includes a review of the adequacy of the design of the suite of controls and an assessment of the actual performance of those controls.

Events and issues management

Events and issues can occur in any part of the business and can significantly impact reputation and performance and may cause client, partner, shareholder and/or employee detriment, so must be identified quickly, understood and appropriately responded to. This is important for a number of reasons:

- It enables timely action to minimise the event's impact, preventing further significant problems for the business, clients, partners, shareholders and employees
- It demonstrates SLA's responsiveness to clients', partners', shareholders' and employees' concerns and maintains their trust where they are impacted
- It provides clarity on the level of risk the business is exposed to, both at an individual (each risk event) and aggregate (across all risk events) level and whether this is within or out with SLA's risk appetite (i.e. the amount of risk SLA is prepared to accept in pursuing its objectives)
- It supports decision making on where to direct resources to remediate and mitigate control deficiencies
- It supports the management of capital, helping to inform on capital requirements (both regulatory and economic) and how capital is being utilised

The logging and tracking of issues, events and actions is a critical activity to ensuring good risk discipline. SLA has consolidated all tracking of issues, events and actions onto one risk system called Shield.

Risk taxonomy

Risk taxonomy is a key component of the ERM framework. The taxonomy provides a comprehensive, common set of risk categories that is used within SLA; this supports clear management and oversight of risks throughout the business and across the three lines of defence. By providing a comprehensive set of risk categories, it encourages those involved in risk identification to consider all types of risks that could affect SLA's objectives.

All risks are grouped under twelve principal risks:

2020 Principal Risk	2020 Risk Category
Process execution and trade errors	Operational Risk
People	
Technology	
Business resilience and continuity	
Fraud and financial crime	
Change management	
Third party management	
Financial management process	
Conduct risk	Conduct Risk
Regulatory and legal risk	Regulatory and Legal
Strategic risk	Strategic Risk
Financial risk	Financial Risk

Further detail on our principal risks can be found in the Risk Management section of the ARA 2020.

The 2020 Risk Categories are those on which we measure risk under CRD IV and further detail can be found in Section 4.

Oversight and assurance

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

Assurance assessments are conducted over compliance with key regulations. Risk appetites and risk assessment for key areas of regulatory focus help to drive the thematic and regular testing plans. The plans focus on compliance with specific regulations in relation to key processes within the organisation.

Strategic and emerging risks

Strategic risk management forms an integral part of the strategic planning process and is directly linked to the vision of the business. SLA has an appetite for strategic risk that arises as a consequence of pursuing its chosen business model. SLA will proactively identify and understand the strategic risks that the Group is exposed to, the options available to manage them and ensure that these inform strategy formation and business planning.

Considering the potential impacts of emerging strategic, operational or financial risks is a key part of the ERM Framework, and the ability to detect and adapt to changes in SLA's environment may not only prevent problems arising but may also help SLA identify new opportunities.

The ERM framework has tools and processes to allow it to identify and recognise new and emerging issues and risks that may impact the risk profile of the business, and which are then used to subsequently inform stress testing and capital adequacy requirements.

Financial and operational resilience

SLA performs processes to inform the boards and executive of the identification, assessment and management of the risks faced by the business. This enables the boards to challenge the assessment and management of these risks, as well as informing effective risk-based decision making. These processes form part of SLA's Internal Capital Adequacy Assessment Process, or ICAAP.

SLA assesses and documents its ICAAP which includes:

- The assessment of capital and liquidity requirements with respect to SLA's risks
- A forward-looking assessment of the risk and financial strength of SLA over a multi-year time horizon in light of business plans, considering a range of stress scenarios

SLA also assesses its financial and operational resilience by performing reverse stress testing and wind-down planning to ensure that if SLA has to cease operating it has sufficient financial resources to wind-down operations in an orderly fashion.

Metrics and indicators

Key risk indicators (KRIs) are an important component of the ERM Framework, as effective KRIs can identify potential issues before they materialize and can be used as a monitoring tool to provide a snapshot of current business exposure to a specific risk. In order to support the risk governance and risk management processes of SLA, metrics have been defined to help monitor levels of risk and the quality of controls. KRIs form part of SLA's reporting of risks to boards.

Training and advice

With effective training and advice SLA can ensure that behaviours and conduct adhere to SLA policy and regulatory guidance; this supports the embedding of the ERM framework.

A strong risk culture is reinforced through a training programme of face-to-face and e-learning modules. Mandatory training on risk policy is provided at regular intervals during the year and is monitored closely in terms of completion rates.

4. Key risks to Standard Life Aberdeen

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

4.1 Operational risk

Operational risk

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

The types of operational risk to which the Group is exposed to are detailed in Section 3.

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

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

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

RCSA is an activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. Details of the RCSA process are included in Section 3.

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

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

Remuneration risk

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

4.2 Conduct risk

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

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

The Group has a risk framework that utilises the tools outlined in Section 4.1 to ensure the appropriate identification and management of conduct risk.

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

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

4.3 Regulatory and legal risk

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

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

4.4 Strategic risk

Strategic risk

Strategic risk covers risks which threaten the achievement of the strategy through (i) poor strategic decision making, implementation or response to changing circumstances or (ii) failure to plan for the impact of external events (which could either be opportunities or threats).

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

Concentration risk

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

The Group manages this risk by seeking to diversify the business by activity across investments, adviser platforms and personal wealth management; and within investments by asset class, clients and geography.

4.5 Financial risk

Market risk

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

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

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

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

Equity risk

The Group is exposed to the risk of adverse equity market movements which could result in losses. The Group's shareholders are exposed to the following sources of equity risk: from direct equity shareholdings of SLA and the Group's defined benefit pension plans.

Interest rate risk

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

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

Foreign currency risk

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

Credit risk

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

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

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

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

Group risk

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

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

Liquidity risk

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

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

The framework ensures that liquidity risks and which entities in the Group have the exposure are identified. Stress testing of these risks is performed to understand the quantum of risk under such conditions. This then informs the level of liquid resources that need to be maintained. Where appropriate this is enhanced with external credit facilities and the Group has a syndicated revolving credit facility of £400m which was undrawn at 31 December 2020.

5. Basis of consolidation

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

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

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

- Aberdeen Standard Investments Life and Pensions Limited, which is an insurance undertaking
- Focus Solutions Group Limited, Threesixty Support LLP and the Standard Life Foundation, which are non-financial undertakings

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

A summarised Group structure chart is included in Appendix 1.

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

Financial accounting to regulatory scope reconciliation 31 December 2020	IFRS Group balance sheet (audited) £m	Deconsolidation of entities not included in regulatory consolidation £m	Inclusion of these entities as investments in subsidiaries £m	Consolidation of associates/ joint ventures £m	Regulatory balance sheet £m
Assets					
Intangible assets	501	(28)	–	22	495
Pension and other post-retirement benefit assets	1,474	–	–	–	1,474
Investments in subsidiaries	–	–	1,414	(1)	1,413
Investments in associates and joint ventures accounted for using the equity method	1,371	–	–	(116)	1,255
Property, plant and equipment	236	(1)	–	12	247
Deferred tax assets	131	–	–	1	132
Financial investments	3,110	(1,045)	–	444	2,509
Receivables and other financial assets	621	(11)	–	18	628
Current tax recoverable	9	–	–	4	13
Other assets	46	2	–	–	48
Assets held for sale	19	–	–	–	19
Cash and cash equivalents	1,519	(528)	–	3	994
Assets backing unit linked liabilities (excluding held for sale)	1,441	(1,441)	–	–	–
Total Assets	**10,478**	**(3,052)**	**1,414**	**387**	**9,227**
Liabilities					
Third party interest in consolidated funds	77	(77)	–	–	–
Subordinated liabilities	638	–	–	–	638
Pension and other post-retirement benefit provisions	55	–	–	–	55
Deferred income	73	–	–	–	73
Deferred tax liabilities	66	–	–	–	66
Current tax liabilities	15	–	–	1	16
Derivative financial liabilities	13	–	–	–	13
Other financial liabilities	1,177	(6)	–	29	1,200
Provisions	93	–	–	1	94
Other liabilities	6	(4)	–	–	2
Liabilities of operations held for sale	11	–	–	–	11
Unit linked liabilities (excluding held for sale)	1,441	(1,441)	–	–	–
Total Liabilities	**3,665**	**(1,528)**	–	**31**	**2,168**
Total Equity	**6,813**	**(1,524)**	**1,414**	**356**	**7,059**
Non-controlling interests	(3)	–	–	(354)	(357)
Equity attributable to equity shareholders of Standard Life Aberdeen plc	**6,810**	**(1,524)**	**1,414**	**2**	**6,702**

6. Regulatory own funds

6.1 Overview

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

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

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

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

Capital resources and requirements disclosed in this document reflect the position on signing of the ARA 2020. At this point 2020 year end profits are included in capital resources.

6.2 Tier 1 capital

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

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

SLA group Tier 1 capital	**2020 £m**	2019 £m
Share capital	306	327
Treasury shares (shares held by trusts)	(170)	(134)
Share premium reserve	640	640
Retained earnings	4,970	2,886
Other reserves	1,064	2,845
Equity attributable to equity holders of SLA plc (Audited)	**6,810**	6,564
CRR prudential consolidation adjustments (per CRR Articles 18 and 43)	(108)	(97)
Equity attributable to equity holders of SLA plc (Prudential basis)	**6,702**	6,467
Deductions for intangible assets, net of related deferred tax liabilities (per CRR Article 36)	(447)[1]	(1,644)[1]
Deductions for defined benefit pension fund assets (per CRR Article 36)	(1,474)	(1,163)
Deductions for significant investments in financial sector entities (SIIFSE) and deferred tax (per CRR Article 36)	(881)[2]	(1,066)[2]
Deductions for non-significant investments in financial sector entities (NSIIFSE) (per CRR Article 36)	(793)[3]	n/a
Other deductions and adjustments, including provision for foreseeable dividend (per CRR Articles 26, 33,36, 38)	(256)[4]	(365)[4]
Common Equity Tier 1 capital resources (CET1)	**2,851**	2,229

1 The £447m (2019: £1,644m) deduction represents £495m (2019: £1,734m) for intangible assets net of £48m (2019: £90m) for related deferred tax liabilities.

2 Net of a threshold exemption amount of £373m (SIIFSE) (2019: £303m) and £42m (deferred tax) (2019: £31m).

3 Net of a threshold exemption amount of £452m (NSIIFSE) (2019: £nil).

4 Other deductions relate to the foreseeable dividend of £154m (2019: £321m), £90m (2019: £40m) of deferred tax assets that rely on future profitability excluding those arising from temporary differences, and the cash flow hedge reserve of £12m (2019: £4m).

Further detail on the equity attributable to equity holders of SLA plc can be found in Notes 26 to 29 of the ARA 2020.

At 31 December 2020, significant investments in financial sector entities include the Group's Phoenix associate investment, and non-significant investments in financial sector entities include the Group's investment in HDFC Life Insurance Company Limited.

6.3 Tier 2 capital

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

- US$ 750m 4.25% fixed rate, due 30 June 2028

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

More detail on this subordinated debt instrument can be found in Note 33 Subordinated Liabilities of the ARA 2020. The full terms and conditions of the debt instrument can be found on the Group's website at
www.standardlifeaberdeen.com/investors/for-debt-investors

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

6.4 Exposure to equities and interest rate risk

The Group has exposures to equites and interest rate risk not included in the trading book as described in Section 4.5. Details of the exposures are set out in Note 38 (Financial instruments risk management) of the ARA 2020 including sensitivity analysis to Group profit after tax and Group equity to upward and downward movements to equity prices and interest rates.

6.5 Expected impact of the Investment Firm Prudential Regime on capital resources

The Group's capital resources include c£0.8bn (2019: c£0.3bn) from holdings in insurance entities that it is expected will no longer be eligible following the implementation of the Investment Firm Prudential Regime (IFPR) from 1 January 2022 – see footnotes 2 and 3 of Section 6.2. The IFPR is also expected to introduce constraints on the proportion of the minimum capital requirement that can be met by each tier of capital. As a result, it is estimated that c£0.3bn of existing Tier 2 capital, whilst continuing to be reported within the Group's capital resources, would not be available to meet the current minimum capital requirement from 1 January 2022.

7. Capital requirements

7.1 Group Pillar 1 capital requirement

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

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

At 31 December 2020, the Group credit and market risk requirements of £508m established its Pillar 1 capital requirements.

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

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

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

	2020		2019	
Pillar 1 capital requirement	**Risk-weighted exposure £m**	**8% capital requirement £m**	Risk-weighted exposure £m	8% capital requirement £m
Credit risk	**4,911**	**393**	3,553	284
Market risk				
In respect of foreign exchange risk	1,442	115	1,011	81
Total market risk	**1,442**	**115**	1,011	81
Credit and market risk combined	**6,353**	**508**	4,564	365
Fixed overhead requirement	**3,855**	**308**	4,144	332
Total Pillar 1 capital requirement	**6,353**	**508**	4,564	365

8. Pillar 1 credit risk capital requirements

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

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

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

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

31 December 2020	Total exposure (pre weighting) £m	Total risk-weighted exposure £m	8% capital requirement £m
Central government or central banks	110	31	3
Regional governments or local authorities	8	2	–
Public sector entities	28	14	1
Multilateral development banks	22	–	–
Institutions	457	204	16
Corporates	586	503	40
Retail exposures	10	8	1
In default	12	18	1
Particularly high risk	119	179	14
Institutions and corporates with a short-term credit assessment	1,733	349	28
Units or shares in collective investment undertakings	928	927	74
Equity exposures	896	2,144	172
Other items	468	532	43
Total credit risk	**5,377**	**4,911**	**393**

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

8.2 Risk weights

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

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

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

Credit Exposure Summary by Credit Quality Step

Credit quality step Credit Risk Exposure Amount	1 £m	2 £m	3 £m	4 £m	5 £m	6 £m	Other £m	Total £m
2020	**1,626**	**763**	**162**	**13**	**1**	–	**2,812**	**5,377**
2019	1,660	778	184	6	2	–	2,287	4,917

9. Pillar 1 market risk capital requirements

9.1 Market risk measurement

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

9.2 Foreign exchange position risk measurement

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

Foreign exchange positions subject to capital charge

	2020 £m	2019 £m
Position subject to capital charge	1,442	1,011
Market risk capital requirement	**115**	81

10. Remuneration disclosure

Details of Remuneration Policies and Procedures can be found on our website at **www.standardlifeaberdeen.com/who-we-are/remuneration-disclosure**

These details together with the table below satisfy the Pillar 3 remuneration disclosures for the year ended 31 December 2020. This is a single consolidated Pillar III return for the Standard Life Aberdeen plc Group which is considered a single business unit for these purposes.

During 2020 the following amounts were paid in fixed and variable remuneration to senior managers and other material risk takers. Fixed remuneration includes base salary and benefits (including pension). Fixed remuneration for non-executive directors and committee members comprises fees. Variable remuneration includes all awards made in respect of the 2020 performance year, including Long Term Incentive Plan awards and any other long term performance awards which were granted during 2020 (and which are included at the maximum target value of such awards at the date of grant).

Non-GBP remuneration has been translated into GBP using the FX rates as at 31 December 2020.

	2020 Senior Management[1]	2020 Other Code Staff
Number of Code Staff[2]	29	169
Fixed Remuneration[3] (£)	9.1m	37.6m
Variable Remuneration[3,4] (£)	24.5m	52.2m
Total[5] (£)	**33.6m**	**89.8m**

1 Senior Management comprises of Executive Directors, Non-Executive Directors and the Executive Leadership Team.

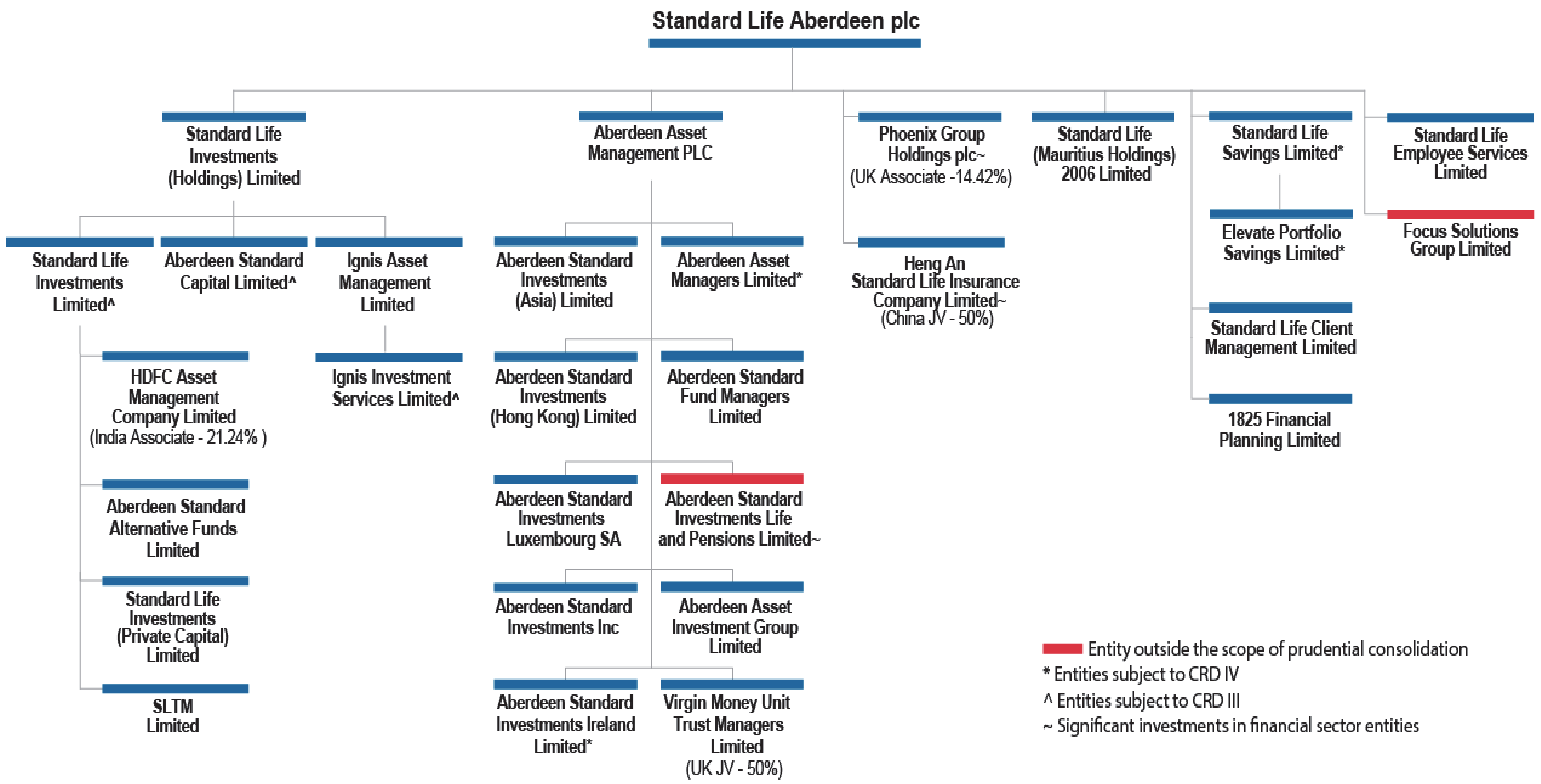
2 These figures reflect the material risk takers identified under CRD IV regulations.

3 Both Fixed Remuneration and annual Variable Remuneration have been apportioned to reflect the period of time during 2020 that the individual was undertaking a Code Staff role.

4 LTIP and other long term performance awards have been included at maximum value at date of grant (other than where the awards were granted at a time that the relevant individual was not undertaking a Code Staff role, in which case they have not been included).

5 The figures reflect the total remuneration paid to each material risk taker for their work across the Standard Life Aberdeen Group.

Appendix 1 – Summarised Group structure chart at 31 December 2020



Appendix 2 – Own funds disclosures

Common Equity Tier 1 (CET1) capital: Instruments and reserves		2020 £m	2019 £m	Regulation (EU) No 575/2013 Article Reference
1	Capital instruments and the related share premium accounts	776	833	26(1), 27, 28 ,29
2	Retained earnings	4,970	2,886	26(1)(c)
3	Accumulated other comprehensive income (and other reserves)	956	2,748	26(1)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	(154)	(321)	26(2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6,548**	6,146	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liability)	(447)	(1,644)	36(1)(b), 37
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (Art 36.1 & 38)	(90)	(40)	36(1)(c), 38
11	Fair value reserves relating to gains or losses on cash flow hedges (Art 33.a)	(12)	(4)	33(1)(a)
15	Defined-benefit pension fund assets	(1,474)	(1,163)	36(1)(e), 41
18	Holdings of CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	(793)	n/a	36(1)(h), 43, 45, 46, 49(2)(3), 79
22	Amounts exceeding the threshold in accordance with Article 48(1)	(881)	(1,066)	48(1)
23	Of the amount reported in 22, the amount of direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities.	(881)	(1,063)	36(1)(c), 48(1)(b)
25	Of the amount reported in 22, the amount of deferred tax assets arising from temporary timing differences as described in Articles 36.1.c, 38 and 48.1.a.	–	(3)	36(1)(c), 38, 48(1)(A)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(3,697)**	(3,917)	
29	**Common Equity Tier 1 capital**	**2,851**	2,229	
44	**Additional Tier 1 (AT1) capital**	**–**	–	
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**2,851**	2,229	
46	Capital instruments and the related share premium accounts	546	563	62, 63
58	**Tier 2 Capital**	**546**	563	
59	**Total Capital**	**3,397**	2,792	
60	**Total risk weighted assets**	**6,353**	4,564	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure)	44.9%	48.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure)	44.9%	48.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure)	53.5%	61.2%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement per Article 92(1)(a) plus capital conservation and countercyclical buffer requirements, plus systematic risk buffer, plus systematically important institution buffer expressed as % of risk exposure amount)	–	–	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	–	–	
66	Of which: countercyclical buffer requirement	–	–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of total risk exposure)	38.9%	42.8%	CRD 128
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below threshold and net of eligible short positions)	452	–	36(1)(h), 46, 45, 56(c), 59, 60, 66(c), 69, 70
73	Holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below threshold and net of eligible short positions)	373	303	36(1)(i), 45, 48
75	Deferred tax assets arising from temporary differences (amount below threshold, net of related tax liability where the conditions in Article 38(3) are met)	42	31	36(1)(c), 38, 48

Appendix 3 – Capital instruments' main features template

Capital instruments' main features template			
1	Issuer	Standard Life Aberdeen plc	Standard Life Aberdeen plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GB00BF8Q6K64	XS1698906259
3	Governing law(s) of the instrument	United Kingdom	English law, except for subordinated provisions which are governed by Scots law
Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Share Capital	Dated Subordinated Debt
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	£306m	£546m
9	Nominal amount of instrument	13 61/63 pence	$750m
9a	Issue price	N/A	100.00%
9b	Redemption price	N/A	100.00%
10	Accounting classification	Shareholders' equity	Liability – amortised cost
11	Original date of issuance	22/10/2018	18/10/2017
12	Perpetual or dated	Perpetual	Dated
13	Original maturity date	No maturity	30/06/2028
14	Issuer call subject to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Tax and regulatory event calls at 100%
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend / coupon	N/A	Fixed
18	Coupon rate and any related index	N/A	4.25%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step-up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Non-cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instruments type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description or write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	Subordinate to (a) unsubordinated creditors and (b) subordinated creditors which are not Tier 2 Capital, Additional Tier 1 Capital or otherwise ranking junior
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A

Please remember that the value of shares can go down as well as up and you may not get back the full amount invested or any income from it. All figures and share price information have been calculated as at 31 December 2020 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at April 2021 and does not provide financial or legal advice.

Standard Life Aberdeen plc is registered in Scotland (SC286832) at 1 George Street, Edinburgh EH2 2LL.