Standard Life Aberdeen

Building a diversified world-class investment company

Annual report and accounts 2017

Financial highlights

		Pro forma basis	Reported basis
Adjusted profit before tax	KPI R	**£1,039m** (2016: £1,054m)	**£854m** (2016: £718m)
Cost/income ratio	KPI R	**66%** (2016: 64%)	**64%** (2016: 62%)
Adjusted diluted earnings per share	KPI	**28.9p** (2016: 28.8p)	**29.9p** (2016: 29.3p)
Assets under management and administration (AUMA)	KPI	**£654.9bn** (2016: £647.6bn)	
Net flows	KPI	**£31.0bn outflow** (2016: £36.8bn outflow)	
Investment performance Percentage of AUM above benchmark over three years	KPI R	**63%**	
Full year dividend per share	KPI		**21.30p** (2016: 19.82p)

Certain measures such as adjusted profit before tax, are not defined under IFRS and are therefore termed alternative performance measures (APMs). Further details on APMs are included in Supplementary information in Section 10.

We include measures below which have not been determined to be KPIs but we believe are integral to the Group's performance.

IFRS profit after tax attributable to equity holders	**£699m** (2016: £368m)
Diluted earnings per share	**29.6p** (2016: 18.6p)

Non-financial highlights

Women in Finance Charter commitments

Board
31 Dec 2017: 25%
(June 2020 target: 33%)

Executive
31 Dec 2017: 27%
(June 2020 target: 33%)

Ranked in top 3% of companies in FTSE4Good Index

Employee Engagement/Enablement was a KPI in the Standard Life plc Annual report and accounts 2016. In 2017 we focused our survey on sentiment towards the merger – see page 29 for results of this survey. We intend to report Engagement/Enablement results as a KPI in the Annual report and accounts 2018.

KPI Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively.

The KPIs that we use were revised following the merger to reflect the increased asset management focus of the Group. Several KPIs previously used by Standard Life Group are no longer reported following this review. The KPIs that we use may not be directly comparable with similarly named measures used by other companies. See Supplementary information in Section 10 for further information.

R Measure is a key input to a metric used for Executive remuneration. See page 100 for more information.

The Annual report and accounts 2017 and the Strategic report and financial highlights 2017 are published on the Group's website at **www.standardlifeaberdeen.com/annualreport**

Access to the website is available outside the UK, where comparable information may be different.

Standard Life plc renamed as Standard Life Aberdeen plc
Standard Life plc was renamed as Standard Life Aberdeen plc on 14 August 2017.

Integrating environmental, social and governance (ESG) factors
The consideration of ESG factors is fundamental to us as an investor, asset owner and corporate. Details of our approach to ESG are integrated throughout this report, and in our Corporate sustainability and stewardship report 2017 which can be found at **www.standardlifeaberdeen.com/annualreport**

Reported and Pro forma results
The merger of Standard Life plc and Aberdeen Asset Management PLC (Aberdeen) completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The Reported results reflect this accounting treatment. Pro forma results for the Group are prepared as if Standard Life Group and Aberdeen had always been merged and are included in these results to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for both the current year and prior year. The difference between the Reported results and Pro forma results is the results of Aberdeen in the period prior to completion of the merger. A reconciliation between profitability on a Pro forma basis and the Reported basis is included on page 35.

Our vision and purpose

In August 2017 Standard Life plc and Aberdeen Asset Management PLC merged to become Standard Life Aberdeen, one of the world's largest investment companies.

Our purpose is to invest for a better future. We do it to make a difference – to the lives of our clients and customers, our people and our shareholders. To achieve our purpose, we aim to build a world-class investment company.

We have a commitment to excellence in everything that we do – supported by innovation and collaboration from our talented people. We aim to develop products and services for evolving client needs, create a culture of inclusion and respect, and build beneficial relationships with all of our stakeholders.

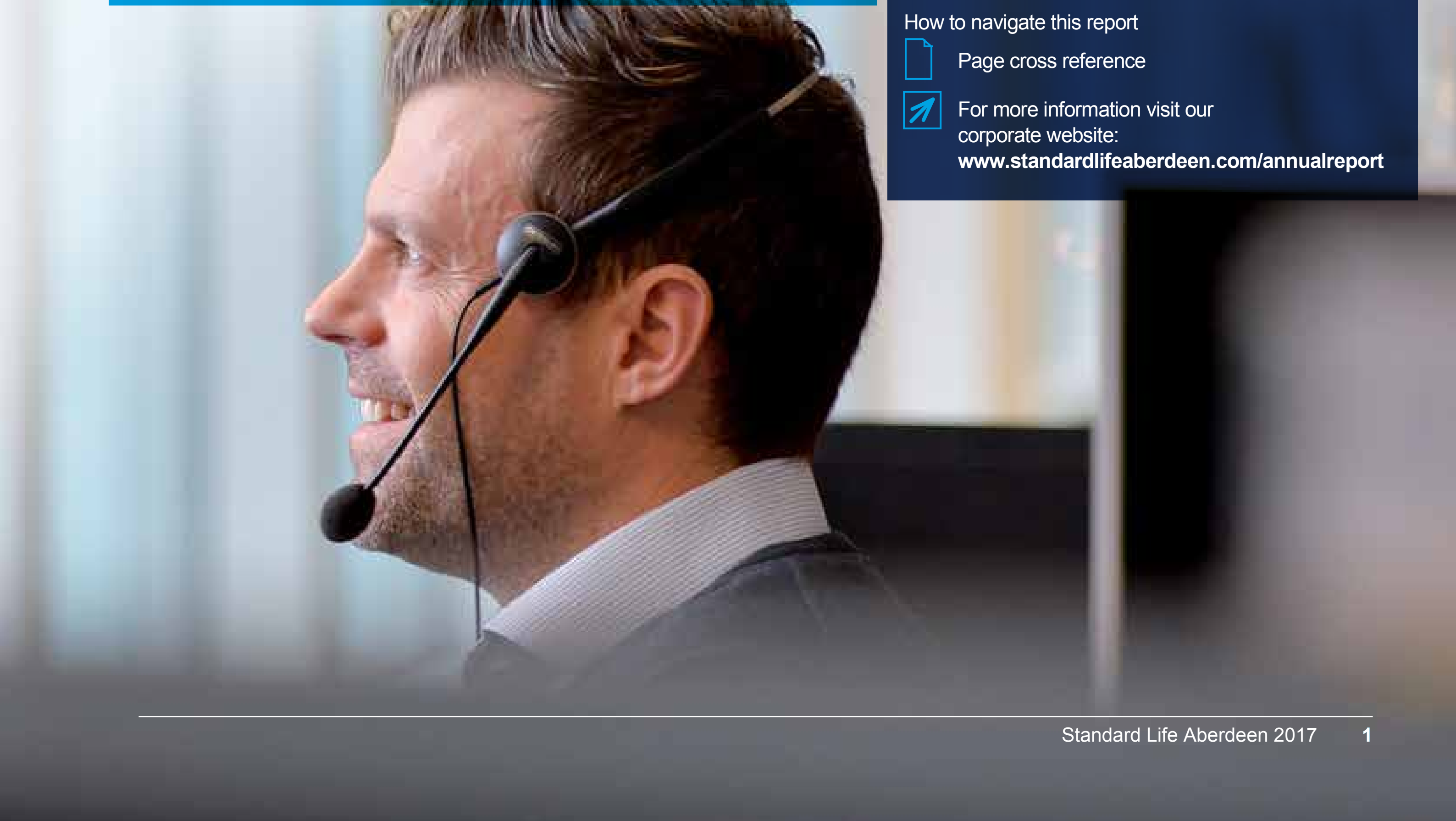
Wherever we are in the world we strive to make a positive long-term impact. This means delivering world-class investment solutions that help clients achieve their long-term objectives. It also means operating ethically, encouraging good practices among companies we invest in, and providing support and expertise for the benefit of the communities in which we operate.

The proposed transaction with Phoenix Group Holdings (Phoenix), announced on 23 February 2018, completes our transformation to a fee based, capital light business.

How to navigate this report

Page cross reference

For more information visit our corporate website:
www.standardlifeaberdeen.com/annualreport



Realising our ambitions

2017 was a momentous year for our organisation. I am very pleased to be writing this foreword for the first time as Chairman of Standard Life Aberdeen plc, the UK's largest active investment management company. The merger of Standard Life plc and Aberdeen Asset Management PLC, two highly complementary businesses, was the beginning of the exciting next chapter of our story. The proposed sale of the capital heavy insurance business and enhanced strategic partnership with Phoenix completes our transformation into a world-class investment company.

I'm happy to say we're on track to deliver on the plan we set out for you last year as our integration progresses at pace. Pooling our expertise has shown us that neither of the two predecessor companies was fully realising its true potential when serving its customers and clients around the world and we are determined to make the most of this opportunity to become even more client-focused, more expert and more proficient.

The proposed transaction with Phoenix completes our strategic transformation and will bring a number of benefits including an enhanced long-term strategic partnership with Phoenix, providing investment content to their customers and the opportunity for wider collaboration as their asset manager of choice. We have retained our valuable and fast growing UK retail platforms and financial advice businesses. This ensures that we maintain Standard Life's important and strong relationships with financial advisers. The sale is subject to approvals and is expected to complete in H2 2018.

Developing our strategy

We are building a business which operates on a world-wide scale. Across the company, we continue to pursue a strategy for growth, expanding our global distribution channels while broadening and deepening our customer and client offerings. Good businesses can never stand still but with so much change having occurred in recent years, the occasional pause for breath to strengthen our core offerings is of course appropriate. We are very conscious in our asset management business of the need to make our core offerings world class to increase value for our clients, customers and shareholders.

In our asset management business, we've seen momentum across a wide range of products, including particularly strong demand for emerging market debt and multi-asset solutions, including MyFolio and our diversified growth funds. We're winning new mandates across a wide range of investment strategies as we continue to innovate and launch new funds – all designed to meet the growing demand for 'new active' investment solutions. We have had performance concerns with some of our funds, but overall performance has begun to return and I'm optimistic about an improving outlook for flows in 2018.

The news that that we did not reach an agreement with Lloyds Banking Group to continue to manage their assets on existing terms was disappointing. We will be discussing the implications of this with Lloyds Banking Group and Scottish Widows.

In the UK, we saw impressive growth from our workplace pensions, advice and wealth channels, driven by the changes to pension freedoms and, at the other end of the retirement journey, through auto enrolment. We've maintained our strong position in the adviser platform market as our market-leading platforms attract record assets – and our advice business 1825 grew further with the announcement of two new acquisitions.

Final dividend of 14.30p

I am pleased to announce a final dividend for 2017 of 14.30p per share. This will give shareholders a total 2017 dividend of 21.30p per share, should they vote to approve it at our next Annual General Meeting, and will be paid on 30 May 2018. We are committed to a progressive dividend policy as dividends are a very real demonstration of our financial strength and how well our business has performed.

The UK and Brexit

It is a feature of successful businesses like ours that they are able to chart a course through uncertain times whilst successfully pursuing their ambitions. Brexit negotiations are, of course, reaching a critical stage. As a business headquartered in the UK with significant operations throughout Europe, we have confirmed that we will have arrangements in place to allow us to continue to offer services to our European customers. Working closely with European regulators, our intention is to use our hubs in Dublin and Luxembourg to do this. There is a lot to do in a short space of time and we are amongst those firms pressing governments in the UK and Europe to clarify how any transitional or implementation period will work and, frankly, to start taking the detailed decisions which we all need to move ahead.

With the uncertainties of Brexit overhanging the UK, globalisation, for a British company, is one of the most effective responses. Asset managers are now some of the UK's most global businesses and we are no exception to that, with offices in 50 locations serving clients and customers from over 80 countries. We will certainly be developing our overseas activities further. Our own businesses in India and China where we operate alongside distinguished local partners go from strength to strength. In India our life business, HDFC Life, had a very successful IPO and now, somewhat pleasingly, trades on the Indian stock market as one of the most highly-rated insurance companies in the world. I'm very optimistic about the outlook for both India and China.

Managing our risks and governance

We remain very aware of the risks that face our business as we grow and globalise. We continue to strengthen our risk management capabilities and oversight and you can read about this on pages 52 to 53 of this report. Likewise, strong and effective governance at all levels is more essential than ever. I pay a lot of personal attention to this as ultimately it is my responsibility, along with my Board colleagues and all our executives, to ensure that our governance frameworks work as they should and are best in class. A very important part of this is culture – not just talking about how our company should operate, but believing and doing what we mean. We want, by the end of 2018, to have a completely shared culture across the merged company without a hint of 'them' or 'us'. I'm optimistic we will achieve this, not least because I already see imbued in both our heritages, traditional Scottish values of trust, caution and conservatism coupled with an entrepreneurial 'let's go and do it' attitude. These values are going to serve us very well going forward.

We have to do more to promote diversity and inclusion in our business because, although we have already taken some action in this area, it has not been enough. We are giving a major emphasis to this in 2018 and it will be front of mind when we train, develop, recruit and promote people. We owe this to the communities in which we operate. Likewise, we will continue to up our engagement in the whole area of sustainability and corporate stewardship. This comes naturally to us but we need to do more and to be held accountable for what we do. People are increasingly sceptical about the ability of business to serve society rather than concentrate on its own selfish interests. We need to do all we can to demonstrate that the same scepticism shouldn't apply in our case.

A strong Board and management

Strong management and a competent, involved Board are key ingredients in any company's success. The decision to appoint two Co-Chief Executives of the merged company raised some eyebrows. However, this was a deliberate Board decision because of the breadth and depth of effort that was needed to take full advantage of the opportunities presented by the merger and to allow us to drive the very important cost and operating synergies across the business. We were very fortunate to have two very talented individuals to take up these roles who have vastly complementary skills and who work very well together. I'm very pleased how well it has worked out in practice, and it has also enabled us to streamline and simplify the senior management structures that sit below this level. This relationship is serving the business well and I see no reason why it will not be in place for a number of years.

Likewise, your new Board greatly benefited from pooling the expertise of both sets of the predecessor directors when it was first established and that continuity has been an important factor in getting the merged company off to a good start. We did say at the time that we would progressively reduce the size of the Board going forward, and as the first stage of this, three directors will be stepping down at the next AGM. Lynne Peacock served on the Board of Standard Life plc for six years and has latterly been a very distinguished Chairman of Standard Life Assurance Ltd, Julie Chakraverty served on the Board of Aberdeen Asset Management for six years most latterly as the Senior Independent Director, and Akira Suzuki has represented the interests of Mitsubishi UFJ Trust and Banking Corporation (MUTB) on the Board of Aberdeen Asset Management since 2013. MUTB's level of shareholding in the merged company is below the level at which Board representation would be customarily granted. I'm very grateful to all of them for their dedication and exemplary service. It is important to have new blood joining us from time to time and we are presently seeking to recruit an additional director with skills in the areas of platform and technology, ideally with an international background. As ever we will consider the general composition of the Board and our broader diversity aims when we make this appointment.

It has been very pleasing that, on behalf of our shareholders and other stakeholders, we have been able greatly to shift the shape of your company over the last 10 years in order to get it fighting fit and to take advantage of the many changes there have been in the external environment. A strong and independent Board has been central to this, and I have been very fortunate in the Directors who have served alongside me. Prior to the merger, my Board colleagues, encouraged by me, had started to think of arrangements for my succession. This was put on hold when the merger took place and I was asked to consider staying on for a period of around two years, subject of course to performance, in order to help ensure stability and to get the new company off to a good start. I was willing to do this but I have told my colleagues that I want to step down by the end of 2019 meaning that arrangements to choose my successor will need to commence in 2018. I will be sad to leave this great company but I have no doubt that someone excellent will be found to take my place.

Lastly, I'm very conscious that we asked an awful lot of all our people in 2017 and that they responded magnificently. To achieve a merger as complex as the one we did in a relatively short space of time takes a huge amount of effort, not just from those directly involved but also from those keeping the rest of our businesses operating safely and also growing. I'm very grateful to everyone involved. We know there is a lot to do in 2018 to reap the benefits of the merger, to implement our new partnership with Phoenix, to strengthen our proficiency in the solutions we offer and to improve our service to our clients and customers. We are all determined to do this.

Sir Gerry Grimstone
Chairman

In conversation with the Co-Chief Executives

Implementing our strategy

Our Co-CEOs Keith Skeoch and Martin Gilbert share responsibility for a number of core aspects of the role such as leading the executive committee, developing and promoting our strategy and objectives, and monitoring operational performance and strategic direction. They also have very clear individual responsibilities.

Key responsibilities

- Growing our international business activities
- Distribution including client engagement
- Business development
- Marketing and Brand

Martin Gilbert
Co-Chief Executive

Key responsibilities

- Investment management
- Pensions and Savings
- India and China insurance business
- Support functions – Finance, HR, Operations, Risk and Regulatory Culture, Legal and Secretariat

Keith Skeoch
Co-Chief Executive

How has the business performed over the year?

KS We're making good strategic progress in building a world-class investment company. We have continued to deliver for clients, helping to grow assets and dividends and our integration is on track. Investment performance has been mixed, and we have seen net outflows over the year. However, with over £80bn of gross inflows, there's momentum behind us.

We continue to innovate, launch new funds and win new mandates. Our pensions and savings business has had a particularly strong year with record flows. The successful IPO of HDFC Life and proposed IPO of HDFC Asset Management in India, as well as our recent registration as a private securities fund manager in China, further demonstrate the strength and diversity of our business.

MG We are in a strong position. Over the past year we have been through an unprecedented period of change in order to create our new global business and set ourselves up for the exciting opportunities ahead.

Our clients around the world are behind our strategy. They understand the possibilities that our enhanced scale, breadth of proposition and wide global distribution offers.

We're proud of the hard work we've done to get here and remain confident of delivering long-term value for our clients, our people and our shareholders.

What have you learned from managing the business alongside each other?

MG We've seen in practice what we originally felt would be the case – we need to focus our attention on different elements of the business, especially during this period of integration. Keith's doing a great job of leading and developing the fundamentals that our business is built on. This then gives me a strong platform to engage with our partners and clients so we can build our presence and reputation worldwide.

KS When you're sharing the management of the business with someone whose input and decision making you trust and respect, I think it can only be a good thing. We have very clear roles, complementary skills and we work well together. We have different ways of doing things, and I think that's valuable – it means you approach challenges and problems in a different way.

Can you explain the proposed transaction with Phoenix?

MG
KS Under the proposed transaction we are selling our capital heavy insurance business which will complete our transformation to a fee based, capital light investment company. Importantly, we will have retained our fast growing retail platforms, financial advice, and access to Workplace distribution.

Phoenix is a market-leader in their specialist role of administering long-standing life and pension policies. We are excited about the potential to combine our expertise and capabilities with the significant experience they have in delivering efficient administration of products for millions of customers.

Phoenix has made it clear that Standard Life's management team and its depth of talent will be essential to the transaction and the future success of its business. It has also committed to maintaining operational headquarters in Edinburgh.

We have also reached agreement with Phoenix to significantly expand our strategic partnership which reinforces our market-leading insurance asset management capabilities, while the proposed sale releases material capital for future reinvestment.

How is the merger integration going?

MG There's still a lot to do but it's going well. The integration programme will run for three years and we're already making really good progress. We expect to have completed around 75% of the work involved within the first two years.

The big challenge is in the size of the businesses we're bringing together, but the early signs are very encouraging. The merger brings together many valuable insights and complementary skills, so one of the things that will define the integration's success is a real commitment from all of our people to collaborate effectively. I'm also pleased that we've brought many people together geographically in a number of offices, including our new combined office in Edinburgh. Technology has a big part to play as well and we're making good progress with our plans to integrate the platforms and systems we use.

What has been the impact of the merger on people working for the business?

KS A merger will always bring a degree of uncertainty for people in relation to their roles and I've been very encouraged by our people's continued level of commitment and their desire to ensure we do the right things for our clients and customers. What we are encouraging people to do now is to think about the future. We want them to engage with the opportunities for themselves, and to help us make the strategic logic for the merger a reality.

One of the things that was important to do early on was give our people a chance to influence how our company and its culture should look in the future. We have sought our people's feedback in a number of different ways – both positive elements and areas causing concern – and I'm very pleased that most people can see the opportunity the merger presents. From reading the responses, it's clear that there is a genuine sense of optimism, but also a strong desire to hear directly from leaders along the way. Senior leadership engagement with our people is an ongoing priority.

What do you see as the biggest challenges for the savings and investments landscape?

MG Trust in financial services continues to be pretty low. The recommendations that the Financial Conduct Authority published last year, in terms of improving simplicity and transparency in what financial services companies offer, were sensible and balanced. I believe that developments like this can help rebuild trust and encourage businesses to look for opportunities to improve things even further.

When you think of the responsibilities we have as stewards of our clients' investments, we have a huge role in helping to rebuild trust in our industry and we take our responsibilities seriously. We integrate environmental, social and governance principles across our investment processes, and use our influence to encourage companies to adopt good practices when it comes to investment. We see considering these issues as an important way of protecting investors and we believe it really adds to the value we offer to them.

What is the business doing to keep up with the pace of innovation in the industry?

KS Strategic partnerships and working with a broader network of partners will play an increasingly important role in the industry, especially for companies focused on growing globally. It allows access to markets through established and locally recognised brands, while also providing services in an economically efficient way.

Collaboration within our business is also hugely important. If we are to continue to innovate and keep up with the pace of change in our industry, we need to work together and find effective ways of sharing our ideas and insights.

One example of this that we're excited about is our Innovation Panel. The panel is made up of representatives from around our global business and builds on the previous work of Aberdeen's Innovation Committee. Members of our Board also sit on the panel and they are able to bring external perspectives too. Its role is to investigate opportunities, threats and disruptors impacting the asset management and pensions and savings industries to ensure that colleagues – regardless of role or location – have the chance to offer ideas and solutions to some of the opportunities and challenges we face.

We have a wealth of skills and experience across all divisions and regions. By working together to understand how the future landscape will impact our business model, we can accelerate our progress towards achieving our strategic objectives and help ensure the future growth and success of our business.

We're also very active in collaborating with external organisations and in our wider industry. We play an important role in leading discussion and championing thought leadership among our peers.

Some short-term fund performance has been challenging. What is the longer-term outlook?

KS The nature of long-term investing is that we will not always deliver short-term performance across all strategies. The return environment in 2017 was challenging for some of the many strategies and products we offer clients. For example, in a market that's been driven by short-term growth and concentrated on a small number of stocks, quality-focused equity strategies have not performed as well. However, we believe that all of our strategies have merit for clients over the long term. As we integrate and develop the business, we continue to look to ensure that our investment processes are strong, well-resourced and fit-for-purpose to deliver the outcomes and risk profiles our clients demand.

We have broad and deep investment capabilities with over 1,000 investment professionals worldwide. At the moment, clients are increasingly looking for products and services that focus on good outcomes rather than relative returns. This makes the potential value to clients of active investing even more evident, particularly next-generation active solutions – or 'new active' products – which focus more on long-term investment outcomes.

The global market for 'new active' has almost doubled since 2008, and the scale of the merger means we can better meet this growing demand.

We recognise that passive investment does have a place for some investors too, and the quantitative expertise that Aberdeen has brought in this area helps to diversify the capabilities we offer to clients who choose passive investing, either as a standalone approach, or as a component of a wider investment strategy.

How will your brand strategy support the longer-term ambitions of the business?

MG Brand is becoming increasingly important for asset managers, and if you're operating globally you have to recognise that. The name for our asset management business recognises the strengths in both teams coming together, which traditionally have had strong brand presences in different parts of the market – Aberdeen Asset Management in emerging markets and Asia, Standard Life Investments in developed markets and 'new active' investment solutions. The Aberdeen Standard Investments brand will be a really important tool as we keep growing our presence globally.

In the UK, the Standard Life brand has a strong heritage and reputation in the pensions and savings arena. It's a brand name, for example, that four out of five adults in the UK recognise. We felt that it was important to preserve that and continue to build on its strengths.

What are your priorities for the rest of 2018?

MG Getting the integration right will let us focus on what's always been the priority for our businesses: execution of strategy and continuing to do the best we can for our clients to deliver long-term investment performance. When you consider that we now have clients in 80 countries, they expect us to be able to provide a very broad range of capabilities. An important area of focus in 2018 will be on finding the most effective ways to share skills and insights, so we can continue to diversify the capabilities that we offer.

Getting the integration right also means creating an inclusive culture for our employees. An important element of this is improving our gender balance at all levels – which includes consideration of both the pay gap between men and women, and how we fill roles across the company. It's important that we make progress in this area over the year ahead. We believe this can have a positive impact for our business and our people, as well as on our industry and wider society

KS A key priority will be to ensure the successful completion of the proposed transaction with Phoenix. The sale is expected to complete in H2 2018 and is subject to shareholder, regulatory and other necessary approvals. However, we also recognise the importance of continued focus on business as usual activities during this process.

Another priority will be to deliver investment performance whatever scenario arises as a result of the UK's departure from the European Union, we need to ensure that we have plans in place to let us provide continuity for our clients. We're already making good progress with discussing the proposed timelines and outcomes with regulators. We believe the main impact will be on the European activities performed by our UK-domiciled regulated entities. Our contingency plans will focus on making use of our existing entities domiciled in other EU member states, such as our operations in Dublin and Luxembourg, and on creating additional EU-regulated entities where we feel they're needed.

The investment case for Standard Life Aberdeen

Strength of global asset management and UK pensions and savings businesses

We are building a world-class investment company. Aberdeen Standard Investments is the largest active asset manager in the UK and one of the largest in Europe. We are also a market leader for UK adviser platforms, underpinned by strong relationships, and are expanding our 1825 financial advice business.

See page 8 – Focused business lines

Global distribution capability with enhanced proximity to clients

We have customers and clients in 80 countries, served by offices worldwide. We also have a range of strategic relationships across the world. Our local insight helps us meet clients' and customers' evolving needs.

See page 12 – Global presence, local delivery

Valuable associate and joint venture businesses in India and China

We have developed extensive reach in these key savings markets. The successful IPO of HDFC Life and proposed IPO of HDFC Asset Management in India provide greater transparency of the value of these businesses.

See page 8 – Focused business lines

Well positioned to take advantage of trends shaping the savings and investment landscape globally

We operate in a complex market environment that reflects the changing needs of our clients. We have a strong strategic focus on reacting and adapting effectively to these changes and trends.

See page 14 – Market driven approach

Broad and compelling client offering

Through the scale that our merger creates, we now offer clients a broader range of investment capabilities with expertise across all major asset classes, and innovative products and services to help them achieve their financial goals.

See page 10 – Broad and deep investment capabilities

A business model to create value and deliver a progressive dividend

Our simple business model is designed to create value for shareholders and bring significant benefits to all our stakeholders – including our clients, customers and employees.

See page 17 – A proven model for creating value

What is your long-term vision for Standard Life Aberdeen?

KS To operate as a world-class investment company that delivers for our clients, people and shareholders. The integration of our businesses gives us the scale to compete globally – helping us to grow our distribution capabilities, our strategic relationships, the assets we manage and our revenue streams. Growth in these areas gives us the opportunity to reinvest in our talent and technology.

The proposed sale of the capital heavy insurance business completes our transformation to a fee based, capital light investment company.

However challenging the market environment is in the long term, one of the things that will influence our ability to achieve our long-term goals is staying close to client needs. The work that Martin leads on the client engagement front, and the insight this gives us, plays a really important role. Our approach will always be centred around creating a market-leading business for clients, one that sets the pace for innovation and for adapting to global market movements.

A wider and deeper range of investment capabilities will help us keep up with client needs as they continue to change – from the largest institutions to individual customers investing in pensions or ISAs.

MG Being world class is about being a company that understands its responsibilities and knows how to think and act to create the best outcomes, for all stakeholders. As a global business, this includes building a brand that resonates with clients and customers – with products and services to match – while also growing value for shareholders. As an employer, it includes creating an environment that supports meaningful careers, promotes inclusion and attracts talented people from all backgrounds.

Everything we do is built around trying to have a positive long-term impact on the lives of our stakeholders.

Focused business lines

Standard Life Aberdeen has the scale and global reach to offer a broader range of investment capabilities to meet the evolving needs of our clients and customers around the world.

We strive for excellence in all we do for our clients and customers. Our commitment to teamwork allows us to draw on the shared expertise and complementary talents of our people. We aim to deliver the innovation and service to help us perform in today's competitive and fast-changing investment and regulatory landscape.

Business overview

Aberdeen Standard Investments

Aberdeen Standard Investments, our asset management business, is dedicated to delivering positive long-term outcomes for our clients.

Standard Life Investments and Aberdeen Asset Management have combined under the Aberdeen Standard Investments brand with the scale to deliver the innovation, market insight and responsiveness needed in today's competitive and fast-changing market.

With our increasingly global reach, we have the resources and expertise to transform new investment ideas into practical investment solutions that deliver positive outcomes for clients.

This business segment also includes our 38.2% stake in HDFC Asset Management, one of the largest mutual fund companies in India. HDFC Asset Management announced in November 2017 that its Board of Directors approved initiation of the process of an initial public offering (IPO). The IPO is subject to relevant regulatory and other necessary approvals.

Read more on page 40

Standard Life

Our Pensions and Savings business, Standard Life, continues to build on nearly two centuries of experience.

Standard Life is a leading provider of long-term savings and investment propositions and has established a market-leading position through a long-term commitment to support the needs of our customers. We are primarily based in the UK, with operations also in Ireland and Germany. In total, we serve around 4.5 million customers. We continue to invest in our distribution capability and adviser platform offering and also in product and service innovation.

Close collaboration with Aberdeen Standard Investments allows us to support customers across the value chain and enhance our ambition to become a truly world-class investment company.

On 23 February 2018, we announced the proposed transaction with Phoenix which is expected to complete in H2 2018, subject to shareholder, regulatory and other necessary approvals.

Read more on page 46

India and China life

HDFC Life
Sar utha ke jiyo

恒安标准人寿
Heng An Standard Life

Through a combination of associate and joint venture life businesses, we have extensive reach in two of the fastest growing savings markets – India and China.

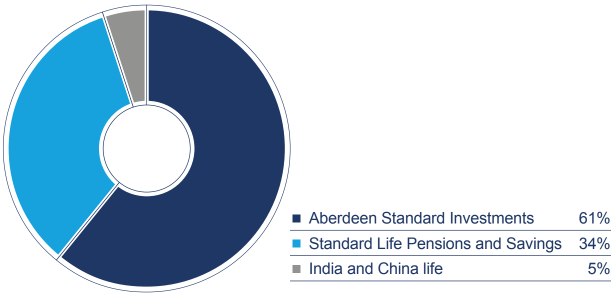
The IPO of HDFC Life, our associate life business in India, successfully completed in November 2017. We have retained board representation and have a major shareholding of 29.3% of the newly listed business, which ensures we remain invested in a leading business in a market with significant growth potential.

In March 2017, we announced the proposed sale of Standard Life (Asia), our wholly owned Hong Kong insurance business to Heng An Standard Life (HASL), our joint venture business in China. The proposed sale remains subject to regulatory and other necessary approvals.

Read more on page 50

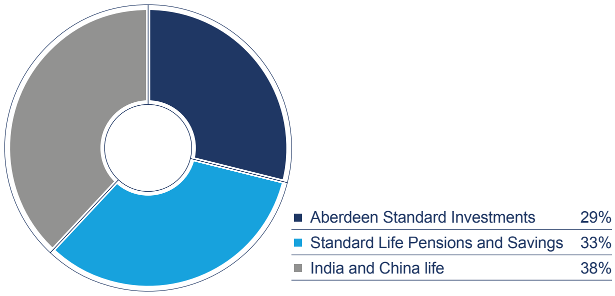
Adjusted profit before tax[1]
(Pro forma basis)

£1,039m



IFRS profit after tax attributable to equity holders[1]
(Reported basis)

£699m



[1] Diagram excludes loss from 'Other'. See page 39 for more information.

Products and distribution

Aberdeen Standard Investments

In the wholesale investment market, we support wealth managers, private banks and financial advisers, as well as making our investment products available directly to private investors. In the institutional market we are a chosen investment partner of pension funds, insurers, sovereign wealth funds, governments and local authorities, charities and financial institutions, to which we provide both pooled and segregated investment management. We manage investment funds and solutions across a broad spectrum of asset classes and geographic markets, including equities, fixed income, multi-asset, private markets/alternatives, real estate and quantitative.

Through our global network of offices, the role of our distribution team is to access potential investors and develop trusted, long-term relationships founded on high quality client service. We have a targeted approach to growth by concentrating on distributing Aberdeen Standard Investments products in the markets where we have a strong track record. Distribution of our products is supported by the promotion of the Aberdeen Standard Investments brand through a co-ordinated series of local and regional brand awareness initiatives and sponsorship opportunities.

We have a number of strategic distribution partnerships around the world. These include Phoenix Group in the UK, John Hancock in North America, Bosera in China, Challenger in Australia and Sumitomo Mitsui Trust Bank and Mitsubishi UFJ Trust and Banking Corporation in Japan. We also partner with HDFC in India through our associate business, HDFC Asset Management.

Standard Life Pensions and Savings

In our UK business, products and services are offered through two main channels:

- Retail: pensions and savings where the relationship is either directly with the customer, or with their financial adviser
- Workplace: pensions, savings and flexible benefits to employees through their employers

Retail distribution is primarily through our Wrap and Elevate financial adviser platform offerings. Workplace distribution is via employers and their advisers. Since auto enrolment began in 2012, over one million members have enrolled into our qualifying workplace pension schemes. 1825, our financial advice business, has continued to build a national presence across the UK and offers a full financial planning and personal tax advice service.

Our mature book includes older fee based business that was predominantly written before demutualisation and spread/risk products, such as annuities and protection, which provide a sustained contribution to our profits.

The Europe business comprises Ireland and Germany, where savings and investment products are offered to a variety of customers and clients. Distribution is primarily via brokers and advisers.

India and China life

HDFC Life sells individual and group life insurance policies in India via a network of around 400 branches along with access to partner branches of over 130 bancassurance relationships.

HASL has over 90 offices in China offering life and health insurance products on both a group and individual basis. Sales are predominantly made direct to customers and clients. HASL also maintains relationships with banks and insurance brokers.

Standard Life (Asia) sells insurance and savings products via insurance brokers in Hong Kong.

These businesses help to look after the life insurance needs of over 60 million lives insured from individual and group customers.

Broad and deep investment capabilities

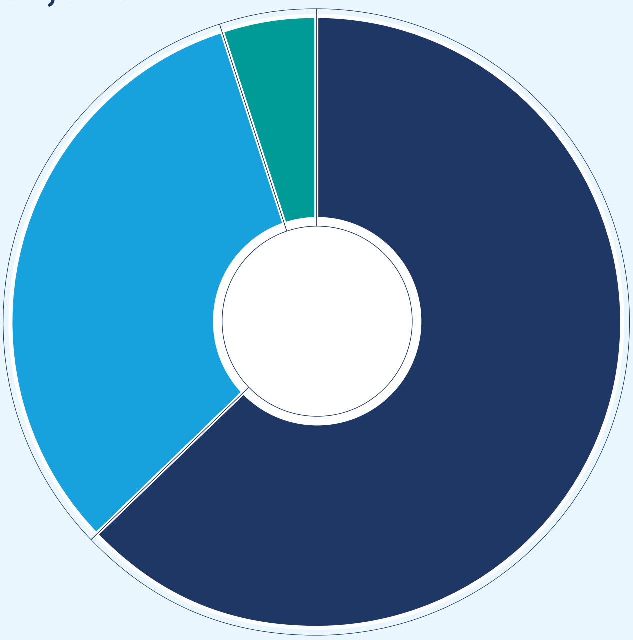
Through the merger we have created a well diversified investment company which is supported by investment professionals with broad skills across all major asset classes. As a result of the complementary nature of our offerings, clients now have access to a greater choice of investment capabilities to better serve their needs.

We operate across multiple distribution channels delivering greater diversification by client type and geography.

We are focused on providing innovative, world-class investment solutions to meet the current and future needs of our clients and customers across the globe. The breadth of our investment capabilities, coupled with our leading position in the UK savings market, benefit the customers, clients, employers and financial advisers that we serve. In addition, the increased capabilities further enhance the solutions we are able to provide through our global strategic partnerships.

Total adjusted operating income (Pro forma basis)

£2,928m



Aberdeen Standard Investments (Fee)	63%
Standard Life Pensions and Savings (Fee)	32%
Standard Life Pensions and Savings (Spread/risk)	5%

Diversifying revenue generation

Our revenues reflect the increasingly diverse nature of our business across our client and customer base, distribution channels, investment strategies and asset classes – leveraging the strengths of our existing relationships across the combined business.

We expect to see diversity in our revenue streams increase further as we progress through our integration and deliver the broader investment proposition to a growing global market.

See pages 32 to 39 for further details on our financial performance and also Note 2 of the Group financial statements section of this report for details of our performance on an IFRS basis

Transformed investment capabilities

Aberdeen	Aberdeen Standard Investments	Standard Life Investments
• Emerging markets • Asia Pacific	**Equities £157.6bn**	• Developed markets • Global
• Emerging market debt • Asia Pacific fixed income	**Fixed income £144.0bn**	• Developed market credit • Global unconstrained
• Diversified growth and income • Balanced/implemented solutions	**Multi-asset £90.0bn**	• Absolute return • MyFolio
• Private equity (incl. venture) • Alternative investment strategies	**Private markets/ alternatives £25.7bn**	• Private equity • Infrastructure equity
• UK core/core plus • European (incl. residential)	**Real estate £39.2bn**	• UK core/core plus • European value add
• Smart beta • Better beta	**Quantitative £68.5bn**	• Systematic macro
• Liquidity funds • Bespoke cash mandates	**Cash/liquidity £50.7bn**	• Liquidity funds • Collateral Management

Broad and compelling client offering

As a result of the merger, we have been able to transform the investment capabilities we offer to clients, with complementary skills and capabilities across all major asset classes. We are also better positioned to offer increasingly sophisticated investment products to meet evolving client needs.

We now benefit from increased strength in developed and emerging markets across equities, fixed income, multi-asset, private markets/alternatives, real estate and quantitative investing. Within each of the asset classes there is a low level of overlap between the products we offer, allowing the combined Group's clients to choose from a broader range of investment capabilities.

The enlarged scale of the business, and the complementary skills of the investment professionals we bring together, improve our ability to develop innovative investment solutions for clients. The overall investment approaches of the companies we have brought together – long-term, team-based, and supported by proprietary research and insights – are also aligned. We are committed to active investment management throughout the risk-return spectrum, and believe it continues to offer customers and clients an effective way of realising their investment objectives over the long term.

In addition to our broad investment skills, we also believe that the complementary nature of our distribution networks give us a significant competitive advantage as we look to make the most of opportunities to grow our business and generate further revenue.

See pages 42 to 43 for further information on the asset classes detailed above

Global presence, local delivery

We have created a global investment company with strong brands, established institutional and wholesale distribution franchises, and a leading platform offering in the UK.

We manage assets on behalf of clients and customers in 80 countries looked after by employees based in over 50 locations.

This proximity to local markets feeds our investment insight. It allows us to understand the needs of our clients and how best to respond to developing market trends.

The merger also gives us the opportunity to enhance and make the most of the strong partnerships we have worldwide. These include long-standing strategic partnerships in the UK, North America, India, China and Japan.

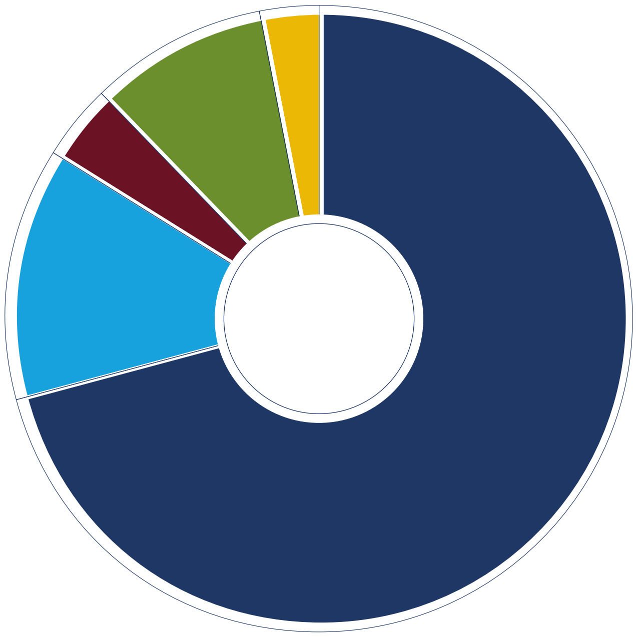
Clients across
80
countries

1,000+
investment professionals

50+
locations

Assets under management and administration by geography of client

£655bn



UK	71%
Europe, Middle East and Africa	13%
Asia Pacific	4%
Americas	9%
India	3%

Delivering through strategic partnerships

As an increasingly global business, we recognise the importance of local insight and the need to adapt to market environments. Our strategic partnerships are invaluable in accelerating our market access and brand recognition in countries around the world, as well as increasing our exposure to retail assets and mature books in an efficient way.

In India and China, we have well-established associate and joint venture life businesses, HDFC Life and Heng An Standard Life (HASL). These life and pensions businesses benefit from the local expertise of our partners, and our experience in the UK pensions and savings market, in order to serve a growing demand for life and pensions products. In addition, through our investment in HDFC Asset Management, one of India's largest and most profitable asset managers, we are well positioned in the Indian asset management sector where the growth potential is also significant.

In Japan, we have built an important relationship with Mitsubishi UFJ Trust and Banking Corporation (MUTB), one of the largest retail and commercial banking groups in the country.

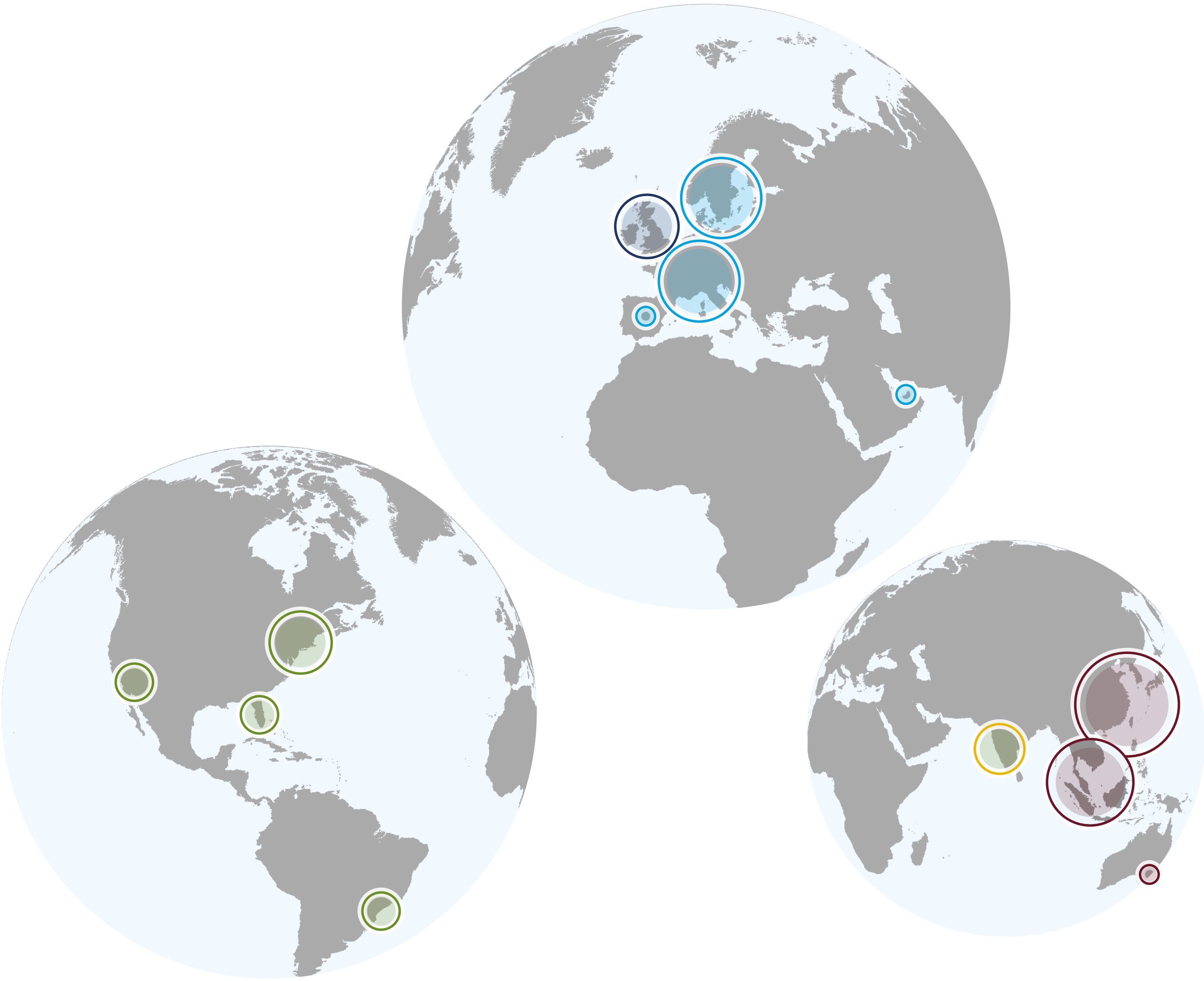
Japan has a strong and growing defined contribution market and we will continue to explore how we can deliver expanded client solutions to meet this demand. We also have a strong strategic alliance in Japan with Sumitomo Mitsui Trust Bank, one of the country's largest asset managers.

We have forged further asset management partnerships around the world to drive product innovation and open up possibilities for clients. These include John Hancock in the United States, Bosera Asset Management in China, Challenger in Australia, and Manulife in Canada and in Asia.

We also benefit from a partnership with Phoenix, one of the largest closed life insurance consolidators in the UK. The announcement on 23 February will further strengthen this mutually beneficial strategic relationship.

Our global locations

Headquartered in Scotland, we have a global presence that allows us to stay close to customer and client needs wherever we operate.



Americas

Boston	Philadelphia
Los Angeles	Sao Paulo
Miami	Stamford
New York City	Toronto

UK

Aberdeen	**Edinburgh (HQ)**
Birmingham	Leeds
Bristol	London

Europe, Middle East and Africa

Abu Dhabi	Luxembourg City
Amsterdam	Madrid
Brussels	Milan
Budapest	Munich
Copenhagen	Oslo
Dublin	Paris
Frankfurt	Potsdam
Geneva	Stockholm
Graz	Stuttgart
Helsinki	Zurich
Jersey	

Asia Pacific

Bandung	Seoul
Bangkok	Shanghai
Beijing	Singapore
Hong Kong	Surabaya
Jakarta	Sydney
Kaohsiung	Taipei
Kuala Lumpur	Tokyo
Melbourne	

India

Mumbai

Understanding our markets in a changing landscape

Change in the savings and investments landscape intensified and accelerated in 2017 – reflecting some major trends in an increasingly globalised society.

Financial market context

"2017 was a year that saw good economic growth with low volatility in financial markets, while political factors did not cause the problems that many expected."
Rod Paris, Chief Investment Officer

Across global markets in 2017 we saw a strong recovery in corporate cash flow and company profitability, on the back of a strengthening improvement in the global economy. For the first time since the immediate recovery following the financial crisis, there was sustained growth in North American, European and Asian economies, demonstrated by welcome increases in global trade and business investment. The US government focused less on trade barriers and more on tax cuts than the market had expected at the start of the year. Brexit has caused the UK economy to lag behind, a situation we expect to continue. Certain sectors stood out in 2017, especially technology in the US and Asia, as investors looked for growth opportunities.

Equity investors benefited from a surprising lack of market volatility, particularly in the US and many emerging markets. The Standard & Poor's 500 Index for example, which includes the largest US companies, saw consecutive monthly increases throughout 2017 – an outcome last achieved in the early 1950s. Asset flows were also strong into corporate bonds, real estate and private equity, compressing yields yet further.

Political tensions, such as election results across Europe, have been important considerations for investors in recent years. However, the improving economic backdrop, combined with continued support from central bank policy, helped to reduce the extent to which political factors impacted investment decisions during 2017.

Markets are anticipating central banks raising interest rates and scaling back 'quantitative easing' – a policy that's helped to increase the amount of money in the financial system. However, amidst an environment of strong global economic growth and healthy balance sheets, persistently low inflation makes central banks' decision-making far from straightforward. We must continue to watch actions closely as unexpected, or hasty, moves could have a significant impact on markets.

Overall, we continue to operate against a complex backdrop. To date, both interest rates and household income growth remain low, while corporate governance, technological disruption, and the need for people to take greater responsibility for their investment decisions are areas of increasing importance and all in an increasingly politicised world. Against this backdrop, the need for clients to have innovative investment solutions that will help them achieve growth, income and preserve capital effectively becomes ever more important.

Responding to the changing investment landscape

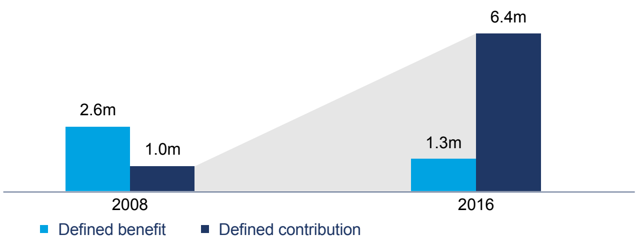
"Our business model is designed to be sustainable and resilient over the long term. We are well positioned to benefit from four trends that continue to shape the global savings and investment landscape."
Keith Skeoch, Co-Chief Executive

1 Democratisation of financial risk

Changes to the savings landscape over the last decade have moved risk and responsibility to individuals and it represents a continuing global trend. For example, in the USA, the UK, and across Europe, there is a growing requirement for people to take more individual responsibility for their financial futures. This includes the continued shift from defined benefit to defined contribution pension plans.

This trend is driving the need for simpler products and services to help clients and customers invest and save effectively. As people are living longer, there's also a growing need for products and investment solutions that help them plan effectively to provide for a longer retirement.

Active membership of UK private sector occupational pension schemes (millions)



Source: Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.2.0.

This trend is also driving the need for financial advice and guidance which, in turn, has led to increasing demand from financial advisers for platforms that help them to operate more efficiently and to offer the support that their clients expect.

Our response

We aim to give people the confidence and expertise to make the right financial decisions. Our focus on active investment management helps us to meet the growing demand for outcome-oriented products.

In the UK, we have a leading position in the market for defined contribution workplace pensions. We support around 1.8 million workplace pension savers in the UK, including over 1 million UK employees who are saving through auto enrolment. We work with employers to engage their employees in their workplace pension and provide tools and materials to support them.

We continue to develop our UK-wide financial planning business, 1825, to meet the growing demand for financial advice.

2 Rebuilding trust in financial services

The global financial crisis damaged trust in financial services organisations. We must play our part in helping to rebuild this trust by demonstrating we are committed to doing the right thing, being transparent in the way we operate and, through our products and services, offering value to our customers and clients.

Recent regulatory developments aim to help address this challenge. The Financial Conduct Authority (FCA) announced how it proposes to tackle the issues identified in its study of the UK asset management market, with a focus on the need to consider value for money for investors. The updated Markets in Financial Instruments Directive (MiFID) legislative framework – which comprises both a directive (MiFID II) and a regulation (MiFIR) – is one of the most impactful and wide-reaching pieces of financial regulation to affect our industry to date. It aims to significantly improve transparency and investor protection in financial markets. This includes improving how market participants – from investment banks, asset managers and advisers, to trading venues and distributors – report on their trading processes, costs and charges, and the measures that they are taking to achieve the best results for clients.

In the UK, policymakers are focused on ensuring that reforms including auto enrolment and pension freedoms are working well for consumers. This means a focus on fair charging structures and ensuring people can properly compare and understand their options.

Our response

We aim to act responsibly in all of our investment activities – and as stewards of our clients' investments we have a duty to do this. This involves assessing the risks and opportunities that could have a material impact on financial performance – including ESG issues, which we believe can have a big influence on investment returns. You can read more about this on page 45.

We support the FCA's recommendations and we will continue to work closely with them to encourage positive change. We believe that the recommendations will help people to understand the benefits of different approaches to investing and strengthen both confidence and competitiveness in the industry. Across our businesses, we put in place significant programmes of work to deliver against the requirements of MiFID II, ahead of the changes that came into effect on 3 January 2018. We will continue to focus closely on this area as the changes are embedded across our industry.

We have a responsibility to ensure our customers have easy access to the services, information, and support they need to grow their life savings. Through auto enrolment we have helped to make a positive difference to the life savings of people in the UK.

3 Innovation, technology and digitalisation

Clients and customers want innovative products and services to improve the way they access, invest and keep track of their assets, and it's important for our business that we keep up with this trend. As they take on more responsibility for their financial decisions, our services need to make the process of doing this as simple as possible – whether online, by phone or face to face.

Our response

We are investing in technology that helps us to become more scalable and operate more efficiently, and the merger allows us to bring together the best of our platforms. Through the programme we're running to integrate our asset management businesses, one of the main aims is to deliver modern, consistent experiences across all of our platforms to meet the expectations of clients, customers and advisers. Our work to improve the experience we offer our pensions and savings customers includes integrating our workplace solutions with our clients' existing technology, and developing our capability in offering automated advice based on customer data, or 'robo-advice'.

4 Slow growth, low inflation, compressed return environment

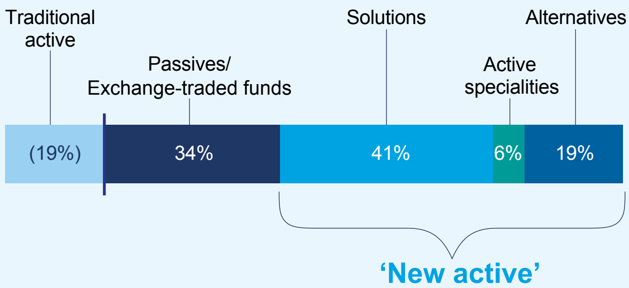
Clients are looking for simple and transparent products with clear outcomes that will meet their investment needs. There has been a rise in passive investing in recent years, where investment portfolios are constructed to mirror a market index. While we recognise that passive investment does have a place for some investors, we're seeing a continued demand for active investment solutions, particularly 'new active' solutions managed by a fund manager, but with a strong focus on achieving the outcomes that clients want. 'New active' solutions are forecast to represent almost two thirds of net inflows into investment funds globally over the next few years.

Our response

We are committed to active investment management. We see it as an important way of protecting investors and improving their future financial prospects. The merger puts us in a strong position to meet the growing demand and develop the breadth and depth of our expertise in key areas of industry growth. The rise in passive investing also highlights that active approaches may not fit with all investment needs. The diversified capabilities that the merger provides mean that we can complement our active expertise with quantitative investment capabilities, which make use of systematic models and data in order to build investment portfolios. We can offer quantitative approaches on a standalone basis or combine these with active investing – for example, through 'smart beta' capabilities. We see increased opportunities for our quantitative investments to be used within low-cost workplace investment solutions or our MyFolio range of funds.

2016 – 2020 Global estimated flows

c66% 'new active'[1]



[1] Proportion of global estimated net inflows into growth categories.

Source: BCG, July 2016

How we engage and listen to our stakeholders

We listen, understand and then act on a wide variety of operational, people and environmental issues to help move our business forward.

Our clients and customers

- Senior leaders in our investment business stay close to our clients' needs worldwide by prioritising meetings in person with them
- We communicate with our customers in a relevant, targeted way, using a mix of direct, printed and digital messages
- We use technology to stay in touch including optimising our social media channels
- Our largest clients and adviser relationships receive dedicated relationship management support, enabling us to better understand their needs and respond proactively
- We actively seek feedback to inform ongoing improvements

Our shareholders

- Our annual general meetings – which alternate between London and Edinburgh – enable us to hear shareholders' views while giving them the opportunity to hear directly from our Chairman and Board
- Our Annual report and accounts is made available on our website and we send a concise newsletter to our retail shareholders
- We have a programme of regular meetings with institutional investors and analysts around the world

Read more in the Governance section on pages 79 to 80

Our stakeholders

Our people

- We encourage an open dialogue between colleagues and leadership teams
- Along with more informal discussions, our teams interact via email through our intranet sites and at regular face-to-face events
- Our employee intranet is based on the principle of conversation, allowing employees to engage and share views and information
- We have a range of executive-sponsored people networks that champion inclusion
- Employee groups gather views and represent employees through regular interaction with senior executives
- We encourage feedback and adjust our approach accordingly

Wider society

- Our corporate sustainability and stewardship strategy is informed through engagement with our employees, charities, regulators and subject matter experts
- We meet with the boards of companies we invest in to discuss their approach to a variety of environmental, social and governance topics and to encourage best practice
- We have active and productive relationships with regulators in the UK and around the world in countries in which we operate
- We engage with government to assist in policy development and ensure the needs of our customers are understood
- We are represented on a number of industry bodies, and senior leaders regularly represent us on industry panels, to contribute our expertise on long-term savings and investments issues

Stakeholder interests throughout the merger process

The rationale for the merger has always been about driving strategic, long-term value. To deliver on this, it is imperative to the success of our combined business that we consider and act in the interests of all our stakeholders. The Directors are also fully aware of their responsibilities in this area under section 172 of the Companies Act 2006.

In evaluating the rationale for the merger we first considered what benefits it could deliver for customers and clients – and we identified that the value Aberdeen Asset Management brings in emerging markets and Asia could be combined with the strength of Standard Life Investments in developed markets and multi-asset. The bringing together of our investment componentry and distribution channels will help us to deliver innovative investment and savings solutions that meet evolving customer and client needs.

These strongly complementary capabilities will help to drive the growth of our combined business, bringing diversification and growth in revenues and earnings.

This, alongside the synergies we have identified, allows us to deliver the financial benefits for our shareholders.

Our growing business needs to be compelling for our people with the potential to take the best from each company to create an inclusive and dynamic culture. While synergies will come in part from some of our people leaving, as far as possible this will come from natural employee turnover. We will also continue to take all appropriate steps to mitigate the number of compulsory redundancies where possible.

Our merger gives us global scale and, as a large employer in Scotland and around the world, we take seriously our responsibility to the communities in which we operate. We know it is important to all our stakeholders that we use our scale to have a positive impact, so our combined teams continue to work closely on aligning and enhancing our approach to being a sustainable, ethical business.

A proven business model for creating value

Our business model

Increasing assets
We aim to grow assets by offering capabilities, products and solutions that meet the needs of new and existing clients.

Our investment performance and market movements also impact our level of assets.

Growing revenue
Revenue is primarily generated from the management and administration fees we charge based on the value of the assets we look after for clients and customers.

Lowering unit costs
We aim to reduce our unit costs by controlling expenses and investing strategically to improve both the scalability and efficiency of our business.

As most costs are relatively fixed and revenue can be impacted by market volatility, we aim to control our costs to be efficient over different cycles.

Driving profit
Increasing assets, growing revenue and lowering unit costs enables us to drive our profit and cash flow that allow us to further invest in growing our business.

Optimising the balance sheet
We ensure that we have the appropriate level of capital to support our operations and provide protection for our policyholders, while continuing to focus on growing our capital-efficient fee business. We balance investing for business growth with continuing to pay growing dividends to shareholders.

How we generate and preserve value

Lasting client and customer relationships
We aim to build meaningful, long-term relationships through brands and strategic partners that have strong reputations in different parts of the market. We aim to help clients and customers make informed choices by providing innovative solutions and digital services to meet their needs, and by delivering the investment performance they expect.

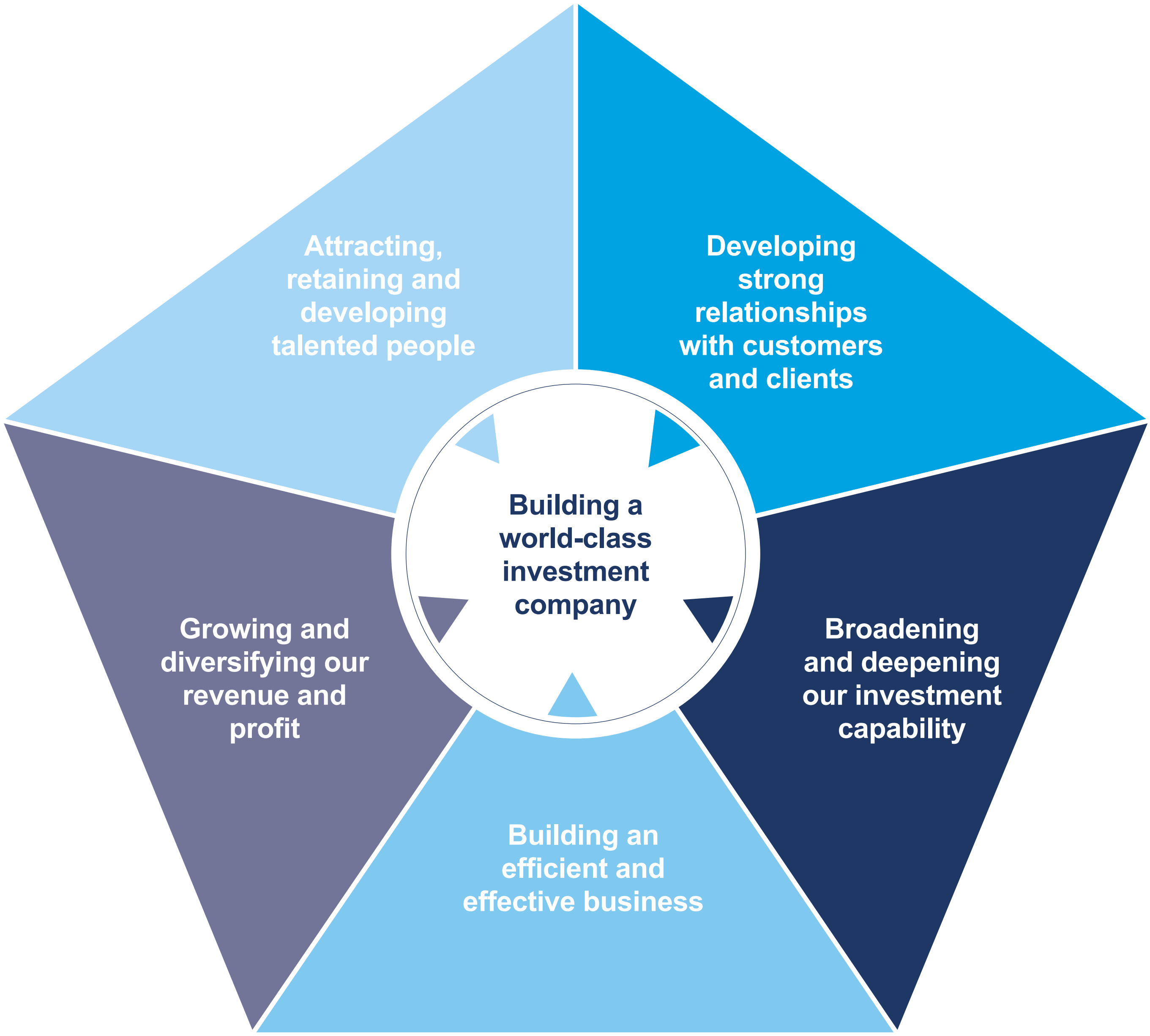
Investment capabilities
The scale of our business allows us to deliver positive outcomes for our customers and clients through an increasing breadth and depth of investment capabilities. We aim to build on our successful track record of delivering long-term investment performance.

Talented people
The management and performance of our business, including funds and solutions, is down to our talented people across the globe, who collaborate and strive for excellence in all they do. As well as ensuring our people are engaged and rewarded appropriately, we offer a range of personal development programmes to help progress their skills, knowledge and careers.

Financial strength and our heritage
We are a well-capitalised business. We operate efficiently and effectively – actively managing our balance sheet to ensure we hold enough capital to allow us to invest for future business growth, while aiming to continue to deliver a progressive dividend to shareholders. We use our experience to make sure we continue to do the right thing for all our stakeholders.

Our long-term strategic objectives

Our strategic objectives are the key areas we are focusing on to deliver against our business model, to help us make the most of our market opportunities.



Delivering our strategic objectives

Through the skills and commitment of our workforce, we deliver innovative global solutions and market-leading services which allow us to build stronger and deeper relationships. The breadth and depth of our world-class investment solutions help our clients and customers to plan with confidence to achieve their long-term objectives.

Through developing strong relationships and delivering a range of investment capabilities we aim to **increase assets** and **grow our revenue**. By building an efficient and effective business, we can continue to **lower our unit costs** and **optimise our balance sheet**.

Diversification helps to improve the resilience of our business model and the returns and value it delivers for our shareholders.

Building a world-class investment company

Priority	Key activities	Highlights	Key risks
Developing strong relationships with customers and clients	• Launched a programme to enhance the client experience and create a single, consistent approach to client management • Improved our processes in order to better engage with pension customers in their lead-up to retirement • Continued our work to address the findings of the Financial Conduct Authority's thematic review into the sale of non-advised annuities	**Investment performance** **1 year: 70%** **3 years[1]: 63%** **5 years: 64%** **Recognised for 20 years of excellence in defined contribution pensions[2]**	• Investment performance • Strategic transition and delivery • Distribution and client management • Client and customer preferences and demand • Oversight of third parties • Client and customer outcomes
Broadening and deepening our investment capability	• Transformed the breadth and depth of our investment capabilities as a result of the merger • Continued to innovate with 22 funds launched during 2017 • Further enhanced our range of ESG investment capabilities • Successful launch of the innovative Secure Income & Cash Flow fund	**Assets under management and administration (AUMA)[1]** **£654.9bn** (2016: £647.6bn) **Net flows[1,3]** **£31.0bn outflow** (2016: £36.8bn outflow)	• Investment performance • Strategic transition and delivery • Client and customer preferences and demand • Talent management
Building an efficient and effective business	• Integration progressing well and now expect to deliver at least £250m of annual cost savings • Delivered a next-generation investment data platform for our asset management business • Continued work to upgrade our technology systems for our customers, clients and advisers in our Pensions and Savings business • Announced proposed transaction with Phoenix which will complete our transformation to a fully fee based, capital light business	**Cost/income ratio[1,3]** **66%** (2016: 64%) **AUMA[1,3]** **£654.9bn** (2016: £647.6bn) **Adjusted profit before tax[1,3]** **£1,039m** (2016: £1,054m)	• Strategic transition and delivery • Distribution and client management • Political change • Change management • IT failure and security • Oversight of third parties • Process execution failure • Regulatory and legal • Liquidity risk
Growing and diversifying our revenue and profit	• Expanded our global capabilities and distribution with Aberdeen Standard Investments now serving clients in over 80 countries and operating from 50 office locations • Completed IPO of HDFC Life in November 2017, generating £359m from the sale of part of our stake • Revenue benefited from diversification across our growth channels. However, revenue was impacted by net outflows partly due to weaker short-term investment performance in 2016.	**Adjusted profit before tax[1,3]** **£1,039m** (2016: £1,054m) **IFRS profit after tax attributable to equity holders[4]** **£699m** (2016: £368m) **Full year dividend per share[1]** **21.30p** (2016: 19.82p)	• Investment performance • Strategic transition and delivery • Distribution and client management • Market risk • Counterparty failure • Longevity risk
Attracting, retaining and developing talented people	• As we integrate our businesses post-merger, we have progressed appointments to senior roles and also began employee consultations in key areas • Focused on providing a diverse and inclusive working environment • Surveyed colleagues across the Group to capture their views, to help define our culture • Improved our online learning curriculum to support personal development, career development and wellbeing for all employees	**Ranked 4th in the UK Social Mobility Employer Index** **Named as one of the UK's best employers for race by Business in the Community** **Accredited for our support to carers by Carer Positive, a Scottish Government-funded initiative**	• Strategic transition and delivery • Political change • Talent management

Read more on key risks on pages 54 to 59

[1] KPI. [2] Professional Pensions UK Pension Awards 2017. [3] Pro forma basis. [4] Reported basis.

Developing strong relationships with customers and clients

Objective

We develop relationships with our customers and clients based on trust and our ability to effectively meet their needs. We aim to understand what they want and put that at the centre of our decision making.

Across our asset management business, the key to this relationship is knowing our clients' ambitions and delivering the investment outcomes they expect. In our Pensions and Savings business, we aim to develop relationships with our customers which make us their first choice for their life savings.

Market forces

Customers are increasingly taking on more responsibility for their financial future and this drives a need for clear and supportive financial guidance and advice, as well as products and services they understand.

Changes in the way customers interact with service providers mean we need to offer a broad range of support and digital services.

Industry regulation focused on improving the transparency of client transactions and value is a positive development and we are focused on adapting our operations to not only meet but, where possible, exceed requirements.

2017 performance

In our asset management business we launched a programme to enhance the client experience and create a single, consistent approach to client management. By launching new funds across a range of different asset classes, we also broadened the capabilities we have to meet clients' diverse investment needs. There's more detail on page 22.

In our Pensions and Savings business, we have continued to engage with pension customers in the lead-up to retirement to help them understand their options as a result of the pensions freedoms legislation. Following improvements in our process, 80% of people who sign up to access their plan details online now complete the registration, up from just 27% last year, allowing them to have a more meaningful digital relationship with us.

We have also continued our work to address the findings of the Financial Conduct Authority's thematic review into the sale of non-advised annuities. The review showed that a portion of annuity sales that we made since July 2008 did not adequately explain to customers that they may have been eligible for an enhanced annuity. We expect the review to be fully operational during 2018 and will start writing to affected customers at that time.

Outlook and 2018 objectives

With the expanded set of investment capabilities resulting from integration, the combined strength of both companies' existing brands, and the combined global distribution platform, we expect meaningful opportunities to deepen client relationships and grow assets.

- Further develop our UK retail platforms and financial advice businesses in order to continue to meet the evolving needs of customers and clients
- Deliver on investment in local distribution in Asia and the US to deepen relationships with existing clients
- Upgrade our infrastructure to further enable engagement at scale
- Continue to grow our advice capability through 1825, to help the growing number of customers who face significant complexity when planning their future
- Fully integrate our Elevate platform proposition, giving advisers the full benefit of our leading platform franchise

A compelling proposition

The strength of our relationships with customers and clients relies on our ability to provide them with effective products and services. We're an investment company, which means we manage assets, but we also administer savings products and services and can offer financial planning and advice. As a result, customers can benefit from the complementary nature of our capabilities, enhancing engagement and our ability to serve their needs.

As an active asset manager throughout the risk spectrum, we offer market-leading investment products that have clear investment outcomes to match our clients' ambitions. Our approach is supported by a team of investment experts and a philosophy which is focused on anticipating market change and carefully managing risks.

As a pensions and savings provider, we offer innovative products and services that allow customers, or their advisers, to manage their investments. We make the most of technology to ensure people can easily access, update and consolidate their assets.

As we grow our advice capability, we are able to offer financial planning and advice to help our customers and clients achieve a wide range of financial goals.

Broadening and deepening our investment capability

Objective

Broadening and deepening our investment capability gives us the potential to attract a wider range of future customers and clients while enhancing existing relationships.

Success is measured by delivering investment performance that meets the desired outcomes of our customers and clients over the long term. We're committed to active investment management throughout the risk-return spectrum, and our focus on offering 'new active' investment solutions helps us to achieve the outcomes that clients want.

The complementary investment capabilities and solutions that our combined business bring together also demonstrate our breadth as a forward-looking, responsible investor. The merger also allows our business to generate scale for continuing investment and innovation in product design.

Market forces

We are well positioned to benefit from global trends that are shaping the savings and investments landscape. This includes the potential for slower economic growth and a compressed return environment over the longer term, which we expect will drive demand for active asset management.

2017 performance

Investment performance was mixed over the year, with 70% of assets under management ahead of benchmark. Strength across most fixed income and tactical asset allocation products contrasted with mixed performance in equities. 63% of assets were ahead of benchmark over three years. Our investment processes and performance results are actively monitored and evaluated by our Investment Governance and Oversight Function.

The integration of investment teams and capabilities is progressing well, with a focus on building a forward-looking and collaborative investment platform to deliver outcomes that our clients expect. Bringing together the broad and deep capabilities of the combined business, and sharing insight across these, will enable us to deliver strong and consistent investment performance over the long term. As we integrate and position our business we are focused on evolving investment processes to address performance challenges.

Across the combined business, we launched 22 new funds across a range of different asset classes, including equities, multi-asset, fixed income and private markets. New funds, with specific investment objectives, are part of our ongoing aim to meet the changing investment needs of our customers and clients.

We take our responsibilities as an investor seriously, and the merger brings together significant resource and expertise to improve our approach to stewardship. You can read more about this on page 45.

Outlook and 2018 objectives

After very strong gains for risk assets in 2017, we expect more subdued market returns in 2018. Our main objectives are to integrate investment capabilities as well as innovate and seek new, diverse investment opportunities:

- Maximise investment insight from broad nature of investment activities globally – including active fundamental approaches, and systematic and quantitative approaches
- Take advantage of increased collaboration across our different investment capabilities, to provide effective outcome-oriented solutions for clients
- Further strengthen our private markets capabilities such as private equity, real estate and illiquid credit
- Develop quantitative investing capabilities – including enhanced index, and 'smart beta' approaches which combine the benefits of active and passive
- Further integrate and market our stewardship and ESG capabilities across all asset classes to help make a positive impact on society and add value to investment performance

Our first combined investment trust

In recent years the e-commerce industry across Europe has grown rapidly. This has seen growing demand from retailers for logistic properties: from large, specialised warehouses where goods are picked, sorted and distributed, to smaller local units used to help transport goods to their final destination. Aberdeen Standard Investments is the second largest real estate investment manager in Europe, and we have an established track record of managing real estate assets in this area of the market.

In response to this growing demand, we launched our first investment trust as a combined business: Aberdeen Standard European Logistics Income PLC. The trust raised £187.5m of equity through an Initial Placing and Offer for Subscription, and the first day of trading in the shares was 15 December 2017.

Our discussions with a broad range of investors had suggested that there would be wide interest in the launch and this has proven to be the case – with pension funds, multi-asset managers, wealth managers and retail investors subscribing to the initial offer.

Building an efficient and effective business

Efficiency from our merger integration programme

We have a very experienced team leading the merger integration of our businesses.

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

These merger cost synergies include opportunities to consolidate our operating, trading and other platforms, as well as reduce the number of third party service providers we use.

We also aim to reduce overlap in our distribution networks – combining operations that are close together geographically – and to merge some of the common functions that have been part of each business before the merger.

Cost savings will also come from a phased reduction of around 900 roles over three years from a total of around 9,000 employees. This has increased from our original estimate of 800 roles. We continue to aim to manage much of this through natural employee turnover, and to do everything we can to minimise compulsory redundancies.

Objective

We are focused on ensuring we have an operating platform that's modern, flexible and scalable. We are also focusing on efficiency, allowing us to deliver new products to market faster while managing our costs effectively. We aim to make sure that the surrounding architecture, which includes our IT systems, the processes we follow and external service providers we use, gives us greater flexibility and helps us to reduce ongoing maintenance costs.

Market forces

Our clients, customers and advisers expect a modern and consistent user experience through the different channels they use to interact with companies.

Regulation is also shaping how we interact with clients, including European Union regulations to improve the quality and transparency of transaction reporting on different types of products.

Our reliance on a wide range of IT systems and online functionality, to meet customer preferences and improve efficiency, exposes us to the risk of key systems underperforming and security risks such as cyber-attacks. You can read more about these risks on page 56.

2017 performance

We're supportive of industry changes that will improve regulation. We've run significant programmes of work to deliver against the requirements of European Union regulations brought in to improve the quality and transparency of transaction reporting on different types of product. These include the updated Markets in Financial Instruments Directive legislation MiFID II, and the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation, ahead of their January 2018 deadline.

As part of our programme to improve how we collect, store and interpret data, we delivered an improved technology platform in our asset management business. This is to ensure that our investment professionals have easy access to quality, timely investment data, and better insights into our clients' changing needs across the globe, to make more informed investment decisions on their behalf. We also made improvements to our order management system – the core investment platform for our fund managers – to take advantage of new features that improve our effectiveness and help us comply with new regulations.

We've also been upgrading the technology infrastructure for our Pensions and Savings business, to allow greater agility to meet changing customer demand and offer a more customer-orientated digital experience. The process of undertaking a significant IT transformation suitable for the future has been challenging, and we incurred an impairment charge of £31m following the discontinuation of part of an IT transformation project. However, good progress has been made with simplifying our infrastructure, delivering benefits to customers and corporate clients.

We've remained committed to ensuring that our IT capabilities can protect our customer and corporate information from misuse and cyber crime, and can minimise the impact of disruption to our operations. This includes maintaining security programmes, partnerships with third party specialists and a dedicated internal IT function.

Our cyber security policy and standards are aligned with industry good practice and the UK Government's 'Cyber Essentials' scheme, and we are certified for business continuity according to the internationally-recognised ISO22301 standard. Internal teams and external consultants carry out regular, independent assurance and benchmarking to measure the effectiveness of our security controls.

Since the merger completed, we have brought together 2,600 of our people. This includes moves in London, New York, Singapore, and the opening of our new headquarters for the combined business at St Andrew Square in Edinburgh. Co-locating colleagues in Edinburgh and across the globe has helped us to improve collaboration and begin to create cost efficiencies.

Outlook and 2018 objectives

- Maintain momentum with our merger integration programme, consolidate our operations and save costs
- Successfully complete the proposed transaction with Phoenix. This will significantly simplify the Group, supporting extraction of further efficiencies across the business.
- Focus on integrating the technology infrastructure in our asset management business to increase scalability and reduce ongoing costs
- Continue our investment in emerging technologies to unlock a competitive advantage and transform the way we provide information to our clients

Growing and diversifying our revenue and profit

Objective

We remain focused on growing and diversifying revenue and profit, to deliver sustainable value for our shareholders and other key stakeholders. We aim to do this by building a world-class investment company that is well diversified by geography, distribution channel, client type, asset class and across the value chain. We're well positioned to capture revenue by providing our customers and clients with asset management, administration and advice.

We will continue to pursue organic growth opportunities from our own resources and activities – while also carefully targeting appropriate acquisitions and new strategic partnerships.

Market forces

We expect 'new active' investment solutions will be the main driver of global client demand. We are well positioned as the combined business brings together our respective strengths in the provision of next generation solutions.

As people take more responsibility for their financial futures, we've continued to see a growing demand for financial advice and guidance. This presents an opportunity for us to diversify and grow our sources of revenue – in particular, through our financial advice business 1825.

2017 performance

Our range of investment capabilities continues to expand and we are also increasing our penetration across global markets. The merger accelerated this diversification in 2017 in terms of investment capabilities, talent, client types and geographic reach.

In November 2017, the IPO of HDFC Life successfully completed. As a result, we received £359m for the proportion of shares we sold to facilitate the IPO and have also maintained a major shareholding in a leading business in a market with significant growth potential. See page 50 for more information.

Revenue generation in 2017 was impacted by outflows in our asset management business reflecting mixed short-term investment performance.

Outlook and 2018 objectives

- Deliver the cost synergy benefits following the merger with a continued focus on achieving growth in financial performance
- Pursue a structured programme to seek further opportunities to grow and diversify our business, including by selective bolt-on acquisitions
- Proposed IPO of HDFC Asset Management in India provides greater transparency of the value of this well positioned and well performing business

Revenue enhancement opportunities

Enhanced opportunities to grow and diversify our revenue and profit following the merger include:

- Asset and revenue growth opportunities through specifically leveraging complementary investment capabilities. This includes Standard Life Investments' capabilities in multi-asset and risk managed return products being deployed into Aberdeen's institutional client base; and Aberdeen's capabilities across various product categories (in particular emerging market equities, Asia Pacific equities and in quantitative strategies) being deployed into Standard Life's Pensions and Savings retail business and the Phoenix business.
- Opportunities arising through enhanced access to a number of global markets with structural growth potential, including in India, China, Hong Kong, Latin America and the Middle East. This is in addition to our positions in Japan and in the US, two of the world's largest retirement markets.
- Revenue opportunities arising as a result of the deeper pool of investment componentry created as a result of our merger, which will allow the development of innovative investment solutions for our strategic partners

Attracting, retaining and developing talented people

Objective

Investing in our employees' development is crucial to our long-term success. Having people who bring a diverse range of talents and perspectives, and who feel engaged in their roles, is fundamental to building lasting customer and client relationships, contributing to our businesses' performance, reputation and long-term shareholder value.

Market forces

As a company operating on a global scale, the marketplace for talented people is very competitive. A priority for us is ensuring that we provide opportunities and a culture that can attract a diverse pipeline of talent at all levels.

This includes investing in mentoring, coaching and development programmes for our people as part of their career development. We also have a robust succession planning process in place, which includes ongoing talent management for people who have the potential and drive to become our future business leaders.

Social mobility is an area of growing importance in society and our industry. We remain committed to supporting social mobility, including programmes for people in the early stages of their careers. It's an important part of our strategy to build and sustain a more diverse and inclusive workforce, one that also reflects the diversity and perspectives of our customers and clients.

2017 performance

Through the increase in scale that the merger has created, the opportunities we have to attract talent from across the globe have grown. At the same time, change on this scale can create uncertainty – so to help retain talent, we have a responsibility to all of our people to address issues that may arise.

We made a number of executive appointments shortly after the announcement of the merger, to help provide certainty and stability for our people and for our clients and customers. We also have clear succession plans in place for all key roles.

During our three-year integration we need to make sure that everyone, from new recruits through to leadership teams, has the capabilities to support our company's objectives. We began work on the organisational restructure in late August, with consultation processes starting across many areas of the business. Throughout this process we've kept employees regularly updated.

As part of the integration we are working to align our policies and processes. This includes the work we've started to align our appraisal and remuneration processes, using a system based on individual and business unit performance.

Ongoing training and career development support help us make sure our people feel engaged with their roles, and have the skills and knowledge to help us support clients and customers. Around 1,300 managers took part in programmes to improve their ability to manage and lead through change, which included extensive online resources. And we've continued to provide support for employees aiming for a future role on a plc board, including opportunities to volunteer on a local government body or as a charity trustee.

Since the merger we have integrated our employee networks, expanding their global reach to include over 1,900 members. Our networks support their members and raise awareness of issues which affect the communities they represent. There's more about their areas of focus on page 30.

Outlook and 2018 objectives

- Continue to invest in our people – providing learning and development opportunities and further improving our strong talent pipeline
- Develop a shared company culture relevant to all of our stakeholders, and promote the importance of cooperation and collaboration in achieving this
- Support employees as we progress through the proposed transaction with Phoenix. Phoenix has indicated that they intend to maintain operational headquarters in Edinburgh.
- Work across our global locations to build and sustain a more diverse and inclusive workplace
- Continue reviewing and improving our approach to how we measure engagement and enablement, and how we respond to our people's views

Developing our culture

Successful cultural integration following the merger is vital to our strategy. After we completed the merger we asked employees to take part in a survey to measure their mood and sentiment, to describe how it currently feels to work for us and how they would like it to feel in the future.

60% (5,486) of our employees took part in the survey. Key findings included:

- 87% of participants felt the merger represented an opportunity, while 2% felt the opposite and 11% were yet to be convinced
- 52% said they felt positive about coming to work and 28% felt neutral, with the remaining 20% feeling negative
- When asked to choose from a selection of words to describe the current company culture, 70% chose positive words, 7% chose neutral words and 23% selected negative words

While the results showed positivity towards the opportunities that the merger presents, they also highlighted that there are still improvements to be made. During 2018, one of our priorities will be to demonstrate that we're listening to our people's views and taking the right action, particularly in light of the proposed transaction with Phoenix.

We will also continue gathering insight to build a culture that fits with the needs of all of our stakeholders. This will include making mood, sentiment and culture an area we measure as part of our full employee engagement survey.

You can read more about our work to create an effective organisational culture on pages 30 to 31.

Creating a supportive and inclusive culture

To achieve our strategic aims, we need to provide inclusive and engaging employment, encourage collaboration, and enable people to reach their potential.

Defining the right culture

The scale of the merged business offers our people the potential for further opportunities to achieve their career goals. To make these opportunities valuable, we need a culture that's supportive and relevant.

In any merger, integrating two cultures is an area of significant risk. So before defining the shared values that support our desired culture, we need a deep understanding of the existing cultures within each business.

There are a number of shared values that make the merger beneficial – from a focus on delivering excellent customer and investment outcomes to supporting a diverse and inclusive workplace. Our integration strategy aims to protect and build on these strengths as we deliver a programme of work to articulate our desired company values and leadership behaviours.

Since August, we have been gathering insight from across the combined business. This has included interviews and focus groups, and using technology and digital collaboration tools to get input from as many individuals as possible. We've also run a programme of internal communications to keep our employees updated on our progress. This all builds on the results of our company-wide mood and sentiment survey, which you can read about on page 29.

Improving diversity and inclusion

Our business leaders have created an inclusion strategy that defines our priorities over the next three to five years. It aims to embed inclusion in everything we do, and improve transparency in how we talk about and report on diversity in our business. While this will take time to implement, we have made this a priority.

In creating an inclusive workplace, we aim to empower our employees to take an active and collaborative approach. Our diversity and inclusion strategy groups, for example, are made up of employees from across the combined business. Their role is to help us shape an approach that reflects the diverse needs of our people and make the most of their talents, while also supporting us in achieving our business objectives.

You can read our Inclusion strategy on our website
www.standardlifeaberdeen.com/annualreport

Our employee networks support the members of the diverse groups and communities our employees represent, and raise awareness of issues that affect them. The areas of focus for our networks include:

- Cultural issues facing black, Asian and minority ethnic communities
- People living with disabilities, and with issues around mental health and wellbeing
- Issues around gender balance and equality
- Issues affecting the lesbian, gay, bisexual and transgender communities – the LGBT+ Network
- Support for employees who are carers
- Support for current and former members of the armed forces and their families
- Professional and personal development for young employees

In addition to supporting employees, these networks also work with the company to deliver business outcomes. In 2017, for example, we partnered with the LGBT+ Network to develop and launch a new transgender policy.

Engaging with wider society

As a global investment company we have a responsibility not just as an employer, but also in terms of the influence we can have on our industry and wider society. Our involvement with external initiatives helps us to evaluate the progress we've made and what we can do in the future. It also plays a big role in helping us attract and develop diverse talent.

- We were ranked fourth in the first ever UK Social Mobility Employer Index – and we continue to support programmes to help people across society gain skills and opportunities for work, such as the Edinburgh Guarantee scheme and Investment 2020
- In recognition of our support to employees who are also carers, we were accredited by Carer Positive – an initiative funded by the Scottish Government – as an 'Established' employer in Scotland. Our carers' network also won the 'Network of the Year' award in the UK from the Employers Network for Equality and Inclusion.
- We were named as one of the UK's Best Employers for Race by Business in the Community, a charity that engages businesses in helping to build a fairer society
- We're a signatory to the UK Armed Forces Corporate Covenant, committing to activities that support current and former members of the armed forces, as well as their families and reservists, in the workplace. These activities include the support, business expertise and funding we offer the Scottish Veterans Fund.

Inspiration Awards

In September we held our Inspiration Awards event. The awards recognise the contribution our people make in their local communities, as well as the achievements of individuals and teams in helping to make our business innovative and sustainable.

Wellbeing

An important part of helping our people to remain engaged and motivated at work is ongoing support for their wellbeing. We use insight and research to inform our wellbeing strategy and the activities which support it.

We support physical wellbeing in a number of ways – from offering employee benefits such as private health care and discounted sports club membership, to hosting guest speakers covering topics including nutrition, sleep and cancer awareness. In 2017 we also launched a financial wellness programme in the UK, which included presentations and webinars to help employees better understand how they can make the most of their personal finances.

We also want our employees to feel they have a supportive workplace where they can talk openly about mental health issues. During the year we ran activities to support national and global initiatives that raise awareness of mental health issues, including Time to Talk Day, World Mental Health Awareness Week and Children's mental health week in the UK. We shared stories and organised events – from mindfulness sessions, to seminars on managing stress, to workshops on maintaining a supportive working environment.

Engaging through charitable giving and volunteering

We have a combined history of engaging with the communities in which our people and customers live and work. We collaborate with charities in these communities, across the UK and globally.

Our funding is directed to have a meaningful and measurable impact that aligns with our company's strategic objectives. We seek partnerships that engage employees and provide an opportunity for them to use their time and skills to create additional value. We offer paid volunteering leave to our people in support of this.

Our people took part in fundraising and volunteering activities globally throughout 2017, and we will work to grow this activity with our increased size and capabilities.

You can read more in our Corporate sustainability and stewardship report 2017 on our website
www.standardlifeaberdeen.com/annualreport

The gender pay gap

Under new legislation, UK companies with more than 250 employees are required to report their gender pay gap – the difference between the average amount that women and men are paid across the whole workforce. We believe increasing transparency is vital to close the gender pay gap and we welcome this legislation as a catalyst for change.

As at April 2017, men were paid on average 34% more than women at Aberdeen, and 42% more than women in the Standard Life Group. This is an area in which we want to perform better. Our pay gap is primarily driven by the fact that we have more men than women in our senior roles. We are committed to improving our gender balance, and we believe progress here will positively impact our business, our industry and our society.

We also believe in working across our industry to support actions that will address gender equality for our sector. We were among the first signatories to the HM Treasury's Women in Finance Charter, pledging to improve gender balance in our senior management populations with specific targets, and so help to reduce the gender pay gap across our industry. In October 2017 we publicly reported the actions taken and committed to next steps in making progress over the next 12 months.

You can read our full gender pay gap disclosure, analysis and what we are doing to tackle our gender pay gap in our report on our website
www.standardlifeaberdeen.com/annualreport

Our gender targets

Making sustainable progress in achieving a better gender balance at all levels takes time – and an enduring commitment and focus. To help us address this, we have a long-term plan that focuses on three main areas:

- Our culture: understanding and removing the barriers for women reaching senior management or which result in many leaving our industry altogether
- Our industry: addressing industry-wide practices and influencing across our sector to help make senior roles more accessible to women
- Our people: providing every opportunity for our people to reach their potential, regardless of gender

As part of our Women in Finance Charter commitments, we have published the following targets for women in our different roles:

Level	Target by June 2020 %	Actual 31 Dec 2017 %[3]	Actual 31 Dec 2017 Number
Board	33	**25**	**4 of 16**
Executive[1]	33	**27**	**49 of 183**
Entire global workforce	50[2]	**47**	**4,569 of 9,651**
Entire UK workforce	50[2]	**47**	**3,634 of 7,803**

1 People employed in roles across the two leadership levels below CEO, excluding admin employees.

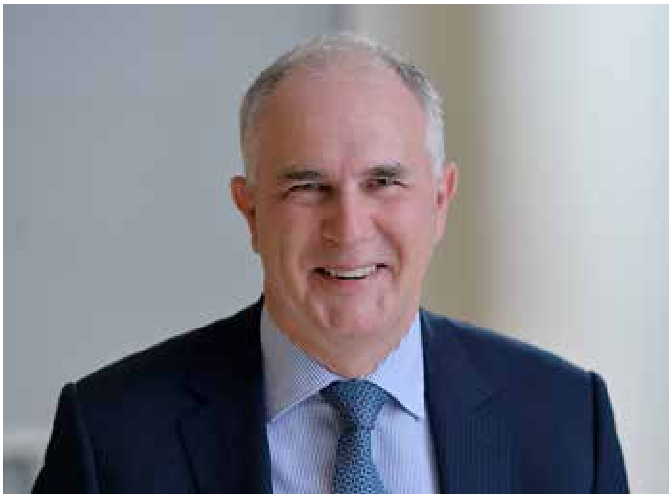
2 Target has a tolerance of 3%.

3 Data is prepared in accordance with our reporting methodology and the KPIs are within KPMG's limited assurance scope. Both KPMG's limited assurance report and our reporting methodology can be found at **www.standardlifeaberdeen.com/annualreport**

To demonstrate progress in developing our talent pipeline we will continue to track the gender balance in the succession pool, for those ready for our most senior roles within the next three to five years. At February 2018, women were in 44% of these roles, and we expect this figure to increase each year.

Chief Financial Officer's overview

Robust financial performance supporting shareholder returns



Bill Rattray
Chief Financial Officer

Q Can you explain the key financial benefits of the merger and are you on track to deliver the expected cost synergies?

A The merger gives the business the scale and reach needed to compete globally, evidenced by adjusted profit before tax on a Pro forma basis now exceeding £1bn.

The announcement that Lloyds Banking Group and Scottish Widows are seeking to terminate arrangements for the assets we manage for them was disappointing. However, revenues from these assets represent less than 5% of our full year 2017 pro forma fee based revenue. We have recognised an impairment charge of £40m relating to this intangible asset in our 2017 results.

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

As at 31 December 2017, actions have been taken to deliver £73m of annualised cost savings, which will begin to take effect in 2018.

Q The Group recently raised US$750m through a debt issue and around £360m from the IPO of HDFC Life, how will this extra cash be used?

A Firstly, US$500m of the proceeds of the debt issue will be used to repay more expensive existing debt, which will save approximately £13m of annual interest costs. We remain well capitalised and the actions taken this year mean that we retain a strong cash buffer within Standard Life Aberdeen plc. This allows us to support the merger integration whilst continuing our progressive dividend policy. It also provides capacity to fund the organic growth of the business and bolt-on acquisitions should suitable opportunities arise.

Q How is Aberdeen's performance reflected within the combined Group results and is it disclosed separately?

A The Aberdeen Standard Investments business segment reflects the combined performance of Standard Life Investments and Aberdeen Asset Management.

The substance of the transaction to create Standard Life Aberdeen plc was that of a merger between Standard Life Group and Aberdeen. However, under IFRS, the transaction is viewed as an acquisition of Aberdeen by Standard Life Group. Therefore, the Group's results on an IFRS basis include Aberdeen only from the merger date onwards. The estimated 2017 results for Aberdeen since the merger are provided in the commentary where they are appropriate to help explain financial performance. We have also provided Pro forma basis results, where appropriate, to help explain how 2017 compares to 2016.

Aberdeen Standard Investments already operates as a single business and will become increasingly integrated in the coming months.

We announced the proposed transaction with Phoenix on 23 February 2018. Further details of this post balance sheet event are disclosed in the Directors' report and in Note 48 of the Group financial statements.

Reported and Pro forma results

This report includes results on both a Reported basis and on a Pro forma basis.

IFRS requires the Aberdeen results to be included only from the date of the merger, 14 August 2017, onwards. The financial statements have been prepared on this basis, which we refer to as the Reported basis. However, we believe that it is helpful to also provide additional information which is more readily comparable with the historic results of the combined businesses. Therefore we also discuss the results on a Pro forma basis, combining the full 12-month results of the two companies for both the current year and prior years. Pro forma basis reporting is applicable to the results of the Standard Life Aberdeen Group and the Aberdeen Standard Investments segment. For certain metrics such as AUMA and flows, only Pro forma basis reporting is provided.

A reconciliation between the results on a Pro forma basis and a Reported basis is included on page 35.

Alternative performance measures

We assess our financial performance using a variety of measures. Some of these measures are defined under IFRS such as IFRS profit. Others, such as adjusted profit, are not defined under IFRS and are therefore termed alternative performance measures (APMs). APMs are used to help provide a fuller understanding of the performance of our business.

APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section of this report. Further details on alternative performance measures including reconciliations to relevant IFRS metrics are provided in the Supplementary information in Section 10.

Definitions of key financial terms are included in the Glossary

Assets and flows

The merger transformed the scale of the business, adding over £300bn of assets under management and administration (AUMA). On a Pro forma basis, AUMA increased slightly to £655bn, benefiting from markets and investment performance offset by net outflows.

Flows and AUMA (Pro forma basis)	Gross inflows		Net flows		AUMA	
	2017 £bn	2016 £bn	**2017 £bn**	2016 £bn	**2017 £bn**	2016 £bn
Aberdeen Standard Investments growth	**50.9**	55.1	**(22.1)**	(26.1)	**303.9**	309.1
Standard Life Pensions and Savings growth	**18.4**	13.5	**8.1**	5.9	**127.9**	111.1
Eliminations	**(4.0)**	(3.5)	**(0.9)**	(1.1)	**(21.5)**	(19.0)
Total growth channels	**65.3**	65.1	**(14.9)**	(21.3)	**410.3**	401.2
Aberdeen Standard Investments mature (Third party)	**12.3**	12.9	**(12.5)**	(11.5)	**179.6**	181.3
Aberdeen Standard Investments mature (Standard Life Pensions and Savings)	**3.3**	3.5	**(2.7)**	(2.1)	**92.2**	90.2
Aberdeen Standard Investments mature total	**15.6**	16.4	**(15.2)**	(13.6)	**271.8**	271.5
Standard Life Pensions and Savings mature	**1.5**	1.5	**(4.1)**	(4.4)	**60.2**	60.5
Eliminations	**(3.3)**	(3.5)	**2.7**	2.1	**(92.2)**	(90.2)
Total mature books	**13.8**	14.4	**(16.6)**	(15.9)	**239.8**	241.8
India and China life	**1.0**	0.9	**0.5**	0.4	**4.8**	4.6
Total	**80.1**	80.4	**(31.0)**	(36.8)	**654.9**	647.6

Assets under management and administration

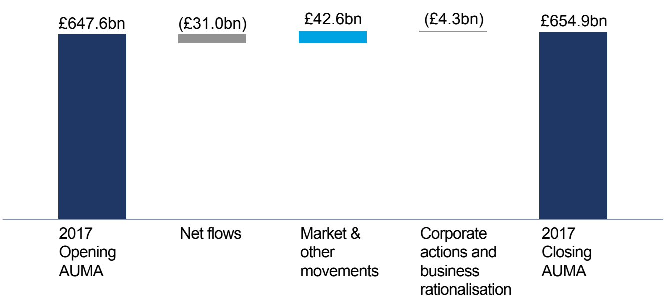
AUMA on a **Pro forma basis** increased by 1% to £654.9bn (2016: £647.6bn), benefiting from positive investment returns which were largely offset by net outflows.

Growth channel AUMA increased by 2% to £410.3bn (2016: £401.2bn) and now accounts for 63% (2016: 62%) of total AUMA.

Eliminations represent AUMA which is administered by Pensions and Savings and also managed by Aberdeen Standard Investments, and is therefore included in both the Pensions and Savings and Aberdeen Standard Investments segments. At a Group level an elimination adjustment is therefore required. Total eliminations increased to £113.7bn (2016: £109.2bn).

The movement in AUMA also includes £4.3bn of corporate actions, including £3.7bn of business rationalisation outflows relating to the closure of an uneconomic multi-manager fund range and the rationalisation of Aberdeen's US fixed income business.

Movement in AUMA
(Pro forma basis)



Gross and net flows

Gross inflows on a **Pro forma basis** remained strong at £80.1bn (2016: £80.4bn), with record gross flows in UK Retail driven by our Wrap and Elevate platforms, and continued strong inflows in Aberdeen Standard Investments.

Net outflows in our growth channels reduced considerably to £14.9bn (2016: £21.3bn) reflecting lower redemptions in Aberdeen Standard Investments, combined with strong net inflows in Pensions and Savings. Our mature books, which are in long-term run-off, saw net outflows broadly in line with expectations at £16.6bn (2016: £15.9bn).

Aberdeen Standard Investments growth channel net outflows were £22.1bn (2016: £26.1bn) with net outflows from equities reduced to £8.2bn (2016: net outflows £13.9bn). Sentiment improved towards Asia and Emerging Markets but our flows continue to be impacted by a period of weaker investment performance. Net outflows from GARS increased to £10.7bn (2016: £4.3bn) as investment performance sentiment resulted in a slow down in gross inflows and an increased rate of redemptions.

Standard Life Pensions and Savings growth channels delivered increased net inflows of £8.1bn (2016: £5.9bn) as a result of record net inflows in UK Retail. This was driven by strong demand for our Wrap and Elevate platforms, boosted by transfers from defined benefit to defined contribution pension schemes, which helped the UK Retail channel achieve a 73% increase in net flows to £6.4bn (2016: £3.7bn).

India and China life net inflows increased to £0.5bn (2016: £0.4bn) with higher flows for both HDFC Life and Heng An Standard Life.

Further information on AUMA and net flows is included in the Supplementary information section of this report. Definitions of growth channels and mature books are included in the Glossary.

Revenue

Pro forma fee based revenue up 3% to £2,763m, driven by Pensions and Savings asset growth.

Fee based revenue

On a **Reported basis**, fee based revenue increased by 28% to £2,111m (2016: £1,651m) mainly due to the inclusion of Aberdeen revenue of £407m in the period since the merger completed. Pensions and Savings fee based revenue increased to £964m (2016: £861m) as AUA benefited from strong net inflows and positive market movements, as well as a full year of ownership of Elevate (acquired Q4 2016).

On a **Pro forma basis**, fee based revenue increased by 3% to £2,763m (2016: £2,686m), primarily reflecting the Pensions and Savings fee growth set out above.

In Aberdeen Standard Investments the impact of net outflows was broadly offset by favourable market and foreign exchange movements. Performance fees represent 1% of total fee based revenue at £26m (2016: £33m).

The average fee revenue yield (excluding performance fees) for Aberdeen Standard Investments growth channels decreased slightly to 51bps (2016: 52bps), driven by the change in asset mix away from higher margin funds.

The UK Pensions and Savings average fee revenue yield reduced to 53bps (2016: 58bps) reflecting the impact of changes to business mix, including the growing proportion of newer style propositions, and the fact that some elements of revenue do not rise in line with market-related AUA growth.

Spread/risk margin

Spread/risk margin in our Pension and Savings business, which mainly relates to income earned on annuities, increased to £165m (2016: £134m). Operating assumption and actuarial reserving changes provided a benefit of £91m (2016: £42m) primarily relating to mortality assumptions. 2017 also benefited from favourable mortality experience, including a £7m reserve release in H1 in respect of overseas annuitants.

The 2016 result included a £22m benefit from an acceleration of payments from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

Costs

Pro forma adjusted operating costs rose 8% to £1,994m including Pensions and Savings business growth and IT related costs.

Adjusted operating expenses

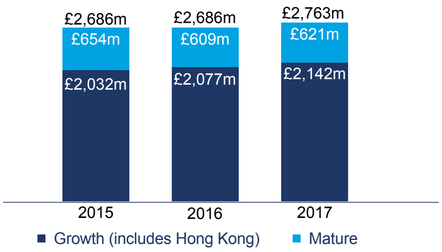
On a **Reported basis**, total adjusted operating expenses increased to £1,527m (2016: £1,156m) including Aberdeen costs of £276m in the period since the merger completed.

The residual increase was driven by higher Pensions and Savings costs of £769m (2016: £655m). The acquisition of Elevate in October 2016 and the growth of 1825 increased adjusted operating expenses by £42m. 2017 also includes a £31m impairment of intangible assets, which arose due to the discontinuation of part of an IT transformation project and a £16m cost of specific customer remediation.

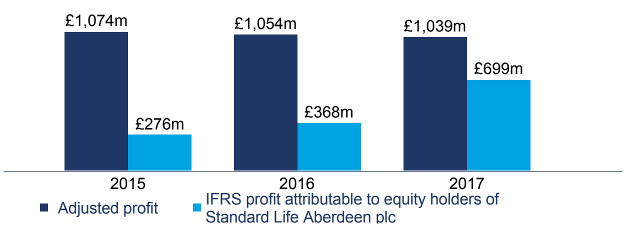
On a **Pro forma basis**, adjusted operating expenses increased to £1,994m (2016: £1,853m) mainly due to the higher costs in Pensions and Savings discussed above.

The cost/income ratio deteriorated to 66% (2016: 64%) reflecting the higher costs noted above, although this ratio is inflated by the impairment charge which we would not expect to recur. When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

Fee based revenue
(Pro forma basis)



Adjusted profit before tax (Pro forma basis)
and IFRS profit (Reported basis)



Profit

Adjusted profit before tax is down by 1% to £1,039m on a Pro forma basis and is up by 19% to £854m on a Reported basis. IFRS profit attributable to equity holders of Standard Life Aberdeen plc increased by 90% to £699m.

Adjusted profit before tax

Adjusted profit before tax is a key measure which we believe provides a fuller understanding of the performance of the business by identifying and analysing adjusting items.

On a **Reported basis**, adjusted profit before tax increased to £854m (2016: £718m), primarily due to the inclusion of Aberdeen adjusted profit before tax of £131m for the period since the merger completed.

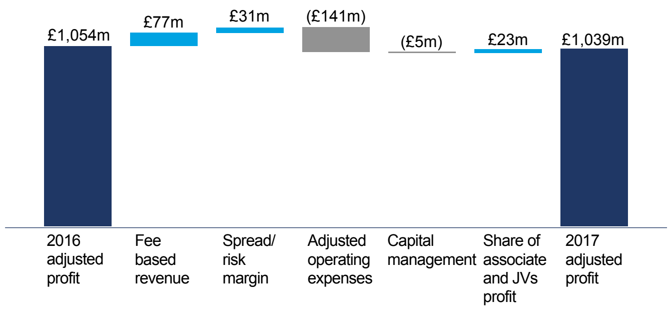
Our share of profit before tax from associates and joint ventures' continued to grow and included benefit of favourable exchange rate movements. Profit from HDFC Life increased to £48m (2016: £34m) and HDFC Asset Management rose to £41m (2016: £35m).

This impact was offset by reduced capital management results largely due to a lower net interest credit from the pension scheme surplus, resulting from lower yields at the start of 2017, and the interest expense on the $750m debt issued in October 2017.

Adjusted profit before tax on a **Pro forma basis** decreased by 1% to £1,039m, driven by lower profitability at Aberdeen Standard Investments which saw additional costs compared to 2016 and flat revenue.

On a **Pro forma basis** capital management generated a gain of £6m (2016: £11m) and includes fair value gains on investment securities in Aberdeen Standard Investments of £30m (2016: £22m) largely offset by coupons paid on perpetual capital securities of £27m (2016: £26m). 2017 was also impacted by a lower net interest credit from the pension scheme surplus and the interest expense on the new $750m debt instrument.

Movement in adjusted profit before tax
(Pro forma basis)



Profitability	Pro forma basis		Remove Aberdeen results pre-merger completion		Reported basis	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Fee based revenue	**2,763**	2,686	**(652)**	(1,035)	**2,111**	1,651
Spread/risk margin	**165**	134	**–**	–	**165**	134
Total adjusted operating income	**2,928**	2,820	**(652)**	(1,035)	**2,276**	1,785
Total adjusted operating expenses	**(1,994)**	(1,853)	**467**	697	**(1,527)**	(1,156)
Adjusted operating profit	**934**	967	**(185)**	(338)	**749**	629
Capital management	**6**	11	**–**	2	**6**	13
Share of associates' and joint ventures' profit before tax	**99**	76	**–**	–	**99**	76
Adjusted profit before tax	**1,039**	1,054	**(185)**	(336)	**854**	718
Adjusting items					**(40)**	(269)
Share of associates' and joint ventures' tax expense					**(41)**	(13)
Profit attributable to non-controlling interests (preference shares and perpetual notes)					**(8)**	–
Total tax					**(66)**	(68)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc					**699**	368
Adjusted diluted earnings per share	**28.9p**	28.8p			**29.9p**	29.3p
Diluted earnings per share					**29.6p**	18.6p

Following the merger with Aberdeen, the Group renamed 'operating profit before tax' as 'adjusted profit before tax' and changes to the basis of calculation were also made. Comparatives have been restated. See Note 2 of the Group financial statements for more information. For further details on our IFRS results, see the Group's IFRS consolidated income statement on page 147.

IFRS profit

IFRS profit on a **Reported basis** increased to £699m (2016: £368m) due to the inclusion of post-merger Aberdeen profits and a £229m reduction in the loss from adjusting items to £40m (2016: loss £269m). Adjusting items are shown in the table below. The largest item is the £319m profit on disposal of interests in associates which includes £302m from the sale of 5.4% of the shares in HDFC Life in the IPO in November 2017, leaving our remaining share in the business at 29.3%.

Short-term fluctuations in investment return and economic assumption changes generated a profit of £67m (2016: £13m) in the Pensions and Savings business, including a benefit from a narrowing of credit spreads.

Restructuring and corporate transaction expenses increased to £173m (2016: £67m). As a result of the merger, 2017 included Standard Life Group transaction costs of £59m and integration and merger related costs of £50m. Further detail on restructuring and corporate transaction expenses is provided in the Supplementary information section.

The amortisation and impairment of intangible assets acquired in business combinations increased to £138m (2016: £38m). This includes an amortisation charge of £62m resulting from intangible assets recognised as a result of the merger and an impairment charge of £40m relating to the Lloyds Banking Group customer relationship intangible asset.

Adjusting items also includes £100m (2016: £175m) relating to an increase in the provision for historic annuity sales practices, following further analysis and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018. Other adjusting items include the £24m impairment recognised in H1 2017 relating to the proposed sale of our wholly owned Hong Kong insurance company to our Chinese life joint venture company, Heng An Standard Life.

Analysis of adjusting items (Reported basis)	**2017 £m**	2016 £m
Profit on disposal of interests in associates	**319**	–
Short-term fluctuations in investment return and economic assumption changes	**67**	13
Restructuring and corporate transaction expenses	**(173)**	(67)
Amortisation and impairment of intangible assets acquired in business combinations	**(138)**	(38)
Provision for annuity sales practices	**(100)**	(175)
Coupon payments on perpetual notes classified as equity	**10**	–
Other	**(25)**	(2)
Total adjusting items	**(40)**	(269)

Share of associates and joint ventures tax expense increased to £41m (2016: £13m) largely relating to a change in our treatment of tax on Indian dividends.

Earnings per share

On a **Reported basis** adjusted diluted earnings per share has increased to 29.9p (2016: 29.3p). On a **Pro forma basis** adjusted diluted earnings per share was flat at 28.9p (2016: 28.8p).

See pages 149 and 176 for further details on adjusted profit and reconciliation of adjusted profit to IFRS profit

Tax expense

The total IFRS tax expense attributable to equity holders' profits on a **Reported basis** was £66m (2016: £68m) including a credit of £42m (2016: credit £58m) relating to adjusting items. The effective tax rate on total IFRS profit is 8% (2016: 14%). The main factors which have brought the effective rate below the UK corporation tax rate of 19.25% (2016: 20%) are:

- The gain arising from the IPO of HDFC Life was exempt from tax under normal tax rules
- During the year the Group made a charitable donation of £81m to the Standard Life Foundation which was tax deductible
- We revalued tax assets relating to Standard Life's Pensions and Savings German business to reflect an updated transfer pricing approach based on the changed economics of that business and the expected impact of Brexit restructuring
- Our share of profits from our associate and joint venture holdings is shown on a post-tax basis and no further tax charge is then applied to this profit, reducing the effective tax rate

These items were partially offset by merger corporate transaction expenses which are not deductible for tax purposes. We would expect the effective rate on total IFRS profit to be lower than the UK corporation tax rate in future years due to the impact of IFRS accounting for associates and joint ventures, as above, and the lower tax rate which applies to profits earned by our Asian subsidiaries.

The tax expense attributable to adjusted profit before tax totalled £149m (2016: £139m), of which £41m (2016: £13m) represents equity holders' share of tax which is borne directly by our associates and joint ventures. The effective tax rate on adjusted profit is 17.4% (2016: 19.4%). We would expect the effective rate on adjusted profit to be lower than the UK corporation tax rate in future years, principally due to the profits of our Asian subsidiaries which are taxed at a rate lower than the UK corporation tax rate.

Total tax contribution

Total tax contribution is a measure of all the taxes the group pays to and collects on behalf of governments in the territories in which we operate. We have reported this on a Standard Life Group basis for 2017 and 2016 and this therefore excludes any tax contribution from Aberdeen. From 2018, we will report our total tax contribution for the combined Standard Life Aberdeen Group. Our total tax contribution on this basis was £1,200m (2016: £1,149m). Of the total, £473m (2016: £451m) was taxes borne by the Standard Life Group whilst £727m (2016: £698m) represents tax collected by us on behalf of tax authorities. Taxes borne are slightly higher than 2016 due to stamp duty relating to the merger. Taxes collected are comprised of pay-as-you-earn (PAYE) deductions from pension payments made to customers, tax deducted from employee payroll payments and VAT collected. The increase in taxes collected is mainly due to an increase in VAT collected on property transactions.

Tax policy

Understanding tax risk, how to manage it, and how it impacts all our stakeholders are important elements of running our business responsibly. The Group proactively manages tax risks and employs an experienced in-house tax team to oversee the tax affairs of the Group. We have a tax risk management policy that is approved annually by the Board.

You can read our tax strategy on our website
www.standardlifeaberdeen.com/annualreport

Balance sheet

We continue to maintain strong liquidity and solvency positions.

Adjusted cash generation

This measure provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to our shareholders. Adjusted cash generation has decreased to £841m, driven by lower profitability at Aberdeen Standard Investments partly offset by higher cash generation in Pensions and Savings.

As explained on page 281, the methodology for calculating adjusted cash generation has been revised following the merger. This change better aligns adjusted cash generation for the Aberdeen Standard Investments segment with the IFRS statement of cash flows.

Analysis of adjusted cash generation (Pro forma basis)	**2017 £m**	2016 £m
Aberdeen Standard Investments	**551**	643
Standard Life Pensions and Savings	**332**	267
India and China life	**10**	8
Other	**(52)**	(25)
Adjusted cash generation	**841**	893

Solvency II

Our Solvency II position presented here reflects draft returns and does not reflect any adjustment for the proposed sale of the majority of the Pensions and Savings business to Phoenix.

We are strongly capitalised with a Solvency II capital surplus (**Investor view**) of £3.8bn (2016: £3.3bn) representing a solvency cover of 225% (2016: 214%). The Investor view of our solvency position gives insight into the solvency capital provided by equity and debt investors. The £0.5bn increase in Investor view surplus in 2017 includes a £0.4bn increase from the IPO of HDFC Life.

The Solvency II Investor view capital surplus of £3.8bn would change by £0.2bn or less following a:

- 20% rise or fall in equities, or
- 100bps rise or fall in fixed interest yields, or
- 50bps rise or fall in credit spreads

The **Regulatory view** solvency cover prescribed by Solvency II regulations is 197% (2016: 177%). This capital surplus excludes £0.2bn (2016: £0.2bn) of capital in insurance subsidiaries that is not deemed to be freely transferrable around the Group.

In addition, the Regulatory view solvency cover is diluted by the inclusion of £0.7bn (2016: £1.2bn) of capital requirements for with profits funds and our defined benefit pension scheme. These capital requirements are covered in full by capital resources in those funds.

Liquidity management

Standard Life Aberdeen plc, the group holding company, holds substantial cash and liquid resources. At 31 December 2017 Standard Life Aberdeen plc held £1.2bn (2016: £0.9bn) of cash and liquid resources, comprises £693m (2016: £395m) of cash and short-term debt securities, £298m (2016: £304m) of bonds and £204m (2016: £201m) of holdings in pooled investment funds.

Dividends received from subsidiaries consisted of £180m (2016: £170m) from Standard Life Assurance Limited, £205m (2016: £287m) from Standard Life Investments (Holdings) Limited and £80m from Aberdeen Asset Management PLC (2016: £nil). Dividends from Standard Life Investments in 2016 included approximately £50m related to capital released following the integration of Ignis. Net remittance following the HDFC Life IPO was £359m of IPO proceeds plus £8m of accumulated dividends. In October 2017 Standard Life Aberdeen plc raised $750m subordinated debt on which it swapped the future obligations into GBP. £400m was injected into Aberdeen Asset Management PLC in advance of the anticipated repayment of capital notes in March 2018.

In May 2017 we extended the maturity date of our £400m syndicated revolving credit facility by a further year to 2022. This facility is held as a part of our contingency funding plans and is currently undrawn.

Holding company cash and liquid resources (Reported basis)	**2017 £m**	2016 £m
Opening 1 January	**900**	1,012
Net remittance following HDFC Life IPO	**367**	–
Dividends received from subsidiaries	**465**	457
Cash dividends paid to shareholders	**(469)**	(370)
Proceeds from 2017 debt issue	**565**	–
Cash investments in subsidiaries, associates and joint ventures	**(413)**	(208)
Expenses (including merger related)	**(128)**	(61)
Acquisition of shares by Employee Share Trust	**(79)**	–
Other	**(13)**	70
Closing 31 December	**1,195**	900

Note 47 of the Group financial statements of this report includes a reconciliation between regulatory capital own funds and IFRS equity and also details of our capital management policies

Reconciliation of Standard Life Aberdeen Investor view and Regulatory view	**31 December 2017 (Draft returns)**				31 December 2016 (Standard Life Group final returns)			
	Investor view	**Less unrecognised capital**	**Add with profits funds and pension scheme**	**Regulatory view**	Investor view	Less unrecognised capital	Add with profits funds and pension scheme	Regulatory view
Own funds	**£6.8bn**	**(£0.2bn)**	**£0.7bn**	**£7.3bn**	£6.2bn	(£0.2bn)	£1.2bn	£7.2bn
Solvency capital requirement (SCR)	**(£3.0bn)**	**–**	**(£0.7bn)**	**(£3.7bn)**	(£2.9bn)	–	(£1.2bn)	(£4.1bn)
Solvency II capital surplus	**£3.8bn**	**(£0.2bn)**	**–**	**£3.6bn**	£3.3bn	(£0.2bn)	–	£3.1bn
Solvency cover	**225%**			**197%**	214%			177%

Dividends

Proposed dividend

Our progressive dividend policy is to grow the annual dividend from the prior year pence per share payment at a rate that is sustainable over the medium term.

The Board is recommending a final dividend for 2017 of 14.30p per share which is an increase of 7.1% on last year's final dividend. Subject to shareholder approval, this will be paid on 30 May 2018 to shareholders on the register at close of business on 20 April 2018.

The dividend payment which is expected to be £421m is strongly supported by adjusted cash generation. At 31 December 2017 Standard Life Aberdeen plc held £1.2bn of cash and liquid resources and £1.8bn of distributable reserves.

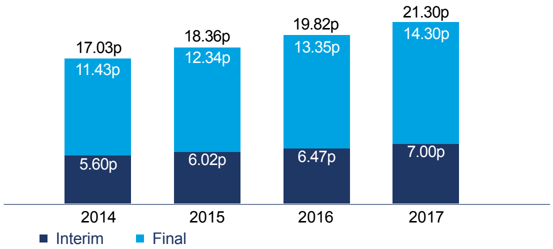
The final dividend, combined with the 2017 interim dividend of 7.00p, brings the total dividend for the year to 21.30p – an increase of 7.5% on the 2016 full year dividend.

How the dividend is funded

External dividends are funded from the cumulative dividend income that Standard Life Aberdeen plc receives from its subsidiaries. To provide some protection against fluctuations in subsidiary dividends, Standard Life Aberdeen plc holds a buffer of distributable cash and liquid resources. This buffer is dynamic and takes into account expected future subsidiary dividend flows and the risks to those dividends. Further information on the principal risks and uncertainties that may affect the business and therefore dividends is provided in the Risk management section of this Strategic report.

Dividend per share paid by the Company

21.30p



Viability statement

The Group's **prospects** are primarily assessed through the strategic and business planning process. Strategic planning is a continuous process which underpins business planning. It considers our business model and how this is designed to be sustainable and resilient in the long term as described on pages 14, 15, 17 and 18 of this report. Responding to market trends, and the robust assessment of principal risks, is key to ensuring our business model remains viable. Business planning is an annual process which projects the performance, regulatory capital and liquidity of the Group over a three-year period, and considers multiple scenarios including a severe downside scenario.

The Directors' assessment of prospects takes into account the Group's current capital and liquidity position, as set out on page 37, which shows a Solvency II regulatory capital surplus of £3.6bn and substantial cash and liquid resources held by Standard Life Aberdeen plc.

Assessment of viability: The Directors confirm that they have a reasonable expectation that Standard Life Aberdeen (SLA) will be able to continue in operation and meet its liabilities as they fall due over the next three years.

The assessment process is overseen by the Risk function and is subject to challenge from executive management and the Risk and Capital Committee, as well as Board consideration. The key processes used by the Board to assess viability are set out below. In particular, the stress and sensitivity analysis performed by each of Standard Life Group, Aberdeen and the combined Group provides insight into the exposures to our principal risks over the defined viability period.

Business plan scenarios: The severe downside used in 2017 assumes that the global economy tips into a severe recession; global equities and bond yields fall in 2018 and 2019 before increasing slightly in 2020. Our projected capital positions are a measure of the capital we need in the business to cover our risks, including financial and operational risks, under such stress scenarios. Our analysis shows that, whilst capital is eroded under this severe downside scenario, the strength and quality of our capital base means that regulatory solvency is maintained and our business remains viable.

Quantitative stress and scenario testing looks at plausible, negative individual and combined stresses that could adversely impact profits, capital and liquidity. Stresses are calibrated up to a 1-in-200 year probability level, or more extreme in certain scenarios. In addition to the business plan scenarios, a broad range of quantitative stress and scenario testing was performed separately pre-merger by Standard Life Group and Aberdeen, looking at the respective resilience to market, credit, expense and demographic shocks.

We also considered the effects of the merger and the subsequent changes in risk profile and concluded that SLA remains solvent under a range of stresses and can support potential cash outflows that may occur.

Reverse stress testing gives a quantitative and qualitative understanding of plausible but severe risk scenarios which could threaten business model viability. This analysis assists in determining if mitigating actions can be taken at the current time or if triggers should be put in place for future actions, should they be required in extreme stressed conditions. Both businesses carried out separate reverse stress testing prior to the merger. This analysis explored the potential failure due to significant reputational damage, loss of operations and/or insolvency across the following scenarios: Fraudulent behaviour involving insider trading; Loss of key personnel in key investment-related areas (e.g. equity products); Cyber Attack/Breach of security information; Failure of key third party service providers; Major shock to financial markets; and Market pressure on fund charges, flows and investment performance.

The analysis and projections completed as part of the due diligence gave consideration to the effects of the merger, and concluded that it is reasonable to expect the results of the combined entity to be consistent with the individual stress testing results. Reverse stress testing results confirmed that both entities are resilient to extreme stresses due to the embedded risk management framework, including monitoring, triggers and actions.

Oversight of risk within the business is delivered through the Internal Capital Adequacy Assessment Process (ICAAP) and the Own Risk and Solvency Assessment (ORSA) processes described in the Risk management section.

We consider that three years is an appropriate period for this viability assessment, which is in line with our core business planning process. It is the period over which major strategic actions, such as the launch of new investment propositions, are typically delivered. It also takes into account the uncertain economic environment and changing political and regulatory environment, and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. We consider that the severe scenarios assessed as part of our reverse stress testing are appropriate over this three-year period.

Business performance

Our reportable segments have been identified in accordance with the way that we are structured and managed.

Analysis of adjusted profit (Pro forma basis)

	Aberdeen Standard Investments		Standard Life Pensions and Savings		India and China life		Other		Eliminations		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fee based revenue	**1,912**	1,920	**964**	861	**12**	17	**–**	–	**(125)**	(112)	**2,763**	2,686
Spread/risk margin	**–**	–	**165**	134	**–**	–	**–**	–	**–**	–	**165**	134
Total adjusted operating income	**1,912**	1,920	**1,129**	995	**12**	17	**–**	–	**(125)**	(112)	**2,928**	2,820
Total adjusted operating expenses	**(1,278)**	(1,231)	**(769)**	(655)	**(11)**	(22)	**(61)**	(57)	**125**	112	**(1,994)**	(1,853)
Adjusted operating profit	**634**	689	**360**	340	**1**	(5)	**(61)**	(57)	**–**	–	**934**	967
Capital management	**2**	(2)	**21**	22	**–**	–	**(17)**	(9)	**–**	–	**6**	11
Share of associates' and joint ventures' profit before tax	**41**	35	**–**	–	**58**	41	**–**	–	**–**	–	**99**	76
Adjusted profit before tax	**677**	722	**381**	362	**59**	36	**(78)**	(66)	**–**	–	**1,039**	1,054

Analysis of IFRS profit (Reported basis)

	Aberdeen Standard Investments		Standard Life Pensions and Savings		India and China life		Other		Eliminations		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fee based revenue	**1,260**	885	**964**	861	**12**	17	**–**	–	**(125)**	(112)	**2,111**	1,651
Spread/risk margin	**–**	–	**165**	134	**–**	–	**–**	–	**–**	–	**165**	134
Total adjusted operating income	**1,260**	885	**1,129**	995	**12**	17	**–**	–	**(125)**	(112)	**2,276**	1,785
Total adjusted operating expenses	**(811)**	(534)	**(769)**	(655)	**(11)**	(22)	**(61)**	(57)	**125**	112	**(1,527)**	(1,156)
Adjusted operating profit	**449**	351	**360**	340	**1**	(5)	**(61)**	(57)	**–**	–	**749**	629
Capital management	**2**	–	**21**	22	**–**	–	**(17)**	(9)	**–**	–	**6**	13
Share of associates' and joint ventures' profit before tax	**41**	35	**–**	–	**58**	41	**–**	–	**–**	–	**99**	76
Adjusted profit before tax	**492**	386	**381**	362	**59**	36	**(78)**	(66)	**–**	–	**854**	718
Restructuring and corporate transaction expenses	**(58)**	(23)	**(38)**	(38)	**–**	(3)	**(77)**	(3)	**–**	–	**(173)**	(67)
Amortisation and impairment of intangible assets acquired in business combinations	**(117)**	(25)	**(8)**	(13)	**(13)**	–	**–**	–	**–**	–	**(138)**	(38)
Gain on sale of share in associates	**14**	–	**–**	–	**305**	–	**–**	–	**–**	–	**319**	–
Provision for annuity sales practices	**–**	–	**(100)**	(175)	**–**	–	**–**	–	**–**	–	**(100)**	(175)
Other	**10**	(5)	**66**	19	**(24)**	–	**–**	(3)	**–**	–	**52**	11
Total adjusting items	**(151)**	(53)	**(80)**	(207)	**268**	(3)	**(77)**	(6)	**–**	–	**(40)**	(269)
Share of associates' and joint ventures' tax expense	**(29)**	(11)	**–**	–	**(12)**	(2)	**–**	–	**–**	–	**(41)**	(13)
Profit attributable to non-controlling interests (preference shares and perpetual notes)	**(8)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(8)**	–
Total tax expense	**(61)**	(63)	**(31)**	(25)	**–**	–	**26**	20	**–**	–	**(66)**	(68)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**243**	259	**270**	130	**315**	31	**(129)**	(52)	**–**	–	**699**	368

Further details on how adjusted profit before tax and other alternative performance measures reconcile to the most appropriate measure prepared in accordance with IFRS are provided in the Supplementary information in Section 10

Focused on delivering more choice and the highest level of client service

Under the Aberdeen Standard Investments brand, we aim to create a world-class asset management business, with the scale to deliver the innovation, market insight and responsiveness needed in today's competitive and fast-changing market.

The merger of our complementary investment businesses created one of the world's largest investment companies and one of the largest active fund managers in Europe, offering our clients access to a comprehensive range of developed and emerging market equities, multi-asset, fixed income, real estate, private markets/alternatives, cash/liquidity and quantitative solutions.

Our client focus

The investment needs of our clients drive everything we do. We look to support investors with a full range of investment opportunities and solutions, and provide the highest level of service and support. We have the resources to transform new investment ideas into practical investment products and the scale to deliver value to investors.

A global network with local expertise

The breadth and depth of our investment talent increased significantly as a result of the merger. We now have over 1,000 investment professionals across 24 investment centres, together with 50 distribution offices servicing clients in 80 countries. We also have a broad range of powerful strategic relationships across the world with major banks, insurers and other investment firms to support the needs of institutional, wholesale, pension and retail investors.

A diversified business

We are well diversified by revenue, asset class, client type and geography. This provides us with the resources and resilience to compete in a constantly changing investment and regulatory environment. Through our breadth of expertise, we aim to lead the way with innovative investment approaches which can target investors' specific needs for income, return, risk control or liability management – as well as seeking to provide sources of performance across different market cycles.

Prepare for Brexit

The UK Government continues to negotiate the exit of the UK from the European Union. Changes to arrangements in Europe would have an effect on how we provide access to investment opportunities for our European based clients. We will continue to work with all responsible for negotiating future arrangements in Europe in order to help develop solutions that will best serve our clients in the UK and the rest of Europe.

Leading active management

As one of the largest active managers in Europe, we will build on our shared commitment to active investment management underpinned by fundamental research. We offer a comprehensive range of developed and emerging market equities and fixed income, multi-asset, real estate, private markets/alternatives and quantitative solutions and now have the expertise and scale in key areas of industry growth to meet the needs of clients globally.

A forward-looking partner

The investment landscape continues to evolve. Demand for investment solutions focused on specific investor outcomes has grown rapidly. Multi-asset, target return, unconstrained and enhanced diversification approaches are some of the fastest-growing sectors of our market. By combining the strengths of our two investment businesses, we can deliver next-generation solutions and stay relevant to the changing needs of our clients.

Integrating two complementary investment businesses

While historically, the investment philosophies and processes adopted by Aberdeen and Standard Life Investments were distinct, we share a set of common investment beliefs. These will continue to be the foundations for our investment approaches:

- Fundamentals driven
- Micro and macro research
- Long term
- Team-based ethos
- Stewardship embedded
- Shared asset class insight

Adjusted profit before tax KPI

Pro forma basis	Reported basis
£677m	**£492m**
(2016: £722m)	(2016: £386m)

Assets under management KPI

Pro forma basis
£575.7bn
(2016: £580.6bn)

Investment performance[1] KPI

Pro forma basis
63%

Cost/income ratio KPI

Pro forma basis	Reported basis
65%	**62%**
(2016: 63%)	(2016: 58%)

Net flows KPI

Pro forma basis
£37.3bn outflows
(2016: £39.7bn outflows)

IFRS profit after tax[2]

Reported basis
£243m
(2016: £259m)

1 Percentage of total AUM ahead of benchmark over three years. Investment performance reporting has been aligned for the combined asset management business and therefore no comparative information is available on a combined basis.

2 IFRS profit after tax attributable to equity holders of Standard Life Aberdeen plc.

Assets and flows

Flows and AUM (Pro forma basis)	**Gross inflows**		**Net flows**		**AUM**	
	2017 £bn	2016 £bn	**2017 £bn**	2016 £bn	**2017 £bn**	2016 £bn
Equities	**16.2**	15.0	**(8.2)**	(13.9)	**104.5**	97.4
Fixed income	**8.4**	9.4	**(3.3)**	(5.3)	**51.4**	55.1
Multi-asset	**13.9**	16.7	**(6.9)**	(3.6)	**72.4**	79.1
Private markets/alternatives	**1.9**	1.6	**(0.8)**	(1.2)	**24.5**	25.7
Real estate	**3.6**	4.3	**(1.0)**	(1.6)	**28.5**	27.5
Quantitative	**0.2**	0.3	**(0.5)**	(0.2)	**2.2**	2.4
Cash/liquidity	**6.7**	7.8	**(1.4)**	(0.3)	**20.4**	21.9
Total growth	**50.9**	55.1	**(22.1)**	(26.1)	**303.9**	309.1
Total mature	**15.6**	16.4	**(15.2)**	(13.6)	**271.8**	271.5
Total Aberdeen Standard Investments	**66.5**	71.5	**(37.3)**	(39.7)	**575.7**	580.6

Total AUM on a **Pro forma basis** decreased 1% to £575.7bn as the impact of net outflows during the year was significantly offset by positive investment returns. Growth channel, which comprises Institutional, Wholesale and Wealth/Digital AUM decreased 2% to £303.9bn, and accounts for 53% of total AUM. Aberdeen total AUM as at 14 August 2017, the date of the merger, was £304.9bn.

Equities, multi-asset and fixed income account for 75% of growth channel AUM, demonstrating the scale and strength of our investment capabilities. The remaining 25% of growth channel AUM relates to private market/alternatives, liquidity, quantitative and real estate, as evolving client needs demand next generation investment solutions.

Gross and net flows

On a **Pro forma basis**, gross inflows from growth channels were £50.9bn (2016: £55.1bn), and redemptions were £73.0bn (2016: £81.2bn), resulting in growth channel net outflows of £22.1bn (2016: £26.1bn). Aberdeen total net outflows for the period 1 January 2017 to 13 August 2017 were £11.0bn.

Of the growth channel net outflows, £8.2bn (2016: £13.9bn) relates to equities. Sentiment improved towards Asia and Emerging Markets but our flows continue to be impacted by a period of weaker investment performance. Overall, demand for equities increased in 2017, whilst the rate of outflows continued to reduce, resulting in a 41% improvement in net outflows.

Multi-asset also saw net outflows of £6.9bn (2016: £3.6bn). GARS dominated flows in this asset class with net outflows of £10.7bn (2016: £4.3bn). Investment performance sentiment resulted in a slowdown in gross flows and increased rate of redemptions. GARS performance is ahead of benchmark but behind target over one, three and five years.

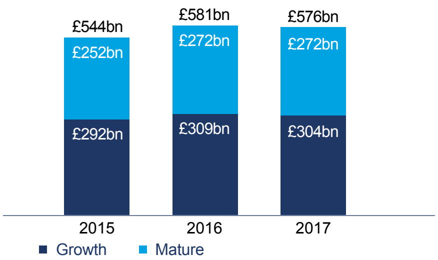
Multi-asset (excluding GARS) generated net inflows of £3.8bn (2016: £0.7bn). This included continued demand for MyFolio and Parmenion products which delivered net inflows of £2.0bn and £1.3bn respectively.

Mature books

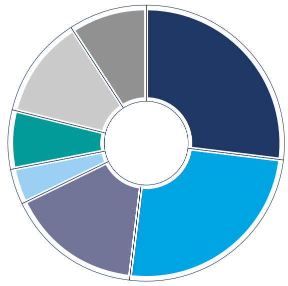
Mature channel, which comprises Standard Life Pensions and Savings and third party strategic partner life business, including Lloyds Banking Group and Scottish Widows. AUM remained stable at £271.8bn. Our mature books business, which is in natural run-off, saw net outflows of £15.2bn (2016: £13.6bn) which were offset by positive investment returns. We consider these outflows to be structural and we expect this level of attrition from the insurance book. Fees associated with the mature AUM are lower margin.

Further information on AUM and net flows are included in the Supplementary information section of this report

AUM
(Pro forma basis)

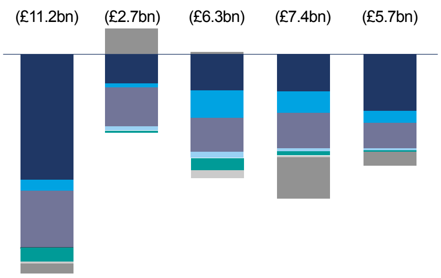


Total AUM asset class split
£575.7bn



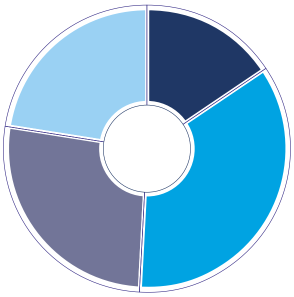
Equities	27%	Real estate	7%
Fixed income	25%	Quantitative	12%
Multi-asset	16%	Cash/liquidity	9%
Private markets/alternatives			4%

Quarterly growth net flows
(Pro forma basis)



Asset class review

Equities



Developed markets	£16.3bn
Emerging markets	£37.0bn
Asia Pacific	£27.7bn
Global	£23.5bn
Total growth	**£104.5bn**

We manage a full range of equity strategies with distinct risk tolerances and return objectives to meet specific client outcomes. While different in their risk tolerances and return objectives, equity portfolios share a common approach: to consistently add value through fundamental stock selection and active management. The core features of our investment processes include:

- Fundamental research
- Ownership of ideas
- Risk focused
- Long-term view
- Investment stewardship

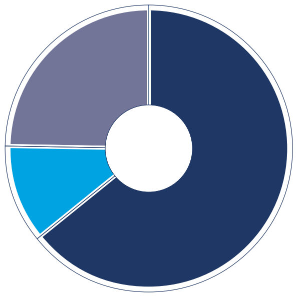
Review of the year

Equity markets continued to reach new highs in 2017, fuelled by increasing confidence in global growth and strong corporate earnings. Correlations declined, and in some regional markets the rally was fuelled in concentrated numbers of sectors and stocks. Against this backdrop, relative performance of our key equity strategies was mixed over the year.

With regards to client flows through the year, we witnessed reasonably stable gross inflows into the Aberdeen global emerging market equities franchise as investor appetite returned after significant redemptions at the end of 2016. However, recent weaker performance has created some challenges. Our broad small cap franchises experienced strong performance and gross inflows respectively across the year. SLI UK equity performance recovered strongly in 2017.

Across our combined equity franchise, we launched our Global Emerging Markets Socially Responsible Investing Fund and our Global Equity Impact Fund, the latter of which aims to invest in companies that are thriving by making a positive societal impact.

Fixed income



Developed markets – credit	£32.9bn
Developed markets – rates	£5.7bn
Emerging markets – fixed income	£12.8bn
Total growth	**£51.4bn**

With significant global fixed income assets under management and a diverse client base, we are one of the largest fixed income managers in Europe. We believe high conviction macro and corporate proprietary research undertaken by our fund managers around the world, is the best way to deliver robust risk-adjusted returns and add long-term value to our clients.

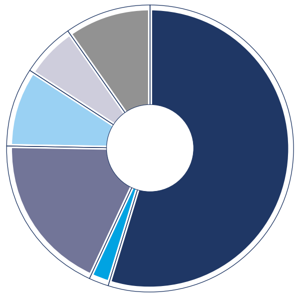
Risk oversight is fundamental as a means to reduce losses and help protect income. Our robust approach to risk monitoring ensures our portfolios are positioned to withstand a wide array of market conditions.

Review of the year

The year was characterised by bond markets remaining in fairly tight yield ranges. Volatility continued to fall through the year and political issues in Europe did not produce the risk scenarios that had concerned the markets. Fundamentally 2017 was a year when economic growth statistics beat expectations, particularly in Europe, although low inflation helped to ensure positive Government bond market performance. The environment remained supportive for corporate earnings, which drove strong returns for credit markets, while low interest rate volatility also protected returns.

Against this backdrop performance across our fixed income franchise remained solid, particularly in credit markets. Institutional demand for fixed income remains focused in corporate bonds and absolute return products, with new business flow good in these areas. There remains a need for yield, so clients are favouring emerging market debt and corporate bonds at present. Our performance was strong in both these two assets classes, and also in inflation linked bonds, which saw rising demand too from more than one region.

Multi-asset



Absolute return	£39.8bn
Diversified growth/income	£1.5bn
MyFolio	£13.3bn
Other multi-asset	£6.5bn
Parmenion	£4.4bn
Standard Life Wealth	£6.9bn
Total growth	**£72.4bn**

Multi-asset management lies at the heart of our business, enabling us to provide outcome-based solutions that meet a diverse range of client needs, such as growth, regular income, capital preservation and liability management. Core to our multi-asset approach is genuine diversification which we achieve by actively managing the blend of traditional and alternative asset class exposures, as well as advanced strategies in interest rates, inflation, currencies and volatility, that can respond to a broader range of economic drivers. Key features of our multi-asset solutions are:

- Breadth of investment coverage
- Experienced, skilled and collaborative team
- Portfolio risk and construction insight
- Access to long-term investing opportunities

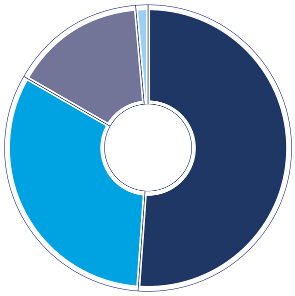
Review of the year

Absolute return strategies, e.g. GARS made good progress in recovering ground following their challenging 2016 and, while flows in this area remained negative in 2017, we have seen the start of a turnaround as investors start to question how much longer the rally in equity markets can last. These trends bode well for our multi-asset business which has proven highly attractive to investors in the wake of financial turbulence.

Our diversified growth and income portfolios enjoyed a successful year, performing well versus their peers and also gaining momentum in terms of flows.

Our MyFolio range, which competes in the risk-based fund market, experienced the largest calendar year asset inflows since inception.

Private markets/alternatives



Private equity	£12.4bn
Alternative investment solutions	£8.0bn
Infrastructure equity	£3.8bn
Private credit and solutions	£0.3bn
Total growth	**£24.5bn**

Our private markets and alternatives offering includes: private equity, infrastructure, private credit, real assets and alternative investment strategies, managed by our global investment teams. Our investment strategies range from indirect to direct, within private markets these are through fund, secondary, co-investment and direct investment activity. The alternative investment strategies capability spans across the entire range from alternative credit, traditional hedge fund strategies, liquid alternatives through to alternative risk premia. These strategies can be tailored to meet client needs.

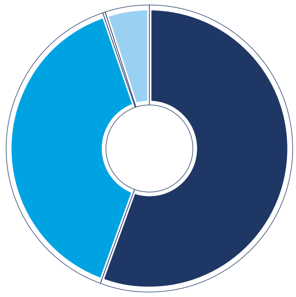
Review of the year

The merger has seen the creation of a global offering across our private markets and alternatives franchises. We continue to see strong client demand and the private markets teams have enjoyed fund raising success, including a first secured income and cash flow (private credit and real estate based) fund. We are also completing successful fund raisings for US private equity and Andean concession based infrastructure.

The alternative investment strategies business enjoyed industry recognition in winning the Institutional Firm of the Year at the Global HFM InvestHedge Awards, and fund raising success with a strong maiden calendar year for the Aberdeen Alternative Risk Premia Fund and the delivery of a number of customised programmes for institutional investors.

Looking forward, we have a number of new product offerings that are entering the market and will look to capitalise on growth and diversification opportunities across the full range of our capabilities.

Real estate



UK	£15.8bn
European	£11.1bn
Global	£0.1bn
Multi-manager	£1.5bn
Total growth	**£28.5bn**

Real estate has a track record of delivering robust, risk-adjusted returns over the long term, and can act as an effective portfolio diversifier. We offer global strategies and sector specific investment opportunities including direct real estate, listed real estate, hybrid real estate solutions, real estate debt and real estate multi-manager. High-quality original research is essential to our strategies, allowing us to select assets and markets offering the best solutions for clients based on their risk appetite and desired outcome. Following acquisition, we look to create further value by actively managing the asset. This includes ensuring operational efficiency, letting vacant space, negotiating favourable lease terms and redevelopment.

Review of the year

The UK market proved significantly more resilient than many predicted in 2017. Open ended funds experienced more stability in cash flows, while liquidity in the market remained elevated and underpinned valuation uplifts. Against this market context, demand from clients was increasingly focused on income solutions and derisking of portfolios. In a global context, the wider European market was particularly strong over the year. Increased tenant demand translated into robust income growth across our European funds. Across most of the markets, the logistics sector continues to benefit from a structural change in the delivery of goods from retailers increasing online sales. This theme underpinned our successful fund launch of the European Logistics Income plc in December 2017.

As a consequence of these market conditions, our UK funds provided robust performance for clients, while European funds generally delivered returns above client expectations.

Quantitative

We manage a range of products including passive, smart beta, and active quant strategies across quantitative equity, fixed income and derivative portfolios in all markets.

Our quantitative investment process focuses on academic research and investment theory, identifying excess risk adjusted returns and using them in our active quantitative portfolios in a systematic, cost-effective, and risk-controlled manner.

Review of the year

2017 proved to be a year when exposure to a diverse set of alternative factors proved to be an optimal risk adjusted strategy. Financially sound companies with strong balance sheets, good price momentum and earnings momentum proved to be a valuable hedge against generally underwhelming returns from value stocks. During the year our multi-factor approach to both index relative and absolute returns, which considers factors such as value, momentum, and quality among others, enhanced our already demonstrable track record of success in managing both active and passive systematic strategies.

A key priority for the year ahead is to continue to innovate our product offering. For 2018 we have an exciting product pipeline that will continue to resonate with asset owners who seek outcome-orientated products, greater portfolio diversification and competitively priced products in core categories.

Cash/liquidity

Liquidity funds are a particularly effective tool used by cash managers throughout the world, as they aim to preserve capital and often provide a return ahead of their cash benchmark. As a result, institutional investors have used them as a flexible solution for their working capital for many years. Liquidity funds can also help to diversify risk and potentially offer instant access.

Review of the year

The money market business continued to see interest from investors during the course of the year and relative performance was good compared to the competitor funds. AUM was stable and over 40 new liquidity fund clients were added. Looking ahead the combined assets in this area of the business make the Group one of the key managers of money market funds in Europe.

Revenue

Fee based revenue

On a **Reported basis**, fee based revenue increased by £375m to £1,260m (2016: £885m), including £407m of revenue from Aberdeen Asset Management in the period since the merger. This was partly offset by lower fee based revenue in Standard Life Investments reflecting the impact of net outflows in 2016 and 2017 combined with a change in the underlying asset mix.

On a **Pro forma basis**, fee based revenue remained stable at £1,912m. Aberdeen revenue year-on-year was relatively stable with the impact of net outflows broadly offset by favourable market and foreign exchange movements. Standard Life Investments revenue decreased as noted above. Performance fees represent 1% of total revenue at £26m (2016: £33m).

The average growth channel fee revenue yield has decreased slightly to 51bps (2016: 52bps), driven by a change in asset mix.

The revenue yield on the mature books remained stable at 14bps.

Revenue analysis (Pro forma basis)	Fee based revenue		Fee revenue yield	
	2017 £m	2016 £m	**2017 bps**	2016 bps
Equities	**667**	637	**68**	68
Fixed income	**145**	163	**29**	32
Multi-asset	**432**	458	**58**	59
Private markets/ alternatives	**119**	108	**41**	41
Real estate	**153**	165	**54**	57
Quantitative	**3**	3	**12**	14
Cash/liquidity	**14**	18	**7**	9
Total growth channels	**1,533**	1,552	**51**	52
Total mature books	**379**	368	**14**	14
Total	**1,912**	1,920	**33**	34

Costs

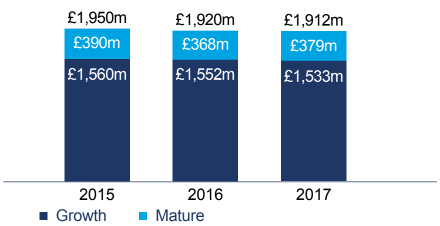
Adjusted operating expenses

On a **Reported basis**, adjusted operating expenses increased by £277m to £811m (2016: £534m). This reflects the inclusion of £276m of adjusted operating expenses from Aberdeen in the period since the merger, and stable expenses in Standard Life Investments due to a focus on costs in response to pressure on fee based revenue.

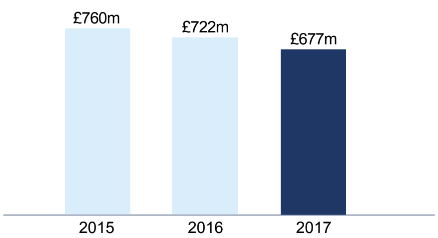
On a **Pro forma basis** adjusted operating expenses increased 4% to £1,278m (2016: £1,231m). Costs increased primarily due to the full year impact of an increase in headcount in 2016. The 2017 pre-merger Aberdeen results include a £20m one-off impact relating to the alignment of the accounting treatment of staff costs. Other cost increases were driven by additional expenses associated with the outsource of back office functions, accommodation costs, information services and research costs.

The cost/income ratio stands at 65%, compared to 63% in 2016, with the deterioration due to the increase in adjusted operating expenses and the reduction in fee based revenue.

Fee based revenue
(Pro forma basis)
£1,912m



Adjusted profit before tax
(Pro forma basis)
£677m



Profit

Adjusted profit before tax

On a **Reported basis**, adjusted profit before tax increased to £492m (2016: £386m). Of this increase, £131m relates to Aberdeen profits in the period since the merger, partly offset by lower adjusted profit from Standard Life Investments due to lower fee based revenue.

On a **Pro forma basis**, adjusted profit before tax decreased 6% to £677m (2016: £722m) as a result of increased operating expenses, with both Aberdeen and Standard Life Investments profit decreasing year-on-year.

IFRS profit after tax

On a **Reported basis**, profit for the year attributable to equity holders was £243m (2016: £259m). As a result of the merger we have incurred deal related costs of £37m and integration and merger related restructuring costs of £47m, mainly in relation to staff costs, consultancy fees and onerous lease provisions. Amortisation of intangibles and customer assets was £77m. In addition an intangible asset impairment charge of £40m has been recognised relating to the Lloyds Banking Group customer relationship.

Capital management

On a **Pro forma basis** capital management items generated a gain of £2m (2016: loss of £2m) consisting of fair value gains on investment securities of £30m (2016: £22m) largely offset by coupons paid on perpetual capital securities of £27m (2016: £26m) and net interest expense of £1m (2016: income £2m).

Profitability	**2017 £m**	2016 £m
Fee based revenue	**1,912**	1,920
Adjusted operating expenses	**(1,278)**	(1,231)
Adjusted operating profit	**634**	689
Capital management	**2**	(2)
Share of associates' profit before tax	**41**	35
Adjusted profit before tax (Pro forma basis)	**677**	722
Remove Aberdeen pre-merger	**(185)**	(336)
Adjusted profit before tax (Reported basis)	**492**	386
Adjusting items	**(151)**	(53)
Share of associates' tax expense	**(29)**	(11)
Profit attributable to non-controlling interests (preference shares and perpetual notes)	**(8)**	–
Total tax expense	**(61)**	(63)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**243**	259

Merger integration update

When we announced the merger we originally targeted annual cost savings of approximately £200m and expected that these synergies would result in integration costs of approximately £320m in aggregate. The integration is progressing well and we have now increased this target to at least £250m of annual cost savings. The estimated integration costs have increased to around £370m in order to achieve these higher synergies.

As at 31 December 2017, actions have been taken to deliver £73m of annualised cost savings, which will begin to take effect in 2018.

Delivering long-term investment performance

Investment performance (Pro forma basis) % of AUM ahead of benchmark	**1 year**	**3 years**	**5 years**
Growth	65	59	54
Mature	77	72	81
Total	**70**	**63**	**64**

Investment performance over three years was mixed with 63% of total assets under management ahead of benchmark. Within this, 59% of growth channel assets were ahead of benchmark. Positive performance was broad based across most asset classes with solid results from our fixed income franchise and continued recovery in absolute return strategies. Relative performance within our key equity strategies was mixed over the year. Shorter-term performance over one year stands at 70% and longer-term performance over five years stands at 64% of assets ahead of benchmark respectively. The growth channel results stand at 65% and 54% over one and five years respectively. The performance results of our investment capabilities and their underlying investment processes are actively monitored and independently evaluated by our Investment Governance and Oversight team, with the insights then used to drive enhancements across our investment processes.

Stewardship and Environmental Social and Governance (ESG) integration across all asset classes

Both Aberdeen Asset Management and Standard Life Investments were committed to the belief that the assessment of material ESG factors adds value to investment performance, through both risk mitigation and opportunity identification. Now, as a combined business, we believe this is an area in which we can be an industry leader and, over the coming year, we will seek to build on our capabilities and our engagement with clients and wider stakeholders. While approaches differ by asset class, a review of the material ESG considerations impacting every investment decision is a fundamental element of all our investment processes. In addition to the integration of material factors, we also offer clients bespoke ESG and screened solutions to meet their investment needs. As an illustration of our integrated approach, in our direct real estate portfolio we achieved 21 'Green Star' ranked funds in the GRESB Real Estate Assessment, the global sustainability benchmark for real estate. Our overall performance in the assessment placed us in the top 20% of our peers.

Our equity impact offering

In October we launched our Global Equity Impact Fund which uses the 17 UN Sustainable Development Goals as a framework to invest in companies which have a positive impact on the environment and society, while generating strong financial returns. Each company included in the portfolio must intentionally direct resources towards addressing the challenges identified in the Goals. Our managers analyse the ways in which deployed resources contribute to company growth and the measurable outcomes achieved for those most affected by the problem. Stock selection involves in-depth analysis, robust peer review and active engagement. Our sponsorship of Good Money Week provided a platform for raising awareness of our new offering and our broader stewardship capabilities, together with engaging with stakeholders on these issues.

Delivering growth in Pensions and Savings

We have established a market-leading position through a long-term commitment to support the needs of our customers. Our ambition is to be customers' first choice for their life savings.

Standard Life is a leading provider of long-term savings and investment propositions in the UK and Europe.

On 23 February 2018, we announced the proposed transaction with Phoenix which is expected to complete in H2 2018, subject to shareholder, regulatory and other necessary approvals.

Under the proposed transaction we are selling our capital heavy insurance business. Importantly, we will have retained our valuable and fast growing UK retail platforms and financial advice businesses, as well as maintaining Standard Life's very important financial adviser relationships.

In the UK we offer products and services through two broad growth channels:

- **Retail:** pensions and savings where the relationship is either directly with the customer, or with their financial adviser
- **Workplace:** pensions, savings and flexible benefits to employees through their employers

We also own businesses that specialise in financial advice and risk and compliance services.

Europe consists of our domestic and international bond businesses in Ireland as well as our business in Germany.

Our valuable mature book includes UK mature Retail, which includes older fee based business that was predominantly written before demutualisation and spread/risk products, such as annuities and protection, which provide a sustained contribution to our profit.

Standard Life Pensions and Savings is an important source of assets for Aberdeen Standard Investments and has distributed 84% of total MyFolio AUM. Aberdeen Standard Investments currently manage 71% of our Workplace AUA and 17% of our Wrap assets.

In order to deliver for our customers, our 2017 priorities focused on the following four strategic initiatives:

Integrate Elevate

Our platform strategy is key to our success with advisers and the Elevate platform has been a valuable addition to our proposition. As a generalist market offering, Elevate complements our existing Wrap platform which is focused on the wealth management market. Since the acquisition of Elevate in October 2016 its AUA has grown by 16% from £11.1bn to £12.9bn. Together our platforms have combined AUA of £54.0bn, an increase of 22% (2016: £44.2bn).

Build our advice capability

Recent regulatory changes including pension freedoms mean that customers increasingly need information, advice and guidance. In response to this, we continue to grow our 1825 financial advice business which offers a full financial planning and tax advice service. 1825 aims to offer an engaging and high quality experience, focused on our clients' goals as they plan for their futures. We have completed the acquisition of four quality adviser firms to date, bringing total assets under advice in 1825 to £3.6bn, and continue to increase our national footprint having recently announced two further acquisitions.

Prepare for Brexit

When the UK leaves the EU, we aim to provide continuity of service for our existing 600,000 European customers. Our Brexit programme is complex and we are preparing for all potential scenarios. Standard Life has a strong track record of successfully adapting to changing markets and regulation and significant progress has been made so far. Our current plan is to use our subsidiary company in Dublin as a base from which to serve our existing European customers and to write new business in Ireland and Germany.

Upgrade our infrastructure

Upgrading our infrastructure is a key enabler to offer a world-class service to our customers and provide our colleagues with the best tools to do their jobs. This IT transformation will enable greater agility to meet changing customer demands and also allow for a more customer-orientated digital experience.

Adjusted profit before tax KPI

£381m
(2016: £362m)

Assets under administration KPI

£188.1bn
(2016: £171.6bn)

IFRS profit after tax

£270m
(2016: £130m)

UK cost/income ratio KPI

65%
(2016: 62%)

Net flows KPI

£4.0bn inflows
(2016: £1.5bn inflows)

Assets and flows

	Gross inflows		Net flows		AUA[1]	
	2017 £bn	2016 £bn	**2017 £bn**	2016 £bn	**2017 £bn**	2016 £bn
UK Retail[2]	**12.9**	8.1	**6.4**	3.7	**75.7**	62.9
UK Workplace	**4.2**	4.1	**1.4**	1.7	**40.2**	37.4
Europe growth fee[2]	**1.3**	1.3	**0.3**	0.5	**12.0**	10.8
Total growth channels	**18.4**	13.5	**8.1**	5.9	**127.9**	111.1
UK mature Retail[3]	**0.6**	0.6	**(3.3)**	(3.4)	**35.2**	34.9
Spread/risk	**0.2**	0.2	**(0.9)**	(0.9)	**15.1**	16.1
Europe mature fee	**0.7**	0.7	**0.1**	(0.1)	**9.9**	9.5
Total mature books	**1.5**	1.5	**(4.1)**	(4.4)	**60.2**	60.5
Total Standard Life Pensions and Savings	**19.9**	15.0	**4.0**	1.5	**188.1**	171.6

[1] 2016 AUA has been restated to exclude Assets not generating revenue from products of £9.9bn (£8.9bn in the UK, £1.0bn in Europe).

[2] Platform AUA of £54.0bn (Wrap, Elevate and Fundzone) comprises of £51.2bn (2016: £41.7bn) reported within UK Retail and £2.8bn (2016: £2.5bn) relating to Wrap International Bond reported within Europe growth fee.

[3] UK mature Retail AUA now includes Conventional with profits (2017: £0.5bn, 2016: £0.6bn).

Growth channels

UK Retail

UK Retail AUA increased by 20% to £75.7bn (2016: £62.9bn) reflecting record net inflows, which increased by 73% to £6.4bn (2016: £3.7bn), and positive market movements.

Gross inflows increased by 59% to £12.9bn (2016: £8.1bn) driven by strong demand for our Wrap and Elevate platforms. This included the benefit from growth in the pension market, boosted by individuals looking to take advantage of high defined benefit transfer values by moving to products providing the flexibility offered by drawdown and pensions freedoms. Total assets in our drawdown propositions increased by 21% to £19.8bn (2016: £16.4bn) reflecting both net inflows and positive market movements.

Retail gross outflows increased to £6.5bn (2016: £4.4bn). This is expected as the size of our proposition grows and customers make use of the drawdown functionality. However, gross outflows remain broadly stable as a percentage of opening AUA (2017: 10%, 2016: 10%).

UK Workplace

UK Workplace AUA increased by 7% to £40.2bn (2016: £37.4bn), with net inflows of £1.4bn (2016: £1.7bn). Net inflows, although positive, were lower than 2016 due to higher redemptions of £2.8bn (2016: £2.4bn). Gross inflows have increased to £4.2bn (2016: £4.1bn). As a result of auto enrolment, regular premiums have increased by 5% to £3.2bn. They provide a steady long-term source of income and account for 76% of total Workplace inflows.

Our Workplace business continues to be a source of growth for our Retail channels. In 2017, £2.2bn of Workplace AUA transferred to Retail in respect of customers leaving their company pension schemes.

Europe growth fee

Europe growth AUA of £12.0bn is up 11% (2016: £10.8bn) benefiting from foreign exchange, market movements, and net inflows of £0.3bn.

Mature books

UK mature Retail AUA increased 1% to £35.2bn (2016: £34.9bn), benefiting from positive market movements. Net outflows decreased to £3.3bn (2016: £3.4bn). Net outflows included £0.4bn of transfers to our Active Money Personal Pension product (within UK Retail).

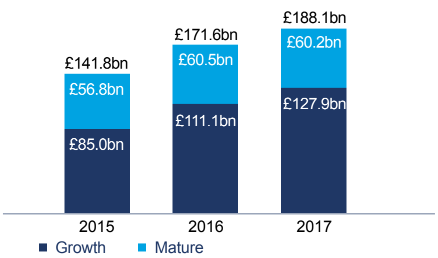
Spread/risk AUA decreased by 6% to £15.1bn (2016: £16.1bn). Net outflows from scheduled annuity payments were £0.9bn (2016: £0.9bn).

Europe mature fee AUA increased by 4% to £9.9bn (2016: £9.5bn). Europe mature fee is our German with profits book which was closed to new business in April 2015 but continues to receive regular premiums.

Further information on AUA and net flows are included in the Supplementary information section of this report

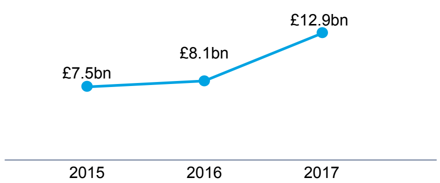
Pensions and Savings AUA

£188.1bn



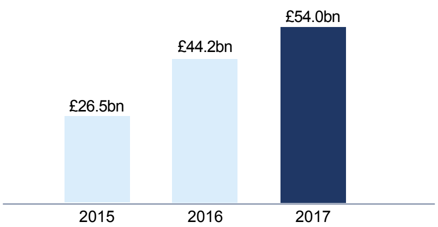
UK Retail gross inflows

£12.9bn



Platform AUA (Wrap, Elevate and Fundzone)

£54.0bn



Profitability	UK		Europe		Standard Life Pensions and Savings	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Fee based revenue	**757**	664	**207**	197	**964**	861
Spread/risk margin	**159**	119	**6**	15	**165**	134
Adjusted operating income	**916**	783	**213**	212	**1,129**	995
Adjusted operating expenses	**(599)**	(487)	**(170)**	(168)	**(769)**	(655)
Adjusted operating profit	**317**	296	**43**	44	**360**	340
Capital management	**22**	23	**(1)**	(1)	**21**	22
Adjusted profit before tax	**339**	319	**42**	43	**381**	362
Adjusting items	**(82)**	(213)	**2**	6	**(80)**	(207)
Total tax expense	**(66)**	(13)	**35**	(12)	**(31)**	(25)
IFRS profit after tax	**191**	93	**79**	37	**270**	130

Revenue

Fee based revenue

UK fee based revenue increased by £93m to £757m. Fee based revenue benefited from higher asset levels due to strong net inflows within our growth channels together with positive market movements.

We remain focused on growing and diversifying our sources of revenue. In 2017, the acquisition of Elevate and the growth of 1825 have contributed £43m to the increase in fee based revenue.

The average fee revenue yield reduced to 53bps (2016: 58bps) reflecting the impact of changes to business mix, including the growing proportion of newer style propositions, and the fact that some elements of revenue do not rise in line with market-related AUA growth.

UK fee based revenue	Fee based revenue		Fee revenue yield	
	2017 £m	2016 £m	**2017 bps**	2016 bps
Workplace	**194**	185	**50**	54
Retail	**303**	228	**44**	48
UK growth channels	**497**	413	**46**	50
UK mature books	**260**	251	**75**	77
Total UK fee based revenue	**757**	664	**53**	58

Spread/risk margin

UK spread/risk margin increased by £40m to £159m. Operating assumption and actuarial reserving changes provided a benefit of £79m (2016: £38m), primarily relating to mortality assumption changes. The asset and liability management benefit in 2017 is £23m (2016: £25m) and the 2017 result also benefits from favourable mortality experience, including a £7m reserve release in respect of overseas annuitants. The 2016 result benefited from an £18m payment from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

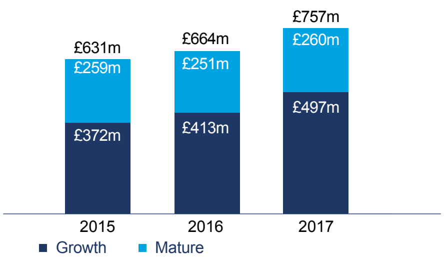
Costs

Adjusted operating expenses

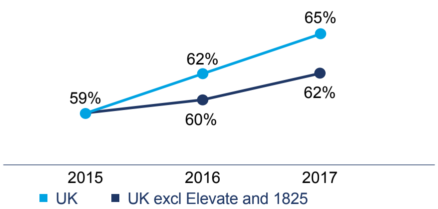
UK adjusted operating expenses increased by £112m to £599m. The acquisition of Elevate in October 2016 and the growth of 1825 increased adjusted operating expenses by £42m. 2017 also includes a £31m impairment of intangible assets, which arose due to the discontinuation of part of our IT transformation project, and a £16m cost of specific remediatons. Investment expenses payable to Aberdeen Standard Investments of £96m increased by £9m, in line with higher AUA.

The UK cost/income ratio rose to 65% (2016: 62%). Excluding Elevate and 1825 the cost/income ratio rose to 62% (2016: 60%) reflecting the intangibles impairment and customer remediation.

UK fee based revenue
£757m



UK cost/income ratio
65%



Profit

Adjusted profit before tax

Standard Life Pensions and Savings adjusted profit before tax increased by £19m to £381m (2016: £362m) driven by the UK result.

UK

UK adjusted profit before tax increased by £20m to £339m (2016: £319m). Strong fee based revenue growth and an increase in the spread/risk margin were offset by higher adjusted operating expenses associated with the growth of 1825 and acquisition of Elevate and the intangible asset impairment.

Europe

Europe adjusted profit before tax reduced by £1m to £42m (2016: £43m). The spread/risk result decreased by £9m, impacted by movements in mortality experience and refinements to our reserving methodology. Operating assumption and actuarial reserving changes provided a benefit of £12m (2016: £4m). The 2016 result also included the benefit of a £4m payment from our main with profits fund relating to changes to the Scheme of Demutualisation in response to the transition to Solvency II.

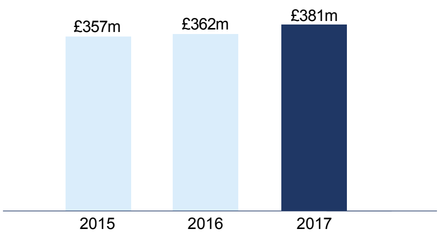
Total IFRS profit

Standard Life Pensions and Savings total IFRS profit increased by £140m to £270m (2016: £130m) mainly due to a lower loss from adjusting items of £80m (2016: £207m). Adjusting items in 2017 mainly relates to an increase in the provision for historic annuity sales practices of £100m (2016: £175m), following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator in early 2018. Restructuring and corporate transaction expenses of £38m (2016: £38m) included £24m of costs relating to the integration of Elevate, and other expenses were £9m (2016: £7m). These items were partially offset by favourable short-term fluctuations in investment return and economic assumption changes of £67m (2016: £13m).

The increased tax expense of £31m (2016: £25m) reflects higher profitability partly offset by a deferred tax credit due to revalued tax assets relating to the German business. The revalued tax assets reflect an updated transfer pricing approach based on the changed economics of that business and the expected impact of Brexit restructuring.

Pensions and Savings adjusted profit before tax

£381m



Supporting saving

Over the last decade the pensions landscape has fundamentally changed, from the introduction of auto enrolment to pension freedoms. These changes moved risk and responsibility to employees and employers – increasing flexibility but also complexity. With our knowledge, guidance, products and services, we want to help give people confidence in navigating through their financial decisions and support them in saving for their future.

Five years of auto enrolment

During 2017 we celebrated an important milestone in our journey – five years of auto enrolment. Of the nine million UK employees now auto-enrolled in a pension, one in eight are saving with us. Auto enrolment requires employers to automatically set up pensions for their employees with an option to opt out, rather than in – helping to encourage people into a saving habit.

Enhancing investment solutions

To help improve potential outcomes for over a million of our customers we made changes to one of the funds used in our 'lifestyling' investment solution. Phased switching or lifestyling, often the default investment option for pensions, was designed to help maintain the level of annuity that people can buy by gradually investing their funds in assets that change in line with annuity rates as they approach retirement. However the new pension freedoms rules mean fewer people are buying annuities and instead are remaining invested after retirement or taking lump sums, so annuity targeted lifestyling is not always the best option. These changes are all customer-driven and address the increasing choices people now have.

Vulnerable Customers Policy

We recognise that some of our customers will be facing challenges or difficulties in their lives. To ensure we identify and provide the right support and guidance to them, we've put in place our Vulnerable Customers Policy. The policy focuses on areas such as the design and promotion of our products and propositions, communications and interactions with our customers, and the training and development of our people who engage with our customers to ensure we are always focusing on our customers' best interests.

KickStart money

Research by the Money Advice Service and the UK Financial Capability Strategy shows that a significant proportion of the UK population have never received financial education and lack the skills and knowledge to effectively manage their money. To help increase the financial capability of a generation, we have joined with a number of other savings and investment firms to back an initiative called KickStart Money. This collaborative project aims to deliver financial education to over 18,000 primary school children across the UK, building a case for the impact you can have through early interventions and helping to create a national savings culture.

Standard Life Foundation

The Standard Life Foundation is a registered charity that operates separately from Standard Life Aberdeen plc. It is funded by a donation of assets remaining from Standard Life Group's demutualisation in 2006. Its activities focus on supporting independent research to help strengthen financial wellbeing and resilience in the UK.

Well positioned for growth

Through a combination of associate and joint venture life businesses we have an extensive reach in two of the fastest growing savings markets – India and China.

Our India and China life business consists of our life associate in India, HDFC Life; our life joint venture in China, Heng An Standard Life; and our wholly owned business in Hong Kong. The results of our Indian asset management associate business, HDFC Asset Management Company, are included in the Aberdeen Standard Investments section of this Strategic report.

Our operations in India and China continue to strengthen and are well positioned for future growth in the region.

Recognising the value of our life associate in India

HDFC Life is currently one of India's leading life insurance companies with an 18.4% market share in the private sector for the nine month period to December 2017. It provides innovative insurance and savings solutions to over 50 million lives insured from individual and group customers.

In November 2017, HDFC Life listed on the National Stock Exchange of India and the Bombay Stock Exchange through an initial public offering (IPO). As part of the IPO, we sold 5.4% of shares in HDFC Life for net proceeds of £359m. We continue to maintain a significant shareholding of 29.3% in HDFC Life. The aim of listing HDFC Life has been a long standing strategic objective providing improved visibility of the value of our shareholding and allowing the business to move to the next stage of its development.

India remains of strategic importance to Standard Life Aberdeen. It is currently one of the fastest growing economies in the world, with the IMF expecting GDP to grow at 7.4% in 2018 and 7.8% in 2019. We continue to be encouraged by the future outlook for the life insurance market in India. Demographic factors such as a growing middle class, young insurable population and increasing awareness of the need for protection and retirement planning are anticipated to support the growth of the life insurance and pensions industry in India.

Positioned for future growth in China and Hong Kong

Heng An Standard Life, continues to build a sustainable and profitable business by offering a range of insurance and savings products to a growing customer base in mainland China. Both profitability and sales are well ahead of 2016.

The Chinese insurance market has grown in recent years to become the second largest in the world and we believe that the prospects for future growth remain very positive, driven by an expanding middle class and wealthy population who are living longer. Heng An Standard Life (HASL), through its extensive sales network and product range, is well positioned to meet this need. It also continues to investigate opportunities to increase its presence in the growing pensions market and has now submitted an application to the China Insurance Regulatory Commission for a new pension insurance company licence.

In March 2017, we announced the proposed sale of Standard Life (Asia) Limited, our wholly owned Hong Kong insurance business to HASL, our 50% owned Chinese joint venture, subject to regulatory and other approvals being obtained in Mainland China and Hong Kong. We expect the process to complete in 2018. The proposed transaction supports our goal to pursue a wider China and Hong Kong strategy leveraging the position we have built through Standard Life (Asia) and our interest in HASL. The strengths of both businesses are complementary, with the proposed transaction enhancing HASL's current skills and services while improving the distribution model and range of products of Standard Life (Asia). Upon the completion of the transaction, Standard Life (Asia) would become a wholly owned subsidiary of HASL.

Adjusted profit before tax

KPI

£59m
(2016: £36m)

Assets under administration

KPI

£4.8bn
(2016: £4.6bn)

Net flows

KPI

£525m inflows
(2016: £408m inflows)

IFRS profit after tax

£315m
(2016: £31m)

Assets and flows

Total AUA increased by 4% to £4.8bn reflecting net inflows and favourable market movements. In HDFC Life AUA increased to £3.5bn (2016: £3.4bn). A strong increase in HDFC Life's AUA was partly offset by the reduction in our shareholding following the IPO in November 2017. The drop in shareholding reduced our share of HDFC Life's closing AUA by £0.6bn.

AUA in Heng An Standard Life remained stable at £0.6bn (2016: £0.6bn) and Hong Kong increased to £0.7bn (2016: £0.6bn).

Net inflows continued to increase in our associate and joint venture businesses to £511m in 2017 (2016: £362m). Net inflows in HDFC Life increased to £421m (2016: £295m) and net inflows in Heng An Standard Life increased to £90m compared to net inflows of £67m in the prior year.

In Hong Kong, net inflows decreased to £14m (2016: £46m) as a result of lower premium income from regular premium business and higher redemptions.

Further information on AUA and net flows is included in the Supplementary information section of this report

Revenue

HDFC Life continues to leverage technology and a balanced product mix delivering a strong 19% growth in premium income year-on-year. With a continued focus on protection business and a diversified distribution network, new business market share was 18.4% of the private market and cross-selling formed 7% of the individual new business policies sold for the nine month period to December 2017.

Heng An Standard Life's individual new business sales have increased by 34% compared to 2016.

In Hong Kong fee based revenue decreased by £5m due to lower regular premium business which we stopped selling in 2015. This reduction is expected, as regular premium business generates most of its revenue during the first two years from policy issue date.

Costs

In Hong Kong, we continue to manage costs whilst investing in new propositions as the business prepares for the completion of the transaction with HASL.

Profit

Adjusted profit before tax increased to £59m driven by an increase in adjusted profit from HDFC Life to £48m (2016: £34m) and an increase in Heng An Standard Life to £10m (2016: £7m). The results benefited from continued growth in premium income and favourable exchange rate movements.

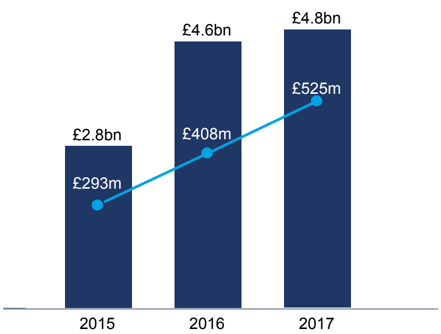
Adjusted profit before tax in Hong Kong is £1m (2016: loss of £5m).

IFRS profit after tax increased to £315m (2016: £31m) mainly due to gains in adjusting items of £268m (2016: loss of £3m). Adjusting items in 2017 include the £302m gain on disposal of shares in HDFC Life in November 2017 through the IPO and the £24m impairment loss recognised in H1 2017 relating to the proposed sale of our wholly owned Hong Kong insurance company to HASL.

Profitability	2017 £m	2016 £m
Hong Kong fee based revenue	12	17
Hong Kong adjusted operating expenses	(11)	(22)
Adjusted operating profit before tax	1	(5)
Share of associates' and joint ventures' profit before tax	58	41
Adjusted profit before tax	**59**	36
Share of associates' and joint ventures' tax expense	(12)	(2)
Total adjusting items	268	(3)
Total tax expense	–	–
IFRS profit after tax	**315**	31

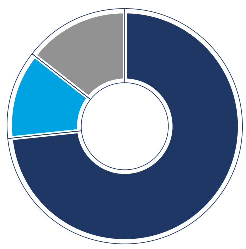
Note: Results are presented on the basis of Standard Life Aberdeen ownership percentages during 2016 and 2017 and do not include the 38.2% share in HDFC Asset Management which is included in the results for Aberdeen Standard Investments. HDFC Life ownership was c26% until the end of April 2016, c35% from May 2016 to October 2017 and then 29.3% thereafter. Heng An Standard Life ownership is 50% and Hong Kong is 100%.

AUA and net flows



AUA split by business

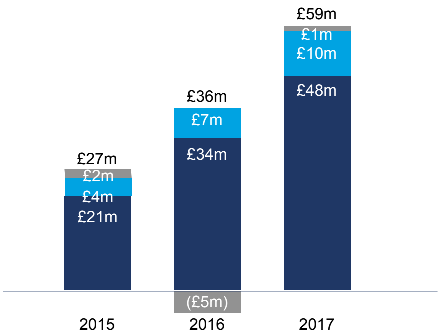
£4.8bn



HDFC Life	£3.5bn
Heng An Standard Life (HASL)	£0.6bn
Hong Kong	£0.7bn

Adjusted profit before tax

£59m



Strong risk management will enable delivery of our strategy and allow us to manage business headwinds

The merger and the announcement of the proposed sale of our capital heavy insurance business presents a unique opportunity to enhance our overall risk framework. This is essential in an environment which continues to be uncertain and challenging.

Our approach to risk management

The merger and proposed sale of our capital heavy insurance business has accelerated our transition to becoming a world-class investment company. Effective risk management is an essential part of delivering this strategy.

Our approach to effective risk management is predicated on strong risk awareness and risk accountability across all lines of defence in our business. We believe this approach will deliver long-term value for our clients, customers and shareholders, and protect their interests.

We aim to ensure that:

- Well informed risk-reward decisions are taken in pursuit of our business plan objectives
- Our fiduciary responsibilities are prioritised
- Capital is delivered to areas where the most value can be created from the risks taken

The evolution of our business provides an opportunity to enhance our risk management approach, ensuring that the business continues to raise standards in risk management as we build a world-class investment company.

Our risk framework operates through a well-embedded risk culture, effective risk control processes, robust risk governance, sound financial management and active monitoring of risks. The pace of change in the business and risk environment, and the threats and opportunities arising from it, mean we regularly review and adapt our methods to ensure we are well placed to anticipate future areas of risk and prepare appropriately.

As a result of the increased asset management focus of our business, the Internal Capital Adequacy Assessment Process (ICAAP) now plays a larger part in our risk management processes for the Group.

Business and risk environment

The merger has resulted in a material change to the risk profile of the Group. Once completed the proposed sale of our capital heavy insurance business will simplify our risk profile but in the short term it creates additional challenges. Whilst the most significant risks affecting the Group are currently largely unchanged, there are heightened exposures to a number of key risks, particularly those arising from internally driven change and the proposed sale.

Given the increased asset management focus of the Group, delivering consistently strong investment performance will be fundamental to our success. Failure to deliver this may cause clients and customers of affected funds to reduce or withdraw their investments. While markets have performed well, they remain vulnerable to sharp reversals. Increasing geopolitical concerns, particularly across emerging markets, an important location for the Group, may lead to further market uncertainty. We continue to have robust investment practices in place so we are prepared for whatever market conditions we face.

Integration of our asset management business presents its own unique challenges. The strength of Standard Life Aberdeen is built on our people; therefore, the continued success of the Group will be dependent on successful cultural integration and retention of key talent. Organisational changes to support the delivery of planned synergies are taking place and we are ensuring that clear and consistent information is provided to our people to remove any uncertainty.

The scale of the integration programme, and the required resource and management focus, presents distraction risks that have the potential to impact on business as usual activities, strategic priorities and delivery of planned integration synergies. We have undertaken careful resource planning, with business leaders and risk committees providing oversight. In the short term our transaction with Phoenix will add to these pressures.

The regulatory agenda continues to evolve with increasing focus from UK and EU regulators on value for money and competition. The FCA Asset Management Market Study and Investment Platforms Market Study have potential to impact core growth areas for the Group. We are directly engaged with our regulators to make sure that our knowledge and experience are considered in the decisions taken.

Our industry is experiencing an increase in the volume and complexity of regulatory driven change. Also, keeping pace with the increasingly varying demands from clients and customers requires design and delivery of a growing programme of change. Our business is experiencing some challenges over delivery of aspects of our change portfolio and we are addressing these as a matter of urgency.

Our ambition is to be an industry leader in conduct governance and delivery of fair client and customer outcomes. This will be achieved through a strong conduct risk culture. In 2017, management and the Board worked with an external party to benchmark our conduct risk management framework. We are working on the actions identified to help us meet our conduct ambition. We have continued to address the outcomes of the FCA thematic review of annuity sales and the past business review will be fully operational during 2018.

Due to our increased profile and global footprint, the possibility that we fall victim to cyber-attacks has increased. However, we maintain heightened vigilance and continue to enhance our cyber defence capabilities.

The departure of the UK from the EU in 2019 will have major implications for our business. Whilst negotiations between the UK and EU are progressing, the final outcome is still unclear. Drawing on our larger EU-27 footprint post-merger, we are better placed to address some of the challenges faced by our asset management business. Contingency plans will ensure consistent and continuous service to our EU-27 clients and customers, and we have a strong track record of successfully responding to changing circumstances.

Our principal risks and uncertainties

The specific risks we face as a business are driven by what we choose to do and how we do it, as well as the wider environment in which we operate. We group these risks into six categories: Strategic, Operational, Conduct, Regulatory and legal, Financial market and Demographic experience.

From these categories we identify our principal risks. These are not an exhaustive list of all the risks Standard Life Aberdeen faces, but rather those we currently believe have the greatest potential to affect our business model, future performance, solvency or liquidity. The principal risks give consideration to those previously identified by Standard Life Group and Aberdeen Asset Management PLC and were subject to robust assessment by the Board.

As our strategic development continues and we respond to changes in the external environment, it is to be expected that both the risks themselves and their relative importance may change.

Risk governance

Enterprise risk management framework

Standard Life Aberdeen's enterprise risk management (ERM) framework enables a risk based approach to managing our business. It integrates concepts of strategic planning, operational management and internal control, and incorporates the following framework elements:

- **Risk culture:** The way we think and act as individuals and as a business. It encompasses our attitudes, capabilities and behaviours towards risk. Our culture drives how we identify, understand, openly discuss and act on current and future risks.
- **Risk control process:** The practices by which we manage financial and non-financial risks within Standard Life Aberdeen. They are used to identify, assess, control and monitor risk.
- **Strategic risk management:** This forms an integral part of the strategic planning process and is directly linked to our corporate objectives. It supports the development of long-term value by ensuring well informed risk-reward decisions are taken in pursuit of our business plan, and that capital is distributed to the areas where most value can be created from the risks taken.
- **Risk and capital models:** The models that we use to measure our risk exposures and capital position and the work that we do to test and understand the sensitivity of these positions
- **Emerging risks:** The aim of emerging risk management is to identify risks before they materialise to help us anticipate future threats. This gives us time to engage with the risk, understand it and respond accordingly. Our screening process looks across broad sources of risk, including geopolitical, technological, environmental and societal, and informs stress testing and capital adequacy requirements across Standard Life Aberdeen.

Internal risk and capital assessment process

Our ERM framework is underpinned by our internal risk and capital assessment processes. As required under Solvency II, the Group and its European Insurance entities carry out Own Risk and Solvency Assessment (ORSA) processes. As mandated under the Capital Requirements Directives, ICAAP processes are also conducted and these now play a larger part in the Group post-merger.

The ORSA and ICAAP processes inform and develop:

- Our understanding of the current and potential risks to the business over product lifecycles. This includes both financial and non-financial risks and their potential to affect both long and short-term value.
- Our appetite to accept these risks and how we manage them
- Our internal assessment of current solvency and capital requirements with respect to the risks
- A forward-looking assessment of the risk and solvency needs of Standard Life Aberdeen over a multi-year time horizon in light of business plans, considering a range of stress scenarios

Our internal risk and capital assessment process plays a key role in supporting decision making and strategy development at our boards and risk committees.

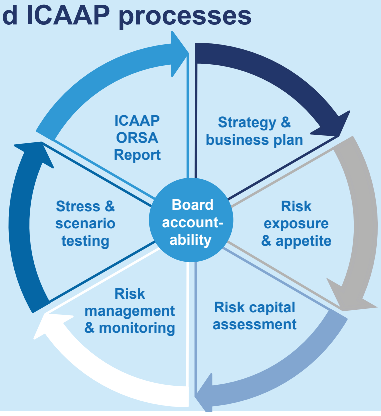
Three lines of defence

We operate a 'three lines of defence' model of risk management, with clearly defined roles and responsibilities for individuals and committees:

- **First line:** Day-to-day risk management, including identification and mitigation of risks and maintaining appropriate controls, is delegated from the Board to the Co-Chief Executives and, through a system of delegated authorities and limits, to business managers
- **Second line:** Risk oversight is provided by the Chief Risk Officer and supported by the specialist Risk and Compliance function across Standard Life Aberdeen, as well as through established risk committees such as the Enterprise Risk Management Committee (ERMC) and with reporting to the Risk and Capital Committee (RCC). The majority of members of the ERMC are senior first line representatives. Independent oversight is provided by non-executive Directors on the RCC.
- **Third line:** Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by our internal audit function. This is independent from all other operational functions. It operates subject to supervision and challenge by the Audit Committee.

Strategic delivery embedded in risk framework

ORSA and ICAAP processes



Strategic risk

Our definition and appetite

We define strategic risk as any risk which threatens the achievement of our strategy through poor strategic decision making, implementation or response to changing circumstances. We recognise that core strategic activity brings with it exposure to strategic risk. However, we seek to proactively manage and control these exposures.

The risks to our business and how they have evolved in 2017	Our approach in managing these risks	Link to strategy

Investment Performance

The risks to our business and how they have evolved in 2017

Our strategy relies on generating sustainable long-term value for our clients and customers. This is underpinned by strong long-term investment performance through active management.

The investment management industry is very competitive. The increased size of our asset management business means that any sustained period of actual or perceived underperformance may have an adverse impact on our ability to grow assets under management and administration, retain existing assets, and could increase the level of outflows across our business.

Merger integration poses an additional risk to performance in the short term as teams are reconfigured and systems integrated. We believe these enhancements to our operating model will help deliver long-term performance outcomes for our clients and customers.

Whilst investment performance delivered by our asset management business was mixed in 2017, our continued focus on enhancing our processes aims to stabilise investment performance over 2018.

Our approach in managing these risks

- Our investment philosophy is driven by rigorous, robust and well-tested investment processes and approaches
- Our Investment Management Committee provides strong leadership and direction, combined with strong governance and oversight of investment processes
- We regularly engage with our clients and customers on service and performance
- We review our internal processes and investment decisions in light of results on an ongoing basis
- Our Investment Risk review and challenge is carried out independently of our fund managers

Link to strategy

Developing strong relationships with customers and clients

Broadening and deepening our investment capability

Growing and diversifying our revenue and profit

Strategic Transition and Delivery

The risks to our business and how they have evolved in 2017

The integration of our asset management businesses and proposed sale of our capital heavy insurance business are accelerating delivery of our strategic vision to create a world-class investment company.

There is a risk that we fail to deliver long-term value for shareholders because we are unable to successfully deliver through the significant complexities introduced by merger integration.

Our strategic transition is underpinned by our ability to meet market expectations of a successful merger, swift cultural integration of the investment business, and achieving the cost benefits committed to without encountering material dis-synergies. There is a risk that delivery of merger integration distracts us from business as usual activities, such as successfully delivering our business plan and delivering fair outcomes for our clients and customers.

Our approach in managing these risks

- Our Board and executive committee have responsibility for our corporate strategy and execution of a single strategic plan
- Our Chief Strategy Officer has responsibility to support further development of our strategy
- Inorganic growth opportunities are assessed for alignment with strategic priorities
- We have a track-record in running corporate change programmes that are well-governed where there is active engagement and oversight from second and third lines of defence

Link to strategy

Impacts all areas of strategy

Distribution and Client Management

The risks to our business and how they have evolved in 2017

There are elevated client retention risks for Aberdeen Standard Investments immediately post-merger. Merger-related uncertainty may continue for longer than expected and could impact on net flows, profits and client retention.

We provide fund management for many clients where the funds or client contracts permit investors to withdraw a proportion or all of their investment with no, or short periods of, notice. Material withdrawals by large clients can have adverse effects on profits of the Group, although the magnitude of any impact would be dependent on the margins associated with the funds withdrawn.

The changing profile and requirements of clients, coupled with uncertainties generated by the merger, is a trend which may continue to have a significant impact on our business.

In the short term the proposed sale of our capital heavy insurance business may impact on customer flows as the implications of the proposed sale are assessed by our distribution partners.

Our approach in managing these risks

- We have a global network of offices with business development and product specialist teams focused on local client relationships, sales and capabilities
- Across the Group, there are a range of committees responsible for protecting client and customer interests covering a range of issues including Conduct, Conflicts and Pricing
- There are first line processes for ensuring that client marketing materials are consistent with products and capabilities. These are overseen by second line assurance activity.
- We are investing in digital technology to enhance our overall service proposition and deepen our client and customer relationships
- We will communicate clearly to our distribution partners the benefits of our reshaped firm and our strategic partnership with Phoenix

Link to strategy

Developing strong relationships with customers and clients

Building an efficient and effective business

Growing and diversifying our revenue and profit

Trends

- Increase
- Decrease
- Stable

Link to strategic priorities

- Developing strong relationships with customers and clients
- Broadening and deepening our investment capability
- Building an efficient and effective business
- Growing and diversifying our revenue and profit
- Attracting, retaining and developing talented people

Strategic risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Client and Customer Preferences and Demand

Continuing client and customer demand for our propositions is fundamental to achieving the flows and margins anticipated in our business plan. We are therefore exposed to the risk that our propositions fail to meet the needs and expectations of clients and customers.

Growth in passively-run index trackers continues to gain pace, which has the potential to impact on our asset management business; however, our proposition offering continues to grow, with developments on existing and new propositions being informed by client demand.

The evolving preferences and demands of clients and customers for a varied proposition offering and high-quality level of service will continue to have a significant impact on our business.

- The development of our new and existing propositions start from the customer or client need
- We regularly seek customer feedback on our performance and use focus groups to help with proposition development
- We invest in initiatives to build trust and long-term relationships with customers
- The Aberdeen Standard Investment Solutions team works with all investment divisions and distribution to provide bespoke client solutions and strategic research, enabling us to meet the growing demand for outcome driven propositions

Developing strong relationships with customers and clients

Broadening and deepening our investment capability

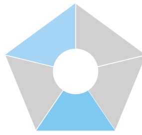
Political Change

Political change has the potential to impact the business through the introduction of new laws or regulations, or indirectly by altering client and customer sentiment. Decisions taken by the UK and Scottish governments, along with those in other locations where we operate, can significantly alter circumstances and change the way we do business.

Our business has increasingly large numbers of subsidiaries around the world which expose us to a wider range of geopolitical risks. Geopolitical unrest can also adversely affect global markets which can directly impact on our ability to grow assets under management and administration.

The ongoing negotiations surrounding the UK's exit from the EU have yet to provide clarity on what the outcome will be for the UK or Europe. These unavoidable uncertainties and our potential failure to adequately prepare for Brexit could have significant customer, reputational and capital impacts.

- While Standard Life Aberdeen is strictly apolitical, we engage with government ministers, politicians and officials on a regular basis to represent the interests of our stakeholders. We also work closely with our trade organisations and contribute to formal consultations on policy issues.
- Political risks are considered under our stress and scenario testing programme (which includes both quantitative and reverse stress testing) and emerging risk process
- Detailed contingency planning is in place to manage the consequences of Brexit



Building an efficient and effective business

Attracting, retaining and developing talented people

Operational risk

Our definition and appetite

We define operational risk as the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events. We accept a degree of exposure to operational risk where exposures arise as a result of core strategic activity; however, we have no appetite for systemic operational risk and large operational losses. The Group will seek to manage existing operational risk exposures and proactively control new exposures, making resource available where required.

Talent Management

The strength of our business is built on our people. It is essential that we continue to attract and retain a diverse workforce with the skills and experience that we need to deliver our business plans.

The continued success of the Group will be dependent on successful cultural integration of our asset management business and retention of key talent. We are exposed to the risk that the proposed sale of our capital heavy insurance business and merger integration activity will result in unplanned departures of key individuals and an inability to replace them with individuals who possess the right skills and experience.

Uncertainty around the UK's exit from the EU and higher income tax rates for Scottish rate taxpayers compared to the rest of the UK may impact our ability to attract and retain staff.

The trend reflects the increasing risk of disengagement of employees and loss of key talent while organisational structure changes progress.

- We regularly benchmark our terms and conditions against the market
- We maintain succession plans for key individuals which are regularly reviewed
- We continue to work towards meeting the commitments made under the Women in Finance Charter
- Our new global internal idea-sharing platform, Ignite, engages our people and gives them the chance to innovate and offer solutions to some of the opportunities and challenges we face
- We operate a global model thereby reducing the reliance on single pools of talent and individuals
- We utilise employee networks to support development and social mobility for minority groups

Broadening and deepening our investment capability

Attracting, retaining and developing talented people

Operational risk continued

The risks to our business and how they have evolved in 2017	Our approach in managing these risks	Link to strategy

Change Management

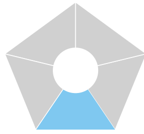
Our strategy and business plan is dependent on delivery of a large, complex, and growing change portfolio. We face a significant challenge to deliver this against a backdrop of increasing regulatory change, competing demands for resource, and demand to support strategic initiatives underpinning our growth plan.

We are exposed to the risk that change takes longer or costs more than expected or that the change does not meet its intended objective. These risks are amplified by the complexity of solutions required for some key projects and by the resources and attention demanded by the merger integration.

Delivery of aspects of our change portfolio has proved to be particularly challenging, notably delivery of key IT change projects, and these issues are being addressed as a matter of urgency.

We are experiencing an increased level of activity arising from regulatory changes. Our expectation is that high volumes of regulatory change are set to continue.

- Change management forms part of our operational risk management framework, under which change is managed, reported and implemented
- Project and change management governance processes are well embedded in our business
- In recent years, our business has built up significant experience of successfully responding to change, whilst continuing to develop market-leading propositions for customers



Building an efficient and effective business

IT Failure and Security, including cyber risk

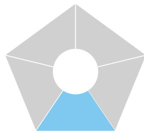
From an internal perspective, our business relies on a wide range of IT systems and requires greater use of online functionality to meet customer preferences, improve efficiency and manage costs. This exposes us to the risk of failure of key systems, and cyber-attacks.

There is also a risk that the technical capability of our IT systems may not scale with business demand nor keep pace with requirements, resulting in degraded systems performance, or inability to serve client and customer demands.

Externally, 2017 saw a number of industries and countries falling victim to cyber ransomware attacks. Over time the increased size, brand familiarity and global presence of the Group means we may become a more high profile target for cyber-attacks, increasing the risks associated with data security and data management. Additionally, we are exposed to collateral cyber risk in relation to our partners falling victim to cyber-attacks.

For a period after the proposed sale of our capital heavy insurance business, Phoenix will be an outsource service provider for certain IT services.

- We continue to invest in modernising our IT infrastructure via internal change programmes
- We work with specialist external cyber risk experts to identify new risks and develop our response to them
- IT failure, security and cyber risk are considered under our stress and scenario testing programme and emerging risk process
- We maintain appropriate business continuity and contingency plans which have been independently certified to International Standard ISO22301. These are regularly reviewed and tested.
- We will establish detailed and specific oversight processes in relation to Phoenix's provision of IT services



Building an efficient and effective business

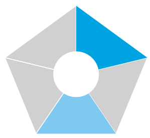
Oversight of Third Parties

We use a number of outsourcing partners to operate and deliver core systems, capabilities and processes. There are a number of significant relationships which include Citigroup and BNP Paribas for our asset management business and FNZ's role in the delivery of platform functionality for our Pensions and Savings business. For a period after the proposed sale of our capital heavy insurance business, Phoenix will be a key outsource service provider for certain IT services.

The failure of a material outsourcing provider could lead to significant costs and disruption to our operations, clients and customers until we recover the situation or put alternative solutions in place.

As the volume of outsourcing and exposure to outsourcing partners increases, so too does our exposure to the risk culture, framework and risk performance of these businesses.

- Our outsourcing and third party management policies set out the service standards to which we hold our outsource providers
- We maintain strong relationships with external providers to ensure that the risks arising are well understood
- Outsourcing risks are considered under our stress and scenario testing programme
- We continue to refine our approach to oversight of third parties as their changing business models affect the risk profile of the Group



Developing strong relationships with customers and clients

Building an efficient and effective business

Operational risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Process Execution Failure

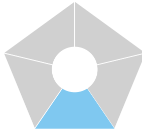
Failure or poor execution of significant operational processes in accordance with their design may result in unfair customer outcomes, operational losses, reputational damage, the potential for remedial costs or a requirement to hold increased capital.

We recognise that process execution failure is a significant risk for our asset management business, particularly in relation to trade execution, collateral management and client money processes.

Due to the long-term nature of our Pensions and Savings business we are not only at risk of new process execution failures but also those related to historic activities.

Our robust risk control processes ensure the effective management of this risk and we view the trend as stable.

- We have a fully embedded three lines of defence risk management model where there is an emphasis on first line risk accountability
- Self-assessment of the design and performance of controls by managers on a quarterly basis helps strengthen accountability in the first line
- Our Operational Risk team provides effective oversight and challenge of the management of process controls
- Client and investment mandate restrictions are automated as much as possible to reduce areas where judgement or manual intervention is required
- Investment in our system capabilities and business processes helps mitigate the risk



Building an efficient and effective business

Conduct risk

Our definition and appetite

We define conduct risk as the risk that through our behaviours, strategies, decisions and actions the business delivers unfair outcomes to our customers/clients and/or poor market conduct. We have no appetite for unfair customer outcomes or poor market conduct, whether through deliberate or negligent actions. Where unfair outcomes arise, the Group will put it right in a fair and prompt manner.

Client and Customer Outcomes

We are exposed to the risk of delivering unfair client and customer outcomes as a result of our business not acting in their best interests. This can also lead to significant reputational damage and material financial losses for our business.

Fair customer outcomes remained the subject of close regulatory scrutiny in 2017. We support the regulatory agenda to drive better customer outcomes. Our ambition to be an industry leader in conduct governance and delivery of fair customer outcomes will be tested by the constantly changing expectations of customers and by the expectations of regulators and third parties.

As we progress through the merger integration process, proposed sale of our capital heavy insurance business and transition to a world-class investment company we must ensure that we support the integrity of financial markets and effectively manage any conflicts of interest across different parts of our business to support fair outcomes for customers.

As outlined on page 52, over 2018 we will continue to address the outcomes of the FCA thematic review of annuity sales. Our next step is to engage with our customers to obtain all relevant information to aid the review of in-scope non-advised annuity sales, in order to deliver timely and fair outcomes for our customers. Determination of this provision is a critical accounting estimate. Further details on this judgement are discussed in the Audit Committee report and in Note 38 of the Group financial statements section.

Striving to achieve higher standards in delivering fair customer outcomes could expose the Group to the risk that achieving them will take longer than planned, leading to our assessment that this risk is increasing.

- Our Standard Life Aberdeen Code of Conduct sets out the standards required of colleagues and mandatory training embeds this across the business
- Our Conduct Risk Policy helps to ensure that the standards and outcomes we set are implemented consistently across the business
- The Board annually reviews the Risk Appetite Framework which sets out our key controls and mitigants for Conduct Risk
- Strong oversight and challenge is provided by our Conduct and Compliance team and Conduct Risk governance committees
- Conduct Risk management information will continue to be embedded in the business and is subject to continuous improvement to enhance underlying metrics and benchmarks
- We maintain a strong and open relationship with the FCA and other regulators
- Ensuring fair treatment of our clients and customers is continually reinforced through the culture of Standard Life Aberdeen

Developing strong relationships with customers and clients

Regulatory and legal risk

Our definition and appetite

We define regulatory and legal risk as the risk arising from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may in turn expose the Group to fines, payments of damages, the voiding of contracts and damaged reputation. We have no appetite for wilful breaches or violations of regulatory and legal requirements or prescribed practices. However, we do accept that minor infringements or breaches of compliance may happen from time to time. These will be remedied as soon as practicable, ensuring that customers' best interests are put first.

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

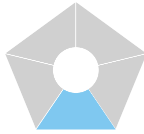
Regulatory and Legal

The industry in which we operate is highly regulated and our large global footprint exposes us to an increasing number of regulatory regimes.

New or changing regulations can create opportunities for our business. However, the congested regulatory horizon has the potential to impact core growth areas for the Group, including asset management and platforms. The busy and demanding regulatory horizon can also distract the business from delivering initiatives to support growth. This can increase compliance costs, impact profitability and demand for our propositions.

The increasing trend reflects the potential for the evolving regulatory agenda to significantly impact key growth areas of the business.

- Ongoing regulatory compliance is governed via our Standard Life Aberdeen Policy Framework
- We operate a programme of ongoing monitoring to provide assurance of regulatory compliance
- We maintain strong and open relationships with our regulators and engage early with areas of potential regulatory change
- Regulatory changes are considered under our stress and scenario testing programme and emerging risk process



Building an efficient and effective business

Financial market risk

Our definition and appetite

We define financial market risk as the risk of adverse financial market movements resulting in a financial loss. We have appetite for market risk exposures where exposures arise as a consequence of core strategic activity. We have limited appetite for significant losses arising from counterparty failures, but have an appetite for credit risk to the extent that acceptance of this risk optimises our risk adjusted return. We will maintain sufficient balance sheet capital and liquidity to be able to meet our liabilities when due, under both normal and stressed conditions.

Market Risk

Our business may be materially adversely affected by volatility in global markets. We are exposed to market risk from the direct investment of shareholder assets, indirectly from funds managed by our asset management business and with profits funds in our Pensions and Savings business, and as a result of fluctuations in fees that we earn.

The merger and proposed sale continue our significant shift towards a fee based model. This results in heightened exposure to the performance of financial markets which can impact on asset values as well as investor sentiment.

One characterisation of the market environment is that while markets have performed well, there are concerns about rising market complacency, leaving markets vulnerable to sharp reversals.

Future adverse market movements may arise from the outcome of negotiations for the UK leaving the EU; the continuing low yield, low interest rate environment; and increasing geopolitical concerns.

The stable trend reflects the current resilience of markets and our robust capital and solvency position to manage any market volatility.

- We set limits for market risk exposures where this is appropriate
- We use our stress and scenario testing programme to understand our sensitivities to markets and identify mitigating actions
- We are strongly capitalised and able to withstand increased capital costs due to Brexit and the merger
- Hedging is used to manage market risks faced by policyholders in our with profits funds where appropriate

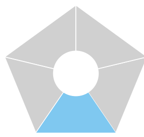
Growing and diversifying our revenue and profit

Liquidity Risk

The risk that we face is that there is insufficient liquidity available to meet our liabilities as they fall due. Costs associated with the integration of our asset management business and Brexit may depress the availability of liquid resources for the Group in the short term.

Our forward-looking projections, including the expected cost synergies from merger and sale activity, indicate that we expect to manage liquidity risk on an ongoing basis.

- The proposed sale of our capital heavy insurance business will strengthen our liquidity resources
- Significant one-off receipts from a sub-debt issue and HDFC Life IPO proceeds in 2017 strengthened resources in the short term
- We are strongly capitalised and able to withstand increased capital costs due to the merger and Brexit
- We perform regular monitoring of liquidity projections and management actions exist which could be taken in adverse scenarios
- Our stress and scenario testing programme provides forward-looking insight and ensures proactive management of liquidity risks



Building an efficient and effective business

Financial market risk continued

The risks to our business and how they have evolved in 2017 | Our approach in managing these risks | Link to strategy

Counterparty Failure

The Group has substantial exposures to a number of counterparties and is exposed to the risk that counterparties we hold money, bonds or commercial real estate loans with fail, which could cause immediate financial loss or a reduction in future profits.

Exposure to counterparties predominantly originates in our Pensions and Savings business. The merger creates no material change in this risk, and hence this risk has reduced in relative size. The proposed sale of our capital heavy insurance business will significantly reduce this risk to the Group.

We have effective processes in place to manage counterparty risk.

- Our credit risk management policy sets out the standards that must be complied with
- Limits for individual counterparties are overseen by our Group Credit Risk Committee
- Where appropriate, counterparty exposures are collateralised and internal credit assessments used
- Reverse stress testing is used to understand the risk associated with counterparty exposures
- Exposures are proactively monitored with mitigation action taken where necessary

Growing and diversifying our revenue and profit

Demographic experience risk

Our definition and appetite

We define demographic experience risk as the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic and expense experience differing from that expected. We have limited appetite to fail to meet business plan targets due to increased outflows, reduced margin or new business, expenses exceeding planned spend or revenue falling below that necessary to cover actual expenses. We have an appetite for longevity, mortality and morbidity risks since we expect acceptance of these risks to be value additive.

Longevity Risk

There is a risk that our annuity customers live longer than we expect. The large back-book of annuities in our Pensions and Savings business means we still have a material exposure to longevity risk.

In 2017, our annuity sales continued to fall due to the impact of Pension Freedoms and our decision in November 2016 to restrict annuity sales to existing customers only.

Our longevity risk continues to decrease over time as our existing annuity book steadily runs off and we continue to experience a weakening of historic trends for the rate of improvement in average UK life expectancy. The proposed sale of our capital heavy insurance business will remove this source of longevity risk.

We are also exposed to longevity risk from our legacy defined benefit pension arrangements. This risk will decrease over time because these arrangements are closed to new membership and, with the exception of a small plan in Ireland, no longer allow further build-up of defined benefit pension entitlement by existing members.

Determination of longevity assumptions is a critical accounting estimate. Further details on this judgement are discussed in the Audit Committee report and in Notes 31 and 35 of the Group financial statements section.

- We set thresholds, based on Solvency II Risk Capital for Pensions and Savings, for longevity risk exposure
- We have a robust governance process for setting our longevity assumptions using the latest data sources
- We have a reinsurance arrangement with Canada Life which transfers a material part of our longevity exposure. We monitor opportunities to implement further transactions to reduce our exposure
- We consider longevity scenarios under our stress and scenario testing programme

Growing and diversifying our revenue and profit

A responsible approach

We must ensure the practices we expect of the companies we invest in are reflected in our own business too. It is not only the right thing to do, it adds value for shareholders, clients and customers, employees and wider stakeholders.

Sustainability at Board level

Updates on internal and external environmental, social and governance issues and our performance on non-financial measures are provided regularly at Board meetings.

Code of conduct

We recently updated our global code of conduct which details the standards of behaviour we expect across the Company. All of our employees are required to read, agree and adhere to the principles of the code which focuses on doing the right thing and putting our customers and clients at the heart of our business.

Modern slavery statement

As a global investment company, we want to do all we can to help tackle human trafficking, forced labour, bonded labour and child slavery. We focus on our operations, supply chain and investment processes. We have published our first statement as a newly merged business, reinforcing our commitment to this important issue.

Human rights policy

During 2017 we developed a policy which sets out our approach to identifying and upholding the human rights of our employees, customers and clients and the communities we operate in, as well as people impacted by our suppliers, partners and the companies we invest in. As an investor, we consider factors including human rights when evaluating companies. We assess the management of human rights impacts and engage when appropriate to highlight issues and promote good practice.

Bribery and corruption

We have a zero tolerance approach to financial crime, bribery and corruption. We have policies in place to help ensure that we only receive or pay money to or from clients, third parties, partners and suppliers that we've identified as suitable to do business with. We run mandatory annual training for our employees which requires passing a test that confirms their understanding of both our policies and the part our people play. We also maintain a register for any gifts and entertainment provided or received. We have processes for reporting and reviewing breaches of our policies. In 2017 we had no breaches.

Managing our environmental impact

Our greatest environmental impact is through the investments we hold. You can read more about our approach to integrating environmental considerations on our website.

Our operational environmental impact is mostly comprised of the energy we use in our buildings and air travel. To reduce our impact in these areas we track our consumption, pursue ongoing improvements in building management, and encourage our people to reconsider the need for air travel by offering technology solutions.

We engage our people to reduce their environmental impact both at work and at home using initiatives such as a global network of champions, recycling challenges, and newsletters and blogs. We supported employees to make positive changes in their own lives through information sessions on electric vehicles and home energy.

The impact of climate change has continued to be the subject of much interest over 2017. It is an investment risk we must consider across all asset classes so have been actively supporting efforts to promote more transparency on the climate risks that companies may be facing and how they are tackling them. We have publicly declared our support for the G20's Task Force on Climate-related Financial Disclosures (TCFD). We believe its recommendations will contribute to improving the quality and usefulness of climate change disclosures. As an investor, a systematic assessment by companies of the impact of climate change on their business model will help us to determine the nature, scale and management of this factor. For our own operations, we will follow the recommendations to demonstrate to markets why climate change analysis is relevant and how it informs our approach to strategy, governance and risk management.

We are also supporting the new Transitional Pathway Initiative, an online data analysis tool which enables investors to assess how effectively companies are addressing climate related risks, and we are a founding signatory of Climate Action 100+.

You can read more on these topics and also find our Corporate sustainability and stewardship report 2017 on our website **www.standardlifeaberdeen.com/annualreport**

Greenhouse gas emissions

		2017 (Location-based)	2016 (Location-based)	2017 (Market-based)[3]
Greenhouse gas emissions (tonnes CO_2e)	Scope 1	**3,518**	2,880	**3,518**
	Scope 2	**14,717**	14,687	**8,694**
	Scope 3	**17,543**	17,743	**17,117**
	Total	**35,778**[1]	35,310[2]	**29,329**
Tonnes CO_2e/FTE ratio		**2.89**	3.26	**2.37**
Real estate investment assets owned by SLA plc subsidiaries – Greenhouse gas emissions (tonnes CO_2e)[4]	Scope 1	**1,796**	2,150	**1,796**
	Scope 2	**6,315**	9,479	**3,421**
	Scope 3	**5,406**	6,777	**3,794**
	Total	**13,517**	18,406	**9,011**
Tonnes CO_2e/m^2 (net lettable area) ratio		**14.3**	18.8	**9.5**

1 Data prepared in accordance with our reporting methodology and the KPI is within KPMG's limited assurance scope. Both KPMG's limited assurance report and our reporting methodology can be found at **www.standardlifeaberdeen.com/annualreport**

2 Data presented for 2016 represents the combined CO_2e emissions previously published for Standard Life Group and Aberdeen Asset Management. The 2016 reporting methodologies differ from our 2017 methodology. Details of the prior year methodologies can be found in respective 2016 Annual Reports.

3 Emissions have been calculated using renewable energy contracts, residual mix emissions factors for European sites, and grid mix emissions factors for all other sites.

4 Those owned by Standard Life Assurance Limited. Scope details can be found in our reporting methodology which is available on our website.

Note: The total 2017 location-based carbon footprint is 49,295 tonnes CO_2e.

Basis of preparation

Overview

Our Strategic report for the year to 31 December 2017 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. Under section 414 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business and a description of the principal risks and uncertainties facing the Group. Principal risks and uncertainties are detailed in the Risk management section of this Strategic report and Note 39 in the Group financial statements section. To provide clear and helpful information, we have also considered the voluntary best practice principles of the Guidance on the Strategic report issued by the Financial Reporting Council in 2014. We have also considered the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures issued in October 2015.

The Group's International Financial Reporting Standards (IFRS) consolidated financial statements have been prepared in accordance with IFRS, as endorsed by the European Union (EU). However, our Board believes that alternative performance measures (APMs), which have been used in the Strategic report, are also useful for both management and investors.

All APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section of this report.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in this Strategic report. This includes details on our liquidity and capital management and our viability statement in the Chief Financial Officer's overview section and our principal risks in the Risk management section. In addition, the Group financial statements section includes notes on the Group's subordinated liabilities (Note 34), management of its risks including market, credit and liquidity risk (Note 39), its contingent liabilities and commitments (Notes 43 and 44), and its capital structure and position (Note 47).

The Group continues to meet Group and individual entity capital requirements and day-to-day liquidity needs. The Company has a revolving credit facility of £400 million as part of our contingency funding plans and this is due to mature in 2022. The Group has considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries and having assessed the principal risks, the Directors are satisfied that the Group has and will maintain sufficient resources to enable it to continue operating for at least 12 months from the date of approval of the financial statements and therefore considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. In addition, the Directors have assessed the Group's viability over a period of three years.

IFRS reporting

The financial results are prepared on an IFRS basis. All EU-listed companies are required to prepare consolidated financial statements using IFRS issued by the International Accounting Standards Board (IASB) as endorsed by the EU. The IFRS financial results in the Strategic report and in the Group financial statements have been prepared on the basis of the IFRS accounting policies as disclosed in the Group financial statements section of this report.

Adjusted profit

The 2017 reconciliation of consolidated adjusted profit to IFRS profit for the year, presented on page 149 of this report, presents profit before tax expense attributable to equity holders amended for adjusting items. Further details on the calculation of adjusted profit is presented in Supplementary information in Section 10. Adjusted profit reporting provides further analysis of the results reported under IFRS and the Directors believe helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing adjusting items.

Forward-looking statements

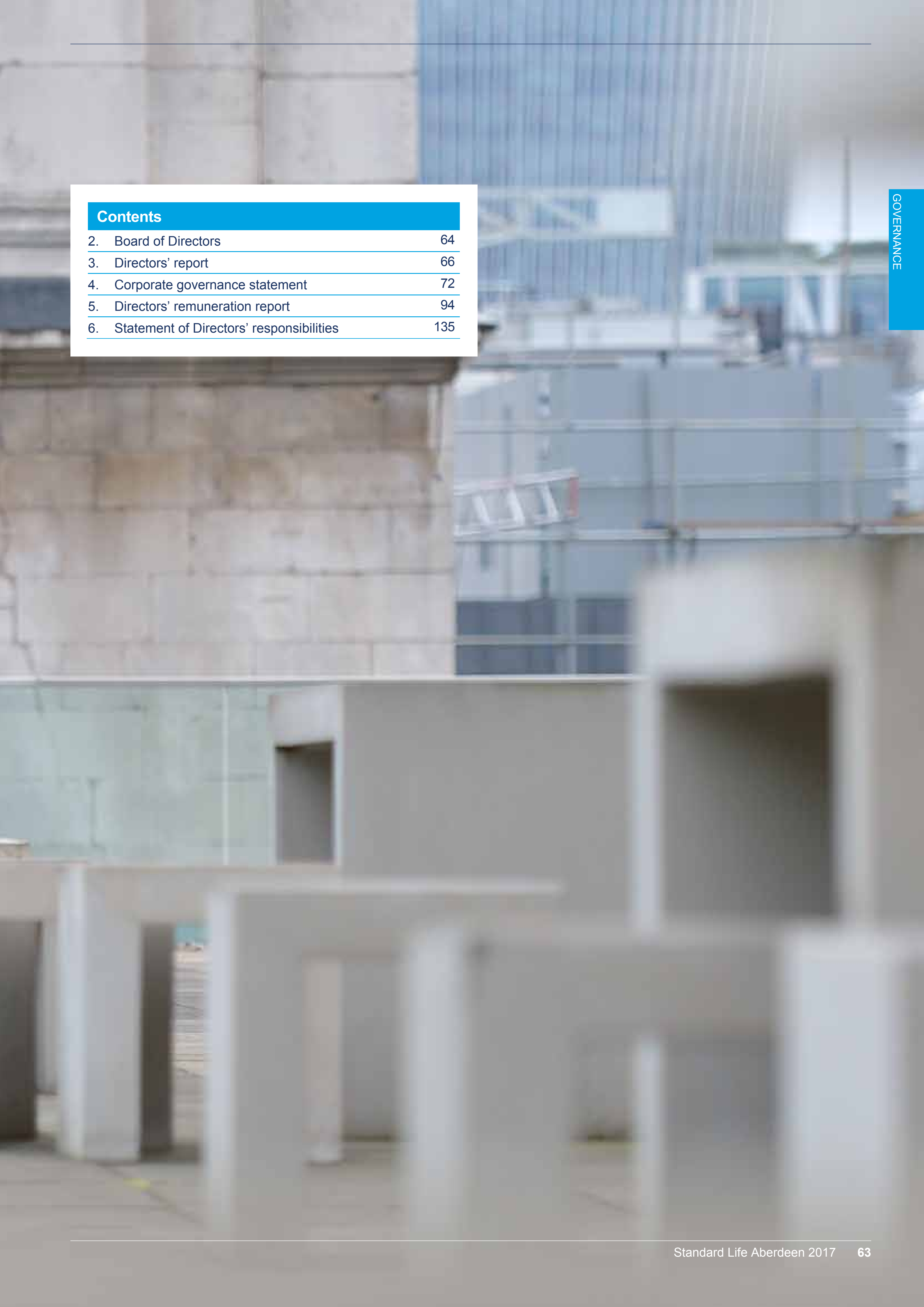
This document may contain certain 'forward-looking statements' with respect to the Company's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. For example, statements containing words such as 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'pursues', 'seeks', 'targets' and 'anticipates', and words of similar meaning, may be forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and circumstances which may be or are beyond the Company's control, including among other things: UK domestic and global political, economic and business conditions (such as the UK's exit from the EU); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of competition; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Company and its affiliates operate as well as other factors described in the Risk management section of this Strategic report. These may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, the Company's actual future financial condition, performance and results may differ materially from the plans, goals, strategy and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of the Company in this document may not be indicative of, and are not an estimate, forecast or projection of the Company's future results.

The Strategic report has been approved by the Board and signed on its behalf by

Kenneth A Gilmour
Company Secretary,

Standard Life Aberdeen plc (SC286832)

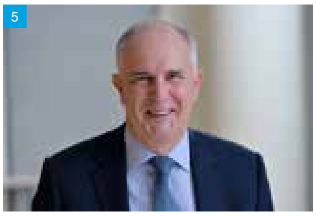
23 February 2018



Contents

2. Board of Directors

Our business is managed by our Board of Directors. Biographical details (and shareholdings) of the Directors as at 23 February 2018 are listed below.



A Audit committee

I Investment performance committee

NG Nomination and governance committee

R Remuneration committee

RC Risk and capital committee

☐ Chair

1 Sir Gerry Grimstone **Chairman** NG

Sir Gerry was appointed Chairman in May 2007, having been Deputy Chairman since March 2006. He is also deputy chairman and senior independent director of Barclays PLC, an independent non-executive board member of Deloitte North West Europe and the lead non-executive at the Ministry of Defence. Previously, he held senior positions within the Department of Health and Social Security and HM Treasury until 1986. He then spent 13 years with Schroders in London, Hong Kong and New York, and was vice chairman of Schroders' worldwide investment banking activities from 1998 to 1999. He is British, aged 68 and holds 206,626 shares.

2 Simon Troughton **Deputy Chairman** NG

Simon was appointed Deputy Chairman on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since July 2009 and chairman since July 2016. Simon is also chairman of Redburn (Europe) Limited. Previously, he was a partner at Cazenove and Company Limited before moving to Fauchier Partners in 2003 where he became chief operating officer. He is British, aged 64 and holds 52,990 shares.

3 Martin Gilbert **Co-Chief Executive**

Martin was appointed Director and Co-Chief Executive on 14 August 2017. He is co-founder (and former chief executive) of Aberdeen Asset Management PLC and has been a director since 1983. He is deputy chairman of Sky plc, a non-executive director of Glencore plc, chairman of the Prudential Regulation Authority's Practitioner Panel and a board member of the Institute of International Finance, as well as a member of the International Advisory Panel of the Monetary Authority of Singapore and the International Advisory Board of British American Business. He is British, aged 62 and holds 139,185 shares.

4 Keith Skeoch **Co-Chief Executive**

Keith was appointed Co-Chief Executive on 14 August 2017. He was formerly Chief Executive of Standard Life plc, having been a Director since 2006 and Chief Executive of Standard Life Investments since 2004. He joined Standard Life Investments Limited in 1999 as Chief Investment Officer after nearly 20 years' investment experience at James Capel & Company Limited in a number of roles, including chief economist and managing director international equities. He is also a non-executive director of the Financial Reporting Council and a member of the Asset Management Taskforce led by HM Treasury. He is British, aged 61 and holds 2,347,507 shares.

5 Bill Rattray Chief Financial Officer

Bill was appointed Director and Chief Financial Officer on 14 August 2017, having been finance director of Aberdeen Asset Management PLC from January 1991. He is also a non-executive director of Curtis Banks Group Plc. Prior to joining the Aberdeen Group, Bill trained as a chartered accountant with Ernst & Whinney, qualifying in 1982. He is British, aged 59 and holds 1,743,549 shares.

6 Rod Paris Chief Investment Officer

Appointed Director on 14 August 2017, Rod joined Standard Life Investments in 2002 as Head of Global Fixed Income and was appointed as Head of Investments in 2007 and latterly as Chief Investment Officer in 2013. Previously, he was a managing director at Merrill Lynch Investment Managers, and before that a director at Mercury Asset Management which he joined in 1984. He is British, aged 58 and holds 602,303 shares.

7 Kevin Parry OBE Senior Independent Director I NG R

Appointed Director in October 2014, Kevin is the Company's Senior Independent Director. He is also chairman of Intermediate Capital Group plc and non-executive director of Daily Mail and General Trust plc and Nationwide Building Society. Kevin was previously with Schroders plc, firstly as a non-executive director between 2002 and 2008 and, latterly, as CFO between 2009 and 2013. Prior to this, Kevin served as CEO of Management Consulting Group between 2000 and 2008. He was awarded an OBE for charitable services in the New Year's Honours List. He is British, aged 56 and holds 60,754 shares.

8 Julie Chakraverty Non-executive Director A NG RC

Julie was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since May 2011 and senior independent director since October 2016. Julie is also a director of Rungway Limited. Previously, she served on the boards of MS Amlin plc, Spirit Pubs and Paternoster Insurance, and as a board member of UBS Investment Bank where she held a number of global leadership positions. She is British, aged 46 and holds 2,302 shares.

9 John Devine Non-executive Director A R RC

Appointed Director in July 2016, John is also a non-executive director of Credit Suisse International, Credit Suisse Securities (Europe) Limited, Citco Custody Limited and Citco Custody (UK) Limited. From 2008-2010, John was chief operating officer of Threadneedle Asset Management Limited. Prior to joining Threadneedle, John held a number of senior positions at Merrill Lynch in London and New York. He is British, aged 59 and holds 1,321 shares.

10 Gerhard Fusenig Non-executive Director I R RC

Gerhard was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since April 2016. Gerhard is also director of Credit Suisse Insurance Linked Strategies Limited. Over the last 25 years he has held a number of senior management roles in asset management at Credit Suisse Group AG and UBS AG. He is German and Swiss, aged 54 and holds 26,495 shares.

11 Melanie Gee Non-executive Director A I NG RC

Appointed Director in November 2015, Melanie is also a senior adviser at Lazard and Co. Limited, having been a managing director between 2008 and 2012. Previously, she held various roles with UBS, and was appointed a managing director in 1999. Melanie was a non-executive director of The Weir Group PLC between 2011 and 2017 and the Drax Group plc between 2013 and 2016. She is also a non-executive director of Ridgeway Partners Holdings Limited. She is British, aged 56 and holds 20,000 shares.

12 Richard Mully Non-executive Director I NG R

Richard was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since April 2012. Richard is also deputy chairman of alstria office REIT-AG, senior independent director of St Modwen Properties PLC, a non-executive director of Great Portland Estates plc and senior adviser to TPG Real Estate (Europe). Previously, Richard spent much of his career in financial services as an investment banker and was the co-founder and managing partner of Grove International Partners LLP. He is British, aged 56 and holds 52,990 shares.

13 Lynne Peacock Non-executive Director NG

Appointed Director in April 2012, Lynne is also Chairman of Standard Life Assurance Limited. She is senior independent director of Nationwide Building Society and a non-executive director of Serco Group plc. She joined National Australia Bank Limited in 2003 and, from 2004 to 2011, she was chief executive officer, UK (Clydesdale Bank plc and Yorkshire Bank). Prior to that, Lynne was with Woolwich plc from 1983 to 2003, finishing her career there as chief executive officer. She is British, aged 64 and holds 12,554 shares.

14 Martin Pike Non-executive Director A RC

Martin was appointed Director in September 2013. He is also a non-executive director of esure Group plc and Faraday Underwriting Limited and a non-executive advisor to Travers Smith LLP. He joined R Watson & Sons in 1983, and progressed his career with the firm to partner level. His senior roles included head of european insurance and financial services practice, Watson Wyatt from 2006 to 2009, vice-president and global practice director, insurance and financial services, Watson Wyatt during 2009 and, latterly, managing director, risk consulting & software, EMEA, Towers Watson from 2010 to 2013. He is British, aged 56 and holds 32,727 shares.

15 Jutta af Rosenborg Non-executive Director A R

Jutta was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since January 2013. She is also chairman of Det Danske Klasselotteri A/S and a non-executive director of JPMorgan European Investment Trust plc, NKT A/S and Nilfisk Holding A/S. Previously, she was the executive vice president, CFO of ALK-Abelló A/S. She is Danish and aged 59. Nil shareholding.

16 Akira Suzuki Non-executive Director

Akira was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since August 2013 through their business and capital alliance with Mitsubishi UFJ Trust and Banking Corporation. Akira has undertaken a wide variety of roles, primarily in asset management, in Mitsubishi UFJ Trust and Banking Corporation and is currently a managing executive officer. He is Japanese and aged 58. Nil shareholding.

3. Directors' report

The Directors present their annual report on the affairs of the Standard Life Aberdeen group of companies (the Group), together with the audited International Financial Reporting Standards (IFRS) consolidated financial statements for the Group, financial information for the Group and financial statements for Standard Life Aberdeen plc (the Company) for the year ended 31 December 2017.

Reporting for the year ended 31 December 2017

The Company is the holding company of the Group. You can find out about the relevant activities of the Company's principal subsidiary undertakings and their overseas branches in the Strategic report. During 2017, the Company's principal undertakings operated branches in Europe, together with Hong Kong and India.

The main trends and factors likely to affect the future development, performance and position of the Group are outlined in the Co-Chief Executive's overview section of the Strategic report. Reviews of the operating and financial performance of the Group for the year ended 31 December 2017 are given in the Strategic report.

The Chairman's statement, the Directors' responsibility statement and the Corporate governance statement form part of the Directors' report. The Corporate governance statement is submitted by the Board.

Using the IFRS basis, the results of the Group are presented in the Group financial statements. A detailed description of the basis of preparation of the IFRS results (including adjusted profit) is set out in the Group financial statements section. More information about the Group's use of financial instruments and related financial risk management matters can be found in Note 21 and Note 39 to the Group financial statements.

This report was prepared by the executive team together with the Board and forms part of the management report.

Dividends

The Board recommends paying a final dividend for 2017 of 14.30p per ordinary share. This will be paid on 30 May 2018 to shareholders whose names are on the Register of members (the Register) at the close of business on 20 April 2018.

The total payment is estimated at £421m for the final dividend and together with the interim dividend of 7.00p per share totalling £206m paid on 18 October 2017, the total dividend for 2017 will be 21.30p per share (2016: 19.82p) totalling £627m (2016: £389m).

Share capital

You can find full details of the Company's share capital, including movements in the Company's issued ordinary share capital during the year, in Note 26 to the Group financial statements. You can also find an analysis of registered shareholdings by size, as at 31 December 2017, in the Shareholder information section.

Standard Life plc and Aberdeen Asset Management PLC made an announcement on 6 March 2017 relating to the recommended all-share acquisition by Standard Life plc of Aberdeen Asset Management PLC. This was implemented by way of a court-sanctioned scheme of arrangement under Part 26 of the Companies Act 2006 (the Scheme). The Scheme became effective in accordance with its terms, following the sanction of the Scheme by the Court of Session in Scotland on 11 August 2017 and the delivery of the court order to the Registrar of Companies. Standard Life plc was renamed Standard Life Aberdeen plc immediately following the Scheme becoming effective.

The entire issued ordinary share capital of Aberdeen Asset Management PLC is now owned by Standard Life Aberdeen plc.

Holders of ordinary shares of 10 pence each in the capital of Aberdeen Asset Management PLC (Aberdeen Shares) on the register at the Scheme record time, being 6.00 p.m. on 11 August 2017, received 0.757 of an ordinary share of 12 2/9 pence each in the capital of Standard Life Aberdeen plc (New Shares) in exchange for each Aberdeen Share. As a result, 997,661,231 New Shares were listed on the Premium Listing segment of the Official List of the UK Listing Authority and were admitted to trading on the London Stock Exchange's main market at 8.00 a.m. on Monday 14 August 2017.

As at 31 December 2017, there were 2,978,936,877 ordinary shares in issue held by 102,763 registered members. The Standard Life Aberdeen Share Account (the Company-sponsored nominee) held 736,555,571 of those shares on behalf of 1,039,617 participants. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

During the year, and until the date this report was signed, the Company received the following notifications in respect of major shareholdings and major proportions of voting rights in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA). The companies detailed below notified their positions following the merger.

Shareholder	Date of transaction	Type of transaction	Number of voting rights following the transaction	Percentage of voting rights following the transaction
Mitsubishi UFJ Trust and Banking Corporation	14.08.2017	Acquisition	175,200,098	5.9%
Lloyds Banking Group plc	14.08.2017	Event changing the breakdown of voting rights	97,714,624	3.282%

In 2016, in accordance with the terms of the Standard Life Employee Trust Deed, the trustees of the Standard Life Employee Trust waived all entitlements to current or future dividend payments for shares they hold under option on behalf of participants in the Company's discretionary share plans between the grant and vest dates. Details of ordinary shares under option in respect of the Company's discretionary share plans are shown in Note 45 to the Group financial statements.

The trustees of the Standard Life (Employee) Share Plan voted the appropriate shares in accordance with any instructions received from participants in the plan. Details of the Company's employee share plan can be found in Note 45 to the Group financial statements.

Restrictions on the transfer of shares and securities

Except where listed below, there are no specific restrictions on the size of a holding or on the transfer of shares. Both are governed by the general provisions of the Company's articles of association (the Articles) and current legislation and regulation.

You can also obtain a copy from Companies House or by writing to the Company Secretary at our registered address (details of which can be found in the Contact us section). The Articles may only be amended by a special resolution passed by the shareholders.

You can read the Articles on our website
www.standardlifeaberdeen.com/annualreport

The Board may decline to register the transfer of:

- A share that is not fully paid
- A certificated share, unless the instrument of transfer is duly stamped or duly certified and accompanied by the relevant share certificate or other evidence of the right to transfer, is in respect of only one class of share and is in favour of a sole transferee or no more than four joint transferees
- An uncertificated share, in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and, in the case of a transfer to joint holders, where the number of joint holders to whom the share is to be transferred does not exceed four
- A certificated share by a person with a 0.25 per cent interest (as defined in the Articles) in the Company, if that person has been served with a restriction notice under the Articles, after failing to provide the Company with information about interests in those shares as set out in the Companies Act 2006 (unless the transfer is shown to the Board to be pursuant to an arm's length sale under the Articles)

These restrictions are in line with the standards set out in the FCA's Listing Rules and are considered to be standard for a listed company.

The Directors are not aware of any other agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Rights attached to shares

Subject to applicable statutes, any resolution passed by the Company under the Companies Act 2006 and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may decide by ordinary resolution, or (if there is no such resolution or if it does not make specific provision) as the Board may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Every member and duly appointed proxy present at a general meeting or class meeting has one vote on a show of hands, provided, that where a proxy is appointed by more than one shareholder entitled to vote on a resolution and is instructed by one shareholder to vote 'for' the resolution and by another shareholder to vote 'against' the resolution, then the proxy will be allowed two votes on a show of hands – one vote 'for' and one vote 'against'. On a poll, every member present in person or by proxy has one vote for every share they hold. For joint shareholders, the vote of the senior joint shareholder who tenders a vote, in person or by proxy, will be accepted and will exclude the votes of the other joint shareholders. For this purpose, seniority is determined by the order that the names appear on the Register for joint shareholders.

A member will not be entitled to vote at any general meeting or class meeting in respect of any share they hold if any call or other sum then payable by them for that share remains unpaid or if they have been served with a restriction notice (as defined in the Articles) after failing to provide the Company with information about interests in those shares required to be provided under the Companies Act 2006.

The Company may, by ordinary resolution, declare dividends up to the amount recommended by the Board. Subject to the Companies Act 2006, the Board may also pay an interim dividend, and any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or 'pari passu' rights for losses that arise from paying interim or fixed dividends on other shares.

The Board may withhold payment of all or part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent interest (as defined in the Articles) if that person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information about interests in those shares, which is required under the Companies Act 2006.

Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares held as treasury shares). These rights can also be varied with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every separate general meeting (except an adjourned meeting) the quorum shall be two persons holding, or representing by proxy, not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

A shareholder's rights will not change if additional shares ranking 'pari passu' with their shares are created or issued – unless this is expressly provided in the rights attaching to their shares.

Power to purchase the Company's own shares

At the 2017 Annual General Meeting (AGM), shareholders granted the Directors limited powers to:

- Allot ordinary shares in the Company up to a maximum aggregate amount of £80,628,369
- Disapply, up to a maximum total nominal amount of £12,094,255 of its issued ordinary share capital, shareholders' pre-emption rights in respect of new ordinary shares issued for cash
- Make market purchases of the Company's ordinary shares up to a maximum of 197,905,999 of its issued ordinary shares

The Company did not make any market purchases of its ordinary shares during the year ended 31 December 2017, and has not done so since then and up to the date of this report.

Significant agreements

There are a number of agreements to which the Company, or one of its subsidiaries, is party that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. These agreements are noted in the paragraphs below.

Credit Facility – under a £400m revolving credit facility between the Company and the banks and financial institutions named therein as lenders (Lender) dated 22 May 2015 (the Facility), in the event that (i) any persons or group of persons acting in concert, gain control of the Company or (ii) Standard Life Assurance Limited ceases to be a member of the Group, then any Lender may elect within a prescribed time frame to cancel its outstanding commitment under the Facility and declare its participation in all outstanding loans, together with accrued interest and all amounts accrued immediately due and payable, whereupon the commitment of that Lender under the Facility will be cancelled and all such outstanding amounts will become immediately due and payable.

Aberdeen Asset Management PLC has two £60m revolving credit facilities, one with HSBC Bank plc and one with Abbey National Treasury Services plc,(each the Lender). Both are dated 27 July 2016 and run to 27 July 2019. In the event of a change of control of Aberdeen Asset Management PLC the Lender may by not less than 15 business days' notice to Aberdeen Asset Management PLC cancel the commitment and require immediate repayment of all loans together with accrued interest and all other amounts accrued under the finance documents whereupon the commitment shall be cancelled and all such outstanding Loans and amounts will become immediately due and payable. Prior to the merger, written waivers were obtained from each of the Lenders, agreeing to the change of control.

India – under a shareholders' agreement dated 10 June 2003 (as amended) between Standard Life Investments Limited and Housing Development Finance Corporation Limited (HDFC), pursuant to which the relevant Group company holds its interest in HDFC Asset Management Company Limited (HDFC AMC), upon a change in the ownership structure of Standard Life Investments Limited that results in the acquisition by a third party, either directly or indirectly, of more than 20% of the issued, subscribed and paid-up capital of Standard Life Investments Limited, HDFC will have 90 days from the date upon which Standard Life Investments Limited notifies it in writing of the occurrence of such a change to purchase the relevant Group company's shares in HDFC AMC for a price determined in accordance with an agreed pricing formula.

China – under a joint venture agreement dated 12 October 2009 (as amended) between the Company and Tianjin TEDA International Holding (Group) Co. Limited (TEDA), pursuant to which the Company holds its interest in Heng An Standard Life Insurance Company Limited (Heng An Standard Life), upon a change of control of the Company, TEDA has the right to terminate the venture and to purchase, or nominate a third party to purchase, the Company's shares in Heng An Standard Life for a price determined in accordance with the agreement.

Asset Management – under various agreements dated 31 March 2014 (as amended) between members of the Group (Managers) and subsidiaries of Lloyds Banking Group plc (Customers), pursuant to which the Managers provide investment management and services to the Customers, upon a change of control of the relevant Manager where the new controller's group either is in material competition in the UK with the Lloyds Banking Group or does not have investment capabilities comparable to the group it was in on 31 March 2014, then the relevant Customer has the right to terminate the relevant agreement. A description of events since the balance sheet date relevant to this agreement can be found on page 71 and for further information, please see Note 14 of the Group financial statements.

A number of other agreements contain provisions that entitle the counterparties to exercise termination or other rights in the event of a change of control of the Company. However, these agreements are not considered to be significant in terms of their likely impact on the business of the Group as a whole.

The Directors are not aware of any agreements with any employee that would provide compensation for loss of office or employment resulting from a takeover bid. The Company also has no agreement with any Director to provide compensation for loss of office or employment resulting from a takeover.

Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Articles, the Companies Act 2006, the UK Corporate Governance Code and related legislation.

The UK Corporate Governance Code recommends that directors of FTSE 350 companies should stand for election every year. During the year, Paul Matthews resigned as Director on 1 March 2017 and Colin Clark, Pierre Danon, Noel Harwerth, Barry O'Dwyer and Luke Savage resigned as Directors on 14 August 2017.

Following the Merger, Martin Gilbert, Bill Rattray, Rod Paris, Simon Troughton, Julie Chakraverty, Gerhard Fusenig, Richard Mully, Jutta af Rosenborg and Akira Suzuki were appointed to the Board on 14 August 2017. Having been appointed since the last AGM, these Directors, apart from Julie Chakraverty and Akira Suzuki, will stand for election at the 2018 AGM. Julie Chakraverty and Akira Suzuki will stand down as Directors at the conclusion of the 2018 AGM.

All remaining Directors as at the date of the AGM will retire at the 2018 AGM and, if they wish to continue in office, will stand for re-election. Lynne Peacock will stand down as Director at the conclusion of the 2018 AGM.

The powers of the Directors can also be found in the Articles.

Directors and their interests

The Directors who served during the year were:

Sir Gerry Grimstone (Chairman)	Lynne Peacock
Keith Skeoch	Martin Pike
Martin Gilbert[3]	Jutta af Rosenborg[3]
Bill Rattray[3]	Akira Suzuki[3]
Rod Paris[3]	Simon Troughton[3]
Kevin Parry	Colin Clark[4]
Julie Chakraverty[3]	Pierre Danon[4]
John Devine	Noel Harwerth[4]
Gerhard Fusenig[3]	Paul Matthews[2]
Melanie Gee	Barry O'Dwyer[1,4]
Richard Mully[3]	Luke Savage[4]

1 Appointed 1 March 2017

2 Resigned 1 March 2017

3 Appointed 14 August 2017

4 Resigned 14 August 2017

Biographies of the current Directors can be found on pages 64 to 65

Details of the Directors' interests in the Company's ordinary shares, the Standard Life (Employee) Share Plan, the Standard Life Sharesave Plan and the share-based discretionary plans are set out in the Directors' remuneration report together with details of the executive Directors' service contracts and non-executive Directors' appointment letters.

No Director has any interest in the Company's listed debt securities or in any shares, debentures or loan stock of the Company's subsidiaries. No Director has any material interest in any contract with the Company or a subsidiary undertaking which was significant in relation to the Company's business, except for the following:

- The benefit of a continuing third party indemnity provided by the Company (in accordance with company law and the Articles)
- Service contracts between each executive Director and subsidiary undertakings (Standard Life Employee Services Limited and Aberdeen Asset Management PLC)

Copies of the following documents can be viewed at the Company's registered office (details of which can be found in the Contact us section) during normal business hours (9am to 5pm Monday to Friday) and will be available for inspection at the Company's AGM:

- The Directors' service contracts or letters of appointment
- The Directors' deeds of indemnity, entered into in connection with the indemnification of Directors provisions in the Articles
- The rules of the Standard Life plc Executive Long-Term Incentive Plan

- The rules of the Standard Life Aberdeen plc Deferred Share Plan
- The Company's Articles

Directors' liability insurance

During 2017, the Company maintained directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them. The Company also maintained pension trustee liability indemnity policies (which includes third party indemnity) for the boards of trustees of the UK and Irish staff pension schemes where required to do so.

Our people

Our people have always been central to delivering our strategy, and we remain focused on bringing out the best in them.

You can read more on our people strategy, including diversity and inclusion, in the Strategic report section of this report.

Diversity and Inclusion

At Standard Life Aberdeen our aim is that all our people are able to reach their potential and build long term-careers in a workplace which values everything they bring. We do this by building and sustaining a diverse pipeline of talent in an inclusive workplace. And we believe this provides our customers and clients with the diversity of thought and creativity necessary to build long-term value and develop products and services to best support their needs.

This year, we published our inclusion strategy, which was created by our business leaders, and which defines our priorities over the next three to five years. It aims to embed inclusion in everything we do, and improve transparency in how we talk about and report on diversity in our business. We know this will take time, but we have made it a priority.

We all have a role in creating an inclusive environment, and empower our people to take an active and collaborative approach. Our seven employee network groups, for example, support members of the diverse groups and communities they represent, and raise awareness of issues that affect them. With over 1,900 members, our networks continue to expand their global reach, and focus on gender, LGBT+, ethnicity, disability (including a mental health group), young people, carers and armed forces.

We consider diversity in the broadest sense – in our backgrounds, experiences, strengths and thinking. We treat those with disabilities fairly in relation to job applications, training, promotion and career development. Adjustments are made to train and enable employees who become disabled while working at Standard Life Aberdeen to allow them to continue and progress in their career.

Achieving a better gender balance at all levels is a priority for us. We have published our gender pay gap this year and know we have more to do to improve the number of women in our senior roles and certain parts of our business (which will therefore improve our gender pay gap). For example, our senior female representation is currently 27%. For this reason, we have a gender diversity action plan which is owned by our CEOs, and our Nomination and Governance Committee formally oversee progress against this every six months. We have had targets in place to increase the representation of women at different levels since 2016, however our CEOs have now recommitted to new targets for Standard Life Aberdeen to accelerate our progress and focus.

Our actions are making a difference. Our strong gender balanced pipeline continues to grow; 44% of those in our talent pool who are considered capable of operating at Executive Committee level in the next three to five years are female and our 2017 graduate intake is 54% female and from a broad range of universities.

Talent

The recruitment and development of early careers talent is a critical and integral part of our talent management agenda. Over the past 12 months, we have recruited a total of 185 individuals on early careers programmes into a variety of programmes across Standard Life Aberdeen. These include our Graduate and Intern programme, Investment 2020 and the Edinburgh Guarantee Scheme. Since 2010, we have increased the number of employees aged 25 and under in the UK and Ireland from 0.5% to 8.5%. This illustrates our direct commitment to youth employment and the strategic development of young people to meet our business demands. This commitment extends to young people who are currently in education through our strategic partnership with Career Ready. In 2017, we aligned 40 individuals with mentors and paid internships in Edinburgh and London.

Looking forward, our newly combined business is starting from a strong foundation to continue to attract talent into our organisation. Both businesses have historically been recognised as employers of choice within the UK early careers market. For example, Standard Life Aberdeen currently holds the 19th position in the Top 100 UK Undergraduate Employers for 2017-2018. We have a unique opportunity to bring together and create one powerful market offering which illustrates our ongoing commitment to attracting and retaining the best talent to grow our organisation.

Engagement

There are several separate employee representation arrangements across the organisation aimed at providing insights from our people to help the Company understand the employee perspective. In the UK, most employees are represented through partnership agreements with the Group's staff associations, Vivo and Bridge. In Ireland, there is an established agreement with Unite, and a works council was established in Germany in 2008.

Measuring employee engagement remains key to understanding how our people feel about working at Standard Life Aberdeen. The merger on 14 August 2017 between Standard Life plc and Aberdeen Asset Management PLC meant that surveying employees in 2017 focused on sentiment towards the merger, mood, and providing employees with an opportunity to describe the current culture and define the culture in the new company. This type of survey was new to both heritage organisations and provided an expanded baseline measure of additional employee insights that go beyond engagement and enablement. The survey was carried out between 17 August and 6 September.

Results:

- Participation: 60% (5,486 colleagues) had their say
- Merger sentiment: 87% feel the merger represents an opportunity and 13% do not or are yet to be convinced
- Mood: 52% describe feeling positive about coming to work and the remaining 48% feel neutral or not positive
- Current culture: 70% chose positive words to describe the current culture, 7% chose neutral words and 23% selected negative words

Our employee insights partner Karian and Box believes that our results show high levels of positivity towards the opportunity that the merger presents. In comparison to others in a merger/acquisition situation this presents a very strong baseline to build on. There is a sense of momentum and excitement around the merger, particularly towards the potential for global reach, world-class investment and diverse talent. The results come with their own challenge however; colleagues are looking to leaders for a clear future that will make the most of the opportunity. As the impact of the merger unfolds over the coming months, colleagues will need to see evidence that the right action is being taken to make the most of the opportunity.

Previous Heritage Business Survey Results:

- Aberdeen Asset Management PLC – December 2016: 73% Engagement
- Standard Life plc – October/November 2016: 65% Engagement and 62% Enablement

In 2018 we will continue to measure mood, sentiment and culture whilst reviewing our approach to engagement and enablement for the newly formed Standard Life Aberdeen plc.

Developing our People

We've continued to invest in our people with a focus on development across Standard Life Aberdeen. To help our leaders manage through change, the 'Engaging Leader' workshop was held between April and September for 852 leaders and achieved an overall course rating of 8.4 out of 10.

In addition, we've recently launched a digital learning campaign for all employees, 'The Leading Edge – Challenge Series.' Focusing on the key themes identified in the employee engagement survey, this series showcases a variety of employees across Standard Life Aberdeen sharing their personal views on topics such as well-being and mentoring with related online learning materials. Within the first four weeks, more than 3,000 colleagues across the globe accessed the videos and resources provided through the campaign.

We've trialled a new approach in 2017 to focus on 'Developing Leadership' in bite-sized learning format to all employees. These courses have focused on a broad range of topics including coaching, non-executive Director skills and deeper leadership. To date, 575 employees have participated, with plans for further roll out in 2018.

Eighty four per cent. of our employees told us financial education in the workplace is important. Consequently we embarked on a financial wellness programme that tackled subjects such as tax planning, retirement planning, advice on wills and estate planning. During 2017 we have held financial wellness sessions with over 1,200 employees and received very positive feedback. Sixty per cent. felt more confident about their company pension and 87% said they would recommend the programme to a colleague.

In 2017 we have continued to develop our intranet to ensure it retains its employee focus, making significant changes to content structure in response to employee feedback. In addition colleagues in Germany and Austria, as well as former Elevate employees based in Bristol, now have access. Planning has commenced for the next major iteration of the intranet to ensure that it continues to support the business fully during the merger integration period and beyond.

Reward

We believe that when our employees own shares in the Company they understand better the interests of the Company's shareholders.

In September 2017, the Standard Life Sharesave Plan, launched by Standard Life Group in 2011, was extended to the UK based employees of Aberdeen and invitations were made to employees of Standard Life Aberdeen in UK and Ireland. The invitation was accepted by 2,999 employees who will have the opportunity to acquire Standard Life Aberdeen plc shares for £3.449 (UK) and €3.749 (Ireland) with their accumulated savings when their savings contracts end in three or five years' time.

On 1 November 2017, the 2014 three-year UK and Ireland Standard Life Sharesave invitations matured. Participating employees have the opportunity, until 1 May 2018, to buy Standard Life Aberdeen plc shares at a price of £2.961 per share (UK) and €3.70 per share (Ireland) with their accumulated savings. On 1 November 2017 the 2012 five-year Sharesave invitation also matured. Participating employees have the opportunity, until 1 May 2018, to buy Standard Life Aberdeen plc shares at a per share price of £2.208 (UK) and €2.8112 (Ireland) with their accumulated savings.

As a result, there are now over 4,298 employees in the UK and Ireland participating in Sharesave plans.

As at 31 December 2017, 4,814 of the Group's employees were shareholders through participation in the Standard Life (Employee) Share Plan (the Plan). This Plan, currently offered to most employees of Standard Life Group in the UK, Ireland, Germany and Austria, allows employees to buy ordinary shares in the Company directly from their earnings up to a market value of £150 per month, or an equivalent sum in the relevant currency. These are called partnership shares. For each partnership share that an employee buys under the Plan in the UK, the Company matches the purchase by allocating them ordinary shares up to a maximum total value of £50 per month. As at 31 December 2017, 63% of eligible employees in the UK were making a monthly average contribution of £59. A similar tax approved plan is used in Ireland, where the maximum monthly matched amount is €70, and has a 53% take-up. Even though the Plan cannot be structured on a tax favourable basis in Germany or Austria, at the end of the year, 102 employees were buying shares on a monthly basis.

Standard Life Aberdeen now has employees in a number of countries and we will take account of this in shaping our employee share ownership offering.

Sustainability

The commercial aims of our business are linked to our environmental, social and governance responsibilities. You can find out more about how we run our business sustainably throughout the Strategic report. For details of our greenhouse gas emissions, please see page 60.

Political donations

We have a long-standing policy of not making political donations and we have no plans to do so. The Company has limited authorisation from shareholders to make political donations and incur political expenditure (Resolution 8, 2017 AGM). We request this as a precaution against any inadvertent breach of political donations legislation. While Standard Life Aberdeen has regular interaction with government and elected politicians in the UK and other jurisdictions in which we operate, we are strictly apolitical.

Auditors

The Audit Committee is responsible for considering the Group's external audit arrangements. Resolutions proposing the re-appointment of KPMG LLP as auditors of the Company and giving authority to the Audit Committee to determine their remuneration will be submitted at the 2018 AGM.

Disclosure of information to the auditors

Each Director confirms that he or she has taken all reasonable steps necessary, in his or her role as a Director, to be made aware of any relevant audit information and to establish that KPMG LLP is made aware of that information.

As far as each Director is aware, there is no relevant audit information that KPMG LLP is not aware of as at the date this report was approved.

Annual General Meeting

Details of the meeting content can be found in our AGM guide 2018. AGMs are held in Edinburgh and London in alternate years. The AGM will be held in London in 2018. The AGM guide and other materials will be published online at **www.standardlifeaberdeen.com** in advance of this year's AGM.

Post balance sheet events

Following the year end, Lloyds Banking Group and Scottish Widows have informed the Company that Scottish Widows and Lloyds Banking Group's Wealth business intend to review their long term asset management arrangements including those services that are currently undertaken by certain legacy Aberdeen Asset Management PLC entities under arrangements covering in aggregate c£109 billion of assets under management. For further information, please see Note 14 of the Group financial statements.

The Company announced on 23 February 2018 that it intended to sell the majority of its UK and Europe Pensions and Savings business to Phoenix Group Holdings ('Phoenix') (the 'Sale'). The Sale involves the disposal of Standard Life Assurance Limited with the Company retaining its UK retail platforms and advice business. The businesses transferring to Phoenix as part of the Sale include the UK Mature Retail and Spread/risk books and the European, UK Retail and Workplace businesses. The Sale constitutes a Class 1 transaction for the purpose of the Listing Rules and is conditional upon the approval of shareholders at a General Meeting. Shareholders will receive further information in due course.

Other information

Under Listing Rule 9.8.4.CR, a listed company must include all information required by LR 9.8.4R in a single identifiable location or cross-reference table. For the purposes of LR 9.8.4CR, the information required to be disclosed can be found in the following locations. All the relevant information cross-referenced below is hereby incorporated by reference into this Directors' report.

	Location		
Topic	Directors' report	Directors' remuneration report	None/ Not applicable
Interest capitalised			x
Publication of unaudited financial information in a class 1 circular or in a prospectus, other than in accordance with Annexes 1 and 2 of the FCA's Prospectus Rules			x
Details of long-term incentive schemes		x	
Waiver of emoluments by a director			x
Waiver of future emoluments by a director			x
Non pre-emptive issues of equity for cash			x
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings			x
Parent participation in a placing by a listed subsidiary			x
Contracts of significance			x
Provision of services by a controlling shareholder			x
Shareholder waivers of dividends	x		
Shareholder waivers of future dividends	x		
Agreements with controlling shareholders			x

The Directors' report was approved by the Board and signed on its behalf by

Kenneth A. Gilmour

Kenneth A Gilmour
Company Secretary

23 February 2018

4. Corporate governance statement

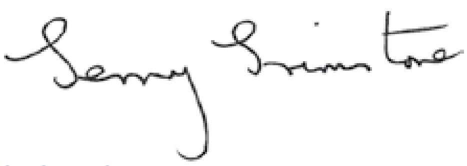
4.1 Nomination and Governance Committee report

The Nomination and Governance Committee oversees the governance framework so the report on its activities is presented both in summary and integrated in more detail into the relevant parts of the corporate governance statement.

Dear Shareholder

It is my pleasure to introduce the 2017 Corporate governance statement and Nomination and Governance Committee report, in line with my responsibility to ensure effective corporate governance throughout the Group. During 2017, our main focus was to ensure that our leadership and governance processes remained robust in the run up to the completion of the Merger with Aberdeen Asset Management PLC, and that the post Merger leadership and governance structures and processes we put in place were the right ones for the new Board and the new Group. Throughout these significant changes, the members of your Board, both pre and post the Merger, continued to adhere to the highest standards of corporate governance and ethical behaviour in directing the Group's affairs and in their accountability to you as shareholders. As Directors, we believe these commitments are key to understanding and managing our business effectively, providing engaged leadership, and delivering shareholder value over the longer term. Your Board takes the quality of its performance seriously and strives to improve performance through annual reviews and continuing self-assessment as well as learning from the best elements of both the predecessor boards. Our key governance activities during the year related to the Merger and included:

- Establishing the highest quality membership of the Board and Committees post-Merger
- Reviewing the governance content of the Prospectus and Circular
- Reviewing the executive governance structures, including the individual roles and responsibilities of the Co-Chief Executives and the key management committees
- Establishing the Investment Performance Committee to provide insight into investment performance



Sir Gerry Grimstone
Chairman, Nomination and Governance Committee

Membership

The members of the Committee are the Chairman and a number of the independent non-executive Directors. The table below reflects the composition of the Committee and the members' attendance both pre and post the Merger:

Member	Attendance
Sir Gerry Grimstone, Chairman	8/8
Julie Chakraverty	3/3
Melanie Gee	3/3
Richard Mully	3/3
Kevin Parry	8/8
Lynne Peacock	2/3
Simon Troughton	3/3
Former member	
Pierre Danon	5/5
Noel Harwerth	4/5

Keith Skeoch and, post the Merger, Martin Gilbert, in their Co-Chief Executive roles, were invited to Committee meetings to discuss relevant topics, such as the role and members of key executive management committees, talent development and management succession.

The Committee supports the composition and effectiveness of the Board, and oversees the Group's activities to strengthen its talent pipeline at all levels. It also oversees the development and implementation of the Group's governance framework.

In this statement you can read about the Committee's role, both in the context of business as usual activities and in the Merger discussions in relation to:

- Identifying and recommending Directors to be appointed to the Board
- Reviewing Board diversity, skills and experience
- Supporting the review of the Board's effectiveness
- Overseeing succession planning, leadership and talent development and diversity levels throughout the Group

Ultimate responsibility for these important topics rests with the Board and the Committee reports regularly to the Board so that all Directors can be involved as appropriate.

The Committee's work in 2017

An indicative breakdown as to how the Committee spent its time is shown below:

Jan-Mar

- Reviewed compliance with the Corporate Governance Code
- Reviewed the corporate governance statement
- Reviewed the Board Charter
- Committee Effectiveness review
- Following the announcement of the potential Merger
  - Reviewed proposed post-Merger executive committee membership
  - Appointed Independent Board Evaluation (IBE) to support the post-Merger Board composition review
- Appointment of subsidiary board members

Apr-Jun

- Board and Committee composition post-Merger
- Merger governance oversight
- Board effectiveness review proposal for 2017/2018
- Merger preparation and extension of regulatory duties – controlled functions
- Appointment of subsidiary board members

Jul-Sep

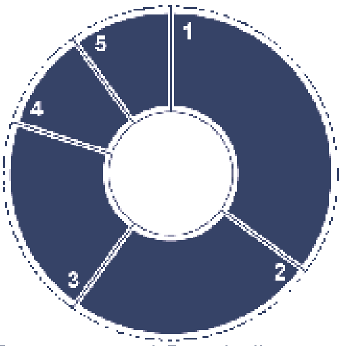
- Talent and diversity in executive succession planning
- Appointment of subsidiary board members

Oct-Dec

- Appointment of subsidiary board members
- Reviewed results of Board Effectiveness review
- Recommended establishment of Innovation Panel and Investment Performance Committee
- Consideration of Colleague Mood and Sentiment survey
- Discussed talent development in early stage careers
- Reviewed subsidiary committees' terms of reference

The Committee's work in 2017

An indicative breakdown as to how the Committee spent its time is shown below:



1. Governance and Organisation design framework
2. Board/ Committee composition
3. Merger
4. Succession planning
5. Talent and development programmes

Committee effectiveness

The Committee reviews its remit and effectiveness each year. The 2017 review was carried out via an internal self-assessment questionnaire which took account of the Committee's membership and role. The review concluded that the Committee remained effective and fulfilled its remit, and going forward, would focus on succession and contingency planning and engagement with talent.

Roles and responsibilities

The roles and responsibilities of the Board, Chairman and Co-Chief Executives are outlined below. The role of the Deputy Chairman is to stand in for the Chairman in his absence.

The Board

The Board's role is to organise and direct the affairs of the Company and the Group in accordance with the Company's constitution, all relevant laws, regulations, corporate governance and stewardship standards. The Board's role and responsibilities, collectively and for individual Directors, are set out in the Board Charter. The Board Charter also identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- The development and implementation of strategy, objectives and business plans
- Capital and management structures including capital allocation strategy and how it supports the Group's long-term sustainable growth
- Dividend policy
- Appointment of the External auditor
- Financial reporting which, during 2017 included the impact of the merger and the agreement of the level of provision in respect of past annuity sales practices
- How risks are managed, including the Enterprise Risk Management (ERM) framework, risk strategy, risk appetite limits and internal controls
- Significant corporate and other transactions during 2017 which, as well as the Merger, included the initial public offering (IPO) process for our Indian life insurance associate HDFC Standard Life Insurance Company Limited, approval to progress the IPO of our Indian asset management associate HDFC Asset Management Company Limited, and the proposed sale of our Hong Kong subsidiary, Standard Life (Asia) Limited to our Chinese Joint Venture business, Heng An Standard Life Insurance Company Limited
- Remuneration policy
- Succession planning
- The sustainability of the Group's business and our own sustainability responsibilities
- Significant external communications
- Terms of reference of Board Committees
- Appointments to the Board and to Board Committees
- Matters escalated from subsidiary boards to the Board for approval
- Oversight of culture, our standards and ethical behaviours

The Board regularly reviews reports from the Co-Chief Executives and from the Chief Financial Officer on progress against approved strategies, plans and budgets, as well as updates on stock market and global economic conditions. There are also regular presentations from key business units and corporate centre functions including from the Chief Risk Officer. The Chairman reports at each Board meeting on the activities he has undertaken on behalf of the Board and the Group since the previous meeting.

The Chairman

- Leads the Board and ensures that its principles and processes are maintained
- Promotes high standards of corporate governance
- Together with the Co-Chief Executives and the Company Secretary, sets agendas for meetings of the Board
- Ensures Board members receive accurate, timely and clear information on the Group and its activities
- Encourages open debate and constructive discussion and decision making
- Leads the Board and individual Director performance assessments and training needs
- Speaks on behalf of the Board and represents the Board to shareholders and other stakeholders

The Co-Chief Executives:

The Co-Chief Executives, within authorities delegated by the Board:

- Develop strategic plans and structures for presentation to the Board
- Make and implement operational decisions
- Lead the other executive Directors and the executive team in the day-to-day running of the Group
- Report to the Board with relevant and timely information
- Develop appropriate capital, corporate, management and succession structures to support the Group's objectives
- Together with the Chairman, represent the Group to external stakeholders, including shareholders, customers, suppliers, regulatory and governmental authorities, and the local and wider communities
- Keith Skeoch has individual accountability for the day to day running of the fabric of the combined business including responsibility for Investments, Pensions and Savings, the Indian associates and the China Insurance Joint Venture, Operations, Finance, HR, Risk and Regulatory Culture, as well as the Legal and Secretariat functions
- Martin Gilbert has individual accountability for external matters including responsibility for International Activities, Distribution including client engagement and business development, Marketing and Corporate Development

As identified above, the Co-Chief Executives have clear accountabilities in the combined business. At the time of the Merger both boards thought about the key responsibilities and believed that the division of responsibilities would play well to Keith's and Martin's respective leadership strengths. We believe that this blend of complementary skills and experience serves the Company well. A Chairman's committee has been established to continually review the effectiveness the Co-Chief Executive arrangement. It is chaired by Sir Gerry Grimstone, with Simon Troughton, Keith Skeoch and Martin Gilbert as its other members.

Code compliance

As well as covering the formal disclosure requirements of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC), this statement describes how the Board meets its governance responsibilities.

Throughout 2017, the Company complied with all of the provisions set out in the Code issued by the FRC in April 2016 other than the following:

Provision B.3.3 states that 'The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company'. As of the Merger, Martin Gilbert has continued to hold non-executive directorships with Sky plc and Glencore plc. He has given a commitment to the Board that by the time of the Company's AGM, he will hold only one non-executive director position.

Provision B.6.2 requires that 'Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement should be made available of whether they have any other connection with the company.' This external evaluation was last carried out in 2014 and was anticipated for 2017. However, due to the activities related to the Merger and the consequential significant changes to the composition and activities of the Standard Life Aberdeen plc Board which took place in August 2017, the Board determined that it would be more appropriate to carry out an external Board evaluation in 2018. An external evaluation, performed by IBE is currently taking place (see the Board Effectiveness section below).

The Code is available at **www.frc.org.uk**

Together with the Directors' remuneration report, this statement explains how our governance framework supports the way we apply the Code's principles of good governance.

During 2018, the Committee will follow closely the development of the revised Code to ensure that the Group is well placed to implement and comply with its requirements for 2019.

Governance framework

The Group's governance framework is approved by the Board and documented in the Board Charter.

You can read the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

The Group's Code of Conduct guides our people to do the right thing and complements the Board Charter. It sets out our standards of conduct and governing principles for operational excellence, compliance responsibilities, customer service, our people, and other stakeholders.

The Board expects the Group to be a leader in corporate governance activities through its own actions and through its stewardship activities. The Nomination and Governance Committee regularly reviews the Group's corporate governance framework against relevant directors' duties, generally accepted standards, guidance and best practice, and, as appropriate, recommends to the Board changes to the Board Charter.

During 2016, the Committee oversaw the implementation of the governance map and processes to support the Senior Insurance Managers Regime (SIMR). During 2017, we began the process to implement the Senior Managers and Certification Regime (SMCR) across the rest of the combined business.

The governance framework sets out the Board's relationship with the boards of the principal subsidiaries in the Group. In particular, it specifies the matters which these subsidiaries are required to refer to the Board or to a Committee of the Board for approval. It also ensures that all decisions which require or would benefit from it, receive the independent input of the non-executive Directors.

The roles of the Chairman and the Co-Chief Executives are separate. Each has clearly defined responsibilities, which are described in the Board Charter.

The heads of each business unit and the corporate centre functions manage their teams within authorities set out in the Board Charter and within an approved scheme of delegation. This includes reporting to the Co-Chief Executives on how they are complying with Group policies and performing against approved plans and budgets.

The Company Secretary is responsible for advising the Board on governance matters.

Board composition, balance and diversity

This was a particular focus for the Committee in 2017. The Board's policy is to appoint and retain non-executive Directors who bring relevant expertise as well as a wide perspective to the Group and its decision-making framework. The Directors believe that at least half of the Board should be made up of independent non-executive Directors. As at 23 February 2018, the Board comprises the Chairman,10 independent non-executive Directors, 1 non-independent non-executive Director and 4 executive Directors. The membership of the Board has undergone significant change following the Merger with a breadth of new talent and experience joining an already strong Board. On completion of the Merger, the Board comprised of the Chairman, 11 non-executive Directors and four executive Directors. This size of Board was appropriate to support the merging of the two companies and to ensure there is sufficient knowledge of and challenge of the merged Group's business and client activities, but will be reduced in size and its composition evolved going forward. The Board is made up of 12 men (75%) and 4 women (25%) (2016: men 75%, women 25%). The Board continues to support its Board Diversity statement which states that 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 Co-Chief Executives' commitment to achieve and maintain a diverse workforce, both throughout the Group, and within the executive team

You can read more about our Directors in their biographies in Section 2

The Nomination and Governance Committee supports the Group's commitment to diversity and inclusion in the broadest sense and receives updates on progress towards achieving and maintaining diversity targets throughout the Group. This includes reviewing statistics on gender representation and approving gender diversity targets, including our reset targets for the Group following the Merger and will formally oversee progress against these on a bi-annual basis. The Group also promotes initiatives and programmes to raise awareness of why diversity and inclusion matter. You can read more about our diversity activities and current targets in the People and Culture section of the Strategic report and in our stand alone Corporate Sustainability and Stewardship report. We are committed to working to make the Group as inclusive a place to work as possible. Our activities and targets are in achievement of 'our vision for an inclusive future' which was published following the Merger on our website www.standardlifeaberdeen.com. In 2017, the Gender Pay Gap Regulations were published and you can find our gender pay gap disclosure statement on page 31. The Committee continues to follow the development of and the Group's participation in significant diversity reviews, including the Hampton Alexander review, and as reported last year, supported our move to be one of the initial signatories to the Women in Finance Charter. The Committee supports our commitments under this charter and continues to oversee our progress against these, which we report publically on an annual basis.

Board changes during the period

Many of the changes during 2017 were related directly to the Merger.

Appointments

Barry O'Dwyer, Chief Executive of Standard Life Assurance Limited was appointed to the Board on 1 March 2017. He replaced Paul Matthews as executive Director and Chief Executive of the Pensions and Savings business. On completion of the Merger on 14 August 2017, Martin Gilbert, Co-Chief Executive; Bill Rattray, Chief Financial Officer and Rod Paris, Chief Investment Officer were appointed as executive Directors. Simon Troughton, Deputy Chairman; Julie Chakraverty; Gerhard Fusenig; Akira Suzuki; Jutta af Rosenborg and Richard Mully were appointed as non-executive Directors.

Retirements

Paul Matthews stood down from the Board on 1 March 2017, prior to his retirement, having served as a Director for 16 months. On completion of the Merger on 14 August 2017, Colin Clark stepped down from the Board after 21 months along with Barry O'Dwyer who remains in post as Chief Executive of Standard Life Pensions and Savings. Luke Savage also stepped down from the Board on 14 August 2017 after serving for three years along with Pierre Danon and Noel Harwerth who each served for over five years.

Board appointment process, terms of service and role

During 2017, all Board appointments were internal or in relation to the Merger. In order to assist with determining the right balance of skills, diversity, knowledge and expertise for the post Merger Board, IBE were engaged. The Board is not aware of any other connection between the Group and IBE.

When seeking to make appointments from outside the Group, and having already identified the capabilities needed for Board roles and the succession timeframe, the Committee considers the related role profile submitted to external search consultants along with the request to prepare a list of suitable candidates. The Committee then considers the potential suitable candidates and agrees a shortlist. Following interviews with potential candidates, the Committee then makes recommendations to the Board on any proposed appointment, subject always to the satisfactory completion of all background checks and regulatory approvals. The other Board members are also offered the opportunity to meet the recommended candidates. The Committee considers the external commitments of candidates to assess their ability to meet the necessary time commitment and whether there are any conflict of interest matters to address.

Each non-executive Director is appointed for a three-year fixed term and shareholders vote on whether to elect/re-elect him or her at every AGM. Once a three-year term has ended, a non-executive Director can continue for further terms if the Board is satisfied with the non-executive Director's performance, independence and ongoing time commitment. There is no specified limit to the number of terms that a non-executive Director can serve, although two terms are generally considered appropriate. The Board recognises the Code provisions regarding length of service when considering whether or not their appointment should be continued. Taking account of their appointment dates to the predecessor boards, the current average length of service of the non-executive Directors (excluding the Chairman) is 4.5 years. The Nomination and Governance Committee oversees the process to recommend continued appointments, but members of the Committee do not take part in discussions when their own performance – or continued appointment – is being considered.

The role of our non-executive Directors is to participate fully in the Board's decision-making work – advising, supporting and challenging management as appropriate.

The letter of appointment confirms that the amount of time we expect each non-executive Director to commit to each year which, once they have met all of the approval and induction requirements, is around 35 days. The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Company Secretary at the Company's registered address (which can be found in the Shareholder information section) and at the 2018 AGM. Non-executive Directors are required to confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively. You can read more about the induction and development programme later in this section.

Director election and re-election

One of the Committee's duties is to make recommendations regarding the election or re-election by members of any Director. In making its recommendations, the Committee reviews, as applicable, the appropriateness of continued service beyond a term of six years. Recognising this timeframe and the need for the Board to continue to oversee a successful integration, the Committee agreed to recommend the continuing appointments of Simon Troughton and Richard Mully.

Therefore, at the 2018 AGM, all of the current Directors will retire. Martin Gilbert, Bill Rattray, Rod Paris, Simon Troughton, Gerhard Fusenig, Jutta af Rosenborg and Richard Mully, having been appointed since the previous AGM, will retire and stand for election. Julie Chakraverty, Lynne Peacock and Akira Suzuki will retire at the conclusion of the 2018 AGM and will not stand for election or re-election. All the others will stand for re-election.

You can read more background information about the Directors, including the reasons why the Chairman believes you should support their election or re-election, in our AGM guide 2018, which will be published online at **www.standardlifeaberdeen.com** in advance of this year's AGM, and in Section 2.

Director independence, external activities and conflicts of interest

The Board carries out a formal review of the independence of non-executive Directors annually. The review considers relevant issues including the number and nature of their other appointments, any other positions they hold within the Group, any potential conflicts of interest they have identified and their length of service. Their individual circumstances are also assessed against independence criteria, including those in the Code. Following this review, the Board has concluded that all the non-executive Directors other than Akira Suzuki, as the representative of a shareholder, are independent. Akira will be stepping down from the Board at this year's AGM. The Board continues to comprise a majority of independent non-executive Directors.

Sir Gerry Grimstone was Chairman of the Board throughout the year. He has retained his non-executive positions with Barclays PLC, where he serves as deputy chairman and senior independent director, Deloitte North West Europe and the UK Government's Ministry of Defence where he is the lead non-executive. He is also an adviser to the board of the Abu Dhabi Commercial Bank.

Kevin Parry was appointed as Senior Independent Director (SID) on 17 May 2016. In this role, Kevin supports the Chairman, and often meets with him one-to-one. Since his appointment he has met with all the Directors on an individual basis. He is also available to talk with our shareholders about any concerns that they may not have been able to resolve through the channels of Chairman, the Co-Chief Executives or Chief Financial Officer, or where a shareholder considers these channels are inappropriate. Some shareholders have discussed the Company's corporate governance procedures with him, including those that were being put in place in connection with the Merger. On his appointment institutional shareholders were offered the opportunity to meet with him, and one chose to do so. The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) also have periodic meetings with the SID.

The Directors continued to review and authorise Board members' actual and potential conflicts of interest on a regular and ad hoc basis in line with the authority granted to them in the Company's Articles. As part of the process to approve the appointment of a new Director, the Board considers and, where appropriate, authorises his or her potential or actual conflicts. The Board also considers whether any new outside appointment of any current Director creates a potential or actual conflict before, where appropriate, authorising it. All appointments are approved in accordance with the Group's Outside Appointments and Conflicts of Interest policies.

In January 2018, the Board reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons, and concluded that the authorisations should remain in place until January 2020. Under the terms of the approval, conflicted Directors can be excluded from receiving information, taking part in discussions and making decisions that relate to the potential or actual conflict. The Board and relevant Committees follow this process when appropriate.

The Board's policy encourages executive Directors to take up one external non-executive director role. Keith Skeoch continued as a non-executive director of the Financial Reporting Council. Martin Gilbert is a non-executive director of Glencore plc and Sky plc (as noted above, he has given a commitment to the Board that by the time of the Company's AGM, he will hold only one non-executive director position). Bill Rattray is a non-executive director at Curtis Banks Group Plc.

You can read more about the Directors' outside appointments in their biographies in Section 2

Advice

Directors may sometimes need external professional advice to carry out their responsibilities. The Board's policy is to allow them to seek this where appropriate and at the Group's expense. Directors also have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board. No Directors sought external advice in 2017.

Appointments to subsidiary boards

Following the Merger in 2017, the Committee considered and strengthened the oversight of the key investment management subsidiaries Standard Life Investments (Holdings) Limited (SLIH) and Aberdeen Asset Management PLC (Aberdeen). Specifically, the Committee supported changes to make the boards of these two entities mirror the Board of Standard Life Aberdeen plc.

Board effectiveness

Review process

The Board has, with the help of the Nomination and Governance Committee, developed a formal review process to assess how well the Board, its Committees, the Chairman and the Directors are performing collectively and individually and how performance could be improved.

The Company was due to have the 2017 review facilitated by an external provider, as per Provision B.6.2 of the Code which states that 'evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years'. However, given that the Board was going to change significantly with effect from completion of the Merger and its role would adjust and develop further, it was agreed that the value of the externally facilitated review would be enhanced if it was a review of the post-Merger Board and took place some months after the members of the post-Merger Board had time to come together. It was therefore recommended that an internally-facilitated review be carried out, consistent with previous years but adjusted to reflect the Board's circumstances at the time. IBE has been appointed as the external facilitator and is currently carrying out the 2018 review.

The 2017 review comprised an online self-assessment questionnaire, followed up by individual meetings between the Chairman and each Director. Directors completed questionnaires about the Board, each Committee they sit on, the Chairman's performance and their own individual performance. They were encouraged to provide open and honest feedback, explain the ratings they gave and suggest how the Board or Committee could improve.

Outcome

Following the review process, the Secretariat analysed the self-assessment responses and prepared a summary report. The report was discussed with the Chairman and then considered in detail by the Nomination and Governance Committee before being formally presented to the Board at its meeting in October.

The key outputs from the review included:

- Strategy: Progress has been made in defining and understanding the strategic direction but there is still opportunity to learn from the outcomes of previous decisions
- Risks: Risk appetite reporting could be stronger, as well as reporting on specific risks
- Leadership: Continuing desire to interact with top leaders across the Company
- Succession Planning: Further work on the structure of the approach required
- Board Information: Continuing need for Board papers to be more concise

Progress to implement the recommendations is monitored by the Company Secretary and reported to the Nomination and Governance Committee. Each Board Committee followed a similar questionnaire, reporting and discussion process and reviewed its own results and recommendations in detail.

Chairman

The review of the Chairman's performance was led by the SID, Kevin Parry. It was based on feedback given in the confidential online questionnaires and followed up by individual interviews between the SID and each Director. The questions covered:

- The Chairman's role to lead the Board and encourage effective participation and consensus decision-making
- How he informs the Board of stakeholders' views
- His relationship with both executive and non-executive Directors

The feedback was summarised into a report which was reviewed by the SID and distributed to all Board members, except the Chairman. The report also contained the reflections from the SID's individual meetings. The Directors, led by the SID and without the Chairman being present, met to consider the report. They concluded that the Chairman had performed his role effectively, showed strong leadership of the Board, continued to devote significant time to the Group and continues to have sufficient time to carry out his duties. The SID met with the Chairman to pass feedback from the review directly to him.

Directors

The Chairman led the performance review of the Directors. He holds one-to-one meetings to assess their individual performance and contribution against duties set out in the Board Charter and in their appointment letters.

Before these meetings, the Directors assessed their own performance by completing a confidential online questionnaire. Individual development and engagement schedules were prepared to support each meeting. These built on the responses to particular questions and areas of interest and training needs identified by each Director. The meetings were designed to review whether each Director was contributing effectively to the Board and to the Board Committees, meeting all of their statutory and regulatory duties, and continued to have sufficient time to commit to the role. The meetings also considered individual training, development and engagement opportunities for each Director. The schedules summarised the internal and external continuing development the non-executive Directors had undertaken during the year and considered the extent to which each non-executive Director had implemented the points raised in the previous year's review. Each Director takes forward the resulting actions, supported by the Chairman and the Company, using either internal or external resources.

Director induction and development

The Chairman, supported by the Company Secretary, is responsible for arranging a comprehensive preparation and induction programme for all new Directors. The programme is tailored to their individual requirements and takes their background knowledge and experience into account. All Directors are required to complete the FCA's approval process and, if relevant, the PRA's SIMR notification or approval process before they are appointed and to self-certify annually that they remain competent to carry out this aspect of their role. These processes continue to adapt to meet evolving best practice in respect of SIMR.

The formal preparation and induction programme includes:

- Meetings with the executive Directors, key members of senior management, the heads of the operating businesses and our corporate centre functions
- Focused technical meetings with internal and external experts on specific areas including investments, Solvency II, conduct risk, risk and capital management, and financial reporting
- Visits to business units to meet our people and gain a better insight into the operation of the business and its culture
- Meetings with the External auditors and the FCA/PRA supervisory teams

- Meetings with the Company Secretary on the Group's corporate governance framework and the role of the Board and its Committees, with the Chief Risk Officer on the risk management framework as well as meetings on their individual responsibilities both as Directors and as holders of a Controlled Function/SIMR role

Background information is also provided including:

- Key Board materials and information, shareholder communications and financial reports
- The Group's organisational structure, strategy, business activities and operational plans
- The Group's key performance indicators, financial and operational measures and industry terminology

The induction programme provides the background knowledge new Directors need to perform to a high level as soon as possible after joining the Board and to support them as they build their knowledge and strengthen their performance further.

When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training on the Committee's role and duties.

When Directors are appointed to the Board, they make a commitment to broaden their understanding of the Group's business. Our corporate centre monitors relevant external governance and financial and regulatory developments and keeps the ongoing Board training and information programme up to date. During 2017, while the Board spent a significant amount of its time discussing the Merger and integration activities, specific Board awareness sessions took place on cyber risks and security, the UK withdrawal from the EU, the Group's strategy regarding joint venture operations, staff interaction surveys and corporate culture. Similarly, the relevant Board Committees received updates on developments in financial reporting, remuneration and corporate governance. Non-executive Directors are actively invited to all parts of the Group's business in order to familiarise themselves with how our business is conducted and to meet with our people.

As the composition of the Board changed significantly post the Merger, specific training and awareness sessions were held in August and September 2017 to introduce the Aberdeen Directors to Standard Life's life and pensions business and to strengthen the knowledge of the Standard Life Group Directors of the culture, distribution strategy and risks of the Aberdeen business. The Board was also kept up-to-date on integration activities.

Succession and talent management activities

The Nomination and Governance Committee regularly reviews the results of succession planning activities, including key person and retention risk, and talent development programmes at all levels across the Group. This was particularly relevant during 2017 as the Group sought to bring together the best of the talent in both Standard Life Group and Aberdeen and to plan for the future needs of the Standard Life Aberdeen Group.

At its meetings, the Committee discussed the future leadership and talent needs of the Group and how the current programmes would be revised to take account of the skills and expertise required by the Board and senior management. The programmes recognise the changing shape of the Group, and also identify both the talent available within the Group and the need for external recruitment. The programmes are led by the Chief People Officer, with input from the Co-Chief Executives and supported by the Group Talent and Organisation Development team.

During the year, the Nomination and Governance Committee also received updates on how the 'early careers' programmes were being amended to reflect the opportunities arising from the merged Group.

During 2017, the Board received regular updates on the results of the Committee's discussions related to the Merger. Also during 2017, the non-executive Directors held specific discussions on Board and executive succession, the results of which fed into the overall plan.

The Board members are keen to interact with the members of the development schemes and have met with, and had presentations from, key talent across the Group.

Chairman's Succession

As set out in his Statement, the Chairman has indicated his intention to step down from his role by the end of 2019. In February 2018, the Nomination and Governance Committee considered and agreed the appropriate arrangements to oversee the governance of the succession process. An Appointments Committee will be established, chaired jointly by Simon Troughton and Melanie Gee and comprising all of the non-executive Directors other than any who indicate they wish to be considered as internal candidates. The Appointments Committee will begin its work in Q2 2018. The Chairman will not be a member and the process is subject to his annual election by shareholders at the AGM and continued high performance.

The Committee recognised that Simon Troughton's term of service as a Director will reach nine years in July 2018 and after consideration, agreed that given his knowledge and experience, it would be appropriate for him to remain in position beyond this time to co-chair the Chairman's succession process.

Annual review of internal control

The Directors have overall responsibility for the System of Governance (SoG), stemming from the Solvency II Directive, which includes the Enterprise Risk Management (ERM) framework and System of Internal Control, and for the ongoing review of their compliance. The SoG is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The SoG covers all of the risks as set out in the risk management section in the Strategic report. Internal audit regularly audits the effectiveness of internal controls, which will include elements of the SoG. Internal audit reports its findings to the Audit Committee and the Risk and Capital Committee.

In line with the relevant elements of the Code and the FRC guidance on Risk Management, Internal Control and Related Financial and Business Reporting, pre and post-Merger, ongoing monitoring, review and reporting of the SoG was conducted through the risk committees, Enterprise Risk Management Committees (ERMCs) and relevant boards. On behalf of the Board, the Risk function has also carried out an annual review of compliance with the SoG. The SoG was in place throughout 2017 and up to the date of approval of the Annual report and accounts 2017.

With regard to regular financial reporting and preparing consolidated accounts, the Group Finance function participates in the control self-assessment and policy compliance elements of the ERM framework. The Group Finance function sets formal requirements for financial reporting, defines the process and detailed controls for the IFRS consolidation, reviews and challenges business unit submissions and receives formal sign-off on financial reporting from business unit finance directors. In addition, the Group Finance function runs the technical review committee and the financial reporting executive review group which review external technical developments and detailed reporting disclosure and accounting policy issues.

In 2017, there were separate processes in place to review the SoG for Aberdeen Asset Management Life and Pensions and Standard Life Pensions and Savings.

The review included all elements of the SoG as follows:

- General requirements – governance structure, board decision making documentation, allocation of responsibilities, policy framework, contingency plans, internal review of system of governance, organisational and operational structure
- Remuneration
- Fit and proper requirements
- Risk management including Own Risk and Solvency Assessment (ORSA)
- Compliance function
- Prudent person principle
- Own fund requirements
- Internal controls (covering strategic, financial, operational and compliance)
- Internal audit function
- Actuarial function plus opinion on technical provisions
- Valuation of assets and liabilities other than technical provisions
- Outsourcing
- Group governance specific requirements
- Solvency needs
- Premiums for new business
- Restriction of business

In carrying out the annual compliance review of the SoG, all Solvency II SoG requirements are allocated to senior business owners on a line by line basis to ensure clear ownership and accountability for compliance. The Solvency II SoG requirements only apply to the insurance entities and the business owners in these entities were required to:

- Review the arrangements and self-certify compliance (or otherwise) with the rules throughout 2017 and clarify the reasons for any non-compliance
- Ensure action plans were in place to close any identified gaps and agree a timeline for implementation

Following completion of the above, the Risk function performed a review and check on the quality of the commentary provided and challenged business owners where the evidence provided required further investigation. Results of the self-certification were verified against relevant Risk reports and Compliance Assurance or Internal audit findings.

Summaries of the evidence of the compliance review for the insurance entities plus the output from a review of the relevant sections of the Code and guidance for Standard Life Aberdeen were then presented to the business unit ERMC and, where appropriate, the relevant business unit board.

In addition, the Risk function carried out ongoing assurance activity during 2017 to provide assurance on Standard Life Aberdeen's ability to meet regulatory requirements. The Risk function has also produced summaries of the key risk items discussed at business unit ERMCs on an ongoing basis throughout the year. Steps have also been taken to identify any relevant audit information that the External auditors should be made aware of.

The Risk function then prepared a report combining the output from the business units. The results, which concluded that there had been no significant failings or weaknesses, were presented to the Audit Committee which subsequently reported this conclusion to the Board.

For Aberdeen Asset Management Life and Pensions, the compliance Key Function Holder (KFH) co-ordinated an exercise which required detailing all the Solvency II requirements in relation to the SoG and documenting how Aberdeen Asset Management Life and Pensions complies. In addition, a range of individuals holding Senior Insurance Management Functions (SIMFs) or KFHs were allocated ownership for each individual requirement. The governance map has a responsibility formalised for each relevant individual. The governance map was presented to the Aberdeen Asset Management Life and Pensions Limited board quarterly. The European Insurance and Occupational Pensions Authority gap analysis and governance map were sent to SIMFs and KFHs annually and individuals were requested to confirm compliance.

Due to the simple risk profile of Aberdeen Asset Management Life and Pensions, the compliance KFH and Aberdeen Asset Management Life and Pensions chief executive reviewed this gap analysis in detail prior to circulation to other individuals and the exercise concluded with the chief risk officer signing it off prior to it being presented to the Aberdeen Asset Management Life and Pensions Limited board for noting.

Communicating with investors

The Company continues to maintain and further develop a dialogue with its shareholders. As part of this, our investor relations and Group secretariat teams support communication with investors. During 2017, the Group continued its programme of domestic and international presentations and meetings between Directors and institutional investors, fund managers and analysts. As well as the Merger, the wide range of relevant issues discussed, in compliance with regulations, at investor presentations and meetings, included business strategy, financial performance, operational activities and corporate governance. The Chairman has his own investor contact programme and brings relevant issues to the attention of the Board. The Remuneration Committee also consulted with major institutional investors regarding executive remuneration plans during the year. More information on this consultation can be found in the Directors' remuneration report.

The Board is equally committed to the interests of the Company's 1.2 million individual shareholders who hold approximately one third of the Company's issued shares. Given this large shareholder base, it is impractical to communicate with all shareholders using the same direct engagement model we follow for our institutional investors. The Company has continued to gather and respond to shareholders' views on the services and means of communication available to them, mainly via the Shareholder Questions mailbox and surveys conducted with shareholders contacting the shareholder helpline. Around 430,000 shareholders receive all communications electronically helping to reduce our environmental impact. We encourage shareholders to use our share portal to access information relating to their personal shareholding and dividend history and around 400,000 have signed up to this service. Share portal participants can also change their details and dividend mandates online and receive tax information electronically. We also encourage our individual shareholders to hold their shares in the Standard Life Aberdeen Share Account where shares are held electronically in a secure environment and 90% of individual shareholders hold their shares in this way.

To give all shareholders access to the Company's announcements, all material information reported via the London Stock Exchange's regulatory news service is published on the Company's website. We have continued to host formal presentations to support the release of both the full year and half year financial results. These results-related events are also made available live on the Group's website and have a permanent replay facility. We also undertook a comprehensive programme of investor engagement following the announcement of the Merger including investor presentations and meetings.

We publish company profiles to provide a high level introduction to the Group and its divisions. We also distribute a quarterly newsletter featuring articles designed to give investors deeper insight into particular areas of our business including our sustainability strategy. Copies of our Company profiles and newsletters are available on the Investors section of the Group's website.

The Chairman's statement and the Strategic report in the Annual report and accounts aim to provide a balanced overall assessment of the Group's activities, performance and prospects. This information will be supported by a presentation at the 2018 AGM. Shareholders will be invited to ask questions during the meeting and have an opportunity to talk with the Directors after the formal part of the meeting. The voting results will be published on our website at **www.standardlifeaberdeen.com** after the meeting. These will include the number of votes withheld.

The 2017 AGM was held at the Edinburgh International Conference Centre on 16 May 2017 when Directors were available to answer shareholders' questions. In accordance with best practice, all resolutions were considered on a poll which was conducted by our registrars and monitored by independent scrutineers. The results, including proxy votes lodged prior to the meeting, were made available on our website the same day. 40% of the shares in issue were voted and all resolutions were passed.

In addition, a General Meeting was held on 19 June 2017 at which shareholders were asked to consider the resolutions recommended by the Board, to approve the Merger, the issue and allotment of new shares and an amended remuneration policy. 42% of the shares in issue were voted and the resolutions were passed.

Our 2018 AGM will be held in London in line with our plan to hold the AGM in Edinburgh and London in alternate years in order to give more shareholders the opportunity to attend.

Our role as an institutional investor

Standard Life Investments and Aberdeen Asset Management were signatories to and supporters of 23 stewardship codes around the globe including the UK Stewardship Code and the United Nations Principles for Responsible Investment. Both companies promoted the importance of good governance and stewardship including the management of broader aspects of risk relating to the environment, society and governance (ESG). The Merger of Standard Life Group and Aberdeen Asset Management and the creation of Aberdeen Standard Investments benefits from the heritage of both companies. The progress of integrating the operations of the companies is well underway and the result will be an approach which will embed the consideration of ESG risks into our investment decisions, building on the global reach and expertise available to the newly merged entity.

In addition to holding to account the boards of the companies in which we invest, through our ongoing engagement and voting at general meetings, we will work to encourage the high levels of governance and management of environmental and societal risks in the markets around the world in which we invest on behalf of our clients. We believe that it is important for us to transparently report on our activities so that our clients can, in turn, hold us to account for the delivery of the very highest standards.

Aberdeen Standard Investments' role, as an institutional investor that invests its clients' savings in a responsible manner, is key to Standard Life Aberdeen behaving as a responsible business. Its influence over the companies in which it invests, provides the Group with the ability to encourage others to act similarly.

When assessing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also reviewed the Company's compliance with the Standard Life Investments ESG investment principles and policy guidelines, and with the Aberdeen Asset Management holistic risk and assessment criteria. The Committee concluded that the Company complied with the guidelines and fulfilled the criteria during the year.

You can read more about this at **www.aberdeenstandard.com**

Other information

You can find details of the following, as required by Disclosure and Transparency Rule 7.2.6, in the Directors' report and in the Directors' remuneration report:

Share capital

- Significant direct or indirect holdings of the Company's securities
- Confirmation that there are no securities carrying special rights with regard to control of the Company
- Confirmation that there are no restrictions on voting rights in normal circumstances
- How the Articles can be amended
- The powers of the Directors, including when they can issue or buy back shares

Directors

- How the Company appoints and replaces Directors
- Directors' interests in shares

Board meetings and meeting attendance

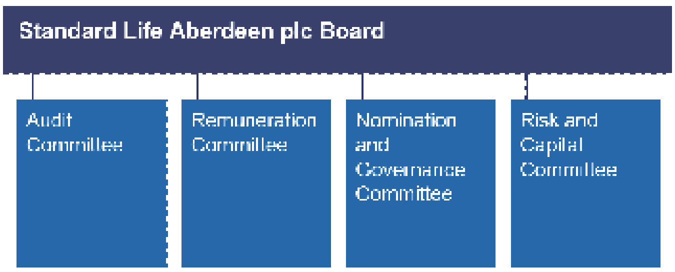
The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are usually held in Edinburgh or London and, on occasion, at the offices of one of our international businesses. During the year, the Board held specific sessions to consider the Group's strategy and business planning. The Chairman and the non-executive Directors also met during the year, formally and informally, without the executive Directors present. At these meetings, matters including executive performance and succession and Board effectiveness were discussed. During 2017, these meetings also covered discussions in relation to the Merger.

Directors are required to attend all meetings of the Board and the Committees they serve on, and to devote enough time to the Company to perform their duties. Board and Committee papers are distributed before meetings other than, by exception, urgent papers which may need to be tabled at the meeting. The Board sometimes needs to call or rearrange meetings at short notice and it may be difficult for all Directors to attend these meetings. If Directors are not able to attend a meeting because of conflicts in their schedules, they receive all the relevant papers and have the opportunity to submit their comments in advance to the Chairman or to the Company Secretary. If necessary, they can follow up with the Chairman of the meeting. The Board has established the Standing Committee as a formal procedure for holding unscheduled meetings. The Standing Committee meets when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently. During 2017, the Standing Committee met three times to consider matters relating to the Merger. All Directors are invited to attend Standing Committee meetings.

The Chairman is not a member of the Audit, Risk and Capital, Remuneration or Investment Performance Committees. He does, however, attend meetings of all Committees, by invitation, in order to keep abreast of their discussions. The table below reflects the composition of the Board during 2017 and the members' attendance both pre and post the Merger. The Board met nine times during the year.

Number of meetings	Board
Chairman	
Sir Gerry Grimstone	9/9
Executive Directors	
Keith Skeoch	9/9
Martin Gilbert	3/3
Bill Rattray	3/3
Rod Paris	3/3
Non-executive Directors	
Julie Chakraverty	3/3
John Devine	9/9
Gerhard Fusenig	3/3
Melanie Gee	9/9
Richard Mully	3/3
Kevin Parry	9/9
Lynne Peacock	9/9
Martin Pike	9/9
Jutta af Rosenborg	3/3
Akira Suzuki	3/3
Simon Troughton	3/3
Former members	
Colin Clark	6/6
Pierre Danon	6/6
Noel Harwerth	6/6
Paul Matthews	2/2
Barry O'Dwyer	4/4
Luke Savage	6/6

Board Committees



The Board has established Committees that oversee, consider and make recommendations to the Board on important issues of policy and governance. At each Board meeting, the Committee Chairmen provide reports of the key issues considered at recent Committee meetings, and minutes of Committee meetings are circulated to the appropriate Board members. The Committees operate within specific terms of reference approved by the Board and kept under review by the Nomination and Governance Committee.

These terms of reference are published within the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

All Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary.

The Chairman of each Committee and of the Nomination and Governance Committee review Committee membership at regular intervals. The Nomination and Governance Committee considers all proposed appointments before they are recommended to the Board.

Investment Performance Committee (formerly the Investment Committee)

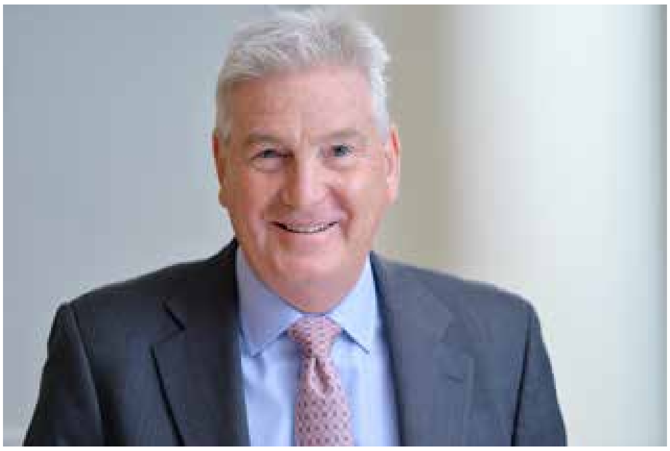
During 2017, the Board reviewed the activities of the Investment Committee. Following the Merger, the investment management arm of the wider business has expanded considerably. The Merger also brought a number of changes at the Board of Standard Life Aberdeen plc and the decision was taken to appoint all of the Directors of Standard Life Aberdeen plc to the boards of Standard Life Investment (Holdings) Limited and Aberdeen Asset Management PLC, the two holding companies of the various investment management firms within the Group. As a result of this, there is a large degree of non-executive Director oversight of the investment business and consequently the Investment Committee of Standard Life Group in its previous form was deemed to be no longer appropriate. It was disbanded on completion of the Merger. The Committee was chaired by Pierre Danon and met twice in 2017 prior to the completion of the Merger. At its meetings, it received market outlook updates and reviewed investment performance and governance and stewardship activities.

In October 2017, following further consideration of its oversight responsibilities, the Board established the Investment Performance Committee. This Committee provides insight into investment performance results by asset class, the market and economic environment influencing investment results, supports the review and oversight of performance issues and supports the ongoing innovation and evolution of the investment process and capabilities of the Group. Gerhard Fusenig is the Chairman of this committee and Melanie Gee, Richard Mully and Kevin Parry are currently members. The Committee will have its first meeting in Q1 2018.

Committee reports

This statement includes reports from each Committee Chairman other than the report on the responsibilities and activities of the Remuneration Committee which can be found in the Directors' remuneration report following this statement.

The Committee Chairmen are happy to engage with you on their reports. Please contact them via **questions@standardlifeaberdeenshares.com**



4.2 Audit Committee report

The Audit Committee assists the Board in discharging its responsibilities for financial reporting, internal control and the relationship with the External auditors.

Dear Shareholder

I'm delighted to have been asked to take on the role as Chair of the Audit Committee in August and would like to thank Kevin Parry for his excellent work as Chair before me.

A major role of the Audit Committee in 2017 was related to the Merger with Aberdeen Asset Management PLC. In advance of this, the Audit Committee's specific focus was on the work to support the relevant financial disclosures in the Merger Circular and Prospectus and in particular the Working Capital Report, the Financial Position and Prospects report and the Quantified Financial Benefits Statement. Post-Merger, this focus switched to the impact on the group financial reporting of the Merger, along with the integration costs and synergies. During the year the Committee also:

- Oversaw the external audit transition from PricewaterhouseCoopers LLP (PwC) to KPMG LLP, who were appointed at the 2017 AGM
- Assessed the provision relating to the FCA's enhanced annuity thematic review
- Reviewed the Solvency and Financial Condition Report as part of the Company's first annual Solvency II reporting
- Received reports on compliance with the Financial Conduct Authority Client Assets Sourcebook (CASS) rules in the Company's CASS permissioned regulated legal entities

Our report to you is structured in four parts:

- Governance
- Report on the year
- Internal audit
- External audit

I look forward to engaging with you on the work of the Committee.

John Devine
Chairman, Audit Committee

Governance

Membership

All members of the Audit Committee are independent non-executive Directors. The table below reflects the composition of the Committee and the members' attendance both pre and post the Merger:

Member	Attendance
John Devine, Chairman	2/2
Julie Chakraverty	2/2
Melanie Gee	2/2
Martin Pike	7/7
Jutta af Rosenborg	2/2
Former member	
Noel Harwerth	5/5
Kevin Parry	5/5
Lynne Peacock	5/5

The Board believes members have the necessary range of financial, risk, control and commercial expertise required to provide effective challenge to management. John Devine is a member of the Chartered Institute of Public Finance and Accounting. For the business of the Committee, he is considered by the Board to have competence in accounting and auditing as well as recent and relevant financial experience.

The Committee schedules six meetings per annum, four of which are co-ordinated with external reporting timetables. In 2017, there was one additional meeting, which was focused solely on the Merger

Invitations to attend Committee meetings are extended on a regular basis to the Chairman, the Co-Chief Executives, the Chief Financial Officer, the Chief Executive Standard Life Pensions and Savings, the Group Financial Controller, the Chief Internal Auditor and the Group Chief Risk Officer.

The Audit Committee meets privately for part of its meetings and also has regular private meetings separately with the External auditors, Chief Internal Auditor and Chief Financial Officer. These meetings address the level of co-operation and information exchange and provide an opportunity for participants to raise any concerns directly with the Committee.

Key responsibilities

The Audit Committee's responsibilities are to oversee and report to the Board on:

- The appropriateness of the Group's accounting and accounting policies, including the going concern presumption and viability
- The findings of its reviews of the financial information in the Group's annual and half year financial reports
- The clarity of the disclosures relating to accounting judgements and estimates
- Its view of the 'fair, balanced and understandable' reporting obligation
- The findings of its review of key Group prudential returns and disclosures
- Internal controls over financial reporting and procedures to prevent money laundering, financial crime, bribery and corruption
- Outcomes of investigations resulting from whistleblowing
- The appointment or dismissal of the Chief Internal Auditor, the approved internal audit work programme, key audit findings and the quality of internal audit work

- The independence of the External auditors, the appropriateness of the skills of the audit team, the approved audit plan, the quality of the firm's execution of the audit, and the agreed audit and non-audit fees

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. It is also authorised to seek, at the expense of the Group, appropriate external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

In accordance with the Senior Insurance Manager's Regime, the Audit Committee Chairman is responsible for the oversight of the independence, autonomy and effectiveness of our policies and procedures on whistleblowing including the procedures for the protection of staff that raise concerns from detrimental treatment. Throughout the year the Audit Committee Chairman met regularly with the Chief Internal Auditor and the Head of Financial Crime to discuss their work, findings and current developments.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2017 review was carried out using an internal self-assessment questionnaire. The review concluded that the Committee had:

- Performed effectively during the year and overseen a robust process to deliver Solvency II reporting
- Fulfilled its duties under its terms of reference, and kept its terms of reference up-to-date
- Received sufficient, reliable and timely information from management and the Internal and External auditors to enable it to fulfil its responsibilities

Going forward, the review highlighted the Committee's wish to consider further where the reporting of financial performance in the investment business could be strengthened.

The Board's review similarly confirmed its satisfaction with the performance of the Committee.

Report on the year

Audit agenda

The Audit Committee has a rolling agenda comprising recurring business, seasonal business and other business.

As recurring business, at every meeting the Committee reviews and discusses:

- Updates from the Group Finance function on significant financial accounting, reporting and disclosure matters
- Findings from Internal audit reports and how high priority findings are being followed up by management
- Regular refreshes and updates to the Internal audit plan
- Results of the monitoring of financial crime, fraud risk assessments and whistleblowing including calls to our dedicated Speak Up helpline
- Reports from the chairmen of the subsidiary audit committees
- Updates on work completed by the External auditors
- Details of non-audit services requested of the External auditors by business units
- Other agenda items

Other agenda items were aligned to the annual financial cycle as set out below.

Jan-Mar

- Annual report and accounts 2016
- Strategic report and financial highlights 2016
- Solvency II reporting
- Provision for the FCA's enhanced annuity thematic review
- External audit transition

Apr-Jun

- Completion of the 2016 external audit for all audited entities
- 2016 external audit fee and the proposed 2017 fee for all audited entities
- Solvency II Solvency and Financial Condition Report
- Special meeting on the Merger

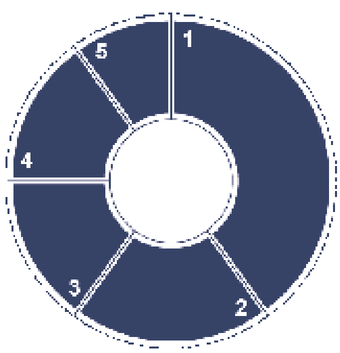
Jul-Sep

- Half year results 2017
- External auditors' review of half year results
- Impact on reporting of the Merger
- CASS update
- Internal Control Environment assessment

Oct-Dec

- Initial findings from the 2017 year end work
- The Internal audit plan
- Effectiveness of the External auditors
- Group non-audit services provided by External auditors
- Effectiveness of the Committee
- Solvency II reporting
- Liaison with the Remuneration Committee on targets and measures
- Integration cost and synergies update

The indicative proportion of time spent on the business of the Committee is illustrated below:



1. Financial Reporting
2. External audit (including transition)
3. Internal audit
4. Other controls
5. Regulatory reporting

Detail of work

The focus of work in respect of 2017 is described below.

Financial reporting

Our accounts are prepared in accordance with International Financial Reporting Standards (IFRS). The Committee believes that some Alternative Performance Measures (APMs) which are also called non-GAAP measures can add insight to the IFRS reporting and help to give shareholders a fuller understanding of the performance of the business. The Committee considered the presentation of APMs and related guidance as discussed further in the 'Fair, balanced and understandable' section below.

The Committee reviewed the Group accounting policies and confirmed they were appropriate to be used for the 2017 Group financial statements. During the year the Committee considered the presentation and accounting policy for when funds are classified as associates. Following discussions with the External auditors it was decided to change the treatment as disclosed in Note 16 of the Group financial statements. This did not have an impact on our reported profits but did impact the balance sheet presentation and disclosures.

The Committee also considered future changes to accounting standards (in particular, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*) and ensured that the impact of these future changes was appropriately disclosed in the financial statements. The Committee also spent time discussing the new insurance contracts standard (IFRS 17) which was issued in 2017 and will be effective in 2021.

The Committee reviewed the basis of accounting and in particular the appropriateness of adopting the going concern basis of preparation of the financial statements. In doing so, it considered the Group's cash flows resulting from its business activities and factors likely to affect its future development, performance and position together with related risks, as set out in more detail in the Strategic report. The Committee recommended the going concern statement to the Board.

In addition, the Committee considered the form of the viability statement and in particular whether the three-year period remained appropriate and concluded that it did. This reflects both our internal planning cycle and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. In formulating the statement, the Committee used the same information it uses when considering the risks that are taken into account to determine regulatory capital. The Committee recommended the viability statement to the Board.

The Committee reviewed the Annual report and accounts 2016 and the half year results 2017. For the half year it received written and/or oral reports from the Chief Financial Officer, subsidiary audit committee chairmen or boards, the Company Secretary, the Chief Internal Auditor and the External auditors. In addition, for the year end it received a report from the Head of Group Actuarial. The Committee uses these reports to aid its understanding of the composition of the financial statements, to confirm verification and compliance with reporting standards and to justify accounting judgements and estimates. Following its reviews, the Committee was able to recommend the approval of each of the reports to the Board, being satisfied that the annual and half year financial statements complied with laws and regulations and had been appropriately compiled.

Accounting estimates and judgements

The Audit Committee considered all estimates and judgements that Directors understood could be material to the financial statements. The Committee also focused on disclosure of these key accounting estimates and judgements.

In compiling a set of Group financial statements, it is necessary to make judgements and estimates about outcomes that are typically dependent on future events. This is particularly relevant to annuity business where profitability is inherently dependent on how long people live and future economic outcomes. Further, we have a substantial defined benefit pension plan with liabilities that are also dependent on economic and health related outcomes. Estimates are not however limited to liabilities; our business and pension funds invest in some hard to value investments, such as over-the-counter derivatives, private equity, real estate and commercial mortgages.

Annuitant mortality assumptions were considered in the context of our experience over the short and medium term against base assumptions and future assessed improvements. We compared our actuaries' views with estimates made by other companies drawing on available benchmark data and looked at the changes in outcomes attributable to a change in estimates (see Note 31 of the Group financial statements for more detail).

We considered key assumptions determining the pension fund surplus: inflation (including the gap between the retail price index and the consumer price index), mortality and the discount rate. The assumptions were compared with market data and expert opinions. As with last year we also noted possible new accounting guidance on recognising a pension surplus on the consolidated statement of financial position. Interpretation remains uncertain and so the Committee supported continuing with additional disclosures. Further details are set out in Note 35 of the Group financial statements.

The Merger is accounted for under IFRS as an acquisition by Standard Life plc of Aberdeen Asset Management PLC. This acquisition accounting requires significant judgement and was a major area of focus for the Committee in the second half of 2017 and early 2018. The key judgements related to the recognition and valuation of intangibles on the acquisition. The major intangibles recognised related to customer relationships and brand. The Committee reviewed and challenged the assumptions underlying the valuation of these intangibles, including useful lives, and reviewed reporting from third party valuation experts. The Committee also considered the appropriate amortisation method for each intangible and the allocation of the goodwill arising on the acquisition to groups of cash generating units. See Note 14 of the Group financial statements.

In relation to the Lloyds Banking Group customer relationship intangible asset, the Committee considered that an impairment of £40m was appropriate. The Committee also considered intangible assets relating to internally developed software and agreed with management that an impairment of £31m was appropriate in relation to a discontinuation of part of an IT transformation project.

In 2016 the Company recognised a provision of £175m in respect of past sales practices of annuities. In 2017, following further analysis work and an update to assumptions based on sample testing following the receipt of the FCA redress calculator, management concluded that an additional provision of £100m should be recognised. The Committee reviewed the estimate of the provision and considered sensitivities on its calculation. We were satisfied that the provision level is an appropriate estimate at this time. In addition to the provision, there remain a number of uncertainties in respect of annuities sales practices, in particular in relation to the regulatory investigation, so we continue to provide disclosures in the contingent liability note. See Note 38 of the Group financial statements.

We carried out a review of the processes and controls for valuing hard to value assets and were satisfied that we could rely on the procedures for determining valuations. See Note 41 of the Group financial statements.

Principal risks are disclosed in the Strategic report and recommended to the Board by the Risk and Capital Committee. The Committee was satisfied that the estimates and quantified risk disclosures in the financial statements were consistent with the Strategic report. The Committee concluded that appropriate judgements had been applied in determining the estimates and that sufficient disclosure had been made to allow readers to understand the uncertainties surrounding outcomes.

Fair, balanced and understandable

The Committee supported the financial reporting team's continued review of the Annual report and accounts. A focus in 2017 was ensuring that the Strategic report appropriately explained the rationale and implications of the Merger.

Standard Life Aberdeen's principles

To create clarity around what Standard Life Aberdeen means when it talks of being fair, balanced and understandable, a set of principles were developed, which can also act as an organisational definition for each aspect:

Fair *"We are being open and honest in the way we present our discussions and analysis, and are providing what we believe to be an accurate assessment of business and economic realities"*	• The narrative contained in the report is honest and accurate • The key messages in the narrative in the 'front half' of the report reflect the financial reporting contained in the financial statements • The Key Performance Indicators (KPIs) results for the period are consistent with the key messages outlined in the Strategic report
Balanced *"We are fully disclosing our successes, the challenges we have faced in the period, and the challenges and opportunities we anticipate in the future – all with equal importance and at a level of detail that's appropriate for our stakeholders"*	• The report presents the 'whole' story where both successes and challenges experienced during the year and expected in the future are covered • The level of prominence we give to successes in the year versus challenges faced is appropriate • The narrative and analysis contained in the report effectively balances the information needs and interests of each of our key stakeholder groups
Understandable *"The language we use and the way we structure our report is helping us present our business and its performance clearly – in a way that someone with a reasonably informed knowledge of financial statements and our industry would understand"*	• There is a clear and easy to understand framework to the report which is effective in addressing Standard Life Aberdeen's objectives, vision, mission and values • The layout is clear and consistent and the language used is simple and easy to understand (industry specific terms are defined where appropriate) • There is a consistent tone across and good linkage between all sections in a manner that reflects a complete story and clear signposting to where additional information can be found

Prepare, Review and Challenge

The above principles and supporting statements are considered in each stage of the Annual report and accounts production process.

Activities

- An Internal Review Group (IRG) is in place which reviews the Annual report and accounts specifically from a fair, balanced and understandable perspective and provides feedback to our financial reporting team on whether it conforms to our standards. The members of the IRG are independent of the financial reporting team.
- We provided fair, balanced and understandable training and guidance to all key stakeholders involved in the Annual report and accounts production process
- We, as an Audit Committee, reviewed the messaging in the Annual report and accounts, taking into account material received and discussion taken place during the year
- Three drafts of the Annual report and accounts 2016 were reviewed by the Audit Committee at three meetings. The Committee complemented its knowledge with that of executive management and the Internal and External auditors. An interactive process allowed each draft to embrace contributions.
- Our Annual report and accounts goes through an extensive internal verification process of all content to verify accuracy

The Committee also reviewed the use and presentation of APMs which complement the statutory IFRS results in order to give a more complete view of the performance of the business. This review considered guidelines issued by the European Securities and Markets Authority in 2016 and the thematic review by the Financial Reporting Council (FRC) during 2017. A Supplementary information section is included in the Annual report and accounts to explain why we use these metrics and to provide reconciliations of these metrics to IFRS measures where relevant. This section also provides increased transparency over the calculation of reported financial ratios. The Committee noted that management continued to develop and enhance the detail in this Supplementary information section in 2017 in response to emerging practice.

Following the Merger, management reconsidered the appropriate KPIs for the Group, taking into account the shift towards asset management business. The Supplementary information section sets out the changes in financial KPIs and the reasons for these changes.

Adjusted profit before tax is a key profit APM. The Standard Life Group key profit APM was 'operating profit before tax', but this was renamed to 'Adjusted profit before tax' following the Merger. The Committee agreed with management that 'operating profit' could be a confusing name and that 'adjusted profit' was therefore more appropriate. The Committee also spent time considering the definition of 'adjusted profit' taking into account the previous Standard Life Group 'operating profit' metric and Aberdeen 'underlying profit' metric. Details of changes relative to these previous definitions are included in the Supplementary Information section. The Committee also considered whether the allocation of items to adjusted profit were in line with the defined accounting policies, were consistent with previous practice and were appropriately disclosed.

We agreed to recommend to the Board that the Annual report and accounts 2017, taken as a whole, is fair, balanced and can be understood by someone with a reasonably informed knowledge of financial statements and our industry.

We are interested in feedback from stakeholders and will carefully consider any feedback received.

Prudential reporting

During 2017 the Group published its first Solvency and Financial Condition Report (for the year ended 31 December 2016), and submitted full annual Solvency II reporting to the PRA for the first time. In general, the Committee continued to adopt a compliance approach to Solvency II reporting drawing on work undertaken by management, Group Risk, Internal audit and the External auditors. The procedures are designed to give the Audit Committee a high degree of comfort that returns have been properly prepared. The Committee also reviewed both a draft and a final version of the Solvency and financial condition report, and following due consideration agreed to recommend the Solvency and financial condition report to the Board for approval.

In relation to actuarial assumptions used for year end 2017 Solvency II reporting, including mortality, persistency and expenses assumptions, the Committee received a report from the Chair of the Standard Life Assurance Limited (SLAL) Audit Committee which noted the consideration of these assumptions by the SLAL Audit Committee and External auditors. After due consideration of this reporting the Committee were satisfied that these assumptions were appropriate for year end Solvency II reporting. The Committee also reviewed disclosures relating to Solvency II results included in the Strategic report section of this Annual report and accounts, and related assurance reports and was satisfied with the disclosures.

Internal controls

As noted earlier, the Directors have overall responsibility for the Group's internal controls and for ensuring their ongoing effectiveness. Together with the Risk and Capital Committee, the Committee provides comfort to the Board of their ongoing effectiveness.

Internal audit regularly reviews the effectiveness of internal controls and reports to the Committee and the Risk and Capital Committee.

The Group Finance function sets formal requirements for financial reporting which apply to the Group as a whole, defines the processes and detailed controls for the consolidation process and reviews and challenges reporting segment submissions. Further, the Group Finance function runs a technical review committee and is responsible for monitoring external technical developments.

The control environment around financial reporting will continue to be monitored closely.

Financial crime and whistleblowing

Staff are trained to detect the signs of possible fraudulent or improper activity and how to report concerns either directly or via our independent whistleblowing hotline. The Committee receives regular updates from the Head of Financial Crime who reports on compliance with the Group's Anti-Financial Crime and Anti-Bribery policy, and any other activities associated with financial crime, including fraud risk.

The Committee Chairman is the designated whistleblower's champion and the Committee receives regular updates on the operation of the whistleblowing procedures from the Global Head of Conduct and Compliance. The anonymised reports include a summary of the incidents raised as whistleblowing, and information on developments of the arrangements in place, to ensure concerns can be raised in confidence, about possible malpractice, wrongdoing and other matters.

The Committee oversees the findings of investigations and required follow-up action. If there is any allegation against the Risk or Internal audit functions, the Committee directs the investigation. The Committee is satisfied that the Group's procedures are currently operating effectively.

Internal audit

The Group now has an Internal audit function comprising of approximately 70 people post-Merger. Internal audit is supported by a co-source provider which recently transitioned from legacy arrangements to PwC from 1 January 2018. The process involved the Chairman of the Committee and PwC's appointment was approved by the Committee. The Chief Internal Auditor reports to the Committee Chairman.

Internal audit operates in accordance with a global charter which is reviewed by the Committee every year. Their work plan covers all businesses in the Group after holding risk based discussions with management, regulators, the External auditors and the Committee. Identified areas of focus are mapped to the key risks within the Own Risk and Solvency Assessment (ORSA), which is a dynamic forward looking tool for decision making and strategic analysis at the heart of the Solvency II prudential regime and Internal Capital Adequacy Assessment Process (ICAAP) for the asset management business. Consistent with that methodology, our regulators request specific reviews as part of the Risk Mitigation Plan. The Committee approves the scope and content of the annual internal audit plan, which is updated on a rolling basis to allow Internal audit to address any emerging issues and reflect changes in the Group's organisation.

The Committee receives regular reports from the Chief Internal Auditor on:

- The implementation of the approved plan and proposed changes to it
- Key findings from completed reviews, including the impact on financial reporting processes and related applications
- The status of management's implementation of agreed improvement actions, where dates have been rescheduled
- The assessment of the internal control environment at each business unit

During 2017, approximately 100 internal audits were completed. The Committee considered the reports below to be particularly insightful and contributed to the strengthening of the control environment:

- Conduct risk
- IT security
- Key regulatory change projects such as the Markets in Financial Instruments Directive (MiFID II) and the General Data Protection Regulation (GDPR)
- Property fund suspension – lessons learned
- Brexit preparations

The Committee considers Internal audit's effectiveness annually, monitoring its independence, objectivity and resourcing in the context of the Chartered Institute of Internal Auditors' professional standards. During the year, Internal audit carried out its own internal effectiveness review as well as quality assurance processes and reported the satisfactory results back to the Committee.

During the year, regular dialogue takes place, at least monthly, between the Committee Chairman and the Chief Internal Auditor. The newly appointed Committee Chairman also engaged with the combined function at their post-Merger conference in October.

The Chief Internal Auditor was an external appointment to broaden the experience of the senior team and commenced his role in May 2016. The Chief Internal Auditor is now focused on aligning his team to meet the requirements of the merged Group.

Based on its review, the Committee concluded that the function continued to be highly effective.

In accordance with the relevant independence standards, the External auditors do not place reliance on the work of Internal audit.

External auditors

The appointment

The Committee has responsibility for making recommendations to the Board on the reappointment of the External auditors, determining their independence from the Group and its management and agreeing the scope and fee for the audit. Following its review of KPMG's performance, the Committee concluded that there should be a resolution to shareholders to recommend the reappointment of KPMG at the 2018 AGM.

As discussed in the 2016 Audit Committee report, the Committee tendered the audit for the year ended 31 December 2017 and recommended to the Board that KPMG should be recommended to shareholders as the auditors for 2017. The shareholders voted in favour of the appointment at the 2017 AGM.

The Committee complies with the UK Corporate Governance Code, the FRC Guidance on Audit Committees with regard to the external audit tendering timetable and the provisions of the EU Regulation on Audit Reform and the Competition and Markets Authority Statutory Audit Services Order with regard to mandatory auditor rotation and tendering. The Committee will continue to follow the annual appointment process but does not currently anticipate re-tendering the audit before 2026.

Auditor independence

Following the Merger, the Committee sought assurance that KPMG's independence would not be compromised as a result of their previous position as External auditor of Aberdeen Asset Management PLC until 30 September 2015. A paper outlining the matters which had been considered was brought to the Committee and, following the review, the Committee was satisfied that there were no impacting issues.

The Board has an established policy setting out what non-audit services can be purchased from the firm appointed as External auditors. The Committee monitors the implementation of the Policy on behalf of the Board. The aim of the Policy, which is reviewed annually, is to support and safeguard the objectivity and independence of the External auditors and to comply with the FRC Ethical standards for auditors (Ethical Standards). It does this by prohibiting the auditors from carrying out certain types of non-audit services to ensure that the audit services provided are not impaired. It also ensures that where fees for approved non-audit services are significant, they are subject to the Committee's prior approval.

The services prohibited by the Policy are in line with the Ethical Standards and include:

- Tax services, other than in exceptional circumstances and subject to specific audit committee approval in line with ethical standards
- Services that involve playing any part in the management of decision-making of the audited entity
- Book-keeping and preparing accounting records and financial statements
- Payroll services
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- Valuation services, including valuations performed in connection with actuarial services or litigation support services
- The majority of legal services
- Services related to the audited entity's internal audit function
- Services linked to the financing, capital structure and allocation and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses
- Promoting, dealing in, or underwriting shares in the audited entity
- The majority of human resources services

The Policy permits non-audit services to be purchased, following approval, when they are closely aligned to the external audit function and when the external audit firm's skills and experience make it the most suitable supplier.

These include:

- Audit related services, such as regulatory reporting
- Accounting consultations and audits in connection with proposed transactions
- Investment circular reporting accountant engagements
- Due diligence related to mergers and acquisitions
- Employee benefit plan audits
- Attesting to services not required by statute or regulation (e.g. controls reports)
- Consultations concerning financial accounting and reporting standards not relating to the audit of the Group's financial statements
- Other reports required by a regulator or assurance services relating to regulatory developments
- Sustainability audits/reviews
- Auditing IT security where this does not extend to designing and implementing internal control or risk management procedures

KPMG has reviewed its own independence in line with these criteria and its own ethical guideline standards. KPMG has confirmed to the Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements and that its objectivity is not impaired.

Having considered compliance with our policy and the fees paid to KPMG, the Committee is satisfied that KPMG has remained independent.

Audit and non-audit fees

The Group audit fee payable to KPMG in respect of 2017 was £5.7m (2016: PwC £4.1m). In addition £1.9m (2016: £0.8m) was incurred on audit related assurance services. Fees for audit related assurance services are primarily in respect of Solvency II regulatory reporting, client money reporting and the half year review. The increase in both audit and audit related assurance fees primarily reflects the larger scale of the Group following the merger. The Committee is satisfied that the audit fee is commensurate with permitting KPMG to provide a quality audit and monitors regularly the level of audit and non-audit fees. Non-audit work can only be undertaken if the fees have been approved in advance in accordance with the Board's policy for non-audit fees. Unless fees are clearly trivial (which we have defined as less than £75,000), the approval of the whole Committee is now required.

Non-audit fees amounted to £0.4m (2016: £1.4m) of which £0.3m (2016: £0.5m) related to other assurance services. Other assurance services in 2017 primarily relate to control assurance reports, in particular those provided to Aberdeen Standard Investments' clients, which are closely associated with audit work. The External auditors were considered the most suitable supplier for these services taking into account the alignment of these services to the work undertaken by external audit and the firm's skill sets. The Committee also monitors audit and non-audit services provided to non-consolidated funds and were satisfied fees for those services did not impact auditor independence.

Further details of the fees paid to the External auditors for audit and non-audit work carried out during the year are set out in Note 8 of the Group financial statements.

The ratio of non-audit fees to audit and audit related assurance fees is 5% (2016: 29%). The total of audit related assurance fees (£1.9m) and non-audit fees (£0.4m) is £2.3m, and the ratio of these audit related assurance fees and non-audit fees to audit fees is 40% (2016: 54%). As noted above the audit related assurance fees are primarily fees in relation to required regulatory reporting, where it is normal practice for the work to be performed by the external auditor.

The Committee is satisfied that the non-audit fees do not impair KPMG's independence.

Audit quality and materiality

The Committee places great importance on the quality and effectiveness of the External audit. The Senior Statutory Auditor is Jonathan Mills. The Committee looks to the audit team's objectivity, professional scepticism, continuing professional education and its relationship with management, all in the context of regulatory requirements and professional standards. Specifically:

- The Committee discussed the scope of the audit prior to its commencement
- The Committee reviewed the annual findings of the Audit Quality Review team of the FRC in respect of KPMG's audits. We requested a formal report from KPMG of the applicability of the findings to Standard Life Aberdeen both in respect of generally identified failings and failings specific to individual audits. We were satisfied insofar as the issues might be applicable to Standard Life Aberdeen's audit, that KPMG had proper and adequate procedures in place for our audit.
- The Committee approved a formal engagement with the auditor and agreed its audit fee
- The Committee Chairman had at least monthly meetings with the lead audit partner to discuss Group developments
- The Committee received at nearly every meeting an update of KPMG's work, compliance with independence and its findings
- There was a detailed interview by the Committee Chairman with the audit partners on the subject of the work undertaken to support their opinion on the financial statements and the consistency of the remainder of the Annual report and accounts with their work
- The Committee reviewed and discussed the audit findings including audit differences prior to the approval of the financial statements. See the discussion on materiality in the paragraph below for more detail
- Additional work was again undertaken on Solvency II reporting and the Committee also reviewed separate papers from KPMG covering this specific work

We have discussed the accuracy of financial reporting (known as materiality) with KPMG both as regards accounting errors that will be brought to the Committee's attention and as regards amounts that would need to be adjusted so that the financial statements give a true and fair view. Differences can arise for many reasons ranging from deliberate errors (fraud etc.) to good estimates that were made at a point in time that, with the benefit of more time, could have been more accurately measured. Overall audit materiality has been set at £38m (2016: £34m). This equates to approximately 4.5% of normalised profit before tax. This is within the range in which audit opinions are conventionally thought to be reliable. To manage the risk that aggregate uncorrected differences become material, we supported that audit testing would be performed to a lower materiality threshold for individual reporting units. Further, KPMG agreed to draw the Committee's attention to all identified uncorrected misstatements greater than £2 million (2016: £2m). The aggregated net difference between the reported pre-tax profit and the auditor's judgment of pre-tax profit was less than £21m which was significantly less than audit materiality. The gross differences were attributable to various individual components of the consolidated income statement and balance sheet. No audit difference was material to any line item in either the income statement or the balance sheet. Accordingly, the Committee did not require any adjustment to be made to the financial statements as a result of the audit differences reported by the External auditors. Work that KPMG perform on Solvency II reporting uses a higher level of materiality.

KPMG has confirmed to us that the audit complies with their independent review procedures.

4.3 Risk and Capital Committee report

The Risk and Capital Committee supports the Board in the effective oversight and challenge of risk management and the use of capital across the Group.

Dear Shareholder

During 2017 the Risk and Capital Committee has continued to focus on ensuring the effective oversight and independent challenge of the use of capital and the management of risks, in particular the management of conduct risk, across the Group.

In performing these tasks the Committee is supported by the activity of risk and capital committees in subsidiary companies where these exist. This has included receiving support from the Standard Life Assurance Limited Risk and Capital Committee which was established in 2017.

A large part of the Committee's work this year has been focused on the merger of Standard Life plc and Aberdeen Asset Management PLC. Key activities undertaken prior to completion of the Merger included reviewing and challenging:

- The assessment of risks posed by the Merger and their mitigants
- The appropriateness of risk related disclosures included in the Prospectus and Circular documents issued in connection with the Merger
- The anticipated structure of the Risk and Compliance function and operation of risk processes on Day One
- Plans for managing the integration programme following Day One

Since the Merger the Committee has monitored the evolution of risk management across the merged Group and received progress updates from the integration programme.

Further details on this and other activities carried out by the Committee during the year can be found in the report that follows.

Martin Pike

Martin Pike
Chairman, Risk and Capital Committee

Membership

All members of the Risk and Capital Committee are independent non-executive Directors. The table below reflects the composition of the Committee and the members' attendance both pre and post the Merger:

Member	Attendance
Martin Pike, Chairman	9/9
Julie Chakraverty	2/2
John Devine	9/9
Gerhard Fusenig	2/2
Melanie Gee	9/9
Former member	
Noel Harwerth	7/7
Kevin Parry	7/7

The Committee meetings are attended by the Chief Risk Officer, the Aberdeen Standard Investments (ASI) Chief Risk Officer and the Standard Life Pensions and Savings Chief Risk Officer. Others invited to attend on a regular basis include the Chairman, the Co-Chief Executives, the Chief Financial Officer, the Chief Executive Standard Life Pensions and Savings, the Chief Investment Officer and the Chief Internal Auditor as well as the External auditors.

Regular private meetings of the Committee's members have been held during the year providing an opportunity to raise any issues or concerns with the Chairman of the Committee. The Committee's members have also been given access to management and subject matter experts outside of the Committee meetings in order to support them in gaining an in-depth understanding of specific topics.

Key responsibilities

Our ambition of being a world-class investment company results in exposure to a range of risks and uncertainties. Understanding and actively managing the sources and scale of these risks and uncertainties are key to fulfilling this ambition.

The Risk and Capital Committee is responsible for overseeing, challenging and advising the Board on:

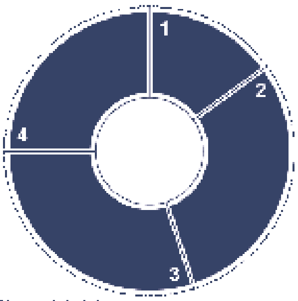
- The Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital
- The structure and implementation of the Group's Enterprise Risk Management (ERM) framework and its suitability to react to forward-looking issues and the changing nature of risks
- Changes to the risk appetite framework and quantitative risk limits
- Risk aspects of major investments, major product developments and other corporate transactions
- Regulatory compliance across the Group

Further detail on the work performed in each of these areas is set out in the report below.

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. It is also authorised to seek, at the expense of the Group, appropriate external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

The Committee's work in 2017

An indicative breakdown as to how the Committee spent its time is shown below:



1. Financial risks
2. Operational risks
3. Conduct risks
4. Other

The Committee operates a rolling agenda which comprises both recurring items and items that are more ad hoc in nature.

One of the recurring items that is reviewed and discussed at each meeting is the Views on Risk report which provides a holistic view of the Group Chief Risk Officer's assessment of the key risks and uncertainties faced by the Group's businesses and the actions being taken to manage these.

Other recurring items that are reviewed by the Committee include:

- Matters arising at the Standard Life Aberdeen Enterprise Risk Management Committee
- Matters arising at the Standard Life Assurance Limited Risk and Capital Committee
- Customer proposition developments
- Ongoing developments relating to the management of conduct risk
- The management of cyber risk across the Group
- Items supporting the ongoing assessment of the Group's own risk and solvency assessment (ORSA)

The Committee has also continued to receive periodic reports from the Business Risk Review team. The Business Risk Review team operates within the Risk and Compliance function and is tasked with reviewing specific business activities and issues of a strategic significance. The output from the Business Risk Review team comprises independent assessments and reports that assist management in anticipating, managing and mitigating risk. The items subject to Business Risk Reviews are proposed by members of the executive team with the Committee providing further input into this process.

During the year the Committee's work covered a range of risks faced by the business and included consideration of:

Jan-Mar

- Advice to be provided to the Remuneration Committee regarding the delivery of performance in 2016 relative to risk appetites
- Findings included in the Standard Life Investments Internal Controls Report
- Standard Life Investment's Conflicts of Interest Register
- Plans for testing, assurance reviews, business risk reviews and validation activity to be performed in 2017

Apr-Jun

- The approach to be followed by the Standard Life plc Risk and Capital Committee in reviewing documentation relating to the proposed merger
- Documentation produced in connection with the proposed merger
- Data privacy and data management practices
- The management of cyber risk including an update on cyber insurance cover in the UK market
- Lessons learned from the acquisition of Elevate Portfolio Services Limited

Jul-Sep

- The proposed structure of the Risk and Compliance function following the merger
- The views of the risk function on the state of preparedness for the first day of operation following the merger
- Information security considerations relating to the merger
- Update on the management of IT obsolescence

Oct-Dec

- Initial assessment of the risks and risk management approach within the integration programme
- Plans for developing investment risk oversight capability within the Risk and Compliance function
- Due diligence on the proposed acquisition of certain assets related to the investment management business of Alpine Woods Capital Investors, LLC
- Update on the management of risks relating to the delivery of IT change
- Update on progress towards delivering compliance with the EU General Data Protection Regulation
- Findings from an independent review of the conduct risk framework
- Update on the assessment of risk culture within the organisation
- Risk oversight arrangements in respect of investment risk in Standard Life Wealth Limited
- Proposed enhancements to the investment risk management systems architecture
- Progress on preparations for the implementation of the second Markets in Financial Instruments Directive (MiFID II)

After each meeting, the Committee Chairman reports to the Board, summarising the key points from the Committee's discussions and any specific recommendations.

Risk appetites, exposures and capital

As previously noted, prior to the merger the Committee was actively engaged in assessing the likely changes to the risk and capital profile of the merged business. In particular this included considering the extent to which the business combination would result in risk exposures that were not simply the sum of the risks of the underlying businesses. In this context the Committee noted that the increased diversity of funds and talent were expected to result in relative reductions in risks such as investment performance, customer and client preferences and market risk. By contrast, the increased scale and global presence of the business was expected to lead to relative increases in risks relating to regulatory scrutiny, IT risks due to possible targeting by cyber criminals and change risk as a result of merger integration activity. The output of this exercise was noted as helpful in focusing the deployment of resources following the merger.

Prior to the merger both Standard Life plc and Aberdeen Asset Management PLC operated their own risk appetite frameworks. These frameworks supported the respective businesses in managing their risks and capital requirements by providing a mechanism for stakeholders to communicate, understand and control risks. A detailed review of these frameworks following the merger indicated a high degree of commonality between the respective frameworks and provided the Committee with comfort that risks and capital were being well-managed across both businesses.

Since the merger a single risk appetite framework has been developed drawing on the best aspects of the two existing frameworks and reflecting the shape of the merged business and the risks it faces. This revised risk appetite framework now provides a common framework to enable stakeholders to communicate, understand and control the risks that Standard Life Aberdeen is willing to accept in pursuing its business plan objectives and the associated capital required. The Committee reviewed this revised risk appetite framework at its December meeting and agreed to recommend to the Board that it be implemented across the Group.

Regular reporting on financial exposures, conduct and operational risks, and the capital position are reported to the Committee through the Views on Risk report which is presented at each meeting of the Committee. Through reviewing the relevant dashboards, commentaries and associated management information, the Committee has monitored risks relative to applicable quantitative and qualitative appetites and views on the resilience of the capital position under current and stressed conditions.

The Views on Risk report also includes dashboards covering financial crime and regulatory risk. These provide the Committee with status updates on the financial crime framework, addressing risks related to money laundering, terrorist financing, market abuse, fraud and bribery and corruption, and the regulatory outlook. Environmental, social and governance risks are actively managed within the business and updates on this are also included within the report. Using this material, the Committee is able to oversee, challenge and advise the Board on the Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital.

Specific items that the Committee discussed during the year in this context included:

- Risks relating to the significant volume of regulatory projects that were progressing simultaneously throughout 2017
- The impact of outflows in the asset management business on both profits and capital resources
- The extent to which there was a systemic cause for losses incurred as a result of operational errors
- Enhancements to the conduct risk framework and associated management information that would further support the effective management of conduct risk
- The balance between the focus on risks related to the integration process and BAU activities

As highlighted in the table on page 90, we received a number of one-off reports during the year which directly supported the Committee in our oversight of risk appetites, exposures and capital.

One example of this was the report on work performed in assessing the nature of cyber insurance available in the market and the extent to which this could help mitigate the impact of any successful cyber attack. In particular the Committee noted the protection provided through existing insurance policies and management plans to further assess options as part of the annual insurance policy renewal exercise.

Another example is the report from the Business Risk Review team on the fair treatment of longstanding customers which supported the Committee in its oversight of conduct risk. This highlighted planned changes in governance arrangements to ensure the fair treatment of long standing customers and recommended enhancing reviews of customer activity to minimise the risk of customer inertia adversely impacting on customer outcomes. The report also recommended enhancements to the reviews performed in respect of the direct retail offering within Aberdeen Standard Investments.

The Committee also received a report from the Chief Investment Officer on an internal review commissioned to consider governance of investment risk within Standard Life Wealth Limited and the extent to which dispersion between performance in the asset management and wealth management businesses could potentially lead to branding or reputational risks. The Committee noted the conclusions of the review were that Standard Life Wealth Limited's governance arrangements were considered fit for purpose and there was no evidence of systemic issues in portfolio construction that were likely to adversely impact on dispersion and hence brand or reputational damage.

Stress and scenario testing performed across the Group has also supported the Committee in understanding, monitoring and managing the risk and capital profile of the business under stressed conditions. In addition to the stress and scenario testing performed across the Group in support of Internal Capital Adequacy Assessment Process (ICAAP) and Solvency II reporting, assurance has been taken from the results of the Standard Life plc stress and scenario testing performed in 2017 prior to the merger. This provided a forward-looking assessment of resilience to significant adverse events affecting key risk exposures and comprised:

- Univariate stresses – looking at stresses to financial and demographic risks in isolation
- Combined stresses – looking at simultaneous stresses to a combination of financial and demographic risks
- Reverse stress testing – considering circumstances or severe events, including as a result of operational, conduct and reputational risks, that have the potential to cause the business plan to become unviable
- Tail risk analysis – exploring the possible sequential development of a low likelihood but high impact scenario

Four scenarios were explored as part of the reverse stress testing exercise. The scenarios considered were: an effective cyber attack; a major financial shock which triggered high remediation costs in cases of customer detriment; pressure on fund charges, performance and flows; and the failure of key services performed by outsourced investment administration providers.

Three scenarios were explored as part of the tail risk analysis and were designed to focus on scenarios which could have a potentially significant adverse impact on liquid resources. In particular this recognised the potential for liquidity strains to arise as a result of the uncertain geo-political environment. The scenarios considered were: a sophisticated and collusive payment fraud committed in a derivative collateral transaction resulting in a significant loss for Standard Life Investments; a corporate bond shock including large corporations defaulting on payments; and a large number of advisers requesting rebalances on and withdrawals from Standard Life Pensions and Savings platform business at the same time as a pricing error occurred.

Based on the above analysis, the Committee concluded there was no requirement for the business to reduce its risk exposures and that the business was resilient to extreme events as a result of the robust controls, monitoring and triggers in place to identify events quickly and to help mitigate their escalation. Under some circumstances the Committee noted that contingency funding may need to be relied on to support cash outflows, and dividends from Standard Life Investments and Standard Life Assurance Limited may be reduced.

Enterprise Risk Management (ERM) framework

The ERM framework is used to identify, assess, control and model the Group's risks and consists of five elements:

- Risk control processes
- Strategic risk management
- Risk and capital models
- Emerging risks
- Risk culture

During the year, the Committee continued to monitor the structure and implementation of the Group's ERM framework to ensure the framework remained suitable for identifying, assessing and managing current and new risk types and for reacting to forward-looking risk issues and the changing nature of risks.

The Committee continues to receive assurance regarding the operation of the ERM framework through its review of regular content within the Views on Risk report. In particular we have used our review of the various risk and capital dashboards, including the consolidated dashboard on key conduct risk indicators and conduct risk outcomes, to understand the Group's risk profile and the effectiveness of the framework in supporting the management of these risks.

The Committee also receives semi-annual reporting from the Chief Internal Auditor providing an independent assessment of the internal control environment relating to the management of risk and capital. This also supports the Committee in performing its oversight and challenge.

The Committee specifically monitors risk control processes through reviewing the results of quarterly policy compliance reporting and updates regarding action plans raised in response to risk events which is included within the Views on Risk report. Following the completion of the merger, Aberdeen Asset Management PLC and its subsidiaries adopted the policies previously operated by Standard Life plc and group-wide policy compliance reporting was completed for Q3 2017 with no significant issues noted.

Strategic risk management within the context of the ERM framework refers to the process of optimising risk-adjusted returns and for evaluating and prioritising strategic options. This takes place as part of the business planning process whereby forecast profits are considered alongside a forward-looking assessment of the Group's risk and capital position. The December meeting of the Committee reviewed an annual report on the Group's ORSA which reported on these two elements.

A Risk Modelling policy has been rolled out across the Group in 2017 aimed at providing a consistent benchmark for the development and use of risk and capital models. The policy covers a range of models and includes the Group Internal Model introduced in response to the requirements of Solvency II. The extent of compliance with the Risk Modelling policy is reported to the Committee within the Views on Risk report alongside other policy compliance reporting. During 2017 the Committee has continued to keep under review the methodology of the Solvency II Group Internal Model which, in line with the Committee's terms of reference, has included reviewing the key elements of design, the use of significant assumptions and expert judgements, key sensitivities, significant limitations and uncertainty in the model.

Emerging risks have been actively monitored and assessed during the year with regular reporting provided to the Committee through the Views on Risk report. This reporting focuses on the key geo-political, economic, societal, legal, regulatory, technological and economic risks that are emerging and provides an assessment of the relative likelihood and significance of these.

In 2017 risk and capital committees were established within Standard Life Assurance Limited, Standard Life Savings Limited and Elevate Portfolio Services Limited. These actions recognise the importance of risk culture and good risk governance within the ERM framework. During the year the Committee received a report setting out the results of a risk culture awareness questionnaire carried out across key individuals in the merged business. Based on the responses to the questionnaire, the Committee concluded that the business was generally well-placed relative to its peers and noted that activity was planned to drive best-in-class risk culture awareness.

Regulatory compliance and reporting

The Committee reviews and assesses regulatory compliance plans detailing the planned assurance activities to be performed across the Group on an ongoing basis. In particular, the Committee scrutinised the scope of activities planned by Risk and Compliance and Internal Audit to ensure there was appropriate coverage at an aggregate level. In reviewing these plans the Committee challenged the extent of testing planned in respect of the overseas operations of the investment business. The Committee was advised that increased emphasis was being placed on regulatory considerations where the business was investing in overseas markets and in ensuring the relevant conduct of business rules were understood in overseas jurisdictions where products were being sold. Regular updates on key findings from regulatory compliance activity were reported to the Committee through the Views on Risk report.

Prior to the merger, the Committee carried out its duties through reviewing the key assumptions and bases underlying the calculation of the Group Solvency II Internal Model results for Standard Life plc and the ICAAP for Standard Life Investments (Holdings) Limited.

In reviewing the Group Solvency II Internal Model results the Committee paid particular attention to the assumptions relating to the longevity stress and the treatment of the provision to address the finding that a portion of non-advised annuity sales in previous years did not adequately explain to customers that they may have been eligible for an enhanced annuity. The Committee noted the validation work that had been performed by the Risk and Compliance function in respect of the Internal Model and satisfied itself that it was appropriate to recommend that the Standard Life plc Board approve the proposed methodology and judgements for use in the calculation of the December 2016 Solvency Capital Requirements.

The regulatory agenda for the financial services sector in 2017 has continued to be a busy one, prompted by a number of data requests and industry thematic reviews from regulators. One such item highlighted to the Committee in this regard was the UK Financial Conduct Authority's (FCA) Final Report on Asset Management. Based on the findings of this report we anticipate continued margin pressure for the asset management business.

As a Committee we have closely monitored regulatory developments to understand and seek to anticipate potential implications for the Group and the wider financial services sector. In this context the Committee has noted the proactive engagement with the Prudential Regulation Authority and the FCA during the year,as well as responding to particular requests including the submission of details of our Brexit contingency plans.

As part of discussions on regulatory activity, the Committee noted that the business had been invited to join one of the FCA's Cyber Coordination Groups. These groups are intended to promote increased sharing of information regarding learnings and cyber threats. The Committee acknowledged this development and the expectation that it would provide the business with the opportunity to share experiences, to learn from others in the industry and to identify best practice.

Business Risk Reviews and other reporting

The Committee has continued to receive a number of reports from the Business Risk Review team in 2017. These reports provide the Committee with an independent assessment from the Risk and Compliance function of aspects of the business that could have a material impact on long-term profitability or delivery of strategy, or that introduce a material new risk. Further details on some of the Business Risk Reviews presented in 2017 are set out below.

A cross-business client and asset retention Business Risk Review was performed prior to the merger looking at activity across the Standard Life Investments and Pensions and Savings distribution channels.

The Committee noted the activity undertaken across the various channels to retain business and client assets and the recommendations from the review team about possible ways of strengthening this.

The Committee also received a Business Risk Review report on the Fair Treatment of Longstanding Customers. This focused on considering the extent to which there was a clear and consistent approach within the Standard Life Pensions and Savings and Standard Life Investments UK businesses to ensure the fair treatment of longstanding customers and clients, and the processes in place to support this. Key considerations of the Committee in this context were ensuring:

- The proposition management governance process was effective
- There was adequate visibility of longstanding customer fairness risks
- The robustness of the reviews performed in respect of the direct retail offering within Aberdeen Standard Investments

The presentation of Business Risk Reviews reports to the Committee in 2017 has supported the Committee in allowing informed discussion regarding the progress of key business activities. Having considered the material presented, the Committee endorsed the recommendations contained in the Business Risk Reviews reports.

In addition to reviewing reporting relating to the merger, the Committee has reviewed and challenged due diligence risk assessments relating to proposed material strategic transactions. This included assessments relating to the proposed acquisition of certain assets related to the investment management business of Alpine Woods Capital Investors, LLC.

Governance changes

As already highlighted in this report, risk and capital committees have been established within Standard Life Assurance Limited (SLAL), Standard Life Savings Limited and Elevate Portfolio Services Limited during 2017.

Governance arrangements have been put in place to ensure that the Committee retains appropriate oversight of material risk and capital matters following the introduction of these new committees. This includes the Committee being responsible for approving the terms of reference for the risk and capital committee of Standard Life Assurance Limited (being a direct subsidiary of the Company) and any subsequent material changes to those terms of reference.

The Committee receives and reviews minutes from the Standard Life Assurance Limited risk and capital committee and any other reports escalated by the Chairman of that committee. Arrangements also exist for the Committee Chairman to attend the Standard Life Assurance Limited risk and capital committee. Corresponding arrangements have been put in place between the Standard Life Assurance Limited risk and capital committee and equivalent committees in place in its subsidiaries.

In 2018 a similar risk committee will be established for Standard Life Asia Limited. This will allow similar governance arrangements to be implemented to those introduced for Standard Life Assurance Limited in 2017.

Chief Risk Officer

Raj Singh stood down as Chief Risk Officer at the beginning of 2018 to take up a new position as Executive Financial Institutions and Senior Risk Advisor, working with the ASI Global Head of Insurance and Head of EMEA Distribution to leverage his global insurance experience as well as to provide an ambassadorial role for our office and operations in Switzerland. Following due consideration by the Committee and the approval of the Board and the Regulators, Gareth Murphy, previously Deputy Chief Risk Officer, succeeded Raj as Chief Risk Officer.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. In August 2017 the members of the Standard Life plc Risk and Capital Committee completed this review via an internal self-assessment questionnaire.

The overall conclusion of the review was that the Committee had operated effectively. In particular, comments from the Committee recognised the additional time spent on conduct risk and cyber risk and, in respect of pre-merger considerations, the strength of oversight provided by the Committee.

For 2018, the review highlighted an expectation that to continue to operate effectively the Committee would need to remain focused on evolving in response to a range of external and internal factors including the changing risk profile of the Group, the continued regulatory focus on matters such as conduct risk and the evolving governance arrangements within subsidiary companies.

5. Directors' remuneration report

5.1 Remuneration Committee Chairman's statement

This report sets out the new remuneration policy for the Directors of Standard Life Aberdeen plc, what we paid them in 2017 and how we will pay them in 2018, together with an explanation of what the Remuneration Committee considered in reaching its recommendations. Where tables and charts in this report have been audited by KPMG LLP we have marked them as 'audited' for clarity.

The report is structured in the following sections:

- The annual statement from the Chairman of the Remuneration Committee
- Summary of the proposed remuneration policy, key remuneration decisions, and performance and remuneration for 2017 on pages 98 to105.
- The new Directors' Remuneration Policy, set out on pages 106 to 114, and which is subject to a shareholder vote at the 2018 AGM
- The annual report on remuneration. This will be subject to an advisory vote at the 2018 AGM.

Approval

The Directors' remuneration report was approved by the Board and signed on its behalf by

Richard Mully
Chairman, Remuneration Committee

23 February 2018

Dear Shareholder

2017 Events

On behalf of the Board I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year ended 31 December 2017.

This is my first report as Chairman of the Remuneration Committee for Standard Life Aberdeen plc, having previously served as Chairman of the Remuneration Committee for Aberdeen Asset Management PLC and taken on the role for Standard Life Aberdeen plc in August 2017 following the merger. I would like to thank Melanie Gee, who served as the previous Committee Chairman for Standard Life plc, the Board and my fellow Committee members for their continued support.

Standard Life plc amended its Directors' Remuneration Policy on 19 June 2017 at the General Meeting for the period from completion of the merger to 31 December 2017 on the underlying principle that minimal changes would be made to the policy as we were already part way through a performance year. Due to the different remuneration structures in place at Standard Life Group and Aberdeen some changes were made to the transitional policy to accommodate the existing remuneration arrangements of the Aberdeen executive directors, who were joining the Standard Life Aberdeen plc Board, and the remuneration structure for the Chief Investment Officer who joined the Board on the effective date of the merger. Given the transformation of the Company, as a result of the merger, during the period from August 2017 the Committee has undertaken a holistic review of our approach to executive remuneration to align this to our strategy and business plan. This has also included careful consideration of the complex regulatory, political and social landscape for executive remuneration, which we continue to follow closely. The outcome is the new Remuneration Policy which I now present for your approval.

A key principle underlying our remuneration approach is that reward should be aligned to performance outcomes of the Group and the shareholder experience. In this year of change, the Group has delivered total shareholder return of 23.7% in 2017 and a total 2017 dividend of 21.30p per share which is a 7.5% year-on-year increase from the total 2016 dividend. More details on Group performance are set out in the Strategic report.

Board changes

This year has also seen a number of changes to our executive leadership in light of the merger, with the appointment of the Co-Chief Executive Officers (Co-CEOs) Keith Skeoch and Martin Gilbert, Chief Financial Officer (CFO) Bill Rattray and Chief Investment Officer (CIO) Rod Paris to the Board. The following executive Directors stepped down from the Board during 2017: Barry O'Dwyer (CEO, Pensions and Savings), Luke Savage (CFO), Colin Clark (Global Client Director), and Paul Matthews (UK and Europe Chief Executive Officer). Our performance, along with the principles of our remuneration policy, have shaped the remuneration decisions that we have made during 2017 both in relation to the current and former executive Directors. The remuneration arrangements for the executive Directors who stepped down from the Board are detailed on pages 126 to 127.

Our strategy and remuneration policy

Our approach to executive remuneration going forward

In considering the approach to remuneration for executive Directors going forward, the Committee considered the following principal factors:

- Alignment to our business model
- Alignment with the strategy of the Group
- Consideration of the industry within which the Group operates
- Harmonisation of approach across the leadership team

The corporate aim and rationale behind the merger was to create a world-class investment company. With the merger of the two companies, as set out elsewhere in the Annual report and accounts 2017 in more detail, this journey has been significantly accelerated.

In this context we reviewed our remuneration arrangements to ensure that we have a remuneration structure which both incentivises our leadership team to deliver our strategy and is appropriate in the context of the business model going forward.

In developing our new policy, we considered the policies of Aberdeen and Standard Life Group and adopted elements of these policies where these were well aligned to the strategic direction of the merged Company and introduced new elements where these would strengthen the link between reward and the delivery of our strategy. Given the Group's business model going forward, the Committee also took into consideration the structure of remuneration within global asset management peers, whilst being cognisant of the approach to remuneration at FTSE listed peers of a similar size.

The objective for our proposed remuneration structure is to reward focus on sustainable value creation over the long term for our clients and shareholders through a simple and transparent design.

To deliver our strategy, a priority was ensuring the right Board composition. To support this priority a key driver of our design has been the harmonisation of the pay structure and maximum opportunity for the Co-CEOs to incentivise the delivery of the challenging integration plan and delivery of the strategic and financial objectives for the merger.

In light of these considerations, the Committee have designed a new remuneration structure that is based around:

- A simplified annual package for executive Directors comprised of fixed pay and benefits (aligned to the wider workforce) plus a single variable pay award, of which 75% is deferred in shares with no release of value to participants until year 5. Our aim is to improve transparency between performance and reward outcomes for our executive Directors and our shareholders over the long term.
- Both backward and forward looking performance measures to ensure that reward is linked to the delivery of sustainable long-term value for shareholders, through (i) a scorecard for the initial determination of awards which measures performance over a backward looking period of one to three years; and (ii) the introduction of forward looking three-year underpin performance conditions for all deferred awards.
- Maintaining focus on long-term sustained levels of performance through a variable pay award that is subject to an appropriate balance of performance metrics that will, over the course of the policy term, cover a six-year period. As it would not be appropriate to consider the performance of the businesses prior to the merger, trailing performance measures will be introduced over the next three years.
- Alignment with shareholders through a shareholding requirement that is at the top end of the market (500% of salary for the Co-CEOs and 300% of salary for other executive Directors) and which must be maintained for 12 months post departure from the Company.

The resulting package has significantly increased both (i) the focus on long-term performance and (ii) the time horizons of the delivery of remuneration from the previous remuneration structure for both our Co-CEOs. This has been achieved with a package that delivers a lower package at target and maximum levels for both Co-CEOs. The proposed package for our executive Directors is detailed in the table below.

Individual	Maximum package - proposed	Maximum package - previous
Martin Gilbert	Reduced to £4,320k (Salary - £600k; pension - 20%; variable pay award - 600%)	£5,764k (Fixed pay - £524k; variable pay award - 1,000%)
Keith Skeoch	Reduced to £4,320k (Salary - £600k; pension - 20%; variable pay award - 600%)	£4,900k (Salary - £700k; pension- 25%; incentives - 575%)
Rod Paris	Reduced to £3,240k (Salary - £450k; pension - 20%; variable pay award- 600%)	£4,005k (Salary - £450k; pension -25% incentives - 765%)
Bill Rattray	Set at £2,115k to reflect increased scale of role (Salary - £450k; pension - 20%; variable pay award - 350%)	£1,541k (Fixed pay - £367k; pension - 20%; variable pay award - 300%)

These changes align our remuneration structures more closely with the market for the asset management industry and consider the FTSE and MSCI reclassification of Standard Life Aberdeen in the asset management subsector following the merger.

Further details on how the remuneration structure is directly aligned to the Group's strategic priorities, as well as our culture and values, and how the structure will be implemented in 2018 are set out in the 'Appoach to remuneration going forward' section on page 98.

Alignment of remuneration across our workforce

The Committee views alignment of our approach to determination of pay for executive Directors with wider Company policy on remuneration as critical to the successful delivery of strategy and development of future talent. A core principle of the reward structure for employees around the Group is to ensure success is shared appropriately and there is a fair approach to the determination of remuneration outcomes. As part of this the aggregate variable pay pool in any year is typically expected to be no higher than 25% of adjusted profit before variable pay and this will include the variable pay of executive Directors and all employees.

Shareholder engagement

Since completion of the merger the Committee have consulted extensively with our largest shareholders (representing c.40% of our shareholder base) and with the Investment Association, Institutional Shareholder Services and Glass Lewis. The Committee found the discussions helpful and constructive and the feedback we received shaped our final proposals.

Shareholders consulted with were generally supportive of the proposed approach going forward, and in particular:

- Our approach to simplification and improved transparency
- The increased focus on long-term performance measures and targets through introduction of backward and forward looking performance measures extending the time period that performance is measured from the previous policies for both CEOs
- The increased alignment to shareholders through the five-year time horizon for all deferred awards alongside high shareholding requirements

In light of shareholder feedback, the Committee extended the proportion of deferred awards subject to the underpin performance conditions to 100% of the award for the duration of this policy (the original proposal was for the underpin performance conditions to apply to 50% of the deferred award), in recognition of the fact that the Company is undergoing a period of extensive change and both the strategy and the proposed approach for alignment of executive Director remuneration are new to our shareholders.

The level of remuneration for executives remains under intense scrutiny from shareholders and their representatives, the government and the general public. As a result, with the introduction of the new remuneration structure and alignment of the remuneration for our Co-CEOs, we have reduced the maximum opportunity for both of the Co-CEOs and reduced the fixed pay level for Keith Skeoch as detailed above. The maximum opportunity has also been reduced for the CIO. The package for the CFO has been adjusted to reflect the increase in the scale and complexity of the role compared to his role as CFO for Aberdeen. Furthermore, as a Committee, we understand that critical to any discussion on the levels of executive remuneration is an understanding of our scorecard measures and the process for target setting to ensure this delivers the right alignment between performance and reward. The proposed scorecard for awards (set out on page 100) reflects the feedback that we received from our shareholders on the scorecard measures.

In addition, in response to shareholder feedback the Committee has taken the decision to disclose the targets that will be used to determine the annual variable pay award, where not considered commercially sensitive, for the 2018 performance year on a prospective basis. Where for reasons of commercial sensitivity the actual target is not disclosed an explanation of the process for target setting has been provided. The disclosures are provided in the 'Approach to remuneration going forward' section on page 102.

I would like to thank our shareholders and the Investment Association, Institutional Shareholder Services and Glass Lewis, for their time and constructive feedback.

In-flight performance targets

As a result of the scale of the merger the Committee has carefully considered the impact of this on the performance targets for existing incentive plans. In line with the principle set out in the Circular to the merger that there should be minimal changes for 2017, no changes are proposed to the performance targets for incentive plans in place in Standard Life Group and Aberdeen based on performance to the end of December 2017. Details on the out-turns for these plans are provided below.

The Committee has determined, however, that it is appropriate to restate the financial performance targets for the 2016 and 2017 Standard Life Executive Long-Term Incentive Plan (Executive LTIP) awards and the 2016 and 2017 Standard Life Investments Long-Term Incentive Plan (Standard Life Investments LTIP) awards to account for the changes in the structure of the Group. This is because it is no longer possible to consider the performance metrics of Standard Life Group separately from Standard Life Aberdeen beyond the end of 2017. Vesting for these awards is based in part on performance during 2018 for the 2016 awards, and 2018 and 2019 for the 2017 awards.

The Executive LTIP and Standard Life Investments LTIP are based on three-year cumulative performance targets. Given the timing of the merger, no changes have been made to the proportion of the targets relating to 2017 performance. Adjustments have, however, been made to the proportion of the targets relating to the 2018 and 2019 performance years to reflect the enlarged Company.

The underlying principle used in setting the revised targets is that they should be no more and no less difficult to achieve than the original targets.

Details of the restated 2016 and 2017 Executive LTIP and Standard Life Investments LTIP targets can be found on pages 122 to 125.

We have also updated the profit related measures for the 2018 grants under the Executive LTIP and Standard Life Investments LTIP to align with the financial measures to be used for the new remuneration plan for executive Directors and the updated core Key Performance Indicators (KPIs) for the Company.

Business context and remuneration outcomes for 2017

In accordance with the Directors' Remuneration Policy adopted at the 2017 general meeting, variable pay for Keith Skeoch and Rod Paris is based on performance measures and objectives consistent with the Standard Life Group and Standard Life Investments measures that were set at the start of the 2017 performance year and assessed against the results of these businesses for this period.

Variable pay for Martin Gilbert and Bill Rattray from the date of the merger to the end of this performance year is based on performance measures and objectives consistent with Aberdeen measures that applied up to the merger and assessed against Aberdeen results for the period from 14 August 2017 to 31 December 2017.

In reaching its decisions in terms of the annual bonus scorecard and 2017 LTIP vesting levels for Keith Skeoch and Rod Paris and the variable pay awards for Martin Gilbert and Bill Rattray, the Committee considered a range of factors in order to ensure that the awards are fair and appropriately reflect overall performance. As well as considering the achievement against the targets, the Committee reviewed the individual components which contributed to the delivery of the financial performance. Looking externally, the Committee also considered the alignment of its decisions on remuneration with the interests of shareholders. In particular, the Committee have sought to ensure that there are no unintended consequences of the merger on 2017 performance outcomes.

As detailed earlier in the Annual report and accounts as a result of the announcement on 15 February 2018 that Lloyds Banking Group and Scottish Widows are seeking to terminate arrangements for the assets we manage we have recognised an impairment charge of £40m relating to this intangible asset in our 2017 results. The impact of this will be reviewed during 2018 and any implications in respect of executive Director remuneration will be considered as part of the 2018 year end decision making in relation to remuneration as the impact together with mitigating actions becomes clearer.

In addition, as a result of today's announcement regarding the sale of the Group's capital heavy insurance business, during 2018 the Committee will review the impact of this on remuneration measures and targets set for the 2018 and in-flight incentive arrangements and consult with shareholders as appropriate.

Keith Skeoch and Rod Paris

Having considered the financial performance, the non-financial performance in 2017 and performance against personal objectives, the Committee approved a bonus award of 143% of salary for Keith Skeoch and 310% of salary for Rod Paris (which is the sum of his bonus awards under the Standard Life Group and Standard Life Investments bonus arrangements based on his salary pro-rated for the period in the year for which he was a Director). The Committee also approved the vesting level of the 2015 Executive LTIP as 70% of maximum and awards granted under the 2015 Standard Life Investments LTIP will vest at 42.3% of maximum. Keith Skeoch and Rod Paris will also be granted a final award under the Executive LTIP in 2018 in relation to performance in 2017. The award levels will be 400% of their respective salaries as at 31 December 2017.

Martin Gilbert and Bill Rattray

Having considered financial and non-financial performance in the period from the merger to 31 December 2017 and personal performance against objectives, the Committee approved a bonus award of 569% of salary for Martin Gilbert and 168% of salary for Bill Rattray (based on salary pro-rated for the period in the year for which they were a Director).

In order to maximise transparency, we have also included a section in the annual remuneration report disclosing the variable pay outcome for the period 1 October 2016 to the date of the merger. These awards were determined by the remuneration committee of Aberdeen Asset Management PLC.

Further details regarding the implementation of our policy in 2018 are provided in the 'Approach to remuneration going forward' section of this report on page 103.

I hope that you find this report a clear account of how the Committee has developed our policy proposals for 2018 and implemented the policy during 2017 and are able to support the decisions we have taken. I would again like to thank our shareholders for their time and sharing their views during our meetings. I welcome any comments from shareholders and will be available to answer any questions at the AGM.

Approach to remuneration going forward – explained

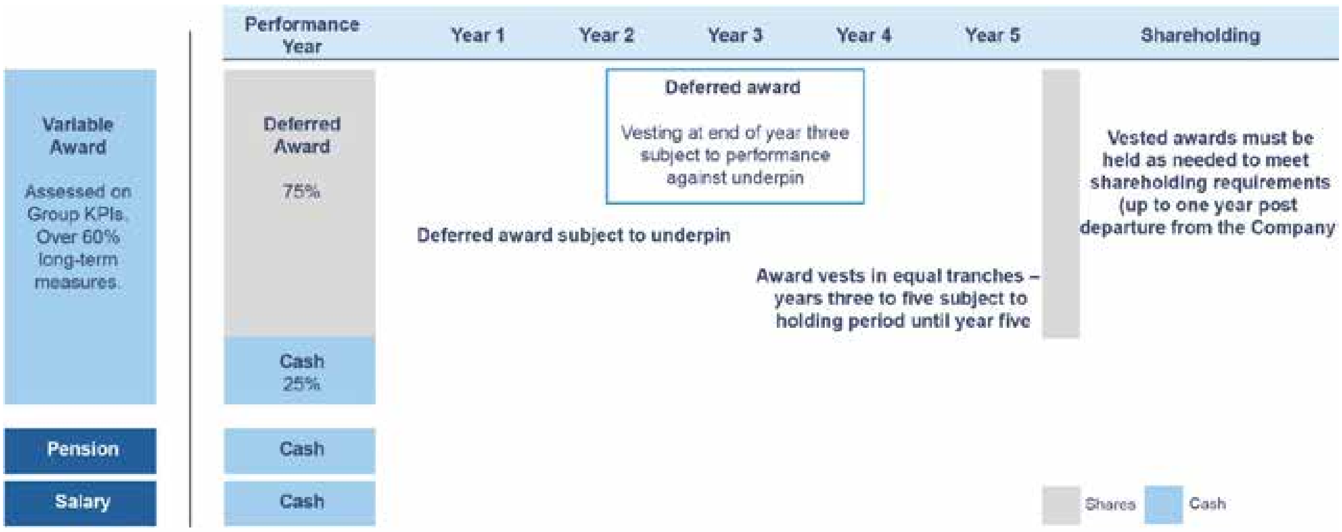
The following section sets out an overview of the Group's remuneration principles which underpin the new remuneration framework, how our new remuneration policy will be operated going forward, how it aligns with our business strategy and the way in which it will be implemented in 2018.

What principles were used to develop the new remuneration framework?

The Remuneration Committee developed three key principles designed to support our strategy, culture and values which guided the design of the remuneration framework going forward, as follows:

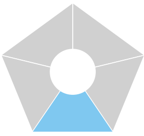
Underlying principles	How this is achieved with the proposed framework
1 The approach to remuneration within the Group should be simple and transparent	• Our remuneration framework and the basis for awards is simple, transparent and fair for both participants and shareholders alike
2 The approach should encourage a long-term focus on strategy and culture	• The remuneration framework rewards the achievement of long-term sustained business results which support our strategy, cultures and values • Conduct and how performance has been achieved will form a key part of how remuneration levels are determined • The remuneration design encourages significant long-term share ownership to ensure wealth and not just income is at risk • An appropriate level of fixed remuneration is provided to balance risk and reward
3 Alignment with stakeholders	• Our remuneration design aligns the interests of executives, shareholders and importantly our clients

The following chart illustrates the key elements of our remuneration structure for executive Directors going forward and the time-horizons for each element.



How does the remuneration structure support delivery of strategy?

The remuneration structure for executive Directors has consciously been designed to support the delivery of the Group's key strategic priorities as illustrated below:

Our strategy	What this means for us	How our remuneration structure delivers our strategy
 **Developing strong relationships with customers and clients**	• We focus on putting customers and clients first with the aim of operating to the highest standards. If we don't meet our own high standards, we look to put it right	• A balance of non-financial measures will form part of our scorecard for reward • These will be assessed in determining reward outcomes to ensure that our culture and values have been adhered to in achieving results delivered
 **Broadening and deepening our investment capability**	• Investment capability is central to attraction of future customers and clients that require propositions and fund choices to deliver value over the long term	• Investment performance and flows are included in performance measures for reward outcomes, with performance measured over an extended time period • Investment performance will be measured over three and five years and flows over three years • This will also form part of underpin measures post-award for a further three years
 **Building an efficient and effective business**	• Delivering cost synergies whilst maintaining client service	• Cost/income ratio will be included in performance measures for reward outcomes and will also form part of underpin measures post-award for a further three years
 **Growing and diversifying our revenue and profit**	• Growth and diversification is a critical part of our strategy for delivering sustainable value to shareholders	• A variable pay award based on a pre-determined balanced scorecard of measures that will reward achievement of key financial milestones across our global business over the long term (up to six years). This includes flows based on growth channels.
Attracting, retaining and developing talented people	• Engaged people are central to our success and delivering for customers, clients and our shareholders	• Simplified remuneration structure to improve transparency between performance and reward and reduce unexpected outcomes • Appropriate balance of package between fixed pay and performance related pay (delivered in cash variable pay and deferred variable pay)

How will performance be measured?

The tables on the following pages set out the Executive Incentive Plan (EIP) scorecards for variable pay awards going forward, both in terms of determining annual awards under the plan, and the underpin performance conditions to be used for deferred awards together with the rationale for their inclusion. As illustrated below, a significant proportion of annual award (60%) will be based on long-term financial measures. Details of the targets that will be used to determine the 2018 awards are also provided.

Performance scorecard

Performance measures	Time period for measurement	Weightings	Rationale for inclusion/additional details
Investment performance	Three and five years	20%	• Aggregate performance data of mandates and funds against the relevant client-specific benchmarks, calculating the average, weighted by AUM. Blend of three-year and five-year performance, in equal proportions. • Three-year investment performance is a KPI for the Group
New business flows	Building up to three years over duration of policy	20%	• The metric will be split into two parts: (i) 50% weighting to gross new business flows (all channels) (ii) 50% weighting to net new business flows (growth channels only) • Excludes flows arising from investment in cash and liquidity funds • Measures a key driver of AUMA in terms of new business and its retention
Adjusted profit before tax (excluding spread/risk margin)	Building up to three years over duration of policy	20%	• Excludes spread/risk margin which can be volatile due to impact of demographic assumption changes • Links executive reward to profit generation
Cost/income ratio (excluding spread/risk margin)	Annual	20%	• Aligned to the Group's strategy of building an efficient and effective business
Total financial		**80%**	
Strategic measures	Annual	10%	Focuses management on the delivery of the business' strategic priorities to drive improved performance in future years.
Customer and client measures	Annual		Focuses management on growing customer and client volumes through winning new customers and clients and growing revenue from our existing customers and clients which will ultimately lead, through growth in assets under management and quality revenue flows, to increasing profitability and increased shareholder value.
People measures	Annual		Focuses management on developing organisational capability by building the resources for the future, supporting the diversity agenda and encouraging the desired behaviours.
Risk, compliance and conduct measures	Annual		Focuses management on risk accountability, advancing an effective risk management environment, the management of conduct risk and the embedding of a robust control environment.
Personal	Annual	10%	Rewards delivery of performance against key personal performance objectives.
Total non-financial		**20%**	

How are the performance metrics set?

Long-term financial targets

Long-term financial targets (excluding Investment performance) are three-year cumulative targets based on adding the discrete one-year figures from the relevant budget and operating plan approved by the Board each year. This ensures that meaningful and challenging targets can be set by reference to, amongst other things, the trend of prior year results and the prevailing market and economic conditions.

To avoid reliance on historic results for periods before completion of the merger, the three-year targets will be introduced on a transitional basis, under which the targets in the first year will be set for 2018 only based on the 2018 budget and operating plan, in the second year they will be set on a cumulative basis for the two years 2018 and 2019, with the full three-year cumulative measure applying in the third year, covering the years 2018, 2019 and 2020.

Adjusted profit before tax (excluding spread/risk margin) (20%)	• This metric compares actual adjusted profit before tax excluding spread/risk margin, on a cumulative basis over a rolling three-year period, against the targets set as detailed above • The threshold, target and stretch figures will be disclosed retrospectively following the end of each performance period
Gross new business flows (10%)	• This metric compares actual total gross new business flows on a cumulative basis over a rolling three-year period, covering both growth and mature channels (but excluding cash and liquidity funds), against the targets set as detailed above
Net new business flows (10%)	• This metric compares actual net new business flows on a cumulative basis over a rolling three-year period, covering only the Company's growth channels (but excluding cash and liquidity funds), against the targets set as detailed above
Investment performance (20%)	• Investment performance is measured by reference to the aggregation of performance data of mandates and funds against the relevant client-specific benchmarks and calculating the average, weighted by AUM. This metric used for remuneration purposes is a blend of three-year and five-year relative performance, in equal proportions. • The target is set at 60% of AUM by value to be outperforming benchmark • In considering relative investment performance, the GARS strategy is measured by reference to a LIBOR +2.5% return over the relevant period, which is midway between the benchmark and target performance
Short-term financial target	
Cost/income ratio (20%)	• This metric compares the actual cost/income ratio (excluding the effects of spread/risk margin, consistent with the profit measure), measured over a single year, against targets set by the Committee at the beginning of each period

Scorecard for 2018 EIP

The following table sets out the performance scorecard to be used to determine 2018 EIP awards.

Performance metrics	Weighting	2017 Actual	Threshold (0% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)
Long-term financial					
Adjusted profit before tax (excluding spread/risk margin)	20%	Due to commercial sensitivity this measure will only be disclosed at the end of the performance period.			
Gross new business flows (all channels)	10%	£73.4bn	£76.8bn	£85.3bn	£93.8bn
Net new business flows (growth channels only)	10%	(£13.5bn)	£1.0bn	£3.3bn	£6.0bn
Investment performance	20%	59.5%	50.0%	60.0%	70.0%
Short-term financial					
Cost/income ratio (excluding spread/risk margin)	20%	69.7%	68.0%	66.0%	64.0%
Total					
Annual non-financial measures	10%	Remuneration Committee assessment			
Annual personal performance	10%	Remuneration Committee assessment			

Underpin performance conditions applied to deferred variable pay awards

All of the deferred awards made to executive Directors for the duration of the policy will be subject to underpin performance conditions measured over a three-year period. Taken together with the long-term financial measures used for the financial scorecard, this extends the performance measurement period for awards to up to six years.

Performance measure	Weighting	Definition/rationale for inclusion
Investment performance	25%	• Aggregate performance data of mandates and funds against the relevant client-specific benchmarks, calculating the average, weighted by AUM. Blend of three-year and five-year performance in equal proportions, over the three-year period following the EIP performance period. • Rewards sustained performance
Flows	25%	• Excludes flows arising from investment in cash and liquidity funds • 50% weighting to gross new business flows, to include both growth and mature channels • 50% weighting to net new business flows, which considers net flows within growth channels only to limit potential for ongoing run-off of mature business to unduly influence the aggregate net new business figures as management's ability to influence the quantum and timing of these run-off flows is limited • Rewards a key driver of AUMA
Return on adjusted equity	25%	• Return on adjusted equity is defined as the annualised adjusted profit before tax (excluding spread/risk margin), expressed as a percentage of opening IFRS equity, adjusted for (i) time-apportioned dividends paid to equity holders, (ii) the defined benefit pension surplus and (iii) the incremental goodwill and intangible assets arising from the IFRS accounting for the merger or any similar transaction in the future • Rewards efficient profit generation
Cost/income ratio	25%	• This metric will compare the actual average cost/income ratio (excluding spread/risk margin), consistent with adjusted profit before tax (excluding spread/risk margin) against target achieved over the relevant three-year underpin period • Aligned to the Group's strategy of building an efficient and effective business

Underpins to be applied for deferred variable pay awards to be granted in 2019 in respect of 2018 performance

The following table sets out the underpin measures that will be used for the deferred awards to be granted in 2019 (which will be made in respect of 2018 performance).

Performance measure	Weighting	Underpin level
Investment performance	25%	• The outcome will be calculated at the end of each financial year in the three-year underpin period (2019-2021), with the average of the three years' results to be at or above 55% of AUM by value to be outperforming benchmark
Flows[1]	25%	• Gross flows underpin will be set by aggregating the gross new business flows budgets from the 2019 approved budget/plan for the three-year period 2019-2021 • Underpin for gross flows will be set at the midpoint between the three-year aggregated 2019 budget total and the related threshold measure calculated for the 2019 performance scorecard • Net flows underpin will be set by aggregating the growth channel net new business flows budgets from the 2019 approved budget/plan for the three-year period 2019-2021

Performance measure	Weighting	Underpin level
		• Underpin target for net flows will be set at the midpoint between the three-year aggregated 2019 budget total and the related threshold measure calculated for the 2019 performance scorecard
Return on adjusted equity	25%	• The underpin will require return on adjusted equity, calculated as the average rate over the three-year underpin period (2019-2021), to be 17% or higher
Cost/income ratio[1]	25%	• The underpin will be set by averaging the annual cost/income ratios for each of the three years in the underpin period (2019-2021) from the 2019 budget and operating plan

1 Actual underpin target to be published at time of grant of the award in quarter one 2019.

Performance against the annual performance scorecard and the underpin performance conditions will be assessed against the above measures. Prior to making any award and prior to an award vesting the Risk and Capital Committee and Audit Committee formally advise the Committee on matters including, but not limited to operational performance, conduct and compliance. The Committee has the discretion to amend awards if it does not consider that these reflect the performance of the Group.

The Committee recognises that alongside the alignment to strategy, our reward policy must promote sound ethics, appropriate conduct and risk management and operating with integrity. We have fully consulted with the Chief Risk Officer during the development of our remuneration policy to ensure that this supports our own aims and objectives for a responsible business.

How will the policy be implemented in 2018?

Element	Implementation in 2018
Base salary	With effect from 1 January 2018 base salaries are as follows: • Co-Chief Executive Officers (Co-CEOs): £600,000 (Keith Skeoch £600,000 (reduced from £700,000), Martin Gilbert (£600,000 increased from £522,000)) • Chief Investment Officer (CIO): £450,000 • Chief Financial Officer (CFO): £450,000 (increased from £365,000)
Benefits and pension	• Benefits to be provided in line with benefit policy • The pension allowance for each of the executive Directors has been set at 20% of salary (reduced from 25% of salary for Keith Skeoch and the CIO)
Executive Incentive Plan	The maximum opportunities under the EIP in respect of 2018 have been set as follows: – Co-CEOs: 600% of salary – CIO: 600% of salary – CFO: 350% of salary • Subject to performance, 75% of awards will be delivered in the form of deferred shares subject to underpin performance conditions measured over a three-year period. The remainder of the award (25%) will be delivered in the form of cash. • For grants made in 2018 at least 80% of the performance metrics will be based on financial performance • The performance conditions used to determine awards and subsequent performance conditions to be applied to the deferred awards are set out above in the section ‘How will performance be measured’
Share ownership	Executive Directors are required to build up substantial interests in the Group as follows: • Co-CEOs: 500% of salary • CIO: 300% of salary • CFO: 300% of salary • Shares up to the value of the share ownership guidelines must be held for 12 months following departure from the Group

Performance and remuneration for 2017 at a glance

Key performance measures

The tables below illustrate outcomes against key performance measures relevant to 2017 remuneration for Co-CEOs Keith Skeoch and Martin Gilbert. The annual bonus outcome for 2017 for Keith Skeoch is driven by assessment of performance against a scorecard, which includes financial and non-financial measures and personal performance. Keith also participates in the Standard Life Group long-term incentive plans, details of which are provided below. The variable pay outcome for Martin Gilbert for the period 14 August 2017 to 31 December 2017, which determines his full incentive opportunity, was based on achievement against a mixture of long-term and annual financial metrics, non-financial metrics and personal performance.

Keith Skeoch

Annual bonus performance measures	2017
Financial	4.25/5
Non-financial	
– Strategic/delivery/process	5/5
– Customer and external leadership	4.5/5
– People	4.75/5
Weighted combined scorecard outcome	4.4/5
Personal performance	4/5

Martin Gilbert

Variable pay performance measures	2017
Financial	42.1%/80%
Non-financial strategic	6.75%/10%
Personal performance	8%/10%

The 2015 Executive LTIP targets measure Group performance over a three-year period against a range of financial measures. The Standard Life Investments 2015 LTIP target measures Standard Life Investments' consolidated cumulative three-year third party earnings before interest, tax, depreciation and amortisation (EBITDA) performance.

Keith Skeoch

Executive LTIP 2015 performance measure	Threshold	Actual performance	Weighted vesting level[1]
Cumulative Group operating profit before tax	£1,670m	£2,122m	70%
Cumulative Group net flows	£16.6bn	(£8.4bn)	0%
Final vesting			70%
Standard Life Investments LTIP 2015 performance measure			
Consolidated cumulative three-year third party (EBITDA)	60% of target	93.84% of target	42.3%

1 Executive LTIP 2015 weighted 70% cumulative Group operating profit before tax, and 30% cumulative Group net flows.

Following completion of the merger the Group have changed the calculation of adjusted profit before tax (named operating profit before tax when the target for the 2015 award was set). This is explained further on page 176.The actual operating profit before tax for the purpose of the 2015 Executive LTIP has been calculated based on the calculation methodology when the target was set and also excludes the impact of the merger. Operating profit/adjusted profit is not defined under IFRS and is therefore deemed an alternative performance measure.

A definition of adjusted profit can be found in the Glossary. Further information including reconciliations to relevant IFRS metrics are provided in Supplementary information in Section 10.

Total remuneration – Co-Chief Executive Officers

These tables measure for each Co-Chief Executive Officer, for the period in 2017 in which they held that position, the remuneration reportable in the single figure table on page114 compared to the maximum remuneration permissible under the remuneration policy.

Keith Skeoch

In this table maximum remuneration includes the value of dividend equivalents added to LTIP awards and share price movement from the value when the awards were granted. The LTIPs are valued on the same basis as in the single figure table.

	£000s
2017 single figure remuneration	3,028
Maximum remuneration	4,151

Martin Gilbert

Martin was appointed as Co-Chief Executive Officer on 14 August 2017 and both this and the single figure table report his remuneration in the period from 14 August 2017 to 31 December 2017.

	£000s
2017 single figure remuneration	1,317
Maximum remuneration	2,162

Pay Ratios

The Committee is mindful of the relationship between Chief Executive Officer pay and the pay of other employees across the Standard Life Aberdeen Group. In line with emerging best practice, the Committee has again therefore voluntarily decided to include the pay ratio between the Co-Chief Executive Officers and the median pay of other employees within the Group. The Committee notes that the UK Government intends to require companies to report this figure annually but the proposed legislation has not been published at the time of this report.

Based on the averaged annualised Co-Chief Executive Officers' single figures set out on page 114 the ratio of pay to the median of all other UK based employees is 60:1. Employee pay includes base salary, employer pension contributions, benefits and incentive payments.

There is no external guidance on the methodology to be used for the calculation of the pay ratio. The Committee used the median as the comparator as it is affected less by changes in the remuneration of a small number of employees when comparing between years.

5.2 Future Policy Report

This section sets out the remuneration policy for executive Directors and non-executive Directors, which is subject to a binding vote of shareholders and will, if approved, take effect from the date of the 2018 AGM.

Remuneration policy for executive Directors

Base salary	
Purpose and link to strategy To provide a core reward for undertaking the role, commensurate with the individual's role, responsibilities and experience.	**Maximum opportunity** Salaries for executive Directors are set at an appropriate level to attract and retain individuals of the right calibre and with the experience required. Whilst no maximum is set, when considering increases, the Remuneration Committee is guided by the general increase for the broader employee population. The Remuneration Committee may determine larger increases in certain circumstances, such as: development in role; change in responsibility; where a new or promoted employee's salary has been set lower than the market level for such a role and larger increases are justified as the individual becomes established in the role.
Operation Normally reviewed annually, taking into account a range of factors including: (i) the individual's skills, performance and experience; (ii) increases for the broader employee population; (iii) external market data and other relevant external factors; (iv) the size and responsibility of the role; and (v) the complexity of the business and geographical scope.	**Performance metrics** Not applicable.
Benefits	
Purpose and link to strategy To provide market competitive and cost effective benefits.	**Maximum opportunity** There is no maximum value of the core benefit package. The costs associated with benefits provision are monitored and controlled by the Remuneration Committee.
Operation Executive Directors are provided with a package of core benefits, which include (i) health screening; (ii) private healthcare; (iii) death in service protection; (iv) disability income protection benefit; and (v) reimbursement of membership fees of professional bodies. In line with other employees, executive Directors are eligible to participate in the Company's voluntary benefits programme. Specific benefit provision may be subject to minor change from time to time. Additional benefits may be provided on recruitment or to support relocation. In the event of recruitment or relocation additional benefits may be provided as considered appropriate by the Remuneration Committee, including, but not limited to: housing rental costs; education allowance; travel and accommodation costs; and other relocation costs.	**Performance metrics** Not applicable.

Pension	
Purpose and link to strategy To provide a competitive, flexible retirement benefit in a way that does not create an unacceptable level of financial risk or cost to the Group.	**Maximum opportunity** Group contribution of up to 20% of base salary, or equivalent cash allowance in lieu.
Operation Employee contributions are made to the Group's defined contribution pension arrangement, or equivalent cash allowances are paid. The level of contribution/ cash equivalent is reviewed periodically taking into account: (i) the pension opportunity offered to other employees within the Group; (ii) external market data; and (iii) pension legislation. The Group would continue to honour legacy arrangements (e.g. defined benefit pension arrangements) in the event of an individual with a contractual entitlement to such a pension benefit being promoted to an executive Director role.	**Performance metrics** Not applicable.
All employee share plans	
Purpose and link to strategy To permit participation in all employee share plans on the same basis as other employees.	**Maximum opportunity** Maximum contributions under all employee share plans will be set in line with other employees and within the limits set by the relevant tax authority.
Operation To the extent operated by the Company, participation in an HMRC approved Share Incentive Plan or Sharesave plan is permitted.	**Performance metrics** Not applicable.
Executive Incentive Plan (EIP)	
Purpose and link to strategy To reward the delivery of the Group's business plan in a range of financial and non-financial areas and to align executives' interests to those of shareholders and our customers and clients.	**Maximum opportunity** The maximum award opportunity in respect of a financial year under the plan is 700% of salary. For 2018, the opportunity levels are: – Martin Gilbert – 600% salary – Keith Skeoch – 600% salary – Rod Paris – 600% salary – Bill Rattray – 350% salary The Remuneration Committee will normally consult with the Company's largest institutional shareholders in advance of increasing award levels above the current grant levels.
Operation *Annual award* The performance measures, their respective weightings and targets are set annually by the Remuneration Committee. The Remuneration Committee exercises its judgement to determine awards at the end of the performance period, which in normal circumstances, will be a period of 12 months, to ensure that the outcome is fair in the context of overall Group performance. The Risk	**Performance metrics** *Annual award* Performance is assessed against a range of key financial, non-financial (including strategy, customer and client, risk, conduct and compliance and engaging our talent) and personal performance measures. Performance is measured both on annual, and where appropriate, trailing performance. Trailing performance will be measured over a

and Capital Committee and the Audit Committee will formally advise the Committee as part of this process and the Committee has the discretion to amend awards if it does not consider that these reflect the performance of the Group. Once the award has been determined: • 25% will normally be paid in the form of cash; and • 75% will normally be deferred into instruments. *Deferred award* Deferred awards will be subject to underpin performance conditions which will normally be measured based on performance over the three financial years from award. Deferred awards will normally vest in equal tranches on the third, fourth and fifth anniversary of the grant date. Deferred awards are, where appropriate, subject to a holding period to the end of the fifth anniversary of the grant date. The measures, their respective weightings and targets for the purpose of the underpin performance conditions are set annually by the Remuneration Committee. The Remuneration Committee exercises its judgement to determine the extent to which the underpin performance conditions have been met to ensure that the outcome is fair in the context of overall Group performance. Deferred awards will normally be delivered as share awards. Where required, for regulatory purposes, deferred awards can be made in a combination of share awards and fund awards (which are conditional rights to receive a cash sum based on the value of a notional investment in a range of Standard Life Aberdeen funds). The balance of each award is determined by the Remuneration Committee; however, the share element would not be less than 50% of the deferred award. Deferred awards will accrue the value of dividends (payable in cash or shares or such equivalent form) over the deferral / holding period (or, if later, the exercise of the award during a retention period), to the extent the awards vest. Awards are subject to malus and clawback.	period increasing to three years over the duration of the policy and will form at least 50% of an award. At least 70% will be based on financial performance measures and no more than 10% will be based on personal performance measures. For threshold performance, the award opportunity is 0%, with 100% of the award payable for maximum performance. *Deferred award subject to underpin performance* Performance is measured against at least four underpin performance conditions. Underpin performance conditions are determined by the Committee on an annual basis, however, at least three will be based on financial measures. For threshold performance, the amount of deferred award that vests is zero with 100% of the award vesting if the underpin condition is met in full.
Other features	
Malus and clawback Malus and clawback provisions apply to awards under the Executive Incentive Plan. Under the malus and clawback provisions, the Remuneration Committee can reduce awards that have not yet vested (malus) and can require repayment of an award (clawback) for a period of five years from the date of award. The circumstances in which malus or clawback would apply, include but are not limited to: – A material misstatement of the Group's audited financial statement – Any failure of risk management, fraud or other material financial irregularity – Serious misconduct by a participant or otherwise.	**Share ownership** Executive Directors are required to build up a substantial interest in Group shares. The current requirements are as follows: 500% of salary for the Co-Chief Executive Officers and 300% of salary for other executive Directors Executive Directors will normally be required to retain shares held in satisfaction of the requirements for a period of one year following their departure from the Group.

Notes to the policy table

Remuneration Committee discretion in relation to existing commitments

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the policy set out above, or (ii) at a time when a previous policy, approved by shareholders (be it Standard Life Aberdeen plc, Standard Life plc, or Aberdeen Asset Management PLC shareholders), was in place provided the payment is in line with the terms of that policy, or (iii) at a time when the relevant individual was not a Director of the Company and the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, payments include the Remuneration Committee satisfying awards of variable remuneration in relation to awards over shares set out in the table below. This means making payment in line with the terms that were agreed at the time the award was granted.

In the interests of transparency the key terms of the executive Directors 'awards' under legacy plans are set out below.

Overview of key terms for awards	
Executive Long-Term Incentive Plan (Executive LTIP)	• Awards granted in 2014, 2015, 2016, 2017 and 2018. • Awards (in the form of nil-cost options) granted to executive Directors under the Executive LTIP prior to the approval of this policy are subject to the achievement of cumulative Group operating profit before tax and cumulative Group net flows performance over the three-year performance periods. Awards are subject to a two-year holding period after the end of the performance period. • Adjustments have been made to update the profit measure to adjusted profit before tax in the 2016 and 2017 LTIP performance measures and to adjusted profit excluding spread /risk margin in the 2018 LTIP performance measures. In addition, the net flows target has been updated in the 2018 LTIP performance measures to Group growth net flows. Finally the cumulative targets which relate to the 2018 performance year onwards reflect the enlarged Company. • The Remuneration Committee has the discretion to amend the final vesting level of these awards if it does not consider that it reflects the overall performance of the Group. Awards are also subject to review by the Risk and Capital Committee at the end of the performance period to confirm that vesting of the award is appropriate. These awards accrue dividend equivalents over the vesting period which will normally be paid in shares on a reinvested basis. Awards are subject to malus and clawback provisions on the same basis as EIP awards.
Standard Life Investments Long-Term Incentive Plan (Standard Life Investments LTIP)	• Awards granted in 2016 and 2017. • Awards (in the form of nil-cost options) granted to executive Directors under the Standard Life Investments LTIP prior to the approval of this policy are subject to the achievement of Standard Life Investments' consolidated cumulative three-year third party earnings before interest, tax, depreciation and amortisation (EBITDA) in the final financial year of the three-year performance periods. • The vesting of awards is also subject to an investment performance gateway which requires Standard Life Investments' performance to be above the lower quartile of the money-weighted average of all assets under management compared to other asset managers. • Adjustments have been made to update the profit measure to total adjusted profit before tax (including both third party and mature business) in the 2016 and 2017 LTIP measures and to reflect the enlarged Company in the targets which relate to the 2018 performance year onwards. • The Remuneration Committee has the discretion to amend the final vesting level of these awards if it does not consider that it reflects the overall performance of Aberdeen Standard Investments. Awards are also subject to review by the Risk and Capital Committee at the end of the performance period to confirm that vesting of the award is appropriate. These awards accrue dividend equivalents over the performance period which will normally be paid in shares on a reinvested basis. For awards made prior to 2017, awards are subject to malus provisions if the award is found to be granted based on inaccurate information as a result of an individual's conduct, and clawback provisions within two years of vesting if there is a material misstatement of results by a Group member. For awards made from 2017 onwards, awards are subject to malus and clawback provisions on the same basis as EIP awards.
Aberdeen Variable Pay in Deferred shares	• Pre-merger awards – Under the terms of the merger, existing awards granted to employees of Aberdeen under the Aberdeen Deferred Share Plan 2009 or the Aberdeen USA Deferred Share Award Plan prior to completion were exchanged for equivalent awards over shares in the Company. • Awards granted post-merger – Awards (in the form of nil-cost options) that were granted to executive Directors under the Aberdeen Deferred Share Plan 2009. Awards will be released in equal tranches over five years from grant. Awards are eligible to receive dividend equivalents between the date of grant and the date of exercise, which may be paid only after the earliest vesting date has passed. Awards are subject to malus and clawback provisions under the same basis as EIP awards.

Remuneration Committee discretion in relation to future operation of the remuneration policy

The Committee will operate variable pay plans according to the respective rules of the plans. The Committee will retain flexibility in a number of areas regarding the operation and administration of these plans, including (but not limited to) the following:

- How to deal with a change of control or restructuring of the Group, or a demerger or similar event (including allowing awards to vest/be released and disapplying any relevant time pro-rating)
- How and whether any award may be adjusted in certain circumstances (including in the event of a variation of share capital, demerger, special dividend, fund merger, or winding up or similar event)
- How to deal with changes in regulatory requirements (e.g. the inclusion of retention periods post vesting, the form of any deferred award)

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and weightings if events happen that cause it to determine that the original targets or conditions are no longer appropriate and that amendment is required so that the targets or conditions achieve their original purpose. Revised targets/measures will be, in the opinion of the Committee, no less difficult to satisfy than the original conditions.

Share awards, under the Company's share plans, may be granted as conditional share awards, nil cost options or forfeitable shares at the discretion of the Committee. Awards may at the Committee's discretion be settled in cash.

The Committee may accelerate the vesting and/or the release of awards if an executive Director moves jurisdictions following grant and there would be greater tax or regulatory burdens on the award in the new jurisdiction.

Choice of performance measures - approach to target setting

Performance targets for the Group's incentive arrangements are set on an annual basis by the Committee. The Committee takes into account a range of factors including business forecasts, prior year performance, degree of stretch against the performance targets in the business plan, the economic environment, market conditions and expectations.

The following table sets out details on why the performance measures for the purpose of the Executive Incentive Plan (EIP) were chosen. Further details on the proposed measures for the 2018 EIP award are provided on pages 100 to 102.

Measure	Rationale
Financial measures	• Measures chosen to support the delivery of financial performance as set out in the Group's business plan • Measures chosen may include, but are not limited to: – Investment performance – New business flows – Adjusted profit before tax – Cost/income ratio – Return on adjusted equity
Strategic measures	• Focuses management on the delivery of the business's strategic priorities to drive improved performance in future years
Customer and client measures	• Focuses management on growing customer and client volumes through winning new customers and clients and growing revenue from our existing customers and clients which will ultimately lead, through growth in assets under management and quality revenue flows, to increasing profitability and increased shareholder value
People measures	• Focuses management on developing organisational capability by building the resources for the future, supporting the diversity agenda and encouraging the desired behaviours
Risk, compliance and conduct measures	• Focuses management on risk accountability, advancing an effective risk management environment, the management of conduct risk and the embedding of a robust control environment

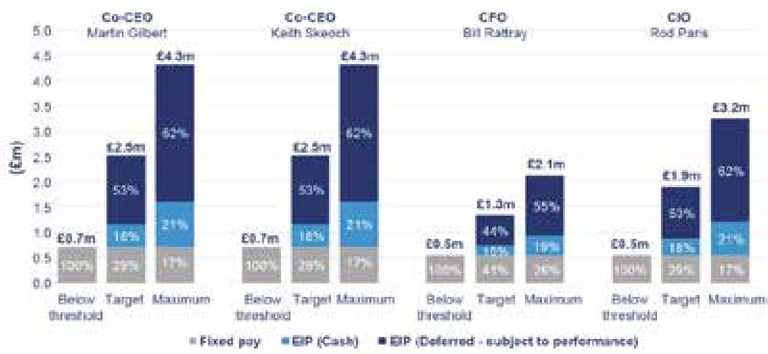
Changes to the remuneration policy

As set out in the statement from the Remuneration Committee Chairman, a new remuneration policy has been designed to reflect the strategic priorities of the Group going forward. The key change that has been made, further details of which can be found in the statement from the Remuneration Committee Chairman, is the approach to incentives going forward.

Scenario charts

The chart below illustrates how much the current executive Directors could earn under different scenarios for 2018. This is based on the following assumptions:

- Threshold performance is based on fixed pay only, which includes salary, pension allowance and benefits
- Target includes the potential value of the Executive Incentive Plan which would be payable for target performance (being 50% of maximum)
- Maximum includes the potential value of the Executive Incentive Plan which would be payable for maximum performance (100%)
- Share price movements and dividend equivalents have been ignored



Remuneration policy for new appointments

Area	Policy
Principles	In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Committee applies the following principles: – The Committee takes into consideration all relevant factors, including the calibre of the individual, local market practice and existing arrangements for other executive Directors, adhering to the underlying principle that any arrangements should reflect the best interests of the Group and its shareholders – Remuneration arrangements for new appointments will typically align with the remuneration policy presented above – In the case of internal promotions, the Committee will honour existing commitments entered into before promotion.
Components and approach	The remuneration package offered to new appointments may include any element of remuneration included in the remuneration policy set out in this report, or any other element which the Committee considers is appropriate given the particular circumstances but not exceeding the maximum level of variable pay set out below. In considering which elements to include, and in determining the approach for all relevant elements, the Committee will take into account a number of different factors, including (but not limited to) typical market practice and existing arrangements for other executive Directors and internal relativities. The maximum level of variable pay which may be awarded to a new executive Director at or shortly following recruitment shall be limited to 700% of salary. These limits exclude buyout awards and are in line with the policy table above.
Buyouts	To facilitate recruitment, the Committee may make an award to buy out remuneration terms forfeited on leaving a previous employer. In doing so, the Committee will adhere to regulatory guidance in relation to the practice of buyout awards to new recruits. In considering buyout levels and conditions, the Committee will take into account such factors as the type of award and performance measures and the likelihood of performance conditions being met. The buyout award will reflect the foregone award in amount and terms (including any deferral or retention period and performance conditions) as closely as possible. Where appropriate, the Committee retains the discretion to utilise Listing Rule 9.4.2 for the purpose of making an award to 'buy out' remuneration terms forfeited on leaving a previous employer or to utilise any other incentive plan operated by the Group.

Service Contracts and loss of office payment policy

Executive Directors

Within executive service contracts, the Committee aims to strike the right balance between the Company's interests and those of the executive Directors, whilst ensuring that the contracts comply with best practice, legislation and the agreed remuneration principles. Contracts are not for a fixed term, but set out notice periods in line with the executive Director's role.

Area	Policy
Notice period	Our standard notice policy is: • Six months by the executive Director • Up to 12 months by the employer to the executive Director Executive Directors may be required to work during the notice period or take a period of 'garden leave' or may be provided with pay in lieu of notice if not required to work the full notice period.
Termination payments	Any payment in lieu of notice will be made up of up to 12 months' salary, pension contributions and the value of other contractual benefits. The payment may be made in phased instalments and the policy is to do this for notice periods of over six months. A duty to mitigate applies.
Non-compete clauses	Applies during the contract and for up to six months after leaving at the Company's choice.
Treatment of incentive awards	**Awards under the EIP** Within the EIP, good leavers are defined as those whose office or employment comes to an end because of death, ill-health, injury or disability, redundancy, or retirement with the agreement of the employing company; the sale of the individual's employing company or business out of the Group or any other reasons at the discretion of the Committee. Leavers during the award year Typically, for good leavers, rights to awards under the EIP will be pro-rated for time in service to termination as a proportion of the performance period, and will, subject to performance be paid at the normal time in the normal manner (i.e. in cash / deferred awards as appropriate). Typically for other leavers, rights to awards under the EIP will be forfeit. Leavers during the deferral period Outstanding deferred awards under the EIP will be paid at the normal time, subject to performance against the underpin performance conditions. The Committee retains the discretion to apply time pro-rating (over the deferral period) for good leavers and to accelerate the vesting and/or release of awards if it considers it appropriate. Typically for other leavers, rights to deferred awards will be forfeit. Legacy awards under the Standard Life Group bonus arrangements A good leaver is defined as someone whose office or employment comes to an end because of death, ill health, injury, disability, redundancy or retirement, sale of the employing company or business or any other reason at the discretion of the Remuneration Committee. Typically for good leavers, outstanding deferred share awards granted in respect of Group annual bonus or Standard Life Investments' company and personal bonus plan will vest in full at the normal vesting date, unless the Committee determines to accelerate payment. Legacy awards under the Standard Life Executive LTIP and the Standard Life Investments' LTIP A good leaver is defined as someone whose employment comes to an end because of death, ill health, injury, disability, redundancy or retirement as determined by their employing company, the sale of the individual's employing company or business out of the Group or any other reason at the discretion of the Remuneration Committee. For the purposes of the Standard Life Investments LTIP, a good leaver may also include an individual who is transferred out of Standard Life Investments to another company in the Group. Typically, for good leavers, rights to awards will be pro-rated for the proportion of the performance period that has elapsed on cessation and will, subject to performance, be paid at the usual time (which in the case of the Executive LTIP will normally include the holding period). The Committee retains the discretion to dis-apply time pro-rating and in the case of the Executive LTIP, performance pro-rating for good leavers and to accelerate payment if it considers it appropriate. Typically, for other leavers, rights to outstanding awards will be forfeit. Legacy awards under the Aberdeen Deferred Share Plans A good leaver is defined as someone whose employment comes to an end because of death, ill health, injury, disability, redundancy or retirement, sale of the employing company or business or any other reason at the discretion of the Remuneration Committee. Unvested awards granted to good leavers will typically vest in full at the normal vesting date, unless the Remuneration Committee decides it will vest on the date of termination.
Other payments	The Committee reserves the right to make any other payments (including appropriate legal fees) in connection with an executive Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of an executive Director's office or employment.

Area	Policy
Change of control	Outstanding awards will be treated in line with the terms of the respective plans.

Remuneration policy for non-executive Directors

Approach to fees	• Fees for the Chairman and non-executive Directors are set at an appropriate level to reflect the time commitment, responsibility and duties of the position and the contribution that is expected from non-executive Directors • Board membership fees are subject to a maximum cap which is stated in the Company's articles of association. Any changes in this would be subject to shareholder approval.
Operation	• The Board annually sets the fees for the non-executive Directors, other than the fee for the Chairman of the Company which is set by the Committee • Fees are set at a market rate with reference to the level of fees paid to other non-executive directors of FTSE100 financial services companies • The Chairman receives an aggregate fee, which includes the chairmanship of any appropriate Board committee • The remuneration policy for non-executive Directors is to pay: (i) Board membership fees; and (ii) Further fees for additional Board duties such as chairmanship or membership of a committee, the Senior Independent Director, and the chairman of subsidiary boards, in each case to take into account the additional responsibilities and time commitments of the roles. Additional fees may be paid in the exceptional event that non-executive Directors are required to commit substantial additional time above that normally expected for the role. • The Board retains discretion to remunerate the non-executive Directors in shares rather than cash where appropriate
Other items	• The Chairman and non-executive Directors are not eligible to participate in any incentive arrangements • Additional fees or benefits may be provided at the discretion of the Committee in the case of the Chairman, and the Board in the case of the other non-executive Directors, to reflect, for example, housing, office, transport and other business-related expenses incurred in carrying out their role

Non-executive Directors, including the Chairman, have letters of appointment that set out their responsibilities. The key terms are:

- Period of appointment: A three-year term, which can be extended by mutual consent and is subject to re-election by shareholders in line with the Company's articles of association and the UK Corporate Governance Code
- Time commitment: Two to three days a week for the Chairman. 30 to 35 days per year for non-executive Directors.
- Notice periods: Six months for the Chairman. No notice period for other non-executive Directors.
- Termination payment: There is no provision for compensation payments for loss of office for non-executive Directors

If a new Chairman or non-executive Director is appointed, the remuneration arrangements will normally be in line with those detailed in the remuneration policy detailed for non-executive Directors above.

Remuneration arrangements throughout the Group

When setting the policy for executive Directors' remuneration, the Committee takes into account the pay and employment conditions elsewhere in the Group, recognising international variance and jurisdictional differences, where appropriate. The Committee is informed about the approach to salary increases, Group-wide benefits offerings including pensions, the structure of incentive arrangements and distribution of outcomes throughout the wider organisation, as well as the take-up of all-employee share plans, employee engagement survey results and staff morale although it does not directly consult employees in the Group on the remuneration policy for executive Directors.

The Group applies a consistent remuneration philosophy for staff at all levels. Base salaries are targeted at an appropriate level in the relevant markets in which the Group competes for talent. The Committee considers the base salary percentage increases for the Group's broader UK and international employee populations when determining any annual salary increases for the executive Directors.

All employees are eligible to be considered for performance related variable pay, which will reward delivery of results over appropriate time horizons and includes deferred variable compensation at an appropriate level for the employee's role. Variable pay for all employees, including executive Directors is determined as a total pool, capped as a percentage of adjusted profit before variable pay.

The Group engages with its employee associations from an early stage in the annual remuneration cycle. The areas discussed include: external market data, economic factors, employee expectations and congruence of executive pay with that of the wider workforce in terms of overall pay budgets and approach. The Group operates a Compensation Committee constituted of the Chief People Officer (Chairman), Chief Financial Officer and Chief Risk Officer. The role of the Compensation Committee is to consider the implementation of the remuneration policy across the Group. The Compensation Committee refers its terms of reference to the Remuneration Committee for approval and the Chairman of the Compensation Committee formally reports to the Remuneration Committee on all matters which fall within the Compensation Committee's remit.

Consideration of shareholder views

The Committee values the opportunity to listen to the Company's shareholders. As detailed in the Committee Chairman's statement, a detailed shareholder consultation exercise was undertaken on the proposed remuneration policy for the Group going forward, and the proposed policy incorporates the feedback received in this regard.

5.3 Annual remuneration report – what we did in 2017 for executive Directors

Single total figure of remuneration – executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the executive Directors who served as a Director at any time during the financial year ending 31 December 2017. Where a Director has been appointed or stepped down during the year the remuneration included in the table is that paid or reportable for the period for which they were an executive Director.

Executive Directors		Basic salary for year £000s	Taxable benefits in year £000s[1]	Annual bonus earned for year £000s	Long-term incentives with performance period ending during the year £000s[2,3]	Other payments £000s[4]	Pension allowance paid in year £000s	Total remuneration for the year £000s
Keith Skeoch	**2017**	**700**	**–**	**1,001**	**1,151**	**1**	**175**	**3,028**
	2016	700	–	988	926	–	175	2,789
Martin Gilbert[5]	**2017**	**199**	**1**	**1,117**	**–**	**–**	**–**	**1,317**
	2016	–	–	–	–	–	–	–
Rod Paris[5]	**2017**	**170**	**–**	**535**	**83**	**–**	**43**	**831**
	2016	–	–	–	–	–	–	–
Bill Rattray[5]	**2017**	**139**	**1**	**231**	**–**	**–**	**25**	**396**
	2016	–	–	–	–	–	–	–
Colin Clark[6]	**2017**	**372**	**–**	**558**	**517**	**–**	**93**	**1,540**
	2016	600	–	843	396	–	150	1,989
Paul Matthews[6]	**2017**	**105**	**2**	**123**	**229**	**–**	**26**	**485**
	2016	630	14	747	90	–	158	1,639
Barry O'Dwyer[6]	**2017**	**238**	**6**	**295**	**41**	**–**	**59**	**639**
	2016	–	–	–	–	–	–	–
Luke Savage[6]	**2017**	**381**	**10**	**459**	**468**	**–**	**95**	**1,413**
	2016	612	16	729	245	–	153	1,755

1 This includes the taxable value of all benefits paid in respect of the year ended 31 December 2017. This includes car allowances of £9,827 for Luke Savage, £2,303 for Paul Matthews and £6,260 for Barry O'Dwyer. Also included for Keith Skeoch, Rod Paris, Colin Clark, Paul Matthews and Barry O'Dwyer is private health cover at a cost to the Group of £422 per annum per employee and medical insurance for Martin Gilbert and Bill Rattray at a cost of £2,000 per annum.

2 The values reported for 2017 are the market values of the Executive LTIP awards and the Standard Life Investments LTIP awards granted in 2015 that will vest based on the three-year performance measurement period ending on 31 December 2017. As the share price at the date of vesting is not known at the date of publication of this report the number of Standard Life Aberdeen plc shares that will vest (including additional Standard Life Aberdeen plc shares received in respect of accrued dividends from grant through to 31 December 2017) has been multiplied by the average share price over the quarter ending 31 December 2017 (426.70 pence).

3 The values reported for 2016 have been restated to reflect the value of the shares vesting in respect of the three-year performance measurement period ending on 31 December 2016. Where the awards vested in 2017 the price has been restated using the share price on the vesting date. For the Executive LTIP awards which do not vest until 2019 the restatement is based on share price on the first trading day following the third anniversary of grant.

4 Keith Skeoch, Martin Gilbert, Rod Paris, Barry O'Dwyer and Luke Savage participate in the Standard Life Sharesave Plan. Keith Skeoch, Rod Paris, Paul Matthews and Luke Savage participate in the Standard Life (Employee) Share Plan – the maximum annual award of matching shares in 2017 was £600.

5 Martin Gilbert, Rod Paris and Bill Rattray were appointed to the Board on 14 August 2017. The annual bonus reported is in respect of the period 14 August 2017 to 31 December 2017. The LTIP reported for Rod Paris represents the value of the proportion of the award which relates to the period 14 August 2017 to 31 December 2017.

6 Paul Matthews stepped down from the Board with effect from 1 March 2017 and Colin Clark stepped down from the Board with effect from 14 August 2017. Barry O'Dwyer was appointed to the Board from 1 March 2017 and stepped down with effect from 14 August 2017. Luke Savage stepped down from the Board with effect from 14 August 2017. The figures reported for their LTIP awards in both 2016 and 2017 represent the value of the proportion of the award which relates to the period of time in the performance period for which they were executive Directors.

Base salary (audited)

The table below shows the annual base salary payable and the actual base salary paid to executive Directors in 2017.

	At 1 Jan 2017 or date of appointment if later	At 31 Dec 2017 or date of cessation if earlier	Total base salary paid in 2017
Keith Skeoch	£700,000	£700,000	**£700,000**
Martin Gilbert	£522,000	£522,000	**£199,258**
Rod Paris	£450,000	£450,000	**£170,288**
Bill Rattray	£365,000	£365,000	**£139,328**
Colin Clark	£600,000	£600,000	**£371,774**
Paul Matthews	£630,000	£630,000	**£105,000**
Barry O'Dwyer	£525,000	£525,000	**£237,802**
Luke Savage	£615,000	£615,000	**£381,069**

Pension (audited)

Executive Directors received a cash allowance in lieu of pension as follows:

	Paid in 2017
Keith Skeoch	**£175,000**
Martin Gilbert	**–**
Rod Paris	**£42,572**
Bill Rattray	**£24,522**
Colin Clark	**£92,742**
Paul Matthews	**£26,250**
Barry O'Dwyer	**£59,451**
Luke Savage	**£95,060**

In addition to the cash allowance shown above Paul Matthews was a member of the Standard Life Staff Pension Scheme at the date he ceased to be a Director. Under the pension scheme rules his normal retirement date is at age 60. At 1 March 2017 he was aged 56 and his accrued defined benefit pension was £61,897 per annum. There is no additional value paid on early retirement.

Annual bonus and variable pay plans

Standard Life Group annual bonus plan

The Directors in appointment during the year who participated in this plan were Keith Skeoch, Rod Paris, Colin Clark, Paul Matthews, Barry O'Dwyer and Luke Savage.

Standard Life Group annual bonus opportunity

The target and maximum bonus award opportunities expressed as a percentage of base salary at 31 December 2017 (or at the date of cessation of employment if earlier) that could be earned in respect of 2017 Standard Life Group performance (pro-rated for time in role as appropriate) were:

	Target	Maximum opportunity
Keith Skeoch	**75%**	**175%**
Rod Paris	**30%**	**60%**
Colin Clark	**75%**	**175%**
Paul Matthews	**65%**	**150%**
Barry O'Dwyer	**65%**	**150%**
Luke Savage	**65%**	**150%**

Keith Skeoch and Rod Paris

1. Financial	63%
2. Strategic/delivery/process	9%
3. Customer and external leadership	9%
4. People	9%
5. Personal	10%

Colin Clark, Luke Savage, Paul Matthews and Barry O'Dwyer

1. Financial	56%
2. Strategic/delivery/process	8%
3. Customer and external leadership	8%
4. People	8%
5. Personal	20%

The award opportunity for bonus at threshold performance is zero.

The bonus award is based on Group performance and personal performance. The relative weightings are 90% based on Group performance and 10% on personal performance for Keith Skeoch and Rod Paris and 80% based on Group performance and 20% on personal performance in respect of the other executive Directors.

The scorecard is based on a scale of 1 to 5 with 5 reflecting maximum, 3 on target and 1 unsatisfactory performance.

More information on the Group's financial key performance indicators can be found in the Chief Financial Officer's overview section of the Strategic report.

Standard Life Group annual bonus outcome

Before approving the level of performance in 2017, the Remuneration Committee sought the views of the Group Audit Committee on material accounting issues that it considered during the year and the Group Chief Risk Officer and the Risk and Capital Committee on the management of risk within the business.

The performance measures for the non-financial elements of the bonus scorecard are reviewed by the Remuneration Committee each year. Assessment of achievement against these outcomes takes into account corporate performance on environmental, social and governance issues either as a specific measure in the scorecard (e.g. brand advocacy and employee engagement) or in the exercise of judgement at the end of the year in determining awards when the Remuneration Committee seeks to ensure the outcome is fair in the context of overall Group performance. This includes performance against our sustainability priorities as set out in the Sustainability section within the Strategic report.

Element	**Financial**	
Performance measures	Operating profit before tax Threshold: £685m Target: £725m Maximum: £765m Outcome: £736m	Operating return on equity (RoE) Threshold: 13.3% Target: 14.1% Maximum: 14.9% Outcome: 15.0%
Achievements against measures	The reported outcomes reflect the out-turns attributed to the Standard Life Group consistent, as far as possible, with the original targets. Adjustments include, as a result of the change to the Group's key alternative performance measure to adjusted profit[1], the restatement of the adjusted profit out-turn for 2017 to reflect the targeted operating basis as well as the removal of items considered specific to the merger which were not included in the original targets.	
Score (out of 5)	4.25	

Element	**Strategic/delivery/process[2]**
Performance measures	Management of Standard Life Group's strategy and its delivery across the Company, including the annual investment and strategic change programmes, any corporate transactions, and the efficiency of the Group's balance sheet.
Achievements against measures	The merger of Standard Life plc and Aberdeen Asset Management PLC has accelerated our ambition of creating a world-class investment company – broadening and deepening investment capabilities, extending global distribution footprint and providing scale and platform efficiency to compete and grow globally. Post-merger integration programme work is progressing at pace and on track to deliver against the plan set out in merger announcement. The Group also delivered a next generation investment data platform for its asset management business. On Friday 17 November 2017, HDFC Life listed on the National Stock Exchange of India Limited and The Bombay Stock Exchange Limited following completion of the Initial Public Offering generating £359m from the sale of part of the Group's holding. Good progress has been made in upgrading the technology infrastructure for our pensions and savings business but technical challenges have been encountered in certain aspects of this work.
Score (out of 5)	5

Element	Customer and external leadership[2]
Performance measures	Drive customer focus within the organisation and build advocacy for the Standard Life Group brand. Deliver meaningful progress in brand advocacy as measured through Net Promotor Score (NPS) measures or equivalent indices/measures. Protect and enhance Standard Life's corporate reputation. Enhance collaboration and co-operation across the company to support customer and client needs Ensure that the appropriate processes and controls are in place in order to deliver fair outcomes for customers and clients.
Achievements against measures	Standard Life's KPMG Nunwood Brand NPS score increased from 0 in 2016 to +12 in 2017, moving the Group up 100 places on the index to 33. Continued promotion of the brand through high profile partnerships with the British and Irish Lions, the Ryder Cup and Andy Murray. During 2017 the Group received a number of industry accolades including the Moneywise 2017 Investment Trust Award (Property Direct UK), 20 years of excellence in defined contribution pension schemes award at the Professional Pensions UK Pensions Awards and four awards at the Schroders UK Platform Awards. The Group also continued to feature on a number of key sustainability indices, including the Dow Jones Sustainability Index World and Europe, FTSE4Good and the Climate Disclosure Project and was ranked fourth in the Social Mobility Employer Index 2017
Score (out of 5)	4.5
Element	**People[2]**
Performance measures	Develop our organisational capability by building the environment, the resources, capabilities and developing the behaviours we will need.This will include: – Developing powerful and consistent leadership identifying and growing tomorrow's leaders – Developing and actively managing robust and future facing plans to ensure sustainable succession for critical roles – Embedding our remuneration and performance management strategy to encourage high performance and the delivery of our business objectives – Demonstrating commitment and action to progress the Group's diversity and inclusion strategy – Ensuring the environment we work in reflects our values and creates a culture of appropriate risk taking and continuous improvement Improvement in the employee effectiveness scores for enablement and engagement as measured by the Interaction survey and other supplementary indicators
Achievements against measures	In a survey carried out after the merger completed, 60% of colleagues shared their views and whilst it was encouraging that 87% considered the merger to present an 'opportunity', it is equally important to address areas of concern which the executive team have been working on post completion. The Group continued its focus on developing organisational and leadership capability with the launch of a digital learning campaign and piloting of a more inclusive approach to leadership development. The Group was also named by Business in the Community as one of the UK's Best Employers for Race and published our gender action plan for the combined organisation. Succession plans are in place for the combined organisation for key executive and regulatory roles across the organisation, for contingency and at a short/medium and long-term level.
Score (out of 5)	4.75

1 Following completion of the merger the Group have changed the calculation of adjusted profit before tax (named operating profit before tax when the target for the 2017 annual bonus award was set). This is explained further on page 176.

2 The non-financial measures used for the determination of the annual bonus plans for 2017 have not been disclosed in this Directors' remuneration report as the Board deems that the disclosure of these could seriously prejudice the Group's business. Detailed disclosure is provided on key achievements in the year to provide shareholders with context on the level of performance delivered in 2017.

Based on performance against each of the four Standard Life Group performance elements and considering the performance of Standard Life Group as a whole, the Remuneration Committee approved a rating of 4.4 out of 5 for performance against the Standard Life Group annual bonus scorecard during 2017.

In determining the bonus awards for personal performance in respect of the Standard Life Group annual bonus the Remuneration Committee considered individual performance with regard to the Company's overall strategic priorities.

Keith Skeoch	• Leading role in ensuring the merger was delivered and was well received by our shareholders • Good pace of delivery in the integration of the merged companies to deliver the synergies targets • Return of gross flows performance and development of an investment philosophy which reflects a multi-strategy approach • Delivering growth in the Pensions and Savings business • Strong focus on the people agenda prior to and after the merger to engage and retain key talent and development of the shared culture across the company • Strong leadership of the planning and budgeting process for the combined company
Rod Paris	• Launch of new funds across a range of asset classes , including equities, multi asset, fixed income and private markets • Investment performance within a complex investing environment was mixed but with strength across most fixed income and tactical asset allocation products balanced against mixed performance in equities. Stronger longer term returns with strength in elements of all asset classes. • Launch of our first investment trust as a combined business • Provided very strong leadership on the integration of the investment teams and capabilities with a focus on stabilising the combined investment teams to maximise collaboration • Led the focus on building a forward looking investment platform to meet the needs of our clients • Progress towards the integration of stewardship and environmental, social and governance activities across the company
Paul Matthews	• Leadership of Standard Life Pensions and Savings until stepping down from the Board at the end of February • Support and development of Barry O'Dwyer and handover of the leadership role • Continued strategic support for Keith Skeoch for the period to his retirement in August
Colin Clark	• Launch of new funds across a range of different asset classes including equities, multi-asset, fixed income and private markets • Forged further asset management partnerships around the world to drive product innovation and open up possibilities for our clients and continued growth in our strategic partnerships serving our clients in markets worldwide • Maintenance of strong relationships with customers, clients and advisers and delivery of resilient flows in growth channels in a challenging market environment
Luke Savage	• Effective management of our strong capital position to support strategic investments to grow our business and maintain our progressive dividend policy • Continued active engagement with our investors and the analyst community • Provided support and effective handover of responsibilities to Bill Rattray
Barry O'Dwyer	• Leadership of Standard Life Pensions and Savings with an increase in AUA, UK Retail gross inflows and Platform AUA • Building our advice capability with the continued growth of 1825 business, our financial planning and personal tax advice business with further acquisitions to increase our national footprint • Integration of the Elevate platform to complement our existing WRAP platform

As a result of the approved ratings, the Group annual bonus outcome as approved by the Remuneration Committee for 2017 is:

	Bonus opportunity based on Group performance as a % of total bonus	Bonus opportunity based on personal performance as a % of total bonus	Total bonus payable as a % of bonus maximum	Total bonus payable as a % of salary	Total payable[1]
Keith Skeoch					
Maximum	90%	10%	100%	175%	
Actual	75%	7%	82%	143%	£1,001,000
Rod Paris					
Maximum	90%	10%	100%	60%	
Actual	77%	10%	87%	52%	£89,590
Colin Clark					
Maximum	80%	20%	100%	175%	
Actual	66%	20%	86%	151%	£558,459
Paul Matthews					
Maximum	80%	20%	100%	150%	
Actual	67%	14%	81%	121%	£123,290
Barry O'Dwyer					
Maximum	80%	20%	100%	150%	
Actual	67%	16%	83%	124%	£295,240
Luke Savage					
Maximum	80%	20%	100%	150%	
Actual	67%	14%	81%	121%	£459,074

1 Where a Director has been appointed or stepped down during the year shown the bonus shown is that payable for the period for which they were an executive Director.

If the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for three years into an award over Standard Life Aberdeen plc shares. The deferral is not made if the amount to be deferred is less than 10% of salary.

Standard Life Investments annual bonus plan

Rod Paris participated in the Standard Life Investments' personal and company bonus plans, in addition to the Group annual bonus plan.

Standard Life Investments annual bonus plan annual bonus targets

The bonus pool is determined by reference to Standard Life Investments' financial performance. Personal bonus awards are based on personal performance against agreed Standard Life Investments' business scorecard objectives and awarded from the bonus pool. Company bonus awards are made from the bonus pool after deduction of personal bonus payments and the size of the award reflects the value of total reward positioned against the market. The actual targets are not disclosed as Standard Life Investments is a subsidiary business of Standard Life Aberdeen plc and the Board deems that this is commercially sensitive information which, if disclosed, could seriously prejudice the Group's business.

Standard Life Investments annual bonus plan opportunity

Rod Paris has a personal bonus opportunity of 105% of salary and a company bonus opportunity of 200% of salary.

Standard Life Investments annual bonus plan outcome

Based on Rod Paris' and Standard Life Investments' performance in 2017, the Remuneration Committee approved a personal bonus award of 88% and a company bonus award of 170%.

- Strong investment performance in third party assets over 1, 3 and 5 years
- Strengthening performance for Money weighted assets with performance over each of 1, 3, 5 and 10 years being between median and upper quartile
- Recovery across range of assets, especially within Absolute Return, UK and GEM Equities and continuing outperformance within the Credit Fixed Income range
- Launch of new funds across a range of asset classes to meet the changing investment needs of our clients and customers
- Net outflows in growth channels and multi-asset with net inflows for MyFolio.
- Improving three-year information ratios demonstrating that returns continue to be generated within a controlled risk environment.
- Earnings before interest, taxes, depreciation and amortisation (EBITDA) behind plan with EBITDA margin on plan and adjusted operating expenses favourable to plan.

Rod Paris	Bonus opportunity based on Standard Life Investments' performance as a % of total bonus	Bonus opportunity based on personal performance as a % of total bonus	Total bonus payable as a % of bonus maximum	Total bonus payable as a % of salary at 31 December 2017	Total payable[1]
Maximum	66%	34%	100%	305%	
Actual	56%	29%	85%	258%	£445,705

[1] Where a Director has been appointed or stepped down during the year shown the bonus shown is that payable for the period for which they were an executive Director.

If the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for three years into an award over Standard Life Aberdeen plc shares. The deferral is not made if the amount to be deferred is less than 10% of salary.

Aberdeen Variable Pay plan (cash and deferred shares)

In line with the legacy remuneration arrangements in place at Aberdeen, Martin Gilbert and Bill Rattray participated in this plan which was incorporated into the Standard Life Aberdeen plc Remuneration Policy with effect from 14 August 2017 for the period to 31 December 2017 only.

The table below shows the outcome of their participation in this plan from the date of the merger of the Standard Life Group and the Aberdeen Asset Management Group (14 August 2017). Although the Company is not required to disclose details of pay-outs from the legacy Aberdeen Asset Management incentive arrangements in the period from 1 October 2016 to 13 August 2017, the period prior to the merger, in the interests of transparency details of the out-turns in this period are set out on page 134.

Aberdeen Variable Pay plan targets

Variable pay awards for the period 14 August 2017 to 31 December 2017 were based on targets agreed by the Remuneration Committee and were based, insofar as it was possible, on existing performance measures for these plans.

	Maximum cash variable pay as a % of fixed pay	Maximum variable pay in deferred shares as a % of fixed pay
Martin Gilbert	**250%**	**750%**
Bill Rattray	**75%**	**225%**

Aberdeen Variable Pay plan outcome for the period 14 August 2017 to 31 December 2017

Performance metrics	Weighting	Threshold (25% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)	Actual	Result (% of max variable x weighting)
Long-term quantitative						
Compound growth in underlying earnings per share	12.5%	6%	9%	12%	(13.2%)	0%
Average return on capital employed	12.5%	16%	20%	22%	17.3%	4.1%
Investment performance	25.0%	50%	60%	70%	64.6%	18.3%
Annual quantitative						
Underlying profit before tax	15.0%	£98.9m	£123.6m	£148.4m	£139.4m	12.3%
Operating margin	15.0%	29.3%	32.6%	35.9%	32.6%	7.4%
Total						42.1%
Annual non-financial strategic	10.0%	Remuneration Committee assessment – see below				6.75%
Annual personal performance	10.0%	Remuneration Committee assessment – see below				7%-8%

Non-financial strategic performance

The performance measures for the non-financial elements of the bonus scorecard are reviewed by the Remuneration Committee. The scorecard is based on a scale of 0 to 10 with 0-4 below expectation, 5-6 meets expectation, 7-8 exceeds expectation and 9-10 significantly exceeds expectation.

Key performance indicators Key points in period from 14 August 2017 to 31 December 2017
Client retention
Completed six significant communication exercises to customers and clients as well as their advisers, pre and post-merger completion covering merger progress, senior management and organisational changes. These six exercises covered all regions, channels and countries across the combined client base. As a result of the engagement there were no adverse changes to consultant ratings between 14 August and 31 December 2017. Proactive defence was taken by Distribution teams globally, increasingly focused on specific products due to performance and merger concerns.

Key performance indicators Key points in period from 14 August 2017 to 31 December 2017	
Distribution	
Senior management held in excess of 60 meetings with strategic clients between 14 August and 31 December 2017. Distribution teams participated in many more, with approximately 20,000 engagements held across all regions with clients between 14 August and 31 December 2017 covering all aspects of client activities. Continued inflows across all asset classes emphasised strength of existing relationships maintained in the period since 14 August 2017 as well as being evidenced by annual results.These included cross-business wins as well as new mandates across asset classes. Significant marketing events, sponsorship, and sales related activities were carried out pre and post-merger to support the above, which included our Annual Conferences as well as other events across the globe.Commenced work on our newly combined pipeline of nearly £100bn GBP opportunities across the globe.	
Talent management	
Talent retention: our retention of key talent is strong following the implementation of our aligned retention plan. Succession: plans are in place for key role succession, focused on contingency, medium and long term requirements. Further development planning is also in progress for talent pools. Culture: following a robust gap analysis, detailed work is now underway in each functional stream to build a positive culture for the new business aligned to our corporate values. Diversity: there is a strong focus on diversity, with the heritage networks merging and focusing on a unified approach to the wide range of diversity and inclusion topics. In addition, an action plan is in place to address, and discuss with colleagues, the issues raised by recent Gender Pay Gap legislation. Integration: good progress has been made on restructuring both management and team structures of the newly merged business.	
Risk management and conduct	
Ongoing focus on promotion of good conduct and development of a positive conduct culture. Appropriate and effective structures in place for the management of risk and compliance.	
Total	6.75%

Personal Performance

Martin Gilbert

- Leading role in ensuring the merger was delivered and was well received by our shareholders
- Good pace of delivery in the integration of the merged companies to deliver the synergies targets
- Strong representation with external organisations and government bodies to build the profile and reputation of the merged company
- Solid progress against the objectives in relation to geographic and asset class diversification
- Effective delivery on the distribution and marketing agenda, including the new visual identity, and improved organisational design for distribution to support our clients and customers

Bill Rattray

- Leadership of the finance function and integration of the finance teams
- Maintenance of strong liquidity and solvency positions
- Oversight of the regulatory and capital management requirements
- Delivery of combined results reporting and target setting for the combined company
- Support and direction for the investor relations activity for the company from the point of the merger

The variable pay awards for the period were as follows:

	Cash £'000s		Deferred £'000s			
	Maximum	Actual	Maximum	Actual	Total actual £'000	Total actual (% of max)
Martin Gilbert	491	279	1,474	838	1,117	56.85%
Bill Rattray	103	58	309	173	231	55.85%

2017 Annual bonus and variable pay outcomes (audited)

The following table shows the total bonus awards made in respect of 2017 and the cash and deferred elements. Annual bonus payments are not pensionable.

	Group cash bonus	Group deferred bonus	Standard Life Investments cash bonus	Standard Life Investments deferred bonus	Aberdeen variable pay cash	Aberdeen variable pay deferred shares	Total
Keith Skeoch	£588,000	£413,000	–	–	–	–	£1,001,000
Martin Gilbert	–	–	–	–	£279,276	£837,827	£1,117,103
Rod Paris	£66,373	£23,217	£244,430	£201,275	–	–	£535,295
Bill Rattray	–	–	–	–	£57,648	£172,943	£230,591
Colin Clark	£325,459	£233,000	–	–	–	–	£558,459
Paul Matthews	£74,371	£48,919	–	–	–	–	£123,290
Barry O'Dwyer	£177,466	£117,774	–	–	–	–	£295,240
Luke Savage	£276,923	£182,151	–	–	–	–	£459,074

Long-term incentives

2015 Executive LTIP awards vesting in respect of performance ending in 2017 (audited)

The awards granted in 2015 under the Executive LTIP have two performance conditions. The outcome is based 70% on cumulative Group operating profit before tax and 30% on cumulative Group net flows.

The awards are also subject to two underpins when assessing the Group performance. The first requires the Risk and Capital Committee to be satisfied that performance obtained has been achieved within acceptable defined risk parameters. The second requires the Remuneration Committee to be satisfied that Group operating profit performance and Group net flows performance reflect overall Group performance.

Awards were made in March 2015 of 200% of salary to Keith Skeoch and of 125% of salary for Luke Savage. Awards were also granted to Paul Matthews and Barry O'Dwyer who were not Directors at the time of grant in March 2015.

	Threshold	Target	Maximum	Actual[2]
Cumulative Group operating profit before tax[1] for Standard Life Group for the three years ended 31 December 2017[1]	£1,670m	£1,820m	£2,040m	£2,122m
Vesting outcome (70% weighting)				100%
Cumulative Group net flows for the Standard Life Group for three years ended 31 December 2017[1]	£16.6bn	£21.0bn	£27.6bn	(£8.4bn)
Vesting outcome (30% weighting)				0%

1 Following completion of the merger the Group have changed the calculation of adjusted profit before tax (named operating profit before tax when the target for the 2015 award was set). This is explained further on page 176.

2 The actual outcome includes the 2017 out-turn of £736m consistent with the annual bonus outcome noted on page 116.

In line with the above results, the Remuneration Committee determined a vesting factor of 70% reflects the overall performance of the Standard Life Group. These awards will be delivered to Keith Skeoch, Luke Savage and Paul Matthews at the end of the holding period in 2020. In line with the terms of his award at the time of grant, Barry O'Dwyer's award will be delivered in 2018.

2015 Standard Life Investments LTIP awards vesting in respect of performance ending in 2017 (audited)

Under the Standard Life Investments LTIP, awards will only be capable of vesting if Standard Life Investments' investment performance (three-year money-weighted average) is above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers.

The level of vesting is then subject to consolidated cumulative three-year third party earnings before interest, taxes, depreciation and amortisation (EBITDA) performance shown in the following table. The actual EBITDA targets are not disclosed as Standard Life Investments is a subsidiary business of Standard Life Aberdeen plc and the Board deems that this is commercially sensitive information which, if disclosed, could seriously prejudice the Group's business.

Before an award can vest, the Risk and Capital Committee is required to verify to the Committee that the level of vesting was not as a result of behaviour that has exposed the Group to undue risk. If the Risk and Capital Committee determines that the Group has been exposed to undue risk, the Committee will take this into account when determining the level of vesting.

In line with the above, Keith Skeoch received an award under this plan in March 2015 equivalent to 200% of salary (at maximum vesting). Awards were also granted to Colin Clark and Rod Paris who were not Directors at the time of grant in March 2015.

The following table sets out performance against targets for the 2015 award:

Performance level	Below threshold	Threshold	Target	Maximum
Consolidated cumulative three-year third party EBITDA	<60% of target	60% of target	100% of target	140% of target
Actual performance				**93.84% of target**

As performance was above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers and the consolidated cumulative three-year third party EBITDA was 93.84% of target, the Remuneration Committee determined that 84.6% of the target award (42.3% of the maximum award) granted in 2015 would vest in 2018.

Awards granted in 2017

Executive LTIP

Awards were made in March 2017 to Keith Skeoch, Luke Savage, Barry O'Dwyer and Colin Clark under the Executive LTIP.

In addition to business performance criteria, all of the awards are subject to an additional personal performance underpin whereby, if an executive Director performs at an unsatisfactory level in any year during the three-year performance period, their original award would be reduced by one-third, unless the Co-Chief Executive Officers, or the Remuneration Committee in the case of Keith Skeoch, recommends otherwise.

As set out in the Committee Chairman's statement, the performance targets for the 2017 award under the Executive Plan have been adjusted in light of the merger.

The following adjustments have been made to the performance targets for the 2017 awards:

- Update of the existing operating profit targets to adjusted profit before tax
- Preservation of perfomance outcomes at the end of 2017 resulting from Standard Life Group operating profit/net flows targets and outcomes to end 2017
- Inclusion of Aberdeen profits and net flows, and proposed synergies for performance years 2018 and onwards
- Removal of the change in the share of HDFC Life profits and flows from existing targets and inclusion of interest on the sales proceeds
- No change to the original net flows target

The table below shows the original performance targets for the 2017 LTIP award:

Threshold and % of award vesting at threshold	Vesting: 0% **Cumulative Group operating profit before tax** Threshold: £2,240m **Cumulative Group net flows** Threshold: £27.7bn
Maximum and % of award vesting at maximum	Vesting: 100% **Cumulative Group operating profit before tax** Maximum: £2,725m **Cumulative Group net flows** Maximum: £45.9bn

The table below summarises the key details of the awards made in 2017 to Directors with the amended performance targets:

	Basis of award (% of salary)	Face value at grant	Number of shares[1]
Keith Skeoch	400%	£2,800,000	778,902
Colin Clark	300%	£1,800,000	500,723
Barry O'Dwyer	120%	£630,000	175,253
Luke Savage	125%	£768,750	213,850
Nature of award	Nil cost option		
Performance criteria	Cumulative adjusted profit before tax (80%) and cumulative net flows (20%) for the three-year period ended 31 December 2019		
Threshold and % of award vesting at threshold	Vesting: 0% **Cumulative Group adjusted profit before tax** Threshold: £3,000m **Cumulative Group net flows** Threshold: £27.7bn		
Maximum and % of award vesting at maximum	Vesting: 100% **Cumulative Group adjusted profit before tax** Maximum: £3,650m **Cumulative Group net flows** Maximum: £45.9bn		

1 Based on the average share price for the five dealing days immediately before the awards were granted (359.48 pence).

Standard Life Investments LTIP

In March 2017, prior to his appointment to the Board, Rod Paris was granted an award under this plan.

The level of vesting in the Standard Life Investments LTIP is currently subject to consolidated cumulative three-year third party EBITDA performance and this measure has been used to capture vesting outcomes at the end of 2017.

As a consequence of the merger the awards will become subject to an adjusted profit before tax target for Aberdeen Standard Investments for performance years 2018 onwards (the remainder of the performance period).

	Basis of award (% of salary)	Face value at grant	Number of shares[1]
Rod Paris	600%	£1,800,000	500,723

1 Based on the average share price for the five dealing days immediately before the awards were granted (359.48 pence).

The same principles were applied to the adjustments made to awards made to Rod Paris under the Standard Life Investments LTIP in 2016.

Group deferred share awards

Under the Group annual bonus plan, if the bonus payable amounts to more than 25% of salary, then half of the amount above 25% of salary is deferred for three years into an award over Standard Life Aberdeen plc shares. This resulted in the award of the following shares in 2017 in respect of the bonus earned for 2017. The award made to Barry O'Dwyer is in respect of a bonus earned prior to his appointment to the Board.

	Face value at grant	Number of shares[1]
Keith Skeoch	£406,438	112,059
Colin Clark[2]	£346,500	95,533
Barry O'Dwyer	£58,602	16,157
Paul Matthews[2]	£294,683	81,247
Luke Savage[2]	£287,667	79,312

1 Based on the average share price for the month of December 2016 as per plan rules (362.7 pence).

2 If for any technical, legal, or regulatory reason the deferred award cannot be made over Standard Life Aberdeen plc shares a cash equivalent payment will be paid on the date that the deferred share award would otherwise have vested.

Sharesave Awards

Martin Gilbert was granted an award over 4,349 shares under the Standard Life Sharesave Plan on 28 September 2017. The award will normally become exercisable on 1 November 2022. The exercise price is 344.9 pence.

Awards to be granted in 2018

As set out in the Committee Chairman's statement the Remuneration Committee intends to grant awards in 2018 to Keith Skeoch and Rod Paris, in the form of nil-cost options, under the Executive LTIP plan, which will vest in March 2023. These are set out in the table below.

	Basis of award (% of salary at 31 December 2017)	Face value at grant
Keith Skeoch	400%	£2,800,000
Rod Paris	400%	£1,800,000
Performance criteria	Cumulative adjusted profit before tax (excluding spread/risk margin) (80%) and cumulative growth net flows (20%) for the three-year period ended 31 December 2020	
Threshold and % of award vesting at threshold	Vesting: 0% Cumulative Group adjusted profit excluding spread/risk margin: Threshold: £2,675m Cumulative Group growth net flows Threshold: £45.1bn	
Maximum and % of award vesting at maximum	Vesting: 100% Cumulative Group adjusted profit before tax excluding spread/risk margin Maximum: £3,615m Cumulative Group growth net flows Maximum: £83.7bn	

Long-term incentive awards granted in 2016

As set out in the Committee Chairman's statement, the performance targets for the 2016 Executive LTIP awards were also adjusted in light of the merger.

In line with the approach for the 2017 award the following adjustments have been made to the performance targets for the 2016 awards:

- Update of the existing operating profit targets to adjusted profit before tax
- Preservation of performance outcomes at the end of 2017 resulting from Standard Life Group operating profit/net flows targets and outcomes to end 2017
- Inclusion of Aberdeen profits and net flows, and proposed synergies for performance year 2018
- Removal of the change in the share of HDFC Life profits and flows from existing targets and inclusion of interest on the sales proceeds
- No change to original net flows target

The table below summarises the original performance targets and the adjusted targets:

	Original targets	Adjusted targets
Threshold and % of award vesting at threshold	Vesting: 0% Cumulative Group operating profit before tax Threshold: £2,130m Cumulative Group net flows Threshold: £30.8bn	Vesting: 0% Cumulative Group adjusted profit before tax Threshold: £2,490m Cumulative Group net flows Threshold: £30.8bn
Maximum and % of award vesting at maximum	Vesting: 100% Cumulative Group operating profit before tax Maximum: £2,595m Cumulative Group net flows Maximum: £51.0bn	Vesting: 0% Cumulative Group adjusted profit before tax Maximum: £3,030m Cumulative Group net flows Maximum: £51.0bn

Share ownership

A shareholding requirement was implemented in 2014 and we continue to require executive Directors and senior management to maintain a material long-term investment in Standard Life Aberdeen plc shares.

The current requirement is that the Co-Chief Executive Officers acquire and maintain a shareholding valued at 500% of salary. For 2017, the other executive Directors were required to acquire and maintain a shareholding valued at 200% of salary. As part of the new policy going forward, the shareholding guideline for other executive Directors (excluding the Co-Chief Executive Officers) has been increased to 300% of salary with effect from 2018.

The shares which the executive Directors are required to hold to reach their respective shareholding requirement under the current requirements are based on the net vested shares arising from the exercise of an award. Net vested shares are those shares which the executive Director would retain after selling sufficient shares to cover the costs of the income tax and employee national insurance payable when the award is exercised.

Executive Directors will be required to retain shares held in respect of the requirement for a period of one year following their departure from the Group. The Remuneration Committee reviews progress against the requirement annually and retains discretion to require executive Directors to purchase shares to meet the requirement. Personal investment strategies (such as hedging arrangements) are not permitted.

Directors' interests in shares (audited)

The following table shows the total number of Standard Life Aberdeen plc shares held by the executive Directors and their connected persons.

	Total number of shares owned at 1 January 2017 or date of appointment if later	Shares acquired/ (sold) during the period 1 January 2017or appointment if later to earlier of 31 December 2017or date ceased to be a Director	Total number of shares owned at 31 December 2017 or date ceased to be a Director if earlier	Total number of shares available as unrestricted vested deferred awards[1]	Total value[2] of shares and unrestricted awards at 31 December 2017 as a % of salary at 31 December 2017	Shares acquired/(sold) during the period 31 December 2017 to 22 February 2018
Keith Skeoch	2,246,569	100,898	2,347,467	–	1,464%	40
Martin Gilbert	139,185	–	139,185	1,414,039	1,299%	–
Bill Rattray	1,743,549	–	1,743,549	566,958	2,764%	–
Rod Paris	601,997	260	602,257	–	584%	46
Colin Clark	757,766	245,939	1,003,705	–	–	–
Barry O'Dwyer	66,913	–	66,913	–	–	–
Paul Matthews	236,988	147	237,135	–	–	–
Luke Savage	827	17,825	18,652	–	–	–

1 These are deferred awards under the Aberdeen Variable Pay plan which have vested and can be exercised.

2 The closing share price at 31 December 2017 used to determine total value was 436.6 pence.

At 31 December 2017 all executive Directors have complied with the current requirement in respect of retaining shares from vested awards. Keith Skeoch, Martin Gilbert, Bill Rattray and Rod Paris hold significantly more shares than their shareholding requirements.

David Nish, our former Chief Executive, was required to hold 703,651 shares until 31 March 2017 and met this requirement. Paul Matthews is required to hold 157,934 shares until 1 March 2018. Colin Clark will be required to hold 100,921 shares until 31 December 2018. Luke Savage will be required to hold 15,940 shares until 28 February 2019.

This table shows, in relation to each executive Director, the total number of share options with and without performance conditions held at 31 December 2017:

	Unvested options with performance measures[1]	Unvested options without performance measures[2]	Vested but unexercised options at 31 December[3]	Exercised during the year[4]	Aggregate gains made on awards exercised during the year
Keith Skeoch	1,961,963	352,050	–	189,011	£669,875
Martin Gilbert	–	980,432	1,414,039	–	–
Bill Rattray	–	190,047	566,958	–	–
Rod Paris	1,331,201	2,746	–	282,474	£999,280
Colin Clark	1,011,002	112,770	–	465,072	£1,646,944
Barry O'Dwyer	406,472	21,679	32,196	–	–
Paul Matthews	247,977	133,901	–	112,679	£459,140
Luke Savage	390,372	220,820	–	32,948	£126,751

1 This comprises Executive LTIP awards made in 2015, 2016 and 2017, awards under the Standard Life Investments LTIP made in 2015, 2016 and 2017 and awards made under the Standard Life Restricted Stock Plan excluding, in each case, shares to be awarded in lieu of dividend equivalents.

2 This comprises awards under the Executive LTIP granted in 2014, deferred bonus awards (including unvested awards under the Aberdeen Variable Pay plans and excluding shares to be awarded in lieu of dividend equivalents) and options granted under the Standard Life Sharesave Plan.

3 For Martin Gilbert and Bill Rattray this comprises awards made under the Aberdeen Variable Pay plans prior to the merger which are now exercisable. In relation to Barry O'Dwyer - this relates to an unexercised 2014 Executive LTIP award.

4 This comprises awards made under the 2014 Standard Life Investments LTIPs, deferred share awards granted in 2015 in respect of the 2014 Group bonus plan and Restricted Stock Plan that were exercised during the year. It includes shares awarded in lieu of dividend equivalents.

The closing market price of Standard Life Aberdeen plc shares at 31 December 2017 was 436.6 pence and the range for the year was 345p to 447.1p.

Executive Directors' external appointments

Subject to the Board's approval, executive Directors are able to accept a limited number of external appointments to the boards of other organisations and can retain any fees paid for these services. Significant executive Director appointments held during the year are shown below:

Executive Director	Role and Organisation	2017 Fees
Keith Skeoch	Non-executive director of the Financial Reporting Council	**£nil**
Martin Gilbert	Non-executive director Glencore plc	**$130,000**
	Non-executive Director Sky plc	**£115,408**
	Chairman of the Practioner Panel – Prudential Regulation Authority	**£nil**
Bill Rattray	Non-executive director – Curtis Banks Group PLC	**£50,000**

Loss of office payments (audited)

Colin Clark

Colin Clark stepped down from the Board with effect from 14 August 2017 and was on garden leave from 1 September 2017 until 31 December 2017 at which point he left the Company. He continued to be eligible for his salary and benefits until his termination date of 31 December 2017. Colin Clark accrued bonus until 31 August 2017. Details of Colin Clark's bonus for 2017, for the period in which he served as an executive Director, are set out on page 114.

From 1 January 2018 to 31 August 2018 Colin Clark will be entitled to a payment in lieu of notice, which includes salary, pension allowance and payments in respect of private medical cover and life insurance, which is paid in instalments subject to mitigation.

In respect of outstanding incentive awards Colin Clark was treated as a good leaver. The following treatment of outstanding options therefore applies:

- 2016 Deferred share award (the deferred element of the 2015 short-term bonus) vested on 31 December 2017. The number of shares vested is 19,149.
- 2017 Deferred award (the deferred element of the 2016 short-term bonus) will vest on 31 March 2020. The number of shares that will vest (excluding future dividend-equivalents) is 100,667.
- 2015 Standard Life Investments LTIP award: will vest on 30 March 2018. The number of shares that will vest (including dividend equivalents) is 203,761.
- 2016 Executive LTIP award: pro-rated to cessation of employment. The maximum number of shares that will vest on 24 March 2021, subject to performance (but excluding additional dividend-equivalents) is 365,248.
- 2017 Executive LTIP award: pro-rated to cessation of employment. The maximum number of shares that will vest on 27 March 2022, subject to performance (but excluding additional dividend-equivalents) is 175,508.
- Restricted Stock Plan (2015): pro-rated to cessation of employment. The number of shares that will vest on 30 March 2018 is 110,601.

Luke Savage

After stepping down from the Board with effect from 14 August 2017 Luke Savage remains employed to provide support to Bill Rattray through to the publication of the 2017 full-year results and will leave the Company on 28 February 2018. He will continue to be eligible for his salary and benefits until his last working day of 28 February 2018 and will accrue a short-term bonus until this date including any deferred element as per the plan rules. Details of Luke Savage's bonus for 2017, for the period in which he served as an executive Director, are set out on page 114.

From 1 March 2018 to 31 August 2018 Luke Savage will be entitled to payment in lieu of notice which includes salary, pension allowance, car allowance and payments in respect of private medical cover and life insurance, which is paid in instalments subject to mitigation.

In respect of outstanding incentive awards Luke Savage will be treated as a good leaver. The following treatment of outstanding options therefore applies:

- 2016 Deferred share award (deferred element of the 2015 short-term bonus) will vest on termination of employment. The number of shares that will vest is 88,010.
- 2017 Deferred award (deferred element of the 2016 short-term bonus) will vest on 31 March 2020. The number of shares that will vest (excluding future dividend-equivalents) is 83,574.
- 2014 Executive LTIP award: this award is not pro-rated as employment continued throughout the performance period
- 2015 Executive LTIP award: this award is not pro-rated as employment continued throughout the performance period. The number of shares that will vest on 27 March 2020 (adjusted for the performance outcome but excluding future dividend equivalents) is 125,871.
- 2016 Executive LTIP award: pro-rated to cessation of employment. The maximum number of shares that will vest on 24 March 2021 subject to performance (excluding future dividend equivalents) is 168,582.
- 2017 Executive LTIP award: pro-rated to cessation of employment. The maximum number of shares that will vest on 27 March 2022, subject to performance (excluding future dividend equivalents) is 87,073.

Luke Savage will not be eligible to participate in the 2018 Executive LTIP award.

Paul Matthews

After stepping down from the Board with effect from 1 March 2017 Paul Matthews continued to be eligible for his salary and benefits from 1 March 2017 until his retirement on 31 August 2017 and accrued bonus until this date in respect of services he continued to provide to the Group. Details of Paul Matthews's bonus for 2017, for the period in which he served as an executive Director, are set out on page 114.

In respect of outstanding incentive awards Paul Matthews was treated as a good leaver. The following treatment of outstanding options therefore applies:

- 2016 Deferred share award (the deferred element of the 2015 short-term bonus) vested on 31 August 2017. The number of shares vested was 61,695.
- 2017 Deferred award (the deferred element of the 2016 short-term bonus) will vest on 31 March 2020. The number of shares that will vest (excluding future dividend-equivalents) is 85,613.
- 2014 Executive LTIP award: this award is not pro-rated as employment continued throughout the performance period
- 2015 Executive LTIP award: pro-rated to cessation of employment. The number of shares that will vest on 24 March 2020, (excluding additional dividend-equivalents) is 107,384.
- 2016 Executive LTIP award: pro-rated to cessation of employment. The maximum number of shares that will vest on 24 March 2021, subject to performance (but excluding additional dividend-equivalents) is 127,799.

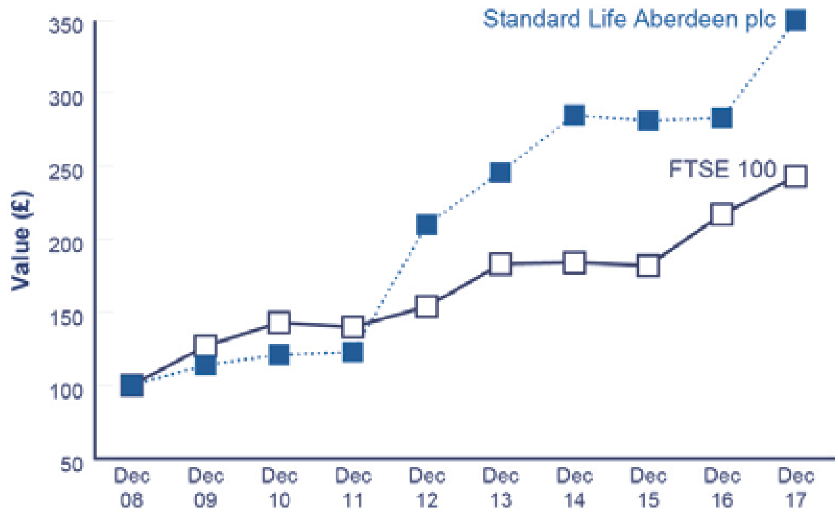
Barry O'Dwyer

Barry O'Dwyer was appointed to the Board with effect from 1 March 2017. He stepped down from the Board with effect from 14 August 2017 but continues in his role as Chief Executive, Standard Life. He continues to be eligible for salary, benefits and bonus. Details of Barry O'Dwyer's bonus for 2017, for the period in which he served as an executive Director, are set out on page 114. Outstanding incentive awards granted to Barry O'Dwyer will remain unchanged and will be subject to the terms agreed at the time of grant.

No other payments were made to former directors that are not reported elsewhere.

Pay compared to performance

The graph shows the difference in value at 31 December 2017 between having invested £100 on 1 January 2009, respectively, in Standard Life Aberdeen plc and in the FTSE 100. It is assumed dividends are reinvested in both. The FTSE 100 has been chosen as Standard Life Aberdeen plc is a member of this FTSE grouping.



The following table shows the single figure of total remuneration for the Directors in the role of Chief Executive Officer for the same nine financial years as shown in the graph above. Also shown are the annual bonus awards and LTIP awards which vested based on performance in those years.

Year ended 31 December	Chief Executive Officer	Chief Executive Officer single figure of total remuneration (£000s)	Annual bonus award rates against maximum opportunity (%)[1]	Long-term incentive plan vesting rates against maximum opportunity (%)
2017	Keith Skeoch	**3,028**	**82**	**70**
2017	Martin Gilbert	**1,317**	**56**	**–**
2016	Keith Skeoch	2,746	81	31.02
2015	Keith Skeoch	1,411	87	40.77
2015	David Nish	2,143	90	40.77
2014	David Nish	6,083	95	100
2013	David Nish	4,206	75	64
2012	David Nish	5,564	88	100
2011	David Nish	2,601	77	63.5
2010	David Nish	1,971	83	–
2009	Sir Sandy Crombie	2,175	67	49.67

1 The annual bonus award rates against maximum opportunity are in respect of the Group annual bonus plan in respect of Keith Skeoch and the Aberdeen Asset Management award in respect of the period 14 August 2017 to 31 December 2017 for Martin Gilbert.

Relative importance of spend on pay

The following table compares what the Group spent on employee remuneration to what is paid in the form of dividends to the Company's shareholders. Also shown is the Group's adjusted profit before tax which is provided for context as it is one of our key performance measures:

	2016	2017	% change
Remuneration payable to all Group employees (£m)[1]	596	**781**	**31.0%**
Dividends paid in respect of financial year (£m)	390	**627**	**60.8%**
Adjusted profit before tax (£m)[1]	718	**854**	**18.9%**

1 Shown on a reported basis therefore remuneration includes remuneration paid to Aberdeen employees from 14 August 2017 and adjusted profit includes Aberdeen from 14 August 2017. The increase in the dividend paid for the year ended 2017 when compared to 2016 included both the increase in the dividend paid and the increased share capital on which the payment is made as a result of the merger

Percentage change in remuneration of the Director in the position of Chief Executive Officer

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2016 and the year ended 31 December 2017 for Keith Skeoch as Co-Chief Executive Officer compared to the average UK-based Group employee. The Committee considers these appropriate comparators as the Co-Chief Executive Officers are UK-based and the largest number of Group employees are based in the UK. Martin Gilbert has not been included in the comparison as he was only appointed as Co-Chief Executive Officer in August 2017.

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	% change in base salary	% change in bonus	% change in benefits
Keith Skeoch	**0%**	**1.3%**	**0%**
UK-based employees of Standard Life Group[1]	**4.8%**	**2.38%**	**0%**

1 In providing a comparator to the year ended 31 December 2016 the employees considered as the appropriate consistent comparator group are those in Standard Life Group.

5.4 Annual remuneration report – what we did in 2017 for non-executive Directors

Single total figure of remuneration – non-executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the non-executive Directors who served as a Director at any time during the financial year ending 31 December 2017. Non-executive Directors do not participate in bonus or long-term incentive plans and do not receive pension funding.

Non–executive Directors		Fees for year ended 31 December £000s	Taxable benefits in year ended 31 December £000s[1]	Total remuneration for the year ended 31 December £000s
Sir Gerry Grimstone	**2017**	**380**	**15**	**395**
	2016	380	17	397
Simon Troughton[2]	**2017**	**77**	**–**	**77**
	2016	–	–	–
Julie Chakraverty[2]	**2017**	**40**	**–**	**40**
	2016	–	–	–
John Devine	**2017**	**92**	**4**	**96**
	2016	41	–	41
Gerhard Fusenig[2]	**2017**	**36**	**–**	**36**
	2016	–	–	–
Melanie Gee	**2017**	**104**	**4**	**108**
	2016	93	4	97
Richard Mully[2]	**2017**	**43**	**–**	**43**
	2016	–	–	–
Kevin Parry	**2017**	**118**	**7**	**125**
	2016	116	7	123
Lynne Peacock	**2017**	**153**	**3**	**156**
	2016	143	5	148
Martin Pike	**2017**	**107**	**4**	**111**
	2016	104	6	110
Jutta af Rosenborg[2]	**2017**	**36**	**–**	**36**
	2016	–	–	–
Akira Suzuki[2,3]	**2017**	**–**	**–**	**–**
	2016	–	–	–
Pierre Danon[4]	**2017**	**64**	**7**	**71**
	2016	78	36	114
Noel Harwerth[4]	**2017**	**46**	**–**	**46**
	2016	73	5	78

1 Sir Gerry Grimstone received an allowance of £15,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fees. Other amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits, they are included as being a payment which is subject to tax.

2 Appointed to the Board with effect from 14 August 2017.

3 No fee is paid to non-executive directors who represent a shareholder. Akira Suzuki, a managing executive officer of Mitsubishi UFJ Trust and Banking (MUTB), did not receive a fee as a non-executive director of Aberdeen, and as MUTB has continued to hold shares in the combined Group post the merger, this position has been maintained.

4 Stepped down from the Board with effect from 14 August 2017.

The non-executive Directors, including the Chairman, have letters of appointment that set out their duties and responsibilities. The key terms are set out on page 113.

The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Company Secretary at the Company's registered address (details of which can be found in Section 12) and at the 2018 AGM.

Chairman/Non executive Director	Initial Appointment to the Board[1]	Initial election by shareholders
Chairman		
Sir Gerry Grimstone[2]	29 May 2007	AGM 2007
Deputy Chairman		
Simon Troughton	14 August 2017	
Senior Independent Director		
Kevin Parry	27 October 2014	AGM 2015
Non-executive Directors		
Julie Chakraverty	14 August 2017	
John Devine	4 July 2016	AGM 2017
Gerhard Fusenig	14 August 2017	
Melanie Gee	1 November 2015	AGM 2016
Richard Mully	14 August 2017	
Lynne Peacock	1 April 2012	AGM 2012
Martin Pike	27 September 2013	AGM 2014
Jutta af Rosenborg	14 August 2017	
Akira Suzuki	14 August 2017	

1 All Directors were appointed to the Board of Standard Life Aberdeen plc on 14 August 2017 for election by shareholders at the 2018 AGM and all non-executive Directors including the Chairman received new appointment letters at that time. These confimed that continuation of the appointment is subject to proposal for election of the individual at the 2018 AGM and is contingent thereafter on re-election at subsequent AGMs.

2 Appointment as Chairman

Non-executive Directors' interests in shares (audited)

The following table shows the total number of Standard Life Aberdeen plc shares held by each of the non-executive Directors and their connected persons:

	Total number of shares owned at 1 January 2017 or date of appointment if later	Shares acquired/(sold) by the Directors during the period to 31 December 2017 or date of cessation of earlier	Total number of shares owned at 31 December 2017 or date of cessation if earlier	Shares acquired/ (sold) by the Directors during the period 31 December 2017 to 22 February 2018
Sir Gerry Grimstone	206,626	–	206,626	–
Simon Troughton	52,990	–	52,990	–
Julie Chakraverty	2,302	–	2,302	–
John Devine	1,321	–	1,321	–
Gerhard Fusenig	26,495	–	26,495	
Melanie Gee	20,000	–	20,000	–
Richard Mully	52,990	–	52,990	
Kevin Parry	50,000	10,754	60,754	–
Lynne Peacock	12,554	–	12,554	–
Martin Pike	32,727	–	32,727	–
Jutta af Rosenborg	–	–	–	–
Akira Suzuki	–	–	–	–
Pierre Danon	49,656	1,704	51,360	–
Noel Harwerth	10,074	–	10,074	–

The Chairman continues to be subject to a guideline holding of 100% of the value of his annual fee in Standard Life Aberdeen plc shares within four years of appointment. Sir Gerry Grimstone, as Chairman, fully met this requirement in 2017 with the value of his shares at the end of the year being 237% of his fees.

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Implementation of policy for non-executive Directors in 2018

The following table sets out non-executive Director fees to be paid in 2018. No changes have been made to fee levels, except for the Senior Independent Director.

Role	2018 fees[1]	2017 fees
Chairman's fees[2]	**£380,000**	£380,000
Deputy Chairman's Fees	**£200,000**	£200,000
Non-executive Director fee[3]	**£73,500**	£73,500
Additional fees:		
Senior Independent Director	**£25,000**	£18,000
Chairman of the Audit Committee	**£30,000**	£30,000
Chairman of the Risk and Capital Committee	**£30,000**	£30,000
Chairman of the Investment Performance Commitee	**£30,000**	–
Chairman of the Remuneration Committee	**£30,000**	£30,000
Chairman of Standard Life Assurance Limited	**£75,000**	£75,000
Committee membership (Audit, Risk and Capital, Remuneration, Investment Performance and Nomination Committees)	**£10,000**	£10,000

1 The core fee of £73,500 paid to each non-executive Director (including the Chairman and Deputy Chairman) is expected to total £808,500 for 2018 (2017: £670,688). This is within the maximum £1,000,000 permitted under Article 87 of Standard Life Aberdeen plc's articles of association. Total fees including additional duties are expected to amount to £1,577,500 for 2018 (2017:£1,286,000).

2 The Chairman's and Deputy Chairman's fees are inclusive of the non-executive Directors' core fee and no additional fees are paid to the Chairman or Deputy Chairman where they chair, or are members of, other committees/boards. In 2018 the Chairman will also receive £20,000 (2017: £15,000) as an allowance towards his business related accommodation costs in Edinburgh.

3 For non-executive Directors, individual fees are constructed by taking a base fee and adding extra fees for being the senior independent Director or, the chairman of, or member of, committees and subsidiaries' boards where a greater responsibility and time commitment is required.

5.5 The Remuneration Committee

Membership

During 2017 the Remuneration Committee was made up of independent non-executive Directors: Melanie Gee (Chairman from 17 May 2016 until 13 August 2017), Richard Mully (Chairman from 14 August 2017), Martin Pike (until 13 August 2017), John Devine and from 14 August 2017 Kevin Parry, Gerhard Fusenig, and Jutta af Rosenberg.

Member	Attendance
Richard Mully (Chairman)	3/3
John Devine	13/13
Gerhard Fusenig	3/3
Kevin Parry	3/3
Jutta af Rosenborg	3/3
Former member	
Melanie Gee	10/10
Martin Pike	10/10

The role of the Committee

To consider and make recommendations to the Board in respect of the total remuneration policy across the Group, including:

- Rewards for the executive Directors, senior employees and the Chairman
- The design and targets for any employee share plan
- The design and targets for annual cash bonus plans throughout the Group
- Changes to employee benefit structures (including pensions) throughout the Group

The terms of reference are published within the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2017 review was carried out via an internal self-assessment questionnaire. The review concluded that the Committee remained effective and fulfilled its remit.

External advisers

The Committee received information on comparative pay data from Willis Towers Watson. Pinsent Masons LLP provided legal interpretation of variable pay plan rules and contractual terms to the Committee.

Fees paid to Pinsent Masons LLP were £16,930.

During the year, the Committee also took advice from Deloitte LLP (a member of the Remuneration Consultants Group).

The Committee approached a number of remuneration consultants in September 2017 to tender for appointment. Following the review Deloitte LLP were re-appointed as external advisers to the Committee from 19 September 2017.

A representative from Deloitte LLP attends, by invitation, all Committee meetings to provide information and updates on external developments affecting remuneration as well as specific matters raised by the Committee. Outside of the meetings, the Committee's Chairman seeks advice on remuneration matters on an ongoing basis. As well as advising the Committee, Deloitte LLP also provided tax, risk, data, consultancy and transaction related services to the Group during the year. Deloitte Total Rewards and Benefits is an investment adviser to the trustees of the Standard Life Staff Pension Scheme. In addition, Standard Life Aberdeen is the current appointed provider for the Defined Contribution Master Plan that Deloitte LLP provides for its employees and Deloitte LLP is one of the employee benefit consultants through which Standard Life Aberdeen has been appointed to provide defined contribution arrangements for Deloitte's clients through competitive tender.

Fees paid to Deloitte LLP during 2017 for professional advice to the Committee were £244,450. Additional fees of £179,100 were paid to Deloitte LLP in respect of professional advice in relation to adjustments to the 2016 Standard Life Group annual bonus scorecard rating and the 2014 Executive LTIP vesting level, in consideration of the outcome of the Financial Conduct Authority's thematic review into the sale of non-advised annuities, and remuneration related advice in relation to the merger.

Where appropriate, the Committee receives input from the Chairman, Co-Chief Executive Officers, Chief Financial Officer, Chief People Officer, Group Reward and Employment Policy Director, Group Chief Risk Officer, and the Head of Corporate Governance at Standard Life Investments. This input never relates to their own remuneration. The Committee also receives input from the Risk and Capital Committee and Audit Committee.

As noted in Section 2 Sir Gerry Grimstone is an independent non-executive board member of Deloitte LLP. He was appointed to this role to represent the public interest following a recommendation by the Financial Reporting Council that all major audit firms should have such representation. His remuneration for that role is a fixed sum and has no relationship to Deloitte's business activities. Both the Chairman and the Committee recognised the need to ensure there is no conflict of interest arising from the appointment process. The Committee was satisfied at the date of the appointment that the nature of the Chairman's appointment to Deloitte LLP did not create a conflict of interest and the Chairman was not involved in the tender process that resulted in the reappointment of Deloitte LLP. Whilst Sir Gerry Grimstone has access to the Committee adviser to the extent that he is invited to attend Committee meetings, he does not meet with the Committee adviser, other than in those meetings, to discuss matters relating to Standard Life Aberdeen. Communication between Deloitte LLP and the Committee is on instruction from the Committee Chairman.

The Committee's work in 2017

An indicative breakdown as to how the Committee spent its time is shown below:

Jan-Mar

- 2016 Directors' Remuneration Report
- 2016 bonus payments and 2014 LTIP outcomes
- 2017 annual bonus and LTIP targets
- Paul Matthews' retirement and Barry O'Dwyer's appointment
- Review of remuneration awards and proposals for senior management and material risk takers
- Review of implications of the merger on remuneration
- Employee retention plans in relation to the merger (see Section 5.6)

Apr-Jun

- Remuneration policy for period from 14 August 2017 including investor engagement
- Remuneration input for the prospectus for the General Meeting
- Governance update
- Sales force remuneration
- Termination of employment remuneration implications for executive Directors stepping down as a result of the merger
- Extension of Sharesave plan participation to Aberdeen Asset Management for the 2017 invitation
- Directors' expense policy
- Regulatory update
- Material risk takers and 2017 disclosures

Jul-Sep

- Mid-year review of performance against target for annual bonus and LTIP awards
- Directors' remuneration policy – design for 2018

Oct-Dec

- Directors' remuneration policy – design for 2018, including investor engagement
- Regulatory update
- 2017 Directors' remuneration report

Shareholder voting

We remain committed to ongoing shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Committee seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The remuneration policy was subject to a vote at the 2017 General Meeting held on 19 June 2017 and the following table sets out the outcome of the vote.

Policy	For	Against	Withheld
(% of total votes)	94.55%	5.45%	
(No. of votes cast)	715,476,157	41,212,837	123,003,556

The Directors' remuneration report was subject to a vote at the 2017 AGM on Tuesday 16 May 2017 and the following table sets out the outcome.

2016 Directors' Remuneration Report	For	Against	Withheld
(% of total votes)	97.47%	2.53%	
(No. of votes cast)	765,570,038	19,888,754	8,290,600

Promoting all-employee share ownership

We believe that share ownership by our employees helps them to understand the interests of the Company's shareholders. We promote employee share ownership with a range of initiatives:

- The Standard Life (Employee) Share Plan which allows eligible employees to buy Standard Life Aberdeen plc shares directly from their earnings. A similar tax-approved plan is used in Ireland. At 31 December 2017, 3,912 employees in the UK were making a monthly average contribution of £59 and 189 employees in Ireland were making an average contribution of €55. Even though the plan cannot be structured on a tax-favourable basis in Germany and Austria, 102 employees in these countries participated in December 2017 with an average contribution of €42. On 31 December 2017, 4,814 of our employees were Standard Life Aberdeen plc shareholders through participation in the Standard Life (Employee) Share Plan.
- The Sharesave Plan, offered in 2017 to the majority of employees in the UK. This plan allows UK tax resident employees to save towards the exercise of options over Standard Life Aberdeen plc shares with the option price set at the beginning of the savings period at a discount of up to 20% of the market price. At 31 December 2017, 4,152 employees in the UK were saving to buy Standard Life Aberdeen plc shares.
- The Sharesave Plan in Ireland launched in August 2012, with invitations made annually thereafter. As at 31 December 2017, 146 employees were saving towards one or more of the Sharesave Ireland offers.

Share dilution limits

The Executive LTIP, the Standard Life Investments LTIP, the Standard Life (Employee) Share Plan, the Standard Life Sharesave Plan, the Aberdeen Asset Management Deferred Share plans and the Standard Life Ireland Sharesave Plan contain dilution limits that comply with the guidelines produced by The Investment Association (IA). On 31 December 2017, therefore, the Company's standing against these dilution limits was:

- 1.51% where the guideline is no more than 5% in any ten years under all discretionary share plans in which the executive Directors participate

- 2.17% where the guideline is no more than 10% in any ten years under all share plans

As is normal practice, there are employee trusts that operate in conjunction with the Executive LTIP, Standard Life Investments LTIP, the Restricted Stock Plan, the deferred elements of the Standard Life annual bonus plan and the Aberdeen Asset Management deferred plans. On 31 December 2017 the trusts held 39,735,984 shares acquired to satisfy these awards. Of these shares 9,093,106 are committed to satisfying vested but unexercised awards. The percentage of share capital held by the employee trusts is 1.33% - well within the 5% best practice limit endorsed by the IA.

Related party transactions

All transactions between Directors and the Group are on commercial terms that are equivalent to those available to all employees. During the year to 31 December 2017, the Directors (including close family members) contributed £3,156,250 (2016: £1,408,546) to products sold by the Group.

5.6 Additional Information

Aberdeen Variable Pay plan outcome for the period 1 October 2016 to 13 August 2017

The bonus entitlement for the directors of Aberdeen Asset Management who are now Directors of Standard Life Aberdeen plc was as follows:

	Maximum cash variable pay (multiple of fixed pay)	Maximum variable pay in deferred shares (multiple of fixed pay)
Martin Gilbert	250%	750%
Bill Rattray	75%	225%

Variable pay awards for the year under review were based on the following key performance indicators, weightings and targets.

The performance outcomes and bonus result for each KPI (as a percentage of maximum bonus) are also shown.

Performance metrics	Weighting	Threshold (25% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)	Actual	Result (% of max variable x weighting)
Long-term quantitative						
Compound growth in underlying earnings per share	12.5%	6%	9%	12%	(13.2%)	0.0%
Average ROCE	12.5%	16%	20%	22%	16.8%	3.7%
Investment performance	25.0%	50%	60%	70%	74.3%	25.0%
Annual quantitative						
Underlying profit before tax	15.0%	£263.8m	£329.7m	£395.6m	£350.0m	9.8%
Operating margin	15.0%	29.3%	32.6%	35.9%	33.5%	9.6%
Total						48.1%
Annual non-financial strategic	10.0%		Aberdeen remuneration committee assessment			7.5%
Annual personal performance	10.0%		Aberdeen remuneration committee assessment			8.5%-9.5%

Personal Performance	Rating
Martin Gilbert	9.5%
Bill Rattray	8.5%

The variable pay awards for the period from 1 October 2016 to 13 August 2017 are

	Cash £'000	Deferred £'000	Total £'000
Martin Gilbert	746	2,239	2,985
Bill Rattray	154	464	618

Retention Awards

As previously disclosed in the merger prospectus retention awards were awarded to certain employees (excluding executive Directors). In total, 249 participants were granted awards in the form of nil-cost options over shares, phantom options or cash conditional awards over notional shares, or deferred cash awards. Awards are subject to a combination of personal and company performance conditions. Awards will normally only vest and awards will normally only be released on the earlier of (i) announcement of the successful completion of the integration of Standard Life Group and Aberdeen following the merger and (ii) the second anniversary of the date of the merger. For some participants, awards will vest on a later date due to regulatory requirements. The value of awards at the time of grant was £37.8m.

6. Statement of Directors' responsibilities in respect of the Annual report and the financial statements

The Directors are responsible for preparing the Annual report and accounts and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

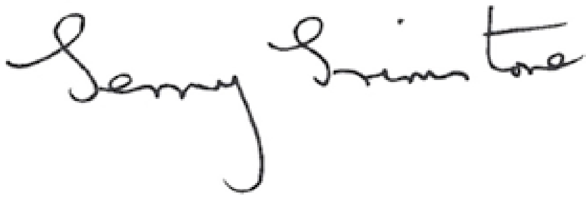
Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Directors' report and Strategic report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board



Sir Gerry Grimstone
Chairman

23 February 2018

Bill Rattray
Chief Financial Officer

23 February 2018

Financial information

How to navigate our Group financial statements

The Group's significant **accounting policies** are included at the beginning of the relevant notes to the Group financial statements with this background colour. Critical judgements in applying accounting policies are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Accounting policies that are relevant to the financial statements as a whole are also set out in that section.

The Group's critical accounting **estimates and assumptions** are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Further detail on these critical accounting estimates and assumptions is provided in the relevant note with this background colour.

Contents

Group financial statements

7. Independent auditors' report to the members of Standard Life Aberdeen plc

1. Our opinion is unmodified

We have audited the financial statements of Standard Life Aberdeen plc ("the Company") for the year ended 31 December 2017 which comprise the Consolidated income statement; Consolidated statement of comprehensive income; Consolidated statement of financial position; Consolidated statement of changes in equity; Consolidated statement of cash flows; Company statement of financial position; Company statement of changes in equity; Company statement of cash flows and the related notes, including the accounting policies and the reconciliation of consolidated adjusted profit before tax to IFRS profit for the year.

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- The parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 16 May 2017. The period of total uninterrupted engagement is for the one financial year ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: group financial statements as a whole	£38m 4.5% of normalised profit before tax
Coverage	72% of total profits and losses that made up Group profit before tax
Risks of material misstatement	
Event driven	Acquisition of Aberdeen Asset Management plc – goodwill and intangible assets
Recurring risks	Valuation of Non-Participating Insurance Contract Liabilities
	Valuation of the provision for annuity sales practices
	Valuation of intangible assets
	Valuation of complex financial instruments and investment property
	Valuation of the UK defined benefit pension scheme present value of funded obligation

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Acquisition of Aberdeen Asset Management – Goodwill and Intangible assets: (Goodwill £3,209 million) (Intangible assets £865 million) Refer to page 84 (Audit Committee Report), page 156 (accounting policy) and page 159 (financial disclosures).	**Subjective estimate:** On acquisition, separate intangible assets must be identified and valued. Both the identification of each category of intangible asset and the valuation of these assets are highly sensitive to underlying assumptions of the duration and level of future cash flows and discount rates. The Directors have exercised judgement in identifying and estimating the fair value of the separately identifiable intangibles comprising customer relationships, brand and technology as part of the acquisition. The fair value of these intangible assets recognised in the business combination accounting is £865 million. There would be a corresponding impact on the amount of goodwill recognised of £3,209 million if alternative assumptions had been adopted; in future periods goodwill will not be amortised, but intangible assets will be.	Our procedures included: • **Our sector experience:** We considered the rationale for the acquisition to challenge the identification of intangible assets. We inspected publically available documents including the prospectus, inspected board minutes and discussed with Directors. • **Our business combination expertise:** Using our own valuation specialists we challenged the Group's identification and valuation analysis prepared by management and third party valuations experts who assisted management, which was the basis for the determination of the fair value of the intangible assets used in the business combination accounting; • **Assessing Transparency:** We assessed the Group's disclosures regarding the acquisition and estimation assumptions and whether they have been disclosed appropriately. **Our results** We found the identification and valuation of intangibles assets and goodwill acquired to be acceptable.

	The risk	Our response
Valuation of Non-Participating Insurance Contract Liabilities (£22,740 million; 2016: £23,422 million) Refer to page 84 (Audit Committee Report), page 196 (accounting policy) and page 199 (financial disclosures).	**Subjective estimate:** The Group has significant non-participating insurance contract liabilities representing 12 per cent of the Group's total liabilities. The liabilities are required to be measured at the discounted value of uncertain future settlement amounts, which involves significant judgment as to key operating and economic assumptions. The key operating assumptions are mortality (base) and longevity (mortality improvement). The key economic assumption in setting the discount rate is the allowance for credit risk. The risk is that inappropriate assumptions are utilised in determining the valuation of the insurance contract liabilities.	• **Our actuarial expertise:** We used our own actuarial specialists to perform procedures in this area. • **Control design and operation:** We tested the design, implementation and operating effectiveness of key controls over operating and economic assumption setting. • **Tests of details and our sector experience:** We assessed the mortality assumption by reference to company and industry data on historical mortality experience. We assessed the longevity assumptions by reference to evaluation of the Group's internal cause-of-death model and industry based expectations of future longevity. We assessed the credit risk assumption by reference to the Group's investment portfolio and industry practice. • **Benchmarking assumptions and our sector experience:** We utilised the results of KPMG benchmarking of longevity and credit risk assumptions and our knowledge of relevant peers to inform our challenge of these assumptions. • **Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the calculation of insurance contract liabilities appropriately represent the sensitivities of the liabilities to the use of alternative assumptions. **Our results** We found the valuation of insurance contract liabilities to be acceptable.
Valuation of the provision for annuity sales practice (£248 million; 2016: £175million) Refer to page 84 (Audit Committee Report), page 212 (accounting policy) and page 212 (financial disclosures).	**Subjective estimate:** The Group has a provision for the costs arising from a review of non-advised annuity sales at the request of the Financial Conduct Authority ('FCA'). This is an area that involves significant judgement over the redress payable to customers. The Group is required to use judgment in the selection of key assumptions which are used to calculate the provision. The key assumptions are the number of customers entitled to redress and the average annual amount of redress payable to those customers.	• **Tests of detail:** We assessed the judgements made in determining the assumptions by reference to: – FCA data on the proportion of the population that could have benefited from an enhanced annuity; – Group data on rates of potential non-compliance with FCA sales practice requirements; – Industry data on medical conditions prevalent in the UK population; – And average annual uplifts to annuities such customers would have obtained • **Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the calculation of the provision appropriately represent the sensitivity of the provision to the use of alternative assumptions; **Our results** We found the valuation of the provision to be acceptable.

	The risk	Our response
Valuation of intangible assets (Customer relationships and investment management contracts £774 million; 2016: £154 million) (Internally generated software assets not yet available for use £53 million; 2016: £56 million) Refer to page 84 (Audit Committee Report), page 178 (accounting policy) and page 178 (financial disclosures).	**Subjective valuation:** The Group's intangible assets primarily comprise of customer relationships and investment management contracts and internally generated software. There is a risk of impairment to the carrying value of these intangible assets. Customer relationship and investment management contracts acquired through business combinations comprise £774 million of the intangible asset balance. The valuation of these intangible assets is subjective and requires the use of assumptions relating to future cash flows and the use of valuation models. In addition, management need to make subjective judgements when assessing whether there are any indicators of impairment to the customer relationship and investment management contract intangibles. Internally generated software assets not yet available for use comprise £53m of the intangible asset balance. The risk is that the recoverable amount associated with the assets not yet available for use is less than the capitalised amount.	**Customer relationships and investment management contracts acquired in business combinations:** • **Our valuation expertise:** We involved our own valuation specialists to assist in evaluating the appropriateness of discount rates applied, which included recalculating discount rates on a market participant basis using comparable company information. We evaluated whether there had been indicators of impairment that would trigger an impairment review. This included a critical assessment of the business performance, such as outflows of assets under management relating to each intangible. Where indicators were identified, we assessed management's valuation model. • **Our sector experience:** Where there was an indicator of impairment, we evaluated the appropriateness of assumptions applied in key inputs such as fee revenue, operating costs and discount rates. • **Sensitivity analysis:** We performed our own sensitivity analysis which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows to evaluate the impact on current headroom. **Internally generated software not yet available for use:** • **Tests of detail:** We challenged the Group's assessment of the continuing technical feasibility of completing a sample of the internally generated software assets that were not yet available for use by reference to project plans and design specifications. We used our own IT specialists to perform procedures in this area. We evaluated the Group's calculations of recoverable amount by reference to the determination of the cash generating unit and the associated discounted cash flow. **Our results** We found the valuation of intangible assets to be acceptable.

FINANCIAL INFORMATION

	The risk	Our response
Valuation of level 3 financial instruments and investment property (£12,488 million; 2016: £12,059 million) Refer to page 84 (Audit Committee Report), page 235 (accounting policy) and page 241 (financial disclosures).	**Subjective valuation:** Within the Group's investment portfolio, the valuation of certain assets requires significant judgement as a result of quoted prices being unavailable and limited liquidity in these markets. The asset categories where significant audit effort and judgement was focussed were investment property, commercial mortgages, private equity and debt securities. These holdings together represented 7 per cent of the total investment assets. For each of these valuations there is a degree of complexity and subjectivity: Investment property valuations require assumptions to be made such as expected rental yields in order to determine future rental income. Independent property experts assist the Directors in selecting these assumptions. Directors use judgement to select the methodology to which these assumptions are applied in order to derive the valuation. Unquoted private equity investments are valued in accordance with the International Private Equity and Venture Capital Valuation guidelines by using underlying fund manager valuations as a basis. These are adjusted where considered appropriate. There is a significant risk over the valuation of these investments. The valuation of commercial mortgages require judgement in determining the discount rate over future cash flows particularly in relation to the credit risk of borrowers.	**Investment property** • **Our valuation expertise:** We used our own property valuation specialists to assess the key inputs and assumptions used by external valuers by reference to our own market and industry benchmarks. Key assumptions were forecast rent, yield and vacant periods for property. • **Methodology Choice:** We considered the pricing model methodologies with reference to Royal Institution of Chartered Surveyors Valuation – Professional Standards (the 'Red Book'). **Unquoted investments and commercial mortgages:** • **Our valuation expertise:** – For unquoted debt securities and commercial mortgages we evaluated the assumptions used, in particular credit risk assumptions in formulating the discount rate. – For private equity funds we challenged the investment manager on key judgements affecting investee company valuations, including any adjustments made to the independent valuation produced by the underlying fund manager of the private equity funds. • **Methodology choice:** We assessed the pricing model methodologies used with reference to the International Private Equity and Venture Capital Valuation guidelines for funds and matrix pricing and discounted cash flow methodologies for unlisted debt. • **Assessing transparency:** Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of complex financial instruments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions. **Our results** We found the valuation of investments to be acceptable.

	The risk	Our response
Valuation of the UK defined benefit pension scheme present value of funded obligation (£2,839 million; 2016: £3,207million) Refer to page 84 (Audit Committee Report), page 205 (accounting policy) and page 206 (financial disclosures).	**Subjective Valuation:** The present value of the Group's funded obligation for the UK defined benefit pension scheme is an area that involves significant judgement over the uncertain future settlement value. The Group is required to use judgment in the selection of key assumptions covering both operating assumptions and economic assumptions. The key operating assumptions are base mortality and mortality improvement. The key economic assumptions are the discount rate and inflation. The risk is that inappropriate assumptions are used in determining the present value of the funded obligation.	• **Our actuarial experience:** We used our own actuarial specialists to perform procedures in this area; • **Test of detail and our sector experience:** We considered the appropriateness of the base mortality assumption by reference to scheme and industry data on historical mortality experience. We considered the appropriateness of the mortality improvement assumptions by reference to industry based expectations of future mortality improvements. We considered the appropriateness of the discount rate and inflation assumptions by reference to industry practice • **Benchmarking assumptions and our sector experience:** We utilised the results of KPMG benchmarking of base mortality, mortality improvement, discount rate and inflation assumptions and our knowledge of industry practice to inform our challenge of the Group's assumptions in these areas • **Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the calculation of present value of the funded obligation appropriately represent the sensitivities of the obligation to the use of alternative assumptions. **Our results** We found the valuation of the present value of the funded obligation to be acceptable.
Recoverability of parent company's investment in subsidiaries (£9,425 million; 2016: £4,769 million) Refer to page 269 (accounting policy and financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 87% (2016: 80%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area of most focus in the overall parent company audit.	**Our procedures included:** • **Tests of detail:** We compared the carrying amount of 100% of the investment balance with the relevant subsidiaries' financial statements/draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. • **Assessing subsidiary audits:** We assessed the work performed by the subsidiary audit teams and considering the results of that work to date on those subsidiaries' profits and net assets • **Our sector experience:** For the investments where the carrying amount exceeded the net asset value, we compared the carrying amount of the investment with the expected value of the business based on the method applied by management in valuing the business. We assessed the key inputs to this valuation to determine whether they were reasonable. **Our results** We found the group's assessment of the recoverability of the investment in subsidiaries to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £38m, determined with reference to a benchmark of group profit before tax, normalised to exclude the policyholder tax gross up (as explained in Note 10 to the financial statements), to exclude the impact of the increase in the provision for annuity sales practices, to exclude impairment, to exclude restructuring costs and to exclude the profit on disposal of associates as disclosed in note 38, note 14, note 9, and note 24 respectively. Materiality represents 4.5% of normalised profit before tax.

Materiality for the parent company financial statements as a whole was set at £17m, determined with reference to a benchmark of normalised profit before tax, of which it represents 4.9%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 227 reporting components, (of which 160 are consolidated funds), we subjected 19 to full scope audits for group purposes. A further 13 components were scoped in for audit procedures over specific account balances. These components for which we performed work other than audits for group reporting purposes were not individually significant but were included in the scope of our group reporting work in order to provide further coverage over the group's results. We conducted reviews of financial information (including enquiry) at a further 1 non-significant component as whilst the component was determined to be non-significant we wanted to ensure we understood financial performance and to confirm our assessment of no significant risk of material misstatement.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 21% of total group revenue, 28% of group total profits and losses that made up the group profit before tax and 18% of total group assets is represented by 194 of reporting components, none of which individually represented more than 2% of any of total group revenue, total profits and losses that made up Group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

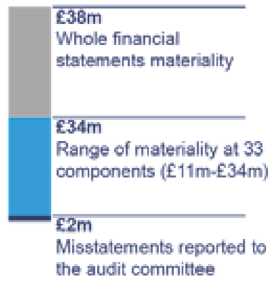
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £11m to £34m, having regard to the mix of size and risk profile of the Group across the components. The work on 32 of the 33 components was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team performed procedures on the items excluded from normalised group profit before tax.

The Group team visited 18 of the component locations (excluding consolidated funds) to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors and certain others that were not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the group team was then performed by the component auditor.

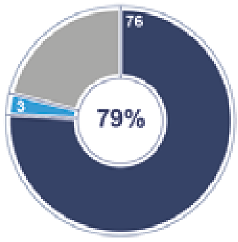
KPMG

Normalised Group Profit before Tax £853m

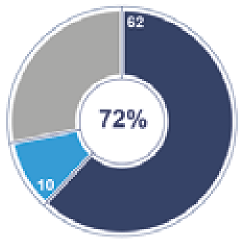
Group Materiality £38M



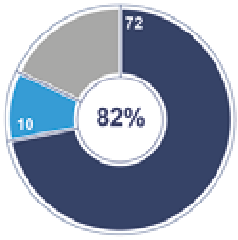
Group revenue



Total profits and losses that made up Group profit before tax



Group total assets



Full scope for group audit purposes 2017
Specified risk-focused audit procedures 2017
Residual components

4. We have nothing to report on going concern

We are required to report to you if:

- We have anything material to add or draw attention to in relation to the directors' statement in section (a) on page 154 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- The related statement under the Listing Rules set out on page 61 is materially inconsistent with our audit knowledge

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information

Strategic report and directors' report

Based solely on our work on the other information:

- We have not identified material misstatements in the strategic report and the directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- The directors' confirmation within the viability statement page 38 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- The directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- The section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or certain disclosures of directors' remuneration specified by law are not made; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 135, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital (recognising the importance of this to the continuing operation of the company) and regulatory conduct (recognising the potential for economic outflow associated with non-compliance). With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items. Further detail in respect of the valuation of provision for annuity sales practices is set out in the key audit matter disclosures in section 2 of this report.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

23 February 2018

8. Group financial statements

Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 £m	2016[1] £m
Revenue			
Investment return	4	**12,774**	15,376
Fee income	5	**1,686**	1,186
Insurance and participating investment contract premium income	31	**2,143**	2,092
Profit on disposal of interests in associates	1	**319**	–
Other income		**58**	75
Total revenue		**16,980**	18,729
Expenses			
Insurance and participating investment contract claims and change in liabilities	31	**3,628**	7,126
Change in non-participating investment contract liabilities	32	**8,963**	8,768
Administrative expenses			
Restructuring and corporate transaction expenses	9	**176**	62
Other administrative expenses	6	**1,982**	1,494
Total administrative expenses		**2,158**	1,556
Provision for annuity sales practices	38	**100**	175
Change in liability for third party interest in consolidated funds	42	**1,124**	296
Finance costs		**88**	82
Total expenses		**16,061**	18,003
Share of profit from associates and joint ventures		**45**	63
Profit before tax		**964**	789
Tax expense attributable to policyholders' returns	10	**166**	302
Profit before tax expense attributable to equity holders		**798**	487
Total tax expense	10	**232**	370
Less: Tax expense attributable to policyholders' returns	10	**(166)**	(302)
Tax expense attributable to equity holders	10	**66**	68
Profit for the year		**732**	419
Attributable to:			
Equity holders of Standard Life Aberdeen plc		**699**	368
Non-controlling interests			
Ordinary shares	30	**25**	51
Preference shares and perpetual notes	30	**8**	–
		732	419
Earnings per share			
Basic (pence per share)	11	**29.8**	18.7
Diluted (pence per share)	11	**29.6**	18.6

1 The presentation of the consolidated income statement has changed from the prior year. Detail on breakdown of insurance related income and expenses which was previously shown on the face of the income statement is now included in Note 31.

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit for the year		**732**	419
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement (losses)/gains on defined benefit pension plans	35	**(18)**	162
Revaluation of owner occupied property	18	**1**	5
Change in unallocated divisible surplus	29	**–**	(5)
Equity holder tax effect of items that will not be reclassified subsequently to profit or loss	10	**(10)**	2
Total items that will not be reclassified subsequently to profit or loss		**(27)**	164
Items that may be reclassified subsequently to profit or loss:			
Fair value losses on cash flow hedges	29	**(33)**	–
Fair value gains on available-for-sale financial assets	29	**–**	17
Exchange differences on translating foreign operations	29	**(32)**	173
Change in unallocated divisible surplus	29	**12**	(62)
Share of other comprehensive income/(expense) of associates and joint ventures	28	**4**	(10)
Items transferred to the consolidated income statement			
Realised losses on cash flow hedges	21	**13**	–
Realised foreign exchange gains	1	**(2)**	–
Equity holder tax effect of items that may be reclassified subsequently to profit or loss	10	**3**	(3)
Total items that may be reclassified subsequently to profit or loss		**(35)**	115
Other comprehensive income for the year		**(62)**	279
Total comprehensive income for the year		**670**	698
Attributable to:			
Equity holders of Standard Life Aberdeen plc		**637**	647
Non-controlling interests			
Ordinary shares		**25**	51
Preference shares and perpetual notes		**8**	–
		670	698

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

Reconciliation of consolidated adjusted profit before tax to IFRS profit for the year

For the year ended 31 December 2017

	Notes	2017 £m	2016 restated[1] £m
Adjusted profit/(loss) before tax			
Aberdeen Standard Investments[2]		**492**	386
Pensions and Savings		**381**	362
India and China life		**59**	36
Other		**(78)**	(66)
Adjusted profit before tax	2	**854**	718
Adjusted for the following items			
Short-term fluctuations in investment return and economic assumption changes	12	**67**	13
Restructuring and corporate transaction expenses	9	**(173)**	(67)
Amortisation and impairment of intangible assets acquired in business combinations	2	**(138)**	(38)
Provision for annuity sales practices	38	**(100)**	(175)
Coupons payable on perpetual notes classified as equity[3]	12	**10**	–
Profit on disposal of interests in associates	1	**319**	–
Other[4]		**(25)**	(2)
Total adjusting items	2	**(40)**	(269)
Share of associates' and joint ventures' tax expense	2	**(41)**	(13)
Profit attributable to non-controlling interests – ordinary shares	2	**25**	51
Profit before tax expense attributable to equity holders[5]		**798**	487
Tax (expense)/credit attributable to			
Adjusted profit	2	**(108)**	(126)
Adjusting items	2	**42**	58
Total tax expense attributable to equity holders		**(66)**	(68)
Profit for the year		**732**	419

1 Following completion of the merger the Group has changed the calculation of adjusted profit (previously named operating profit). Short term fluctuations in investment return and economic assumption changes will now only be adjusted for insurance entities. Previously these adjustments also applied to non-insurance entities. This has resulted in an £8m reduction to the adjusted profit of the Other segment, a £3m increase to the Aberdeen Standard Investments segment and a corresponding £5m adjustment to short-term fluctuations in investment return and economic assumption changes within adjusting items, for the year ended 31 December 2016.

2 Previously Standard Life Investments. Refer Note 2 for further details.

3 On 18 December 2017, perpetual capital notes issued by Aberdeen Asset Management PLC were reclassified as a subordinated liability. On merger these were classified as an equity instrument. Refer Note 30 for further details.

4 Other adjusting items for the year ended 31 December 2017 includes £24m (2016: £nil) in relation to the impairment of a disposal group classified as held for sale. Refer Note 24 for further details.

5 Profit before tax expense attributable to equity holders consists of profit before tax of £964m (2016: £789m) less tax expense attributable to policyholders' returns of £166m (2016: £302m).

The Group's key alternative performance measure is adjusted profit before tax. Refer Note 12 for further details.

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

Consolidated statement of financial position

As at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Intangible assets	14	**4,514**	572
Deferred acquisition costs	15	**612**	651
Investments in associates and joint ventures accounted for using the equity method[1]	16	**503**	572
Investment property	17	**9,749**	9,929
Property, plant and equipment	18	**146**	89
Pension and other post-retirement benefit assets	35	**1,099**	1,093
Deferred tax assets	10	**65**	42
Reinsurance assets	31	**4,811**	5,386
Loans	19	**91**	295
Derivative financial assets	19	**3,053**	3,534
Equity securities and interests in pooled investment funds[1]	19	**99,020**	90,683
Debt securities	19	**61,565**	67,933
Receivables and other financial assets	19	**1,242**	1,255
Current tax recoverable	10	**192**	166
Other assets	23	**185**	94
Assets held for sale	24	**1,038**	263
Cash and cash equivalents	19	**10,226**	7,938
Total assets		**198,111**	190,495
Equity			
Share capital	26	**364**	242
Shares held by trusts	27	**(61)**	(2)
Share premium reserve	26	**639**	634
Retained earnings	28	**3,162**	2,855
Other reserves	29	**4,500**	618
Equity attributable to equity holders of Standard Life Aberdeen plc		**8,604**	4,347
Non-controlling interests			
Ordinary shares	30	**289**	297
Preference shares	30	**99**	–
Total equity		**8,992**	4,644
Liabilities			
Non-participating insurance contract liabilities	31	**22,740**	23,422
Non-participating investment contract liabilities	32	**105,769**	102,063
Participating contract liabilities	31	**30,647**	31,273
Deposits received from reinsurers	33	**4,633**	5,093
Third party interest in consolidated funds	33	**16,457**	16,835
Subordinated liabilities	33	**2,253**	1,319
Pension and other post-retirement benefit provisions	35	**78**	55
Deferred income	36	**157**	198
Deferred tax liabilities	10	**367**	259
Current tax liabilities	10	**166**	113
Derivative financial liabilities	21	**813**	965
Other financial liabilities	33	**3,896**	3,916
Provisions	38	**316**	227
Other liabilities	38	**121**	113
Liabilities of operations held for sale	24	**706**	–
Total liabilities		**189,119**	185,851
Total equity and liabilities		**198,111**	190,495

1 Presentation changed and 2016 comparative restated. Refer Note 16(c).

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

The consolidated financial statements on pages 147 to 264 were approved by the Board and signed on its behalf by the following Directors:

Sir Gerry Grimstone
Chairman, 23 February 2018

Bill Rattray
Chief Financial Officer, 23 February 2018

Consolidated statement of changes in equity

For the year ended 31 December 2017

2017	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life Aberdeen plc £m	Non-controlling interests: Ordinary shares £m	Non-controlling interests: Preference shares and perpetual notes £m	Total equity £m
1 January		**242**	**(2)**	**634**	**2,855**	**618**	**4,347**	**297**	**–**	**4,644**
Profit for the year		–	–	–	699	–	699	25	8	**732**
Other comprehensive income for the year		–	–	–	(24)	(38)	(62)	–	–	**(62)**
Total comprehensive income for the year	28, 29	**–**	**–**	**–**	**675**	**(38)**	**637**	**25**	**8**	**670**
Issue of share capital	26, 27, 29	122	(3)	5	–	3,877	4,001	–	–	**4,001**
Dividends paid on ordinary shares	13	–	–	–	(469)	–	(469)	–	–	**(469)**
Coupons paid on perpetual notes		–	–	–	–	–	–	–	(13)	**(13)**
Non-controlling interests acquired through business combination	1	–	–	–	–	–	–	–	501	**501**
Reclassification of perpetual notes to liability	30	–	–	–	19	–	19	–	(399)	**(380)**
Other movements in non-controlling interests in the year		–	–	–	–	–	–	(33)	–	**(33)**
Reserves credit for employee share-based payments	29	–	–	–	–	96	96	–	–	**96**
Transfer to retained earnings for vested employee share-based payments	28, 29	–	–	–	86	(54)	32	–	–	**32**
Shares acquired by employee trusts		–	(61)	–	–	–	(61)	–	–	**(61)**
Shares distributed by employee and other trusts and related dividend equivalents	28	–	5	–	(8)	–	(3)	–	–	**(3)**
Sale of shares held by trusts		–	–	–	4	–	4	–	–	**4**
Aggregate tax effect of items recognised directly in equity	10	–	–	–	–	1	1	–	2	**3**
31 December		**364**	**(61)**	**639**	**3,162**	**4,500**	**8,604**	**289**	**99**	**8,992**

2016	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity attributable to equity holders of Standard Life Aberdeen plc £m	Non-controlling interests £m	Total equity £m
1 January		**241**	**(6)**	**628**	**2,162**	**977**	**4,002**	**347**	**4,349**
Profit for the year		–	–	–	368	–	368	51	**419**
Other comprehensive income for the year		–	–	–	154	125	279	–	**279**
Total comprehensive income for the year	28, 29	**–**	**–**	**–**	**522**	**125**	**647**	**51**	**698**
Issue of share capital	26	1	–	6	–	–	7	–	**7**
Dividends paid on ordinary shares	13	–	–	–	(370)	–	(370)	–	**(370)**
Reserves credit for employee share-based payments	29	–	–	–	–	30	30	–	**30**
Transfer to retained earnings for vested employee share-based payments	28, 29	–	–	–	23	(23)	–	–	**–**
Shares acquired by employee trusts		–	(3)	–	–	–	(3)	–	**(3)**
Shares distributed by employee and other trusts	28	–	7	–	(7)	–	–	–	**–**
Expiry of unclaimed asset trust claim period	28	–	–	–	41	–	41	–	**41**
Cancellation of capital redemption reserve	29	–	–	–	488	(488)	–	–	**–**
Other movements in non-controlling interests in the period		–	–	–	–	–	–	(101)	**(101)**
Aggregate tax effect of items recognised directly in equity	10	–	–	–	(4)	(3)	(7)	–	**(7)**
31 December		**242**	**(2)**	**634**	**2,855**	**618**	**4,347**	**297**	**4,644**

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit before tax		**964**	789
Change in operating assets	42	**1,351**	(12,995)
Change in operating liabilities	42	**(84)**	12,926
Adjustment for non-cash movements in investment income		**40**	174
Change in unallocated divisible surplus	31	**140**	53
Other non-cash and non-operating items	42	**3**	122
Taxation paid		**(220)**	(333)
Net cash flows from operating activities		**2,194**	736
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(37)**	(10)
Proceeds from sale of property, plant and equipment		**–**	22
Proceeds from sale of seeding investments		**19**	–
Acquisition of subsidiaries and unincorporated businesses net of cash acquired		**495**	(5)
Disposal/(acquisition) of investments in associates and joint ventures	1	**359**	(179)
Purchase of intangible assets		**(69)**	(61)
Net cash flows from investing activities		**767**	(233)
Cash flows from financing activities			
Repayment of other borrowings		**(1)**	(2)
Proceeds from issue of subordinated liabilities		**565**	–
Capital flows to third party interest in consolidated funds and non-controlling interests – ordinary shares		**(1,011)**	(1,845)
Distributions paid to third party interest in consolidated funds and non-controlling interests – ordinary shares		**(109)**	(109)
Shares acquired by trusts		**(61)**	(3)
Sale of shares held by trusts		**4**	–
Proceeds from issue of shares	26	**5**	6
Interest paid		**(97)**	(83)
Ordinary dividends paid	13	**(469)**	(370)
Net cash flows from financing activities		**(1,174)**	(2,406)
Net increase/(decrease) in cash and cash equivalents		**1,787**	(1,903)
Cash and cash equivalents at the beginning of the year		**7,900**	9,591
Effects of exchange rate changes on cash and cash equivalents		**28**	212
Cash and cash equivalents at the end of the year	25	**9,715**	7,900
Supplemental disclosures on cash flows from operating activities			
Interest paid		**4**	3
Interest received		**1,710**	1,929
Dividends received		**2,086**	2,023
Rental income received on investment property		**503**	564

The Notes on pages 154 to 264 are an integral part of these consolidated financial statements

FINANCIAL INFORMATION

Presentation of consolidated financial statements

The Group's significant accounting policies are included at the beginning of the relevant notes to the consolidated financial statements. This section sets out the basis of preparation, a summary of the Group's critical accounting estimates and judgements in applying accounting policies, and other significant accounting policies which have been applied to the financial statements as a whole.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRICs), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment property, owner occupied property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The principal accounting policies set out in these consolidated financial statements have been consistently applied to all financial reporting periods presented.

(a)(i) Amendments to existing standards that have been adopted by the Group

The Group has adopted the following new amendments to existing standards which have been endorsed by the EU.

Interpretation or amendment	Effective Date	Detail
Amendments to IAS 7 *Statement of Cash Flows* : Disclosure Initiative	1 January 2017	The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash movements.
Amendments to IAS 12 *Income Taxes* : Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	These amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The Group's accounting policies have been updated to reflect these and additional disclosures in respect of liabilities arising from financing activities have been added to Note 42. The implementation of the above interpretations and amendments to existing standards has had no significant impact on the Group's financial statements.

(a)(ii) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's annual accounting periods beginning after 1 January 2017. The Group has not early adopted the standards, amendments and interpretations described below:

IFRS 15 *Revenue from Contracts with Customers* (effective for annual periods beginning on or after 1 January 2018)
IFRS 15 will replace IAS 18 *Revenue* and related interpretations. IFRS 15 provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. New disclosure requirements including estimate and judgement thresholds will also be introduced.

The Group's revenue generated from the following contracts is exempt from this standard:

- Lease contracts within the scope of IAS 17 *Leases*
- Insurance contracts within scope of IFRS 4 *Insurance Contracts*
- Financial instruments within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*
- Investments in associates and joint ventures within scope of IAS 28 *Investments in Associates and Joint Ventures*

In 2015 the IASB issued amendments to the standard and delayed the mandatory adoption date until 1 January 2018. A detailed impact assessment was completed in 2017 for all major revenue streams, reviewing contracts and analysing the revenue recognised by the Group. No significant impacts to profit or net assets were identified.

IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019)
IFRS 16 replaces IAS 17 *Leases* and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result there is no longer a distinction between operating leases and finance leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The accounting for leases by lessors remains largely unchanged.

The main impact on the Group of IFRS 16 will be for property that the Group leases for use as office space which is currently classified as operating leases. As a result of the new standard the property leased by the Group will be brought onto the statement of financial position at inception of a lease. At inception the right of use asset will be measured equal to the present value of the lease liability. The present value of the lease liability takes into account prepayments and incentives and will be measured using the interest rate implicit in the lease or the incremental borrowing rate. The right of use asset will be depreciated over the life of the lease and the interest expense on the lease liability will be recognised separately. The Group is currently assessing the impact of the new standard on the consolidated financial statements. A breakdown of the Group's existing operating lease commitments is provided in Note 44.

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2021 for the Group)
IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 allows two measurement categories for financial assets in the statement of financial position: amortised cost and fair value. All equity instruments and derivative instruments are measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect contractual cash flows and the cash flows represent principal and interest, otherwise it is classified at fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) depending on the business model it is held within or whether the option to adopt FVTPL has been applied. Changes in value of all equity instruments and derivative instruments are recognised in profit or loss unless an OCI presentation election is made at initial recognition for an equity instrument or a derivative instrument is designated as a hedging instrument in a cash flow hedge. IFRS 9 also introduces a new impairment model, an expected credit loss model which will replace the current incurred loss model in IAS 39. An impairment loss will now be recognised prior to a loss event occurring. Accounting for financial liabilities remains the same as under IAS 39 except that for financial liabilities designated as at FVTPL, changes in the fair value due to changes in the liability's credit risk are recognised in OCI.

Additionally IFRS 9 amends the current requirements for assessing hedge effectiveness in IAS 39 and also amends what qualifies as a hedged item and some of the restrictions on what qualifies as a hedging instrument. The accounting and presentation requirements for designated hedging relationships remain largely unchanged.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements.

In September 2016 the IASB issued amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts*. The amendments address the consequences of the different effective dates of IFRS 9 and the new insurance contracts standard, IFRS 17. Insurers are permitted to defer implementation of IFRS 9 until periods beginning on or after 1 January 2021 if they satisfy criteria regarding the predominance of their insurance activities, or to apply an overlay approach to remove incremental volatility from the income statement. At 31 December 2015 the Group's liabilities arising from contracts within the scope of IFRS 4 and liabilities connected with insurance as a percentage of total liabilities were 32% and in excess of 96% respectively. Therefore the Group was eligible to defer the implementation of IFRS 9. Following the merger with Aberdeen Asset Management PLC, the predominance of insurances activities has been reassessed as at 31 December 2017. The Group remains eligible to defer and has opted to defer.

The impact of the implementation of IFRS 9 will be dependent on the implementation of IFRS 17.

IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021)
IFRS 17 was issued in May 2017 and will replace IFRS 4 *Insurance Contracts*. IFRS 4 is an interim standard which permits the continued application of accounting policies, for insurance contracts and contracts with discretionary participation features, which were being used at transition to IFRS except where a change satisfies criteria set out in IFRS 4. IFRS 17 introduces new required measurement and presentation accounting policies for such contracts which reflect the view that these contracts combine features of a financial instrument and a service contract.

IFRS 17's measurement model, which applies to groups of contracts, combines a risk-adjusted present value of future cash flows and an amount representing unearned profit. On transition retrospective application is required unless impracticable, in which case either a modified retrospective approach or a fair value approach is required. IFRS 17 introduces a new approach to presentation in the income statement and statement of comprehensive income.

IFRS 17 will impact the reporting of results arising from insurance contracts and contracts with discretionary participating features issued by entities within the Group's Pensions and Savings, and India and China life segments. The Group has commenced a project which will cover both the implementation of IFRS 17 and IFRS 9. IFRS 17 has not yet been endorsed by the EU.

Other
There are no other new standards, interpretations and amendments to existing standards that have been published that are expected to have a significant impact on the consolidated financial statements of the Group.

(a)(iii) Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements requires management to exercise judgements in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses arising during the year. Judgements and sources of estimation uncertainty are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where judgements have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

Financial statement area	Critical judgements in applying accounting policies	Related note
Classification of insurance, reinsurance and investment contracts	Assessment of the significance of insurance risk transferred, and treatment of contracts which have insurance, non-participating investment and participating investment elements	Note 31
Defined benefit pension plans	Assessment of whether the Group has an unconditional right to a refund of the surplus Treatment of tax relating to the surplus	Note 35
Consolidation/ significant influence assessment for structured entities	Assessment of control Assessment of significant influence	Basis of consolidation and Note 16
Contingent liabilities	Assessment of whether the Group has a contingent liability in relation to conduct matters	Note 43
Intangible assets	Identification and valuation of intangible assets arising from business combinations Determination of amounts to be recognised as internally developed software	Note 14

During the year to 31 December 2017 we have assessed the identification and valuation of intangible assets arising from business combinations and determination of amounts to be recognised as internally developed software as critical judgements in applying accounting policies. In the year to 31 December 2016 we disclosed these areas as critical accounting estimates however given that they do not result in a significant risk of material adjustment to the carrying value in the next financial year we have considered that they are more akin to an area of judgement. There are no other changes to critical judgements from the prior year.

The areas where assumptions and other sources of estimation uncertainty at the end of the reporting period have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Financial statement area	Critical accounting estimates and assumptions	Related note
Participating contract liabilities, non-participating insurance contract liabilities and reinsurance assets	Determination of the valuation interest rates for annuity liabilities Determination of longevity and mortality assumptions for annuity liabilities	Note 31
Financial instruments at fair value through profit or loss	Determination of the fair value of private equity investments and debt securities categorised as level 3 in the fair value hierarchy	Notes 19 and 41
Investment property	Determination of the fair value of investment property	Notes 17 and 41
Defined benefit pension plans	Determination of principal UK pension plan assumptions for mortality, discount rate and inflation	Note 35
Intangible assets	Determination of useful lives Determination of the recoverable amount in relation to impairment assessment of customer relationships and investment management contract intangibles	Note 14
Provisions	Measurement of provision for annuity sales practices	Note 38

In addition to the change to intangible assets discussed above the following changes have been made to critical accounting estimates and assumptions:

- We have improved the disclosure of the estimate in relation to participating contract liabilities, non-participating insurance contract liabilities and reinsurance assets to inform users that the critical area of estimation uncertainty is in relation to annuity liabilities
- We have improved the disclosure of the estimate in relation to determination of the recoverable amount in relation to intangible assets to inform users that the critical area of estimation uncertainty relates to customer relationships and investment management contracts
- We have removed the critical assumptions around determination of expense assumptions in relation to participating contracts, non-participating contracts and reinsurance contracts. We have also removed the critical estimate for over-the-counter derivatives in relation to financial instruments at fair value through profit or loss. These assumptions and estimates have been removed as they are no longer considered to result in a significant risk of material adjustment to carrying value in the next financial year.

All other critical accounting estimates and assumptions are the same as the prior year.

Further detail on critical accounting estimates and assumptions is provided in the relevant note.

(a)(iv) Foreign currency translation

The consolidated financial statements are presented in millions pounds Sterling.

The statements of financial position of Group entities that have a different functional currency than the Group's presentation currency are translated into the presentation currency at the year end exchange rate and their income statements and cash flows are translated at average exchange rates for the year. All resulting exchange differences arising are recognised in other comprehensive income and the foreign currency translation reserve in equity.

Foreign currency transactions are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Gains and losses arising from such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the relevant line in the consolidated income statement.

Translation differences on non-monetary items, such as equity securities held at fair value through profit or loss, are reported as part of the fair value gain or loss within net investment return in the consolidated income statement. Translation differences on financial assets and liabilities held at amortised cost are included in the relevant line in the consolidated income statement.

The income statements and cash flows, and statements of financial position of Group entities that have a different functional currency from the Group's presentation currency have been translated using the following principal exchange rates:

	2017 **Income statement and cash flows (average rate)**	**2017** **Statement of financial position (closing rate)**	2016 Income statement and cash flows (average rate)	2016 Statement of financial position (closing rate)
Euro	**1.145**	**1.126**	1.229	1.171
US Dollar	**1.297**	**1.353**	1.356	1.236
Indian Rupee	**84.474**	**86.341**	91.058	83.864
Chinese Renminbi	**8.753**	**8.809**	8.999	8.587
Hong Kong Dollar	**10.104**	**10.575**	10.521	9.580
Singapore Dollar	**1.787**	**1.808**	1.876	1.785

(b) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiaries.

Subsidiaries are all entities (including investment vehicles) over which the Group has control. Control arises when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. For operating entities this generally accompanies a shareholding of 50% or more in the entity. For investment vehicles, including structured entities, the control assessment also considers the removal rights of other investors and whether the Group acts as principal or agent in assessing the link between power and variable returns. In determining whether the Group acts as principal, and therefore controls the entity, the removal rights of other investors and the magnitude of the variability associated with the returns are also taken into account. As a result, the Group often is considered to control investment vehicles in which its shareholding is less than 50%.

Where the Group is considered to control an investment vehicle, such as an open-ended investment company, a unit trust or a limited partnership, and it is therefore consolidated, the interests of parties other than the Group are assessed to determine whether they should be classified as liabilities or as non-controlling interests. The liabilities are recognised in the third party interest in consolidated funds line in the consolidated statement of financial position and any movements are recognised in the consolidated income statement. The financial liability is designated at fair value through profit or loss (FVTPL) as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets. The interests of parties other than the Group in all other types of entities are recorded as non-controlling interests.

All intra-group transactions, balances, income and expenses are eliminated in full.

The Group uses the acquisition method to account for acquisitions of businesses. At the acquisition date the assets and liabilities of the business acquired and any non-controlling interests are identified and initially measured at fair value on the consolidated statement of financial position.

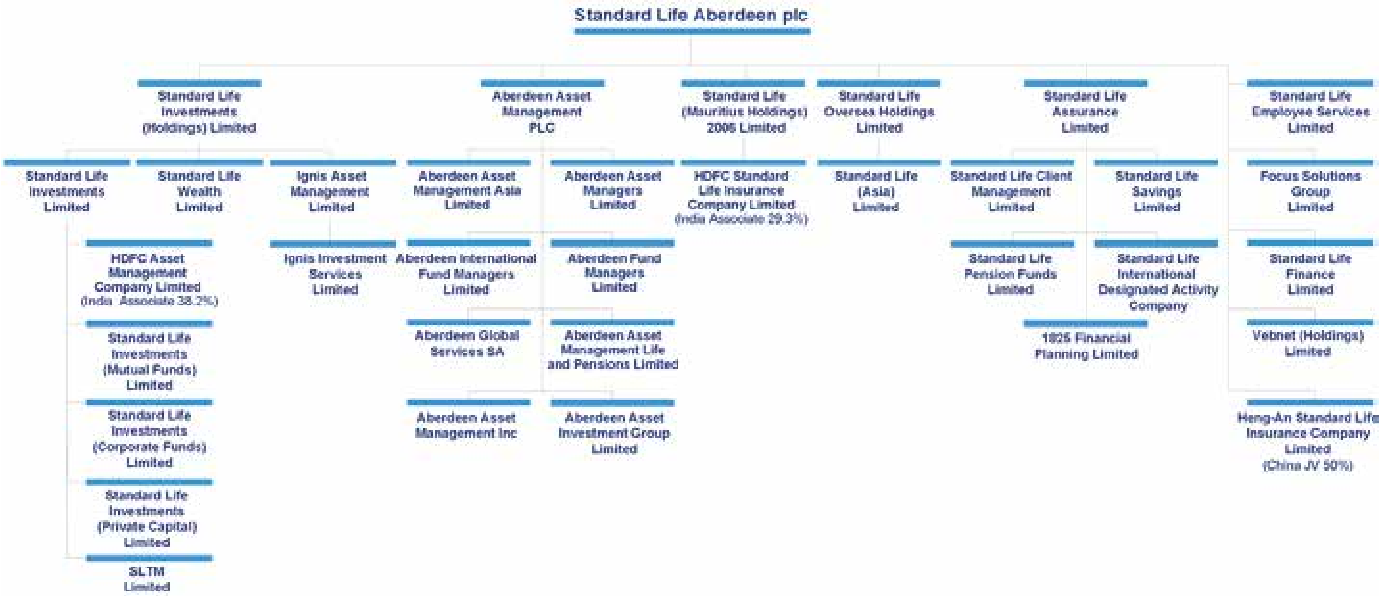
When the Group acquires or disposes of a subsidiary, the profits and losses of the subsidiary are included from the date on which control was transferred to the Group until the date on which it ceases, with consistent accounting policies applied across all entities throughout.

Notes to the Group financial statements

1. Group structure

(a) Composition

The following diagram is an extract of the Group structure at 31 December 2017 and gives an overview of the composition of the Group.



A full list of the Company's subsidiaries is provided in Note 49.

(b) Acquisitions

(b)(i) Subsidiaries

On 6 March 2017, the boards of Standard Life plc and Aberdeen Asset Management PLC (Aberdeen) announced that they had reached agreement on the terms of a recommended merger of Standard Life plc and Aberdeen, through the acquisition by Standard Life plc of the entire issued ordinary share capital of Aberdeen, to be effected by means of a court-sanctioned scheme of arrangement between Aberdeen and Aberdeen shareholders under Part 26 of the Companies Act 2006. The merger completed on 14 August 2017, following receipt of all necessary approvals, and Standard Life plc was renamed Standard Life Aberdeen plc. The acquisition of Aberdeen accelerates the Group's strategy to create a world-class investment company.

Under the terms of the merger, Aberdeen ordinary shareholders received 0.757 of a share in Standard Life Aberdeen plc on the completion date satisfied through newly issued shares. The merger is accounted for as an acquisition of Aberdeen by Standard Life plc. Aberdeen is reported in the Aberdeen Standard Investments operating segment.

Aberdeen Asset Management PLC is the parent company of the Aberdeen Asset Management Group which is a full-service asset management group focused on meeting the worldwide investment needs of its clients, including institutions, private investors and the advisors who serve them. Aberdeen manages investments across the full spectrum of asset classes and geographic markets, including equities, fixed income, property and alternative assets.

At the acquisition date the consideration and net assets acquired from Aberdeen were as follows:

14 August 2017	Notes	£m
Fair value of equity consideration		4,000
Adjustment for replacement employee share-based payments[1]		89
Consideration		**4,089**
7.0% Perpetual cumulative capital notes[2]		402
5.0% Preference shares		99
Fair value of non-controlling interests		**501**
Net assets acquired:		
Intangible assets	14	865
Property, plant and equipment	18	18
Equity securities and interests in pooled investment funds		1,945
Debt securities		187
Deferred tax assets		35
Receivables and other financial assets		428
Cash and cash equivalents		973
Other assets		24
Total assets		4,475
Non-participating investment contract liabilities[3]		1,665
Bank overdrafts		478
Other financial liabilities		771
Current tax liabilities		25
Deferred tax liability		124
Pension and other post-retirement benefit provisions		30
Provisions		1
Total liabilities		3,094
Net assets acquired		**1,381**
Goodwill	14	**3,209**

1 On the acquisition date outstanding share awards issued to Aberdeen employees over Aberdeen Asset Management PLC shares were replaced with awards over Standard Life Aberdeen plc shares. The adjustment to consideration reflects the fair value of the pre-acquisition service element of the awards. Refer Note 45 for further details.

2 On 18 December 2017 perpetual capital notes issued by Aberdeen Asset Management PLC were reclassified as a subordinated liability. On merger these were classified as an equity instrument. Refer Note 30 for further details.

3 Non-participating investment contract liabilities includes £254m due to other Group entities which eliminates on consolidation.

The fair value of the equity consideration has been calculated by reference to the number of shares issued and the share price at the completion date. The number of shares issued has been adjusted to exclude the shares issued to the Aberdeen Asset Management Employee Benefit Trust 2003 which was included in the acquisition.

The fair value of perpetual cumulative capital notes is based on the listed price. The fair value of preference shares has been calculated using a discounted cash flow model, the significant input for which is comparable transactions used to estimate an appropriate discount rate.

Intangible assets acquired in the business combination consist of customer relationships, brand and technology. Refer Note 14 for further details of these assets and the components of goodwill. None of the goodwill recognised is deductible for income tax purposes.

The amount of revenue and profit contributed to the Group's consolidated income statement for the year ended 31 December 2017 from the acquired business was £492m and £96m respectively. The profit of £96m is after restructuring costs of the acquired business since acquisition and excludes amortisation and impairment of intangible assets acquired through business combinations. If the acquisition had occurred on 1 January 2017 the Group's total revenue and profit for the year would have increased by £1,360m and £248m to £18,340m and £980m respectively.

(c) Disposals

(c) HDFC Standard Life Insurance Company Limited

Profit on disposal of interests in associates of £319m includes £302m in relation to the HDFC Standard Life Insurance Company Limited (HDFC Life) initial public offering (IPO).

HDFC Life, the Group's associate Indian life business, announced in July 2017 that its board of directors had approved proceeding with an IPO, with Standard Life (Mauritius Holdings) 2006 Limited (MH06) offering up to 5.43% and HDFC Limited offering up to 9.57% of HDFC Life's equity shares representing, in aggregate, up to 15% of the paid-up equity share capital of HDFC Life.

On 17 November 2017, HDFC Life listed on the National Stock Exchange of India Limited and The Bombay Stock Exchange Limited following completion of the IPO. On opening, the equity shares in HDFC Life were listed at a price of Rs 290 per share. Through the IPO, MH06 sold 108m equity shares in HDFC Life for a total consideration of Rs 31,489m (£359m). MH06's shareholding in HDFC Life now stands at 590m equity shares or 29.3% of the issued equity share capital of HDFC Life. The gain on sale of £302m was calculated using the weighted-average cost method. On disposal £2m was recycled from the translation reserve and was included in determining the gain on sale.

2. Segmental analysis

The Group's reportable segments have been identified in accordance with the way in which the Group is structured and managed. IFRS 8 *Operating Segments* requires that the information presented in the financial statements is based on information provided to the 'Chief Operating Decision Maker'. The Chief Operating Decision Maker for the Group is the executive committee.

(a) Basis of segmentation

The Group's reportable segments are as follows:

Aberdeen Standard Investments

Following the merger with Aberdeen, Standard Life Investments and Aberdeen Asset Management combined under the Aberdeen Standard Investments brand. The combined business is managed and reported as one operating segment. Aberdeen Standard Investments provides a range of investment products and services for individuals and institutional customers through a number of different investment vehicles. Investment management services are also provided by Aberdeen Standard Investments to the Group's other reportable segments. This segment includes the Group's share of the results of HDFC Asset Management Company Limited.

Pensions and Savings

Pensions and Savings provide a broad range of long-term savings and investment products to individual and corporate customers in the UK, Germany, Austria and Ireland.

India and China life (formerly India and China)

The businesses included in India and China life offer a range of insurance and savings products and comprise our life insurance associate in India, our life insurance joint venture in China, and wholly owned operations in Hong Kong. The assets and liabilities of our wholly owned operations in Hong Kong are classified as held for sale.

(b) Reportable segments – Group adjusted profit before tax and revenue information

(b)(i) Analysis of Group adjusted profit before tax

Adjusted profit before tax is the key alternative performance measure utilised by the Group's management in their evaluation of segmental performance and is therefore also presented by reportable segment.

31 December 2017	Notes	Aberdeen Standard Investments £m	Pensions and Savings £m	India and China life[1] £m	Other[2] £m	Eliminations £m	Total £m
Fee based revenue		1,260	964	12	–	(125)	**2,111**
Spread/risk margin		–	165	–	–	–	**165**
Total adjusted operating income		1,260	1,129	12	–	(125)	**2,276**
Total adjusted operating expenses		(811)	(769)	(11)	(61)	125	**(1,527)**
Adjusted operating profit		449	360	1	(61)	–	**749**
Capital management		2	21	–	(17)	–	**6**
Share of associates' and joint ventures' profit before tax[3]		41	–	58	–	–	**99**
Adjusted profit/(loss) before tax		**492**	**381**	**59**	**(78)**	**–**	**854**
Tax on adjusted profit		(86)	(29)	–	7	–	**(108)**
Share of associates' and joint ventures' tax expense	10	(29)	–	(12)	–	–	**(41)**
Adjusted profit/(loss) after tax		**377**	**352**	**47**	**(71)**	**–**	**705**
Adjusted for the following items							
Short-term fluctuations in investment return and economic assumption changes	12	–	67	–	–	–	**67**
Restructuring and corporate transaction expenses	9	(58)	(38)	–	(77)	–	**(173)**
Amortisation and impairment of intangible assets acquired in business combinations[4]		(117)	(8)	(13)	–	–	**(138)**
Provision for annuity sales practices	38	–	(100)	–	–	–	**(100)**
Coupons payable on perpetual notes classified as equity[5]		10	–	–	–	–	**10**
Profit on disposal of interests in associates	1	14	–	305	–	–	**319**
Other		–	(1)	(24)	–	–	**(25)**
Total adjusting items		**(151)**	**(80)**	**268**	**(77)**	**–**	**(40)**
Tax on adjusting items		25	(2)	–	19	–	**42**
Profit attributable to non-controlling interests (preference shares and perpetual notes)		(8)	–	–	–	–	**(8)**
Profit/(loss) for the year attributable to equity holders of Standard Life Aberdeen plc		**243**	**270**	**315**	**(129)**	**–**	**699**
Profit attributable to non-controlling interests							
Ordinary shares							**25**
Preference shares and perpetual notes							**8**
Profit for the year							**732**

1 The India and China segment has been renamed as India and China life.

2 Other primarily includes the corporate centre and related activities.

3 Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

4 Amortisation and impairment of intangible assets acquired in business combinations includes £125m included in Other administrative expenses and set out in Note 14, and £13m relating to intangibles recognised on the part acquisition of associates and included in Share of profit from associates and joint ventures in the consolidated income statement.

5 On 18 December 2017, perpetual capital notes issued by Aberdeen Asset Management PLC were reclassified as a subordinated liability. On merger these were classified as an equity instrument. Refer Note 30 for further details.

Each reportable segment reports total adjusted operating income as its measure of revenue in its analysis of adjusted profit before tax. Fee based revenue consists of income generated primarily from asset management charges, premium based charges and transactional charges. Spread/risk margin reflects the margin earned on spread/risk business and includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and actuarial reserving changes.

Adjusted operating income relates to revenues generated from external customers with the exception of £125m (2016: £112m) included within Aberdeen Standard Investments which relates to investment management fees arising from intra-group transactions with the Pensions and Savings segment. At a Group level an elimination adjustment is required to remove intra-group impacts.

The Group has a widely diversified customer base. There are no customers whose revenue represents greater than 10% of fee based revenue.

31 December 2016	Notes	Aberdeen Standard Investments restated[1] £m	Pensions and Savings £m	India and China life[2] £m	Other[3] restated[1] £m	Eliminations £m	Total restated[1] £m
Fee based revenue		885	861	17	–	(112)	**1,651**
Spread/risk margin		–	134	–	–	–	**134**
Total adjusted operating income		885	995	17	–	(112)	**1,785**
Total adjusted operating expenses		(534)	(655)	(22)	(57)	112	**(1,156)**
Adjusted operating profit/(loss)		351	340	(5)	(57)	–	**629**
Capital management		–	22	–	(9)	–	**13**
Share of associates' and joint ventures' profit before tax[4]		35	–	41	–	–	**76**
Adjusted profit/(loss) before tax		**386**	**362**	**36**	**(66)**	**–**	**718**
Tax on adjusted profit		(73)	(71)	–	18	–	**(126)**
Share of associates' and joint ventures' tax expense	10	(11)	–	(2)	–	–	**(13)**
Adjusted profit/(loss) after tax		**302**	**291**	**34**	**(48)**	**–**	**579**
Adjusted for the following items							
Short-term fluctuations in investment return and economic assumption changes	12	–	13	–	–	–	**13**
Restructuring and corporate transaction expenses	9	(23)	(38)	(3)	(3)	–	**(67)**
Amortisation and impairment of intangible assets acquired in business combinations		(25)	(13)	–	–	–	**(38)**
Provision for annuity sales practices	38	–	(175)	–	–	–	**(175)**
Other		(5)	6	–	(3)	–	**(2)**
Total adjusting items		**(53)**	**(207)**	**(3)**	**(6)**	**–**	**(269)**
Tax on adjusting items		10	46	–	2	–	**58**
Profit/(loss) for the year attributable to equity holders of Standard Life Aberdeen plc		**259**	**130**	**31**	**(52)**	**–**	**368**
Profit attributable to non-controlling interests							
Ordinary shares							**51**
Preference shares and perpetual notes							**–**
Profit for the year							**419**

1 Following completion of the merger the Group has changed the calculation of adjusted profit (previously named operating profit). Short term fluctuations in investment return and economic assumption changes will now only be adjusted for insurance entities. Previously these adjustments also applied to non-insurance entities. This has resulted in an £8m reduction to the adjusted profit of the Other segment within Capital management, a £3m increase to the adjusted profit of the Aberdeen Standard Investments segment within operating expenses and a corresponding £5m adjustment to short-term fluctuations in investment return and economic assumption changes within adjusting items, for the year ended 31 December 2016.

2 The India and China segment has been renamed as India and China life.

3 Other primarily includes the corporate centre and related activities.

4 Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Standard Life Insurance Company Limited, Heng An Standard Life Insurance Company Limited and HDFC Asset Management Company Limited.

(b)(ii) Total income and expenses

The following table provides a reconciliation of total adjusted operating income and total adjusted operating expenses, as presented in the analysis of Group adjusted profit by segment, to total revenue and total expenses respectively, as presented in the IFRS consolidated income statement:

	2017		2016	
	Income £m	Expenses £m	Income restated £m	Expenses restated £m
Total adjusted operating income and adjusted operating expenses as presented in the analysis of Group adjusted profit by segment	**2,276**	**(1,527)**	1,785	(1,156)
Insurance and participating investment contract claims and change in liabilities	**3,628**	**(3,628)**	7,126	(7,126)
Change in non-participating investment contract liabilities	**8,963**	**(8,963)**	8,768	(8,768)
Change in liability for third party interest in consolidated funds	**1,124**	**(1,124)**	296	(296)
Other presentation differences	**461**	**(461)**	388	(388)
Tax expense attributable to policyholders' returns	**166**	**–**	302	–
Adjusting items included in revenue and expenses	**331**	**(358)**	–	(269)
Non-controlling interests – ordinary shares and capital management	**31**	**–**	64	–
Total revenue and expenses as presented in the consolidated income statement	**16,980**	**(16,061)**	18,729	(18,003)

This reconciliation includes a number of reconciling items which arise due to presentation differences between IFRS reporting requirements and the determination of adjusted operating income and adjusted operating expenses. Adjusted operating income and expenses exclude items which have an equal and opposite effect on IFRS revenue and IFRS expenses in the consolidated income statement, such as investment returns which are for the account of policyholders. Other presentation differences generally relate to items included in administrative expenses which are borne by policyholders, for example investment property management expenses, or are directly related to fee income. Other presentation differences also include Aberdeen Standard Investments commission expenses which are presented in expenses in the consolidated income statement but are netted against adjusted operating income in the analysis of Group adjusted profit by segment.

(c) Total revenue by geographical location

Total revenue as presented in the consolidated income statement split by geographical location is as follows:

	2017 £m	2016 £m
UK	**14,317**	16,822
Rest of the world	**2,663**	1,907
Total	**16,980**	18,729

The revenue of the operating businesses is allocated based on where the revenue is earned. The return on investment funds is allocated based on where funds are registered.

(d) Non-current non-financial assets by geographical location

	2017 £m	2016 £m
UK	**13,631**	9,887
Rest of the world	**778**	703
Total	**14,409**	10,590

Non-current non-financial assets for this purpose consist of investment property, property, plant and equipment and intangible assets (excluding deferred acquisition costs).

3. Business written in the Group's insurance entities

(a) How the business is held in the Group's insurance entities

The Group's insurance and investment contracts are held by the regulated entities within each reportable segment. Each regulated entity operates various funds and how the business is held within these funds is outlined below by reportable segment.

(a)(i) Pensions and Savings

Standard Life Assurance Limited

The main entity in the Pensions and Savings reportable segment that issues insurance and investment contracts is Standard Life Assurance Limited (SLAL). SLAL operates a fund structure which was established on the demutualisation of The Standard Life Assurance Company on 10 July 2006, under which its recognised assets and liabilities are allocated to one of the following funds:

- Shareholder Fund (SHF)
- Proprietary Business Fund (PBF) – includes UK, Germany and Ireland branches
- Heritage With Profits Fund (HWPF) – includes UK, Germany and Ireland branches
- German With Profits Fund (GWPF)
- German Smoothed Managed With Profits Fund (GSMWPF)
- UK Smoothed Managed With Profits Fund (UKSMWPF)

SLAL – Insurance and investment contracts issued since demutualisation

The liabilities and associated supporting assets for contracts issued since demutualisation are held in the PBF except for the element of any contract where the customer has chosen to invest in a with profits (i.e. participating) fund. The assets and associated liabilities, including liabilities for financial guarantees, for such with profits investment elements are held in the GWPF, GSMWPF or UKSMWPF. The PBF is sub-divided into internal linked funds (unit linked funds) and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and corresponding liabilities for such unit linked investment elements are held in the unit linked funds. Asset management charges are transferred from the unit linked funds to the non-unit linked sub-fund of the PBF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element are held in the non-unit linked sub-fund of the PBF. Any liabilities for insurance features contained within a contract that has a with profits element are held in the non-unit linked sub-fund of the PBF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are held in the non-unit linked sub-fund of the PBF.

SLAL – Insurance and investment contracts issued before demutualisation

The liabilities and associated supporting assets for contracts, both participating and non-participating, issued prior to demutualisation are mostly held in the HWPF except for (i) the assets and corresponding liabilities for unit linked investment elements of such contracts, and (ii) the supporting assets and associated liabilities for longevity risk and investment risk on certain annuity contracts. The assets and associated liabilities for these two contract components are held in the PBF. Asset management charges arising on unit linked investment elements are transferred from the PBF to the HWPF as they arise. Any liabilities for insurance features or financial guarantees contained within a contract that has a unit linked investment element or a with profits investment element are held in the HWPF. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element or a with profits investment element are also held in the HWPF.

Under the Scheme of Demutualisation (the Scheme) the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that the board of SLAL is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. The Scheme provides that certain defined cash flows (recourse cash flows (RCF)) arising in the HWPF on specified blocks of UK and Irish business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the SHF, and thus accrue to the ultimate benefit of equity holders of the Company. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of Germany branch business. Under these mechanisms, profits, on an RCF basis, on non-participating business excluding investment spread profits on annuities and profits, on an RCF basis or German additional expenses basis, on unitised with profits contracts, are transferred to the SHF. All investment return on HWPF investments is retained in the HWPF for the ultimate benefit of participating policyholders. Under the Scheme, transfers to the SHF are subject to certain constraints in order to protect policyholders.

Standard Life International Designated Activity Company

The Pensions and Savings reportable segment also contains the International Bond issued by Standard Life International Designated Activity Company (SL Intl) to UK residents. SL Intl operates using a shareholder fund and a long-term business fund which is sub-divided into unit linked funds and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds. Any liabilities for insurance features contained within a contract that has a unit linked investment element are held in the non-unit linked fund. Deferred income and deferred acquisition costs arising on contracts that have a unit linked investment element are held in the non-unit linked fund.

(a)(ii) India and China life

The entity in the India and China life reportable segment that issues insurance and investment contracts, other than associates and joint ventures, is Standard Life (Asia) Limited (SL Asia) which is a Hong Kong entity. SL Asia operates using a shareholder fund and a long-term business fund which is sub-divided into unit linked funds and a non-unit linked fund. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds. Any liabilities for insurance features contained within a contract that has a unit linked investment element are held in the non-unit linked fund. The assets and liabilities of SL Asia have been classified as held for sale during the year. Refer Note 24 for further details.

(a) (iii) Aberdeen Standard Investments

The entity in the Aberdeen Standard Investments operating segment that issues investment contracts is Aberdeen Asset Management Life and Pensions Limited (Aberdeen Life), which is a UK entity. The company serves as a delivery mechanism for investment services to the Aberdeen group's institutional pension scheme clients and other insurance entities through the issue of Trustee Investment Plans and the reassurance of unit linked liabilities. Where a customer invests on a unit linked basis, the assets and associated liabilities for such unit linked investment elements are held in the unit linked funds.

(b) Insurance, investment and reinsurance contract terms including guarantees and options

Details of the significant types of insurance and investment contracts issued by the Group, the nature of any guarantees and options provided under these contracts and details of significant reinsurance contracts are given below. The accounting policy for the classification of contracts is set out in Note 31.

(b)(i) Pensions and Savings – Insurance and investment contracts issued since demutualisation

UK annuity-in-payment contracts (spread/risk business)

This class of business consists of single premium contracts that provide guaranteed annuity payments. The payments depend on the survival of a life or lives with or without a guaranteed period and may reduce on a specified death or increase each year at a predefined rate or based on the movement in UK RPI. These contracts are classified as non-participating insurance contracts.

The total liability at 31 December 2017 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £457m (2016: £445m) and this represents approximately 10% (2016: 10%) of the total liability for UK annuity in payment contracts held within the PBF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall. If the market moves in line with the adverse scenarios as shown in the market risk sensitivity analysis in Note 39(b), then the impact on shareholder equity from these RPI linked annuities and corresponding assets is not significant.

For those annuities in payment which increase at a predefined rate, the total liability at 31 December 2017 is £458m (2016: £432m) and this represents approximately 10% (2016: 10%) of the total liability for UK annuity in payment contracts held in the PBF. If the market moves in line with the adverse market conditions as shown in the market risk sensitivity analysis, the impact on shareholder equity from those annuities with a predefined rate of increase and the corresponding assets is not significant.

UK and Ireland unit linked pension contracts (fee business)

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts.

The major unit linked pension contracts include UK Active Money Self Invested Personal Pensions (SIPP), UK Active Money Personal Pensions, UK Stakeholder, Irish Synergy Personal Pensions, UK Group SIPPs, UK Group Flexible Retirement Plans, UK Group Stakeholder and Trustee Investment Plans. These contracts do not contain a with profits investment option except for UK Group Stakeholder and UK Stakeholder, under which customers may invest in the UKSMWPF.

The costs of contracts invested in unit linked funds are recovered by deduction of an asset management charge from the unit linked funds. Under Stakeholder contracts, this asset management charge has a specified maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

Under UK SIPP contracts, as well as investing in unit linked funds offered by SLAL, policyholders can choose to invest in a wide range of other permitted investments. These other investments are not recognised on the Group's consolidated statement of financial position.

UK unit linked investment bonds (fee business)

Unit linked investment bonds issued by SLAL (e.g. Capital Investment Bond) are single premium whole of life contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts do not provide significant death benefits in excess of the accumulated value of investment fund. They are classified as non-participating investment contracts. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

The International Bond is issued by SL Intl to UK residents. It is a single premium whole of life investment bond. The customer has the option to invest in unit linked funds offered by SL Intl and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the last life assured an additional benefit of 0.1% of the surrender value is paid unless the death is accidental when an additional benefit of 10% of the surrender value is paid subject to a £1m cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

Germany unit linked deferred annuity contracts (fee business)

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds. These contracts provide a return of premiums guarantee on death and the option to take up an annuity on guaranteed terms. They are classified as non-participating insurance contracts. These contracts do not contain a with profits investment option.

Germany unitised with profits deferred annuity contracts (fee business)

Germany unitised with profits deferred annuity contracts were written in the PBF with the participating investment elements being transferred to the GWPF and, to a significantly lesser extent, to the GSMWPF. These contracts were closed to new business in 2015. The death benefit under all of the deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value, and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value of contracts invested in the GWPF is subject to guaranteed minimum amounts. In addition, certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors and certain unit prices in the GWPF are guaranteed not to decrease.

The GWPF is operated such that all investment return on assets held in the fund will be distributed to participating policyholders over time subject to deductions of asset management charges and deductions for guarantees.

(b)(ii) Pensions and Savings – Insurance and investment contracts issued before demutualisation and related reinsurance contracts

HWPF participating contract allocations of regular and final bonuses

This section firstly describes the method used by the Group to determine the regular and final bonuses allocated to participating contracts held in the HWPF. It then describes the significant types of insurance and investment contracts held in that fund, the nature of any guarantees provided and significant reinsurance contracts.

As shown in the market risk sensitivity analysis in Note 39(b), there is no impact on shareholder equity arising from contracts in the HWPF for either of the market movements scenarios. As explained in the limitations of the sensitivity analysis, this is because although shareholders are potentially exposed to the full cost if the assets of the HWPF are insufficient to meet policyholder obligations, the assumption changes given are not severe enough for such an event to occur.

Regular bonuses are declared at the discretion of the Group in accordance with the Principles and Practices of Financial Management (PPFM) of the HWPF for UK business and similar principles for European business and are set at levels which aim to achieve a gradual build-up in guaranteed participating policy benefits whilst not unduly constraining investment freedom and the prospects for final bonuses. In setting these rates, the financial position (both current and projected) of the HWPF is taken into account, and were it necessary, regular bonus rates would be set to zero. Regular bonus rates are set for each relevant class of participating policy and/or internal fund and reflect its characteristics, including any guarantees. For some contracts, final bonuses may also be paid. These bonuses are not guaranteed and can be withdrawn at any time.

The Group's aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position, payouts on a participating policy (including any final bonus applying) should fairly reflect the experience of the HWPF applicable to such a policy, after any adjustments for smoothing, and any distribution of the residual estate deemed appropriate by the Group.

When setting payout levels, the Group seeks to ensure fair treatment between those participating policyholders who choose to withdraw and those who remain.

Asset shares are used as a tool to determine fair treatment. The calculation of asset shares varies between products, for example calculations can be on the basis of representative policies or on an individual policy basis.

The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. The Group reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the participating class and/or internal fund concerned.

In normal circumstances the Group seeks to offer some smoothing of investment returns to participating policyholders at the time of claims due to maturity for life policies or for pension policies where the Group has no right to reduce benefits as defined in the relevant contractual terms and conditions. The Group may, at its discretion, also provide some smoothing of investment returns for death claims and some types of withdrawal at the time of payment. The Group aims to operate smoothing of investment returns in such a way as to be neutral for participating policyholders as a whole over time. The Group monitors the anticipated cost of smoothing on a regular basis and, in most circumstances, will reflect the costs in payouts and in some circumstances adjust the approach to smoothing.

When calculating asset shares, the Group may, at its discretion, make fair deductions to reflect its assessment of the cost of guarantees. The Group takes an allowance for the assessed costs of guarantees when determining final bonuses payable on claims, calculating policy switch values and calculating surrender and transfer values. These allowances vary between types of policies, reflecting the nature of the guarantees provided. These allowances are kept under review. A deduction is also taken from participating asset shares determined on an expense basis of 0.5% pa as a contribution to the capital of the HWPF.

Eligible policies covered by the Mortgage Endowment Promise may receive 'top up' amounts, in accordance with the Scheme.

UK conventional with profits contracts (no impact on equity holder profits in the absence of burnthrough)

Conventional (i.e. non-unitised) with profits contracts consist of single or regular premium endowment, whole life and pension contracts held in the HWPF.

Under endowment and whole life contracts, guaranteed benefits are payable on death. Regular bonuses may be added to the guaranteed sum assured over the term of the policy and, in addition, a final bonus may be paid on death and maturity. Certain endowment assurances have minimum surrender value provisions and minimum paid-up values.

Under pension contracts, a minimum level of benefit is set at the outset and applies at the date(s) specified in the policy, for example under pure endowment contracts. Regular bonuses may be added to this initial minimum over the term of the policy and, in addition, a final bonus may be paid. Guaranteed annuity options providing for payment of a minimum annuity, in lieu of a cash sum, are available under pure endowment contracts. Under some of these contracts the guarantee applies only at the maturity date. Under other contracts, the option also applies for a specified period preceding the maturity date, in which case the sum assured and bonuses are reduced by specified factors and different guaranteed annuity rates apply.

All conventional with profits contracts are classified as participating insurance contracts.

UK and Ireland unitised with profits pension contracts (fee business via RCF)

This class of business comprises single or regular premium contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. Such contracts include hybrid contracts (see Note 31) resulting in the unitised with profits investment elements being classified as participating investment contracts, although there are some contracts that are classified as participating insurance contracts, for example those with guaranteed minimum pensions. The major unitised with profits pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed either that the unit price will rise at an annual rate of at least 4% per year or that the unit price will not fall and that there will be no unit price adjustment (UPA) at specified retirement dates or death
- Certain Trustee Investment Plan contracts where, subject to specified conditions and limits, it is guaranteed that there will be no unit price adjustment (UPA) when units are encashed

UK and Ireland unitised with profits life contracts (fee business via RCF)

Unitised with profits life business comprises single or regular premium endowment and whole life contracts held in the HWPF under which a percentage of the premium is allocated to units on a participating basis. The death benefit under regular premium contracts is the greater of the bid value of units allocated and sum assured under the contract. Some contracts also contain critical illness cover providing for payment of a critical illness sum assured on diagnosis of certain defined serious illnesses. These contracts, principally Homeplan, With Profits Bonds and Versatile Investment Plans, are classified as participating insurance contracts.

The significant options and guarantees under these contracts are the following:

- Contracts where, subject to specified conditions, it is guaranteed on death or maturity either that the unit price will rise at an annual rate of at least 3% a year or that the unit price will not fall, and, that there will be no UPA at maturity
- For bonds it is guaranteed that no UPA will apply on regular withdrawals up to certain specified limits

Under contracts effected in connection with house purchase, the death benefit is guaranteed. Under other regular premium contracts, at any time after the first 10 years, the Group may review the status of the contract and, if it deems it necessary, the sum assured may be reduced, within the limits permitted.

Under some contracts effected in connection with house purchase, provided the original contract is still in-force, the following options can normally be exercised at any time before the 55th birthday of the life assured:

- Future insurability option under which a new contract can be effected on then current premium rates, in connection with a further loan, up to the level of life and basic critical illness cover available on the original contract, without any further evidence of health
- Term extension option on then current premium rates under which the term of the contract may be extended by a whole number of years if the lender agrees to extend the term of the loan

Germany unitised with profits contracts (fee business via German additional expenses basis)

Unitised with profits Germany contracts held in the HWPF mainly consist of endowment assurances and deferred annuities, under which a percentage of the premium is allocated to units on a participating basis. The death benefit under endowment assurances is the greater of the sum assured on death or 105% of the current surrender value. The death benefit under deferred annuities is the greater of the sum assured on death, 100% of the current surrender value, the fund value and, for regular premium paying contracts and certain single premium contracts, a refund of premiums. These contracts are classified as participating insurance contracts.

The maturity value, and for certain contracts the surrender benefits, are subject to guaranteed minimum amounts. For some participating unitised policies it is guaranteed that there will be no UPA on claims on or after the surrender option date. Certain contracts are subject to guaranteed annuity amounts or guaranteed annuity factors. In addition certain unit prices in the HWPF are guaranteed not to decrease.

UK and Ireland unit linked pension contracts (fee business via RCF)

This class of business comprises single or regular premium contracts under which a percentage of the premium is allocated to units in one or more unit linked funds held in the PBF. Such contracts include hybrid contracts (see Note 31) resulting in the unit linked investment elements being classified as non-participating investment contracts. The major unit linked pension contracts include Individual Personal Pension Plans, Group Personal Pension Plans, Executive Pensions, Stakeholder and Trustee Investment Plans.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF. Under Stakeholder contracts, this asset management charge has a maximum limit. There are no other guarantees on these contracts with the exception that the unit prices of certain cash funds are guaranteed not to fall.

UK and Ireland unit linked life contracts (fee business via RCF)

This class of business comprises principally unit linked investment bonds (e.g. Capital Investment Bonds), classified as non-participating investment contracts and the unit linked investment element of Homeplan contracts, classified as non-participating insurance contracts. No significant guarantees, other than the guaranteed death benefit on Homeplan contracts, are provided under these contracts.

The costs of contracts invested in unit linked funds are recovered by deduction of asset management charges from the unit linked funds which are transferred from the PBF to the HWPF.

UK and Ireland annuity-in-payment contracts (spread/risk business in relation to longevity risk transferred to the PBF otherwise no impact on shareholder profits in absence of burnthrough)
This class of business consists of the same type of contracts described in (b)(i) and also includes the With Profit Pension Annuity (WPPA), under which changes to the level of annuity are based on a declared rate of return but reductions in the level of the annuity are limited. These contracts are classified as non-participating insurance contracts, except for the WPPA which is classified as a participating insurance contract.

SLAL has reinsured both the longevity and market risk arising on a portfolio of annuity-in-payment contracts held within the HWPF. In order to limit counterparty credit exposure, the reinsurer was required to deposit back an amount equal to the reinsurance premium (referred to as 'the deposit'). Interest is payable on the deposit at a floating rate. In respect of this arrangement SLAL holds a ring fenced pool of assets within the HWPF. See Note 39(c) on credit exposure and Note 31(c) for further details of the deposit back. A floating charge over the ring fenced pool of assets has been granted to the reinsurer. The reinsurance asset recognised in relation to this arrangement is £4,645m (2016: £5,190m).

The longevity risk on certain non-participating annuity-in-payment contracts held in the HWPF has been transferred to the PBF. The market risk on certain annuities has been transferred to the PBF.

For those annuities in payment which increase at a predefined rate the total liability at 31 December 2017 is £2,755m (2016: £2,951m) and this represents approximately 33% (2016: 32%) of the total liability for UK annuity in payments contracts held within the HWPF.

The total liability at 31 December 2017 for RPI linked annuities in payment (including any guaranteed minimum rate of escalation) is £1,806m (2016: £1,983m) and this represents approximately 22% (2016: 22%) of the total liability for UK annuity contracts held within the HWPF. There is a subset of annuities where the RPI linked annuity payment cannot fall or is guaranteed to increase at a minimum rate; the majority of such annuities are those whose payment cannot fall.

UK other non-participating contracts (spread/risk business via RCF)
This class of business consists primarily of deferred annuities that provide guaranteed annuity payments from the retirement age associated with the relevant pension plan. The payments depend on the survival of a life or lives with or without a guarantee period and may reduce on a specified death or increase each year at a predefined rate or in line with the increase in UK RPI. These contracts are classified as non-participating insurance contracts.

(b)(iii) India and China life – Insurance and investment contracts

Unit linked life contracts (fee business)
The main contract issued by SL Asia is the Harvest 101 product. This contract was closed to new business in 2015. It is a regular premium savings product with a term ranging from 5 to 25 years. The customer has the option to invest in unit linked funds offered by SL Asia and mutual funds and deposit accounts offered by other providers. The mutual funds and deposit accounts are recognised as assets by the Group and are classified as unit linked business along with a corresponding liability. On death of the life insured, a benefit of 101% of the fund value is paid. If the death is accidental then an additional benefit of 10% of the initial account value is paid subject to a USD10,000 cap. These contracts are classified as insurance contracts where it is considered that the accidental death benefit transfers significant insurance risk. No other guarantees apply to this contract.

(b)(iv) Aberdeen Standard Investments – investment contracts

Unit linked contracts and reinsurance contracts (fee business)
This class of business consists of unit linked investment contracts to trustees of UK pension schemes and reinsurance contracts to insurance companies covering unit linked pension liabilities. There are no investment guarantees on the contracts. The benefits payable are linked solely to the performance of the internal linked funds. These contracts are classified as non-participating investment contracts.

4. Investment return

Gains and losses resulting from changes in both market value and foreign exchange on investments classified at fair value through profit or loss are recognised in the consolidated income statement in the period in which they occur. The gains and losses include investment income received such as interest payments but exclude dividend income. Dividend income is separately recognised in the consolidated income statement when the right to receive payment is established.

Interest income on financial instruments classified as available-for-sale or loans and receivables is separately recognised in the consolidated income statement using the effective interest rate method. The effective interest rate method allocates interest and other finance costs at a constant rate over the expected life of the financial instrument, or where appropriate a shorter period, by using as the interest rate the rate that exactly discounts the future cash receipts over the expected life to the net carrying value of the instrument.

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives granted such as rent free periods are recognised as an integral part of the total rental income and are spread over the term of the lease.

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	Notes	2017 £m	2016 £m
Interest and similar income			
Cash and cash equivalents		**55**	86
Available-for-sale debt securities		**10**	12
Loans		**5**	6
		70	104
Dividend income		**2,080**	1,999
Gains/(losses) on financial instruments at fair value through profit or loss			
Equity securities and interests in pooled investment funds (other than dividend income)[1]		**8,833**	9,788
Debt securities		**1,218**	7,169
Derivative financial instruments		**(339)**	(3,857)
		9,712	13,100
Foreign exchange losses on financial instruments other than those at fair value through profit or loss		**(81)**	(80)
Income from investment property			
Rental income	17	**508**	555
Net fair value gains/(losses) on investment property	17	**485**	(302)
		993	253
Investment return		**12,774**	15,376

1 Presentation changed and comparative restated. Refer Note 16(c).

5. Fee income

Fee income from investment contracts, fund platforms and third party funds under management relates to the provision of investment management and administration services, and is recognised as services are provided and it is almost certain that the fee income will be received. Where fee income is received in advance (front-end fees), this income is deferred and recognised as a deferred income liability until the services have been provided (see Note 36).

	Notes	2017 £m	2016 £m
Fee income from investment contracts and fund platforms		**721**	649
Fee income from third party funds under management		**891**	466
Fee income deferred during the year	36	**(11)**	(15)
Amortisation of deferred income	36	**52**	61
Other fee income		**33**	25
Total fee income		**1,686**	1,186

6. Other administrative expenses

	Notes	2017 £m	2016 £m
Interest expense		**6**	5
Commission expenses		**195**	153
Staff costs and other employee-related costs	7	**781**	596
Operating lease rentals		**44**	34
Auditors' remuneration	8	**8**	6
Depreciation of property, plant and equipment	18	**15**	14
Impairment losses (reversed)/recognised on property, plant and equipment	18	**(4)**	1
Amortisation of intangible assets	14	**124**	64
Impairment losses on intangible assets	14	**77**	20
Impairment losses on disposal group classified as held for sale	24	**24**	–
Other		**682**	556
		1,952	1,449
Acquisition costs deferred during the year	15	**(49)**	(51)
Amortisation of deferred acquisition costs	15	**79**	96
Total other administrative expenses		**1,982**	1,494

In addition to interest expense of £6m (2016: £5m), interest expense of £88m (2016: £82m) was incurred in respect of subordinated liabilities and £21m (2016: £31m) in respect of deposits from reinsurers. For the year ended 31 December 2017, total interest expense is £115m (2016: £118m).

7. Staff costs and other employee-related costs

	Notes	2017 £m	2016 £m
The aggregate remuneration payable in respect of employees:			
Wages and salaries		**633**	489
Social security costs		**75**	56
Pension costs	35		
Defined benefit plans		**(22)**	(14)
Defined contribution plans		**57**	33
Employee share-based payments and deferred fund awards	45	**38**	32
Total staff costs and other employee-related costs		**781**	596

	2017	2016
The average number of staff employed by the Group during the year:		
Aberdeen Standard Investments[1]	**2,860**	1,681
Pensions and Savings	**4,315**	4,026
India and China life[2]	**82**	112
Other[3]	**511**	483
Total average number of staff employed	**7,768**	6,302

1 Previously Standard Life Investments. Refer Note 2 for further details. Includes staff employed by Aberdeen from the acquisition date to 31 December 2017.

2 India and China has been renamed as India and China life.

3 Includes staff in group corporate centre and group information technology.

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 94 to 134.

8. Auditors' remuneration

During the financial year ended 31 December 2017, the Group appointed KPMG LLP (KPMG) as principal auditor replacing PricewaterhouseCoopers LLP (PwC). Accordingly the following table relates to KPMG for 2017 and PwC for 2016:

	2017 £m	2016 restated £m
Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements	**0.9**	0.3
Fees payable to the Company's auditors for other services		
The audit of the Company's consolidated subsidiaries pursuant to legislation	**4.8**	3.8
Audit related assurance services	**1.9**	0.8
Total audit and audit related assurance fees	**7.6**	4.9
Other assurance services	**0.3**	0.5
Tax compliance services	**–**	0.4
Tax advisory services	**–**	0.2
Other non-audit fee services	**0.1**	0.3
Total non-audit fees	**0.4**	1.4
Total auditors' remuneration	**8.0**	6.3

Auditors' remuneration disclosed above excludes audit and non-audit fees payable to the Group's principal auditor by Group managed funds which are not controlled by the Group, and therefore not consolidated in the Group's financial statements. These were previously included in auditors remuneration and the 2016 comparatives have therefore been restated.

During the year ended 31 December 2017 no audit fees were payable in respect of defined benefit plans to the Group's principal auditor (2016: £71,000 payable to PwC).

For more information on non-audit services, refer to the Audit Committee report in Section 4 – Corporate governance statement.

9. Restructuring and corporate transaction expenses

Total restructuring and corporate transaction expenses incurred during the year were £176m (2016: £62m). The expenses mainly relate to the merger with and integration of Aberdeen including deal costs of £38m and stamp duty of £21m, Ignis integration, Elevate integration and a number of other business unit restructuring programmes. In addition to corporate transaction expenses recognised in the consolidated income statement £4m (2016: £nil) was recognised directly in the merger reserve in equity in relation to the Aberdeen merger.

The table below reconciles restructuring and corporate transaction expenses in the consolidated income statement with restructuring and corporate transaction expenses used to determine adjusted profit before tax.

	2017 £m	2016 £m
Restructuring and corporate transaction expenses	**176**	62
Pension plan restructuring	**–**	5
Expenses incurred by the Heritage With Profit Fund	**(3)**	–
Restructuring and corporate transaction expenses used to determine adjusted profit before tax	**173**	67

In December 2014, the Group announced that the UK staff defined benefit pension plan would be closed to future accrual. On 16 April 2016, all employees in the closing plan were transferred to the UK defined contribution plan for future service and employer contributions into the defined contribution plan were amended. Following this restructuring of the pension plans, adjusted profit before tax for the year ended 31 December 2016 was increased by £5m so that adjusted profit before tax reflected the expected long-term pension expense for the period and was therefore more indicative of the long-term operating performance of the Group. As a result for year ended 31 December 2016, £5m of pension costs that were included in staff costs in the consolidated income statement, were included in restructuring and corporate transaction expenses in determining adjusted profit before tax.

10. Taxation

The Group's tax expense comprises both current tax and deferred tax expense.

Current tax is the expected tax payable on taxable profit for the year.

A deferred tax asset represents a tax deduction that is expected to arise in a future period. It is only recognised to the extent that there is expected to be future taxable profit or investment return to offset the tax deduction. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or prior year transaction. Where local tax law allows, deferred tax assets and liabilities are netted off on the statement of financial position. The tax rates used to determine deferred tax are those enacted or substantively enacted at the reporting date.

Deferred tax is recognised on temporary differences arising from investments in subsidiaries and associates unless the timing of the reversal is in our control and it is expected that the temporary difference will not reverse in the foreseeable future.

Current tax and deferred tax is recognised in the consolidated income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is credited or charged to other comprehensive income or directly to equity respectively.

The Group provides additional disclosure in relation to the total tax expense. Certain products are subject to tax on policyholders' investment returns. This tax, 'policyholder tax', is accounted for as an element of current and deferred tax. To make the tax expense disclosure more meaningful, we disclose policyholder tax and tax payable on equity holders' profits separately. The policyholder tax expense is the amount payable in the year plus the movement of amounts expected to be payable in future years by policyholders on their investment return. The remainder of the tax expense is attributed to equity holders as tax payable on equity holders' profit.

(a) Tax charge in the consolidated income statement

(a)(i) Current year tax expense

	2017 £m	2016 £m
Current tax:		
UK	**214**	316
Double tax relief	**(2)**	(3)
Overseas	**27**	23
Adjustment to tax expense in respect of prior years	**4**	(3)
Total current tax	**243**	333
Deferred tax:		
Deferred tax (credit)/expense arising from the current year	**(11)**	37
Total deferred tax	**(11)**	37
Total tax expense	**232**	370
Attributable to policyholders' investment return	**166**	302
Attributable to equity holders' profits	**66**	68
Total tax expense	**232**	370

The share of associates' and joint ventures' tax expense is £41m (2016: £13m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

In 2017 unrecognised tax losses from previous years were used to reduce the current tax expense by £3m (2016: £2m). Unrecognised tax losses and timing differences were used to reduce the deferred tax expense by £3m (2016: £7m).

Current tax recoverable and current tax liabilities at 31 December 2017 were £192m (2016: £166m) and £166m (2016: £113m) respectively. Current tax assets and liabilities at 31 December 2017 and 31 December 2016 are expected to be recoverable or payable in less than 12 months.

Certain Group entities are party to claims and proceedings to recover tax suffered in respect of overseas income. These claims and proceedings predominantly relate to assets in policyholder funds, primarily SLAL's HWPF. There is significant uncertainty on the outcome of these claims and they are not expected to materially impact profit for the year attributable to equity holders or total equity. No amounts have been recognised at 31 December 2017 or 31 December 2016 in respect of these claims and proceedings.

(a)(ii) Reconciliation of tax expense

	2017 £m	2016 £m
Profit before tax	**964**	789
Tax at 19.25% (2016: 20%)	**186**	158
Policyholder tax (net of tax at UK standard rate)	**134**	241
Permanent differences	**(49)**	2
Tax effect of accounting for non-controlling interests	**(5)**	(10)
Tax effect of accounting for share of profit from associates and joint ventures	**(8)**	(13)
Different tax rates	**(18)**	(5)
Adjustment to current tax expense in respect of prior years	**4**	(3)
Recognition of previously unrecognised tax credit	**(6)**	(9)
Deferred tax not recognised	**6**	–
Adjustment to deferred tax expense in respect of prior years	**(35)**	(2)
Write down of deferred tax asset	**25**	11
Other	**(2)**	–
Total tax expense for the year	**232**	370

The standard UK corporation tax rate for the accounting period is 19.25%. The UK corporation tax rate was reduced to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. These changes have been taken into account in the calculation of the UK deferred tax balance at 31 December 2017.

The accounting for certain items in the consolidated income statement results in certain reconciling items in the table above, the values of which vary from year to year depending upon the underlying accounting values:

- The tax expense for the year includes policyholder tax, as described in the accounting policy above. Profit before tax includes an equivalent amount of income in relation to this policyholder tax and this therefore gives rise to a reconciling item.
- Share of profit from associates and joint ventures is presented net of tax in the consolidated income statement and therefore also gives rise to a reconciling item

Details of other significant reconciling items are as follows:

- Permanent differences include non-taxable gains arising from the IPO of HDFC Life, a tax deductible donation made to Standard Life Foundation (with no corresponding tax charge on receipt by Standard Life Foundation which is a subsidiary undertaking of the Group) offset partially by expenses relating to the merger with Aberdeen which were not tax deductible. These items are expected to be non-recurring.
- Different tax rates will vary according to the level of profit subject to tax at rates different from UK standard rate (e.g. overseas profit and profit arising in consolidated investment funds)
- The ability to value losses and other tax assets will also affect the actual tax charge. The write down of deferred tax asset of £25m relates to a reduction in the valuation of the German tax reserves primarily due to the expected impact of Brexit restructuring and adjustments to our transfer pricing methodology. The adjustment to deferred tax expense in respect of prior years of £35m relates mainly to a change in the valuation of German temporary differences due to the changed economics of that business leading to adjustments to our transfer pricing methodology. All these items are expected to be non-recurring.

(b) Tax relating to components of other comprehensive income

Tax relating to components of other comprehensive income is as follows:

	2017 £m	2016 £m
Tax relating to defined benefit pension plan deficits	**10**	(2)
Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss	**10**	(2)
Current tax on net change in financial assets designated as available-for-sale	**–**	3
Tax relating to fair value losses recognised on cash flow hedges	**(5)**	–
Tax relating to cash flow hedge losses transferred to consolidated income statement	**2**	–
Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss	**(3)**	3
Tax relating to other comprehensive income	**7**	1

All of the amounts presented above are in respect of equity holders of Standard Life Aberdeen plc.

(c) Tax relating to items taken directly to equity

	Notes	2017 £m	2016 £m
Tax relating to expiry of unclaimed asset trust claim period		**–**	7
Tax credit on reserves for employee share-based payments	29	**(1)**	–
Tax credit relating to coupons payable on perpetual notes classified as equity		**(2)**	–
Tax relating to items taken directly to equity		**(3)**	7

(d) Deferred tax assets and liabilities

(d)(i) Movements in net deferred tax liabilities

	2017 £m	2016 £m
At 1 January	**(217)**	(170)
Acquired through business combinations	**(89)**	(2)
Amounts credited/(charged) to the consolidated income statement	**11**	(37)
Amounts credited directly to equity in respect of employee share-based payments	**1**	–
Transfer to current tax for vested employee share-based payments	**–**	(3)
Tax on defined benefit pension plan deficits	**(10)**	–
Tax on cash flow hedge	**3**	–
Foreign exchange adjustment	**(1)**	(4)
Other	**–**	(1)
Net deferred tax liability at 31 December	**(302)**	(217)

(d)(ii) Analysis of recognised deferred tax

	2017 £m	2016 £m
Deferred tax assets comprise:		
Actuarial liabilities	**5**	–
Losses carried forward	**11**	12
Depreciable assets	**12**	42
Deferred income	**8**	12
Employee benefits	**37**	26
Provisions and other temporary timing differences	**2**	14
Insurance related items	**5**	5
Other	**4**	–
Gross deferred tax assets	**84**	111
Less: Offset against deferred tax liabilities	**(19)**	(69)
Deferred tax assets	**65**	42
Deferred tax liabilities comprise:		
Insurance related items	**4**	5
Unrealised gains on investments	**196**	187
Deferred acquisition costs	**53**	104
Temporary timing differences	**–**	1
Deferred tax on intangible assets acquired through business combinations	**130**	25
Other	**3**	6
Gross deferred tax liabilities	**386**	328
Less: Offset against deferred tax assets	**(19)**	(69)
Deferred tax liabilities	**367**	259
Net deferred tax liability at 31 December	**(302)**	(217)

A deferred tax asset of £11m (2016: £12m) for the Group has been recognised in respect of losses of various subsidiaries and unrealised losses on investments. Deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against taxable profits and gains in future periods. The value attributed to them takes into account the certainty or otherwise of their recoverability. Their recoverability is measured against the reversal of deferred tax liabilities and anticipated taxable profits and gains based on business plans. The losses do not have an expiry date.

Deferred tax assets and liabilities are expected to be recovered or settled after more than 12 months.

(e) Unrecognised deferred tax

Due to uncertainty regarding recoverability, deferred tax assets have not been recognised in respect of the following:

- Cumulative losses carried forward of £90m in the UK and £293m overseas (2016: £52m, £113m respectively)
- Tax reserves of the German branch of Standard Life Assurance Limited of £102m (2016: £20m)
- Unrealised investment losses of £nil (2016: £12m)
- Loss relating to Irish pension scheme deficit £42m (2016: deferred tax asset was recognised)

11. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to ordinary equity holders by the weighted average number of ordinary shares in issue during the year excluding shares owned by the employee trusts that have not vested unconditionally to employees.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume the conversion of all dilutive potential ordinary shares, such as share options granted to employees.

Adjusted earnings per share is calculated on adjusted profit after tax attributable to ordinary equity holders of the Company i.e. adjusted profit net of dividends paid on preference shares.

Basic earnings per share was 29.8p (2016: 18.7p) and diluted earnings per share was 29.6p (2016: 18.6p) for the year ended 31 December 2017. The following table shows details of basic, diluted and adjusted earnings per share.

	2017 £m	2016 restated[1] £m
Adjusted profit before tax	**854**	718
Tax on adjusted profit	**(108)**	(126)
Share of associates' and joint ventures' tax expense	**(41)**	(13)
Adjusted profit after tax	**705**	579
Adjusting items	**(40)**	(269)
Tax credit attributable to adjusting items	**42**	58
Adjustment for coupons payable on perpetual notes classified as equity net of tax	**(8)**	–
Profit attributable to equity holders of the Company	**699**	368
	Millions	Millions
Weighted average number of ordinary shares outstanding	**2,343**	1,972
Dilutive effect of share options and awards	**17**	6
Weighted average number of diluted ordinary shares outstanding	**2,360**	1,978
	Pence	Pence
Basic earnings per share	**29.8**	18.7
Diluted earnings per share	**29.6**	18.6
Adjusted earnings per share	**30.1**	29.4
Adjusted diluted earnings per share	**29.9**	29.3

1 Following completion of the merger the Group has changed the calculation of adjusted profit (previously named operating profit). Short term fluctuations in investment return and economic assumption changes will now only be adjusted for insurance entities. Previously these adjustments also applied to non-insurance entities. This has resulted in an £8m reduction to the adjusted profit of the other segment, a £3m increase to the Aberdeen Standard Investments segment and a corresponding £5m adjustment to short-term fluctuations in investment return and economic assumption changes within adjusting items, for the year ended 31 December 2016.

Details of share options and awards which have a dilutive effect are provided in Note 45.

12. Adjusted profit and adjusting items

Adjusted profit before tax (previously named operating profit before tax) is the Group's key alternative performance measure. Adjusted profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes in the Group's insurance entities. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from adjusted profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from adjusted profit and is presented within profit before tax.

Adjusted profit also excludes the impact of the following items:

- Restructuring costs and corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- Amortisation and impairment of intangible assets acquired in business combinations
- Profit or loss arising on the disposal of a subsidiary, joint venture or associate
- Fair value movements in contingent consideration
- Items which are one-off and, due to their size or nature, are not indicative of the long-term operating performance of the Group

Coupons payable on perpetual notes classified as non-controlling interests are included in adjusted profit before tax. For IFRS purposes, these are recognised directly in equity. Prior to these instruments being reclassified as a subordinated liability on 18 December 2017, this gave rise to an adjusting item relating to 'coupons payable on perpetual notes classified as equity'. Dividends payable on preference shares classified as non-controlling interests are excluded from adjusted profit in line with the treatment of ordinary dividends.

Following completion of the merger the Group has changed the calculation of adjusted profit. Short term fluctuations in investment return and economic assumption changes are now only adjusted for insurance entities. Previously these adjustments also applied to holding companies and other non-insurance entities. The 2016 comparatives have been restated to reflect this change. The reason for the change is to align the approach with that used by Aberdeen in their key profit alternative performance measure; and to make the measure more relevant as it is more consistent with other asset management peers.

(a) Short-term fluctuations in investment return and economic assumptions changes – insurance entities

The components of IFRS profit attributable to market movements and interest rate changes which give rise to variances between actual and expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movement in equity holder liabilities, as well as the impact of changes in economic assumptions on equity holder liabilities, are excluded from adjusted profit for the Group's wholly owned insurance entities. Investments backing equity holder funds include investments backing annuities and subordinated debt, and investments from surplus capital in insurance companies.

For annuities this means that all fluctuations in liabilities and the assets backing those liabilities due to market interest rate (including credit risk) movements over the year are excluded from adjusted profit.

The expected rates of return for debt securities and equity securities are determined separately. The expected rates of return for equity securities are determined based on the gilt spot rates of an appropriate duration plus an equity risk premium of 3% (2016: 3%). Investments in pooled investment funds which target equity returns over the longer term, including absolute return funds, also use an expected rate of return determined based on the gilt spot rates of an appropriate duration plus a risk premium of 3% (2016: 3%).

In respect of debt securities at fair value through profit or loss, the expected rate of return is determined based on the average prospective yields for the debt securities actually held.

The expected rates of return used for both the assets backing subordinated liabilities and the subordinated liabilities themselves include a discount for expected credit defaults. This means that the interest expense included in adjusted profit for subordinated liabilities is after deducting a margin for own credit risk. Additionally, the effect of the accounting mismatch, where subordinated liabilities are measured at amortised cost and certain assets backing the liabilities are measured at fair value, is also excluded from adjusted profit.

There have been no actual defaults or impairments of assets backing subordinated liabilities during the year ended 31 December 2017 or 31 December 2016. If these were to arise they would be excluded from adjusted profit.

Gains and losses on foreign exchange are deemed to represent short-term fluctuations in investment return and economic assumption changes and thus are excluded from adjusted profit.

Short-term fluctuations in investment return for the year ended 31 December 2017 and 31 December 2016 relate principally to the impact of interest rate changes on UK annuity liabilities and the assets backing those liabilities.

(b) Other

In the reconciliation of consolidated adjusted profit before tax to profit for the year the Other adjusting item sub-total includes £24m (2016: £nil) in relation to the impairment of a disposal group classified as held for sale and £nil (2016: £5m) net fair value movements in contingent consideration.

13. Dividends on ordinary shares

Dividends are distributions of profit to holders of Standard Life Aberdeen plc's share capital and as a result are recognised as a deduction in equity. Final dividends are announced with the Annual report and accounts and are recognised when they have been approved by shareholders. Interim dividends are announced with the Half year results and are recognised when they are paid.

	2017		2016	
	Pence per share	**£m[1]**	Pence per share	£m
Prior year's final dividend paid	**13.35**	**263**	12.34	243
Interim dividend paid	**7.00**	**206**	6.47	127
Total dividends paid on ordinary shares		**469**		370
Current year final recommended dividend	**14.30**	**421**	13.35	262

[1] Estimated for current year final recommended dividend.

The final recommended dividend will be paid on 30 May 2018 to shareholders on the Company's register as at 20 April 2018, subject to approval at the 2018 Annual General Meeting. After the current year final recommended dividend, the total dividend in respect of the year ended 31 December 2017 is 21.30p (2016: 19.82p).

FINANCIAL INFORMATION

14. Intangible assets

Goodwill is created when the Group acquires a business and the consideration exceeds the fair value of the net assets acquired. In determining the net assets acquired in business combinations, intangible assets are recognised where they are separable or arise from contractual or legal rights. Intangible assets acquired by the Group through business combinations consist mainly of customer relationships, technology and brands. Any remaining value that cannot be identified as a separate intangible asset on acquisition forms part of goodwill.

The Group also recognises as intangible assets software which has been developed internally and other purchased technology which is used in managing and executing our business. Costs to develop software internally are capitalised after the research phase and when it has been established that the project is technically feasible and the Group has both the intention and ability to use the completed asset.

Intangible assets are recognised at cost and amortisation is charged to the income statement over the length of time the Group expects to derive benefits from the asset. The allocation of the income statement charge to each reporting period is dependent on the expected pattern over which future benefits are expected to be derived. Where this pattern cannot be determined reliably the charge is allocated on a straight-line basis.

Goodwill is not charged to the income statement unless it becomes impaired.

		Acquired through business combinations						
	Notes	Goodwill £m	Brand £m	Customer relationships and investment management contracts £m	Technology £m	Internally developed software[1] £m	Purchased software and other £m	Total £m
Gross amount								
At 1 January 2016		219	–	240	30	287	66	842
Additions		14	–	14	–	61	–	89
Disposals and adjustments		–	–	–	–	(6)	–	(6)
Other		–	–	–	–	3	–	3
At 31 December 2016		233	–	254	30	345	66	928
Additions		**3,209**	**93**	**728**	**44**	**58**	**11**	**4,143**
Disposals and adjustments		**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Other		**–**	**–**	**–**	**–**	**1**	**–**	**1**
At 31 December 2017		**3,442**	**93**	**982**	**74**	**403**	**77**	**5,071**
Accumulated amortisation and impairment								
At 1 January 2016		–	–	(75)	(26)	(144)	(31)	(276)
Amortisation charge for the year		–	–	(16)	(3)	(37)	(8)	(64)
Impairment losses recognised		(10)	–	(9)	–	(1)	–	(20)
Disposals and adjustments		–	–	–	–	6	–	6
Other		–	–	–	–	(2)	–	(2)
At 31 December 2016		(10)	–	(100)	(29)	(178)	(39)	(356)
Amortisation charge for the year	6	**–**	**(7)**	**(68)**	**(5)**	**(37)**	**(7)**	**(124)**
Impairment losses recognised	6	**(5)**	**–**	**(40)**	**–**	**(32)**	**–**	**(77)**
Disposals and adjustments		**–**	**–**	**–**	**–**	**1**	**–**	**1**
Other		**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
At 31 December 2017		**(15)**	**(7)**	**(208)**	**(34)**	**(247)**	**(46)**	**(557)**
Carrying amount								
At 1 January 2016		219	–	165	4	143	35	566
At 31 December 2016		223	–	154	1	167	27	572
At 31 December 2017		**3,427**	**86**	**774**	**40**	**156**	**31**	**4,514**

1 Included in the internally developed software of £156m (2016: £167m) is £53m (2016: £56m) relating to intangible assets not yet ready for use.

Goodwill

The additions to goodwill and intangible assets acquired through business combinations during the year to 31 December 2017 relate solely to the acquisition of Aberdeen discussed in Note 1. Of the Group's goodwill of £3,427m (2016: £223m) at 31 December 2017, £3,354m (2016: £145m) is attributed to the Aberdeen Standard Investments group of cash-generating units. The remaining goodwill of £73m (2016: £78m) is attributable to a number of smaller cash-generating units in the Pensions and Savings segment.

In attributing the goodwill relating to the acquisition of Aberdeen to a group of cash-generating units we considered the existing cash-generating units which are expected to benefit from the synergies from the combination. As the benefit is expected to arise across Aberdeen Standard Investments (a combination of Aberdeen and Standard Life Investments now managed and reported together as one operating segment) we judged it was appropriate to allocate goodwill to this group of cash-generating units. This is the lowest level at which goodwill is monitored for internal management purposes.

The goodwill arising on acquisition of Aberdeen is mainly attributable to expected cash flows from new customers and significant synergies which are expected to be realised. Synergies expected to be available to all market participants which impact the cash flows relating to existing Aberdeen customer relationships are included in the valuation of the intangible assets discussed below, with additional synergies forming part of goodwill.

Other intangible assets arising on the Aberdeen acquisition

Identification and valuation of intangible assets acquired in business combinations is a key judgement. On the acquisition of Aberdeen, we identified intangible assets in relation to customer relationships, brand and technology as being separable from goodwill.

Customer relationships

The customer relationships acquired through Aberdeen have been grouped where the customer groups have similar economic characteristics and similar useful economic lives. This gives rise to three separate intangible assets which we have termed Lloyds Banking Group, open ended funds, and segregated and similar. These are described further below.

In relation to the open ended funds we considered that it was most appropriate to recognise an intangible asset relating to customer relationships between Aberdeen and open ended fund customers, rather than an intangible asset relating to investment management agreements between Aberdeen and Aberdeen's open ended funds. Our judgement is that the value associated with the open ended fund assets under management is predominantly derived from the underlying customer relationships, taking into account that a significant proportion of these assets under management are from institutional clients.

The description of the three separate intangible assets including their estimated useful life at the acquisition date is as follows:

Customer relationship intangible asset	Description	Useful life at acquisition date	Fair value on acquisition date £m	Carrying value £m
Lloyds Banking Group	Customer relationship with Lloyds Banking Group, including Scottish Widows Group.	4 years	78	26
Open ended funds	Separate vehicle group – open ended investment vehicles.	11 years	223	209
Segregated and similar	All other vehicle groups dominated by segregated mandates which represent 75% of this group.	12 years	427	402

Once identified, measuring the fair value of intangible assets acquired in business combinations requires further assumptions and judgements. Customer relationships are valued using discounted cash flow projections. The key assumptions in measuring the fair value of the customer relationships at the acquisition date were as follows:

- Net attrition – net attrition represents the expected rate of outflows of assets under management net of inflows from existing customers. This assumption is primarily based on recent experience.
- Market growth – a market growth adjustment has been applied based on the asset class
- Operating margin – this assumption is consistent with forecast margins and includes the impact of synergies that would be expected by any market participant and impact the Aberdeen customer relationship cash flows
- Discount rate – this assumption is based on the internal rate of return (IRR) of the transaction and is consistent with a market participant discount rate

The above assumptions, and in particular the net attrition assumption, were also used to determine the useful economic life of each asset used for amortisation. The reducing balance method of amortisation is considered appropriate for these intangibles, consistent with the attrition pattern on customer relationships which means that the economic benefits delivered from the existing customer base will reduce disproportionately over time.

Customer relationships and investment management contracts intangible assets also include £101m (2016: £114m) acquired through the acquisition of Ignis, comprising life company customer relationships/contracts, institutional client investment management contracts and retail client investment management contracts.

Estimates and assumptions

The key estimates and assumptions in relation to intangible assets are:

- Determination of useful lives
- Determination of the recoverable amount in relation to impairment assessment of customer intangibles

The determination of useful lives requires judgement in respect of the length of time that the Group expects to derive benefits from the asset and considers for example expected duration of customer relationships and when technology is expected to become obsolete for technology based assets. The amortisation period and method for each of the Group's intangible asset categories is as follows:

- Customer relationships acquired through business combinations – generally between 7 and 12 years, generally reducing balance method
- Investment management contracts acquired through business combinations – between 10 and 17 years, straight-line
- Brand acquired through business combinations – 5 years, straight-line
- Technology acquired through business combinations – between 3 and 6 years, straight line
- Internally developed software – between 2 and 6 years. Amortisation is on a straight-line basis and commences once the asset is available for use
- Purchased software – between 2 and 6 years, straight-line

The determination of amounts to be recognised as internally developed software requires judgement and assumptions in respect of whether assets are capable of being separated and the extent to which development costs form part of the separable asset. Additionally judgement is required to determine which costs have been incurred in relation to the research phase, which are not capitalised, and which have been incurred in relation to the development phase of a project, which are capitalised. We consider that costs are directly attributable to the software asset and can therefore be capitalised, where they would not have been incurred if the software development had not taken place.

Goodwill is assessed for impairment at each reporting date. For other intangible assets an assessment is made as to whether there is an indication that the intangible asset has become impaired. If any indication of impairment exists and the carrying value of an intangible asset exceeds its recoverable amount then the carrying value is written down to the recoverable amount.

The recoverable amount for intangible assets excluding goodwill is currently its value in use. In assessing value in use, expected future cash flows are discounted to their present value using a pre-tax discount rate. Judgement is required in assessing both expected cash flows and an appropriate discount rate which is based on current market assessments of the time value of money and the risks associated with the asset.

The impairment of internally generated software recognised during the year includes £31m (2016: £nil) relating to discontinuation of part of an IT transformation project in the Pensions and Savings segment.

In February 2018 Lloyds Banking Group (LBG) and Scottish Widows informed the Group that Scottish Widows and LBG's Wealth business intend to review their long term asset management arrangements including those services that are currently undertaken by certain legacy Aberdeen entities. The impairment of customer relationship and investment management contracts intangible assets in 2017 of £40m relates to this announcement and is an impairment of the Lloyds Banking Group customer relationship intangible asset in the Aberdeen Standard Investments segment. The recoverable amount of this asset, which is its value in use, at 31 December 2017 is £26m and was calculated using a pre-tax discount rate of 13%. The other key assumptions used to measure the value in use calculation are consistent with those used in the acquisition date valuation set out on page 179 other than the useful live which has been reassessed as 1.1 years.

In relation to customer relationships acquired in business combinations, the most significant judgements relate to assumptions for the open-ended and, segregated and similar intangible assets acquired through the acquisition of Aberdeen. The following table shows the consequence of downside sensitivities of key assumptions to the carrying amounts at 31 December 2017:

	Open ended £m	Segregated and similar £m
20% increase in net attrition	(28)	(51)
10% one-off decrease in AUM at 1 January 2018	(20)	(36)
Operating margin percentage decreased by 2.5	(21)	(37)
Discount rate percentage increased by 2	(12)	(24)

The carrying value of the life company customer relationships/contracts acquired through Ignis at 31 December 2017 is £50m (2016: £58m). Increasing the discount rate by 2% or decreasing the operating margin by 5% would not result in an impairment loss and therefore would have no impact on carrying value. The remaining amortisation period of the life contracts is 7 years.

Goodwill allocated to the Aberdeen Standard Investments group of cash-generating units is significant in comparison to the total value of goodwill. The recoverable amount of this group of cash-generating units is based on fair value less costs of disposal. The key assumption used to measure fair value is a price/earnings ratio. Given the recent acquisition of Aberdeen we have used the price/earnings ratio of this transaction, which is comparable with price/earnings ratios of similar asset management businesses at the impairment testing date, to calculate fair value. This fair value measurement would be categorised as level 3 in the fair value hierarchy. A reasonably possible change in the price/earnings ratio would not result in an impairment.

15. Deferred acquisition costs

The Group incurs costs to obtain and process new business. These are accounted for as follows:

Pensions and Savings – insurance and participating investment contracts

Acquisition costs incurred in issuing insurance or participating investment contracts are not deferred where such costs are borne by a with profits fund that was subject to the Prudential Regulation Authority (PRA) realistic capital regime. For other participating investment contracts, incremental costs directly attributable to the issue of the contracts are deferred. For other insurance contracts both incremental acquisition costs and other indirect costs of acquiring and processing new business are deferred.

Deferred acquisition costs are amortised in proportion to projected margins over the period the relevant contracts are expected to remain in-force. After initial recognition, deferred acquisition costs are reviewed by category of business and written off to the extent that they are no longer considered to be recoverable.

India and China life – insurance contracts

The Group's policy for acquisition costs incurred on insurance contracts issued by overseas subsidiaries is to apply the policy used in the issuing entity's local statutory or regulatory reporting or, where local reporting did not explicitly or implicitly defer acquisition costs at the time the overseas subsidiary was first consolidated, to adjust those policies to apply a policy similar to that described above for non-participating insurance contracts.

Non-participating investment contracts and asset management contracts

Incremental costs directly attributable to securing rights to receive fees for asset management services either sold with unit linked investment contracts or in other asset management services contracts, are deferred. Where such costs are borne by a with profits fund that was subject to the PRA's realistic capital regime, deferral is limited to the level of any related deferred income.

Deferred acquisition costs are amortised over the life of the contracts as the related revenue is recognised. After initial recognition, deferred acquisition costs are reviewed by category of business and are written off to the extent that they are no longer considered to be recoverable.

Trail or renewal commission on non-participating investment contracts where the Group does not have an unconditional legal right to avoid payment is deferred at inception of the contract and an offsetting liability for contingent commission is established.

	Notes	2017 £m	2016 £m
At 1 January		**651**	646
Additions during the year	6	**49**	51
Reclassified as held for sale during the year		**(22)**	–
Amortisation charge	6	**(79)**	(96)
Foreign exchange adjustment		**13**	50
At 31 December		**612**	651

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £536m (2016: £566m). Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £356m (2016: £389m).

16. Investments in associates and joint ventures

Associates are entities where the Group can significantly influence decisions made relating to the financial and operating policies of the entity but does not control the entity. For entities where voting rights exist, significant influence is presumed where the Group holds between 20% and 50% of the voting rights.

Joint ventures are strategic investments where the Group has agreed to share control of an entity's financial and operating policies through a shareholders' agreement and decisions can only be taken with unanimous consent.

Associates, other than those accounted for at fair value through profit or loss, and joint ventures are accounted for using the equity method from the date that significant influence or shared control, respectively, commences until the date this ceases with consistent accounting policies applied throughout.

Under the equity method, investments in associates and joint ventures are initially recognised at cost and include any goodwill identified on acquisition. The carrying value is adjusted for the Group's share of post-acquisition profit or loss and other comprehensive income of the associate or joint venture, which are recognised in the consolidated income statement and other comprehensive income respectively. The carrying value is also adjusted for any impairment losses.

Where the Group has an investment in an associate, a portion of which is held by, or is held indirectly through, a mutual fund, unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at fair value through profit or loss (FVTPL).

During the year ended 31 December 2017 we have changed our judgement in determining when the Group has significant influence over investment vehicles managed by the Group. In general, investment vehicles which are not subsidiaries are now considered to be associates where the Group holds more than 20% of the voting rights. Previously our judgement was that the Group had significant influence over all investment vehicles where, through its role as investment manager, it had power over the investment decisions of the vehicle. As a result previously the Group classified all Group managed investment vehicles which were not subsidiaries and in which the Group held an investment as associates. The reason for the change in accounting policy is to make the financial statements more relevant to users as it is more consistent with peers. Following the presentational change discussed in part (c) of this note, this change in accounting policy only impacts the breakdown of 'Equities and investments in pooled investment vehicles', between amounts relating to investments in associates at FVTPL and other interests in pooled investment vehicles. This breakdown is disclosed in Note 40 with comparatives restated.

A full list of the Group's associates and joint ventures is included in Note 49.

Investments in associates and joint ventures accounted for using the equity method of £503m (2016: £572m) includes £nil (2016: £3m) in relation to loans to associates and joint ventures.

The level of future dividend payments and other transfers of funds to the Group from associates and joint ventures accounted for using the equity method could be restricted by the regulatory solvency and capital requirements of the associate or joint venture, and certain local foreign currency transaction restrictions.

(a) Investments in associates accounted for using the equity method

The following are particulars of the Group's principal associates.

	HDFC Standard Life Insurance Company Limited		HDFC Asset Management Company Limited	
Country of incorporation and registration	India		India	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Summarised financial information of associate:				
Revenue	**3,736**	2,844	**193**	175
Profit after tax	**123**	99	**73**	58
Other comprehensive income/(expense)	**–**	(5)	**–**	–
Total assets	**12,102**	10,199	**471**	345
Total liabilities	**11,589**	9,776	**221**	180
Net assets	**513**	423	**250**	165
Interest held	**29.3%**	35.0%	**38.2%**	39.9%
Share of net assets	**151**	148	**96**	66
Associates accounted for using the equity method	**304**	363	**90**	111
Associates classified as held for sale	**–**	–	**33**	–
Total amount recognised in consolidated statement of financial position	**304**	363	**123**	111
Dividends received	**10**	8	**12**	8

In July 2017, HDFC Standard Life Insurance Company Limited (HDFC Life) announced that its board of directors had approved proceeding with an initial public offering (IPO), with the Group offering up to 5.43% of the paid-up equity share capital of HDFC Life. Refer Note 1 for further details. Following the IPO, the Group's interest in HDFC Life has decreased to 29.3% (2016: 35.0%). A gain on sale of £302m has been recognised in the consolidated income statement.

The difference between the carrying value of this associate and the Group's current share of net assets is due primarily to goodwill and intangible assets of £157m (2016: £210m) arising from additional investments being made at fair value rather than book value. The fair value of the Group's investment in HDFC Life at 31 December 2017 is £2,636m.

In November 2017, HDFC Asset Management Company Limited (HDFC AMC) announced that its board of directors had approved initiation of the process of an IPO subject to receipt of necessary approvals, with the Group offering a portion of the paid up equity share capital of HDFC AMC. As a result a portion of the equity share capital of the associate has been classified as held for sale as at 31 December 2017. Refer Note 24 for further details.

HDFC AMC is unlisted and manages a range of mutual funds and provides portfolio management and advisory services. The Group's share of post-acquisition movements in reserves of HDFC AMC which have been recognised directly in equity, have not been reflected in the carrying value of the associate. As a result there is a difference between the carrying value of the associate and the Group's share of net assets.

The year end date for HDFC AMC and HDFC Life is 31 March which is different from the Group's year end date of 31 December. For the purposes of the preparation of the Group's consolidated financial statements, financial information as at and for the 12 months ended 30 September and 31 December is used for HDFC AMC and HDFC Life respectively.

(b) Investments in joint ventures

The following are particulars of the Group's principal joint venture which is unlisted:

	Heng An Standard Life Insurance Company	
Country of incorporation and registration	**China**	
	2017 £m	2016 £m
Summarised financial information of joint venture:		
Revenue	**358**	254
Profit after tax	**20**	15
Other comprehensive income/(expense)	**7**	(15)
Total assets	**1,358**	1,212
Total liabilities	**1,160**	1,035
Net assets	**198**	177
Interest held	**50%**	50%
Current share of net assets	**99**	88
Carrying value of joint venture	**99**	88
Dividends received	**–**	–

(c) Investments in associates measured at FVTPL

The aggregate fair value of associates accounted for at FVTPL at 31 December 2017 is £5,936m (2016: £4,797m restated) none of which are considered individually material to the Group as the investments are primarily held by unit linked funds. These associates have no significant contingent liabilities to which the Group is exposed and there are no restrictions that would prevent the transfer of funds to the Group (2016: none).

Presentational change

A presentational change has been made to the consolidated statement of financial position to include associates measured at FVTPL within 'Equity securities and interests in pooled investment funds'. Previously these were included within 'Investments in associates and joint ventures' which has been renamed 'Investments in associates and joint ventures accounted for using the equity method'. The reason for the change is to make the presentation more relevant to the users of the financial statements as it is more consistent with peers. The carrying value of associates measured at FVTPL at 31 December 2016 was £4,797m restated (2015: £5,025m restated) and the consolidated statement of financial position comparative has been updated to reflect the change in presentation.

17. Investment property

Property held for long-term rental yields or investment gain that is not occupied by the Group and property being constructed or developed for future use as investment property are classified as investment property. Investment property is initially recognised at cost and subsequently measured at fair value. Gains or losses arising from changes in fair value are recognised in the consolidated income statement.

	Notes	2017 £m	2016 £m
At 1 January		**9,929**	9,991
Reclassifications[1]		**(544)**	(191)
Additions – acquisitions[2]		**270**	1,624
Additions – subsequent expenditure		**143**	131
Net fair value gains/(losses)	4	**485**	(302)
Disposals		**(525)**	(1,337)
Transferred to owner occupied property	18	**(17)**	(28)
Foreign exchange adjustment		**11**	44
Other		**(3)**	(3)
At 31 December		**9,749**	9,929
The fair value of investment property can be analysed as:			
Freehold		**7,297**	7,271
Long leasehold		**2,452**	2,658
		9,749	9,929

1 During 2017 investment property measured at £225m (2016: £191m) was reclassified as held for sale and income strips measured at £319m were reclassified as debt securities. Refer Note 41 for further details on income strips.

2 Additions – acquisitions includes £nil (2016: £1,289) relating to the merger of property investment vehicles.

The rental income arising from investment property during the year amounted to £508m (2016: £555m). Direct operating expenses (included within other administrative expenses) arising in respect of such rented property during the year amounted to £70m (2016: £75m).

Valuations are provided by independent qualified professional valuers at 31 December or as at a date that is not more than three months before 31 December. Where valuations have been undertaken at dates prior to the end of the reporting period, adjustments are made where appropriate to reflect the impact of changes in market conditions between the date of these valuations and the end of the reporting period.

Future minimum lease rental receivables in respect of non-cancellable operating leases on investment properties were as follows:

	2017 £m	2016 £m
Not later than one year	**470**	477
Later than one year and no later than five years	**1,488**	1,529
Later than five years	**3,392**	4,028
Total operating lease receivables	**5,350**	6,034

Estimates and assumptions

Determination of the fair value of investment property is a key estimate. The methods and assumptions used to determine fair value of investment property are discussed in Note 41.

18. Property, plant and equipment

Property, plant and equipment consists primarily of property owned and occupied by the Group and the computer equipment used to carry out the Group's business and is initially recognised at cost.

Owner occupied property is revalued to fair value at each reporting date. Depreciation, being the difference between the carrying amount and the residual value of each significant part of a building, is charged to the consolidated income statement over its useful life. The useful life of each significant part of a building is estimated as being between 30 and 50 years. A revaluation surplus is recognised in other comprehensive income unless it reverses a revaluation deficit which has been recognised in the consolidated income statement.

Equipment is subsequently measured at cost less depreciation. Depreciation is charged to the income statement over 2 to 15 years depending on the length of time the Group expects to derive benefit from the asset.

	Notes	Owner occupied property £m	Equipment £m	Total £m
Cost or valuation				
At 1 January 2016		55	138	193
Additions		1	9	10
Transferred from investment property	17	28	–	28
Reclassified as held for sale		(8)	–	(8)
Disposals and adjustments[1]		(22)	(10)	(32)
Revaluations		5	–	5
Impairment losses recognised	6	(1)	–	(1)
Foreign exchange adjustment		–	1	1
At 31 December 2016		58	138	196
Additions		**3**	**34**	**37**
Acquired through business combinations		**2**	**16**	**18**
Transferred from investment property	17	**17**	**–**	**17**
Reclassified as held for sale		**(4)**	**(2)**	**(6)**
Disposals and adjustments[1]		**–**	**(3)**	**(3)**
Revaluations		**1**	**–**	**1**
Impairment losses reversed	6	**4**	**–**	**4**
Foreign exchange adjustment		**–**	**(1)**	**(1)**
At 31 December 2017		**81**	**182**	**263**
Accumulated depreciation				
At 1 January 2016		–	(102)	(102)
Depreciation charge for the year	6	–	(14)	(14)
Disposals and adjustments[1]		–	9	9
At 31 December 2016		–	(107)	(107)
Depreciation charge for the year	6	**–**	**(15)**	**(15)**
Disposals and adjustments[1]		**–**	**5**	**5**
At 31 December 2017		**–**	**(117)**	**(117)**
Carrying amount				
At 1 January 2016		55	36	91
At 31 December 2016		58	31	89
At 31 December 2017		**81**	**65**	**146**

1 For the year ended 31 December 2017 £1m (2016: £4m) of disposals and adjustments relates to equipment with net book value of £nil which is no longer in use.

If owner occupied property was measured using the cost model, the historical cost before impairment would be £112m (2016: £93m). As the expected residual value of owner occupied property is in line with the current fair value, no depreciation is currently charged.

19. Financial investments

Management determines the classification of financial investments at initial recognition. Financial investments which are not derivatives and are not designated at fair value through profit or loss (FVTPL) are classified as either available-for-sale (AFS) or loans and receivables. The classification of derivatives is set out in Note 21.

The majority of the Group's debt securities and all equity securities and interests in pooled investment funds are designated at FVTPL as they are part of groups of assets which are managed and whose performance is evaluated on a fair value basis. These investments are recognised at fair value with changes in fair value recognised in investment return in the consolidated income statement. Commercial real estate loans are included within debt securities designated at fair value.

All other debt securities are classified as AFS and are recognised at fair value with changes in fair value recognised in other comprehensive income. Interest is credited to the consolidated income statement using the effective interest rate method. On disposal of an AFS security any gains or losses previously recognised in other comprehensive income are recognised in the consolidated income statement (recycling).

The accounting policies for other financial investments are detailed in the separate related notes indicated below.

2017	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Total £m
Loans	20	–	–	–	91	**91**
Derivative financial assets	21	–	3,053	–	–	**3,053**
Equity securities and interests in pooled investment funds	39	99,020	–	–	–	**99,020**
Debt securities	39	60,709	–	856	–	**61,565**
Receivables and other financial assets	22	6	–	–	1,236	**1,242**
Cash and cash equivalents	25	–	–	–	10,226	**10,226**
Total		**159,735**	**3,053**	**856**	**11,553**	**175,197**

2016	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Available-for-sale £m	Loans and receivables £m	Total £m
Investments in associates and joint ventures	16	–	–	–	3	**3**
Loans	20	–	–	–	295	**295**
Derivative financial assets	21	–	3,534	–	–	**3,534**
Equity securities and interests in pooled investment funds	39	90,683	–	–	–	**90,683**
Debt securities	39	67,312	–	621	–	**67,933**
Receivables and other financial assets	22	10	–	–	1,245	**1,255**
Cash and cash equivalents	25	–	–	–	7,938	**7,938**
Total		**158,005**	**3,534**	**621**	**9,481**	**171,641**

The amount of debt securities expected to be recovered or settled after more than 12 months is £50,619m (2016: £55,591m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

Estimates and assumptions

Determination of the fair value of private equity investments and those debt securities categorised as level 3 in the fair value hierarchy is a key estimate. The methods and assumptions used to determine fair value of these assets are discussed in Note 41.

20. Loans

Loans are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any impairment losses.

	Notes	2017 £m	2016 £m
Loans secured by mortgages	41(e)	**57**	73
Loans and advances to banks with greater than three months to maturity from acquisition date		**32**	220
Loans secured on policies		**2**	2
Loans	39	**91**	295

Loans with variable rates and fixed interest rates are £38m and £53m respectively (2016: £52m and £243m respectively). Loans that are expected to be recovered after more than 12 months are £60m (2016: £88m).

21. Derivative financial instruments

A derivative is a financial instrument that is typically used to manage risk and whose value moves in response to an underlying variable such as interest or foreign exchange rates. The Group uses derivative financial instruments in order to match contractual liabilities, to reduce the risk from potential movements in foreign exchange rates, equity indices, property indices and interest rates, to reduce credit risk or to achieve efficient portfolio management. Certain consolidated investment vehicles also use derivatives to take and alter market exposure, with the objective of enhancing performance and controlling risk.

Management determines the classification of derivatives at initial recognition. All derivative instruments are classified as held for trading except those designated as part of a hedging relationship. Held for trading derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

Using derivatives to manage a particular exposure is referred to as hedging. For a derivative to be considered as part of a hedging relationship its purpose must be formally documented at inception. In addition, the effectiveness of the hedge must be initially high and be able to be reliably measured on a regular basis. Derivatives used to hedge variability in future cash flows such as coupons payable on subordinated liabilities or revenue receivable in a foreign currency are designated as cash flow hedges, while derivatives used to hedge currency risk on investments in foreign operations are designated as net investment hedges.

Where a derivative qualifies as a cash flow or net investment hedge, hedge accounting is applied. The effective part of any gain or loss resulting from the change in fair value is recognised in other comprehensive income, and in the cash flow or net investment hedge reserve in equity, while any ineffective part is recognised immediately in the consolidated income statement. If a derivative ceases to meet the relevant hedging criteria, hedge accounting is discontinued.

For cash flow hedges, the amount recognised in the cash flow hedge reserve is transferred to the consolidated income statement (recycled) in the same period or periods during which the hedged item affects profit or loss and is transferred immediately if the cash flow is no longer expected to occur. For net investment hedges, the amount recognised in the net investment hedge reserve is transferred to the consolidated income statement on disposal of the investment.

		2017			2016		
	Notes	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	33	**562**	**–**	**33**	9	–	–
Net investment hedges		**6**	**–**	**–**	6	–	–
Held for trading	19,33	**160,838**	**3,053**	**780**	119,926	3,534	965
Derivative financial instruments	39	**161,406**	**3,053**	**813**	119,941	3,534	965

Derivative assets of £1,957m (2016: £2,460m) are expected to be recovered after more than 12 months. Derivative liabilities of £318m (2016: £215m) are expected to be settled after more than 12 months.

(a) Cash flow hedges

On 18 October 2017, the Group issued subordinated notes with a principal amount of US$750m. In order to manage the foreign exchange risk relating to the principal and coupons payable on these notes the Group entered into a cross-currency swap which is designated as a cash flow hedge. The cross-currency swap has a fair value liability position of £33m (2016: £nil). During the year ended 31 December 2017 losses of £33m (2016: £nil) were recognised in other comprehensive income in relation to the cross-currency swap. In addition £13m (2016: £nil) and less than £1m (2016: £nil) was transferred from other comprehensive income to Investment return and Finance costs respectively in the consolidated income statement.

In addition foreign exchange contracts with an aggregate notional principal amount of £8m (2016: £9m) and a net fair value liability position of less than £1m (2016: less than £1m) were designated as hedges of future cash flows arising from revenue receivable in foreign currency. The cash flows from these instruments are expected to be reported in the consolidated income statement for the following year. In 2017 and 2016, the ineffectiveness recognised in the consolidated income statement arising from cash flow hedges was less than £1m.

(b) Net investment hedges

Forward foreign exchange contracts with a notional principal amount of £6m (2016: £6m) and a net fair value asset position of less than £1m (2016: liability of less than £1m) were designated as net investment hedges and gave rise to gains for the year of less than £1m (2016: losses of less than £1m), which have been deferred in the net investment hedge translation reserve. The effectiveness of hedges of net investments in foreign operations is measured with reference to changes in the spot exchange rates. Any ineffectiveness, together with any difference in value attributable to forward points, is recognised in the consolidated income statement. In 2017, the losses recognised in the consolidated income statement were less than £1m (2016: less than £1m).

(c) Held for trading

Derivative financial instruments classified as held for trading include those that the Group holds as economic hedges of financial instruments that are measured at fair value. Held for trading derivative financial instruments are also held by the Group to match contractual liabilities that are measured at fair value or to achieve efficient portfolio management in respect of instruments measured at fair value.

	2017			2016		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Equity derivatives:						
Futures	13,244	155	112	5,907	33	88
Variance swaps	13	44	50	17	27	22
Options	7,390	760	37	3,397	571	8
Total return swaps	714	4	16	2,313	3	38
Bond derivatives:						
Futures	25,104	116	50	34,125	247	96
Interest rate derivatives:						
Swaps	65,346	686	215	22,604	762	148
Floors	40	6	–	44	8	–
Options	–	–	–	–	–	–
Swaptions	6,521	835	6	5,980	1,097	–
Foreign exchange derivatives:						
Forwards	35,849	345	234	42,228	704	506
Futures	–	–	–	–	–	–
Options	–	–	–	1	–	–
Other derivatives:						
Inflation rate swaps	5,464	39	49	2,032	27	41
Credit default swaps	1,153	63	11	1,278	55	18
Derivative financial instruments held for trading	160,838	3,053	780	119,926	3,534	965

(d) Maturity profile

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

2017	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
Cash inflows							
Derivative financial assets	19,733	419	312	147	204	505	**21,320**
Derivative financial liabilities	11,095	98	118	566	3	–	**11,880**
Total	**30,828**	**517**	**430**	**713**	**207**	**505**	**33,200**
Cash outflows							
Derivative financial assets	(18,731)	(27)	(21)	(15)	–	–	**(18,794)**
Derivative financial liabilities	(11,539)	(224)	(161)	(642)	(45)	(48)	**(12,659)**
Total	**(30,270)**	**(251)**	**(182)**	**(657)**	**(45)**	**(48)**	**(31,453)**
Net derivative financial instruments cash inflows	**558**	**266**	**248**	**56**	**162**	**457**	**1,747**

Included in the above maturity profile are the following cash flows in relation to cash flow hedge liabilities:

2017	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
Cash inflows	36	94	118	566	–	–	**814**
Cash outflows	(30)	(73)	(91)	(578)	–	–	**(772)**
Net cash flow hedge cash inflows/(outflows)	**6**	**21**	**27**	**(12)**	**–**	**–**	**42**

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

2016	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	Total £m
Cash inflows							
Derivative financial assets	23,319	448	355	172	221	744	**25,259**
Derivative financial liabilities	14,060	11	–	–	1	–	**14,072**
Total	**37,379**	**459**	**355**	**172**	**222**	**744**	**39,331**
Cash outflows							
Derivative financial assets	(22,175)	(2)	(4)	(16)	(11)	–	**(22,208)**
Derivative financial liabilities	(14,821)	(46)	(23)	(14)	(32)	(147)	**(15,083)**
Total	**(36,996)**	**(48)**	**(27)**	**(30)**	**(43)**	**(147)**	**(37,291)**
Net derivative financial instruments cash inflows	**383**	**411**	**328**	**142**	**179**	**597**	**2,040**

22. Receivables and other financial assets

	Notes	2017 £m	2016 £m
Amounts receivable on direct insurance business		**71**	82
Amounts receivable on reinsurance contracts		**2**	1
Outstanding sales of investment securities		**125**	196
Accrued income		**388**	223
Cancellations of units awaiting settlement		**219**	317
Collateral pledged in respect of derivative contracts	39	**46**	30
Property related assets		**154**	156
Contingent consideration asset	41	**6**	10
Other		**231**	240
Receivables and other financial assets		**1,242**	1,255

The carrying amounts disclosed above reasonably approximate the fair values as at the year end.

The amount of receivables and other financial assets expected to be recovered after more than 12 months is £85m (2016: £77m).

23. Other assets

	2017 £m	2016 £m
Prepayments	**72**	41
Other	**113**	53
Other assets	**185**	94

The amount of other assets expected to be recovered after more than 12 months is £7m (2016: £4m).

24. Assets and liabilities held for sale

Assets and liabilities held for sale are presented separately in the consolidated statement of financial position and consist of operations and individual non-current assets whose carrying amount will be recovered principally through a sale transaction (expected within one year) and not through continuing use.

Operations held for sale, being disposal groups, and investments in associates accounted for using the equity method are measured at the lower of their carrying amount and their fair value less disposal costs. No depreciation or amortisation is charged on assets in a disposal group once it has been classified as held for sale.

Operations held for sale include newly established investment vehicles which the Group has seeded but is actively seeking to divest from. For these investment funds, which do not have significant liabilities or non-financial assets, financial assets continue to be measured based on the accounting policies that applied before they were classified as held for sale. The Group classifies seeded operations as held for sale where the intention is to dispose of the investment vehicle in a single transaction. Where disposal of a seeded investment vehicle will be in more than one tranche the operations are not classified as held for sale in the consolidated statement of financial position.

Certain amounts seeded into funds are classified as investments in associates at FVTPL. Investment property and owner occupied property held for sale relates to property for which contracts have been exchanged but the sale had not completed during the current financial year. Investments in associates at FVTPL and investment property held for sale continue to be measured based on the accounting policies that applied before they were classified as held for sale.

	2017 £m	2016 £m
Assets of operations held for sale		
Standard Life (Asia) Limited	**703**	–
Investment vehicles	**91**	27
Investments in associates accounted for using the equity method	**33**	–
Investment and owner occupied property[1]	**211**	236
Assets held for sale	**1,038**	263
Liabilities of operations held for sale		–
Standard Life (Asia) Limited	**678**	–
Investment vehicles	**28**	–
Liabilities of operations held for sale	**706**	–

1 Consists of £199m investment property (2016: £228m) and £12m owner occupied property (2016: £8m).

(a) Standard Life (Asia) Limited

On 29 March 2017, the Group announced the proposed sale of its wholly owned Hong Kong insurance business, Standard Life (Asia) Limited to the Group's Chinese joint venture business, Heng An Standard Life Insurance Company Limited, both of which are reported within the India and China life segment. The transaction is subject to obtaining local regulatory and other approvals in mainland China and Hong Kong.

At 31 December 2017, this disposal group was measured at fair value less cost to sell and comprised the following assets and liabilities:

	2017 £m
Assets of operations held for sale	
Equity securities and interests in pooled investment funds	638
Cash and cash equivalents	31
Other assets	34
Total assets of operations held for sale	**703**
Liabilities of operations held for sale	
Non-participating insurance contract liabilities	603
Non-participating investment contract liabilities	62
Other liabilities	13
Total liabilities of operations held for sale	**678**
Net assets of operations held for sale	**25**

Following the remeasurement of the disposal group to the lower of its carrying amount and its fair value less costs to sell, an impairment loss of £24m has been included in Other administrative expenses in the consolidated income statement. Fair value has been determined by reference to the expected sale price.

(b) HDFC Asset Management Company Limited (HDFC AMC)

On 30 November 2017, HDFC Asset Management Company Limited (HDFC AMC), which is reported within the Aberdeen Standard Investments segment, announced that its board of directors had approved initiation of the process of an initial public offering (IPO) subject to receipt of necessary approvals. As a result a portion of the paid-up equity share capital of HDFC AMC is classified as held for sale at 31 December 2017.

25. Cash and cash equivalents

Cash and cash equivalents include cash at bank, money at call and short notice with banks, and any highly liquid investments (including reverse repurchase agreements) with less than three months to maturity from the date of acquisition, and are measured at amortised cost. For the purposes of the consolidated statement of cash flows, cash and cash equivalents also include bank overdrafts which are included in other financial liabilities on the consolidated statement of financial position.

Where the Group has a legally enforceable right of set off and intention to settle on a net basis, cash and overdrafts are offset in the consolidated statement of financial position.

	2017 £m	2016 £m
Cash at bank and in hand	1,559	753
Money at call, term deposits and debt instruments with less than three months to maturity from acquisition	8,667	7,185
Cash and cash equivalents	**10,226**	7,938

	Notes	2017 £m	2016 £m
Cash and cash equivalents		10,226	7,938
Cash and cash equivalents classified as held for sale	24	31	–
Bank overdrafts	37	(542)	(38)
Total cash and cash equivalents for consolidated statement of cash flows		**9,715**	7,900

Cash at bank, money at call and short notice and deposits are subject to variable interest rates.

Included in cash and cash equivalents and bank overdrafts are £661m (2016: £nil) and £533m (2016: £nil) relating to cash and overdrafts held by Aberdeen, which are held within a cash pooling facility in support of which cross guarantees are provided by certain subsidiary undertakings and interest is paid or received on the net balance. Included in cash and cash equivalents is an offsetting overdraft of £118m (2016: £nil) where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis.

Cash and cash equivalents in respect of with profits funds (participating business) and unit linked funds (including third party interests in consolidated funds) are held in separate bank accounts and are not available for general use by the Group. A breakdown of cash and cash equivalents by risk segment is provided in Note 39.

26. Issued share capital and share premium

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The Company's share capital consists of the number of ordinary shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

(a) Issued share capital

The movement in the issued ordinary share capital of the Company was:

Issued shares fully paid	2017 12 2/9p each	2017 £m	2016 12 2/9p each	2016 £m
At 1 January	**1,978,884,437**	**242**	1,969,937,375	241
Shares issued in respect of business combinations	997,661,231	122	–	–
Shares issued in respect of share incentive plans	496,817	–	460,194	–
Shares issued in respect of share options	1,894,392	–	8,486,868	1
At 31 December	**2,978,936,877**	**364**	1,978,884,437	242

All ordinary shares in issue in the Company rank pari passu and carry the same voting rights to receive dividends and other distributions declared or paid by the Company.

Shares issued in respect of business combinations relates solely to the Aberdeen merger as discussed in Note 1.

The Company can issue shares to satisfy awards granted under employee incentive plans which have been approved by shareholders. Details of the Group's employee plans are provided in Note 45.

(b) Share premium

	2017 £m	2016 £m
1 January	**634**	628
Shares issued in respect of share options	**5**	6
31 December	**639**	634

27. Shares held by trusts

Shares held by trusts relates to shares in Standard Life Aberdeen plc that are held by the Employee Share Trust (EST), the Aberdeen Asset Management Employee Benefit Trust 2003 (EBT) and the Unclaimed Asset Trust (UAT).

The EST and EBT purchase shares in the Company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them. Where new shares are issued to the EST or EBT the price paid is the nominal value of the shares. When shares are distributed from the trust their corresponding value is released to retained earnings.

In July 2006 Standard Life Group demutualised and former members of the mutual company were allocated shares in the new listed Company. Some former members were yet to claim their shares and the UAT held these on their behalf. There was an off-setting obligation to deliver these shares which was also recognised in the shares held by trust reserve. The shares and the off-setting obligation were both measured at £nil. The claim entitlement period for the UAT expired on 9 July 2016. Shares remaining in the UAT after 9 July 2016 continue to be measured at £nil.

The number of shares held in trust at 31 December 2017 was as follows:

	2017	2016
Number of shares held in trust		
Employee Share Trust	**16,031,679**	1,287,431
Aberdeen Asset Management Employee Benefit Trust 2003	**23,704,305**	–
Unclaimed Asset Trust	**180,766**	12,999,801

On completion of the merger on 14 August 2017, 31,483,948 Aberdeen Asset Management PLC shares held by the EBT were exchanged for 23,833,349 Standard Life Aberdeen plc shares at a total nominal value of £3m.

On expiry of the claim period on 9 July 2016, the entitlement to the unclaimed shares remaining in the UAT transferred to the Company. During the year ended 31 December 2017, 11,719,073 shares were transferred from the UAT to the EST for £nil consideration. An amount equivalent to the fair value of the shares as at the date of transfer was donated by the Company to the Standard Life Foundation.

28. Retained earnings

The following table shows movements in retained earnings during the year.

	Notes	2017 £m	2016 £m
At 1 January		**2,855**	2,162
Recognised in comprehensive income			
Recognised in profit for the year attributable to equity holders		**699**	368
Recognised in other comprehensive income			
Remeasurement (losses)/gains on defined benefit pension plans	35	**(18)**	162
Share of other comprehensive income/(expense) of associates and joint ventures		**4**	(10)
Aggregate tax items recognised in other comprehensive income		**(10)**	2
Total items recognised in comprehensive income		**675**	522
Recognised directly in equity			
Dividends paid on ordinary shares		**(469)**	(370)
Transfer for vested employee share-based payments		**86**	23
Cancellation of capital redemption reserve	29	**–**	488
Sale of shares held by trusts		**4**	–
Reclassification of perpetual notes to liability		**19**	–
Shares distributed by employee and other trusts		**(8)**	(7)
Expiry of unclaimed asset trust claim period		**–**	41
Aggregate tax items recognised in equity		**–**	(4)
Total items recognised directly in equity		**(368)**	171
At 31 December		**3,162**	2,855

Transfer for vested employee share-based payments includes £32m (2016: £nil) in relation to replacement awards granted to employees of Aberdeen which vested before the acquisition date and were recognised directly in retained earnings on acquisition.

In addition to unclaimed shares, which are referred to in Note 27, the UAT held cash in relation to unclaimed cash entitlements arising from both cash entitlements which were allocated to eligible members of the mutual company at the date of demutualisation and dividends received on shares held in the UAT. On expiry of the UAT claim period on 9 July 2016, the entitlement to the unclaimed assets remaining in the UAT transferred to the Group. The expiry resulted in the derecognition of a liability of £41m to eligible members in relation to their cash entitlements, which was recognised directly in retained earnings in equity during the year ended 31 December 2016.

29. Movements in other reserves

In July 2006 Standard Life Group demutualised and during this process the merger reserve, the reserve arising on Group reconstruction and the special reserve were created.

Merger reserve: the merger reserve consists of two components. Firstly at demutualisation in July 2006 the Company issued shares to former members of the mutual company. The difference between the nominal value of these shares and their issue value was recognised in the merger reserve. The reserve includes components attaching to each subsidiary that was transferred to the Company at demutualisation based on their fair value at that date. On disposal or impairment of such a subsidiary the related component of the merger reserve is released to retained earnings. Secondly following the completion of the merger of Standard Life plc and Aberdeen Asset Management PLC on 14 August 2017, an additional amount was recognised in the merger reserve representing the difference between the nominal value of shares issued to shareholders of Aberdeen Asset Management PLC and their fair value at that date.

Reserve arising on Group reconstruction: The value of the shares issued at demutualisation was equal to the fair value of the business at that date. The business's assets and liabilities were recognised at their book value at the time of demutualisation. The difference between the book value of the business's net assets and its fair value was recognised in the reserve arising on Group reconstruction. The reserve comprises components attaching to each subsidiary that was transferred to the Company at demutualisation. On disposal of such a subsidiary the related component of the reserve arising on Group reconstruction is released to retained earnings.

Special reserve: Immediately following demutualisation and the related initial public offering, the Company reduced its share premium reserve by court order giving rise to the special reserve. Dividends can be paid out of this reserve.

The following tables show the movements in other reserves during the year.

2017	Notes	Revaluation of owner occupied property £m	Cash flow hedges £m	Foreign currency translation £m	Available-for-sale financial assets £m	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Total £m
At 1 January		**–**	**–**	**104**	**15**	**2,080**	**57**	**241**	**(1,879)**	**618**
Recognised in other comprehensive income										
Fair value losses on cash flow hedges		–	(33)	–	–	–	–	–	–	**(33)**
Revaluation of owner occupied property	18	1	–	–	–	–	–	–	–	**1**
Exchange differences on translating foreign operations		–	–	(32)	–	–	–	–	–	**(32)**
With profits funds: Associated UDS movement recognised in other comprehensive income	31	–	–	12	–	–	–	–	–	**12**
Items transferred to the consolidated income statement	21	–	13	(2)	–	–	–	–	–	**11**
Aggregate tax effect of items recognised in other comprehensive income		–	3	–	–	–	–	–	–	**3**
Total items recognised in other comprehensive income		**1**	**(17)**	**(22)**	**–**	**–**	**–**	**–**	**–**	**(38)**
Recognised directly in equity										
Shares issued in respect of business combinations		–	–	–	–	3,877	–	–	–	**3,877**
Reserves credit for employee share-based payments		–	–	–	–	–	96	–	–	**96**
Transfer to retained earnings for vested employee share-based payments		–	–	–	–	–	(54)	–	–	**(54)**
Aggregate tax effect of items recognised directly in equity		–	–	–	–	–	1	–	–	**1**
Total items recognised directly within equity		**–**	**–**	**–**	**–**	**3,877**	**43**	**–**	**–**	**3,920**
At 31 December		**1**	**(17)**	**82**	**15**	**5,957**	**100**	**241**	**(1,879)**	**4,500**

The reserves credit for employee share based payments includes £57m (2016: £nil) in relation to replacement awards granted to employees of Aberdeen which were unvested at the acquisition date.

2016	Notes	Revaluation of owner occupied property £m	Foreign currency translation £m	Available-for-sale financial assets £m	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Reserve arising on Group reconstruction £m	Capital redemption reserve £m	Total £m
At 1 January		**–**	**(7)**	**1**	**2,080**	**53**	**241**	**(1,879)**	**488**	**977**
Recognised in other comprehensive income										
Fair value gains on available-for-sale financial assets		–	–	17	–	–	–	–	–	**17**
Revaluation of owner occupied property	18	5	–	–	–	–	–	–	–	**5**
Exchange differences on translating foreign operations		–	173	–	–	–	–	–	–	**173**
With profits funds: Associated UDS movement recognised in other comprehensive income	31	(5)	(62)	–	–	–	–	–	–	**(67)**
Aggregate tax effect of items recognised in other comprehensive income		–	–	(3)	–	–	–	–	–	**(3)**
Total items recognised in other comprehensive income		**–**	**111**	**14**	**–**	**–**	**–**	**–**	**–**	**125**
Recognised directly in equity										
Reserves credit for employee share-based payments		–	–	–	–	30	–	–	–	**30**
Transfer to retained earnings for vested employee share-based payments	28	–	–	–	–	(23)	–	–	–	**(23)**
Cancellation of capital redemption reserve		–	–	–	–	–	–	–	(488)	**(488)**
Aggregate tax effect of items recognised directly in equity		–	–	–	–	(3)	–	–	–	**(3)**
Total items recognised directly within equity		**–**	**–**	**–**	**–**	**4**	**–**	**–**	**(488)**	**(484)**
At 31 December		**–**	**104**	**15**	**2,080**	**57**	**241**	**(1,879)**	**–**	**618**

On 17 June 2016 the Company's capital redemption reserve was cancelled in accordance with section 649 of the Companies Act 2006 resulting in a transfer of £488m to retained earnings.

30. Non-controlling interests

Non-controlling interests include preference shares and until December 2017, perpetual notes issued by Aberdeen Asset Management PLC. These are classified as equity whilst no contractual obligation to deliver cash exists.

A reconciliation of movements in non-controlling interests – ordinary shares during the year is provided in Note 42.

(a) Non-controlling interests – ordinary shares

Included in non-controlling interests – ordinary shares of £289m (2016: £297m) are non-controlling interests of Standard Life Private Equity Trust plc (SLPET) of £269m (2016: £251m) which is considered material to the Group. Non-controlling interests own 44% (2016: 45%) of the voting rights of SLPET. The profit allocated to non-controlling interests of SLPET for the year ended 31 December 2017 is £24m (2016: £49m). Dividends paid to non-controlling interests of SLPET during the year ended 31 December 2016 were £7m (2016: £4m).

Summarised financial information for SLPET prior to intercompany eliminations is provided in the following table. The summarised financial information is for the years ended 30 September 2017 and 2016 which is SLPET's financial reporting date and is considered indicative of the interest that non-controlling interests of SLPET have in the Group's activities and cash flows. The financial statements of SLPET for the years ended 30 September 2017 and 2016 have been adjusted for market movements and any other significant events or transactions for the three months to 31 December for the purposes of consolidation into the Group's consolidated financial statements for the years ended 31 December 2017 and 2016 respectively.

SLPET 30 September	2017 £m	2016 £m
Statement of financial position:		
Total assets	**600**	540
Total liabilities	**1**	7
Income statement:		
Revenue	**89**	119
Profit after tax	**81**	107
Total comprehensive income	**81**	107
Cash flows:		
Cash flows from operating activities	**2**	5
Cash flows from investing activities	**1**	73
Cash flows from financing activities	**(15)**	(13)
Net (decrease)/increase in cash equivalents	**(12)**	65

There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

(b) Non-controlling interests – preference shares and perpetual notes

	2017 £m	2016 £m
5% 2015 Non-voting perpetual non-cumulative redeemable preference shares	**99**	–

On the acquisition of Aberdeen as discussed in Note 1, the Group recognised preference shares and perpetual capital notes issued by Aberdeen Asset Management PLC as non-controlling interests.

(b)(i) Preference shares

The preference shares have no fixed redemption date, except at the sole discretion of the issuer after the fifth anniversary from issue. Preference share dividends are discretionary and where declared, are paid in arrears in two tranches at a rate of 5% per annum and are non-cumulative. No interest accrues on any cancelled or unpaid dividends. Since acquisition no dividends have been declared or paid on the preference shares.

The preference shares can be converted irrevocably into a fixed number of ordinary shares in the event of the conversion trigger. The conversion trigger occurs if Aberdeen Asset Management PLC's Common Equity Tier 1 ('CET1') capital ratio falls below 5.125%. This is a regulatory requirement to enable the preference shares to be treated as Additional Tier 1 capital. The CET1 ratio (unaudited) at 31 December 2017 was 36.2%.

(b)(ii) Perpetual notes

The perpetual capital notes bear interest on their principal amount at 7.0% per annum, the discretionary coupons are payable quarterly in arrears on 1 March, 1 June, 1 September and 1 December in each year. Interest accrues on any deferred payments. On 18 December 2017 Aberdeen Asset Management PLC notified the trustees of the perpetual capital notes of its irrevocable intention to redeem the notes on the first call date, 1 March 2018. Following notification to the trustees the perpetual capital notes were reclassified as subordinated liabilities as an obligation to deliver cash was created. The liabilities were recognised at fair value of £380m with fair value movements since acquisition of £17m being transferred to retained earnings. On reclassification £2m in relation to tax allocated to non-controlling interests was also transferred to retained earnings.

During the year ended 31 December 2017 £8m (2016: £nil) was recognised directly in equity (net of tax) and £2m (2016: £nil) was recognised in Finance costs in the consolidated income statement in relation to coupons payable. The coupons payable on perpetual notes are tax deductible.

31. Insurance contracts, investment contracts and reinsurance contracts

(i) Classification of insurance and investment contracts

The measurement basis of assets and liabilities arising from life and pensions business contracts is dependent upon the classification of those contracts as either insurance or investment contracts.

Insurance contracts

A contract is classified as an insurance contract only if it transfers significant insurance risk. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits to those payable if no insured event occurred, excluding scenarios that lack commercial substance. Our judgement is that where death benefits exceed maturity benefits by 10% or more a contract is classified as an insurance contract, by 5% or less it is not an insurance contract. There are no material contracts within the 5% to 10% range. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Investment contracts

Life and pensions business contracts that are not classified as insurance contracts are classified as investment contracts.

Participating contracts

The Group has written insurance and investment contracts which contain discretionary participating features (e.g. with profits business). These contracts provide a contractual right to receive additional benefits as a supplement to guaranteed benefits. These additional benefits are based on the performance of with profits funds and their amount and timing is at the discretion of the Group. These contracts are referred to as participating insurance contracts if they contain a feature that transfers significant insurance risk and otherwise as participating investment contracts.

Hybrid contracts

Generally, life and pensions business product classes are sufficiently homogeneous to permit a single classification at the level of the product class. However, in some cases, a product class may contain individual contracts that fall across multiple classifications (hybrid contracts). For certain significant hybrid contracts our judgement is that it is appropriate to separate the product class into the insurance element, a non-participating investment element and a participating investment element, so that each element is accounted for separately.

Embedded derivatives

Where a contract contains a feature that meets the definition of both an insurance contract and a derivative, the contract is classified in its entirety as an insurance contract.

The following table summarises the classification of the Group's significant types of life and pensions business contracts as described in Note 3.

Reportable segment	Participating insurance contracts	Non-participating insurance contracts	Participating investment contracts	Non-participating investment contracts
Pensions and Savings	Germany unitised with profits deferred annuity contracts UK & Ireland unitised with profits life contracts	UK & Ireland annuity-in-payment contracts Certain UK & Ireland unit linked investment bonds UK deferred annuity contracts Germany unit linked deferred annuity contracts	UK & Ireland unitised with profits pension contracts	UK & Ireland unit linked pension contracts Certain UK & Ireland unit linked investment bonds
India and China life		Hong Kong unit linked life contracts		
Aberdeen Standard Investments				UK unit linked investment contracts

Details of the accounting policies for non-participating investment contracts are given in Note 32.

(ii) Income statement presentation – insurance and participating investment contracts

For insurance contracts and participating investment contracts, IFRS 4 *Insurance Contracts* permits the continued application, for income statement presentation purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. Therefore the Group applies accounting policies determined in accordance with the Association of British Insurers Statement of Recommended Practice issued in 2005 (ABI SORP) as described below.

Premiums received on insurance contracts and participating investment contracts are recognised as revenue in the consolidated income statement when due for payment, except for unit linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular (and recurring) premium contracts, receivables are established at the date when payments are due.

Claims paid on insurance contracts and participating investment contracts are recognised as expenses in the consolidated income statement. Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the insurance liability. Death claims and all other claims are accounted for when notified.

When a policyholder exercises an option within an investment contract to utilise withdrawal proceeds from the investment contract to secure future benefits which contain significant insurance risk, the related investment contract liability is derecognised and an insurance contract liability is recognised. The withdrawal proceeds which are used to secure the insurance contract are recognised as premium income.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

The change in insurance and participating investment contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the consolidated income statement. This also includes the movement in unallocated divisible surplus (UDS) in the period. However, where movements in assets and liabilities which are attributable to participating policyholders are recognised in other comprehensive income, the change in UDS arising from these movements is not recognised in the consolidated income statement as it is also recognised in other comprehensive income.

(iii) Measurement – insurance and participating investment contract liabilities

For insurance contracts and participating investment contracts, IFRS 4 *Insurance Contracts* permits the continued application, for measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable, and no less relevant to those needs. Therefore the Group applies accounting policies determined in accordance with the ABI SORP as described below. As was permitted under the ABI SORP, the Group adopts local regulatory valuation methods, adjusted for consistency with asset measurement policies, for the measurement of liabilities under insurance contracts and participating investment contracts issued by overseas subsidiaries.

(iv) Measurement – participating contract liabilities

Participating contract liabilities are analysed into the following components:

- Participating insurance contract liabilities
- Participating investment contract liabilities
- Present value of future profits on non-participating contracts, which is treated as a deduction from gross participating contract liabilities
- Unallocated divisible surplus

The policy for measuring each component is noted below.

Participating insurance and investment contract liabilities

Participating contract liabilities arising under contracts issued by with profits funds which were within the scope of the Prudential Regulation Authority (PRA) realistic capital regime prior to the introduction of Solvency II are measured on the PRA realistic basis that was used in the PRA realistic capital regime. Under this approach, the value of participating insurance and participating investment contract liabilities in each with profits fund is calculated as:

- With profits benefits reserves (WPBR) for the fund as determined under the PRA realistic basis, plus
- Future policy related liabilities (FPRL) for the fund as determined under the PRA realistic basis, less
- Any amounts due to equity holders included in FPRL, less
- The portion of future profits on non-participating contracts included in FPRL not due to equity holders, where this portion can be separately identified

The WPBR is primarily based on the retrospective calculation of accumulated asset shares. The aggregate value of individual policy asset shares reflects the actual premium, expense and charge history of each policy. The net investment return credited to the asset shares is consistent with the return achieved on the assets notionally backing participating business. Any mortality deductions are based on published mortality tables adjusted where necessary for experience variations. For those asset shares on an expense basis, the allowance for expenses attributed to the asset share is, as far as practical, the appropriate share of the actual expenses incurred or charged to the fund. For those on a charges basis, the allowance is consistent with the charges for an equivalent unit linked policy. The FPRL comprises other components such as a market consistent stochastic valuation of the cost of options and guarantees.

The Group's principal with profits fund is the Heritage With Profits Fund (HWPF) operated by Standard Life Assurance Limited (SLAL). The participating contracts held in the HWPF were issued by a with profits fund that fell within the scope of the PRA realistic capital regime. Under the Scheme of Demutualisation (the Scheme), the residual estate of the HWPF exists to meet amounts which may be charged to the HWPF under the Scheme. However, to the extent that SLAL's board is satisfied that there is an excess residual estate, it shall be distributed over time as an enhancement to final bonuses payable on the remaining eligible policies invested in the HWPF. This planned enhancement to the benefits under with profits contracts held in the HWPF is included in the FPRL under the PRA realistic basis, resulting in a realistic surplus of nil. Applying the policy noted above, this planned enhancement is therefore included within the measurement of participating contract liabilities.

The Scheme provides that certain defined cash flows (recourse cash flows) arising in the HWPF on specified blocks of UK and Ireland business, both participating and non-participating, may be transferred out of that fund when they emerge, being transferred to the Shareholder Fund (SHF) or the Proprietary Business Fund (PBF) of SLAL, and thus accrue to the ultimate benefit of equity holders of the Company. Under the Scheme, such transfers are subject to certain constraints in order to protect policyholders. The Scheme also provides for additional expenses to be charged by the PBF to the HWPF in respect of Germany branch business in SLAL.

Under the PRA realistic basis, the discounted value of expected future cash flows on participating contracts not reflected in the WPBR is included in FPRL (as a reduction in FPRL where future cash flows are expected to be positive). The discounted value of expected future cash flows on non-participating contracts not reflected in the measure on non-participating liabilities is recognised as a separate asset (where future cash flows are expected to be positive). The Scheme requirement to transfer future recourse cash flows out of the HWPF is recognised as an addition to FPRL. The discounted value of expected future cash flows on non-participating contracts can be apportioned between those included in the recourse cash flows and those retained in the HWPF for the benefit of policyholders.

Applying the policy noted above:

- The value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position is reduced by future expected (net positive) cash flows arising on participating contracts
- Future expected cash flows on non-participating contracts are not recognised as an asset of the HWPF on the consolidated statement of financial position. However, future expected cash flows on non-participating contracts that are not recourse cash flows under the Scheme are used to adjust the value of participating insurance and participating investment contract liabilities on the consolidated statement of financial position.

Some participating contract liabilities arise under contracts issued by a non-participating fund with a with profits investment element then transferred to a with profits fund within SLAL that fell within the scope of the PRA's realistic capital regime. The with profits investment element of such contracts is measured as described above. Any liability for insurance features retained in the non-participating fund is measured using the gross premium method applicable to non-participating contracts (see Section (v)).

Present value of future profits (PVFP) on non-participating contracts held in a with profits fund

This applies only to the HWPF as no other with profits funds hold non-participating contracts. An amount is recognised for the PVFP on non-participating contracts since the determination of the realistic value of liabilities for with profits contracts in the HWPF takes account of this value. The amount is recognised as a deduction from liabilities. As this amount can be apportioned between an amount recognised in the realistic value of with profits contract liabilities and an amount recognised in UDS, the apportioned amounts are reflected in the measurement of participating contract liabilities and UDS respectively.

Unallocated divisible surplus (UDS)

The UDS comprises the difference between the assets and all other recognised liabilities in the Group's with profits funds. This amount is recognised as a liability as it is not considered to be allocated to shareholders due to uncertainty regarding transfers from these funds to equity holders.

In relation to the HWPF, amounts are considered to be allocated to equity holders when they emerge as recourse cash flows within the HWPF.

As a result of the policies for measuring the HWPF's assets and all its other recognised liabilities:

- The UDS of the HWPF comprises the value of future recourse cash flows in participating contracts (but not the value of future recourse cash flows on non-participating contracts), the value of future additional expenses to be charged on Germany branch business and the effect of any measurement differences between the Realistic Balance Sheet value and IFRS accounting policy value of all assets and all liabilities other than participating contract liabilities recognised in the HWPF
- The recourse cash flows are recognised as they emerge as an addition to equity holders' profits if positive or as a deduction if negative. As the additional expenses are charged in respect of the Germany branch business, they are recognised as an addition to equity holders' profits.

(v) Measurement – non-participating insurance contract liabilities

Pensions and Savings

The liability for annuity in payment contracts is measured by discounting the expected future annuity payments together with an appropriate estimate of future expenses at an assumed rate of interest derived from yields on the underlying assets.

Other non-participating insurance contracts are measured using the gross premium method. In general terms, a gross premium valuation basis is one in which the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of premiums, expected claims and costs of maintaining contracts. Cash flows are discounted at the valuation rate of interest determined to reflect conditions at the reporting date in accordance with Prudential Regulation Authority (PRA) requirements that existed at 31 December 2015.

India and China life

The Group's policy for measuring liabilities for non-participating insurance contracts issued by overseas subsidiaries is to apply the valuation technique used in the issuing entity's local statutory or regulatory reporting.

(vi) Measurement – liability adequacy test

The Group applies a liability adequacy test at each reporting date to ensure that the insurance and participating contract liabilities (less related deferred acquisition costs) are adequate in the light of the estimated future cash flows. This test is performed by comparing the carrying value of the liability and the discounted projections of future cash flows.

If a deficiency is found in the liability (i.e. the carrying value amount of its insurance liabilities is less than the future expected cash flows), that deficiency is provided for in full. The deficiency is recognised in the consolidated income statement.

(vii) Reinsurance contracts

Contracts with reinsurers are assessed to determine whether they contain significant insurance risk. Contracts that do not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for and disclosed in a manner consistent with financial instruments.

Contracts that give rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contain an element that does not transfer significant insurance risk and which can be measured separately from the insurance component. Where such elements are present, they are accounted for separately with any deposit element being accounted for and disclosed in a manner consistent with financial instruments. The remaining elements, or where no such separate elements are identified, the entire contracts, are classified as reinsurance contracts.

Reinsurance contracts are measured using valuation techniques and assumptions that are consistent with the valuation techniques and assumptions used in measuring the underlying policy benefits and taking into account the terms of the reinsurance contract.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in receivables and other financial assets and other financial liabilities respectively unless a right of offset exists, in which case the net amount is reported on the consolidated statement of financial position.

Expenses, including interest, arising under elements of contracts with reinsurers that do not transfer significant insurance risk are recognised on an accruals basis in the consolidated income statement as expenses under arrangements with reinsurers.

A presentational change has been made to the face of the consolidated income statement from prior year. Details of the breakdown of insurance related income and expenses which were previously shown on the face of the consolidated income statement are now included in the sections that follow. Our judgement is that this more concise presentation is more relevant to the users of the financial statements.

(a) Insurance and participating investment contract premium income

	2017 £m	2016 £m
Gross earned premium	**2,190**	2,139
Premium ceded to reinsurers	**(47)**	(47)
Insurance and participating investment contract premium income	**2,143**	2,092

(b) Insurance and participating investment contract claims and change in liabilities

	Notes	2017 £m	2016 £m
Claims and benefits paid		**4,449**	4,801
Claim recoveries from reinsurers		**(480)**	(492)
Net insurance claims		**3,969**	4,309
Change in reinsurance assets and liabilities	31(e)	**561**	140
Change in insurance and participating contract liabilities	31(e)	**(1,244)**	2,115
Change in unallocated divisible surplus	31(f)	**140**	53
Expenses under arrangements with reinsurers	31(c)	**202**	509
Insurance and participating investment contract claims and change in liabilities		**3,628**	7,126

(c) Expenses under arrangements with reinsurers

	2017 £m	2016 £m
Interest payable on deposits from reinsurers	**21**	31
Premium Adjustments	**181**	478
Expenses under arrangements with reinsurers	**202**	509

The Group has reinsured the longevity and investment risk related to a portfolio of annuity contracts held within its Heritage With Profits Fund. At inception of the reinsurance contract the reinsurer was required to deposit an amount equal to the reinsurance premium with the Group. Interest is payable on the deposit at a floating rate. The Group maintains a ring fenced pool of assets to back this deposit liability. Annuity payments under the reinsured contracts are made by the Group from the ring fenced assets and the deposit liability is reduced by the amount of these payments. Periodically the Group is required to pay to the reinsurer or receive from the reinsurer Premium Adjustments defined as the difference between the fair value of the ring fenced assets and the deposit amount, such that the deposit amount equals the fair value of the ring fenced assets. This has the effect of ensuring that the investment risk on the ring fenced pool of assets falls on the reinsurer. The investment return on the ring fenced assets included in investment return in the consolidated income statement is equal to these expenses under arrangements with reinsurers.

(d) Insurance and participating investment contract liabilities

	2017 £m	2016 £m
Non-participating insurance contract liabilities	**22,740**	23,422
Participating contract liabilities:		
Participating insurance contract liabilities	**14,659**	15,151
Participating investment contract liabilities	**15,313**	15,537
Unallocated divisible surplus	**675**	585
Participating contract liabilities	**30,647**	31,273

Non-participating insurance contract liabilities includes UK immediate annuities of £12,667m (2016: £13,532m) and UK deferred annuities of £1,289m (2016: £1,415m).

(e) Change in liabilities and reinsurance contracts

The movement in insurance contract liabilities, participating investment contract liabilities and reinsurance contracts during the year was as follows:

2017	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contract liabilities £m	Reinsurance contracts £m	Net £m
At 1 January	**15,151**	**23,422**	**15,537**	**54,110**	**(5,386)**	**48,724**
Reclassified as held for sale during the year	–	(550)	–	(550)	7	**(543)**
Change in contract liabilities recognised in the consolidated income statement						
Expected change	(896)	(898)	(1,034)	(2,828)	397	**(2,431)**
Methodology/modelling changes	(58)	10	51	3	–	**3**
Effect of changes in						
Economic assumptions	(37)	(81)	79	(39)	8	**(31)**
Non-economic assumptions	(66)	(235)	6	(295)	154	**(141)**
Effect of						
Economic experience	126	532	573	1,231	3	**1,234**
Non-economic experience	15	(381)	39	(327)	6	**(321)**
New business	–	878	33	911	–	**911**
Total change in contract liabilities recognised in the consolidated income statement[1]	**(916)**	**(175)**	**(253)**	**(1,344)**	**568**	**(776)**
Foreign exchange adjustment	424	43	29	496	–	**496**
At 31 December	**14,659**	**22,740**	**15,313**	**52,712**	**(4,811)**	**47,901**

1 Total change in contract liabilities recognised in the consolidated income statement in the table above excludes (£100m) (2016 £nil) and £7m (2016: £nil) of insurance and participating contract liabilities and reinsurance contracts respectively relating to assets and liabilities held for sale.

Due to changes in economic and non-economic factors, certain assumptions used in estimating insurance and investment contract liabilities have been revised. Therefore, the change in liabilities reflects actual performance over the period, changes in assumptions and, to a limited extent, improvements in modelling techniques.

Economic assumptions reflect changes in fixed income yields, leading to small changes in valuation interest rates for non-participating business, and other market movements.

Economic assumptions also include the effect of changes in the inflation scenarios that are used to value inflation linked annuities. This change has resulted in a decrease in non-participating insurance contract liabilities, predominantly offset by an increase in participating liabilities.

Non–economic assumptions decrease net of reinsurance of £141m includes a decrease of £51m which is primarily in respect of changes in the best estimate non-economic assumptions used in calculating the value of future transfers to equity holders in respect of participating business in the HWPF. Non-economic assumptions also includes a decrease of £90m (net of reinsurance) in respect of non-participating business, which primarily relates to changes in mortality assumptions.

2016	Participating insurance contract liabilities £m	Non-participating insurance contract liabilities £m	Participating investment contract liabilities £m	Total insurance and participating contracts £m	Reinsurance contracts £m	Net £m
At 1 January	**14,283**	**21,206**	**14,716**	**50,205**	**(5,515)**	**44,690**
Expected change	(1,335)	(662)	(881)	(2,878)	374	**(2,504)**
Methodology/modelling changes	(45)	1	3	(41)	53	**12**
Effect of changes in						
Economic assumptions	(465)	1,901	194	1,630	(384)	**1,246**
Non-economic assumptions	(23)	(104)	47	(80)	50	**(30)**
Effect of						
Economic experience	1,193	413	1,426	3,032	41	**3,073**
Non-economic experience	88	(358)	(106)	(376)	6	**(370)**
New business	–	794	34	828	–	**828**
Total change in contract liabilities	**(587)**	**1,985**	**717**	**2,115**	**140**	**2,255**
Foreign exchange adjustment	1,455	231	104	1,790	(11)	**1,779**
At 31 December	**15,151**	**23,422**	**15,537**	**54,110**	**(5,386)**	**48,724**

(f) Movement in components of unallocated divisible surplus (UDS)

The movement in UDS was as follows:

	2017 £m	2016 £m
At 1 January	**585**	655
Change in UDS recognised in the consolidated income statement	**140**	53
Change in UDS recognised in other comprehensive income	**(12)**	67
Foreign exchange adjustment	**(38)**	(190)
At 31 December	**675**	585

(g) Expected settlement and recovery

An indication of the term to contracted maturity/repricing date for insurance and investment contract liabilities is given in Note 39. Reinsurance contracts are generally structured to match liabilities on a class of business basis. This has a mixture of terms. The reinsurance assets are therefore broadly expected to be realised in line with the settlement of liabilities (as per the terms of the particular treaty) within a reinsured class of business.

Estimates and assumptions

The determination of the valuation interest rates and longevity assumptions are key accounting estimates for UK immediate and UK deferred annuity non-participating insurance contracts.

For non-participating insurance contracts, the assumptions used to determine the liabilities are updated at each reporting date to reflect recent experience. Material judgement is required in calculating these liabilities and, in particular, in the choice of assumptions about which there is uncertainty over future experience. These assumptions are determined as appropriate estimates at the date of valuation. The basis is considered prudent in each aspect. In particular, options and guarantees have been provided for on prudent bases.

The principal assumptions for the main UK non-participating insurance contracts are as follows:

Valuation interest rates

The valuation interest rates used are determined in accordance with the Prudential Regulation Authority's Integrated Prudential Sourcebook that existed at 31 December 2015. The process used to determine the valuation interest rates used in the calculation of the liabilities comprises three stages: determining the current yield on the assets held after allowing for risk and tax, hypothecating the assets to various types of policy and determining the discount rates from the hypothecated assets.

For corporate bonds, a deduction is made for the risk of default which varies by the quality of asset and the credit spread at the valuation date. The yield for each category of asset is taken as the average adjusted yield weighted by the market value of each asset in that category except for UK and Ireland annuity business and Germany non-participating insurance business within the PBF where the internal rate of return of the assets backing the liabilities is used.

The valuation interest rates used are:

Non-participating	2017	2016
1. Business held within the PBF		
Annuities: Individual and group		
Life	**1.96%**	2.06%
Pensions	**1.96%**	2.06%
Linked to RPI	**(1.53%)**	(1.55%)
2. Business held within the HWPF		
Annuities: Individual and group		
Non-linked		
Life	**0.45%**	0.20%
Pensions: reinsured externally	**1.50%**	1.55%
Pensions: not reinsured externally	**1.15%**	1.15%
Deferred annuities	**1.15%**	1.15%
Linked to RPI		
Reinsured externally	**(1.50%)**	(1.85%)
Not reinsured externally	**(2.00%)**	(2.10%)
Deferred annuities	**(2.00%)**	(2.10%)

Longevity assumptions

The future mortality assumptions are based on historical experience, with an allowance for future mortality improvement in annuities. The Group's own mortality experience is regularly assessed and analysed, and the larger industry-wide investigations are also taken into account.

Mortality tables used	2017	2016
Annuities		
Individual and group in deferment	**Males: 62.6% AMC00**	Males: 64.7% AMC00
	Females: 64.2% AFC00	Females: 65.7% AFC00
Individual after vesting (business written after 10 July 2006)	**Males: 95.3% RMC00**	Males: 91.2% RMC00
	Females: 99.3% RFC00	Females: 99.9% RFC00
Individual after vesting (business written prior to 10 July 2006)	**Males: 100.1% RMC00**	Males: 95.7% RMC00
	Females: 105.5% RFC00	Females: 104.7% RFC00
Group after vesting (business written after 10 July 2006)	**Males: 113.0% RMV00**	Males: 109.8% RMV00
	Females: 117.5% WA00	Females: 118.3% WA00
Group after vesting (business written prior to 10 July 2006)	**Males: 112.5% RMV00**	Males: 109.3% RMV00
	Females: 120.1% WA00	Females: 120.1% WA00

In the valuation of the liabilities in respect of annuities and deferred annuities issued in the UK, allowance is made for future improvements in the rates of mortality. For 2017, this is based on the Standard Life Assurance Limited (SLAL) parameterisation of the CMI_2015 model with long-term improvement rates of 2.0% for males and 1.7% for females. The Continuous Mortality Investigation Bureau (CMI) is a body funded by the UK insurance and reinsurance industry that produce industry standard mortality tables and projection bases for mortality improvements. CMI_2015 is a model that was published towards the end of 2015.

At 2016, this was based on the SLAL parameterisation of the CMI_2014 model with long-term improvement rates of 1.8% for males and 1.5% for females. CMI_2014 is a model that was published towards the end of 2014.

The SLAL parameterisation of the CMI_2015 and CMI_2014 models make the following changes relative to the 'core' model:

- Blends period improvements between ages 60 to 80 to the long-term improvement rate over a 15-year period (compared with a 20-year period in the core CMI model)
- Assumes that cohort improvements dissipate over a 30-year period, or by age 90 if earlier (compared with a 40-year period, or by age 100 if earlier, in the core CMI model)
- For contingent spouses' benefits an assumption is also made with regard to the proportions married, based on SLAL's historic experience

In addition the SLAL parameterisation of the CMI_2015 model makes the following change relative to the 'core' model:

- Tapers long-term improvements rates to 1.25% at age 100+ from age 82 (compared with tapering to 0% at age 110 over a 25-year period, in the core CMI model)

Other assumptions

Expenses

The assumptions for future policy expense levels are determined from the Group's recent expense analyses. No allowance has been made for potential expense improvement and the costs of projects to improve expense efficiency have been ignored. The assumed future expense levels incorporate an annual inflation rate allowance of 3.65% (2016: 3.79%) for UK business derived from the expected RPI implied by current investment yields and an additional allowance for earnings inflation.

For non-participating immediate and deferred annuity contracts, an explicit allowance for maintenance expenses is included in the liabilities. An allowance for investment expenses is reflected in the valuation rate of interest.

In calculating the liabilities for unitised regular premium non-participating insurance contracts, the administration expenses are assumed to be identical to the expense charges made against each policy. Similar assumptions are made, where applicable, in respect of mortality, morbidity and the risk benefit charges made to meet such costs.

Withdrawals

For non-participating insurance business appropriate allowances are made for withdrawals on certain term assurance contracts.

Ireland

The assumptions for business in Ireland are derived in a similar manner to those above.

Sensitivity analysis

Refer Note 39 for sensitivity analysis for the shareholder business.

32. Non-participating investment contracts

Unit linked non-participating investment contracts are separated into two components being an investment management services component and a financial liability. All fees and related administrative expenses are deemed to be associated with the investment management services component (refer Note 5, Note 15 and Note 36). The financial liability component is designated at FVTPL as it is implicitly managed on a fair value basis as its value is directly linked to the market value of the underlying portfolio of assets.

Contributions received on non-participating investment contracts are treated as policyholder deposits and not reported as revenue in the consolidated income statement.

Withdrawals paid out to policyholders on non-participating investment contracts are treated as a reduction to policyholder deposits and not recognised as expenses in the consolidated income statement.

Investment return and related benefits credited in respect of non-participating investment contracts are recognised in the consolidated income statement as changes in investment contract liabilities.

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The change in non-participating investment contract liabilities was as follows:

	Notes	2017 £m	2016 £m
At 1 January		**102,063**	92,894
Reclassified as held for sale during the year		**(68)**	–
Acquired through business combinations		**1,411**	–
Contributions		**9,579**	10,776
Account balances paid on surrender and other terminations in the year		**(15,903)**	(10,737)
Change in non-participating investment contract liabilities recognised in the consolidated income statement[1]		**8,954**	8,768
Recurring management charges		**(490)**	(473)
Foreign exchange adjustment		**223**	835
At 31 December	33	**105,769**	102,063

1 Change in non-participating investment contract liabilities recognised in the consolidated income statement in the table above excludes £9m (2016 £nil) in relation to non-participating investment contract liabilities classified as held for sale.

33. Financial liabilities

Management determines the classification of financial liabilities at initial recognition. The majority of the Group's financial liabilities are designated as fair value through profit or loss (FVTPL). The methods and assumptions used to determine fair value of financial liabilities designated at FVTPL are discussed in Note 41. Financial liabilities which are not derivatives and not FVTPL are financial liabilities measured at amortised cost.

2017	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Cash flow hedge £m	Financial liabilities measured at amortised cost £m	Total £m
Non-participating investment contract liabilities	39	105,765	–	–	4	**105,769**
Deposits received from reinsurers	39	–	–	–	4,633	**4,633**
Third party interest in consolidated funds	39	16,457	–	–	–	**16,457**
Subordinated liabilities	34	–	–	–	2,253	**2,253**
Derivative financial liabilities	21	–	780	33	–	**813**
Other financial liabilities	37	25	–	–	3,871	**3,896**
Total		**122,247**	**780**	**33**	**10,761**	**133,821**

2016	Notes	Designated as at fair value through profit or loss £m	Held for trading £m	Financial liabilities measured at amortised cost £m	Total £m
Non-participating investment contract liabilities	39	102,059	–	4	**102,063**
Deposits received from reinsurers	39	–	–	5,093	**5,093**
Third party interest in consolidated funds	39	16,835	–	–	**16,835**
Subordinated liabilities	34	–	–	1,319	**1,319**
Derivative financial liabilities	21	–	965	–	**965**
Other financial liabilities	37	15	–	3,901	**3,916**
Total		**118,909**	**965**	**10,317**	**130,191**

34. Subordinated liabilities

Subordinated liabilities are debt instruments issued by the Company which rank below its other obligations in the event of liquidation but above the share capital. Classification of the Group's subordinated liabilities as liabilities on the consolidated statement of financial position is discussed further below. Subordinated liabilities are initially recognised at the value of proceeds received after deduction of issue expenses. Subsequent measurement is at amortised cost using the effective interest rate method.

		2017		2016	
	Notes	Principal amount	Carrying value	Principal amount	Carrying value
Capital notes					
7.0% US Dollar fixed rate perpetual		**$500m**	**£377m**	–	–
Subordinated notes					
4.25% US Dollar fixed rate due 30 June 2048		**$750m**	**£556m**	–	–
5.5% Sterling fixed rate due 4 December 2042		**£500m**	**£500m**	£500m	£499m
Subordinated guaranteed bonds					
6.75% Sterling fixed rate perpetual		**£500m**	**£502m**	£500m	£502m
Mutual Assurance Capital Securities					
6.546% Sterling fixed rate perpetual		**£300m**	**£318m**	£300m	£318m
Total subordinated liabilities	39		**£2,253m**		£1,319m

On 18 October 2017, the Company issued US Dollar subordinated notes with a principal amount of $750m. Further details are included in the table below.

The difference between the fair value and carrying value of the subordinated liabilities is presented in Note 41. A reconciliation of movements in subordinated liabilities in the year is provided in Note 42.

The US$500m capital notes will be redeemed on 1 March 2018. The principal amount of all other subordinated liabilities is expected to be settled after more than 12 months and accrued interest of £44m (2016: £37m) is expected to be settled within 12 months.

Amounts due under the perpetual subordinated guaranteed bonds and Mutual Assurance Capital Securities (MACS) are classified as liabilities. This classification is determined by the interaction of these arrangements with a £100 internal subordinated loan note issued by Standard Life Assurance Limited (SLAL) to the Company on 10 July 2006. There is no fixed redemption date for the internal loan note, but interest payments cannot be deferred and must be paid on the date they become due and payable. Under the terms for the subordinated guaranteed bonds and MACS any interest deferred on these instruments becomes immediately due and payable on the date of an interest payment in respect of the internal loan note. The existence of the internal loan note therefore removes the discretionary nature of the interest payments on the subordinated guaranteed bonds and MACS, and results in their classification as liabilities. Under IAS 32 *Financial Instruments: Presentation*, if the Group were to cancel the internal loan note then this would result in the reclassification of these perpetual instruments from liabilities to equity instruments at that point.

A description of the key features of the Group's subordinated liabilities is as follows:

	4.25% US Dollar fixed rate[1]	5.5% Sterling fixed rate	6.75% Sterling fixed rate	6.546% Sterling fixed rate
Principal amount	$750,000,000	£500,000,000	£500,000,000	£300,000,000
Issue date	18 October 2017	4 December 2012	12 July 2002	4 November 2004
Maturity date	30 June 2048	4 December 2042	Perpetual	Perpetual
Callable at par at option of the Company from	30 June 2028 and on every interest payment date (semi-annually) thereafter	4 December 2022 and on every interest payment date (semi-annually) thereafter	12 July 2027 and on every fifth anniversary thereafter	6 January 2020 and on every anniversary thereafter
If not called by the Company interest will reset to	2.915% over the five-year Treasury rate (and at each fifth anniversary)	4.85% over the five-year gilt rate (and at each fifth anniversary)	2.85% over the gross redemption yield on the appropriate five-year benchmark gilt rate	2.7% over the gross redemption yield on the appropriate one-year benchmark gilt rate
Solvency II own funds treatment	Tier 2	Tier 2	Tier 1	Tier 1

1 The cash flows arising from the US dollar subordinated notes give rise to foreign exchange exposure which the Group manages with a cross-currency swap designated as a cash flow hedge. Refer Note 21 for further details.

In addition to the subordinated liabilities included in the key features table above, 7% US Dollar fixed rate perpetual capital notes with a principal amount of $500m were reclassified from equity during the year ended 31 December 2017, these instruments will be redeemed on 1 March 2018. Refer Note 30 for further details. Following the irrevocable notification to redeem these instruments, they no longer qualify as Tier 2 capital within the Group's Solvency II own funds.

35. Pension and other post-retirement benefit provisions

The Group operates two types of pension plans:

- Defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules. All of the Group's defined benefit plans, with the exception of a small plan in Ireland are closed to future service accrual.
- Defined contribution plans where the Group makes contributions to a member's pension plan but has no further payment obligations once the contributions have been paid

The Group's liabilities in relation to its defined benefit plans are valued by at least annual actuarial calculations. The Group has funded these liabilities in relation to its UK and Ireland defined benefit plans by ring-fencing assets in trustee-administered funds. The Group has further smaller defined benefit plans some of which are unfunded.

The statement of financial position reflects a net asset or net liability for each defined benefit pension plan. The liability recognised is the present value of the defined benefit obligation (estimated future cash flows are discounted using the yields on high quality corporate bonds) less the fair value of plan assets, if any. If the fair value of the plan assets exceeds the defined benefit obligation, a pension surplus is only recognised if the Group considers that it has an unconditional right to a refund of the surplus from the plan. The amount of surplus recognised will be limited by tax and expenses. Our judgement is that, in the UK, an authorised surplus tax charge is not an income tax. Consequently, the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

For the principal defined benefit plan (UK Standard Life Group plan), the Group considers that it has an unconditional right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan trustees can purchase annuities to insure member benefits and can, for the majority of benefits, transfer these annuities to members. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

Net interest income (if a plan is in surplus) or interest expense (if a plan is in deficit) is calculated using yields on high quality corporate bonds and recognised in the consolidated income statement. A current service cost is also recognised which represents the expected present value of the defined benefit pension entitlement earned by members in the period.

Remeasurements, which include gains and losses as a result of changes in actuarial assumptions, the effect of the limit on the plan surplus and returns on plan assets (other than amounts included in net interest) are recognised in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

For defined contribution plans, the Group pays contributions to separately administered pension plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in current service cost in the consolidated income statement as staff costs and other employee-related costs when they are due.

Defined contribution plans

The defined contribution plans comprise a mixture of arrangements depending on the employing entity and other factors. Some of these plans are located within the same legal vehicles as defined benefit plans. The Group contributes a percentage of pensionable salary to each employee's plan. The contribution levels vary by employing entity and other factors.

Defined benefit plans

UK plans

These plans are governed by trustee boards, which comprise employer and employee nominated trustees and an independent trustee. The plans are subject to the statutory funding objective requirements of the Pensions Act 2004, which require that plans be funded to at least the level of their technical provisions (an actuarial estimate of the assets needed to provide for benefits already built-up under the plan). The trustees perform regular valuations to check that the plans meet the statutory funding objective.

While the IAS 19 valuation reflects a best estimate of the financial position of the plan, the funding valuation reflects a prudent estimate. There is no material difference in how assets are measured. The funding measure of liabilities ('technical provisions') and the IAS 19 measure are materially different. The key differences are the discount rate and inflation assumptions. While IAS 19 requires that the discount rate reflect corporate bond yields, the funding measure discount rate reflects a prudent estimate of future investment returns based on the actual investment strategy. The funding valuation adopts a market consistent measure of inflation without any adjustment. The IAS 19 assumption incorporates an adjustment to remove the inflation risk premium believed to exist within market prices.

The trustees set the plan investment strategy to protect the ratio of plan assets to the trustees' measure of technical provisions. This investment strategy does not aim to protect the IAS 19 surplus or the ratio of plan assets to the IAS 19 measure of liabilities.

After consulting the relevant employers, the trustees prepare statements of funding and investment principles and set a schedule of contributions. If necessary, this schedule includes a recovery plan that aims to restore the funding level to the level of the technical provisions.

UK Standard Life Group plan (principal plan)	This is the Group's principal defined benefit plan. The plan closed to new membership in 2004 and changed from a final salary basis to a revalued career average salary basis in 2008. Accrual ceased in April 2016. The funding of the plan depends on the statutory valuation performed by the trustees, and the relevant employers, with the assistance of the scheme actuary – i.e. not the IAS 19 valuation. The funding valuation was last completed as at 31 December 2016, and measured plan assets and liabilities to be £4.9bn and £4.2bn respectively. This corresponds to a surplus of £0.7bn and funding level of 117%. As there is currently no deficit, no recovery plan is required.
Other UK plans	The Group also operates two UK defined benefit plans as a result of the merger with Aberdeen. These plans are final salary based, with benefits depending on members' length of service and salary prior to retirement. These plans are currently in deficit and the Group has agreed funding plans, which aim to eliminate the current deficits, with the plans' trustees.
Other plans	
Ireland Standard Life plan	In December 2009 this plan closed to new membership and changed from a final salary basis to a career average revalued earnings (CARE) basis. At the last trustee valuation, effective 1 January 2016, the plan was 70% funded on an ongoing basis.
Other	The Group operates smaller funded and unfunded defined benefit plans in other countries.

Plan regulations

The plans are administered according to local laws and regulations in each country. Responsibility for the governance of the plans rests with the relevant trustee boards (or equivalent).

(a) Analysis of amounts recognised in the consolidated income statement

The amounts recognised in the consolidated income statement for defined contribution and defined benefit plans are as follows:

	Notes	2017 £m	2016 £m
Current service cost		**(60)**	(49)
Net interest income		**28**	33
Administrative expenses		**(3)**	(3)
Expense recognised in the consolidated income statement	7	**(35)**	(19)

Contributions made to defined contribution plans are included within current service cost, with the balance attributed to the Group's defined benefit plans.

Contributions to defined benefit plans in the year ended 31 December 2017 were £12m (2016: £4m). Expected contributions to defined benefit plans in 2018 are £15m and are not expected to materially change over the next 3-5 years. These include £7m in 2017 and £11m contributions expected in 2018 to Aberdeen UK plans in respect of deficit funding agreed with the trustees. The current deficit on these plans is £18m.

During 2015 the terms of a plan amendment to the principal UK defined benefit plan were agreed which resulted in closure to future accrual from April 2016. This plan amendment did not generate a past service cost. Eligible members of the defined benefit plan received an additional contribution of 6% of pensionable salary into the defined contribution plan in April 2016. These contributions were accrued over the vesting period and are included in current service cost and in the cost of defined contribution plans in Note 7 for the year ended 31 December 2016.

(b) Analysis of amounts recognised in the consolidated statement of financial position

	2017			2016		
	Principal plan £m	Other £m	Total £m	Principal plan £m	Other £m	Total £m
Present value of funded obligation	**(2,839)**	**(345)**	**(3,184)**	(3,207)	(117)	(3,324)
Present value of unfunded obligation	**–**	**(9)**	**(9)**	–	(10)	(10)
Fair value of plan assets	**4,530**	**276**	**4,806**	4,927	72	4,999
Effect of limit on plan surplus	**(592)**	**–**	**(592)**	(627)	–	(627)
Net asset/(liability)	**1,099**	**(78)**	**1,021**	1,093	(55)	1,038

The principal plan surplus is considered to be recoverable as a right to a refund exists. The surplus has been reduced to reflect an authorised surplus payments charge that would arise on a refund.

(c) Movement in the net defined benefit asset

2017	Present value of obligation £m	Fair value of plan assets £m	Total £m	Effect of limit on plan surpluses £m	Total £m
At 1 January	**(3,334)**	**4,999**	**1,665**	**(627)**	**1,038**
Acquired through business combinations	(221)	191	(30)	–	**(30)**
Total expense					
Current service cost	(3)	–	(3)	–	**(3)**
Interest (expense)/income	(84)	128	44	(16)	**28**
Administrative expenses	(3)	–	(3)	–	**(3)**
Total (expense)/income recognised in consolidated income statement	**(90)**	**128**	**38**	**(16)**	**22**
Remeasurements					
Return on plan assets, excluding amounts included in interest income	–	69	69	–	**69**
Loss from change in demographic assumptions	(111)	–	(111)	–	**(111)**
Loss from change in financial assumptions	(37)	–	(37)	–	**(37)**
Experience gains	10	–	10	–	**10**
Change in effect of limit on plan surplus	–	–	–	51	**51**
Remeasurement (losses)/gains recognised in other comprehensive income	**(138)**	**69**	**(69)**	**51**	**(18)**
Exchange differences	(5)	2	(3)	–	**(3)**
Employer contributions	–	12	12	–	**12**
Benefit payments	595	(595)	–	–	**–**
At 31 December	**(3,193)**	**4,806**	**1,613**	**(592)**	**1,021**

2016	Present value of obligation £m	Fair value of plan assets £m	Total £m	Effect of limit on plan surpluses £m	Total £m
At 1 January	**(2,618)**	**3,996**	**1,378**	**(514)**	**864**
Total expense					
Current service cost	(16)	–	(16)	–	**(16)**
Interest (expense)/income	(93)	144	51	(18)	**33**
Administrative expenses	(3)	–	(3)	–	**(3)**
Total (expense)/income recognised in consolidated income statement	**(112)**	**144**	**32**	**(18)**	**14**
Remeasurements					
Return on plan assets, excluding amounts included in interest income	–	1,036	1,036	–	**1,036**
Gain from change in demographic assumptions	–	–	–	–	**–**
Loss from change in financial assumptions	(812)	–	(812)	–	**(812)**
Experience gains	33	–	33	–	**33**
Change in effect of limit on plan surplus	–	–	–	(95)	**(95)**
Remeasurement (losses)/gains recognised in other comprehensive income	**(779)**	**1,036**	**257**	**(95)**	**162**
Exchange differences	(15)	9	(6)	–	**(6)**
Employer contributions	–	4	4	–	**4**
Benefit payments	190	(190)	–	–	**–**
At 31 December	**(3,334)**	**4,999**	**1,665**	**(627)**	**1,038**

(d) Defined benefit plan assets

Investment strategy is directed by the trustee boards (where relevant) who pursue different strategies according to the characteristics and maturity profile of each plan's liabilities. Assets and liabilities are managed holistically to create a portfolio with the dual objectives of return generation and liability management. In the principal plan this is achieved through a diversified multi-asset absolute return strategy seeking consistent positive returns, and hedging techniques which protect liabilities against movements arising from changes in interest rates and inflation expectations. Derivative financial instruments support both of these objectives and may lead to increased or decreased exposures to the physical asset categories disclosed below.

To provide more information on the approach used to determine and measure the fair value of the plan assets, the fair value hierarchy has been used as defined in Note 41. Those assets which cannot be classified as level 1 have been presented together as level 2 or 3.

The distribution of the fair value of the assets of the Group's funded defined benefit plans is as follows:

	Principal plan		Other		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Assets measured at fair value based on level 1 inputs						
Derivatives	**33**	16	**1**	–	**34**	16
Equity securities	**–**	112	**–**	–	**–**	112
Interests in pooled investment funds						
Debt	**372**	372	**–**	–	**372**	372
Equity	**–**	93	**29**	–	**29**	93
Property	**62**	57	**20**	–	**82**	57
Absolute return	**64**	62	**102**	54	**166**	116
Cash	**339**	286	**–**	–	**339**	286
Debt securities	**2,841**	3,357	**32**	–	**2,873**	3,357
Total assets measured at fair value based on level 1 inputs	**3,711**	4,355	**184**	54	**3,895**	4,409
Assets measured at fair value based on level 2 or 3 inputs						
Derivatives	**334**	324	**–**	–	**334**	324
Equity securities	**197**	163	**–**	–	**197**	163
Interests in pooled investment funds						
Debt	**100**	–	**–**	–	**100**	–
Debt securities	**76**	190	**–**	–	**76**	190
Qualifying insurance policies	**5**	5	**75**	–	**80**	5
Total assets measured at fair value based on level 2 or 3 inputs	**712**	682	**75**	–	**787**	682
Cash and cash equivalents	**446**	186	**17**	18	**463**	204
Liability in respect of collateral held	**(339)**	(292)	**–**	–	**(339)**	(292)
Other	**–**	(4)	**–**	–	**–**	(4)
Total	**4,530**	4,927	**276**	72	**4,806**	4,999

Further information on risks is provided in Section (g) of this note. The £2,949m (2016: £3,547m) of debt securities includes £2,858m (2016: £3,357m) government bonds (including conventional and index-linked). Of the remaining £91m (2016: £190m) debt securities, £75m (2016: £169m) are investment grade corporate bonds or certificates of deposit.

In 2015, the trustees of one of the Aberdeen UK plans purchased an insurance policy to protect the plan against future investment and actuarial risks. The £75m (2016: £nil) qualifying insurance asset has been calculated by valuing the estimated benefits that will be paid by the insurer using the reporting date IAS 19 assumptions and the same approach used to value the year end liabilities. The other Aberdeen UK plan has a contract in place to hedge longevity risk for pensioners. The fair value of this derivative is £nil at 31 December 2017.

(e) Estimates and assumptions

Determination of the valuation of principal plan liabilities is a key estimate as a result of the assumptions made relating to both economic and non-economic factors.

The key economic assumptions for the principal plan which are based in part on current market conditions are shown below:

	2017 %	2016 %
Discount rate	**2.60**	2.70
Rates of inflation		
Consumer Price Index (CPI)	**2.20**	2.25
Retail Price Index (RPI)	**3.20**	3.25

The changes in economic assumptions over the period reflect small changes in both corporate bond prices and market implied inflation.

The most significant non-economic assumption for the principal plan is post-retirement longevity which is inherently uncertain. The assumptions (along with sample expectations of life) are illustrated below:

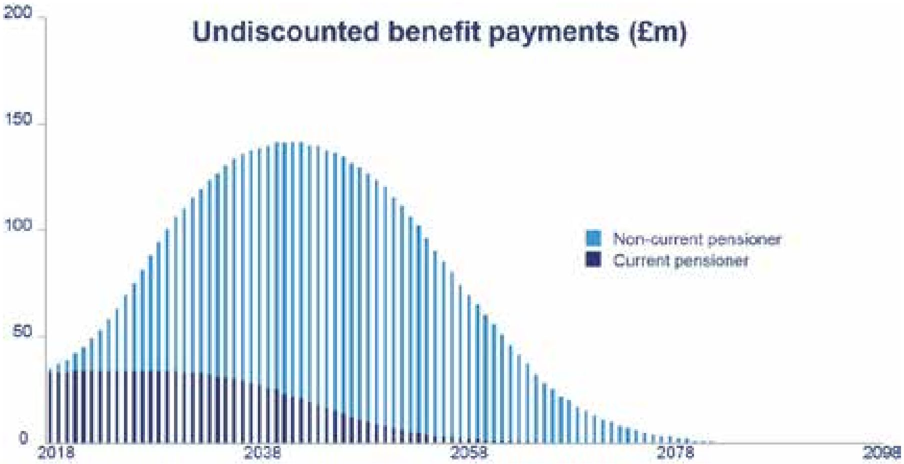
				Expectation of life from NRA			
			Normal Retirement	Male age today		Female age today	
2017	**Table**	**Improvements**	**Age (NRA)**	**NRA**	**40**	**NRA**	**40**
	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2013 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%	60	30	32	31	34

				Expectation of life from NRA			
			Normal Retirement	Male age today		Female age today	
2016	**Table**	**Improvements**	**Age (NRA)**	**NRA**	**40**	**NRA**	**40**
	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2011 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%	60	30	32	32	34

The change in longevity assumptions over the period reflects the assumptions that have been agreed with the trustees for the 2016 triennial funding valuation. These assumptions reflect a cautious allowance for the recently observed slowdown in longevity improvements.

(f) Duration of defined benefit obligation

The graph below provides an illustration of the undiscounted expected benefit payments included in the valuation of the principal plan obligations.



Weighted average duration	2017 years	2016 years[1]
Current pensioner	**15**	15
Non-current pensioner	**29**	29

[1] Restated due to updated methodology.

(g) Risk

(g)(i) Risks and mitigating actions

The Group's consolidated statement of financial position is exposed to movements in the defined benefit plans' net asset. In particular, the consolidated statement of financial position could be materially sensitive to reasonably likely movements in the principal assumptions for the principal plan. By offering post-retirement defined benefit pension plans the Group is exposed to a number of risks. An explanation of the key risks and mitigating actions in place for the principal plan is given below.

Asset volatility

Investment strategy risks include underperformance of the absolute return strategy and underperformance of the liability hedging strategy. As the trustees set investment strategy to protect their own view of plan strength (not the IAS 19 position), changes in the IAS 19 liabilities (e.g. due to movements in corporate bond prices) may not always result in a similar movement in plan assets.

Failure of the asset strategy to keep pace with changes in plan liabilities would expose the plan to the risk of a deficit developing, which could increase funding requirements for the Group.

Yields/discount rate

Falls in yields would in isolation be expected to increase the defined benefit plan liabilities.

The principal plan uses both bonds and derivatives to hedge out yield risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise the plan's need to rely on support from the Group.

Inflation

Rises in inflation expectations would in isolation be expected to increase the defined benefit plan liabilities.

The principal plan uses both bonds and derivatives to hedge out inflation risks on the plan's funding basis, rather than the IAS 19 basis, which is expected to minimise the plan's need to rely on support from the Group.

In the principal plan pensions in payment are generally linked to CPI, however inflationary risks are hedged using RPI instruments due to lack of availability of CPI linked instruments. Therefore, the plan is exposed to movements in the actual and expected long-term gap between RPI and CPI.

Life expectancy

Increases in life expectancy beyond those currently assumed will lead to an increase in plan liabilities. Regular reviews of longevity assumptions are performed to ensure assumptions remain appropriate.

(g)(ii) Sensitivity to key assumptions

The sensitivity of the principal plan's obligation and assets to the key assumptions is disclosed below.

	Change in assumption	2017 (Increase)/decrease in present value of obligation £m	2017 Increase/(decrease) in fair value of plan assets £m	2016 (Increase)/decrease in present value of obligation £m	2016 Increase/(decrease) in fair value of plan assets £m
Yield/discount rate	Decrease by 1% (i.e. from 2.60% to 1.60%)	**(1,018)**	**1,634**	(1,040)	1,768
	Increase by 1%	**727**	**(1,144)**	739	(1,226)
Rates of inflation	Decrease by 1%	**624**	**(987)**	629	(1,089)
	Increase by 1%	**(883)**	**1,395**	(912)	1,553
Life expectancy	Decrease by 1 year	**79**	**–**	101	–
	Increase by 1 year	**(78)**	**–**	(101)	–

36. Deferred income

Where the Group receives fees in advance (front-end fees) for services it is providing, including investment management services, these fees are initially recognised as a deferred income liability and released to the consolidated income statement on a straight line basis over the period services are provided.

	Notes	2017 £m	2016 £m
At 1 January		**198**	236
Reclassified as held for sale during the year		**(2)**	–
Additions during the year	5	**11**	15
Amortised to the consolidated income statement as fee income	5	**(52)**	(61)
Foreign exchange adjustment		**2**	8
At 31 December		**157**	198

The amount of deferred income expected to be settled after more than 12 months is £115m (2016: £148m).

37. Other financial liabilities

	Notes	2017 £m	2016 £m
Amounts payable on direct insurance business		**318**	368
Amounts payable on reinsurance contracts		**5**	6
Outstanding purchases of investment securities		**194**	300
Accruals		**576**	379
Creation of units awaiting settlement		**205**	251
Cash collateral held in respect of derivative contracts	39	**1,501**	2,016
Bank overdrafts	25	**542**	38
Property related liabilities		**198**	246
Contingent consideration liabilities	41	**25**	15
Other		**332**	297
Other financial liabilities		**3,896**	3,916

The amount of other financial liabilities expected to be settled after more than 12 months is £141m (2016: £211m).

38. Provisions and other liabilities

Provisions are obligations of the Group which are of uncertain timing or amount. They are recognised when the Group has a present obligation as a result of a past event, it is probable that a loss will be incurred in settling the obligation and a reliable estimate of the amount can be made.

(a) Provisions

The movement in provisions during the year is as follows:

2017	Provision for annuity sales practices £m	Legal provisions £m	Other provisions £m	Total provisions £m
At 1 January	175	16	36	**227**
Charged/(credited) to the consolidated income statement				
Additional provisions	100	–	58	**158**
Release of unused provision	–	–	(5)	**(5)**
Used during the year	(27)	(16)	(21)	**(64)**
Foreign exchange adjustment	–	–	–	**–**
At 31 December	**248**	**–**	**68**	**316**

2016	Provision for annuity sales practices £m	Legal provisions £m	Other provisions £m	Total provisions £m
At 1 January	–	14	34	**48**
Charged/(credited) to the consolidated income statement				
Additional provisions	175	–	18	**193**
Release of unused provision	–	(1)	(1)	**(2)**
Used during the year	–	–	(16)	**(16)**
Foreign exchange adjustment	–	3	1	**4**
At 31 December	**175**	**16**	**36**	**227**

Other provisions comprise obligations in respect of compensation, staff entitlements, vacant property and reorganisations.

The amount of provisions expected to be settled after more than 12 months is £102m (2016: £106m).

Annuity sales practices relating to enhanced annuities
The provision for annuity sales practices includes £229m (2016: £175m) in relation to enhanced annuities.

On 14 October 2016, the Financial Conduct Authority (FCA) published the findings of its thematic review of non-advised annuity sales practices. Standard Life Aberdeen has been a participant in that review. The FCA looked at whether firms provided sufficient information to their customers about their potential eligibility for enhanced annuities.

At the request of the FCA, Standard Life Aberdeen are conducting a review of non-advised annuity sales (with a purchase price above a minimum threshold) to customers eligible to receive an enhanced annuity from 1 July 2008 until 31 May 2016. The purpose of this review is to identify whether these customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and, where appropriate, provide redress to customers who have suffered loss as a result of not having received sufficient information. Standard Life Aberdeen has been working with the FCA regarding the process for conducting this past business review.

The Group has provided for an estimate of the redress payable to customers, which may comprise both lump sum payments and enhancements to future annuity payments, the costs of conducting the review and other related expenses.

The Group has in place liability insurance and is seeking for up to £100m of the financial impact of the provision to be mitigated by this insurance. Discussions are ongoing with our insurers and, as a result, no insurance recovery has been recognised as an asset in these financial statements.

The Group expects the majority of the outflows associated with this provision, including outflows relating to establishing any reserves for future annuity payments, to have occurred by mid 2019.

The Group has not provided for any possible FCA-levied financial penalty relating to the review. Disclosure of related contingent liabilities is included in Note 43.

Estimates and assumptions

The key assumptions underlying the provision for annuity sales practices relating to enhanced annuities are:

- The number of customers entitled to redress
- The amount of redress payable per customer
- The costs of conducting the review

The number of customers entitled to redress has been estimated based on:

- The number of customers in the review population
- The estimated percentage of these customers eligible for an enhanced annuity
- The estimated percentage of these eligible customers that did not receive sufficient information from Standard Life Aberdeen about enhanced annuities

The FCA thematic review noted that between 39% and 48% of customers who bought a standard annuity may potentially have been eligible for an enhanced annuity, and the provision assumes 43.5% of customers were eligible for an enhanced annuity.

The assumption of the percentage of eligible customers that did not receive sufficient information from Standard Life Aberdeen about enhanced annuities and suffered loss as a result is based on the sample of Standard Life Aberdeen customers reviewed to date.

The lost income for customers who were entitled to enhanced annuities, for an average purchase price of £25,000, is assumed to be £300 per annum. This assumption is based on sample testing using the redress calculator provided by the FCA in early 2018. This assumption is higher than the assumption of £180 per annum used at end 2016, which was based on the FCA thematic review and was prior to receiving the FCA redress calculator. This assumption change is the main reason for the increase in the provision compared to 2016.

Assumptions relating to future annuity payments are consistent with other annuity reserving assumptions.

The costs of conducting the review relate to administrative expenses per case and wider project costs. The costs are based on our project planning.

At this stage there is significant uncertainty relating to the amount of redress payable and the expenses of the review. Sensitivities are provided in the table below.

Assumption	Change in assumption	Consequential change in provision
Percentage of customers eligible for an enhanced annuity	Percentage changed by +/-4.5 (e.g. 43.5% increased to 48%)	+/- £17m
Percentage of eligible customers that did not receive sufficient information from Standard Life Aberdeen about enhanced annuities	Percentage changed by +/-5	+/- £12m
Lost income per annum for an average annuity purchase of £25,000	+/- £60	+/- £37m
Costs per case of conducting the review	+/- 20% of the cost per case	+/- £6m

(b) Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £nil (2016: £nil).

39. Risk management

(a) Overview

(a)(i) Application of the risk management framework

The Group's approach to effective risk management is predicated on strong risk awareness and risk accountability across all of our business. This approach aims to deliver long-term value for clients, customers and shareholders and protect their interests. The Group ensures that:

- Well informed risk-reward decisions are taken in pursuit of the business plan objectives
- Our fiduciary responsibilities are prioritised
- Capital is delivered to areas where most value can be created from the risks taken

The Group's risk framework operates through a well-embedded risk culture, effective risk control processes, robust risk governance, sound financial management and active monitoring of risks. The Enterprise Risk Management (ERM) framework enables a risk-based approach to managing the business and integrates concepts of strategic planning, operational management and internal control, and is set out in more detail in the Strategic report.

For the purposes of managing risks to the Group's financial assets and financial liabilities, the Group considers the following categories:

Risk	Definition
Market	The risk that arises from the Group's exposure to market movements which could result in the value of income, or the value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts.
Credit	The risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform those obligations in a timely manner.
Demographic	The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of future cash flows due to demographic experience differing from that expected. This class of risk includes risks that meet the definition of insurance risk under IFRS 4 *Insurance Contracts* and other financial risks.
Expense	The risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the company or an increase in expense inflation, either company specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profits.
Liquidity	The risk that the Group is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.
Operational	The risk of adverse consequences for the Group's business resulting from inadequate or failed internal processes, people or systems, or from external events. This includes conduct risk as defined below.
Conduct	The risk that through our behaviours, strategies, decisions and actions the Group delivers unfair outcomes to our customer/client and/or poor market conduct.
Regulatory & legal	The risk that arises from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.
Strategic	Risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances.

There are a range of sources of risk affecting these risk categories and the principal risks and uncertainties that affect the business model are set out in detail in the Risk management section of the Strategic report.

Risk segments

The assets and liabilities on the Group's consolidated statement of financial position can be split into four categories (risk segments) which give the shareholder different exposures to the risks listed previously. These categories are:

Shareholder business

Shareholder business refers to the assets and liabilities to which the shareholder is directly exposed. For the purposes of this note, the shareholder refers to the equity holders of the Company and the preference shareholders.

Participating business

Participating business refers to the assets and liabilities of the participating funds of the life operations of the Group. It includes the liabilities for insurance features and financial guarantees contained within contracts held in the HWPF that invest in unit linked funds. It does not include the liabilities for insurance features contained in contracts invested in the GWPF or GSMWPF. Such liabilities are included in shareholder business.

Unit linked funds

Unit linked funds refers to the assets and liabilities of the unit linked funds of the life operations of the Group. It does not include the cash flows (such as asset management charges or investment expenses) arising from the unit linked fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked fund contracts. Such cash flows and liabilities are included in shareholder business or participating business.

Third party interest in consolidated funds and non-controlling interests

Third party interest in consolidated funds and non-controlling interests refers to the assets and liabilities recorded on the Group's consolidated statement of financial position which belong to third parties. The Group controls the entities which own the assets and liabilities but the Group does not own 100% of the equity or units of the relevant entities.

The following table sets out the link between the reportable segments set out in Notes 2 and 3 and the risk segments.

	Risk segment		
Reportable segment	**Shareholder business**	**Participating business**	**Unit linked funds**[1]
Pensions and Savings	SLAL – SHF SLAL – PBF (excluding unit linked funds) SLS SLCM Vebnet Group SL Intl (excluding unit linked funds)	SLAL – HWPF SLAL – GWPF SLAL – GSMWPF SLAL – UKSMWPF	SLAL – PBF unit linked funds SL Intl unit linked funds
Aberdeen Standard Investments	SLIH and all its subsidiaries AAM and all its subsidiaries excluding AAMLP	n/a	AAMLP
India and China life	SL Asia (excluding unit linked funds) Interests in Indian and Chinese associates and joint ventures	n/a	SL Asia unit linked funds
Other	Company	n/a	n/a

SLAL = Standard Life Assurance Limited
SLIH = Standard Life Investments (Holdings) Limited
SL Intl = Standard Life International Designated Activity Company
SL Asia = Standard Life (Asia) Limited
SLS = Standard Life Savings Limited (including Elevate)
SLCM = Standard Life Client Management Limited
AAM = Aberdeen Asset Management PLC

HWPF = Heritage With Profits Fund
PBF = Proprietary Business Fund
GWPF = German With Profits Fund
GSMWPF = German Smoothed Managed With Profits Fund
SHF = Shareholder Fund
UKSMWPF = UK Smoothed Managed With Profits Fund
AAMLP = Aberdeen Asset Management Life and Pensions Limited

1 As discussed in Note 3 and above, unit linked funds does not include cash flows arising from unit linked fund contracts or the liabilities for insurance features or financial guarantees contained within the unit linked fund contracts. Such cash flows and liabilities are included in shareholder or participating business.

The table below sets out how the shareholder is exposed to market, credit, demographic and expense, and liquidity risk at the reporting date, arising from the assets and liabilities of the four risk segments:

Risk	Shareholder business	Participating business	Unit linked funds	Third party interest in consolidated funds and non-controlling interests (TPICF & NCI)
Market	The shareholder is directly exposed to the impact of movements in equity and property prices, interest rates and foreign exchange rates on the value of assets held by the shareholder business and the associated movements in the value of liabilities.	The shareholder is exposed to the market risk that the assets of the with profits funds are not sufficient to meet their obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are borne by the policyholder. The shareholder's exposure arises from the changes in the value of future fee based revenue earned on unit linked funds due to market movements.	The shareholder is not exposed to the market risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties.
Credit	The shareholder is directly exposed to credit risk from holding cash, debt securities, loans, derivative financial instruments and reinsurance assets and the associated movement in the value of liabilities.	The shareholder is exposed to the credit risk on the assets which could cause the with profits funds to have insufficient resources to meet their obligations. If this situation occurred the shareholder would be exposed to the full shortfall in the funds.	Assets are managed in accordance with the mandates of the particular funds and the financial risks associated with the assets are expected to be borne by the policyholder. The shareholder's exposure is limited to changes in the value of future fee based revenue earned on unit linked funds due to market movements.	The shareholder is not exposed to the credit risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties.
Demographic and expense	The shareholder is exposed to longevity and mortality risk on annuity contracts held by Pensions and Savings, and mortality risk on contracts held in non-participating funds by Pensions and Savings, and India and China life including those containing insurance features that are invested in unit linked funds or in the GWPF or GSMWPF. The shareholder is also exposed to expenses and persistency being different from expectation on these contracts.	The shareholder receives recourse cash flows and certain other defined payments in accordance with the Scheme of Demutualisation and other relevant agreements. The recourse cash flows are based on several different components of which some are sensitive to demographic and expense risk.	The shareholder is exposed to demographic and expense risk arising on components of a unit linked fund contract, but it is not the assets or liabilities of the fund which gives rise to this exposure.	TPICF & NCI are not exposed to demographic and expense risk.
Liquidity	The shareholder is directly exposed to the liquidity risk from the shareholder business if it is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost.	With profits funds are normally expected to meet their obligations through liquidating assets held in the respective with profits fund. If a with profits fund cannot meet its obligations as they fall due, the shareholder will be required to provide liquidity to meet the policyholder claims and benefits as they fall due.	Unit linked funds are normally expected to meet their obligations through liquidating the underlying assets in which they are invested. If a unit linked fund cannot meet its obligations in this way, the shareholder may be required to meet the obligations to the policyholder.	The shareholder is not exposed to the liquidity risk from these liabilities, since the financial risks of the obligations are borne by third parties.

The shareholder is exposed to operational, conduct, regulatory and legal, and strategic risks arising across the four risk segments and any losses incurred are typically borne by the shareholder.

The shareholder is also exposed to certain risks relating to defined benefit pension plans operated by the Group. These risks are explained in Note 35.

(a)(ii) Consolidated financial position by risk segment

The table that follows provides an analysis of the consolidated statement of financial position showing the Group's assets and liabilities by risk segment. This categorisation has been used to present the information in this note.

	Shareholder business		Participating business		Unit linked funds		TPICF & NCI[1]		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Intangible assets	4,514	572	–	–	–	–	–	–	4,514	572
Deferred acquisition costs	581	613	31	38	–	–	–	–	612	651
Investments in associates and joint ventures accounted for using the equity method	503	572	–	–	–	–	–	–	503	572
Investment property	–	–	1,480	1,716	5,721	5,727	2,548	2,486	9,749	9,929
Property, plant and equipment	67	31	30	30	49	28	–	–	146	89
Pension and other post-retirement benefit assets	1,099	1,093	–	–	–	–	–	–	1,099	1,093
Deferred tax assets	65	42	–	–	–	–	–	–	65	42
Reinsurance assets	44	50	4,767	5,336	–	–	–	–	4,811	5,386
Loans	–	52	80	134	11	102	–	7	91	295
Derivative financial assets	21	19	1,565	2,211	1,164	1,025	303	279	3,053	3,534
Equity securities and interests in pooled investment funds at FVTPL	331	88	10,327	9,325	80,099	73,057	8,263	8,213	99,020	90,683
Debt securities										
At FVTPL	7,781	7,763	26,107	28,193	22,191	25,885	4,630	5,471	60,709	67,312
At available-for-sale	856	621	–	–	–	–	–	–	856	621
Receivables and other financial assets	697	515	70	97	366	533	109	110	1,242	1,255
Current tax recoverable	36	15	12	15	135	128	9	8	192	166
Other assets	103	59	11	13	68	18	3	4	185	94
Assets held for sale	180	27	174	224	648	12	36	–	1,038	263
Cash and cash equivalents	2,433	963	1,581	1,336	5,037	4,636	1,175	1,003	10,226	7,938
Total assets	19,311	13,095	46,235	48,668	115,489	111,151	17,076	17,581	198,111	190,495
Non-participating insurance contract liabilities	6,068	6,192	8,878	9,796	7,794	7,434	–	–	22,740	23,422
Non-participating investment contract liabilities	4	4	–	–	105,765	102,059	–	–	105,769	102,063
Participating insurance contract liabilities	–	–	14,659	15,151	–	–	–	–	14,659	15,151
Participating investment contract liabilities	–	–	15,313	15,537	–	–	–	–	15,313	15,537
Unallocated divisible surplus	–	–	675	585	–	–	–	–	675	585
Deposits received from reinsurers	12	–	4,621	5,093	–	–	–	–	4,633	5,093
Third party interest in consolidated funds	–	–	–	–	–	–	16,457	16,835	16,457	16,835
Subordinated liabilities	2,253	1,319	–	–	–	–	–	–	2,253	1,319
Pension and other post-retirement benefit provisions	78	55	–	–	–	–	–	–	78	55
Deferred income	124	154	33	44	–	–	–	–	157	198
Deferred tax liabilities	221	124	59	65	87	70	–	–	367	259
Current tax liabilities	77	35	(3)	(9)	83	78	9	9	166	113
Derivative financial liabilities	46	12	64	39	556	714	147	200	813	965
Other financial liabilities	1,588	913	1,631	2,036	527	745	150	222	3,896	3,916
Provisions	295	225	21	2	–	–	–	–	316	227
Other liabilities	58	51	10	13	41	37	12	12	121	113
Liabilities of operations held for sale	59	–	–	–	641	–	6	–	706	–
Total liabilities	10,883	9,084	45,961	48,352	115,494	111,137	16,781	17,278	189,119	185,851
Net inter-segment assets/(liabilities)	275	336	(274)	(316)	5	(14)	(6)	(6)	–	–
Net assets[2]	8,703	4,347	–	–	–	–	289	297	8,992	4,644

1 Third party interest in consolidated funds and non-controlling interests.

2 Net assets of the shareholder business comprises equity attributable to equity holders of Standard Life Aberdeen plc of £8,604m and equity attributable to preference shareholders of £99m.

(b) Market risk

As described in the table on page 216, the shareholder is exposed to market risk from the shareholder and participating businesses and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder and participating businesses.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not exposed to market risks from these assets. The shareholder's exposure to market risk on these assets is limited to variations in the value of future fee based revenue earned on the contracts as fees are based on a percentage of the fund value. The sensitivity to market risk analysis includes the impact on those statement of financial position items which are affected by changes in future fee based revenue due to the market stresses changing the value of assets held by the unit linked funds. The shareholder is also not exposed to the market risk from the assets held by third party interest in consolidated funds and non-controlling interests and therefore they have been excluded from the following quantitative disclosures.

The Group manages market risks through the use of a number of controls and techniques including:

- Defined lists of permitted securities and/or application of investment constraints and portfolio limits
- Clearly defined investment benchmarks for policyholder and shareholder funds
- Stochastic and deterministic asset/liability modelling
- Active use of derivatives to improve the matching characteristics of assets and liabilities and to reduce the risk exposure of a portfolio
- Setting risk limits for main market risks and managing exposures against these appetites

The specific controls and techniques used to manage the market risks in the shareholder and participating businesses are discussed below:

Shareholder business

Assets in the shareholder business are managed against benchmarks that ensure they are diversified across a range of asset classes, instruments and geographies. A combination of limits by name of issuer, sector and credit rating are used where relevant to reduce concentration risk among the assets held.

The shareholder business holds interests in newly established investment vehicles which the Group has seeded but is actively seeking to divest from. Seed capital is classified as held for sale when it is the intention to dispose of the vehicle in a single transaction and within one year. The shareholder balance sheet includes the following amounts in respect of seed capital.

Seed capital	Notes	2017 £m	2016 £m
Equity securities and interests in pooled investment funds at FVTPL		**96**	–
Debt securities		**34**	–
Assets held for sale	24	**63**	27
Total		**193**	27

Seed capital is typically invested in quoted funds. The Group sets the limits for investing in seed capital and regularly monitors the exposure. 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.

Participating business

The assets of the participating business are principally managed to support the liabilities of those funds and are appropriately diversified by both asset class and geography.

The key considerations in the asset and liability management of the participating business are:

- The economic liability and how this varies with market conditions
- The need to invest the assets in a manner consistent with participating policyholders' reasonable expectations and, where appropriate, the Scheme of Demutualisation and the Principles and Practices of Financial Management
- The need to ensure that regulatory and capital requirements are met

In practice, an element of market risk arises as a consequence of the need to balance these considerations, for example, in certain instances participating policyholders may expect that equity market risk will be taken on their behalf and derivative instruments may be used to manage these risks.

(b)(i) Elements of market risk

The main elements of market risk to which the Group is exposed are equity risk, property risk, interest rate risk and foreign currency risk, which are discussed on the following pages.

As a result of the diversity of the products offered by the Group and the different regulatory environments in which it operates, the Group employs a range of methods of asset and liability management across its business units.

Information on the methods used to determine fair values for each major category of financial instrument and investment property measured at fair value is presented in Note 41 and Note 17.

(b)(i)(i) Group exposure to equity risk

The Group is exposed to the risk of adverse equity market movements which could result in losses. This applies to daily changes in the market values and returns on the holdings in its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

- Direct equity shareholdings in the shareholder business and the Group's defined benefit pension plans
- Burnthrough from the with profits funds where adverse movements in the market values and returns on holdings in the equity portfolios of these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of equities held in funds from which management charges are taken

Exposures to equity securities are primarily controlled through the use of investment mandates including constraints based on appropriate equity indices.

The table below shows the shareholder and participating businesses' exposure to equity markets. Equity securities are analysed by country based on the ultimate parent country of risk.

	Shareholder business		Participating business		Total	
	2017	2016	**2017**	2016	**2017**	2016
	£m	£m	**£m**	£m	**£m**	£m
UK	**50**	6	**3,794**	3,545	**3,844**	3,551
Australia	**–**	1	**31**	21	**31**	22
Belgium	**1**	–	**63**	63	**64**	63
Canada	**–**	–	**36**	49	**36**	49
Denmark	**2**	2	**175**	172	**177**	174
Finland	**1**	2	**9**	44	**10**	46
France	**8**	4	**562**	461	**570**	465
Germany	**7**	3	**608**	495	**615**	498
Greece	**–**	–	**1**	1	**1**	1
Ireland	**1**	1	**207**	183	**208**	184
Italy	**5**	1	**120**	73	**125**	74
Japan	**1**	1	**193**	124	**194**	125
Mexico	**–**	–	**–**	–	**–**	–
Netherlands	**4**	2	**443**	335	**447**	337
Norway	**–**	–	**33**	19	**33**	19
Portugal	**–**	–	**38**	65	**38**	65
Russia	**1**	–	**–**	–	**1**	–
Spain	**6**	1	**141**	127	**147**	128
Sweden	**2**	2	**231**	204	**233**	206
Switzerland	**4**	2	**527**	453	**531**	455
US	**11**	22	**2,008**	1,680	**2,019**	1,702
Other	**23**	8	**299**	241	**322**	249
Total	**127**	58	**9,519**	8,355	**9,646**	8,413

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £204m (2016: £30m). The shareholder exposure to interests in pooled investment funds primarily relates to:

- Co-investment holdings in property and infrastructure funds
- Investments in certain Aberdeen managed funds to hedge against liabilities from variable pay awards that are deferred and settled in cash by reference to the share price of those funds
- Seed capital in funds which are not consolidated

The participating business has interests in pooled investment funds of £808m (2016: £970m).

(b)(i)(ii) Group exposure to property risk

The Group is exposed to the risk of adverse property market movements which could result in losses. This applies to changes in the value and return on holdings in investment property. This risk arises from:

- Burnthrough from the with profits funds where adverse movements in the market values and returns on investment property in these funds mean the assets of the with profits funds are not sufficient to meet their obligations
- The indirect impact from changes in the value of property held in funds from which management charges are taken

Exposures to property holdings are primarily controlled through the use of portfolio limits which specify the proportion of the value of the total property portfolio represented by:

- Any one property or group of properties
- Geographic area
- Property type
- Development property under construction

The shareholder business is not exposed to significant property price risk.

The table below analyses investment property held by the participating business by country and sector:

Participating business

	Office		Industrial		Retail		Other		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
UK	241	404	247	206	699	841	6	6	1,193	1,457
Belgium	–	12	–	–	7	9	–	–	7	21
France	–	–	–	–	–	–	2	2	2	2
Germany	104	85	7	6	19	18	–	–	130	109
Ireland	–	–	–	–	–	–	32	32	32	32
Netherlands	75	64	41	31	–	–	–	–	116	95
Spain	–	–	–	–	–	–	–	–	–	–
Total	420	565	295	243	725	868	40	40	1,480	1,716

There is no direct exposure to residential property in the shareholder and participating businesses.

(b)(i)(iii) Group exposure to 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, or the cash flows relating to these, fluctuating by different amounts.

The main financial assets held by the Group which give rise to interest rate risk are debt securities, loans and cash and cash equivalents. The main financial liabilities giving rise to interest rate risk principally comprise non-unit linked insurance, participating and non-participating investment contract liabilities and subordinated liabilities. Derivative financial instruments held by the Group also give rise to interest rate risk.

Shareholder business

Under the Group's ERM framework, Group companies are required to manage their interest rate exposures in line with the Group's qualitative risk appetite statements and quantitative risk limits. Group companies typically use a combination of cash flow and duration matching techniques to manage their interest rate risk at an entity level. Hedging is used to mitigate the risk that burnthrough may arise from the with profits funds under certain circumstances where adverse interest rate movements could mean the assets of the with profits funds are not sufficient to meet the obligations of the with profits funds.

Participating business

Duration matching is used to minimise the interest rate risk that arises from mismatches between participating contract liabilities and the assets backing those liabilities. Cash flow matching is used to minimise the interest rate risk that arises in the participating business from mismatches between non-participating insurance contract liabilities and the assets backing those liabilities. A combination of debt securities and derivative financial instruments are held to assist in the management of interest rate sensitivity arising in respect of the cost of guarantees.

The sensitivity of profit after tax to changes in interest rates for both the shareholder business and the participating business is included in the profit after tax sensitivity to market risk table, shown in Section (b)(ii).

(b)(i)(iv)Group exposure to foreign currency risk

The Group's financial assets are generally held in the local currency of its operational geographic locations, principally to assist with the matching of liabilities. However, 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 the local currency. The Group can be exposed to foreign currency risk through the need to meet the expectations of particular groups of policyholders or to improve the Group's risk profile through diversification. The Group manages this risk through the use of limits on the amount of foreign currency risk that is permitted.

The tables below summarise the shareholder and participating businesses' exposure to foreign currency risks in Sterling. The tables exclude inter-segment assets and liabilities.

Shareholder business

	UK Sterling		Euro		Canadian Dollar		Hong Kong Dollar		US Dollar		Indian Rupee		Singapore Dollar		Other currencies		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Total assets	16,353	11,360	1,175	911	8	21	74	53	722	150	396	474	154	–	429	126	19,311	13,095
Total liabilities	(9,186)	(8,436)	(547)	(558)	–	(18)	(41)	(26)	(1,007)	(25)	–	–	(19)	–	(83)	(21)	(10,883)	(9,084)
Net investment hedges	6	6	–	–	–	–	(6)	(6)	–	–	–	–	–	–	–	–	–	–
Cash flow hedges	(567)	(9)	8	9	–	–	–	–	559	–	–	–	–	–	–	–	–	–
Non designated derivatives	255	225	(146)	(145)	(5)	–	(1)	–	(119)	(64)	18	13	(3)	(8)	1	(21)	–	–
	6,861	3,146	490	217	3	3	26	21	155	61	414	487	132	(8)	347	84	8,428	4,011

Other currencies include assets of £5m (2016: £9m) and liabilities of £36m (2016: £7m) in relation to the fair value of derivatives used to manage currency risk.

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

Non designated derivatives relate to foreign exchange forward contracts that are not designated as cash flow hedges or net investment hedges.

During 2017 the Group reaffirmed its strategy for hedging foreign currency risks in the shareholder business. This strategy provides a consistent approach to managing these foreign exchange risks. This includes, within certain parameters, minimising currency volatility within the regulatory capital surplus, aside from the Solvency II volatility created by holding a cross currency swap to hedge the economic foreign exchange risk arising from issuing US Dollar denominated notes. The Group does not separately hedge translation of reported earnings from overseas operations in the consolidated financial statements.

Participating business

	UK Sterling		Euro		Canadian Dollar		Hong Kong Dollar		US Dollar		Indian Rupee		Singapore Dollar		Other currencies		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Total assets	**29,109**	31,119	**13,999**	14,703	**27**	51	**30**	28	**1,950**	1,796	**6**	7	**4**	3	**1,110**	961	**46,235**	48,668
Total liabilities	**(34,682)**	(37,547)	**(11,262)**	(10,783)	**–**	–	**–**	–	**(3)**	(2)	**–**	–	**–**	–	**(14)**	(20)	**(45,961)**	(48,352)
Non designated derivatives	**693**	1,040	**(641)**	(878)	**–**	–	**–**	–	**(34)**	(124)	**–**	–	**(2)**	(1)	**(16)**	(37)	**–**	–
	(4,880)	(5,388)	**2,096**	3,042	**27**	51	**30**	28	**1,913**	1,670	**6**	7	**2**	2	**1,080**	904	**274**	316

There are no net investment hedges or cash flow hedges in the participating business. Other currencies include assets of £8m (2016: £49m) and liabilities of £3m (2016: £11m) in relation to the fair value of derivatives used to manage currency risk exposures.

The foreign currency exposures shown above largely reflect the impact of financial assets being denominated in currencies other than the local currency of the operational geographic location. These exposures arise as a result of asset allocation decisions that are intended to meet the expectations of particular groups of policyholders or to improve the risk profile through diversification. The investment mandates used to manage the participating business contain limits to restrict the extent of foreign currency risk that can be taken and currency derivatives are held to provide economic hedges of some of the above exposures. These are typically short dated forward foreign exchange contracts, however the investment mandates do not normally require these contracts to be replaced on maturity providing the foreign currency risk is within limits.

(b)(ii) Sensitivity to market risk analysis

The Group's profit after tax and equity are sensitive to variations in respect of the Group's market risk exposures and a sensitivity analysis is presented on the following pages. The analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security and property prices and to changes in interest rates as at the reporting date applied to assets and liabilities other than those classified as held for sale.

Unit linked funds

Changes in equity security and property prices and/or fluctuations in interest rates will affect unit linked liabilities and the associated assets by the same amount. Therefore, whilst the profit impact on unit linked funds is included in the sensitivity analysis where there is an impact on the value of other statement of financial position items, the change in unit linked liabilities and the corresponding asset movement has not been presented.

Participating business

For the participating business, in particular the HWPF and the GWPF, the risk to shareholders is that the assets of the fund are insufficient to meet the obligations to policyholders. Given the nature of the Group's participating business, changes in equity security and property prices and/or fluctuations in interest rates will generally affect participating liabilities and the associated assets by the same amount. Therefore the change in participating contract liabilities and the corresponding asset movement has not been presented. However under certain economic scenarios guarantees in participating contracts could require the shareholder to provide support to the participating business. This is presented as follows:

HWPF

For the HWPF, whilst shareholders are only entitled to the recourse cash flows in respect of this business, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. The recourse cash flows have been determined in accordance with the Scheme and consider the extent to which shareholders participate in the investment return and surplus of the HWPF. The Scheme, and in particular the Capital Support Mechanism, requires the financial state of the HWPF to be considered before recourse cash flows are transferred to the Shareholder Fund and, under certain circumstances, the payment of recourse cash flows can be withheld to support the financial strength of the HWPF. Therefore, the HWPF has been treated as a whole for the purpose of this sensitivity analysis and only the impact on the recourse cash flows of the sensitivity tests is presented. When assessing the impact of the sensitivity tests on the recourse cash flows, and in particular the risk that the assets of the HWPF may be insufficient to meet the obligations to policyholders, dynamic management actions have been assumed in a manner consistent with the relevant Principles and Practices of Financial Management. The sensitivities presented are not sufficiently severe to have restricted recourse cash flows in 2017 and 2016.

GWPF

For the GWPF, whilst shareholders are entitled to charges from this fund, there can be potential exposure to the full impact of any shortfall if the assets of the fund are insufficient to meet policyholder obligations. Profit after tax and equity are sensitive to the extent that the receipt of future charges is not taken into account in the measurement of the non-participating contract liabilities in the shareholder risk segment in economic scenarios where the charges are deemed foregone to support the participating liabilities. This sensitivity is included within the non-participating insurance contract liabilities in the following table.

Limitations

The sensitivity of the Group's profit after tax and equity is non-linear and larger or smaller impacts should not be derived from these results.

The sensitivity analysis represents the impact on profit at year end that the changes in market conditions can have. The sensitivity will vary with time, both due to changes in market conditions and changes in the actual asset mix, and this mix is being actively managed. The results of the sensitivity analysis may also have been different from those illustrated had the sensitivity factors been applied at a date other than the reporting date.

For each sensitivity 'test', the impact of a reasonably possible change in a single sensitivity factor is presented, while the other sensitivity factors remain unchanged. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously.

Earnings over a period may be reduced as a consequence of the impact of market movements on charges levied on unit linked business, and other with profits fund business. For example, if the tests had been applied as at 1 January, the profit during the year would have varied due to the different level of funds under management. In illustrating the impact of equity/property risk, the assumption has been made, where relevant, that expectations of corporate earnings and rents remain unchanged and thus yields change accordingly. The sensitivities take into account the likely impact on individual Group companies of local regulatory standards under such a scenario.

Profit after tax sensitivity to market risk

	Equity markets				Interest rates	
2017	**+10%**	**-10%**	**+20%**	**-20%**	**+1%**	**-1%**
Increase/(decrease) in profit after tax	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Shareholder business						
Pensions and Savings:						
Deferred acquisition costs	–	–	–	–	–	–
Assets backing non-participating liabilities	–	–	–	–	(662)	778
Non-participating insurance contract liabilities	–	–	–	–	642	(756)
Non-participating investment contract liabilities	–	–	–	–	–	–
Other assets and liabilities	–	–	–	–	(6)	8
Total Pensions and Savings	**–**	**–**	**–**	**–**	**(26)**	**30**
Aberdeen Standard Investments	**10**	**(10)**	**21**	**(21)**	**5**	**(5)**
India and China life:						
Deferred acquisition costs	–	–	–	–	–	–
Assets backing non-participating insurance contract liabilities	–	–	–	–	–	–
Assets backing non-participating investment contract liabilities	–	–	–	–	–	–
Non-participating insurance contract liabilities	–	–	–	–	–	–
Non-participating investment contract liabilities	–	–	–	–	–	–
Other assets and liabilities	–	–	–	–	–	–
Total India and China life	**–**	**–**	**–**	**–**	**–**	**–**
Other	**3**	**(3)**	**5**	**(5)**	**(3)**	**3**
Total shareholder business	**13**	**(13)**	**26**	**(26)**	**(24)**	**28**
Participating business						
Pensions and Savings:						
Recourse cash flow	–	–	–	–	–	–
Total Pensions and Savings	**–**	**–**	**–**	**–**	**–**	**–**
Total participating business	**–**	**–**	**–**	**–**	**–**	**–**
Total	**13**	**(13)**	**26**	**(26)**	**(24)**	**28**

1 The amounts in the table above are presented net of tax.

2 A positive number represents a credit to the consolidated income statement.

3 The interest rate sensitivity is a parallel shift subject to a floor of -30bps.

The Company within other shareholder business classifies certain debt securities as available-for-sale (AFS). The Group's sensitivity of profit after tax to changes in interest rates does not include the impact of changes in interest rates for these AFS assets. There is no impact in 2017 or 2016 on profit after tax to changes in property prices.

2016 Increase/(decrease) in profit after tax	Equity markets +10% £m	 -10% £m	 +20% £m	 -20% £m	Interest rates +1% £m	 -1% £m
Shareholder business						
Pensions and Savings:						
Deferred acquisition costs	–	–	–	–	–	–
Assets backing non-participating liabilities	–	–	–	–	(696)	833
Non-participating insurance contract liabilities	–	–	–	–	673	(790)
Non-participating investment contract liabilities	–	–	–	–	–	–
Other assets and liabilities	–	–	–	–	–	–
Total Pensions and Savings	**–**	**–**	**–**	**–**	**(23)**	**43**
Aberdeen Standard Investments	**4**	**(4)**	**7**	**(7)**	**–**	**–**
India and China life:						
Deferred acquisition costs	–	–	–	–	–	(4)
Assets backing non-participating insurance contract liabilities	–	–	–	–	–	–
Assets backing non-participating investment contract liabilities	–	–	–	–	–	–
Non-participating insurance contract liabilities	–	–	–	–	–	–
Non-participating investment contract liabilities	–	–	–	–	–	–
Other assets and liabilities	–	–	–	–	1	1
Total India and China life	**–**	**–**	**–**	**–**	**1**	**(3)**
Other	**2**	**(2)**	**4**	**(4)**	**(2)**	**2**
Total shareholder business	**6**	**(6)**	**11**	**(11)**	**(24)**	**42**
Participating business						
Pensions and Savings:						
Recourse cash flow	–	–	–	–	–	–
Total Pensions and Savings	**–**	**–**	**–**	**–**	**–**	**–**
Total participating business	**–**	**–**	**–**	**–**	**–**	**–**
Total	**6**	**(6)**	**11**	**(11)**	**(24)**	**42**

1 The amounts in the table above are presented net of tax.

2 A positive number represents a credit to the consolidated income statement.

3 The interest rate sensitivity is a parallel shift subject to a floor of -30bps.

Equity sensitivity to market risk on assets and liabilities other than those classified as held for sale

The shareholder business in the corporate centre and related activities classified as Other includes certain debt securities as AFS. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in the consolidated income statement. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result, the sensitivity of the Group's equity to variations in interest rate risk exposures differs from the sensitivity of the Group's profit after tax to variations in interest rate risk exposures.

The Other segment's equity sensitivity to a 1% increase in interest rates is (£15m) (2016: (£17m)) and to a 1% decrease in interest rates is £15m (2016: £17m). The sensitivity of the Group's total equity to a 1% increase in interest rates is (£31m) (2016: (£39m)) and a 1% decrease in interest rates is £33m (2016: £57m).

The sensitivity of the Group's total equity to variations in equity and property prices for assets and liabilities other than those classified as held for sale in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Group's profit after tax.

(c) Credit risk

As described in the table on page 216, the shareholder is exposed to credit risk from the shareholder and participating businesses and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets of these categories.

Quantitative credit risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not directly exposed to credit risk from these assets. The unit linked business includes £3,846m (2016: £3,779m) of assets that are held as reinsured external funds links. Under certain circumstances the shareholder may be exposed to losses relating to the default of the reinsured external fund links. These exposures are actively monitored and managed by the Group and the Group considers the circumstances under which losses may arise to be very remote.

The shareholder is also not exposed to the credit risk from the assets held by third party interest in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

The Group's credit risk exposure mainly arises from its investments in financial instruments. Concentrations of credit risk are managed by setting maximum exposure limits to 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. Refer to Section (c)(iii) for further details on collateral.
Debt securities	The Group's policy is to set exposure limits by name of issuer, sector and credit rating.
Loans	Portfolio limits are set by individual business units. These limits specify the proportion of the value of the total portfolio of mortgage loans and mortgage bonds that are represented by a single, or group of related counterparties, geographic area, employment status or economic sector, risk rating and loan to value percentage.
Reinsurance assets	The Group's policy is to place reinsurance only with highly rated counterparties, with business units having to assign internal credit ratings to reinsurance counterparties. The Group is restricted from assuming concentrations of risk with few individual reinsurers by specifying certain limits on ceding and the minimum conditions for acceptance and retention of reinsurers.
Other financial instruments	Appropriate limits are set for other financial instruments to which the Group may have exposure at certain times, for example commission terms paid to intermediaries.

Individual business units are responsible for implementing processes to ensure that credit exposures are managed within any limits that have been established and for the reporting of exposures and any limit breaches to the Group Credit Risk Committee.

The tables that follow provide an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. For those financial assets with credit ratings assigned by external rating agencies, classification is within the range of AAA to BBB. AAA is the highest possible rating and rated financial assets that fall outside the range of AAA to BBB have been classified as below BBB with rules followed for determining the credit rating to be disclosed when different credit ratings are assigned by different external rating agencies. For those financial assets that do not have credit ratings assigned by external rating agencies but where the Group has assigned internal ratings for use in managing and monitoring credit risk, the assets have been classified in the analysis that follows as 'internally rated'. If a financial asset is neither rated by an external agency nor 'internally rated', it is classified as 'not rated'. The total amounts presented represent the Group's maximum exposure to credit risk at the reporting date without taking into account any collateral held. The analysis also provides information on the concentration of credit risk.

(c)(i) Credit exposure

Assets are deemed to be past due when a counterparty has failed to make a payment when contractually due.

The objective evidence that is taken into account in determining whether any impairment of debt securities has occurred includes:

- A default against the terms of the instrument has occurred
- The issuer is subject to bankruptcy proceedings or is seeking protection from creditors through bankruptcy, individual voluntary arrangements or similar process

The following tables show the shareholder and participating businesses' exposure to credit risk from financial assets analysed by credit rating and country.

Shareholder business

An analysis of financial and reinsurance assets by credit rating is as follows:

	Loans to associates and joint ventures		Reinsurance assets		Loans		Derivative financial assets		Debt securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Neither past due nor impaired:																
AAA	**–**	–	**–**	–	**–**	–	**–**	–	**475**	481	**–**	–	**612**	92	**1,087**	573
AA	**–**	–	**30**	30	**–**	–	**–**	–	**1,719**	1,809	**–**	–	**947**	221	**2,696**	2,060
A	**–**	–	**14**	17	**–**	51	**10**	13	**3,782**	3,378	**–**	–	**849**	583	**4,655**	4,042
BBB	**–**	–	**–**	–	**–**	–	**1**	2	**1,271**	1,483	**–**	–	**22**	67	**1,294**	1,552
Below BBB	**–**	–	**–**	–	**–**	–	**–**	–	**155**	133	**–**	–	**1**	–	**156**	133
Not rated	**–**	3	**–**	–	**–**	1	**10**	4	**51**	13	**673**	507	**2**	–	**736**	528
Internally rated	**–**	–	**–**	3	**–**	–	**–**	–	**1,184**	1,087	**–**	–	**–**	–	**1,184**	1,090
Past due	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**24**	8	**–**	–	**24**	8
Impaired	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**–**	3	**44**	50	**–**	52	**21**	19	**8,637**	8,384	**697**	515	**2,433**	963	**11,832**	9,986

At 31 December 2017, receivables and other financial assets of £19m (2016: £7m) were past due by less than three months and £2m (2016: £1m) were past due by three to six months and £3m (2016: £nil) were past due by six to twelve months.

An analysis of debt securities by country based on the ultimate parent country of risk is as follows:

	Government, provincial and municipal[1]		Banks		Other financial institutions		Other corporate		Other[2]		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
UK	**495**	594	**429**	426	**1,206**	1,205	**1,791**	2,006	**10**	–	**3,931**	4,231
Australia	**–**	–	**126**	107	**17**	17	**14**	17	**–**	–	**157**	141
Austria	**29**	29	**–**	–	**–**	–	**–**	–	**–**	–	**29**	29
Belgium	**3**	–	**1**	1	**–**	–	**43**	23	**–**	–	**47**	24
Canada	**–**	–	**151**	105	**–**	–	**–**	1	**–**	–	**151**	106
Denmark	**–**	–	**103**	26	**–**	–	**17**	16	**–**	–	**120**	42
Finland	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
France	**192**	240	**507**	344	**4**	3	**272**	347	**–**	–	**975**	934
Germany	**11**	31	**67**	167	**1**	1	**312**	285	**–**	–	**391**	484
Greece	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Ireland	**–**	–	**–**	–	**–**	–	**6**	6	**–**	–	**6**	6
Italy	**–**	–	**29**	28	**–**	–	**86**	82	**–**	–	**115**	110
Japan	**–**	–	**90**	36	**–**	–	**25**	25	**–**	–	**115**	61
Mexico	**3**	–	**–**	–	**–**	–	**105**	115	**–**	–	**108**	115
Netherlands	**22**	22	**294**	331	**–**	–	**107**	35	**–**	–	**423**	388
Norway	**–**	–	**–**	25	**–**	–	**42**	42	**–**	–	**42**	67
Portugal	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Russia	**3**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3**	–
Spain	**–**	–	**176**	55	**–**	–	**71**	45	**–**	–	**247**	100
Sweden	**–**	–	**121**	115	**1**	1	**8**	48	**–**	–	**130**	164
Switzerland	**–**	–	**78**	55	**–**	–	**1**	7	**–**	–	**79**	62
US	**25**	14	**182**	226	**102**	89	**440**	450	**–**	–	**749**	779
Other	**66**	46	**275**	204	**114**	58	**151**	14	**213**	219	**819**	541
Total	**849**	976	**2,629**	2,251	**1,445**	1,374	**3,491**	3,564	**223**	219	**8,637**	8,384

[1] Government, provincial and municipal includes debt securities which are issued by or explicitly guaranteed by the national government.

[2] This balance primarily consists of securities held in supranationals.

Participating business

An analysis of financial and reinsurance assets by credit rating is as follows:

	Reinsurance assets		Loans		Derivative financial assets		Debt securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Neither past due nor impaired:														
AAA	**–**	–	**–**	–	**–**	–	**4,396**	4,523	**–**	–	**124**	30	**4,520**	4,553
AA	**4,761**	5,329	**20**	60	**–**	–	**15,101**	16,595	**–**	–	**199**	337	**20,081**	22,321
A	**6**	–	**–**	–	**808**	1,056	**4,322**	4,682	**–**	–	**1,258**	964	**6,394**	6,702
BBB	**–**	–	**–**	–	**499**	668	**1,791**	1,771	**–**	–	**–**	5	**2,290**	2,444
Below BBB	**–**	–	**–**	–	**–**	–	**269**	367	**–**	–	**–**	–	**269**	367
Not rated	**–**	–	**60**	74	**258**	487	**30**	–	**65**	91	**–**	–	**413**	652
Internally rated	**–**	7	**–**	–	**–**	–	**198**	255	**–**	–	**–**	–	**198**	262
Past due	**–**	–	**–**	–	**–**	–	**–**	–	**5**	6	**–**	–	**5**	6
Impaired	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**4,767**	5,336	**80**	134	**1,565**	2,211	**26,107**	28,193	**70**	97	**1,581**	1,336	**34,170**	37,307

At 31 December 2017, receivables and other financial assets of £5m (2016: £6m) were past due by less than three months.

Not rated loans of £60m (2016: £74m) relate to mortgages.

The shareholders' exposure to credit risk arising from investments held in the HWPF and other with profits funds is similar in principle to that described for market risk exposures in Section (b). As at 31 December 2017, the financial assets of the HWPF include £4,621m (2016: £5,093m) of assets (primarily debt securities) deposited back under the terms of an external annuity reinsurance transaction, the transaction having been structured in this manner specifically to mitigate credit risks associated with default of the reinsurer. Any credit losses and defaults within the portfolio of assets are borne by the external reinsurer.

An analysis of debt securities by country based on the ultimate parent country of risk is as follows:

	Government, provincial and municipal[1]		Banks		Other financial institutions		Other corporate		Other[2]		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
UK	**10,109**	10,952	**667**	885	**1,579**	1,934	**1,479**	1,875	**–**	–	**13,834**	15,646
Australia	**–**	6	**137**	206	**50**	50	**30**	38	**–**	–	**217**	300
Austria	**408**	392	**–**	4	**9**	10	**–**	–	**–**	–	**417**	406
Belgium	**624**	691	**5**	10	**87**	–	**58**	57	**–**	–	**774**	758
Canada	**26**	3	**84**	67	**21**	10	**–**	4	**–**	–	**131**	84
Denmark	**3**	3	**13**	23	**–**	–	**16**	14	**–**	–	**32**	40
Finland	**203**	194	**42**	69	**–**	–	**–**	4	**–**	–	**245**	267
France	**2,181**	2,009	**475**	450	**40**	29	**320**	364	**–**	–	**3,016**	2,852
Germany	**3,066**	3,118	**172**	196	**104**	120	**231**	199	**–**	–	**3,573**	3,633
Greece	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Ireland	**–**	25	**–**	4	**20**	11	**20**	18	**–**	–	**40**	58
Italy	**16**	49	**23**	31	**15**	11	**34**	46	**–**	–	**88**	137
Japan	**10**	21	**99**	172	**–**	–	**9**	–	**–**	–	**118**	193
Mexico	**–**	–	**–**	–	**–**	–	**56**	56	**–**	–	**56**	56
Netherlands	**457**	467	**234**	328	**64**	36	**68**	48	**–**	–	**823**	879
Norway	**5**	–	**6**	24	**–**	–	**61**	65	**–**	–	**72**	89
Portugal	**–**	–	**–**	–	**–**	–	**2**	4	**–**	–	**2**	4
Russia	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Spain	**–**	13	**93**	4	**5**	5	**41**	38	**–**	–	**139**	60
Sweden	**–**	–	**231**	367	**–**	10	**18**	12	**–**	–	**249**	389
Switzerland	**–**	–	**112**	150	**29**	63	**27**	62	**–**	–	**168**	275
US	**13**	106	**378**	432	**162**	151	**534**	499	**–**	–	**1,087**	1,188
Other	**77**	98	**190**	247	**117**	48	**279**	139	**363**	347	**1,026**	879
Total	**17,198**	18,147	**2,961**	3,669	**2,302**	2,488	**3,283**	3,542	**363**	347	**26,107**	28,193

1 Government, provincial and municipal includes debt securities which are issued by or explicitly guaranteed by the national government.

2 This balance primarily consists of securities held in supranationals.

(c)(ii) Credit spreads

As at 31 December 2017, it is expected that an adverse movement in credit spreads of 50 basis points, with no change to default allowance, would result in a reduction to profit for the year of £18m (2016: £22m). A further reduction of £79m (2016: £58m) would arise as a result of a change in assumed default rates of 12.5 basis points per annum (25% of the spread change).

(c)(iii) Collateral accepted and pledged in respect of financial instruments

Collateral in respect of bilateral over-the-counter (OTC) derivative financial instruments and bilateral repurchase agreements is accepted from and provided to certain market counterparties to mitigate counterparty risk in the event of default. The use of collateral in respect of these instruments is governed by formal bilateral agreements between the parties. For OTC derivatives the amount of collateral required by either party is determined by the daily bilateral OTC exposure calculations in accordance with these agreements and collateral is moved on a daily basis to ensure there is full collateralisation. Under the terms of these agreements, collateral is posted with the ownership captured under title transfer of the contract. With regard to either collateral pledged or accepted, the Group may request the return of, or be required to return, collateral to the extent it differs from that required under the daily bilateral OTC exposure calculations.

Where there is an event of default under the terms of the agreements, any collateral balances will be included in the close-out calculation of net counterparty exposure. At 31 December 2017, the Group had pledged £46m (2016: £30m) of cash and £103m (2016: £187m) of securities as collateral for derivative financial liabilities. At 31 December 2017, the Group had accepted £1,501m (2016: £2,016m) of cash and £947m (2016: £808m) of securities as collateral for derivatives financial assets and reverse repurchase agreements. None of the securities were sold or repledged at the year end.

(c)(iv) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Other than cash and cash equivalents disclosed in Note 25, the Group does not offset financial assets and liabilities on the consolidated statement of financial position, as there are no unconditional rights to set off. Consequently, the gross amount of other financial instruments presented on the consolidated statement of financial position is the net amount. The Group's bilateral OTC derivatives are all subject to an

International Swaps and Derivative Association (ISDA) master agreement. ISDA master agreements and reverse repurchase agreements entered into by the Group are considered master netting agreements as they provide a right of set off that is enforceable only in the event of default, insolvency, or bankruptcy.

The Group does not hold any other financial instruments which are subject to master netting agreements or similar arrangements.

The following table presents the effect of master netting agreements and similar arrangements.

As at 31 December 2017	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Related amounts not offset on the consolidated statement of financial position: Financial instruments £m	Financial collateral pledged/(received) £m	Net position £m
Financial assets				
Derivatives[1]	2,043	(465)	(1,508)	70
Reverse repurchase agreements	900	–	(899)	1
Total financial assets	**2,943**	**(465)**	**(2,407)**	**71**
Financial liabilities				
Derivatives[1]	(647)	465	95	(87)
Total financial liabilities	**(647)**	**465**	**95**	**(87)**

As at 31 December 2016	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Related amounts not offset on the consolidated statement of financial position: Financial instruments £m	Financial collateral pledged/(received) £m	Net position £m
Financial assets				
Derivatives[1]	2,654	(558)	(2,000)	96
Reverse repurchase agreements	800	–	(804)	(4)
Total financial assets	**3,454**	**(558)**	**(2,804)**	**92**
Financial liabilities				
Derivatives[1]	(751)	558	186	(7)
Total financial liabilities	**(751)**	**558**	**186**	**(7)**

1 Only OTC derivatives subject to master netting agreements have been included above.

(c)(v) Credit risk on loans and receivables and financial liabilities designated as at fair value through profit or loss

(c)(v)(i) Loans and receivables

The Group holds a portfolio of financial instruments which meet the definition of loans and receivables under IAS 39 *Financial Instruments: Recognition and Measurement* and on initial recognition were designated as at FVTPL. These instruments are included in debt securities on the consolidated statement of financial position. The Group's exposure to such financial instruments at 31 December 2017 was £1,444m (2016: £835m) of which £59m related to participating business (2016: £116m), £865m related to shareholder business (2016: £719m) and £520m related to unit linked funds (2016: £nil). During the year, fair value gains of £2m (2016: £27m gains) in relation to the participating and shareholder business loans and receivables were recognised in the consolidated income statement. The amount of this movement that is attributable to changes in the credit risk of these instruments was losses of £3m (2016: £9m gains). The loans and receivables relating to unit linked business consist solely of income strips (refer Note 41). Due to the long-term nature of these instruments it is not possible to identify the associated credit risk. The shareholder has no exposure to such risk.

As described in Section (b), the Group's ERM framework defines market risk as the risk that arises from the Group's exposure to market movements, which could result in the income, or value of financial assets and liabilities, or the cash flows relating to these, fluctuating by differing amounts. The movement in the fair value of loans and receivables incorporates both movements arising from credit risk and resulting from changes in market conditions.

(c)(v)(ii) Financial liabilities designated at FVTPL

The Group has designated unit linked non-participating investment contract liabilities as at FVTPL. As the fair value of the liability is based on the value of the underlying portfolio of assets, the movement, during the period and cumulatively, in the fair value of the unit linked non-participating investment contract liabilities, is only attributable to market risk.

(d) Demographic and expense risk

As described in the table on page 216, the shareholder is directly exposed to demographic and expense risk from shareholder business and participating business and, as a result, quantitative demographic and expense risk disclosures are provided in respect of these categories.

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Demographic and expense risk is managed by analysing experience and using statistical data to make certain assumptions on the risks associated with the policy during the period that it is in-force. Assumptions that are deemed to be financially significant are reviewed at least annually for pricing and reporting purposes. In analysing demographic and expense risk exposures, the Group considers:

- Historic experience of relevant demographic and expense risks
- The potential for future experience to differ from that expected or observed historically
- The financial impact of variances in expectations
- Other factors relevant to their specific markets, for example obligations to treat customers fairly

Reinsurance and other risk transfer mechanisms are used to manage risk exposures and are taken into account in the Group's assessment of demographic and expense risk exposures.

(d)(i) Elements of demographic and expense risk

The main elements of demographic and expense risk that give rise to the exposure are discussed below.

(d)(i)(i) Components of insurance risk as defined by IFRS 4 *Insurance Contracts*

Longevity

The Group defines longevity risk as the risk that policyholders live longer than expected which gives rise to losses for the shareholder. This may arise from current experience differing from that expected, or the rate of improvement in mortality being greater than anticipated. This risk is relevant for contracts where payments are made until the death of the policyholder, for example, annuities.

Experience can vary as a result of statistical uncertainty or as a consequence of systemic (and previously unexpected) changes in the life expectancy of the insured portfolio. The profitability of such business will reduce should policyholders live longer than the Group's expectations and reported profits will be impacted as and when such variances are recognised in liabilities.

Morbidity

The Group defines morbidity risk as the risk that claims dependent on the state of health of a policyholder are incurred at a higher than expected rate or, in the case of income benefits, continue for a longer duration or start earlier than those assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will be present on disability income, healthcare and critical illness contracts.

Income protection contracts have the risk that claim duration may be longer than anticipated.

Mortality

The Group defines mortality risk as the risk that death claims are at a higher rate than assumed and could either arise over time or as a result of a single catastrophic event such as a pandemic. This risk will exist on any contracts where the payment on death is greater than the reserve held.

(d)(i)(ii) Other financial risks

Persistency – withdrawals and lapse rates

The Group defines persistency risk as the risk that clients or policyholders redeem their investments or surrender, lapse or pay-up their policies at different rates than assumed resulting in reduced revenue and/or financial losses. This risk may arise if persistency rates are greater or less than assumed or if policyholders selectively lapse when it is beneficial for them. If the benefits payable on lapse or being paid-up are greater than the reserve held then the risk will be of a worsening of persistency and if benefits are paid out that are lower than the reserve then the risk will be that fewer policyholders will lapse or become paid-up.

Persistency risk also reflects the risk of a reduction in expected future profits arising from early retirements, surrenders – either partial or in full – and similar policyholder options.

Variances in persistency will affect equity holder profit to the extent that charges levied against policies are dependent upon the number of policies in-force and/or the average size of those policies. The policies primarily relate to unit linked and unitised with profits business. Profit may also be at risk if it is considered necessary, or prudent, to increase liabilities on certain lines of business.

Expenses

The Group defines expense risk as the risk that expense levels are higher than planned or revenue falls below that necessary to cover actual expenses. This can arise from an increase in the unit costs of the Group or its businesses or an increase in expense inflation, either Group specific or relating to economic conditions. This risk will be present on contracts where the Group cannot or will not pass the increased costs onto the customer. Expense risk can reflect an increase in liabilities or a reduction in expected future profit.

Profit is directly exposed to the risk of expenses being higher than otherwise expected. It can be further affected if it is considered necessary, or prudent, to increase provisions to reflect increased expectations of future costs of policy administration.

(d)(ii) Sensitivity to demographic and expenses risk analysis

Recognition of profit after tax and the measurement of equity are dependent on the methodology and key assumptions used to determine the Group's insurance and investment contract liabilities, as described in Note 31.

The tables that follow illustrate the sensitivity of profit after tax and equity to variations in the key assumptions made in relation to the Group's most significant demographic and expense risk exposures, including exposure to persistency risk. The values have, in all cases, been determined by varying the relevant assumption as at the reporting date and considering the consequential impacts assuming other assumptions remain unchanged.

(Decrease)/increase in profit after tax and equity 2017	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
Shareholder business								
Pensions and Savings:								
Reinsurance assets	–	–	–	–	–	–	1	(1)
Non-participating insurance contract liabilities	(142)	133	(8)	8	1	(1)	(1)	1
India and China life								
Deferred acquisition costs	–	–	–	–	–	–	–	–
Non-participating insurance contract liabilities	–	–	–	–	–	–	–	–
Non-participating investment contract liabilities	–	–	–	–	–	–	–	–
Total shareholder business	**(142)**	**133**	**(8)**	**8**	**1**	**(1)**	**–**	**–**
Participating business								
Pensions and Savings:								
Recourse cash flows	(19)	18	(2)	2	–	–	(2)	2
Total participating business	**(19)**	**18**	**(2)**	**2**	**–**	**–**	**(2)**	**2**
Total	**(161)**	**151**	**(10)**	**10**	**1**	**(1)**	**(2)**	**2**

(Decrease)/increase in profit after tax and equity 2016	Longevity		Expenses		Persistency		Morbidity/mortality	
	+5% £m	-5% £m	+10% £m	-10% £m	+10% £m	-10% £m	+5% £m	-5% £m
Shareholder business								
Pensions and Savings:								
Reinsurance assets	–	–	–	–	–	–	1	(1)
Non-participating insurance contract liabilities	(136)	128	(8)	8	1	(1)	–	–
India and China								
Deferred acquisition costs	–	–	(4)	–	–	–	–	–
Non-participating insurance contract liabilities	–	–	–	–	–	–	–	–
Non-participating investment contract liabilities	–	–	–	–	–	–	–	–
Total shareholder business	**(136)**	**128**	**(12)**	**8**	**1**	**(1)**	**1**	**(1)**
Participating business								
Pensions and Savings:								
Recourse cash flows	(16)	15	(1)	1	–	–	(2)	2
Total participating business	**(16)**	**15**	**(1)**	**1**	**–**	**–**	**(2)**	**2**
Total	**(152)**	**143**	**(13)**	**9**	**1**	**(1)**	**(1)**	**1**

When the sensitivities presented in the tables above are applied to with profits funds other than HWPF, there are no significant impacts on net liabilities after reinsurance, equity or profit for either investment or insurance contracts. Amounts in the tables above are presented net of tax and reinsurance.

For the participating business, the tables above illustrate the impact of demographic and expense risk on the recourse cash flows from the HWPF, which have been determined in accordance with the Scheme and take into account the need to consider the impact of risk on the financial position of the HWPF before any recourse cash flows can be transferred to the SHF. The terms of the Scheme provide for the retention of recourse cash flows under certain circumstances to support the financial position of the HWPF. Refer to Section (b)(ii).

The shareholder business of Pensions and Savings currently bears longevity risk both on contracts written in the PBF and on contracts written in the HWPF for which the longevity risk has been transferred to the PBF.

Limitations

The financial impact of certain risks is non-linear and consequently the sensitivity of other events may differ from expectations based on those presented in the tables above. Correlations between the different risks and/or other factors may mean that experience would differ from that expected if more than one risk event occurred simultaneously. The analysis has been assessed as at the reporting date. The results of the sensitivity analysis may vary as a consequence of the passage of time or as a consequence of changes in underlying market or financial conditions. The sensitivity analysis in respect of longevity risk has been performed on the relevant annuity business and presents, for a +5% longevity test, the impact of a 5% reduction in the underlying mortality rates (and vice versa). It has also been based on instantaneous change in the mortality assumption at all ages, rather than considering gradual changes in mortality rate.

(e) Liquidity risk

As described in the table on page 216, the shareholder is exposed to liquidity risk from shareholder business, participating business and unit linked funds and, as a result, the following quantitative liquidity risk disclosures are provided in respect of the financial liabilities of these categories.

The shareholder is not exposed to the liquidity risk from the assets held by third party interests in consolidated funds and non-controlling interests and therefore these have been excluded from the following quantitative disclosures.

Business units employ risk management techniques relevant to their product types with the objective of mitigating exposures to liquidity risk. For annuity, with profits, and unit linked business, liquidity risk is primarily managed by holding a range of diversified instruments which are assessed against estimated cash flow and funding requirements.

For annuity contracts, assets are held which are specifically chosen with the intention of matching the expected timing of annuity payments. Business units actively manage and monitor the performance of these assets against liability benchmarks and liquidity risk is minimised through the process of planned asset and liability matching. The Group's assets are analysed in Section (b)(i) and Section (c)(i). For Pensions and Savings, the reinsurance treaty between the Group and Canada Life International Re provides for the cash settlement of amounts owed by Canada Life International Re.

For with profits contracts, a portfolio of assets is maintained in the relevant funds appropriate to the nature and term of the expected pattern of payments of liabilities. Within that portfolio, liquidity is provided by substantial holdings of cash and highly liquid assets (principally government bonds).

Where it is necessary to sell less liquid assets within the relevant portfolios, then any incurred losses are generally passed onto policyholders in accordance with policyholders' reasonable expectations. Such losses are managed and mitigated through actively anticipating net disinvestment based on policyholder behaviour and seeking to execute sales of underlying assets in such a way that the cost to policyholders is minimised.

For non-participating unit linked contracts, a core portfolio of assets is maintained and invested in accordance with the mandates of the relevant unit linked funds. Policyholder behaviour and the trading position of asset classes are actively monitored. The unit price and value of any associated contracts would reflect the proceeds of any sales of assets. If considered necessary, deferral terms within the policy conditions applying to the majority of the Group's contracts are invoked.

Business units undertake periodic investigations into liquidity requirements, which include consideration of cash flows in normal conditions, as well as investigation of scenarios where cash flows differ markedly from those expected (primarily due to extreme policyholder behaviour).

All business units are required to monitor, assess, manage and control liquidity risk in accordance with the relevant principles within the Group's policy framework. Oversight is provided both at a Group level and within the business unit. In addition, all business units benefit from membership of a larger Group to the extent that, centrally, the Group:

- Coordinates strategic planning and funding requirements
- Monitors, assesses and oversees the investment of assets within the Group
- Monitors and manages risk, capital requirements and available capital on a group-wide basis
- Maintains a portfolio of committed bank facilities

The Group's committed bank facilities are currently undrawn.

Liquidity risk is managed by each business unit in consultation with the Group Treasury function and each business unit is responsible for the definition and management of its contingency funding plan.

As a result of the policies and processes established to manage risk, the Group expects to be able to manage liquidity risk on an ongoing basis. We recognise there are a number of scenarios that can impact the liquid resources of a business as discussed in the Risk management section of the Strategic report.

(e)(i) Maturity analysis

The tables that follow present the expected timing of the cash flows payable on the amounts recognised on the consolidated statement of financial position for the participating and non-participating contract liabilities of the Group as at the reporting date. To align with the risk management approach towards liquidity risk and existing management projections, the analysis that follows facilitates consideration of the settlement obligations of both insurance and investment contracts.

2017	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	No defined maturity £m	Total £m
Shareholder business								
Non-participating insurance contract liabilities	318	1,216	1,375	1,143	864	1,152	–	**6,068**
Non-participating investment contract liabilities	–	1	1	1	1	–	–	**4**
Reinsurance liabilities	–	–	–	–	–	–	–	**–**
Total shareholder business	**318**	**1,217**	**1,376**	**1,144**	**865**	**1,152**	**–**	**6,072**
Participating business								
Non-participating insurance contract liabilities	651	2,286	2,171	1,445	883	1,442	–	**8,878**
Participating insurance contract liabilities	1,392	3,461	2,862	2,708	2,109	2,127	–	**14,659**
Participating investment contract liabilities	1,358	5,441	4,356	2,432	1,121	605	–	**15,313**
Unallocated divisible surplus	–	–	–	–	–	–	675	**675**
Total participating business	**3,401**	**11,188**	**9,389**	**6,585**	**4,113**	**4,174**	**675**	**39,525**
Unit linked funds								
Non-participating insurance contract liabilities	6,443	650	354	120	98	129	–	**7,794**
Non-participating investment contract liabilities	11,911	32,806	26,883	16,181	9,343	8,641	–	**105,765**
Total unit linked funds	**18,354**	**33,456**	**27,237**	**16,301**	**9,441**	**8,770**	**–**	**113,559**
Total	**22,073**	**45,861**	**38,002**	**24,030**	**14,419**	**14,096**	**675**	**159,156**

2016	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	16-20 years £m	Greater than 20 years £m	No defined maturity £m	Total £m
Shareholder business								
Non-participating insurance contract liabilities	330	1,194	1,351	1,139	881	1,297	–	**6,192**
Non-participating investment contract liabilities	1	1	1	1	–	–	–	**4**
Reinsurance liabilities	–	–	–	–	–	–	–	**–**
Total shareholder business	**331**	**1,195**	**1,352**	**1,140**	**881**	**1,297**	**–**	**6,196**
Participating business								
Non-participating insurance contract liabilities	618	2,263	2,324	1,685	1,105	1,801	–	**9,796**
Participating insurance contract liabilities	1,611	3,603	2,867	2,398	2,376	2,296	–	**15,151**
Participating investment contract liabilities	600	2,649	3,484	3,411	2,692	2,701	–	**15,537**
Unallocated divisible surplus	–	–	–	–	–	–	585	**585**
Total participating business	**2,829**	**8,515**	**8,675**	**7,494**	**6,173**	**6,798**	**585**	**41,069**
Unit linked funds								
Non-participating insurance contract liabilities	6,126	669	368	123	69	79	–	**7,434**
Non-participating investment contract liabilities	9,951	31,696	26,705	16,024	9,118	8,565	–	**102,059**
Total unit linked funds	**16,077**	**32,365**	**27,073**	**16,147**	**9,187**	**8,644**	**–**	**109,493**
Total	**19,237**	**42,075**	**37,100**	**24,781**	**16,241**	**16,739**	**585**	**156,758**

The analysis that follows presents the undiscounted cash flows payable by remaining contractual maturity at the reporting date for all financial liabilities, including non-participating investment contract liabilities. Given that policyholders can usually choose to surrender, in part or in full, their unit linked contracts at any time, the non-participating investment contract unit linked liabilities presented in the table below have been designated as payable within one year. Such surrenders would be matched in practice, if necessary, by sales of underlying assets. The Group can delay settling liabilities to unit linked policyholders to ensure fairness between those remaining in the fund and those leaving the fund. The length of any such delay is dependent on the underlying financial assets. In this analysis, the maturity within one year includes liabilities that are repayable on demand.

	Within 1 year		2-5 years		6-10 years		11-15 years		16-20 years		Greater than 20 years		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Shareholder business														
Non-participating investment contract liabilities	**4**	4	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4**	4
Subordinated liabilities	**486**	81	**390**	313	**461**	359	**422**	290	**422**	143	**1,493**	671	**3,674**	1,857
Other financial liabilities	**1,822**	876	**16**	40	**–**	–	**–**	–	**–**	–	**–**	–	**1,838**	916
Total shareholder business	**2,312**	961	**406**	353	**461**	359	**422**	290	**422**	143	**1,493**	671	**5,516**	2,777
Participating business														
Other financial liabilities	**1,631**	2,179	**3**	27	**3**	6	**2**	6	**2**	5	**70**	85	**1,711**	2,308
Total participating business	**1,631**	2,179	**3**	27	**3**	6	**2**	6	**2**	5	**70**	85	**1,711**	2,308
Unit linked funds														
Non-participating investment contract liabilities	**105,765**	102,059	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**105,765**	102,059
Other financial liabilities	**382**	908	**9**	11	**8**	9	**8**	9	**8**	9	**118**	141	**533**	1,087
Total unit linked funds	**106,147**	102,967	**9**	11	**8**	9	**8**	9	**8**	9	**118**	141	**106,298**	103,146
Total	**110,090**	106,107	**418**	391	**472**	374	**432**	305	**432**	157	**1,681**	897	**113,525**	108,231

The principal amounts of financial liabilities where the counterparty has no right to repayment are excluded from the above analysis along with interest payments on such instruments after 20 years. Also excluded are deposits received from reinsurers.

Deposits received from reinsurers reflect the liability to repay the deposit received from an external reinsurer under the reinsurance transaction referred to in Section (c). The timing and amount of the payment of the cash flows under this liability are defined by the terms of the treaty, under which there is no defined contractual maturity date to repay the deposit as at 31 December 2017 or 31 December 2016.

Refer Note 21 for the maturity profile of undiscounted cash flows of derivative financial instruments.

The Group also had unrecognised commitments in respect of financial instruments as at 31 December 2017 with a contractual maturity of within one year and between one and five years of £411m and £36m respectively (2016: £453m and £nil).

(f) Operational risk

The Group defines operational risk as the risk of loss, or adverse consequences for the Group's business, resulting from inadequate or failed internal processes, people or systems, or from external events.

The Group conduct and operational risk policy framework is used to support the management of operational risks. Business units adopt the relevant minimum standards contained within these policies and are required to manage risk in accordance with the policies, taking mitigating action as appropriate to operate within appetites.

The types of operational risk to which the Group is exposed are identified using the following operational risk categories:

- Data and cyber
- Change management
- Third party
- Process execution
- Business continuity
- People
- Fraud and irregularities
- Model

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

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

- The potential cause and impact of the risk
- The likelihood of the risk being realised in the absence of any controls
- The ease with which the risk could be insured against
- The cost of implementing controls to reduce the likelihood of the risk being realised
- Operational risk appetite

Risk Control Self Assessment (CSA) is a monitoring activity where business managers assess the operation of the controls for which they are responsible and the adequacy of these controls to manage key operational risks and associated business processes. The assessment completed by business managers is validated and challenged on a risk-basis by the risk function in its role of 'second line of defence'.

Independent assurance as to the effectiveness of the Risk CSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of Risk CSA are reported through the risk governance structure.

The assessment of operational risk exposures is performed on a qualitative basis using a combination of impact and likelihood, and on a quantitative basis using objective and verifiable measures. The maximum amount of operational risk the Group is willing to retain is defined using both quantitative limits, for example financial impact, and also qualitative statements of principle that articulate the event, or effect, that needs to be limited.

The operational risks faced by each business unit and its exposure to these risks forms its operational risk profile. Each business unit is required to understand and review its profile based on a combination of the estimated impact and likelihood of risk events occurring in the future, the results of Risk CSA and a review of risk exposures relative to approved limits.

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

(g) Conduct risk

The Group defines conduct risk as the risk that through our behaviours, strategies, decisions and actions the Group delivers unfair outcomes to our customer/client and/or poor market conduct. Conduct risk can occur across multiple areas and from multiple sources, including the crystallisation of an operational risk.

The Group has a single conduct and operational risk framework that utilises the tools, such as Risk CSAs, outlined under operational risk (f) to ensure the appropriate identification and management of conduct risk. Business units adopt the relevant minimum standards contained within the conduct risk policy and are required to manage risk in accordance with this and other policies that have an impact on the overall conduct risk, taking mitigating action as appropriate to operate within appetites.

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

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

(h) Regulatory and legal risk

The Group defines regulatory and legal risk as the risk arising from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may result in fines, payments of damages, the voiding of contracts and damaged reputation.

Business units must have in place procedures to identify, report and analyse all regulatory compliance breaches to the relevant business unit compliance function. Additionally, business units are required to have 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 they choose to carry on regulated financial services activity.

(i) Strategic risk

The Group defines strategic risk as those risks which threaten the achievement of the strategy through poor strategic decision-making, implementation or response to changing circumstances. Strategic risks are considered across the Group through the business planning process. The strategic risks to which the Group is exposed are reviewed on a regular basis.

40. Structured entities

A structured entity is an entity that is structured in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group has interests in structured entities through investments in a range of investment vehicles including:

- Pooled investment funds managed internally and externally, including OEICs, SICAVs, unit trusts and limited partnerships
- Debt securitisation vehicles which issue asset-backed securities

The Group consolidates structured entities which it controls. Where the Group has an investment in, but not control over these types of entities, the investment is classified as an investment in associate when the Group has significant influence.

The Group also has interests in structured entities through asset management fees and other fees received from these entities.

(a) Consolidated structured entities

As at 31 December 2017 and 31 December 2016, the Group has not provided any non-contractual financial or other support to any consolidated structured entity and there are no current intentions to do so.

(b) Unconsolidated structured entities

As at 31 December 2017 and 31 December 2016, the Group has not provided any non-contractual financial or other support to any unconsolidated structured entities and there are no current intentions to do so.

(b)(i) Investments in unconsolidated structured entities

The following table shows the carrying value of the Group's investments in unconsolidated structured entities by line item in the consolidated statement of financial position and by risk segment as defined in Note 39.

	Shareholder business		Participating business		Unit linked funds		TPICF & NCI[1]		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Equity securities and interests in pooled investment funds	**202**	28	**806**	969	**32,229**	27,028	**3,484**	2,972	**36,721**	30,997
Debt securities	**682**	664	**1,468**	1,490	**945**	1,317	**138**	167	**3,233**	3,638
Total	**884**	692	**2,274**	2,459	**33,174**	28,345	**3,622**	3,139	**39,954**	34,635

1 Third party interest in consolidated funds and non-controlling interests.

Equity securities and interests in pooled investment funds includes £11,146m (2016: £7,376m) of unconsolidated structured entities which are managed by the Group and in which the Group has a direct investment of which £5,936m (2016: £4,797m restated; previously reported as £7,376m) relates to investments in associates measured at FVTPL. The asset value of these unconsolidated structured entities is £62,741m (2016: £41,379m) of which £19,219m (2016: £18,198m restated; previously reported as £41,379m) relates to investments in associates measured at FVTPL. The total fees recognised in respect of these assets under management during the year to 31 December 2017 were £254m (2016: £265m) of which £31m (2016: £17m restated; previously reported as £265m) relates to structured entities where the Group's holding is classified as an investment in an associate measured at FVTPL. For details of the background of the restatement to 2016 comparatives refer Note 16.

The total issuance balance relating to unconsolidated structured debt securitisation vehicles in which the Group has an investment is £59,169m (2016: £57,877m).

The Group's maximum exposure to loss in respect of its investments in unconsolidated structured entities is the carrying value of the Group's investment and, where the structured entity is managed by the Group, loss of future fees. As noted in Note 39, the shareholder is not exposed to market or credit risk in respect of investments held in the unit linked funds, and third party interest in consolidated funds and non-controlling interests risk segments.

Additional information on how the Group manages its exposure to risk can be found in Note 39.

(b)(ii) Other interests in unconsolidated structured entities

For those structured entities which the Group receives asset management or other fees from but has no direct investment, the maximum exposure to loss is loss of future fees.

Total assets under management of structured entities in which the Group has no direct investments but has other interests in are £80,454m at 31 December 2017 (2016: £12,634m). The fees recognised in respect of these assets under management during the year to 31 December 2017 were £305m (2016: £61m).

41. Fair value of assets and liabilities

The Group uses fair value to measure the majority of its assets and liabilities. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Estimates and assumptions

Determination of the fair value of private equity investments and debt securities categorised as level 3 in the fair value hierarchy are key estimates. Further details on the methods and assumptions used to value these investments are set out in Section (d) below. Disclosures regarding sensitivity of level 3 instruments measured at fair value on the statement of financial position to changes in key assumptions are set out in (d)(v) below.

(a) Determination of fair value hierarchy

To provide further information on the approach used to determine and measure the fair value of certain assets and liabilities, the following fair value hierarchy categorisation has been used:

- **Level 1** – Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** – Fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3** – Fair values measured using inputs that are not based on observable market data (unobservable inputs)

(b) Financial investments and financial liabilities

An analysis of the Group's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes 19 and 33 and includes those financial assets and liabilities held at fair value.

(c) Non-financial investments

An analysis of the Group's investment property and owner occupied property within property, plant and equipment in accordance with IAS 40 *Investment property* and IAS 16 *Property, plant and equipment* is presented in Notes 17 and 18 respectively and includes those assets held at fair value.

(d) Methods and assumptions used to determine fair value of assets and liabilities

Information on the methods and assumptions used to determine fair values for each major category of instrument measured at fair value is given below. These methods and assumptions include those used to fair value assets and liabilities held for sale, including the individual assets and liabilities of operations held for sale.

Investments in associates at FVTPL, equity securities and interests in pooled investment funds, and amounts seeded into funds classified as held for sale

Investments in associates at FVTPL are valued in the same manner as the Group's equity securities and interests in pooled investment funds.

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Unlisted equities are valued using an adjusted net asset value. The Group's exposure to unlisted equity securities primarily relates to private equity investments. The majority of the Group's private equity investments are carried out through European fund of funds structures, where the Group receives valuations from the investment managers of the underlying funds.

The valuations received from investment managers of the underlying funds are reviewed and where appropriate adjustments are made to reflect the impact of changes in market conditions between the date of the valuation and the end of the reporting period. The valuation of these securities is largely based on inputs that are not based on observable market data, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy. Where appropriate, reference is made to observable market data.

Where pooled investment funds have been seeded and the investment in the funds have been classified as held for sale, the costs to sell are assumed to be negligible. The fair value of pooled investment funds held for sale is calculated as equal to the observable unit price.

Investment property and owner occupied property

The fair value of investment property and all owner occupied property is based on valuations provided by external property valuation experts. The fair value of investment property is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. No adjustment has been made for vacant possession for the Group's owner occupied property.

In the UK and Europe, valuations are completed in accordance with the Royal Institution of Chartered Surveyors (RICS) valuation standards. These are predominantly produced using an income capitalisation approach. The income capitalisation approach is based on capitalising an annual net income stream using an appropriate yield. The annual net income is based on both current and estimated future net income. The yield and future net income used is determined by considering recent transactions involving property with similar characteristics to the property being valued. Where it is not possible to use an income capitalisation approach, for example on property with no rental income, a market comparison approach is used by considering recent transactions involving property with similar characteristics to the property being valued. In both approaches where appropriate, adjustments will be made by the valuer to reflect differences between the characteristics of the property being valued and the recent market transactions considered.

As income capitalisation and market comparison valuations generally include significant unobservable inputs including unobservable adjustments to recent market transactions, these assets are categorised as level 3 within the fair value hierarchy.

Derivative financial assets and derivative financial liabilities

The majority of the Group's derivatives are over-the-counter derivatives which are measured at fair value using a range of valuation models including discounting future cash flows and option valuation techniques. The inputs are observable market data and over-the-counter derivatives are therefore categorised as level 2 in the fair value hierarchy.

Exchange traded derivatives are valued using prices sourced from the relevant exchange. They are considered to be instruments quoted in an active market and are therefore categorised as level 1 instruments within the fair value hierarchy.

Non-performance risk arising from the credit risk of each counterparty has been considered on a net exposure basis in line with the Group's risk management policies. At 31 December 2017 and 31 December 2016 the residual credit risk is considered immaterial and therefore no credit risk adjustment has been made.

Debt securities

For debt securities, the Group has determined a hierarchy of pricing sources. The hierarchy consists of reputable external pricing providers who generally use observable market data. If prices are not available from these providers or are considered to be stale, the Group has established procedures to arrive at an internal assessment of the fair value. These procedures are based largely on inputs that are not based on observable market data. A further analysis by category of debt security is as follows:

- **Government, including provincial and municipal, and supranational institution bonds**
  These instruments are valued using prices received from external pricing providers who generally base the price on quotes received from a number of market participants. They are categorised as level 1 or level 2 instruments within the fair value hierarchy depending upon the nature of the underlying pricing information used for valuation purposes.
- **Corporate bonds listed or quoted in an established over-the-counter market including asset-backed securities**
  These instruments are generally valued using prices received from external pricing providers who generally consolidate quotes received from a panel of banks into a composite price. As the market becomes less active the quotes provided by some banks may be based on modelled prices rather than on actual transactions. These sources are based largely on observable market data, and therefore these instruments are categorised as level 2 instruments within the fair value hierarchy. When prices received from external pricing providers are based on a single broker indicative quote, the instruments are categorised as level 3 instruments.

  For instruments for which prices are either not available from external pricing providers or the prices provided are considered to be stale, the Group performs its own assessment of the fair value of these instruments. This assessment is largely based on inputs that are not based on observable market data, principally single broker indicative quotes, and accordingly these instruments are categorised as level 3 instruments within the fair value hierarchy.
- **Other corporate bonds including unquoted bonds, commercial paper and certificates of deposit**
  These instruments are valued using models. For unquoted bonds the model uses inputs from comparable bonds and includes credit spreads which are obtained from brokers or estimated internally. Commercial paper and certificates of deposit are valued using standard valuation formulas. The categorisation of these instruments within the fair value hierarchy will be either level 2 or 3 depending upon the nature of the underlying pricing information used for valuation purposes.
- **Commercial mortgages**
  These instruments are valued using models. The models use a discount rate adjustment technique which is an income approach. The key inputs for the valuation models are contractual future cash flows, which are discounted using a discount rate that is determined by adding a spread to the current base rate. The spread is derived from a pricing matrix which incorporates data on current spreads for similar assets and which may include an internal underwriting rating. These inputs are generally observable with the exception of the spread adjustment arising from the internal underwriting rating. The classification of these instruments within the fair value hierarchy will be either level 2 or 3 depending on whether the spread is adjusted by an internal underwriting rating
- **Income strips**
  Income strips are transactions where an owner-occupier of a property has sold a freehold or long leasehold interest to the Group, and has signed a long lease (typically 30 – 45 years) or a ground lease (typically 45-175 years) and retains the right to repurchase the property at the end of the lease for a nominal sum (usually £1).

  The valuation technique used by the Group to value these instruments is an income capitalisation approach, where the annual rental income is capitalised using an appropriate yield. The yield is determined by considering recent transactions involving similar income strips. Unlike investment properties which typically are leased on shorter lease terms, the estimated rental value is not a significant unobservable input. This is due to the length of the lease together with the nature of the rent reviews where the annual rental increases over the term of the lease in line with inflation or fixed increases. As the income capitalisation valuations generally include significant unobservable inputs including unobservable adjustments to the yield observed in other income strip transactions, these assets are categorised as level 3 in the fair value hierarchy.

Contingent consideration asset and contingent consideration liabilities

A contingent consideration asset was recognised during 2014 in respect of a purchase price adjustment mechanism relating to the acquisition of Ignis. The fair value of the asset is calculated using a binomial tree option pricing model. The main inputs are management fee income and expected probabilities of payouts. These are considered unobservable and as a result the asset is classified as level 3 in the fair value hierarchy.

Contingent consideration liabilities have also been recognised in respect of acquisitions. Generally valuations are based on unobservable assumptions regarding the probability weighted expected return and growth over the contractual period, discounted present value and therefore the liabilities are classified as level 3 in the fair value hierarchy.

Non-participating investment contract liabilities

The fair value of the non-participating investment contract liabilities is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets and liabilities in which these funds are invested. The underlying assets and liabilities are predominately categorised as level 1 or 2 and as such, the inputs into the valuation of the liabilities are observable. Therefore, the liabilities are categorised within level 2 of the fair value hierarchy.

Liabilities in respect of third party interest in consolidated funds

The fair value of liabilities in respect of third party interest in consolidated funds is calculated equal to the fair value of the underlying assets and liabilities in the funds. Thus, the value of these liabilities is dependent on the methods and assumptions set out above in relation to the underlying assets in which these funds are invested. When the underlying assets and liabilities are valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 2. Where the underlying assets and liabilities are not valued using readily available market information the liabilities in respect of third party interest in consolidated funds are treated as level 3.

(d)(i) Fair value hierarchy for assets measured at fair value in the statement of financial position

The table below presents the Group's assets measured at fair value by level of the fair value hierarchy.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy Level 1		Fair value hierarchy Level 2		Fair value hierarchy Level 3	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Investment property	**9,749**	9,929	**200**	228	**9,949**	10,157	**–**	–	**–**	–	**9,949**	10,157
Owner occupied property	**81**	58	**11**	8	**92**	66	**–**	–	**–**	–	**92**	66
Derivative financial assets	**3,053**	3,534	**–**	–	**3,053**	3,534	**990**	844	**2,063**	2,690	**–**	–
Equity securities and interests in pooled investment vehicles	**99,020**	90,683	**763**	27	**99,783**	90,710	**98,750**	89,750	**36**	2	**997**	958
Debt securities	**61,565**	67,933	**14**	–	**61,579**	67,933	**25,230**	28,721	**34,905**	38,344	**1,444**	868
Contingent consideration asset	**6**	10	**–**	–	**6**	10	**–**	–	**–**	–	**6**	10
Total assets at fair value	**173,474**	172,147	**988**	263	**174,462**	172,410	**124,970**	119,315	**37,004**	41,036	**12,488**	12,059

There were no transfers between levels 1 and 2 during the year (2016: £98m). Refer to 41(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's assets measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 39.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy Level 1		Level 2		Level 3	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Shareholder business												
Investment property	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Owner occupied property	**2**	–	**–**	–	**2**	–	**–**	–	**–**	–	**2**	–
Derivative financial assets	**21**	19	**–**	–	**21**	19	**6**	2	**15**	17	**–**	–
Equity securities and interests in pooled investment vehicles	**331**	88	**122**	27	**453**	115	**335**	88	**36**	2	**82**	25
Debt securities	**8,637**	8,384	**14**	–	**8,651**	8,384	**790**	928	**6,996**	6,704	**865**	752
Contingent consideration asset	**6**	10	**–**	–	**6**	10	**–**	–	**–**	–	**6**	10
Total shareholder business	**8,997**	8,501	**136**	27	**9,133**	8,528	**1,131**	1,018	**7,047**	6,723	**955**	787
Participating business												
Investment property	**1,480**	1,716	**163**	216	**1,643**	1,932	**–**	–	**–**	–	**1,643**	1,932
Owner occupied property	**30**	30	**11**	8	**41**	38	**–**	–	**–**	–	**41**	38
Derivative financial assets	**1,565**	2,211	**–**	–	**1,565**	2,211	**251**	480	**1,314**	1,731	**–**	–
Equity securities and interests in pooled investment vehicles	**10,327**	9,325	**–**	–	**10,327**	9,325	**9,929**	8,861	**–**	–	**398**	464
Debt securities	**26,107**	28,193	**–**	–	**26,107**	28,193	**16,197**	16,994	**9,851**	11,083	**59**	116
Total participating business	**39,509**	41,475	**174**	224	**39,683**	41,699	**26,377**	26,335	**11,165**	12,814	**2,141**	2,550
Unit linked funds												
Investment property	**5,721**	5,727	**4**	12	**5,725**	5,739	**–**	–	**–**	–	**5,725**	5,739
Owner occupied property	**49**	28	**–**	–	**49**	28	**–**	–	**–**	–	**49**	28
Derivative financial assets	**1,164**	1,025	**–**	–	**1,164**	1,025	**586**	281	**578**	744	**–**	–
Equity securities and interests in pooled investment vehicles	**80,099**	73,057	**639**	–	**80,738**	73,057	**80,483**	72,857	**–**	–	**255**	200
Debt securities	**22,191**	25,885	**–**	–	**22,191**	25,885	**7,354**	9,434	**14,317**	16,451	**520**	–
Total unit linked funds	**109,224**	105,722	**643**	12	**109,867**	105,734	**88,423**	82,572	**14,895**	17,195	**6,549**	5,967
TPICF and NCI[1]												
Investment property	**2,548**	2,486	**33**	–	**2,581**	2,486	**–**	–	**–**	–	**2,581**	2,486
Owner occupied property	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Derivative financial assets	**303**	279	**–**	–	**303**	279	**147**	81	**156**	198	**–**	–
Equity securities and interests in pooled investment vehicles	**8,263**	8,213	**2**	–	**8,265**	8,213	**8,003**	7,944	**–**	–	**262**	269
Debt securities	**4,630**	5,471	**–**	–	**4,630**	5,471	**889**	1,365	**3,741**	4,106	**–**	–
TPICF and NCI[1]	**15,744**	16,449	**35**	–	**15,779**	16,449	**9,039**	9,390	**3,897**	4,304	**2,843**	2,755
Total	**173,474**	172,147	**988**	263	**174,462**	172,410	**124,970**	119,315	**37,004**	41,036	**12,488**	12,059

1 Third party interest in consolidated funds and non-controlling interests.

FINANCIAL INFORMATION

(d)(ii) Fair value hierarchy for liabilities measured at fair value in the statement of financial position

The table below presents the Group's liabilities measured at fair value by level of the fair value hierarchy.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy Level 1		Level 2		Level 3	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Non-participating investment contract liabilities	**105,765**	102,059	**62**	–	**105,827**	102,059	**–**	–	**105,827**	102,059	**–**	–
Liabilities in respect of third party interest in consolidated funds	**16,457**	16,835	**28**	–	**16,485**	16,835	**–**	–	**15,187**	15,607	**1,298**	1,228
Derivative financial liabilities	**813**	965	**–**	–	**813**	965	**161**	185	**652**	780	**–**	–
Contingent consideration liabilities	**25**	15	**–**	–	**25**	15	**–**	–	**–**	–	**25**	15
Total liabilities at fair value	**123,060**	119,874	**90**	–	**123,150**	119,874	**161**	185	**121,666**	118,446	**1,323**	1,243

There were no transfers between levels 1 and 2 during the year (2016: none). Refer to 41(d)(iii) for details of movements in level 3.

The table that follows presents an analysis of the Group's liabilities measured at fair value by level of the fair value hierarchy for each risk segment as set out in Note 39.

	As recognised in the consolidated statement of financial position line item		Classified as held for sale		Total		Fair value hierarchy Level 1		Level 2		Level 3	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Shareholder business												
Derivative financial liabilities	**46**	12	**–**	–	**46**	12	**1**	1	**45**	11	**–**	–
Contingent consideration liabilities	**25**	15	**–**	–	**25**	15	**–**	–	**–**	–	**25**	15
Total shareholder business	**71**	27	**–**	–	**71**	27	**1**	1	**45**	11	**25**	15
Participating business												
Derivative financial liabilities	**64**	39	**–**	–	**64**	39	**44**	20	**20**	19	**–**	–
Total participating business	**64**	39	**–**	–	**64**	39	**44**	20	**20**	19	**–**	–
Unit linked funds												
Non-participating investment contract liabilities	**105,765**	102,059	**62**	–	**105,827**	102,059	**–**	–	**105,827**	102,059	**–**	–
Derivative financial liabilities	**556**	714	**–**	–	**556**	714	**100**	130	**456**	584	**–**	–
Total unit linked funds	**106,321**	102,773	**62**	–	**106,383**	102,773	**100**	130	**106,283**	102,643	**–**	–
TPICF and NCI[1]												
Liabilities in respect of third party interest in consolidated funds	**16,457**	16,835	**28**	–	**16,485**	16,835	**–**	–	**15,187**	15,607	**1,298**	1,228
Derivative financial liabilities	**147**	200	**–**	–	**147**	200	**16**	34	**131**	166	**–**	–
TPICF and NCI[1]	**16,604**	17,035	**28**	–	**16,632**	17,035	**16**	34	**15,318**	15,773	**1,298**	1,228
Total	**123,060**	119,874	**90**	–	**123,150**	119,874	**161**	185	**121,666**	118,446	**1,323**	1,243

[1] Third party interest in consolidated funds and non-controlling interests.

(d)(iii) Reconciliation of movements in level 3 instruments

The movements during the year of level 3 assets and liabilities held at fair value, excluding assets and liabilities held for sale, are analysed below.

	Investment property		Owner occupied property		Equity securities and interests in pooled investment funds		Debt securities		Liabilities in respect of third party interest in consolidated funds	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
At 1 January	**9,929**	9,991	**58**	55	**958**	905	**868**	787	**(1,228)**	(1,307)
Reclassified to held for sale	**(225)**	(191)	**(4)**	(8)	**–**	–	**–**	–	**–**	–
Reclassification between investment property and debt securities[1]	**(319)**	–	**–**	–	**–**	–	**319**	–	**–**	–
Acquired through business combinations	**–**	–	**2**	–	**100**	–	**–**	–	**–**	–
Total gains/(losses) recognised in the consolidated income statement	**485**	(302)	**4**	(1)	**72**	90	**35**	34	**(57)**	19
Purchases[2]	**413**	1,755	**3**	1	**191**	212	**362**	183	**(88)**	(19)
Settlement	**–**	–	**–**	–	**–**	–	**–**	–	**75**	81
Sales	**(525)**	(1,337)	**–**	(22)	**(317)**	(281)	**(125)**	(97)	**–**	–
Transfers in to level 3[3]	**–**	–	**–**	–	**8**	5	**27**	–	**–**	–
Transfers out of level 3[3]	**–**	–	**–**	–	**(7)**	(33)	**(42)**	(39)	**–**	–
Transfers between investment property and owner occupied property	**(17)**	(28)	**17**	28	**–**	–	**–**	–	**–**	–
Foreign exchange adjustment	**11**	44	**–**	–	**(13)**	60	**–**	–	**–**	(2)
Total gains recognised on revaluation of owner occupied property within other comprehensive income	**–**	–	**1**	5	**–**	–	**–**	–	**–**	–
Other	**(3)**	(3)	**–**	–	**2**	–	**–**	–	**–**	–
At 31 December	**9,749**	9,929	**81**	58	**994**	958	**1,444**	868	**(1,298)**	(1,228)

1 During 2017 income strips measured at £319m which were previously included within investment property were reclassified as debt securities to reflect the underlying nature of these instruments.

2 Purchases of investment property for the year ended 31 December 2017 includes £nil (2016: £1,289m) relating to the merger of property investment vehicles.

3 Transfers are deemed to have occurred at the end of the calendar quarter in which they arose.

In addition to the above, the Group had a contingent consideration asset with a fair value of £6m at 31 December 2017 (2016: £10m) and contingent consideration liabilities with a fair value of £25m (2016: £15m). Settlements of contingent consideration liabilities during the year were £7m (2016: £nil). Movements in the fair value of contingent consideration assets and liabilities are recognised in the consolidated income statement.

As at 31 December 2017, £425m of total gains (2016: £119m losses) were recognised in the consolidated income statement in respect of assets and liabilities held at fair value classified as level 3 at the year end. Of this amount £478m gains (2016: £137m losses) were recognised in investment return, £4m gains (2016: £1m losses) were recognised in other administrative expenses and £57m losses (2016: £19m gains) were recognised in change in liability for third party interest in consolidated funds.

Transfers of equity securities and interests in pooled investment funds and debt securities into level 3 generally arise when external pricing providers stop providing a price or where the price provided is considered stale. Transfers of equity securities and interests in pooled investment funds and debt securities out of level 3 arise when acceptable prices become available from external pricing providers.

(d)(iv) Significant unobservable inputs in level 3 instrument valuations

The table below identifies the significant unobservable inputs used in determining the fair value of level 3 instruments and quantifies the range of these inputs used in the valuation at the reporting date:

2017	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property and owner occupied property	9,571	Income capitalisation	Equivalent yield	3.3% to 9.0% (5.2%)
			Estimated rental value per square metre per annum	£32 to £1,716 (£326)
Investment property (hotels)	402	Income capitalisation	Equivalent yield	3.8% to 6.6% (5.1%)
			Estimated rental value per room per annum	£995 to £10,000 (£5,841)
Investment property and owner occupied property	68	Market comparison	Estimated value per square metre	£2 to £10,932 (£3,451)
Equity securities and interests in pooled investment funds	997	Adjusted net asset value	Adjustment to net asset value[1]	N/A
Debt securities (commercial mortgages)	379	Discounted cash flow	Credit spread	1.9% to 2.6% (2.2%)
Debt securities (income strips)	520	Income capitalisation	Equivalent yield	4.1% to 6.5% (5.1%)
Debt securities (unquoted corporate bonds)	506	Discounted cash flow	Credit spread	0.7% to 2.1% (1.6%)
Debt securities (infrastructure loans)	39	Discounted cash flow	Credit spread	1.9% to 2.6% (2.3%)

2016	Fair value £m	Valuation technique	Unobservable input	Range (weighted average)
Investment property and owner occupied property	9,567	Income capitalisation	Equivalent yield	3.6% to 9.1% (5.4%)
			Estimated rental value per square metre per annum	£29 to £2,422 (£336)
Investment property (hotels)	596	Income capitalisation	Equivalent yield	4.6% to 7.1% (5.7%)
			Estimated rental value per room per annum	£990 to £13,750 (£5,462)
Investment property and owner occupied property	60	Market comparison	Estimated value per square metre	£2 to £12,807 (£4,081)
Equity securities and interests in pooled investment funds	958	Adjusted net asset value	Adjustment to net asset value[1]	N/A
Debt securities (commercial mortgages)	451	Discounted cash flow	Credit spread	1.9% to 2.6% (2.1%)
Debt securities (unquoted corporate bonds)	373	Discounted cash flow	Credit spread	0.2% to 4.3% (1.9%)
Debt securities (infrastructure loans)	11	Discounted cash flow	Credit spread	2.2% (2.2%)[2]
Debt securities (other)	33	Single broker	Single broker indicative price[3]	N/A

1 An adjustment is made to the valuations of private equity investments received from the investment managers of the underlying funds to estimate the effect of changes in market conditions between the date of their valuations and the end of the reporting period using market indices. The adjustment made at 31 December 2017 was £nil (2016: an increase of £40m).

2 Restated.

3 Debt securities which are valued using single broker indicative quotes are disclosed in level 3 in the fair value hierarchy. No adjustment is made to these prices.

(d)(v) Sensitivity of the fair value of level 3 instruments to changes in key assumptions

The shareholder is directly exposed to movements in the value of level 3 instruments held by the shareholder business (to the extent they are not offset by opposite movements in investment and insurance contract liabilities). Movements in level 3 instruments held by the participating business and unit linked funds risk segments are offset by an opposite movement in investment and insurance contract liabilities and therefore the shareholder is not directly exposed to such movements unless they are sufficiently severe to cause the assets of the participating business to be insufficient to meet the obligations to policyholders. Movements in level 3 instruments held in the TPICF and NCI risk segment are offset by opposite movements in the liabilities in respect of third party interest in consolidated funds and in equity attributable to non-controlling interest and therefore the shareholder is not directly exposed to such movements.

Changing unobservable inputs in the measurement of the fair value of level 3 financial assets and financial liabilities to reasonably possible alternative assumptions would not have a significant impact on profit attributable to equity holders or on total assets. The alternative assumptions used in this assessment for debt securities are:

	Reasonably possible alternative assumptions	
	2017	2016
Unquoted corporate bonds	**Credit spread +/- 0.45%**	Credit spread +/- 0.45%
Commercial mortgages	**Credit spread +/- 0.40%**	Credit spread +/- 0.40%

Profit attributable to non-controlling interests – ordinary shares is exposed to movements in private equity investments, predominantly those held by Standard Life Private Equity Trust plc. The Group considers that a plausible range for the fair value of such private equity investments at 31 December 2017 is -10% to +25% of the 31 December valuation. The impact on profit attributable to non-controlling interests – ordinary shares of £25m for the year to 31 December 2017 for such changes in fair value is to reduce or increase that profit by £24m or £64m respectively with no impact on profit attributable to equity holders.

Whilst not having an impact on profit for the year, the Group has also considered the plausible range for the fair value of investment property at 31 December 2017. Based on independent research that has considered the reasonableness of historic UK property values by comparing valuations with actual sales prices achieved a plausible range for the fair value of the Group's UK property portfolio, comprising over 90% of the Group investment property portfolio is considered to be -5% to +8.5% of the 31 December valuation.

(e) Assets and liabilities not carried at fair value

The table below presents estimated fair values by level of the fair value hierarchy of assets and liabilities whose carrying value does not approximate fair value. Fair values of assets and liabilities are based on observable market inputs where available, or are estimated using other valuation techniques.

		As recognised in the consolidated statement of financial position line item		Fair value		Level 1		Level 2		Level 3	
		2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	Notes	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Assets											
Loans secured by mortgages	20	**57**	73	**64**	86	**–**	–	**64**	86	**–**	–
Liabilities											
Non-participating investment contract liabilities	33	**4**	4	**4**	4	**–**	–	**–**	–	**4**	4
Capital notes	34	**377**	–	**377**	–	**–**	–	**377**	–	**–**	–
Subordinated notes	34	**1,056**	499	**1,128**	530	**–**	–	**1,128**	530	**–**	–
Subordinated guaranteed bonds	34	**502**	502	**650**	577	**–**	–	**650**	577	**–**	–
Mutual Assurance Capital Securities	34	**318**	318	**349**	334	**–**	–	**349**	334	**–**	–

The estimated fair values for subordinated liabilities are based on the quoted market offer price. The estimated fair values of the other instruments detailed above are calculated by discounting the expected future cash flows at current market rates.

It is not possible to reliably calculate the fair value of participating investment contract liabilities. The assumptions and methods used in the calculation of these liabilities are set out in Note 31. The carrying value of participating investment contract liabilities at 31 December 2017 was £15,313m (2016: £15,537m). The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

42. Statement of cash flows

The tables below provide further analysis of the balances in the statement of cash flows.

(a) Change in operating assets

	2017 £m	2016 £m
Investment property	**(373)**	(116)
Equity securities and interests in pooled investment funds[1]	**(6,958)**	(12,453)
Debt securities	**7,279**	63
Derivative financial instruments	**305**	(1,331)
Reinsurance assets	**568**	140
Investments in associates and joint ventures accounted for using the equity method[1]	**21**	17
Receivables and other financial assets and other assets	**211**	118
Deferred acquisition costs	**30**	45
Loans	**206**	497
Assets held for sale	**62**	25
Change in operating assets	**1,351**	(12,995)

1 Presentation changed and comparative restated. Refer Note 16(c).

(b) Change in operating liabilities

	2017 £m	2016 £m
Other financial liabilities, provisions and other liabilities	**(897)**	1,209
Deposits received from reinsurers	**(460)**	(41)
Pension and other post-retirement benefit provisions	**(33)**	(19)
Deferred income	**(41)**	(46)
Insurance contract liabilities	**(1,090)**	1,393
Investment contract liabilities	**1,853**	9,051
Change in liability for third party interest in consolidated funds	**480**	1,379
Liabilities held for sale	**104**	–
Change in operating liabilities	**(84)**	12,926

(c) Other non-cash and non-operating items

	2017 £m	2016 £m
Profit on disposal of associates	**(319)**	–
Loss on disposal of property, plant and equipment	**1**	1
Depreciation of property, plant and equipment	**15**	14
Amortisation of intangible assets	**124**	64
Impairment losses on intangible assets	**77**	20
Impairment losses (reversed)/recognised on property, plant and equipment	**(4)**	1
Impairment losses on disposal group held for sale	**24**	–
Equity settled share-based payments	**39**	–
Other interest cost	**3**	3
Finance costs	**88**	82
Share of profit from associates and joint ventures accounted for using the equity method	**(45)**	(63)
Other non-cash and non-operating items	**3**	122

(d) Movement in non-controlling interests – ordinary shares and third party interest in consolidated funds arising from financing activities

The following table reconciles the movement in non-controlling interests and third party interests in consolidated funds in the year, split between cash and non-cash items.

	2017			2016		
	Non-controlling interests – ordinary shares £m	Third party interest in consolidated funds £m	Total £m	Non-controlling interests – ordinary shares £m	Third party interest in consolidated funds £m	Total £m
At 1 January	**297**	**16,835**	**17,132**	347	17,196	17,543
Cash flows from financing activities						
Net additions of units by third parties	**(5)**	**(1,006)**	**(1,011)**	(7)	(1,838)	(1,845)
Cash distributions	**(7)**	**(102)**	**(109)**	(4)	(105)	(109)
Cash flows from financing activities	**(12)**	**(1,108)**	**(1,120)**	(11)	(1,943)	(1,954)
Non-cash items						
Foreign exchange differences on translating foreign operations	**–**	**(54)**	**(54)**	10	200	210
Profit in the year attributable to non-controlling interests – ordinary shares	**25**	**–**	**25**	51	–	51
Change in liability for third party interest in consolidated funds	**–**	**1,124**	**1,124**	–	296	296
Movements arising from changes in control of subsidiaries and other non-cash movements	**(1)**	**(157)**	**(158)**	(59)	1,279	1,220
Non-cash distributions	**(20)**	**(183)**	**(203)**	(41)	(193)	(234)
At 31 December	**289**	**16,457**	**16,746**	297	(16,835)	17,132

(e) Movement in subordinated liabilities

The following table reconciles the movement in subordinated liabilities in the year, split between cash and non-cash items.

	2017 £m	2016 £m
At 1 January	**1,319**	1,318
Cash flows from financing activities		
Proceeds of issue of subordinated liabilities	**565**	–
Interest paid	**(81)**	(81)
Cash flows from financing activities	**484**	(81)
Non-cash items		
Amounts reclassified from equity	**380**	–
Interest expense	**88**	81
Amortisation	**1**	1
Foreign exchange adjustment	**(19)**	–
At 31 December	**2,253**	1,319

In addition to the interest paid on subordinated liabilities of £81m (2016: £81m), interest paid in the consolidated statement of cash flows includes £13m (2016: £nil) in relation to interest paid on perpetual notes classified as equity.

43. Contingent liabilities and contingent assets

Contingent liabilities are possible obligations of the Group of which timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised on the consolidated statement of financial position but are disclosed, unless they are considered remote. If such an obligation becomes probable and the amount can be measured reliably it is no longer considered contingent and is recognised as a liability.

Conversely, contingent assets are possible benefits to the Group. Contingent assets are only disclosed if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain it is no longer considered contingent and is recognised as an asset.

(a) Annuity sales practices relating to enhanced annuities

As discussed in Note 38, at the request of the Financial Conduct Authority (FCA), Standard Life Aberdeen is conducting a past business review of non-advised annuity sales. The purpose of the review is to identify whether relevant customers received sufficient information about enhanced annuities to make the right decisions about their purchase, and where appropriate provide redress to customers who have suffered loss as a result of not having received sufficient information. In relation to this review, the FCA is carrying out an investigation and it is possible that the FCA may impose a financial penalty on Standard Life Aberdeen. At this stage it is not possible to determine an estimate of the financial effect, if any, of this contingent liability.

Note 38 also provides disclosure of potential insurance recoveries relating to redress payable to customers, the costs of conducting the review and other related expenses. Any FCA levied financial penalties cannot be covered by such liability insurance.

(b) Legal proceedings, complaints and regulations

The Group is subject to regulation in all of the territories in which it operates insurance and investment businesses. In the UK, where the Group primarily operates, the FCA has broad powers, including powers to investigate marketing and sales practices.

The Group, like other financial organisations, is subject to legal proceedings, complaints and regulatory discussions, reviews and challenges in the normal course of its business. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Group incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings, complaints and related regulatory matters.

44. Commitments

The Group has contractual commitments in respect of expenditure on investment property, funding arrangements and leases which will be payable in future periods. These commitments are not recognised on the Group's statement of financial position at the year end but are disclosed to give an indication of the Group's future committed cash flows.

All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of the ownership of the leased asset.

(a) Capital commitments

As at 31 December 2017, capital expenditure that was authorised and contracted for, but not provided and incurred, was £167m (2016: £286m) in respect of investment property and income strips (discussed in Note 41). Of this amount, £147m (2016: £220m) and £20m (2016: £66m) relates to the contractual obligations to purchase, construct, or develop property and repair, maintain or enhance property respectively.

(b) Unrecognised financial instruments

The Group has committed £447m (2016: £453m) in respect of unrecognised financial instruments to customers and third parties. Of this amount £360m (2016: £363m) is committed by consolidated private equity funds. These commitments will be funded through contractually agreed additional investments both by the Group, through its controlling interests, and the funds' non-controlling interests. The level of funding provided by each will not necessarily be in line with the current ownership profile of the funds.

(c) Operating lease commitments

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Not later than one year	56	32
Later than one year and no later than five years	137	70
Later than five years	104	102
Total operating lease commitments	**297**	204

(d) Asset acquisitions

At 31 December 2017 the Group has contractual commitments in place to acquire assets under management for £74m (2016: £nil). These acquisitions remain subject to certain approvals and other conditions to closing.

45. Employee share-based payments and deferred fund awards

The Group operates share incentive plans for its employees. These generally take the form of an award of options or shares in Standard Life Aberdeen plc (equity-settled share based payments) but can also take the form of a cash award based on the share price of Standard Life Aberdeen plc (cash-settled share based payments). Aberdeen Asset Management PLC and its subsidiaries also incentivise certain employees through the award of units in Group managed funds (deferred fund awards) which are cash-settled. All the Group's incentive plans have conditions attached before the employee becomes entitled to the award. These can be performance and/or service conditions (vesting conditions) or the requirement of employees to save in the save-as-you-earn scheme (non-vesting condition). The period over which all vesting conditions are satisfied is the vesting period and the awards vest at the end of this period.

For all share-based payments services received for the incentive granted are measured at fair value.

For cash-settled share-based payment and deferred fund awards transactions, services received are measured at the fair value of the liability. The fair value of the liability is remeasured at each reporting date and any changes in fair value are recognised in the consolidated income statement.

For equity-settled share-based payment transactions, the fair value of services received is measured by reference to the fair value of the equity instruments at the grant date. The fair value of the number of instruments expected to vest is charged to the income statement over the vesting period with a corresponding credit to the equity compensation reserve in equity.

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the consolidated income statement with a corresponding adjustment to the equity compensation reserve.

Replacement share-based payment awards granted in a business combination are included in determining the consideration transferred. The amount included is calculated by reference to the pre-combination service and the market-measure of the replaced awards.

At the time the equity instruments vest, the amount recognised in the equity compensation reserve in respect of those equity instruments is transferred to retained earnings.

Share options

(i) Long-term incentive plans

The Group operates the following long-term incentive plans.

Plan	Recipients	Conditions which must be met prior to vesting
Standard Life Long-term incentive plan (Standard Life LTIP)	Executives and senior management	Service and performance conditions as set out in the Directors' remuneration report
Standard Life Investments Long-Term Incentive Plan (Standard Life Investments LTIP)	Executives and senior management	Service and performance conditions as set out in the Directors' remuneration report
Standard Life Restricted stock plan (Standard Life RSP)	Executives (other than executive Directors) and senior management	Service, or service and performance conditions. These are tailored to the individual award

All of the awards are equity-settled other than awards made under the Standard Life Investments LTIP in respect of employees in the US, France and Asia which are cash-settled.

(ii) Short-term incentive plan (annual bonus deferred share options)

The Group operates the following short-term incentive plans which award share options.

Plan	Recipients	Conditions which must be met prior to vesting
Short-term incentive plan (Standard Life Group STIP)	Executives and senior management	Service and performance conditions as set out in the Directors' remuneration report. There are no outstanding performance conditions.
Aberdeen Asset Management Deferred Share Plan 2009 (Aberdeen Asset Management DSP 2009)	Executives and senior management	Service conditions of one, two and three years after the date of the award (one to five years for executive management). There are no outstanding performance conditions.

(iii) Sharesave (Save-as-you-earn)

The Group operates Save-as-you-earn (SAYE) plans, which allow eligible employees in the UK and Ireland the opportunity to save a monthly amount from their salaries, over either a three or five year period, which can be used to purchase shares in the Company. The shares can be purchased at the end of the savings period at a predetermined price. Employees are granted a predetermined number of options based on the monthly savings amount and duration of their contract. The conditions attached to the options are that the employee remains in employment for three years after the grant date of the options and that the employee satisfies the monthly savings requirement. Settlement is made in the form of shares.

Other share plans

(i) Short-term incentive plan (annual bonus deferred share awards)

The Group operates the following short-term incentive plan which awards conditional shares.

Plan	Recipients	Conditions which must be met prior to vesting
Aberdeen Asset Management USA Deferred Share Award Plan (Aberdeen Asset Management USA DSAP)	US based executives and senior management	Service conditions of one, two and three years after the date of the award (one to five years for executive management). There are no outstanding performance conditions.

Unlike share options under the Aberdeen Asset Management DSP 2009 which have a ten year exercise period, conditional shares awarded under the Aberdeen Asset Management USA DSAP have no exercise period and the employee receives the shares at the end of the award's vesting period.

(ii) Share incentive plan

The Group operates a share incentive plan, allowing employees the opportunity to buy shares from their salary each month. The maximum purchase that an employee can make in any year is £1,800. The Group offers to match the number of shares bought up to a value of £50 each month. The matching shares awarded under the share incentive plan are granted at the end of each month. The matching shares are generally subject to a three year service period.

Employees may forfeit some or all of share options or awards made under any of the above share-based payment schemes if they leave the Group prior to the end of the awards' vesting periods.

Replacement awards

On the acquisition of Aberdeen on 14 August 2017, the outstanding options and awards for Aberdeen Asset Management PLC shares under the Aberdeen Asset Management DSP 2009 and Aberdeen Asset Management USA DSAP were replaced with equivalent options and awards for Standard Life Aberdeen plc shares. Aberdeen also operated a long-term incentive plan which was fully vested prior to acquisition and replaced awards were also issued for the remaining unexercised options. At the same date, options and awards for Standard Life Aberdeen plc shares were made to relevant Aberdeen employees by the plan in respect of pre-acquisition bonus.

(a) Options granted

The number, weighted average exercise price and weighted average remaining contractual life for options outstanding during the year are as follows:

	2017					2016				
	Long-term incentive plans (excluding RSP)	**RSP**	**Short-term incentive plans**	**Sharesave**	**Weighted average exercise price for Sharesave**	Long-term incentive plans (excluding RSP)	RSP	Short-term incentive plan	Sharesave	Weighted average exercise price for Sharesave
Outstanding at 1 January	**39,735,747**	**3,826,208**	**553,038**	**7,575,279**	**290p**	28,071,264	2,951,682	537,726	9,108,246	255p
Granted	**23,088,821**	**4,909,639**	**4,320,815**	**3,701,031**	**345p**	19,574,146	1,452,614	387,848	3,036,190	283p
Replaced	**615,761**	**–**	**29,081,898**	**–**	**–**	–	–	–	–	–
Forfeited	**(7,653,616)**	**(123,520)**	**(80,319)**	**(220,088)**	**302p**	(3,570,503)	(100,580)	–	(497,778)	279p
Exercised	**(3,778,506)**	**(1,464,118)**	**(5,621,989)**	**(1,898,442)**	**274p**	(4,339,160)	(477,508)	(372,536)	(3,365,277)	188p
Expired	**(2,431)**	**–**	**–**	**(22,259)**	**233p**	–	–	–	–	–
Cancelled	**–**	**(44,120)**	**(36,809)**	**(131,151)**	**298p**	–	–	–	(706,102)	312p
Outstanding at 31 December	**52,005,776**	**7,104,089**	**28,216,634**	**9,004,370**	**316p**	39,735,747	3,826,208	553,038	7,575,279	290p
Exercisable at 31 December	**585,889**	**59,611**	**8,447,606**	**291,259**	**288p**	40,970	25,161	–	302,214	193p
Weighted average remaining contractual life of options outstanding (years)	**2.06**	**1.63**	**10.36**	**2.84**		2.21	1.35	1.43	2.66	

The exercise price for options granted under all long-term and short-term incentive schemes is nil. The fair value of options granted under the Group's incentive schemes is determined using a relevant valuation technique, such as the Black Scholes option pricing model.

The following table shows the weighted average assumptions that were considered in determining the fair value of options granted during the year and the share price at exercise of options exercised during the year.

	Long-term incentive plans (excluding RSP)	**RSP**	**Short-term incentive plans**	**Sharesave**
Options granted during the year				
Grant date	27 March 2017	Throughout	31 March 2017 and 14 August 2017	17 October 2017
Share price at grant date	354p	367p	355p and 411p	429p
Fair value at grant date	354p	367p	355p and 411p[1]	67p
Exercise price	Nil	Nil	Nil	333p-345p
Dividends	The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date	The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date	The plan includes the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date for the Standard Life Group STIP and the exercise date for the Aberdeen Asset Management DSP 2009	No dividend entitlement
Option term (years)	3.43	2.26	3.27	3.53
Options exercised during the year				
Share price at time of exercise	358p	364p	423p	419p

[1] The fair value of options granted under the Aberdeen Asset Management DSP 2009 in respect of pre-acquisition bonus was calculated by reference to the share price on acquisition of Aberdeen adjusted for pre-combination service. The fair value of replaced awards was calculated in the same way.

No departures from share option schemes are expected at grant date, with any leavers being accounted for on departure. In determining the fair value of options granted under the Sharesave scheme the historic volatility of the share price over a period of up to five years and a risk free rate determined by reference to swap rates was also considered.

The following table shows the range of exercise prices of options outstanding at 31 December 2017. All options are exercisable for a period of six months after the vesting date except for the options under the Aberdeen Asset Management DSP 2009 which are exercisable for a period of ten years after the vesting period.

	2017 Number of options outstanding	2016 Number of options outstanding
Long-term incentive plans		
£nil	**58,567,339**	43,561,955
172p	**542,526**	–
Short-term incentive plan		
£nil	**28,216,634**	553,038
Sharesave		
Less than 200p	**–**	206,770
200p-327p	**3,949,902**	5,891,582
328p-400p	**5,054,468**	1,476,927
Outstanding at 31 December	**96,330,869**	51,690,272

(b) Other share plans

	2017		2016
	Annual bonus deferred share awards	**Share incentive plan[1]**	Share incentive plan
Number of share awards granted	**955,823**	**529,277**	503,931
Number of share awards replaced	**573,099**	**–**	–
Share price at date of grant[2]	**411p**	**396p**	333p
Fair value per granted instrument at grant date	**411p**	**396p**	333p

1 Included in the number of instruments granted are 9,048 (2016: 11,814) rights to shares granted to eligible employees in Germany and Austria.

2 Weighted average.

The fair value of share awards replaced under the Annual bonus deferred share awards was calculated by reference to the share price on acquisition of Aberdeen adjusted for pre-combination service. The fair value of instruments granted is calculated by reference to the share price at grant date. The plans include the entitlement to the receipt of dividends in respect of awards that ultimately vest between the date of grant and the vesting date. At the grant date all awards are expected to vest. No departures are expected at the grant date, with leavers being accounted for on departure.

(c) Employee share-based payment expense and deferred fund awards

The amounts recognised as an expense for equity-settled share-based payment transactions and deferred fund awards with employees are as follows:

	2017 £m	2016 £m
Share options granted under long-term incentive plans	**19**	25
Share options granted under Sharesave	**1**	2
Share options and share awards granted under short-term incentive plans	**18**	2
Matching shares granted under share incentive plans	**1**	1
Equity-settled share-based payments	**39**	30
Cash-settled share-based payments	**1**	2
Cash-settled deferred fund awards	**10**	–
Total expense	**50**	32

Included in the expense above is £12m (2016: £nil) of share-based payment expenses which are included in restructuring and corporate transaction expenses in the consolidated income statement.

The liability for cash-settled share-based payments outstanding at 31 December 2017 is £3m (2016: £4m).

Deferred fund awards
At 31 December 2017, the liability recognised for cash-settled deferred awards was £52m (2016: £nil). The total intrinsic value of unvested awards at 31 December 2017 was £31m (2016: £nil).

46. Related party transactions

(a) Transactions and balances with related parties

In the normal course of business, the Group enters into transactions with related parties that relate to insurance and investment management business.

During the year, the Group recognised management fees from Group managed non-consolidated investment vehicles. These fees are disclosed in Note 40. It also recognised management fees of £4m (2016: £5m) from the Group's defined benefit pension plans. There were no sales to or purchases from associates accounted for under the equity method during the year ended 31 December 2017 or 31 December 2016.

There were no sales to or purchases from joint ventures during the year ended 31 December 2017 (2016: purchases of £1m). Details of the proposed sale of a subsidiary to our joint venture business are included in Note 24.

In addition to these transactions between the Group and related parties during the year, in the normal course of business the Group made a number of investments into/divestments from investment vehicles managed by the Group including investment vehicles which are classified as investments in associates measured at FVTPL. Group entities paid amounts for the issue of shares or units and received amounts for the cancellation of shares or units.

The Group had balances due from associates accounted for using the equity method of £nil (2016: £nil) and from joint ventures of £nil (2016: £3m) at 31 December 2017. The Group's defined benefit pension plans have assets of £1,210m (2016: £1,028m) invested in investment vehicles managed by the Group.

(b) Compensation of key management personnel

In 2017 key management personnel includes Directors of Standard Life Aberdeen plc (since appointment) and the Chief Executive Officer Pensions and Savings; in 2016 key management personnel included Directors of Standard Life plc only. Detailed disclosures of Directors' remuneration for the year and transactions in which the Directors are interested are contained within the audited section of the Directors' remuneration report.

The summary of compensation of key management personnel is as follows:

	2017 £m	2016 £m
Salaries and other short-term employee benefits	9	6
Post-employment benefits	–	1
Share-based payments	3	3
Termination benefits	1	–
Total compensation of key management personnel	**13**	**10**

(c) Transactions with key management personnel and their close family members

All transactions between key management and their close family members and the Group during the year are on terms which are equivalent to those available to all employees of the Group.

During the year to 31 December 2017, key management personnel and their close family members contributed £nil (2016: £1m) to Pensions and Savings products sold by the Group. At 31 December 2017 the total value of key management personnel's investments in Group Pensions and Savings products was £14m (2016: £16m). Certain members of key management personnel also hold investments in Aberdeen Standard Investments products which are managed by the Group. None of the amounts concerned are material in the context of funds managed by Aberdeen Standard Investments.

47. Capital management

(a) Capital management policies and risk management objectives

Managing capital is the ongoing process of determining and maintaining the quantity and quality of capital appropriate for the Group and ensuring capital is deployed in a manner consistent with the expectations of our stakeholders. For these purposes, the Board considers our key stakeholders to be the providers of capital (our equity holders, policyholders and holders of our subordinated liabilities) and the Prudential Regulation Authority (PRA).

There are two primary objectives of capital management within the Group. The first objective is to ensure that capital is, and will continue to be, adequate to maintain the required level of financial stability of the Group and hence to provide an appropriate degree of security to our stakeholders – this aspect is measured by the Group's regulatory solvency position. The second objective is to create equity holder value by driving profit attributable to equity holders.

The liquidity and capital management policy forms one aspect of the Group's overall management framework. Most notably, it operates alongside and complements the strategic investment policy and the Group risk policies. Integrating policies in this way enables the Group to have a capital management framework that robustly links the process of capital allocation, value creation and risk management.

The capital requirements of each business unit are forecast on a periodic basis and the requirements are assessed against the forecast available capital resources. In addition, internal rates of return achieved on capital invested are assessed against hurdle rates, which are intended to represent the minimum acceptable return given the risks associated with each investment. The capital planning process is the responsibility of the Chief Financial Officer. Capital plans are ultimately subject to approval by the Board.

The formal procedures for identifying and assessing risks that could affect the capital position of the Group are described in the risk management policies set out in Note 39.

(b) Regulatory capital

(b)(i) Regulatory capital framework

From 1 January 2016, both the consolidated Group and regulated insurance entities within the Group operating in the EU have been required to measure and monitor their capital resources under the Solvency II (SII) regulatory regime.

The Group's capital position under SII is determined by aggregating the assets and liabilities of the Group recognised and measured on a SII basis (being own funds) and comparing this to the Group's SII solvency capital requirement (SCR) to determine surplus capital.

There are a number of differences to the recognition and measurement of the Group's assets and liabilities on a SII basis compared to IFRS. These are described in (b)(iii).

The Group's SII SCR primarily consists of the consolidated SII SCR for insurance entities (including Standard Life Aberdeen plc) which is calculated on the basis of management's own regulator-approved internal model. In addition, the Group's SCR also includes SII SCRs for other insurance entities whose SCRs are calculated on the basis of the standard formula within the SII regulations, and the capital requirements of other regulated entities in the Group that are set by their regulator. The SII SCRs for insurance entities are calibrated so that the likelihood of a loss exceeding the SII SCR in one year is less than 0.5%. The SII capital resources are also subject to Minimum Capital Requirements. The capital requirements of regulated non-insurance entities are included in the Group SCR on a Pillar 1 basis, with Pillar 2 and Individual Capital Guidance (ICG) requirements allowed for by a deduction to Group own funds.

Surplus capital at individual entity level is assessed for availability to the Group and therefore may be restricted when determining Group own funds.

This regulatory framework can be summarised as follows for the main regulated entities in the Group:

	Entity level	Contribution to Group SII position
Standard Life Investments Limited	BIPRU[1]	BIPRU[1]
Aberdeen Asset Management PLC	IFPRU[2]	IFPRU[2]
Standard Life Assurance Limited (SLAL)	SII internal model	SII internal model
Standard Life International DAC	SII standard formula	SII standard formula
Aberdeen Asset Management Life and Pensions Limited	SII standard formula	SII standard formula
Standard Life Aberdeen plc	–	SII internal model
Standard Life (Asia) Limited	Local regime (Hong Kong)	SII standard formula
Heng An Standard Life Insurance Company Limited	Local regime (China)	SII standard formula
HDFC Standard Life Insurance Company Limited	Local regime (India)	Excluded

1 Prudential Sourcebook for Banks, Building Societies and Investment Firms.

2 Prudential Sourcebook for Investment Firms.

(b)(ii) Regulatory capital position (unaudited)

The table below shows the Group's own funds and solvency capital requirement:

	2017[1] £bn	2016[1] £bn
Own funds	7.3	7.2
Solvency capital requirement (SCR)	(3.7)	(4.1)
Solvency II capital surplus	**3.6**	3.1
Solvency cover	197%	177%

1 2017 based on draft regulatory returns, 2016 based on final regulatory returns.

The Group has complied with all externally imposed capital requirements during the year. The Group position can be analysed as follows:

31 December 2017[1]	Own funds £bn	SCR £bn	Surplus £bn
SLAL	6.4	3.2	3.2
Restriction on SLAL own funds recognised at Group	(1.1)	–	(1.1)
Other businesses	2.0	0.5	1.5
Group total	**7.3**	**3.7**	**3.6**

31 December 2016[1]	Own funds £bn	SCR £bn	Surplus £bn
SLAL	6.7	3.8	2.9
Restriction on SLAL own funds recognised at Group	(0.8)	–	(0.8)
Other businesses	1.3	0.3	1.0
Group total	**7.2**	**4.1**	**3.1**

1 2017 based on draft regulatory returns, 2016 based on final regulatory returns.

The Group's own funds do not take into account capital in subsidiaries that is not deemed to be freely transferable around the Group.

(b)(iii) Reconciliation of regulatory capital own funds to IFRS equity (unaudited)

A reconciliation of the Group own funds to the equity attributable to equity holders of Standard Life Aberdeen plc on an IFRS basis is as follows:

	2017[5] £bn	2016[5] £bn
Own funds	**7.3**	7.2
Add unrecognised Solvency II capital (availability restriction)	**0.2**	0.2
Remove with profits funds and pension scheme contribution to own funds[1]	**(0.7)**	(1.2)
Remove subordinated liabilities contribution to own funds[2]	**(2.1)**	(1.6)
Remove value of fee business future profits[3]	**(3.0)**	(2.9)
Add IFRS pension scheme surplus[1]	**1.1**	1.1
Add IFRS DAC, DIR and other intangibles assets and other valuation differences[4]	**5.8**	1.5
IFRS equity attributable to equity holders of Standard Life Aberdeen plc	**8.6**	4.3

1 In determining Group own funds the asset recognised for a surplus in a with profits fund or a defined benefit pension scheme is restricted to their capital requirements.

2 Subordinated liabilities provide capital in SII provided certain conditions are met.

3 The measurement of technical provisions in Group own funds reflects the value of future profits on investment fee business which are not included in the measurement of IFRS liabilities.

4 Certain items that are recognised as assets and liabilities under IFRS are not recognised as assets and liabilities in Group own funds, being the Group's DAC, DIR and other intangible assets. Intangible assets include goodwill acquired through business combinations. Other valuation differences are mainly due to differences in the measurement of technical provisions for insurance business.

5 2017 based on draft regulatory returns, 2016 based on final regulatory returns.

48. Events after the reporting date

The impact of the review of long term asset management arrangements by Lloyds Banking Group and Scottish Widows is discussed in Note 14.

On 23 February 2018 the Group announced the sale of the majority of the business within the Pensions and Savings reportable segment to Phoenix Group Holdings (Phoenix) (the Sale), conditional on shareholder and relevant regulatory approvals. The Sale includes the disposal of Standard Life Assurance Limited (SLAL).

Under the transaction the following businesses will be retained by the Group:

- UK retail platforms, including Wrap and Elevate
- 1825, our financial advice business

In addition, the assets and liabilities of both the UK and Ireland Standard Life defined benefit pension plans will be retained by the Group.

The total consideration payable to the Group by Phoenix in respect of the Sale is £3.24bn. This comprises cash payable on closing of £2.0bn, a dividend to be paid by SLAL to the Company of £0.3bn in Q2 2018 and new shares issued at completion representing 20% of the then issued share capital of Phoenix following the completion of the rights issue undertaken to part finance the acquisition and worth £1.0bn based on Phoenix's share price on 22 February 2018. The shareholding in Phoenix is subject to a lock-up of 12 months from completion.

The Group and Phoenix have also agreed to significantly expand their existing long-term strategic partnership whereby the Group continues as Phoenix's long-term asset management partner for the business acquired by Phoenix and the existing arrangements between the parties under which the Group manages £48bn of assets for Phoenix have been extended.

The financial effect of the transaction, if it completes, is expected to be as follows at completion:

- recognition of a gain on disposal in the consolidated income statement. The magnitude of the gain will be dependent on the net asset value of the business disposed of at completion and the share price of Phoenix at completion.
- recognition of the cash proceeds as detailed above
- recognition of an investment in associate relating to the 20% shareholding in the enlarged Phoenix group

The sale is also expected to result in a material capital release for the Group.

The earnings of the group post completion will reflect the disposal of the majority of the Pensions and Savings reportable segment and a share of profit or loss from associates relating to the investment in associate set out above.

49. Related undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings are subsidiaries, joint ventures, associates and other significant holdings. In this context significant means either a shareholding greater than or equal to 20% of the nominal value of any class of shares, or a book value greater than 20% of the Group's assets.

The particulars of the Company's related undertakings at 31 December 2017 are listed below. For details of the Group's consolidation policy refer to (b) Basis of consolidation in the Presentation of consolidated financial statements section.

The ability of subsidiaries to transfer cash or other assets within the Group for example through payment of cash dividends is generally restricted only by local laws and regulations, and solvency requirements. Included in equity attributable to equity holders of Standard Life Aberdeen plc at 31 December 2017 is £85m (2016: £3m) related to the Standard Life Foundation, a subsidiary undertaking of the Group. During the year to 31 December 2017 the Company made a donation to the Standard Life Foundation related to the unclaimed shares and unclaimed cash that were transferred to the Company on expiry of the Unclaimed Asset Trust claim period in 2016. These assets are now restricted to be used for charitable purposes. Additionally dividends and coupons payable on Aberdeen's preference shares or perpetual notes rank ahead of any dividends paid on Aberdeen's ordinary shares. These are not considered significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

The Group also has investments in Qualifying Limited Partnerships which are consolidated in these financial statements. For the Qualifying Limited Partnerships, North American Strategic Partners (Feeder) 2006 Limited Partnership and North American Strategic Partners (Feeder) 2008 Limited Partnership an exemption from filing annual financial statements with Companies House has been taken in accordance with the Partnership Accounting Regulations (2008).

The registered head office of all related undertakings is 1 George St, Edinburgh, EH2 2LL unless otherwise stated.

(a) Direct subsidiaries

Name of related undertaking	Share class[1]	% interest held
30 STMA 1 Limited[3]	Ordinary Shares	100%
30 STMA 2 Limited[3]	Ordinary Shares	100%
30 STMA 3 Limited[3]	Ordinary Shares	100%
30 STMA 4 Limited[3]	Ordinary Shares	100%
30 STMA 5 Limited[3]	Ordinary Shares	100%
Aberdeen Asset Management PLC[4]	Ordinary Shares	100%
Focus Solutions Group Limited[6]	Ordinary Shares	100%
Standard Life (Asia Pacific Holdings) Private Limited[7]	Ordinary Shares	100%
Standard Life Assurance Limited[2]	Ordinary Shares Ordinary B Shares	100%
Standard Life (London) Limited[3]	Ordinary Shares	100%
Standard Life (Mauritius Holdings) 2006 Limited[8]	Ordinary Shares	100%
Standard Life Employee Services Limited[2]	Ordinary Shares	100%
Standard Life Finance Limited[2]	Ordinary Shares	100%
Standard Life Foundation[2]	N/A	100%
Standard Life Investments (Holdings) Limited	Ordinary Shares	100%
Standard Life Oversea Holdings Limited[2]	Ordinary Shares	100%
Threesixty Support LLP[9]	Limited Liability Partnership	100%
Vebnet (Holdings) Limited[3]	Ordinary Shares	100%

(b) Other subsidiaries, joint ventures, associates and other significant holdings

Name of related undertaking	Share class[1]	% interest held
1825 Financial Planning Limited[3]	Ordinary Shares	100%
28 Ribera del Loira SA[10]	Ordinary Shares	100%
30 SLH 1 Limited[2]	Ordinary shares	100%
330 Avenida de Aragon SL[10]	Ordinary Shares	100%
4th Contact Limited[3]	Ordinary Shares	100%
Aberdeen ACP LLP[4]	Limited Liability Partnership	100%
Aberdeen Alternatives (Holdings) Limited[4]	Ordinary shares	100%
Aberdeen Asia IV (General Partner) S.a.r.l.[11]	Ordinary shares	100%
Aberdeen Asset Investment Group Limited[5]	Ordinary shares	100%
Aberdeen Asset Investments Limited[5]	Ordinary shares	100%
Aberdeen Asset Management (Shanghai) Co. Ltd[12]	Limited Liability Company	100%
Aberdeen Asset Management Asia Limited[13]	Ordinary shares	100%
Aberdeen Asset Management Canada Limited[14]	Ordinary shares	100%
Aberdeen Asset Management Cayman Limited[15]	Ordinary shares	100%
Aberdeen Asset Management Company Limited[16]	Ordinary shares	100%

Name of related undertaking	Share class[1]	% interest held
Aberdeen Asset Management Denmark A/S[17]	Ordinary shares	100%
Aberdeen Asset Management Deutschland AG[18]	Ordinary shares	94%
Aberdeen Asset Management Finland Oy[19]	Ordinary shares	100%
Aberdeen Asset Management Hungary Alapkezelo Zrt[20]	Ordinary shares	100%
Aberdeen Asset Management Inc.[21]	Ordinary shares	100%
Aberdeen Asset Management Investment Funds Limited[22]	Ordinary shares	100%
Aberdeen Asset Management Life and Pensions Limited[5]	Ordinary shares	100%
Aberdeen Asset Management Limited[23]	Ordinary shares	100%
Aberdeen Asset Management Nominees Limited[24]	Ordinary shares	100%
Aberdeen Asset Management Norway AS[25]	Ordinary shares	100%
Aberdeen Asset Management Norway Holding AS[25]	Ordinary shares	100%
Aberdeen Asset Management Operations AS[25]	Ordinary shares	100%
Aberdeen Asset Management SDN BHD[26]	Ordinary shares	100%
Aberdeen Asset Management Services Limited[27]	Ordinary shares	100%
Aberdeen Asset Management Sweden AB[28]	Ordinary shares	100%
Aberdeen Asset Management US GP Control LLC[29]	Limited Liability Company	100%
Aberdeen Asset Managers (Luxembourg) S.a.r.l.[30]	Ordinary shares	100%
Aberdeen Asset Managers Limited[4]	Ordinary shares	100%
Aberdeen Asset Managers Switzerland AG[31]	Ordinary shares	100%
Aberdeen Asset Middle East Limited[32]	Ordinary shares	100%
Aberdeen Capital Management LLC[33]	Limited Liability Company	100%
Aberdeen Capital Managers GP LLC[34]	Limited Liability Company	100%
Aberdeen Claims Administration, Inc.[21]	Ordinary shares	100%
Aberdeen Direct Property (Holding) Limited[5]	Ordinary shares	100%
Aberdeen Diversified Growth Fund[5]	Unit trust	62%
Aberdeen Diversified-Core Adventurous Fund[5]	Unit trust	45%
Aberdeen Diversified-Core Cautious Fund[5]	Unit trust	72%
Aberdeen Diversified-Core Conservative Fund[5]	Unit trust	90%
Aberdeen do Brasil Gestao de Recursos Ltda[35]	Limited Liability Company	100%
Aberdeen Emerging Capital Limited[22]	Ordinary shares	100%
Aberdeen Emerging Market Debt Local Currency Fund[36]	Commingled fund	25%
Aberdeen European Infrastructure Carry GP Limited[4]	Ordinary shares	100%
Aberdeen European Infrastructure Carry Limited[4]	Ordinary shares	100%
Aberdeen European Infrastructure GP II Limited[5]	Ordinary shares	100%
Aberdeen European Infrastructure GP Limited[5]	Ordinary shares	100%
Aberdeen France S.A.[37]	Ordinary shares	100%
Aberdeen Fund Distributors LLC[29]	Limited Liability Company	100%
Aberdeen Fund Management II Oy[19]	Ordinary shares	100%
Aberdeen Fund Management Ireland Limited[38]	Ordinary shares	100%
Aberdeen Fund Management Norway AS[25]	Ordinary shares	100%
Aberdeen Fund Management Oy[19]	Ordinary shares	100%
Aberdeen Fund Managers Limited[5]	Ordinary shares	100%
Aberdeen General Partner 1 Limited[4]	Ordinary shares	100%
Aberdeen General Partner 2 Limited[4]	Ordinary shares	100%
Aberdeen General Partner CAPELP Limited[15]	Ordinary shares	100%
Aberdeen General Partner CGPLP Limited[15]	Ordinary shares	100%
Aberdeen General Partner CMENAPELP Limited[15]	Ordinary shares	100%
Aberdeen General Partner CPELP II Limited[15]	Ordinary shares	100%
Aberdeen General Partner CPELP Limited[15]	Ordinary shares	100%
Aberdeen Global - Asian Credit Bond Fund[39]	SICAV	50%
Aberdeen Global - Emerging Markets Local Currency Corporate Bond Fund[39]	SICAV	71%
Aberdeen Global - European Equity (ex-UK) Fund[39]	SICAV	42%
Aberdeen Global - German Equity Fund[39]	SICAV	100%
Aberdeen Global - Swiss Equity Fund[39]	SICAV	100%
Aberdeen Global ex-Japan GP Limited[15]	Ordinary shares	100%
Aberdeen Global II - US Dollar Credit Bond Fund[39]	SICAV	51%
Aberdeen Global Infrastructure Carry GP Limited[4]	Ordinary shares	100%
Aberdeen Global Infrastructure GP II Limited[40]	Ordinary shares	100%

Name of related undertaking	Share class[1]	% interest held
Aberdeen Global Infrastructure GP Limited[40]	Ordinary shares	100%
Aberdeen Global Services SA[39]	Ordinary shares	100%
Aberdeen GP 1 LLP[4]	Limited Liability Partnership	100%
Aberdeen GP 2 LLP[4]	Limited Liability Partnership	100%
Aberdeen GP 3 LLP[4]	Limited Liability Partnership	100%
Aberdeen Indonesia Balanced Growth Fund[41]	Unit trust	78%
Aberdeen Indonesia Government Bond Fund[41]	Unit trust	39%
Aberdeen Indonesia Money Market Fund[41]	Unit trust	60%
Aberdeen Infrastructure Feeder GP Limited[4]	Ordinary shares	100%
Aberdeen Infrastructure Finance GP Limited[40]	Ordinary shares	100%
Aberdeen Infrastructure GP II Limited[5]	Ordinary shares	100%
Aberdeen Infrastructure Spain Co-Invest II GP Limited[40]	Ordinary shares	100%
Aberdeen International Fund Managers Limited[42]	Ordinary shares	100%
Aberdeen International Securities Investment Consulting Company Limited[43]	Ordinary shares	100%
Aberdeen Investment Company Limited[4]	Ordinary shares	100%
Aberdeen Investment Solutions Limited [4]	Ordinary shares	100%
Aberdeen Investments Euro Limited[5]	Ordinary shares	100%
Aberdeen Investments Jersey Limited[44]	Ordinary shares	100%
Aberdeen Investments Limited[5]	Ordinary shares	100%
Aberdeen Investments USD Limited[5]	Ordinary shares	100%
Aberdeen Islamic Asia Pacific ex-Japan Equity Fund[45]	Unit trust	30%
Aberdeen Islamic Asset Management SDN BHD[26]	Ordinary shares	100%
Aberdeen Islamic Malaysia Equity Fund[45]	Unit trust	94%
Aberdeen Japanese Equities Fund[36]	OEIC	84%
Aberdeen Korea Co., Ltd[46]	Ordinary shares	100%
Aberdeen Nominees Services Limited[42]	Ordinary shares	100%
Aberdeen Pension Trustees Limited[4]	Ordinary shares	100%
Aberdeen Private Equity Advisers Limited[22]	Ordinary shares	100%
Aberdeen Private Equity Managers Limited[22]	Ordinary shares	100%
Aberdeen Private Wealth Management Limited[44]	Ordinary shares	100%
Aberdeen Property Asset Managers Limited[22]	Ordinary shares	100%
Aberdeen Property Fund Limited Partner Oy[19]	Ordinary shares	100%
Aberdeen Property Fund Management (Jersey) Limited[47]	Ordinary shares	100%
Aberdeen Property Fund Management AB[28]	Ordinary shares	100%
Aberdeen Property Fund Management Estonia Ou[48]	Ordinary shares	100%
Aberdeen Property Investors (General Partner) S.a.r.l.[49]	Ordinary shares	100%
Aberdeen Property Investors Estonia Ou[48]	Ordinary shares	100%
Aberdeen Property Investors France SAS[37]	Ordinary shares	100%
Aberdeen Property Investors Limited Partner Oy[19]	Ordinary shares	100%
Aberdeen Property Investors Sweden AB[28]	Ordinary shares	100%
Aberdeen Property Investors The Netherlands BV[50]	Ordinary shares	100%
Aberdeen Property Managers Limited[22]	Ordinary shares	100%
Aberdeen Real Estate Investors Operations (UK) Limited[22]	Ordinary shares	100%
Aberdeen Real Estate Operations Limited[4]	Ordinary shares	100%
Aberdeen Residential JV Feeder Limited Partner Oy[19]	Ordinary shares	100%
Aberdeen Secondaries II GP S.a.r.l.[39]	Ordinary shares	100%
Aberdeen SP 2013 A/S[17]	Ordinary shares	100%
Aberdeen Standard Asset Management Limited[2]	Ordinary shares	100%
Aberdeen Standard Group Limited[2]	Ordinary shares	100%
Aberdeen Standard Investment Management Limited[2]	Ordinary shares	100%
Aberdeen Standard Investments (Japan) Limited[51]	Ordinary shares	100%
Aberdeen Standard Investments Limited[2]	Ordinary shares	100%
Aberdeen Standard Investments Taiwan Limited[43]	Ordinary shares	100%
Aberdeen Standard Life Asset Management Limited[2]	Ordinary shares	100%
Aberdeen Standard Life Group Limited[2]	Ordinary shares	100%
Aberdeen Standard Life Investments Limited[2]	Ordinary shares	100%
Aberdeen Standard Life Investments Limited[2]	Ordinary Shares	100%
Aberdeen Standard Life Limited[2]	Ordinary shares	100%

Name of related undertaking	Share class[1]	% interest held
Aberdeen Standard Limited[2]	Ordinary shares	100%
Aberdeen Sterling Long Dated Corporate Bond Fund[4]	OEIC	39%
Aberdeen Sterling Long Dated Government Bond Fund[4]	OEIC	31%
Aberdeen Trust Limited[4]	Ordinary shares	100%
Aberdeen U.S. Mid Cap Equity Fund[36]	OEIC	98%
Aberdeen UK Infrastructure Carry GP Limited[4]	Ordinary shares	100%
Aberdeen UK Infrastructure Carry Limited[4]	Ordinary shares	100%
Aberdeen UK Infrastructure GP Limited[5]	Ordinary shares	100%
Aberdeen Unit Trust Managers Limited[4]	Ordinary shares	100%
AEROF (Luxembourg) GP S.a.r.l.[39]	Ordinary shares	100%
AFM Nominees Limited[24]	Ordinary shares	100%
AIPP Pooling I SA[39]	Ordinary shares	100%
Airport Industrial GP Limited[5]	Ordinary shares	100%
Amberia General Partner Oy[19]	Ordinary shares	100%
Andaes S.a r.l.[52]	Ordinary shares	59%
Andean Social Infrastructure GP Limited[15]	Ordinary shares	100%
Arden Asset Management (UK) Limited[22]	Ordinary shares	100%
Arden Asset Management LLC[34]	Limited Liability Company	100%
Arthur House (No.6) Limited[5]	Ordinary shares	100%
Artio Global Investors Inc.[21]	Ordinary shares	100%
Asander Investment Management Ltd[53]	Ordinary shares	100%
Aspire Financial Management Limited[54]	Ordinary shares	25%
Auris Kaasunjakelu Oy[55]	Ordinary shares	26%
Baigrie Davies & Company Limited[3]	Ordinary shares	100%
Baigrie Davies Holdings Limited[3]	Ordinary shares	100%
Bardol Inversiones SL[10]	Ordinary Shares	59 %
Bedfont Lakes Business Park (GP1) Limited[22]	Ordinary shares	100%
Bedfont Lakes Business Park (GP2) Limited[5]	Ordinary shares	100%
Brent Cross Partnership[56]	Limited Partnership	59%
Castlepoint General Partner Limited[57]	Ordinary Shares	100%
Castlepoint LP[57]	Ordinary Shares	50%
Castlepoint Nominee Limited[57]	Ordinary shares	100%
Cockspur Property (General Partner) Limited[22]	Ordinary shares	100%
Crawley Unit Trust[58]	Unit Trust	100%
DEGI Beteiligungs GmbH[18]	Limited Liability Company	94%
Dunedin Fund Managers Limited[27]	Ordinary shares	100%
Edinburgh Fund Managers Group Limited[4]	Ordinary shares	100%
Edinburgh Fund Managers Plc[59]	Ordinary shares	100%
Edinburgh Unit Trust Managers Limited[4]	Ordinary shares	100%
Elevate Portfolio Services Limited[3]	Ordinary Shares Preference Shares	100%
ESP General Partner Limited Partnership	Limited Partnership	50%
ESP II Conduit LP	Limited Partnership	46%
ESP II General Partner Limited Partnership	Limited Partnership	46%
European Strategic Partners	Limited Partnership	73%
European Strategic Partners II 'C'	Limited Partnership	69%
Extraverde Property BV[60]	Ordinary shares	59%
Ezraya Sp Z.o.o.[61]	Ordinary Shares	59%
FLAG Squadron Asia Pacific III GP LP[15]	Limited Partnership	100%
Focus Business Solutions Limited[6]	Ordinary Shares	100%
Focus Holdings Limited[6]	Ordinary Shares	100%
Focus Software Limited[6]	Ordinary Shares	100%
Focus Solutions EBT Trustee Limited[6]	Ordinary Shares	100%
G Park Management Company Limited[62]	Preference shares	100%
Gallions Reach Shopping Park (Nominee) Limited[62]	Ordinary Shares	100%
Gallions Reach Shopping Park Limited Partnership[62]	Limited Partnership	100%
Gallions Reach Shopping Park Unit Trust[58]	Unit Trust	100%
Glasgow Investment Managers Limited[27]	Ordinary shares	100%

Name of related undertaking	Share class[1]	% interest held
GREF Almeda Park SL[63]	Ordinary Shares	59%
GREF Jersey Esplanade Limited[58]	Ordinary Shares	59%
GREF Jersey Holding Limited[58]	Ordinary Shares	59%
GREF Jersey Ireland Holding Limited[64]	Ordinary Shares	59%
GREF Jersey Ireland Property Limited[64]	Ordinary Shares	59%
Griffin Nominees Limited[5]	Ordinary shares	100%
HDFC Asset Management Company Limited[65]	Ordinary shares	38%
HDFC International Life and Re Company Limited[66]	Ordinary shares	29%
HDFC Pension Management Company Limited[67]	Equity shares	29%
HDFC Standard Life Insurance Company Limited[68]	Equity shares	29%
Heng An Standard Life Insurance Company Limited[69]	Equity shares	50%
Hundred S.a r.l.[52]	Ordinary Shares	100%
Iceni Nominees (No.2) Limited[62]	Ordinary shares	100%
Iceni Nominees (No.2A) Limited[62]	Ordinary shares	100%
Ignis Asset Management Limited	Ordinary Shares	100%
Ignis Carry Partner Limited[15]	Ordinary Shares	100%
Ignis Cayman GP2 Limited[15]	Ordinary Shares	60%
Ignis Cayman GP3 Limited[15]	Ordinary Shares	60%
Ignis Fund Managers Limited	Ordinary Shares	100%
Ignis Investment Management Limited	Ordinary Shares	100%
Ignis Investment Services Limited	Ordinary Shares	100%
Inesia S.A. [52]	Ordinary shares	100%
Inhoco 3107 Limited[62]	Ordinary Shares	100%
Invest Park 3 Sp. Z.o.o.[70]	Ordinary Shares	59%
Jones Sheridan Financial Consulting Limited[71]	Ordinary shares	100%
Jones Sheridan Holdings Limited[71]	Ordinary shares	100%
Lake Meadows Management Company Limited[62]	Ordinary Shares	100%
Living In Retirement Limited[54]	Ordinary shares	25%
Lothian Development III (Nederland) BV[60]	Ordinary Shares	100%
M J Founders Limited[22]	Ordinary shares	100%
Mallard Investments LLP	Limited Liability Partnership	26%
Murray Johnstone Asset Management Limited[27]	Ordinary shares	100%
Murray Johnstone Holdings Limited[4]	Ordinary shares	100%
Murray Johnstone Limited[4]	Ordinary shares	100%
NASP 2006 General Partner Limited Partnership	Limited Partnership	62%
Nordic Hydro AS[72]	Ordinary shares	26%
Nordic Hydro Holding AS[72]	Ordinary shares	26%
Nordic Power AS[72]	Ordinary shares	26%
Nordic Power Torsnes AS[72]	Ordinary shares	26%
North American Strategic Partners (Feeder) 2006	Limited Partnership	70%
North American Strategic Partners (Feeder) 2008 Limited Partnership	Limited Partnership	100%
North American Strategic Partners 2006 L.P.[21]	Limited Partnership	100%
North American Strategic Partners 2008 L.P.[21]	Limited Partnership	100%
North American Strategic Partners GP, LP[21]	Limited Partnership	80%
North American Strategic Partners, LP[21]	Limited Partnership	40%
North East Trustees Limited[73]	Ordinary A Shares Ordinary B Shares	100%
Pace Financial Solutions Limited[3]	Ordinary A Shares Ordinary B Shares Ordinary C Shares	100%
Pace Mortgage Solutions Limited[3]	Ordinary A Shares Ordinary B Shares	100%
Panker Invest S.a r.l.[52]	Ordinary Shares	59%
Paragon Insurance Company Guernsey Limited[74]	Ordinary shares	25%
Parmenion Capital Ltd[53]	Ordinary shares	100%
Parmenion Capital Partners LLP[53]	Limited Liability Partnership	100%
Parmenion Investment Management Limited[53]	Ordinary shares	100%
Parmenion Nominees Limited[53]	Ordinary shares	100%
Parnell Fisher Child & Co. Limited[3]	Ordinary Shares	100%

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Name of related undertaking	Share class[1]	% interest held
Parnell Fisher Child Holdings Limited[3]	Ordinary A Shares Ordinary B Shares	100%
Pearson Jones & Company (Trustees) Limited[73]	Ordinary Shares	100%
Pearson Jones Nominees Limited[73]	Ordinary Shares	100%
Pearson Jones plc[3]	Ordinary A Shares Ordinary B Shares	100%
PLC Poland 20 Sp Z.o.o.[61]	Ordinary Shares	59%
PLC Poland 25 Sp Z.o.o.[61]	Ordinary Shares	59%
PLC Poland 34 Sp Z.o.o.[61]	Ordinary Shares	59%
PT Aberdeen Asset Management[41]	Limited Liability Company	80%
PURetail Luxembourg Management Company S.a r.l.[30]	Ordinary shares	50%
Regent Property Partners (Retail Parks) Limited[5]	Ordinary shares	100%
Reksa Dana Syariah Aberdeen Syariah Asia Pacific Equity USD Fund[41]	Unit trust	25%
Residential Zoning Club General Partner Oy[19]	Ordinary shares	100%
Retail Park HANÁ a.s.[75]	Ordinary shares	59%
Retail Park Ostrava a.s.[75]	Ordinary Shares	59%
Rock Rail East Anglia (Holdings) 1 Limited[76]	Ordinary shares	26%
Rock Rail East Anglia (Holdings) 2 Limited[76]	Ordinary shares	26%
Rock Rail East Anglia plc[76]	Public Limited Company	26%
Rock Rail Moorgate (Holdings) Limited[76]	Ordinary shares	26%
Rock Rail Moorgate plc[76]	Public Limited Company	26%
Scottish Mutual Investment Managers Limited	Ordinary Shares	100%
Scottish Mutual PEP and ISA Managers Limited[5]	Ordinary Shares	100%
Seabury Assets Fund plc		
The Euro VNAV Liquidity Fund[77]	OEIC	100%
The No.1 Fund[77]	OEIC	100%
The Sterling VNAV Liquidity Fund[77]	OEIC	100%
Select Japan (GK Holdings UK) Limited	Ordinary Shares	59%
Select Japan (TK Holdings UK) Limited	Ordinary Shares	59%
Select Japan G.K.	Limited by members	59%
Select Malta Holdings Limited[78]	Ordinary Shares	59%
Select Property Holdings (Mauritius) Limited[79]	Ordinary Shares	59%
Self Directed Holdings Ltd[53]	Ordinary A shares Ordinary B shares Ordinary C shares Preference shares	100%
Self Directed Investments Ltd[53]	Ordinary shares	100%
Serin Wealth Limited[80]	Ordinary shares	50%
Sinfonia Asset Management Limited[54]	Ordinary shares	25%
SL (NEWCO) Limited[2]	Ordinary Shares	100%
SL Capital Infrastructure I LP	Limited Partnership	26%
SL Capital NASF I A LP	Limited Partnership	22%
SL Capital Partners (US) Limited	Ordinary Shares	100%
SL Capital Partners LLP	Limited Liability Partnership	60%
SLA Belgium No.1 SA[81]	Ordinary shares	100%
SLA Germany No.1 S.a r.l.[52]	Ordinary shares	100%
SLA Germany No.2 S.a r.l.[52]	Ordinary shares	100%
SLA Germany No.3 S.a r.l.[52]	Ordinary shares	100%
SLA Ireland No.1 S.a r.l.[52]	Ordinary Shares	100%
SLA Netherlands No.1 B.V.[52]	Ordinary Shares	100%
SLACOM (No.10) Limited[2]	Ordinary Shares	100%
SLACOM (No.8) Limited[2]	Ordinary Shares	100%
SLACOM (No.9) Limited[2]	Ordinary Shares	100%
SLCP (Founder Partner Ignis Private Equity) Limited	Ordinary shares	60%
SLCP (Founder Partner Ignis Strategic Credit) Limited	Ordinary shares	60%
SLCP (General Partner 2016 Co-investment) Limited	Ordinary shares	60%
SLCP (General Partner CPP) Limited	Ordinary Shares	100%
SLCP (General Partner EC) Limited	Ordinary Shares	100%
SLCP (General Partner Edcastle) Limited	Ordinary Shares	100%

Name of related undertaking	Share class[1]	% interest held
SLCP (General Partner ESF I) Limited	Ordinary Shares	100%
SLCP (General Partner ESF II) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2004) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2006) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2008 Coinvestment) Limited	Ordinary Shares	100%
SLCP (General Partner ESP 2008) Limited	Ordinary Shares	100%
SLCP (General Partner ESP CAL) Limited	Ordinary Shares	100%
SLCP (General Partner Europe VI) Limited	Ordinary Shares	100%
SLCP (General Partner II) Limited	Ordinary Shares	100%
SLCP (General Partner Infrastructure I) Limited	Ordinary Shares	100%
SLCP (General Partner Infrastructure Secondary I) Limited	Ordinary Shares	100%
SLCP (General Partner NASF I) Limited	Ordinary Shares	100%
SLCP (General Partner NASP 2006) Limited	Ordinary Shares	100%
SLCP (General Partner NASP 2008) Limited	Ordinary Shares	100%
SLCP (General Partner Pearl Private Equity) Limited	Ordinary Shares	100%
SLCP (General Partner Pearl Strategic Credit) Limited	Ordinary Shares	100%
SLCP (General Partner SOF I) Limited	Ordinary Shares	100%
SLCP (General Partner SOF II) Limited	Ordinary Shares	100%
SLCP (General Partner SOF III) Limited	Ordinary shares	100%
SLCP (General Partner Tidal Reach) Limited	Ordinary Shares	100%
SLCP (General Partner USA) Limited	Ordinary Shares	100%
SLCP (General Partner) Limited	Ordinary Shares	100%
SLCP (Holdings) Limited	Ordinary Shares	100%
SLCP Infrastructure I (Holdings) S.a r.l[52]	Ordinary shares	26%
SLCP Infrastructure I-A S.a r.l[52]	Ordinary shares	26%
SLIF Property Investment GP Limited	Ordinary Shares	100%
SLIF Property Investment LP	Ordinary shares	100%
SLIPC (General Partner PMD Co-Invest 2017) Limited	Ordinary shares	100%
SLIPC (General Partner SCF 1) Ltd	Ordinary shares	100%
SLIPC General Partner (Infrastructure II LTP 2017) Limited	Ordinary shares	100%
SLIPC General Partner (Infrastructure II) S.a.r.l[49]	Ordinary shares	100%
SLM Trust		
SLMT American Equity Unconstrained Fund	Unit Trust	100%
SLMT Standard Life Japan Fund	Unit Trust	100%
SLTM Limited	Ordinary Shares	100%
Sorbin Systems Limited[53]	Ordinary shares	100%
Squadron Capital Asia Pacific GP, LP[15]	Limited Partnership	100%
Squadron Capital Asia Pacific II GP LP[15]	Limited Partnership	100%
Squadron Capital Management Limited[15]	Limited Liability Company	100%
Squadron Capital Partners Limited[15]	Limited Liability Company	100%
Standard Aberdeen Asset Management Limited[2]	Ordinary shares	100%
Standard Aberdeen Group Limited[2]	Ordinary shares	100%
Standard Aberdeen Investment Management Limited[2]	Ordinary shares	100%
Standard Aberdeen Investments Limited[2]	Ordinary shares	100%
Standard Aberdeen Limited[2]	Ordinary shares	100%
Standard Life (Asia) Limited[82]	Ordinary Shares	100%
Standard Life Aberdeen Asset Management Limited[2]	Ordinary shares	100%
Standard Life Aberdeen Group Limited[2]	Ordinary shares	100%
Standard Life Active Plus Bond Trust	Unit Trust	100%
Standard Life Agency Services Limited[2]	Ordinary Shares	100%
Standard Life Assurance Company of Europe BV[60]	Ordinary shares	100%
Standard Life Assurance (HWPF) Luxembourg S.a r.l.[52]	Ordinary Shares	100%
Standard Life Charity Fund[2]	N/A	100%
Standard Life Client Management Limited[2]	Ordinary Shares	100%
Standard Life European Trust	Unit Trust	98%
Standard Life European Trust II	Unit Trust	100%
Standard Life Global Equity Trust II	Unit Trust	100%
Standard Life International Designated Activity Company[83]	Ordinary shares	100%

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Name of related undertaking	Share class[1]	% interest held
Standard Life International Trust	Unit Trust	100%
Standard Life Investment Company		
American Equity Income Fund	OEIC	100%
American Equity Unconstrained Fund	OEIC	56%
Asian Pacific Growth Fund	OEIC	45%
Corporate Bond Fund	OEIC	48%
Emerging Market Debt Fund	OEIC	86%
Europe ex-UK Smaller Companies Fund	OEIC	23%
European Equity Growth Fund	OEIC	48%
European Equity Income Fund	OEIC	31%
Global Emerging Markets Equity Fund	OEIC	97%
Global Emerging Markets Equity Income Fund	OEIC	89%
Global Equity Unconstrained Fund	OEIC	38%
Higher Income Fund	OEIC	36%
Investment Grade Corporate Bond Fund	OEIC	22%
Japanese Equity Growth Fund	OEIC	98%
Short Duration Credit Fund	OEIC	65%
UK Equity Growth Fund	OEIC	47%
UK Equity High Alpha Fund	OEIC	47%
UK Equity High Income Fund	OEIC	48%
UK Equity Recovery Fund	OEIC	25%
UK Opportunities Fund	OEIC	67%
UK Smaller Companies Fund	OEIC	35%
Standard Life Investment Company II		
Standard Life Investments Corporate Debt Fund	OEIC	100%
Standard Life Investments Ethical Corporate Bond Fund	OEIC	68%
Standard Life Investments European Ethical Equity Fund	OEIC	89%
Standard Life Investments Global Index Linked Bond Fund	OEIC	22%
Standard Life Investments Global REIT Fund	OEIC	61%
Standard Life Investments Short Dated Corporate Bond Fund	OEIC	52%
Standard Life Investments Short Duration Global Index Linked Bond Fund	OEIC	39%
Standard Life Investments UK Equity Income Unconstrained Fund	OEIC	30%
Standard Life Investments UK Equity Unconstrained Fund	OEIC	46%
Standard Life Investment Company III		
Enhanced-Diversification Growth Fund	OEIC	98%
MyFolio Managed I Fund	OEIC	63%
MyFolio Managed II Fund	OEIC	65%
MyFolio Managed III Fund	OEIC	75%
MyFolio Managed Income I Fund	OEIC	44%
MyFolio Managed Income II Fund	OEIC	49%
MyFolio Managed Income III Fund	OEIC	55%
MyFolio Managed Income IV Fund	OEIC	46%
MyFolio Managed Income V Fund	OEIC	57%
MyFolio Managed IV Fund	OEIC	61%
MyFolio Managed V Fund	OEIC	69%
MyFolio Market I Fund	OEIC	52%
MyFolio Market II Fund	OEIC	45%
MyFolio Market III Fund	OEIC	63%
MyFolio Market IV Fund	OEIC	62%
MyFolio Market V Fund	OEIC	70%
MyFolio Multi-Manager I Fund	OEIC	54%
MyFolio Multi-Manager II Fund	OEIC	56%
MyFolio Multi-Manager III Fund	OEIC	62%
MyFolio Multi-Manager Income I Fund	OEIC	44%
MyFolio Multi-Manager Income II Fund	OEIC	40%
MyFolio Multi-Manager Income III Fund	OEIC	53%
MyFolio Multi-Manager Income IV Fund	OEIC	40%
MyFolio Multi-Manager Income V Fund	OEIC	55%

Name of related undertaking	Share class[1]	% interest held
MyFolio Multi-Manager IV Fund	OEIC	55%
MyFolio Multi-Manager V Fund	OEIC	52%
Standard Life Investment Funds Limited[2]	Ordinary Shares	100%
Standard Life Investments - India Advantage Fund[8]	Ordinary Shares	100%
Standard Life Investments (Corporate Funds) Limited	Ordinary Shares	100%
Standard Life Investments (France) SAS[84]	Ordinary Shares	100%
Standard Life Investments (General Partner CRED) Limited[62]	Ordinary Shares	100%
Standard Life Investments (General Partner EPGF) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club II) Limited[85]	Ordinary Shares	100%
Standard Life Investments (General Partner European Real Estate Club III) Limited[85]	Ordinary shares	100%
Standard Life Investments (General Partner European Real Estate Club) Limited[85]	Ordinary Shares	100%
Standard Life Investments (General Partner GARS) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner GFS) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner Global Tactical Asset Allocation) Limited	Ordinary shares	100%
Standard Life Investments (General Partner MAC) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner PDFI) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner UK PDF) Limited	Ordinary Shares	100%
Standard Life Investments (General Partner UK Shopping Centre Feeder Fund LP) Limited[62]	Ordinary Shares	100%
Standard Life Investments (Hong Kong) Limited[86]	Ordinary Shares	100%
Standard Life Investments (Jersey) Limited[58]	Ordinary Shares	100%
Standard Life Investments (Mutual Funds) Limited	Ordinary Shares	100%
Standard Life Investments (PDF No. 1) Limited[58]	Ordinary shares	50%
Standard Life Investments (Private Capital) Limited	Ordinary Shares	100%
Standard Life Investments (Schweiz) AG[31]	Ordinary Shares	100%
Standard Life Investments (Singapore) Pte. Ltd[87]	Ordinary Shares	100%
Standard Life Investments (Trustee No. 1 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 2 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 3 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 4 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 5 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 6 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 7 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 8 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 9 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 10 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 11 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (Trustee No. 12 UK PDF) Limited	Ordinary shares	100%
Standard Life Investments (USA) Limited	Ordinary Shares	100%
Standard Life Investments Brent Cross General Partner Limited	Ordinary Shares	100%
Standard Life Investments Brent Cross LP	Limited Partnership	100%
Standard Life Investments Dynamic Distribution Fund	Unit Trust	49%
Standard Life Investments Global Absolute Return Strategies Fund	Unit Trust	82%
Standard Life Investments Global Real Estate Fund	Unit Trust	59%
Standard Life Investments Global SICAV		
Standard Life Investments Global SICAV Absolute Return Global Bond Strategies Fund[88]	SICAV	70%
Standard Life Investments Global SICAV Asian Equities Fund[88]	SICAV	22%
Standard Life Investments Global SICAV China Equities Fund[88]	SICAV	71%
Standard Life Investments Global SICAV Emerging Market Corporate Bond Fund[88]	SICAV	88%
Standard Life Investments Global SICAV Emerging Market Local Currency Debt Fund[88]	SICAV	80%
Standard Life Investments Global SICAV Enhanced Diversification Global Emerging Markets Equities Fund[88]	SICAV	99%
Standard Life Investments Global SICAV Euro Government All Stocks Fund[88]	SICAV	100%
Standard Life Investments Global SICAV European Corporate Bond Fund[88]	SICAV	33%
Standard Life Investments Global SICAV European Equities Fund[88]	SICAV	70%
Standard Life Investments Global SICAV European Equity Unconstrained Fund[88]	SICAV	86%
Standard Life Investments Global SICAV European High Yield Bond Fund[88]	SICAV	27%
Standard Life Investments Global SICAV European Smaller Companies Fund[88]	SICAV	39%
Standard Life Investments Global SICAV Global Absolute Return Strategies Fund[88]	SICAV	31%

Name of related undertaking	Share class[1]	% interest held
Standard Life Investments Global SICAV Global Bond Fund[88]	SICAV	73%
Standard Life Investments Global SICAV Global Corporate Bond Fund[88]	SICAV	63%
Standard Life Investments Global SICAV Global Emerging Markets Equity Unconstrained Fund[88]	SICAV	87%
Standard Life Investments Global SICAV Global Equities Fund[88]	SICAV	90%
Standard Life Investments Global SICAV Global Focused Strategies Fund[88]	SICAV	64%
Standard Life Investments Global SICAV Global High Yield Bond Fund[88]	SICAV	81%
Standard Life Investments Global SICAV Global Inflation-Linked Bond Fund[88]	SICAV	36%
Standard Life Investments Global SICAV Global REIT Focus Fund[88]	SICAV	89%
Standard Life Investments Global SICAV II		
Standard Life Investments Global SICAV II Enhanced-Diversification Multi Asset Fund[88]	SICAV	85%
Standard Life Investments Global SICAV II Global Equity Impact Fund[88]	SICAV	100%
Standard Life Investments Global SICAV II Global Short Duration Corporate Bond Fund[88]	SICAV	100%
Standard Life Investments Global SICAV II MyFolio Multi-Manager I Fund[88]	SICAV	80%
Standard Life Investments Global SICAV II MyFolio Multi-Manager II Fund[88]	SICAV	66%
Standard Life Investments Global SICAV II MyFolio Multi-Manager III Fund[88]	SICAV	61%
Standard Life Investments Global SICAV II MyFolio Multi-Manager IV Fund[88]	SICAV	89%
Standard Life Investments Global SICAV II MyFolio Multi-Manager V Fund[88]	SICAV	93%
Standard Life Investments Global SICAV Indian Equity Midcap Opportunities Fund[88]	SICAV	81%
Standard Life Investments Global SICAV Japanese Equities Fund[88]	SICAV	97%
Standard Life Investments Global SICAV Total Return Credit Fund[88]	SICAV	46%
Standard Life Investments GS (Mauritius Holdings) Limited[8]	Ordinary Shares	81%
Standard Life Investments GTAA Company[15]	Limited Liability Company	100%
Standard Life Investments Liability Solutions ICAV		
Liability Aware Absolute Return II Nominal Profile Fund[77]	ICAV	54%
Liability Aware Absolute Return II Real Profile Fund[77]	ICAV	48%
Standard Life Investments Limited	Ordinary Shares	100%
Standard Life Investments Liquidity Fund plc		
Euro Liquidity Fund[89]	OEIC	31%
Standard Life Investments Multi Asset Class Company[15]	Ordinary Shares	100%
Standard Life Investments Securities LLC[21]	Ordinary Shares	100%
Standard Life Investments Strategic Bond Fund	Unit Trust	66%
Standard Life Investments UK Real Estate Funds ICVC		
Standard Life Investments UK Real Estate Fund	OEIC	69%
Standard Life Investments UK Real Estate Trust		
Standard Life Investments UK Real Estate Accumulation Feeder Fund	Unit Trust	56%
Standard Life Investments UK Retail Park Trust[90]	Unit Trust	57%
Standard Life Investments UK Shopping Centre Feeder Fund Company Limited[58]	Ordinary Shares	100%
Standard Life Investments UK Shopping Centre Trust[90]	Unit Trust	41%
Standard Life Japan Trust	Unit Trust	78%
Standard Life Lifetime Mortgages Limited[2]	Ordinary Shares	100%
Standard Life Master Trust Co. Ltd[3]	Ordinary Shares	100%
Standard Life Multi-Asset Trust	Unit Trust	100%
Standard Life North American Trust	Unit Trust	100%
Standard Life Pacific Basin Trust	Unit Trust	98%
Standard Life Pan-European Trust	Unit Trust	100%
Standard Life Pension Funds Limited	N/A	100%
Standard Life Portfolio Investments Limited	Ordinary Shares	100%
Standard Life Premises Services Limited	Ordinary Shares	100%
Standard Life Private Equity Trust plc	Ordinary Shares	56%
Standard Life Property Company Limited	Ordinary Shares	100%
Standard Life Savings Limited	Ordinary Shares	100%
Standard Life Savings Nominees Limited	Ordinary Shares	100%
Standard Life Short Dated UK Government Bond Trust	Unit Trust	100%
Standard Life Trustee Company Limited	Ordinary Shares	100%
Standard Life UK Corporate Bond Trust	Unit Trust	100%
Standard Life UK Equity General Trust	Unit Trust	100%
Standard Life UK Government Bond Trust	Unit Trust	100%

Name of related undertaking	Share class[1]	% interest held
Standard Life Wealth (CI) Limited[91]	Ordinary Shares	100%
Standard Life Wealth International Limited[91]	Ordinary Shares	100%
Standard Life Wealth Limited	Ordinary Shares	100%
Suomen Kaasuenergia Oy[92]	Ordinary shares	26%
Suomi Gas Distribution Holdings Oy[55]	Ordinary Shares	26%
Suomi Gas Distribution Oy[55]	Ordinary Shares	26%
Telles Holding S.a r.l. [52]	Ordinary Shares	59%
Tenet Business Solutions Limited[54]	Ordinary shares	25%
Tenet Client Services Limited[54]	Ordinary shares	25%
Tenet Group Limited[54]	Ordinary B Shares	25%
Tenet Limited[54]	Ordinary shares	25%
Tenet Valuation Services Limited[54]	Ordinary shares	25%
TenetConnect Limited[54]	Ordinary shares	25%
TenetConnect Services Limited[54]	Ordinary shares	25%
TenetFinancial Solutions Limited[54]	Ordinary shares	25%
TenetLime Limited[54]	Ordinary shares	25%
TenetSelect Limited[54]	Ordinary shares	25%
Tenon Nominees Limited[4]	Ordinary shares	100%
The Coaching Platform Limited[6]	Ordinary Shares	100%
The Employee Benefits Corporation Limited[54]	Ordinary shares	20%
The Heritable Securities and Mortgage Investment Association Limited[2]	Ordinary Shares	100%
The Munro Partnership Ltd.[93]	Ordinary Shares	100%
The Standard Life Assurance Company 2006[2]	N/A	100%
Threesixty Partnerships Limited[9]	Ordinary Shares	100%
Threesixty Services LLP[9]	Limited Liability Partnership	100%
Touchstone Insurance Company Limited[94]	Ordinary Shares	100%
Two Rivers One Limited[47]	Ordinary shares	100%
Two Rivers Two Limited[47]	Ordinary shares	100%
UK PRS Opportunities General Partner Limited[5]	Ordinary shares	100%
Vebnet Limited[2]	Ordinary Shares	100%
VPC Greater China Value Fund[43]	Investment Trust	71%
Waverley General Private Equity Limited[27]	Ordinary shares	100%
Waverley Healthcare Private Equity Limited[4]	Ordinary shares	100%
Wealth Horizon Ltd[53]	Ordinary shares	100%
Welbrent Property Investment Company Limited[62]	Ordinary Shares	100%
Whiteleys of Bayswater Limited	Ordinary Shares	100%
Wise Trustee Limited[53]	Ordinary shares	100%

[1] OEIC = Open-ended investment company

SICAV = Société d'investissement à capital variable

ICAV = Irish collective asset-management vehicle

FINANCIAL INFORMATION

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[30] 80, route d'Esch, L-1470 Luxembourg, Luxembourg
[31] Schweizergasse 14, Zurich, 8001, Switzerland
[32] Al Sila Tower, 24th Floor, Abu Dhabi Global Market Square, Al Maryah Island, PO Box 5100737, Abu Dhabi, United Arab Emirates
[33] 1266 East Main Street, 5th Floor, Stamford, CT 06902, USA
[34] c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, DE 19801 Wilmington, USA
[35] Rua Joaquim Floriano, 913 – 7th floor – Cj. 71 São Paulo SP 04534-013, Brazil
[36] 1735 Market St, 32nd FL, Philadelphia, PA 19103, USA
[37] 29 Rue De Berri, Paris, 75008, France
[38] 40 Upper Mount Street, Dublin 2, Republic of Ireland
[39] 35a Avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg
[40] State Street (Guernsey) Limited, First Floor Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ
[41] 16th Floor, Menara Dea Tower 2, Kawasan Mega Kuningan, Jl Mega Kuningan Barat Kav. E4.3 No. 1-2, 12950 Jakarta, Indonesia
[42] 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong
[43] 8F-1, No. 101, Songren Road, Taipei City, 110, Taiwan, Republic of China
[44] First Floor, Sir Walter Raleigh House, 48-50 Esplanade, St Helier, JE2 3QB, Jersey
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[46] 13th Fl., B Tower (Seocho-dong, Kyobo Tower Building), 465, Gangnam-daero, Seocho-gu, Seoul, Korea
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[48] Ahtri 6a, Tallinn, 10151, Estonia
[49] 2 Boulevard de la Foire, L-1528 Luxembourg, Luxembourg
[50] WTC, H-Tower, 20th Floor, Zuiplein 166, 1077 XV Amsterdam, The Netherlands
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[56] Kings Place, 90 York Way, London, N1 9AG,
[57] 11th Floor, Two Snowhill, Birmingham, West Midlands, B4 6WR
[58] 44 Esplanade, St Helier, Jersey, JE4 9WG
[59] 7th Floor, 40 Princes Street, Edinburgh, EH2 2BY
[60] Naritaweg 165, 1043 BW Amsterdam, The Netherlands
[61] ul. Skaryszewska 7, 03-802 Warsaw, Poland
[62] 100 Barbirolli Square, Manchester, M2 3AB
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[66] Unit OT 17-30, Level 17, Central Park, Dubai International Financial Centre, Dubai, 114603, United Arab Emirates
[67] Lodha Excelus, 14th Floor, Apollo Mills Compound, N.M. Joshi Marg, Mahalaxmi, Mumbai – 400011, Maharashtra, India
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[73] Clayton Wood Close, West Park Ring Road, Leeds, LS16 6QE
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[76] Wesley House, Bull Hill, Leatherhead, KT22 7AH
[77] 70 Sir Rogerson's Quay, Dublin 2, Republic of Ireland
[78] Level 2 West, Mercury Tower, The Exchange Financial & Business Centre, Elia Zammit Street, St Julian's, STJ 3155, Malta
[79] c/o Citco (Mauritius) Limited, 4th Floor, Tower A, 1 CyberCity, Ebene, Mauritius
[80] Springpark House, Basing View, Basingstoke, RG21 4HG
[81] Avenue Louise 326, bte 33, 1050 Brussels, Belgium
[82] 40th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
[83] 90 St Stephen's Green, Dublin 2, Republic of Ireland
[84] 100 Avenue des Champs Elysees, 1 Rue de Berri, F- 75008, Paris, France
[85] 31st Floor, 30 St Mary Axe, London, EC3A 8BF
[86] 30th Floor, Jardine House, One Connaught Place, Hong Kong
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[88] 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg
[89] 25/28 North Wall Quay, Dublin 1, Republic of Ireland
[90] Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP
[91] Liberte House, 19-23 La Molle Street, St Helier, Jersey, JE4 5RL
[92] Pulttikatu 1, 48770 Kotka, Finland
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[94] PO Box 33, Maison Trinity, Trinity Square, St Peter Port, Guernsey, GY1 4AT

9. Company financial statements

Company statement of financial position

As at 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Investments in subsidiaries	A	**9,425**	4,769
Investments in associates and joint ventures	B	**134**	134
Loans to subsidiaries	C	**324**	323
Debt securities	C	**857**	605
Receivables and other financial assets	C	**76**	54
Other assets	F	**27**	8
Cash and cash equivalents	C	**7**	55
Total assets		**10,850**	5,948
Equity			
Share capital	H	**364**	242
Shares held by trusts	I	**(36)**	(2)
Share premium reserve	H	**639**	634
Retained earnings			
Brought forward retained earnings		**1,351**	837
Profit for the year		**624**	351
Other movements in retained earnings		**(411)**	163
Total retained earnings		**1,564**	1,351
Other reserves	K	**6,390**	2,393
Total equity		**8,921**	4,618
Liabilities			
Subordinated liabilities	L	**1,876**	1,319
Deferred tax liabilities	N	**–**	3
Derivative financial liabilities	L	**33**	–
Other financial liabilities	L	**19**	8
Other liabilities	P	**1**	–
Total liabilities		**1,929**	1,330
Total equity and liabilities		**10,850**	5,948

The financial statements on pages 265 to 279 were approved by the Board and signed on its behalf, by the following Directors:

Sir Gerry Grimstone
Chairman
23 February 2018

Bill Rattray
Chief Financial Officer
23 February 2018

The Notes on pages 269 to 279 are an integral part of these financial statements

Company statement of changes in equity

For the year ended 31 December 2017

2017	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		**242**	**(2)**	**634**	**1,351**	**2,393**	**4,618**
Profit for the year		–	–	–	624	–	**624**
Other comprehensive income that may be reclassified subsequently to profit or loss							
Fair value losses on cash flow hedges		–	–	–	–	(33)	**(33)**
Realised losses on cash flow hedges transferred to income statement		–	–	–	–	13	**13**
Tax effect of items that may be reclassified subsequently to profit or loss	K	–	–	–	–	3	**3**
Total other comprehensive income for the year that may be reclassified subsequently to profit or loss		**–**	**–**	**–**	**–**	**(17)**	**(17)**
Total comprehensive income for the year		**–**	**–**	**–**	**624**	**(17)**	**607**
Issue of share capital	H	122	–	5	–	3,972	**4,099**
Dividends paid on ordinary shares		–	–	–	(469)	–	**(469)**
Reserves credit for employee share-based payment schemes	K	–	–	–	–	96	**96**
Transfer to retained earnings for vested employee share-based payment schemes	K	–	–	–	86	(54)	**32**
Shares acquired by employee trusts		–	(63)	–	–	–	**(63)**
Shares distributed or sold by employee trusts		–	29	–	(28)	–	**1**
Aggregate tax effect of items recognised directly in equity		–	–	–	–	–	**–**
31 December		**364**	**(36)**	**639**	**1,564**	**6,390**	**8,921**

The Notes on pages 269 to 279 are an integral part of these financial statements

2016	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		**241**	**(6)**	**628**	**837**	**2,860**	**4,560**
Profit for the year		–	–	–	351	–	**351**
Other comprehensive income that may be reclassified subsequently to profit or loss							
Fair value gains on available-for-sale financial assets		–	–	–	–	17	**17**
Tax effect of items that may be reclassified subsequently to profit or loss		–	–	–	–	(3)	**(3)**
Total other comprehensive income for the year that may be reclassified subsequently to profit or loss		**–**	**–**	**–**	**–**	**14**	**14**
Total comprehensive income for the year		**–**	**–**	**–**	**351**	**14**	**365**
Issue of share capital	H	1	–	6	–	–	**7**
Dividends paid on ordinary shares		–	–	–	(370)	–	**(370)**
Expiry of unclaimed asset trust claim period	J	–	–	–	36	–	**36**
Reserves credit for employee share-based payment schemes	K	–	–	–	–	30	**30**
Transfer to retained earnings for vested employee share-based payment schemes	K	–	–	–	23	(23)	**–**
Shares acquired by employee trusts		–	(3)	–		–	**(3)**
Shares distributed or sold by employee trusts		–	7	–	(7)	–	**–**
Cancellation of capital redemption reserve		–	–	–	488	(488)	**–**
Aggregate tax effect of items recognised directly in equity		–	–	–	(7)	–	**(7)**
31 December		**242**	**(2)**	**634**	**1,351**	**2,393**	**4,618**

The Notes on pages 269 to 279 are an integral part of these financial statements

Company statement of cash flows

For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit before tax		**597**	334
Impairment of subsidiary undertakings	A	**20**	49
Impairment of associate undertaking		**–**	3
Gains on financial instruments		**(2)**	(4)
Dividend income from subsidiaries		**(794)**	(458)
Interest income on loans to subsidiaries		**(20)**	(20)
Interest income on available-for-sale debt securities		**(10)**	(12)
Distributions from equity instruments		**(34)**	(34)
Interest payable on subordinated liabilities		**86**	82
Movements in operating assets and liabilities		**10**	5
Taxation paid		**–**	–
Net cash flows used in operating activities		**(147)**	(55)
Cash flows from investing activities			
Capital injections into existing subsidiaries	A	**(413)**	(208)
Acquisition of subsidiaries measured at cost		**(60)**	–
Interest received on loans to subsidiaries		**20**	20
Interest received on available-for-sale debt securities		**15**	17
Distributions from equity instruments		**34**	34
Dividends received from subsidiaries		**792**	457
Acquisition of subsidiaries at FVTPL	A	**(55)**	(18)
Disposal of subsidiaries at cost	A	**37**	–
(Purchase)/sale of debt securities and derivatives		**(258)**	147
Disposal of investment in associates and joint ventures		**–**	13
Net cash flows generated from investing activities		**112**	462
Cash flows from financing activities			
Proceeds from issue of subordinated liabilities		**565**	–
Dividends paid		**(469)**	(370)
Interest paid on subordinated liabilities		**(81)**	(82)
Proceeds from issue of shares		**5**	6
Shares acquired by trusts		**(37)**	(3)
Sale of shares held by trusts		**4**	–
Expiry of unclaimed asset trust claim period		**–**	36
Net cash flows used in financing activities		**(13)**	(413)
Net decrease in cash and cash equivalents		**(48)**	(6)
Cash and cash equivalents at the beginning of the year	G	**55**	61
Cash and cash equivalents at the end of the year	G	**7**	55
Supplemental disclosures on cash flows from operating activities			
Interest received		**–**	–

The Notes on pages 269 to 279 are an integral part of these financial statements

Company accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets (AFS) and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

The principal accounting policies adopted are the same as those set out in the Group financial statements, together with the Company specific policies set out below, and have been consistently applied to all financial reporting periods presented in these financial statements.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. The Company has no employees.

FINANCIAL INFORMATION

(a)(i) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. Details of the Group's assessment of IFRS 9 are given in the basis of preparation of the Group financial statements. Management have assessed the impact of the standard in relation to the Company financial statements. The main impact is that the Company's debt securities currently classified as available-for-sale and therefore measured at fair value will be measured at amortised cost under IFRS 9. IFRS 9 also introduces a new impairment model, an expected credit loss model, which will replace the current incurred loss model in IAS 39. An impairment loss will now be recognised prior to a loss event occurring. At 31 December 2017 the fair value of available-for-sale securities is £857m with a corresponding available-for-sale financial assets reserve balance of £15m. Of the £857m, £839m is investment grade and £566m is expected to be recovered within one year.

(a)(ii) Investment in subsidiaries, associates and joint ventures

The Company has certain subsidiaries which are investment vehicles such as open-ended investment companies, unit trusts and limited partnerships whose primary function is to generate capital or income growth through holding investments. This category of subsidiary is held at FVTPL since they are managed on a fair value basis.

Investments in subsidiaries (other than those measured at FVTPL), associates (other than those measured at FVTPL) and joint ventures are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount. Any gain or loss on disposal of a subsidiary, associate or joint venture is recognised in profit for the year.

(a)(iii) Financial guarantee contracts

The Company recognises and measures financial guarantee and indemnity contracts initially at fair value. The Company must reassess the value at each subsequent reporting date by estimating the expenditure required to settle the contract and comparing this to the fair value (net of any amortisation). The higher of these values is recognised on the statement of financial position.

(a)(iv) Pension costs and other post-retirement benefits

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds. Further detail is provided in Note 35 of the Group financial statements. The pension plans are funded by payments from employees and by the Group companies, determined by periodic actuarial calculations. The Company is not the sponsoring employer for a defined benefit plan. As a result, the Company treats its participation in defined benefit plans as defined contribution plans.

For the defined contribution plans, the Company pays contributions to separately administered pension insurance plans. The contributions are recognised in profit for the year when they are due.

(b) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to make estimates and assumptions and exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The area where estimates and assumptions have the most significant effect on the amounts recognised in the financial statements is as follows:

Financial statement area	Critical accounting estimates or assumptions	Related notes
Investments in subsidiaries and joint ventures held at cost	Determination of the recoverable amount	Notes A and B

Notes to the Company financial statements

A. Investments in subsidiaries

	Notes	2017 £m	2016 £m
Investments in subsidiaries measured at cost		9,092	4,493
Investments in subsidiaries measured at FVTPL	C	333	276
Investments in subsidiaries		9,425	4,769

	2017 £m	2016 £m
At 1 January	4,769	4,591
Investment into existing subsidiaries measured at cost	413	220
Acquisition of subsidiaries at cost	4,243	–
Disposal of subsidiaries measured at cost	(37)	(12)
Impairment of subsidiaries measured at cost	(20)	(49)
Acquisition of subsidiaries at FVTPL	55	19
Gains on subsidiaries at FVTPL	2	–
At 31 December	9,425	4,769

Details of the Company's subsidiaries are given in Note 48 of the Group financial statements.

On 14 August 2017 the Company acquired Aberdeen Asset Management PLC (Aberdeen) and was renamed Standard Life Aberdeen plc. The Company acquired 100% of the share capital of Aberdeen, and Aberdeen ordinary shareholders received 0.757 of a share in Standard Life Aberdeen plc on the completion date satisfied through newly issued shares. The cost of the investment in Aberdeen was £4,243m consisting of £4,098m based on the fair value of the equity consideration at the date of completion including £98m for shares issued to the Aberdeen Asset Management Employee Benefit Trust 2003, £89m for replacement employee share-based payments reflecting the fair value of the pre-acquisition service element of the awards and transaction costs of £56m. Further details are provided in Note 1 of the Group financial statements.

On 16 August 2017 the Company increased its investment in Standard Life Assurance Limited through the purchase of 13,000,000 ordinary shares for a cash consideration of £13m.

On 22 November 2017 the Company reduced its investment in Standard Life (Mauritius Holdings) 2006 Limited through the disposal of 494,589.5 participating shares for a cash consideration of £37m, as a result of a share capital reduction by Standard Life (Mauritius Holdings) 2006 Limited.

On 13 December 2017 the Company increased its investment in Aberdeen Asset Management PLC through the purchase of 125,000,000 ordinary shares for cash consideration of £400m.

On 11 February 2016 the Company increased its investment in Standard Life Employee Services Limited through the purchase of 8,000 ordinary shares for a cash consideration of £8m.

On 11 April 2016 the Company increased its investment in Standard Life (Mauritius Holdings) 2006 Limited through the purchase of 250,300,000 ordinary shares for a cash consideration of £177m.

On 30 June 2016 the Company increased its investment in Standard Life Assurance Limited through the purchase of 10,000,000 ordinary shares for a cash consideration of £10m.

On 14 December 2016 the Company transferred its 100% holding in Pearson Jones plc to 1825 Financial Planning Limited, the Group's UK-wide financial advice business. The consideration received was 11,600,000 £1 ordinary shares in Standard Life Assurance Limited.

On 22 December 2016 the Company further increased its investment in Standard Life Assurance Limited through the purchase of 13,000,000 ordinary shares for a cash consideration of £13m.

Included within the impairment charge of £20m in 2017 (2016: £49m) is an impairment of £7m (2016: £31m) of the Company's investment in its subsidiary Focus Solutions Group Limited. The recoverable amount is £11m which is its value in use and has been determined using a discount rate of 12% (2016: 12%). Additionally during 2017, an impairment of £13m (2016: £nil) was recognised in relation to the Company's investment in its subsidiary Standard Life Employee Services Limited. The recoverable amount is £30m which is its value in use and has been determined using a discount rate of 9%. The impairments are as a result of a decrease in projected future revenues of the entities.

During 2016, an impairment charge of £18m was recognised in the Company's investment in its subsidiary Standard Life Oversea Holdings Limited. This was primarily in relation to an impairment of Standard Life Oversea Holdings Limited's investment in Standard Life (Asia) Limited.

Investments in subsidiaries at FVTPL are £333m (2016: £276m) which relate to holdings in money market and absolute return investment funds over which the Group has control.

B. Investments in associates and joint ventures

	2017 £m	2016 £m
Investment in associate measured at cost	**10**	10
Investment in joint venture measured at cost	**124**	124
Investments in associates and joint ventures	**134**	134

(a) Investment in associates

The Company's investment in associate measured at cost relates to a 25.3% (2016: 25.3%) interest in Tenet Group Limited, a company incorporated in England and Wales. The year end date for Tenet Group Limited is 30 September which is different from the Company's year end date of 31 December. For the purposes of the preparation of the Company's financial statements, financial information for the year ended 31 December is used.

(b) Investment in joint venture

The Company has a 50% (2016: 50%) interest in Heng An Standard Life Insurance Company Limited, a company incorporated in China. Further details on this joint venture are provided in Note 16 of the Group financial statements.

C. Financial investments

2017	Notes	Designated as at fair value through profit or loss £m	Available -for-sale £m	Loans and receivables £m	Total £m
Investments in subsidiaries at FVTPL		333	–	–	**333**
Loans to subsidiaries		–	–	324	**324**
Debt securities		–	857	–	**857**
Receivables and other financial assets	E	–	–	76	**76**
Cash and cash equivalents	G	–	–	7	**7**
Total		**333**	**857**	**407**	**1,597**

2016	Notes	Designated as at fair value through profit or loss £m	Available -for-sale £m	Loans and receivables £m	Total £m
Investments in subsidiaries at FVTPL		276	–	–	**276**
Loans to subsidiaries		–	–	323	**323**
Debt securities		–	605	–	**605**
Receivables and other financial assets	E	–	–	54	**54**
Cash and cash equivalents	G	–	–	55	**55**
Total		**276**	**605**	**432**	**1,313**

The amount of debt securities expected to be recovered or settled after more than 12 months is £291m (2016: £297m).

The amount of loans to subsidiaries expected to be recovered or settled after more than 12 months is £324m (2016: £323m).

D. Derivative financial instruments

The Company uses derivative financial instruments in order to reduce the risk from potential movements in foreign exchange rates.

	2017			2016		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	**559**	**–**	**(33)**	–	–	–
Foreign exchange forwards	**6**	**–**	**–**	6	–	–
Derivative financial instruments	**565**	**–**	**(33)**	6	–	–

Derivative liabilities of £33m (2016: £nil) are expected to be settled after more than 12 months.

On 18 October 2017, the Company issued subordinated notes with a principal amount of US$750m. In order to manage the foreign exchange risk relating to the principal and coupons payable on these notes the Company has entered into a cross-currency swap which is designated as a hedge of future cash flows. Further details are provided in Note 21 of the Group financial statements.

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

2017	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	Total £m
Cash inflows					
Foreign exchange forwards	6	–	–	–	6
Cash flow hedges	28	94	118	566	806
Total	**34**	**94**	**118**	**566**	**812**
Cash outflows					
Foreign exchange forwards	(6)	–	–	–	(6)
Cash flow hedges	(22)	(73)	(91)	(578)	(764)
Total	**(28)**	**(73)**	**(91)**	**(578)**	**(770)**
Net derivative financial instruments cash flows	**6**	**21**	**27**	**(12)**	**42**

2016	Within 1 year £m	2-5 years £m	Total £m
Cash inflows			
Derivative financial liabilities	6	–	6
Total	**6**	**–**	**6**
Cash outflows			
Derivative financial liabilities	(6)	–	(6)
Total	**(6)**	**–**	**(6)**
Net derivative financial instruments cash flows	**–**	**–**	**–**

E. Receivables and other financial assets

	2017 £m	2016 £m
Due from related parties	43	52
Collateral pledged in respect of derivatives contracts	28	–
Other financial assets	5	2
Total receivables and other financial assets	76	54

The carrying amounts disclosed above reasonably approximate the fair values at the year end.

Receivables and other financial assets are expected to be recovered within 12 months.

F. Other assets

Other assets of £27m (2016: £8m) comprise amounts due from related parties in respect of Group relief, which are expected to be recovered within 12 months.

G. Cash and cash equivalents

	2017 £m	2016 £m
Money at call and term deposits with original maturity of less than three months	7	55
Total cash and cash equivalents	7	55

Money at call and term deposits with original maturity of less than three months are subject to variable interest rates.

H. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 26 of the Group financial statements including the shares issued during the year in relation to the acquisition of Aberdeen discussed in Note A.

Details of the dividends paid on ordinary shares by the Company are provided in Note 13 of the Group financial statements. Note 13 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2017.

I. Shares held by trusts

Shares held by trusts relates to shares in Standard Life Aberdeen plc that are held by the Employee Share Trust (EST) and the Unclaimed Asset Trust (UAT). Further details of these trusts are provided in Note 27 of the Group financial statements.

In July 2006 Standard Life demutualised and former members of the mutual company were allocated shares in the new listed Company. Some former members were yet to claim their shares and the UAT held these on their behalf. On expiry of the claim period on 9 July 2016, the entitlement to the unclaimed shares remaining in the UAT transferred to the Company and they became classified as shares held by trusts. During the year ended 31 December 2017 11,719,073 shares were transferred from the UAT to the EST for £nil consideration. An amount equivalent to the fair value of shares as at the date of transfer was donated by the Company to the Standard Life Foundation.

J. Retained earnings

Transfer for vested employee share-based payments includes £32m (2016: £nil) in relation to replacement awards granted to employees of Aberdeen which vested before the acquisition date and were recognised directly in retained earnings on acquisition.

Included in retained earnings in 2016 is an amount related to the expiry of the UAT claim period. In addition to unclaimed shares, which are referred to in Note I, the UAT held cash in relation to unclaimed cash entitlements arising from both cash entitlements which were allocated to eligible members of the mutual company at the date of demutualisation and dividends received on shares held in the UAT. On expiry of the UAT claim period on 9 July 2016, the entitlement to the unclaimed cash remaining in the UAT transferred partly to the Company and partly to the Standard Life Foundation. The transfer of the cash entitlement to the Company resulted in the recognition of a cash asset of £36m, the impact of which was recognised directly in retained earnings in equity during the year ended 31 December 2016.

K. Reconciliation of movements in other reserves

	Merger reserve	Equity compensation reserve	Special reserve	Capital redemption reserve	Available-for-sale financial assets	Cash flow hedges	Total
2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January	**2,080**	**57**	**241**	**–**	**15**	**–**	**2,393**
Shares issued in respect of business combinations	3,972	–	–	–	–	–	**3,972**
Fair value losses on cash flow hedges	–	–	–	–	–	(33)	**(33)**
Realised losses on cash flow hedges transferred to income statement	–	–	–	–	–	13	**13**
Reserves credit for employee share-based payments	–	96	–	–	–	–	**96**
Transfer to retained earnings for vested employee share-based payments	–	(54)	–	–	–	–	**(54)**
Tax effect of items that may be reclassified subsequently to profit or loss	–	–	–	–	–	3	**3**
At 31 December	**6,052**	**99**	**241**	**–**	**15**	**(17)**	**6,390**
2016							
At 1 January	2,080	50	241	488	1		**2,860**
Reserves credit for employee share-based payment schemes	–	30	–	–	–		**30**
Transfer to retained earnings for vested employee share–based payments	–	(23)	–	–	–		**(23)**
Cancellation of capital redemption reserve	–	–	–	(488)	–		**(488)**
Fair value gains on available-for-sale financial assets	–	–	–	–	17		**17**
Tax effect of items that may be reclassified subsequently to profit or loss	–	–	–	–	(3)		**(3)**
At 31 December	**2,080**	**57**	**241**	**–**	**15**		**2,393**

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Following the completion of the merger of Standard Life plc and Aberdeen Asset Management plc on 14 August 2017 an amount was recognised in the merger reserve representing the difference between the nominal value of shares issued to shareholders of Aberdeen and their fair value on that date. Further information on the merger reserve and special reserve is given in Note 29 of the Group financial statements.

The reserves credit for employee share-based payments includes £57m (2016: £nil) in relation to replacement awards granted to employees of Aberdeen which were unvested at the acquisition date.

On 17 June 2016 the Company's capital redemption reserve was cancelled in accordance with section 649 of the Companies Act 2006 resulting in a transfer of £488m to retained earnings.

L. Financial liabilities

2017	Notes	Financial liabilities measured at amortised cost £m	Cash flow hedge £m	Total £m
Subordinated liabilities	M	1,876	–	**1,876**
Derivative financial liabilities	D	–	33	**33**
Other financial liabilities	O	19	–	**19**
Total		**1,895**	**33**	**1,928**

2016	Notes	Financial liabilities measured at amortised cost £m	Cash flow hedge £m	Total £m
Subordinated liabilities	M	1,319	–	**1,319**
Other financial liabilities	O	8	–	**8**
Total		**1,327**	**–**	**1,327**

M. Subordinated liabilities

	2017		2016	
	Principal amount	**Carrying value**	Principal amount	Carrying value
Subordinated notes:				
4.25% US Dollar fixed rate due 30 June 2048	**$750m**	**£556m**	–	–
5.5% Sterling fixed rate due 4 December 2042	**£500m**	**£500m**	£500m	£499m
Subordinated guaranteed bonds:				
6.75% Sterling fixed rate perpetual	**£500m**	**£502m**	£500m	£502m
Mutual Assurance Capital Securities:				
6.546% Sterling fixed rate perpetual	**£300m**	**£318m**	£300m	£318m
Subordinated liabilities		**£1,876m**		£1,319m

Subordinated liabilities are considered current if the contractual re-pricing or maturity dates are within one year. The principal amount of all the subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on the subordinated liabilities of £42m (2016: £37m) is expected to be settled within 12 months.

On 18 October 2017, the Company issued US Dollar subordinated notes with a principal amount of $750m. Further information on this and the terms and conditions of all subordinated liabilities is given in Note 34 of the Group financial statements.

N. Deferred tax liabilities

	2017 £m	2016 £m
Deferred tax liabilities	–	(3)

The amount of deferred tax liabilities expected to be recovered or settled after more than 12 months is £nil (2016: £3m).

The Company has surrendered the benefit of its tax losses to underlying subsidiaries for a consideration of £27m (2016: £8m).

Recognised deferred tax

	2017 £m	2016 £m
Deferred tax assets comprise:		
Unrealised losses on cash flow hedges	3	–
Deferred tax liabilities comprise:		
Unrealised gains on assets held as available-for-sale	(3)	(3)
Net deferred tax liability	–	(3)
Movements in net deferred tax assets/(liabilities) comprise:		
At 1 January	(3)	(1)
Amounts credited to net profit	3	1
Amounts charged to other comprehensive income	–	(3)
At 31 December	–	(3)

O. Other financial liabilities

The amount of other financial liabilities expected to be settled after more than 12 months is £nil (2016: £nil).

P. Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £nil (2016: £nil).

Q. Risk management

(a) Overview

The Company is principally involved in the management of its investments in subsidiaries and is responsible for the raising and allocation of capital to ensure that the operational funding and regulatory capital needs of its subsidiaries are met at all times. The Group's capital management policies are explained in Note 47 of the Group financial statements.

Through the management of its investment in subsidiaries and capital position, the Company holds financial instruments and is principally exposed to market, credit and liquidity risks.

The risk management processes of the Company are aligned with those of the Group as a whole. Details of the Group's risk management processes are outlined in the 'Risk Management' section within the Strategic report and in Note 39 of the Group financial statements.

(b) Market risk

The most significant element of market risk for the Company arises from its exposure to fluctuations in interest rates and equity markets. The Company is exposed to fluctuations in the fair value of future cash flows of financial instruments caused by changes in market interest rates. Financial assets and liabilities which are subject to the most significant exposure to interest rate risk include corporate bonds and money market instruments. The Company is also exposed to fluctuations in equity securities markets, and as a result, changes in the value of its holdings and the return on those holdings.

The Company's investments and liabilities are generally held in its functional currency. However, for strategic and capital reasons the Company may hold investments and liabilities in other currencies. In these cases, derivative financial instruments may be employed to manage currency exposure so that the Company has no remaining significant exposure to foreign exchange fluctuations.

On 18 October 2017, the Company issued US Dollar Subordinated Notes with a principal amount of $750m, the related cash flows expose the Company to foreign currency risk on the principal and coupon payments. The Company manages the foreign exchange risk with a cross-currency swap which is designated as a cash flow hedge.

The market risk exposure to foreign currency assets is matched by liabilities held in the same currency or managed using derivative financial instruments.

Derivative instruments may also be utilised to reduce risk arising from exposure to fluctuations in interest rates and equity indices. Transactions in derivatives are undertaken on a regulated market or are with an approved counterparty. In employing derivatives, the Company must always have sufficient cash and cash equivalents or underlying assets to cover any potential obligation or exercise right following reasonably foreseeable adverse variations.

The following table provides information regarding the market risk exposure to debt securities of the Company at 31 December 2017 and 31 December 2016, showing diversification by geographic region.

	Geography							
	UK		Europe		Other		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Debt securities	232	215	464	254	161	136	857	605

(b)(i) Sensitivity analysis – market risk

The table below illustrates the sensitivity of profit after tax to changes in equity security prices and to changes in interest rates as at the reporting date, assuming other assumptions remain unchanged.

	Equity security prices						Interest rates					
	+20%		-20%		+10%		-10%		+1%		-1%	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Impact on profit after tax	5	4	(6)	(4)	3	2	(3)	(2)	(3)	(2)	3	2

Equity sensitivity to market risk

The Company classifies certain debt securities as available-for-sale. These debt securities are measured at fair value. Interest is calculated using the effective interest method and recognised in profit or loss for the year. Other changes in fair value and the related tax are recognised in other comprehensive income. As a result, the sensitivity of the Company's equity to variations in interest rate risk exposures differs from the sensitivity of the Company's profit after tax to variations in interest rate risk exposures.

The Company's equity sensitivity to a 1% increase in interest rates is (£15m) (2016: (£17m)) and to a 1% decrease in interest rates is £15m (2016: £17m).

The sensitivity of the Company's total equity to change in equity security prices in respect of each of the scenarios shown in the preceding tables is the same as the sensitivity of the Company's profit after tax.

(c) Credit risk

The Company is exposed to credit risk from the risk of exposure to loss if a counterparty fails to perform its financial obligations, including failure to perform these obligations in a timely manner. Exposure also includes the risk of a reduction in the value of assets due to widening of credit spreads. Any loans to subsidiaries require approval from the Group's Enterprise Risk Management Committee prior to being transacted.

(c)(i) Credit exposure of financial assets

The following table provides an analysis of the quality of financial assets that are neither past due nor impaired at the reporting date and are exposed to credit risk. An explanation of credit ratings is included in Note 39(c) of the Group financial statements.

The total amount in the table below represents the Company's credit exposure to financial investments at the year end without taking into account any collateral held.

	Investments in subsidiaries at FVTPL		Loans to subsidiaries		Debt securities		Receivables and other financial assets		Cash and cash equivalents		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
AAA	–	–	–	–	37	36	–	–	–	–	37	36
AA	–	–	–	–	166	127	–	–	1	2	167	129
A	–	–	–	–	529	295	–	–	4	10	533	305
BBB	–	–	–	–	107	131	–	–	2	43	109	174
Below BBB	–	–	–	–	17	15	–	–	–	–	17	15
Not rated	333	276	324	323	1	1	76	54	–	–	734	654
Total	333	276	324	323	857	605	76	54	7	55	1,597	1,313

Investments in subsidiaries at FVTPL of £333m (2016: £276m) includes £203m (2016: £201m) invested in absolute return funds and £130m (2016: £75m) relating to a holding in a money market fund. These funds are managed by a subsidiary company and are not rated. The money market fund invests in a range of counterparties that are externally rated, and uses concentration limits and maturity limits in managing its exposures.

At 31 December 2017 and 31 December 2016, no financial assets were past due or impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Company is unable to realise investments and other assets in order to settle its financial obligations when they fall due, or can do so only at excessive cost. The Company ensures that it can meet its financial obligations as they fall due by maintaining suitable levels of liquid assets. The obligations arising from subordinated liabilities are mostly offset by receipts arising from loans to subsidiaries and investments in subsidiaries. Refer to Note D for the maturity profile of undiscounted cash flows of derivative financial instruments.

Liquidity risk is managed through the Group liquidity and capital management policy which is outlined in Note 39(e) of the Group financial statements. The Company is required to manage risk in accordance with Group policy and to take mitigating action as appropriate to operate within defined risk appetites.

Liquidity risk is managed by the Company in consultation with the central Group Treasury function. Liquidity risk is primarily managed by placing limits on the value of financial assets held which are neither quoted nor regularly traded on a recognised exchange and by maintaining a portfolio of committed bank facilities. The Company has access to a syndicated revolving credit facility of £400m which it holds as part of its contingency funding plans. The maturity date of this facility is in 2022 and it is currently undrawn. The Company is also responsible for the definition and management of the contingency funding plan which operates on a continuous basis and is fully documented.

(d)(i) Maturity analysis

The analysis that follows presents the cash flow analysis by remaining contractual maturities for subordinated liabilities.

	Within 1 year		2-5 years		6-10 years		11-15 years		16-20 years		Greater than 20 years		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Subordinated liabilities	**109**	81	**390**	313	**461**	359	**422**	290	**422**	143	**1,493**	671	**3,297**	1,857

The principal amounts of subordinated liabilities where the counterparty has no right to repayment are excluded from the above analysis along with interest payments on such instruments after 20 years.

Other financial liabilities have a contractual maturity of within 1 year.

R. Contingent liabilities, contingent assets, indemnities and guarantees

(a) Legal proceedings and regulations

The Company, like other financial organisations, is subject to legal proceedings and complaints in the normal course of its business. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Company incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings, complaints and related regulatory matters.

(b) Indemnities and guarantees

Under the trust deed in respect of the UK Standard Life defined benefit pension plan, Standard Life Employee Services Limited (SLESL), the principal employer, must pay contributions to the pension plan as the trustees' actuary may certify necessary. The Company has guaranteed the obligations of SLESL to the UK Standard Life defined benefit pension plan for a period of 15 years from 10 July 2006, which gave rise to a liability of £nil at 31 December 2017 (2016: £nil).

S. Related party transactions

(a) Transactions with and balances from/(to) related parties

In the normal course of business, the Company enters into transactions with related parties. The year end balances arising from such transactions are as follows:

	2017 £m	2016 £m
Due from related parties:		
Subsidiaries	**70**	60
Loans to subsidiaries	**324**	323
	394	383
Due to related parties:		
Subsidiaries	**12**	60

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Transactions with related parties carried out by the Company during the year were as follows:

	2017 £m	2016 £m
Revenue from related parties:		
Subsidiaries	**848**	512
Associates	**–**	4
	848	516
Expenses to related parties:		
Subsidiaries	**179**	109
Associates	**–**	3
	179	112

Where financial instruments arising from transactions with related parties are offset in the statement of financial position, the net position is presented in the tables above.

(b) Compensation of key management personnel

The Directors and key management personnel of the Company are considered to be the same as for the Group. Information on both Company and Group compensation paid to Directors and key management personnel can be found in Note 46 of the Group financial statements and the audited section of the Directors' remuneration report. Information on transactions with/from and balances from/to key management personnel and their close family members can also be found in Note 46 of the Group financial statements. Details of the employee share-based payment schemes operated by the Company are given in Note 45 of the Group financial statements.

T. Fair value of assets and liabilities

The Company's approach to the fair value of assets and liabilities is aligned with the Group policy detailed in Note 41 of the Group financial statements. An analysis of the Company's financial investments and financial liabilities in accordance with the categories of financial instrument set out in IAS 39 *Financial Instruments: Recognition and Measurement* is presented in Notes C and L and includes those financial assets and liabilities held at fair value.

(a) Methodology used to determine fair value of assets and liabilities

The fair value hierarchy, and the methods and assumptions used to determine fair value by the Company are aligned with the Group, as detailed in Note 41 of the Group financial statements, with the following exceptions:

Investments in subsidiaries at FVTPL

Investments in subsidiaries at FVTPL comprises £203m (2016: £201m) of investments on a recognised exchange which are valued using prices sourced from the primary exchange on which they are listed. These instruments are generally considered to be quoted in an active market and are therefore treated as level 1 investments within the fair value hierarchy.

The remaining investments in subsidiaries at FVTPL relate to a short term investment fund which is valued daily at net asset value (NAV) adjusted for accrued interest. Although the price is not quoted in an active market the valuation is based on observable market data and as a result has been classified as level 2 in the fair value hierarchy.

(b) Fair value hierarchy for financial instruments measured at fair value in the statement of financial position

The following table sets out an analysis of financial assets and liabilities measured at fair value by level of the fair value hierarchy.

	Fair value hierarchy							
	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets	£m	£m	£m	£m	£m	£m	£m	£m
Investments in subsidiaries at FVTPL	**203**	201	**130**	75	**–**	–	**333**	276
Debt securities	**33**	32	**823**	572	**1**	1	**857**	605
Total	**236**	233	**953**	647	**1**	1	**1,190**	881
Liabilities								
Derivative financial liabilities	**–**	–	**33**	–	**–**	–	**33**	–
Total	**–**	–	**33**	–	**–**	–	**33**	–

There were no significant transfers between level 1 and level 2 in the year. During the year, there were no disposals (2016: none) of level 3 securities. There is no significant sensitivity of level 3 financial instruments measured at fair value in relation to changes in key assumptions.

(c) Fair value of financial assets and liabilities measured at amortised cost

The fair value of subordinated liabilities is set out in Note 41 of the Group financial statements.

The table below presents estimated fair values of other financial assets and liabilities held by the Company whose carrying value does not approximate fair value.

		Carrying value		Fair value	
		2017	2016	2017	2016
	Notes	£m	£m	£m	£m
Loans to subsidiaries	C	324	323	355	340

The estimated fair values of loans to subsidiaries are determined with reference to quoted market prices determined using observable market inputs. The Company does not consider its loans to subsidiaries to be impaired.

The carrying value of all other financial assets and liabilities measured at amortised cost approximates their fair value.

The table below presents the loans to subsidiaries as detailed above measured at fair value by level of the fair value hierarchy.

	Level 1		Level 2		Level 3		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
Loans to subsidiaries	–	–	349	334	6	6	355	340

U. Events after the reporting date

On 23 February 2018 the Group announced the sale of the majority of the business within the Pensions and Savings reportable segment to Phoenix Group Holdings (Phoenix) (the Sale), conditional on shareholder and relevant regulatory approvals. The Sale includes the disposal of Standard Life Assurance Limited (SLAL).

Under the transaction the following businesses will be retained by the Group:

- UK retail platforms, including Wrap and Elevate
- 1825, our financial advice business

In addition, the assets and liabilities of both the UK and Ireland Standard Life defined benefit pension plans will be retained by the Group. We are currently considering whether these assets and liabilities should be recognised on the Company statement of financial position post completion.

The total consideration payable to the Group by Phoenix in respect of the Sale is £3.24bn. This comprises cash payable on closing of £2.0bn, a dividend to be paid by SLAL to the Company of £0.3bn in Q2 2018 and new shares issued at completion representing 20% of the then issued share capital of Phoenix following the completion of the rights issue undertaken to part finance the acquisition and worth £1.0bn based on Phoenix's share price on 22 February 2018. The shareholding in Phoenix is subject to a lock-up of 12 months from completion.

The financial effect of the transaction on the Company, if it completes, is expected to be as follows at completion:

- recognition of a gain on disposal in the income statement. The magnitude of the gain will be dependent on the carrying value of SLAL following a group re-organisation to remove the assets detailed above and the share price of Phoenix at completion.
- recognition of the cash proceeds as detailed above
- recognition of an investment in associate relating to the 20% shareholding in the enlarged Phoenix group

10. Supplementary information

10.1 Alternative performance measures

We assess our performance using a variety of measures that are not defined under IFRS and are therefore termed alternative performance measures (APMs). The APMs that we use may not be directly comparable with similarly named measures used by other companies.

We have presented below reconciliations from these APMs to the most appropriate measure prepared in accordance with IFRS. All APMs should be read together with the Group's IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section of this report.

Certain APMs that we use were revised following the merger with Aberdeen to reflect the increased asset management focus of the Group, as explained in the relevant sections below. Underlying performance and EBITDA which were APMs previously used by Standard Life plc are no longer reported for the merged Group.

The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The Reported basis results reflect this accounting treatment and therefore Aberdeen results are included from 14 August 2017 only. In our Strategic report we have also presented results on a Pro forma basis to assist in explaining trends by showing a full 12 months performance for the combined Group for both the current year and prior years. Pro forma results for the Group are prepared as if Standard Life plc and Aberdeen had always been merged. The difference between the Reported results and Pro forma results is the results of Aberdeen in the period prior to completion of the merger.

KPI Key performance indicators (KPIs) are defined as the measures by which the development, performance or position of the business can be measured effectively.

R Measure is a key input to a metric used for Executive remuneration. See page 100 for more information.

	Definition	Purpose and changes made
Adjusted profit before tax KPI R	Adjusted profit before tax (previously named operating profit before tax) is the Group's key alternative performance measure. Adjusted profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes in the Group's wholly owned insurance entities. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from adjusted profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from adjusted profit and is presented within profit before tax. Adjusted profit also excludes the impact of the following items: • Restructuring costs and corporate transaction expenses. Restructuring includes the impact of major regulatory change. • Impairment and amortisation of intangible assets acquired in business combinations • Profit or loss arising on the disposal of a subsidiary, joint venture or associate • Fair value movements in contingent consideration • Items which are one-off and, due to their size or nature, are not indicative of the long-term operating performance of the Group Coupons payable on perpetual notes classified as non-controlling interests are included in adjusted profit before tax. For IFRS purposes, these are recognised directly in equity. This gives rise to an adjusting item relating to 'coupons payable on perpetual notes classified as equity'. Dividends payable on preference shares classified as non-controlling interests are excluded from adjusted profit in line with the treatment of ordinary dividends.	Adjusted profit reporting provides further analysis of the results reported under IFRS and the Directors believe it helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing adjusting items. Adjusted profit before tax is consistent with the way that financial performance is measured by management and reported to the Board and executive committee. Adjusted profit before tax is also a key measure used to assess performance for remuneration purposes. Following the merger, the Group renamed 'operating profit before tax' as 'adjusted profit before tax'. Short-term fluctuations in investment return and economic assumption changes are now only adjusted for wholly owned insurance entities. Previously these adjustments also applied to holding companies and other non-insurance entities. Comparatives have been updated to reflect the new methodology. The reason for the change in methodology is to align the approach with that used by Aberdeen and to improve consistency with other asset management peers. The reason for the change in the name of the metric is that 'operating profit' is used in a different way by many asset managers. We consider that the term 'adjusted' better differentiates the metric from IFRS metrics. We provide a reconciliation to previously published financial information in the adjusted profit section below.

	Definition	Purpose and changes
Adjusted cash generation	Adjusted cash generation (previously named underlying cash generation) presents a shareholder view of cash generation. The calculation of this measure has been amended following the merger. For the Aberdeen Standard Investments segment, adjusted cash generation adjusts IFRS net cash flows from operating activities for restructuring and corporate transaction expenses paid. For the Standard Life Pensions and Savings segment and Other, adjusted cash generation removes certain non-cash items from adjusted profit before tax. Adjustments are made for deferred acquisition costs/deferred income and fixed/intangible assets. Adjusted cash generation is stated net of current (cash) tax. IFRS net cash flows from operating activities is not used as the basis for these segments as it includes policyholder cash flows, and therefore does not present a shareholder view. For the India and China life segment, adjusted cash generation reflects dividends received in the period.	This APM presents a shareholder view of cash generation and removes adjusting items to make this cash metric more comparable to adjusted profit after tax. Adjusted cash generation provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to shareholders. The IFRS consolidated statement of cash flows includes policyholder cash flows for the Standard Life Pension and Savings business, and therefore does not present a shareholder view, and does not exclude adjusting items. Following the merger, the Group changed the methodology for the Aberdeen Standard Investments segment to more directly align adjusted cash generation for this segment with the cash flow statement. The reason for the change is to align the approach with that used by Aberdeen and to improve consistency with other asset management peers. The methodology for the Standard Life Pensions and Savings segment was also amended to remove underlying adjustments (primarily spread/risk actuarial assumption changes) to better align with the adjusted profit measure. We provide a reconciliation to previously published financial information in the adjusted cash generation section on page 289.

Adjusted profit before tax

The table below reconciles adjusted profit to Profit for the year attributable to equity holders of the Company (which we also refer to as IFRS profit after tax attributable to equity holders). We also provide, in the reconciliation to IFRS profit by component section below, a reconciliation between adjusted profit before tax and IFRS profit before tax. We consider IFRS profit after tax attributable to equity holders to be a more useful indicator of performance than IFRS profit before tax, due to the impact of policyholder tax. As described in Note 10 of the Group financial statements the tax expense includes policyholder tax, and IFRS profit before tax includes an offsetting equivalent amount of income in relation to this policyholder tax.

	Pro forma basis			Remove Aberdeen results pre-merger completion			Reported basis		
	2017 £m	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m
Fee based revenue	**2,763**	2,686	2,686	**(652)**	(1,035)	(1,107)	**2,111**	1,651	1,579
Spread/risk margin	**165**	134	145	**–**	–	–	**165**	134	145
Total adjusted operating income	**2,928**	2,820	2,831	**(652)**	(1,035)	(1,107)	**2,276**	1,785	1,724
Total adjusted operating expenses	**(1,994)**	(1,853)	(1,786)	**467**	697	662	**(1,527)**	(1,156)	(1,124)
Adjusted operating profit	**934**	967	1,045	**(185)**	(338)	(445)	**749**	629	600
Capital management	**6**	11	(27)	**–**	2	27	**6**	13	–
Share of associates' and joint ventures' profit before tax	**99**	76	56	**–**	–	–	**99**	76	56
Adjusted profit before tax	**1,039**	1,054	1,074	**(185)**	(336)	(418)	**854**	718	656
Tax on adjusted profit	**(134)**	(180)	(173)	**26**	54	61	**(108)**	(126)	(112)
Share of associates' and joint ventures' tax expense	**(41)**	(13)	(13)	**–**	–	–	**(41)**	(13)	(13)
Adjusted profit after tax	**864**	861	888	**(159)**	(282)	(357)	**705**	579	531
Total adjusting items							**(40)**	(269)	(248)
Tax on adjusting items							**42**	58	35
Singapore included in discontinued operations segment							**–**	–	(42)
Profit attributable to non-controlling interests (preference shares and perpetual notes)							**(8)**	–	–
Profit for the year attributable to equity holders of Standard Life Aberdeen plc							**699**	368	276
Profit attributable to non-controlling interests									
Ordinary shares							**25**	51	62
Preference shares and perpetual notes							**8**	–	–
Profit for the year							**732**	419	338

Analysis of adjusting items

The table below provides detail of the adjusting items made in the calculation of adjusted profit before tax.

	Reported basis		
	2017 £m	2016 £m	2015 £m
Short-term fluctuations in investment return and economic assumption changes	**67**	13	(54)
Restructuring and corporate transaction expenses	**(173)**	(67)	(115)
Amortisation and impairment of intangible assets acquired in business combinations	**(138)**	(38)	(27)
Provision for annuity sales practices	**(100)**	(175)	–
Coupons payable on perpetual notes classified as equity	**10**	–	–
Profit on disposal of interests in associates	**319**	–	–
Other	**(25)**	(2)	(52)
Total adjusting items	**(40)**	(269)	(248)

An explanation for why individual items are excluded from adjusted profit is set out below.

- Short-term fluctuations in investment return and economic assumption changes in the Group's wholly owned insurance entities are excluded from adjusted profit. For annuities this means that all fluctuations in liabilities and the assets backing those liabilities due to market interest rate (including credit risk) movements over the year are excluded from adjusted profit. Removing these short-term fluctuations and economic assumption changes is consistent with many of our insurance peers and aims to ensure that adjusted profit reflects a long-term view aligned to the maturity profile and economic matching of the corresponding assets and liabilities. In relation to certain subordinated liabilities this adjustment also excludes an accounting mismatch that arises where subordinated liabilities are measured at amortised cost and certain assets backing the liabilities are measured at fair value. More details on this adjustment are provided in Note 12 of the Group financial statements.
- Restructuring and corporate transaction expenses are excluded from adjusted profit. Restructuring includes the impact of major regulatory change. By highlighting and excluding these costs we aim to give shareholders a fuller understanding of the performance of the business. Restructuring and corporate transaction expenses include costs relating to the integration of businesses acquired. Other restructuring costs excluded from adjusted profit relate to projects which have a significant impact on the way the Group operates. Costs are only excluded from adjusted profit where they are outwith business as usual activities and the costs would not have been incurred had the restructuring project not taken place. Restructuring and corporate transaction expenses in 2017 mainly related to Standard Life Group merger transaction costs of £59m and integration and merger related costs of £50m. 2017 also included £24m of costs relating to the Elevate integration and Ignis integration costs of £9m. The residual costs of £31m relate to other corporate transaction expenses, Pensions and Savings/corporate centre restructuring, and costs in relation to Brexit which we consider to be a major regulatory change.
- Amortisation and impairment of intangible assets acquired in business combinations is included as an adjusting item. This is consistent with the vast majority of peers and therefore excluding these items aids comparability. Highlighting this as an adjusting item aims to give a fuller understanding of these accounting impacts which arise where businesses have been acquired but do not arise where businesses have grown organically.
- Items which are one-off and due to their size or nature are not indicative of the long-term operating performance of the Group are also excluded from adjusted profit. This aims to assist comparability of results period on period. The provision for annuity sales practices falls under this category. Any future changes to the provision will be treated consistently.
- Profits on the disposal of a subsidiary, joint venture or associate are also removed to assist comparability of results period on period.
- Details on items classified as 'Other' in the table above are provided in Note 12 of the Group financial statements. In 2017 this balance primarily relates to the impairment of a disposal group classified as held for sale. This is similar to a loss on disposal of a subsidiary, discussed above, but arises prior to the sale completing.
- In the current year we have also made an adjustment for coupons payable on perpetual notes classified as equity to remove the finance cost. This adjustment is required because the finance cost for these notes is included within adjusted profit so that, for adjusted profit purposes, perpetual notes classified as equity and our other subordinated debt classified as liabilities are treated consistently. These perpetual notes were reclassified to liabilities prior to the year end and therefore this adjustment will not be required in future periods.

Restructuring and corporate transaction expenses used to determine adjusted profit before tax on a Pro forma basis were £215m (2016: £86m), compared to the Reported basis of £173m (2016: £67m). The Pro forma basis in 2017 includes merger related costs of £42m incurred by Aberdeen in the period 1 January 2017 to 13 August 2017.

We have not disclosed amortisation of intangible assets on a Pro forma basis as we do not consider this to provide meaningful information. Assuming that the merger took place at an earlier date would lead to a change to the amortisation of intangibles in the post-merger period which we consider would not be useful to users of the accounts.

Other major categories of adjusting items (that is short-term fluctuations in investment return and economic assumption changes, provision for annuity sales practices, and profit on disposal of associates) are the same on a Pro forma basis as on a Reported basis.

The results on a Pro forma basis for 2016 disclosed above are consistent with data disclosed in the published Prospectus dated 16 October 2017 relating to the issue of $750m subordinated notes, other than in relation to restructuring and corporate transaction expenses. The data disclosed in the Prospectus required the inclusion of £95m in 2016 in relation to Aberdeen merger transaction costs incurred in 2017. These costs are included in 2017 expenses in the above Pro forma restructuring and corporate transaction expenses.

Reconciliation to previously published financial information

The tables below provide a reconciliation of 2016 and 2015 adjusted profit on a Pro forma basis to the operating profit and underlying profit financial information previously disclosed by Standard Life plc and Aberdeen Asset Management PLC.

	FY 2016		Adjustments			FY 2016
2016	**Standard Life as reported**	**Aberdeen as reported Y/E 30 Sep 2016[1]**	**Calendarisation adjustments[2]**	**Other Aberdeen adjustments[3]**	**Standard Life adjustments[4]**	**Restated**
Fee based revenue	1,651	1,007	28	–	–	2,686
Spread/risk margin	134	–	–	–	–	134
Total adjusted operating income	1,785	1,007	28	–	–	2,820
Total adjusted operating expenses	(1,159)	(679)	(18)	–	3	(1,853)
Adjusted operating profit	626	328	10	–	3	967
Capital management	21	25	(1)	(26)	(8)	11
Share of associates' and joint ventures' profit before tax	76	–	–	–	–	76
Adjusted profit before tax[5]	**723**	**353**	**9**	**(26)**	**(5)**	**1,054**

	FY 2015		Adjustments			FY 2015
2015	**Standard Life as reported**	**Aberdeen as reported Y/E 30 Sep 2015[1]**	**Calendarisation adjustments[2]**	**Other Aberdeen adjustments[3]**	**Standard Life adjustments[4]**	**Restated**
Fee based revenue	1,579	1,169	(62)	–	–	2,686
Spread/risk margin	145	–	–	–	–	145
Total adjusted operating income	1,724	1,169	(62)	–	–	2,831
Total adjusted operating expenses	(1,124)	(670)	8	–	–	(1,786)
Adjusted operating profit	600	499	(54)	–	–	1,045
Capital management	9	(7)	3	(23)	(9)	(27)
Share of associates' and joint ventures' profit before tax	56	–	–	–	–	56
Adjusted profit before tax[5]	**665**	**492**	**(51)**	**(23)**	**(9)**	**1,074**

1 Figures are 'underlying profit' which was an Alternative Performance Measure presented by the Aberdeen Group as reported in the audited financial statements for the year ended 30 September.

2 Adjusted to bring into line with Standard Life Group accounting practice to prepare financial results for the period 1 January to 31 December.

3 Adjusted to align the presentation of the Aberdeen Group's underlying profit Alternative Performance Measure to adjusted profit of the Standard Life Aberdeen Group. Coupon payments on perpetual notes classified as equity were excluded from the Aberdeen Group underlying profit metric. The Group will now include these coupons payable within adjusted profit. This has resulted in a reduction in the adjusted profit before tax of the Aberdeen Group within capital management, and the corresponding inclusion of an adjustment for 'Coupons payable on perpetual notes classified as equity' within adjusting items.

4 Following the completion of the merger, the Group has changed the calculation of adjusted profit (previously named operating profit). Short-term fluctuations in investment return and economic assumption changes will now only be adjusted for insurance entities. Previously these adjustments also applied to non-insurance entities. For the period ended 31 December 2016, this has resulted in an £8m reduction (2015: £9m) to the adjusted profit of the Other segment within capital management, and a £3m (2015: nil) increase to the adjusted profit of the Standard Life Investments segment within operating expenses.

5 Following the Merger, the Group has renamed 'operating profit' as 'adjusted profit'. Line items have been changed accordingly.

Reconciliation of adjusted profit to IFRS profit by component

The key components of adjusted profit before tax are total adjusted operating income (which is broken down into fee based revenue and spread/risk margin), total adjusted operating expenses and share of associates' and joint ventures' profit before tax. These components provide a meaningful analysis of our adjusted results.

The table below provides a reconciliation of movements between adjusted profit component measures and their closest IFRS equivalent.

Adjusted profit term	Group adjusted profit	Presentation differences	Adjusting items	Capital management	Share of associates' and joint ventures' tax expense	Tax expense attributable to policyholders' returns / related income	Non-controlling interests – Ordinary shares	Group IFRS	IFRS term
2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	
Adjusted operating income	2,276	14,176	331	6	–	166	25	16,980	Total revenue
Adjusted operating expenses	(1,527)	(14,176)	(358)	–	–	–	–	(16,061)	Total expenses
Capital management	6	–	–	(6)	–	–	–	–	N/A
Share of associates' and joint ventures' profit before tax	99	–	(13)	–	(41)	–	–	45	Share of profit from associates and JVs
Adjusted profit before tax	**854**	**–**	**(40)**	**–**	**(41)**	**166**	**25**	**964**	**Profit before tax**
Tax on adjusted profit	(108)	–	42	–	–	(166)	–	(232)	Total tax expense
Share of associates' and joint ventures' tax	(41)	–	–	–	41	–	–	–	N/A
Adjusted profit after tax	**705**	**–**	**2**	**–**	**–**	**–**	**25**	**732**	**Profit for the year**

This reconciliation includes a number of reconciling items which arise due to presentation differences between IFRS reporting requirements and the determination of adjusted operating income and adjusted operating expenses. Adjusted operating income and expenses exclude items which have an equal and opposite effect on IFRS revenue and IFRS expenses in the consolidated income statement, such as investment returns which are for the account of policyholders. Other presentation differences generally relate to items included in administrative expenses which are borne by policyholders, for example investment property management expenses, or are directly related to fee income. Other presentation differences also include Aberdeen Standard Investment's commission expenses which are presented in expenses in the consolidated income statement but are netted against adjusted operating income in the analysis of Group adjusted profit by segment. Further details of presentation differences are included Note 2(b)(ii) of the Group financial statements section of this report.

Reconciliation of adjusted profit to IFRS profit by component (*continued*)

Adjusted profit term 2016	Group adjusted profit £m	Presentation differences £m	Adjusting items £m	Capital management £m	Share of associates' and JVs' tax expense £m	Tax expense attributable to policyholders' returns / related income £m	Non-controlling interests £m	Group IFRS £m	IFRS term
Adjusted operating income	1,785	16,578	–	13	–	302	51	18,729	Total revenue
Adjusted operating expenses	(1,156)	(16,578)	(269)	–	–	–	–	(18,003)	Total expenses
Capital management	13	–	–	(13)	–	–	–	–	N/A
Share of associates' and joint ventures' profit before tax	76	–	–	–	(13)	–	–	63	Share of profit from associates and JVs
Adjusted profit before tax	**718**	**–**	**(269)**	**–**	**(13)**	**302**	**51**	**789**	**Profit before tax**
Tax on adjusted profit	(126)	–	58	–	–	(302)	–	(370)	Total tax expense
Share of associates' and joint ventures' tax	(13)	–	–	–	13	–	–	–	N/A
Adjusted profit after tax	**579**	**–**	**(211)**	**–**	**–**	**–**	**51**	**419**	**Profit for the year**

Reconciliation of fee income and fee based revenue

The following table provides a reconciliation of fee income as presented in the consolidated income statement to fee based revenue, as presented in the analysis of adjusted profit before tax by segment.

Reported basis	2017 £m	2016 £m
Fee income as presented in the consolidated income statement	**1,686**	1,186
Differences in recourse cash flow for the year	**135**	131
Presentation differences		
Aberdeen Standard Investments funds Asset Management Charges (AMC) and commission expenses	**263**	294
Earned premium on German insurance business	**158**	125
Policyholder differences	**(131)**	(85)
Fee based revenue as presented in the analysis of adjusted profit before tax	**2,111**	1,651

The reconciling items are as follows:

- The recourse cash flow is a payment from the Heritage With Profits Fund to the shareholder business. The element relating to fee based business is included in fee based revenue in determining adjusted profit, but arises in insurance and participating contract claims and change in liabilities in the consolidated income statement.
- Presentation differences mainly relate to AMCs earned by Aberdeen Standard Investments on the management of consolidated funds. These are eliminated on consolidation in the IFRS income statement and are therefore not included in fee income. The financial statements include the investment return and external expenses of the funds. In addition, commission expenses are netted against fee based revenue but are included within expenses in the consolidated income statement.
- Earned premium on German insurance business relates to fees earned on insurance contracts classified as fee based revenue in the analysis of adjusted profit before tax. In the consolidated income statement these changes are part of Insurance and participating investment contract premium income.
- Policyholder differences relate to policyholder's items in the consolidated income statement. These have an equal and opposite impact on income and expenses in the consolidated income statement and are therefore not included in adjusted operating income and adjusted operating expenses.

Adjusted cash generation

Adjusted cash generation provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to shareholders. The IFRS consolidated statement of cash flows includes policyholder cash flows, and therefore does not present a shareholder view, and does not exclude adjusting items.

Analysis of adjusted cash generation (Pro forma basis)		**2017** £m	2016 £m
Aberdeen Standard Investments	(a)	**551**	643
Standard Life Pensions and Savings	(b)	**332**	267
India and China life		**10**	8
Other	(b)	**(52)**	(25)
Adjusted cash generation		**841**	893

Further details of the segmental calculation of adjusted cash generation are included below.

(a) Aberdeen Standard Investments

	per Group financial statements	**2017** £m	2016 £m
IFRS Net cash flow from operating activities – Total Group	Consolidated statement of cash flows	**2,194**	736
Less: Net cash flows from operating activities – Standard Life Pensions and Savings, India and China life and Other		**(1,846)**	(446)
Net cash flow from operating activities – Aberdeen Standard Investments		**348**	290
Pro forma adjustment for pre-merger results[1]		**140**	331
Restructuring and corporate transaction expenses paid – Aberdeen Standard Investments		**63**	22
Adjusted cash generation – Aberdeen Standard Investments (Pro forma basis)		**551**	643

[1] The Pro forma adjustment adds pre-merger results for Aberdeen which are excluded from the consolidated statement of cash flows.

(b) Pensions and Savings and Other

		2017		2016	
		Standard Life Pensions and Savings £m	**Other** £m	Standard Life Pensions and Savings £m	Other £m
Adjusted profit/(loss) before tax		**381**	**(78)**	362	(66)
Current tax adjustment	(i)	**(53)**	**5**	(57)	15
DAC/DIR adjustment	(ii)	**(6)**	**–**	(8)	–
Fixed and intangible assets adjustment	(iii)	**10**	**21**	(30)	26
Adjusted cash generation – Standard Life Pensions and Savings and Other		**332**	**(52)**	267	(25)

Further details on the reconciling items between adjusted profit before tax and adjusted cash generation are included in tables (i) to (iii).

(i) Current tax adjustment

The current tax adjustment adjusts current tax for the Standard Life Pensions and Savings segment and Other to exclude tax on adjusting items and current tax attributable to policyholders.

		2017			2016		
	Notes per Group financial statements	Total £m	Standard Life Pensions and Savings £m	Other £m	Total £m	Standard Life Pensions and Savings £m	Other £m
Group total current tax	10	**(243)**			(333)		
Less: current tax – Aberdeen Standard Investments and India and China life		**186**			180		
Current tax – Standard Life Pensions and Savings and Other		**(57)**	**(82)**	**25**	(153)	(170)	17
Current tax expense attributable to policyholders' returns			**39**	**–**		150	–
Current tax credit relating to adjusting items			**(10)**	**(20)**		(37)	(2)
Current tax adjustment			**(53)**	**5**		(57)	15

(ii) Deferred acquisition costs (DAC)/ Deferred income reserve (DIR) adjustment

The DAC/DIR non-cash adjustment adds back existing business DAC/DIR amortisation included in adjusted profit for the period and deducts the equivalent new business DAC/DIR additions for the period. The following table reconciles DAC/DIR movements in the Group financial statements to the DAC/DIR adjustment used for Standard Life Pensions and Savings.

	Notes per Group financial statements	2017 £m	2016 £m
Amortisation of deferred acquisition costs	15	**79**	96
Acquisition costs deferred during the period	15	**(49)**	(51)
Amortisation of deferred income	36	**(52)**	(61)
Fee income deferred during the period	36	**11**	15
Adjustments for Heritage With Profits Fund and German With Profits Fund DAC/DIR not included in shareholder view		**5**	(1)
Adjustment to remove India and China life DAC/DIR		**–**	(6)
DAC/DIR adjustment – Standard Life Pensions and Savings		**(6)**	(8)

(iii) Fixed and intangible assets adjustment

The fixed and intangible assets adjustment adds back depreciation and amortisation that is included within adjusted profit for the period and deducts additions for the period where the depreciation or amortisation of those additions will be included within adjusted profit. The following table reconciles equipment and intangible asset movements in the Group financial statements to the fixed and intangible asset adjustment used for the Standard Life Pensions and Savings segment and Other.

		2017				2016			
	Notes per Group financial statements	Total Group £m	Aberdeen Standard Investments and India and China life £m	Standard Life Pensions and Savings £m	Other £m	Total Group £m	Aberdeen Standard Investments and India and China life £m	Standard Life Pensions and Savings £m	Other £m
Depreciation of equipment	18	15	5	–	10	14	2	1	11
Amortisation and impairment of intangible assets	14	201	122	56	23	84	41	17	26
Amortisation and impairment of intangible assets acquired through business combinations (excluded from adjusted profit)		(125)	(117)	(8)	–	(39)	(36)	–	(3)
Additions of equipment	18	(34)	(23)	(1)	(10)	(9)	(3)	–	(6)
Additions of intangible assets	14	(4,143)	(4,104)	(37)	(2)	(89)	(11)	(76)	(2)
Additions of intangible assets acquired through business combinations (not amortised through adjusted profit)		4,074	4,074	–	–	28	–	28	–
Fixed and intangible assets adjustment		(12)	(43)	10	21	(11)	(7)	(30)	26

Reconciliation to previously published financial information

The table below provides a reconciliation of adjusted cash generation on a pro forma basis to the financial information previously disclosed by Standard Life plc and Aberdeen Asset Management PLC.

	FY 2016		Adjustments			FY 2016
	Standard Life as reported £m	Aberdeen as reported Y/E 30 Sep 2016[1] £m	Calendarisation adjustments[2] £m	Other Aberdeen adjustments[3] £m	Standard Life adjustments[4] £m	Restated (Pro forma basis) £m
Aberdeen Standard Investments	280	363	21	(48)	27	643
Standard Life Pensions and Savings	232	–	–	–	35	267
India and China life	9	–	–	–	(1)	8
Other	(19)	–	–	–	(6)	(25)
Adjusted cash generation	**502**	**363**	**21**	**(48)**	**55**	**893**

1 Figures are 'core cash generated from operating activities' which was an APM presented by the Aberdeen Group as reported in the audited financial statements for the year ended 30 September 2016.

2 Adjusted to bring into line with Standard Life Group accounting practice to prepare financial results for the period 1 January to 31 December.

3 Adjusted to align the calculation of the Aberdeen Group's core cash generated from operating activities APM to adjusted cash generation of the Standard Life Aberdeen Group. Core cash generated from operating activities was on a pre-tax basis and included adjustments for short-term timing differences on open end fund settlements and net interest received. Adjusted cash generation is on a post-tax basis and is not adjusted for short-term timing differences on open end fund settlements or net interest received.

4 For the Aberdeen Standard Investments segment, the Standard Life Investments component of underlying cash generation was previously derived from operating profit but is now derived from net cash flows from operating activities in the IFRS statement of cash flows. For the Standard Life Pensions and Savings segment and Other, adjusted cash generation is impacted by the changes to adjusted profit as set out in the reconciliation of 2016 adjusted profit above, and no longer includes an underlying adjustment to remove spread/risk operating assumption changes. For the India and China life segment, adjusted cash generation reflects dividends received in the period and therefore no longer includes any contribution from the wholly owned Hong Kong business.

10.2 Financial ratios

We also use a number of financial ratios to help assess our performance and these are also not defined under IFRS. Details of our main financial ratios and how they are calculated are presented below.

Certain financial ratios that we use were revised following the merger with Aberdeen to reflect the increased asset management focus of the Group as described further below. Operating return on equity and EBITDA margin which were previously used by Standard Life plc are no longer reported following this review.

	Definition	Purpose and changes
Cost/income ratio KPI R	This is an efficiency measure that is calculated as adjusted operating expenses divided by adjusted operating income, and includes the share of associates' and joint ventures' profit before tax.	This ratio is used by management to assess efficiency and reported to the Board and executive committee. This ratio is also a measure used to assess performance for remuneration purposes.
Adjusted diluted earnings per share KPI	Adjusted diluted earnings per share is calculated on adjusted profit after tax. The weighted average number of ordinary shares in issue is adjusted during the year to assume the conversion of all dilutive potential ordinary shares, such as share options granted to employees. Details on the calculation of adjusted diluted earnings per share are set out in Note 11 in the Group financial statements section.	Earnings per share is a commonly used financial metric which can be used to measure the profitability and capital efficiency of a company over time. We also calculate adjusted diluted earnings per share to illustrate the impact of adjusting items on the metric. This ratio is used by management to assess performance and reported to the Board and executive committee.
Fee revenue yield (bps)	The fee revenue yield is calculated as annualised fee based revenue (excluding performance fees) divided by monthly average fee based AUM/AUA (excluding HDFC AMC).	The average revenue yield on fee based business is a measure that illustrates the average margin being earned on the assets that we manage or administer. This ratio is used by management to assess performance and reported to the Board and executive committee. Following the merger, the Group changed the methodology to exclude performance fees from the fee revenue yield calculation. The reason for the change is to align the approach with that used by Aberdeen and to improve consistency with other asset management peers.

Cost/income ratio

	Pro forma basis			Reported basis		
	2017	2016	2015[1]	**2017**	2016	2015[1]
Adjusted operating expenses (£m)	**(1,994)**	(1,853)	(1,786)	**(1,527)**	(1,156)	(1,124)
Fee based revenue (£m)	**2,763**	2,686	2,686	**2,111**	1,651	1,579
Spread/risk margin (£m)	**165**	134	145	**165**	134	145
Share of associates' and joint ventures' profit before tax (£m)	**99**	76	56	**99**	76	56
Total adjusted operating income and share of associates' and joint ventures' profit before tax (£m)	**3,027**	2,896	2,887	**2,375**	1,861	1,780
Cost/income ratio (%)	**66**	64	62	**64**	62	63

1 2015 from continuing operations.

Adjusted diluted earnings per share

	Pro forma basis		Reported basis	
	2017	2016	**2017**	2016
	£m	£m	**£m**	£m
Adjusted profit after tax	**864**	861	**705**	579
Dividend paid on preference shares	**(5)**	(5)	**–**	–
Adjusted profit after tax attributable to equity holders of the Company	**859**	856	**705**	579
Profit attributable to equity holders of the Company	**N/A**	N/A	**699**	368
	Millions	Millions	**Millions**	Millions
Weighted average number of ordinary shares outstanding	**2,943**	2,945	**2,343**	1,972
Dilutive effect of share options and awards	**29**	24	**17**	6
Weighted average number of diluted ordinary shares outstanding	**2,972**	2,969	**2,360**	1,978
	Pence	Pence	**Pence**	Pence
Basic earnings per share	**N/A**	N/A	**29.8**	18.7
Adjusted diluted earnings per share	**28.9**	28.8	**29.9**	29.3

Fee revenue yield (bps)

	Fee revenue yield (Pro forma basis)	Average AUMA (£bn)[1]		Fee based revenue (£m)[1]		Fee revenue yield (bps)[1]	
		2017	2016	**2017**	2016	**2017**	2016
Aberdeen Standard Investments	Equities	**103.4**	95.0	**667**	637	**67.9**	67.7
	Fixed income	**52.5**	54.4	**145**	163	**29.4**	31.5
	Multi-asset	**74.7**	78.0	**432**	458	**57.7**	58.6
	Private markets and alternatives	**25.0**	24.3	**119**	108	**41.5**	41.4
	Real estate	**28.0**	28.7	**153**	165	**54.2**	56.5
	Quantitative	**2.2**	2.3	**3**	3	**12.1**	14.3
	Cash/liquidity	**22.3**	21.6	**14**	18	**7.4**	9.4
	Growth	**308.1**	304.3	**1,533**	1,552	**51.1**	51.6
	Standard Life Group	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
	Third party strategic partner life business	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
	Mature	**271.1**	262.5	**379**	368	**13.7**	13.8
	Total assets under management	**579.2**	566.8	**1,912**	1,920	**33.3**	33.8
Pensions and Savings	UK Retail	**69.6**	47.9	**303**	228	**43.5**	47.5
	UK Workplace	**39.2**	34.5	**194**	185	**49.6**	53.6
	Europe growth	**11.4**	9.9	**100**	95	**87.7**	95.8
	Growth	**120.2**	92.3	**597**	508	**49.7**	54.3
	UK mature Retail	**34.7**	33.7	**260**	251	**75.0**	76.7
	Europe mature fee	**9.6**	9.3	**107**	102	**110.7**	109.7
	Spread/risk	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A
	Mature	**N/A**	N/A	**367**	353	**N/A**	N/A
	Total assets under administration	**N/A**	N/A	**964**	861	**N/A**	N/A
India and China life		**N/A**	N/A	**12**	17	**N/A**	N/A
Eliminations		**N/A**	N/A	**(125)**	(112)	**N/A**	N/A
Standard Life Aberdeen total		**N/A**	N/A	**2,763**	2,686	**N/A**	N/A

1 Average AUMA includes £12.1bn (2016: £8.6bn) of average AUM relating to HDFC AMC which is excluded when calculating fee revenue yield. Fee based revenue includes £26m (2016: £33m) of performance fees which are excluded when calculating fee revenue yield.

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10.3 Assets under management and administration and net flows (Pro forma basis)

	Definition	Purpose and changes made
Assets under management and administration KPI	AUMA is a measure of the total assets we manage or administer on behalf of our clients and customers. It includes Aberdeen Standard Investments assets under management (AUM) and Standard Life Pensions & Savings assets under administration (AUA), as well as AUM and AUA from our associate and joint venture businesses in India and China based on our ownership percentages. AUM is a measure of the total assets that Aberdeen Standard Investments manages on behalf of individual customers and institutional clients. AUM also includes captive assets managed on behalf of Standard Life Aberdeen Group including assets managed for corporate purposes. These corporate assets are eliminated from Group AUMA. AUA is a measure of the total assets we administer for customers through products such as pensions, platforms and ISAs, as well as assets backing our Spread/risk products such as annuities.	As an investment company, AUMA and net flows are key drivers of shareholder value. Certain items previously included in AUA for Standard Life plc are now no longer included. These items are other corporate assets and assets which do not generate revenue from products. Comparatives have been restated. A reconciliation of AUMA and net flows to previously disclosed information is provided in section 10.5.
Net flows KPI	Net flows represent gross inflows less gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period, including annuity payments.	As an investment company, AUMA and net flows are key drivers of shareholder value.

10.3.1 Assets under management and administration

12 months ended 31 December 2017

		Opening AUMA at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2017 £bn
Aberdeen Standard Investments	Equities	97.4	16.2	(24.4)	(8.2)	15.3	–	104.5
	Fixed income	55.1	8.4	(11.7)	(3.3)	0.9	(1.3)	51.4
	Multi-asset	79.1	13.9	(20.8)	(6.9)	2.6	(2.4)	72.4
	Private markets/alternatives	25.7	1.9	(2.7)	(0.8)	(0.4)	–	24.5
	Real estate	27.5	3.6	(4.6)	(1.0)	2.0	–	28.5
	Quantitative	2.4	0.2	(0.7)	(0.5)	0.3	–	2.2
	Cash/liquidity	21.9	6.7	(8.1)	(1.4)	(0.1)	–	20.4
	Growth	**309.1**	**50.9**	**(73.0)**	**(22.1)**	**20.6**	**(3.7)**	**303.9**
	Standard Life Pensions and Savings	90.2	3.3	(6.0)	(2.7)	4.7	–	92.2
	Third party strategic partner life business	181.3	12.3	(24.8)	(12.5)	10.8	–	179.6
	Mature	**271.5**	**15.6**	**(30.8)**	**(15.2)**	**15.5**	**–**	**271.8**
	Total assets under management	**580.6**	**66.5**	**(103.8)**	**(37.3)**	**36.1**	**(3.7)**	**575.7**
Pensions and Savings	UK Retail	62.9	12.9	(6.5)	6.4	6.4	–	75.7
	UK Workplace	37.4	4.2	(2.8)	1.4	1.4	–	40.2
	Europe growth	10.8	1.3	(1.0)	0.3	0.9	–	12.0
	Growth	**111.1**	**18.4**	**(10.3)**	**8.1**	**8.7**	**–**	**127.9**
	UK Mature Retail	34.9	0.6	(3.9)	(3.3)	3.6	–	35.2
	Europe mature fee	9.5	0.7	(0.6)	0.1	0.3	–	9.9
	Spread/risk	16.1	0.2	(1.1)	(0.9)	(0.1)	–	15.1
	Mature	**60.5**	**1.5**	**(5.6)**	**(4.1)**	**3.8**	**–**	**60.2**
	Total assets under administration	**171.6**	**19.9**	**(15.9)**	**4.0**	**12.5**	**–**	**188.1**
India and China life		**4.6**	**1.0**	**(0.5)**	**0.5**	**0.3**	**(0.6)**	**4.8**
Eliminations		(109.2)	(7.3)	9.1	1.8	(6.3)	–	(113.7)
Total AUMA		**647.6**	**80.1**	**(111.1)**	**(31.0)**	**42.6**	**(4.3)**	**654.9**

Assets under management and administration
12 months ended 31 December 2016

		Opening AUMA at 1 Jan 2016 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2016 £bn
Aberdeen Standard Investments	Equities	90.3	15.0	(28.9)	(13.9)	21.0	–	97.4
	Fixed income	53.1	9.4	(14.7)	(5.3)	9.5	(2.2)	55.1
	Multi-asset	74.5	16.7	(20.3)	(3.6)	6.2	2.0	79.1
	Private markets/alternatives	23.2	1.6	(2.8)	(1.2)	3.7	–	25.7
	Real estate	28.7	4.3	(5.9)	(1.6)	2.1	(1.7)	27.5
	Quantitative	2.4	0.3	(0.5)	(0.2)	0.2	–	2.4
	Cash/liquidity	19.3	7.8	(8.1)	(0.3)	2.9	–	21.9
	Growth	**291.5**	**55.1**	**(81.2)**	**(26.1)**	**45.6**	**(1.9)**	**309.1**
	Standard Life Pensions and Savings	83.1	3.5	(5.6)	(2.1)	9.2	–	90.2
	Third party strategic partner life business	169.1	12.9	(24.4)	(11.5)	23.7	–	181.3
	Mature	**252.2**	**16.4**	**(30.0)**	**(13.6)**	**32.9**	**–**	**271.5**
	Total assets under management	**543.7**	**71.5**	**(111.2)**	**(39.7)**	**78.5**	**(1.9)**	**580.6**
Pensions and Savings	UK Retail	42.6	8.1	(4.4)	3.7	5.5	11.1	62.9
	UK Workplace	33.0	4.1	(2.4)	1.7	2.7	–	37.4
	Europe growth	9.3	1.3	(0.8)	0.5	1.0	–	10.8
	Growth	**84.9**	**13.5**	**(7.6)**	**5.9**	**9.2**	**11.1**	**111.1**
	UK mature Retail	34.0	0.6	(4.0)	(3.4)	4.3	–	34.9
	Europe mature fee	7.9	0.7	(0.8)	(0.1)	1.7	–	9.5
	Spread/risk	14.9	0.2	(1.1)	(0.9)	2.1	–	16.1
	Mature	**56.8**	**1.5**	**(5.9)**	**(4.4)**	**8.1**	**–**	**60.5**
	Total assets under administration	**141.7**	**15.0**	**(13.5)**	**1.5**	**17.3**	**11.1**	**171.6**
India and China life		**2.8**	**0.9**	**(0.5)**	**0.4**	**0.6**	**0.8**	**4.6**
Eliminations		(101.6)	(7.0)	8.0	1.0	(8.6)	–	(109.2)
Total AUMA		**586.6**	**80.4**	**(117.2)**	**(36.8)**	**87.8**	**10.0**	**647.6**

10.3.2 AUMA growth and mature split

	Opening AUMA at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2017 £bn
Aberdeen Standard Investments growth	309.1	50.9	(73.0)	(22.1)	20.6	(3.7)	303.9
Standard Life Pensions and Savings growth	111.1	18.4	(10.3)	8.1	8.7	–	127.9
Eliminations	(19.0)	(4.0)	3.1	(0.9)	(1.6)	–	(21.5)
Total growth channels	**401.2**	**65.3**	**(80.2)**	**(14.9)**	**27.7**	**(3.7)**	**410.3**
Aberdeen Standard Investments mature	271.5	15.6	(30.8)	(15.2)	15.5	–	271.8
Standard Life Pensions and Savings mature	60.5	1.5	(5.6)	(4.1)	3.8	–	60.2
Eliminations	(90.2)	(3.3)	6.0	2.7	(4.7)	–	(92.2)
Total mature books	**241.8**	**13.8**	**(30.4)**	**(16.6)**	**14.6**	**–**	**239.8**
India and China life	4.6	1.0	(0.5)	0.5	0.3	(0.6)	4.8
Total AUMA	**647.6**	**80.1**	**(111.1)**	**(31.0)**	**42.6**	**(4.3)**	**654.9**

	Opening AUMA at 1 Jan 2016 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2016 £bn
Aberdeen Standard Investments growth	291.5	55.1	(81.2)	(26.1)	45.6	(1.9)	309.1
Standard Life Pensions and Savings growth	84.9	13.5	(7.6)	5.9	9.2	11.1	111.1
Eliminations	(18.5)	(3.5)	2.4	(1.1)	0.6	–	(19.0)
Total growth channels	**357.9**	**65.1**	**(86.4)**	**(21.3)**	**55.4**	**9.2**	**401.2**
Aberdeen Standard Investments mature	252.2	16.4	(30.0)	(13.6)	32.9	–	271.5
Standard Life Pensions and Savings mature	56.8	1.5	(5.9)	(4.4)	8.1	–	60.5
Eliminations	(83.1)	(3.5)	5.6	2.1	(9.2)	–	(90.2)
Total mature books	**225.9**	**14.4**	**(30.3)**	**(15.9)**	**31.8**	**–**	**241.8**
India and China life	2.8	0.9	(0.5)	0.4	0.6	0.8	4.6
Total	**586.6**	**80.4**	**(117.2)**	**(36.8)**	**87.8**	**10.0**	**647.6**

10.3.3 Quarterly net flows

	3 Months to 31 Dec 17 £bn	3 Months to 30 Sep 17 £bn	3 Months to 30 Jun 17 £bn	3 Months to 31 Mar 17 £bn	3 Months to 31 Dec 16 £bn
Aberdeen Standard Investments:					
Equities	**(2.9)**	(1.9)	(1.9)	(1.5)	(6.4)
Fixed income	**(0.6)**	(1.1)	(1.4)	(0.2)	(0.6)
Multi-asset	**(1.3)**	(1.8)	(1.8)	(2.0)	(2.9)
Private markets/alternatives	**(0.1)**	(0.2)	(0.3)	(0.2)	–
Real estate	**(0.1)**	(0.2)	(0.6)	(0.1)	(0.7)
Quantitative	**–**	(0.1)	(0.4)	–	(0.1)
Cash/liquidity	**(0.7)**	(2.1)	0.1	1.3	(0.5)
Growth	**(5.7)**	(7.4)	(6.3)	(2.7)	(11.2)
Standard Life Pensions and Savings	**(0.6)**	(0.7)	(0.7)	(0.7)	(0.8)
Third Party strategic partner life business	**(2.9)**	(3.6)	(3.1)	(2.9)	(1.9)
Mature	**(3.5)**	(4.3)	(3.8)	(3.6)	(2.7)
Aberdeen Standard Investments net flows	**(9.2)**	(11.7)	(10.1)	(6.3)	(13.9)
Standard Life Pensions and Savings:					
UK Retail	**1.4**	1.6	1.7	1.7	1.0
UK Workplace	**0.3**	0.3	0.4	0.4	0.3
Europe growth	**0.1**	0.1	0.1	–	0.1
Growth	**1.8**	2.0	2.2	2.1	1.4
UK Mature Retail	**(0.7)**	(1.0)	(0.8)	(0.8)	(0.9)
Europe mature fee	**–**	–	0.1	–	(0.2)
Spread/risk	**(0.2)**	(0.2)	(0.3)	(0.2)	(0.2)
Mature	**(0.9)**	(1.2)	(1.0)	(1.0)	(1.3)
Standard Life Pensions and Savings net flows	**0.9**	0.8	1.2	1.1	0.1
India and China life	**0.1**	0.1	0.1	0.2	0.2
Eliminations	**0.2**	1.9	(0.4)	0.1	0.6
Total net flows	**(8.0)**	(8.9)	(9.2)	(4.9)	(13.0)

10.4 Aberdeen Standard Investments assets under management and net flows (Pro forma basis)

10.4.1 Growth AUM detailed asset class split and total AUM by channel

Breakdown of growth channel asset classes	Opening AUM at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2017 £bn
Developed markets equities	15.8	2.4	(3.2)	(0.8)	1.3	–	16.3
Emerging markets equities	33.9	5.6	(8.4)	(2.8)	5.9	–	37.0
Asia Pacific equities	26.1	4.6	(7.7)	(3.1)	4.7	–	27.7
Global equities	21.6	3.6	(5.1)	(1.5)	3.4	–	23.5
Total equities	**97.4**	**16.2**	**(24.4)**	**(8.2)**	**15.3**	**–**	**104.5**
Developed markets credit	37.8	4.8	(9.1)	(4.3)	0.7	(1.3)	32.9
Developed markets rates	5.5	1.4	(1.2)	0.2	–	–	5.7
Emerging markets fixed income	11.8	2.2	(1.4)	0.8	0.2	–	12.8
Total fixed income	**55.1**	**8.4**	**(11.7)**	**(3.3)**	**0.9**	**(1.3)**	**51.4**
Absolute return	48.9	5.8	(15.6)	(9.8)	0.7	–	39.8
Diversified growth/income	0.7	1.0	(0.3)	0.7	0.1	–	1.5
MyFolio	10.6	3.3	(1.3)	2.0	0.7	–	13.3
Other multi-asset	9.1	1.4	(2.2)	(0.8)	0.6	(2.4)	6.5
Parmenion	3.0	1.5	(0.2)	1.3	0.1	–	4.4
Standard Life Wealth	6.8	0.9	(1.2)	(0.3)	0.4	–	6.9
Total multi-asset	**79.1**	**13.9**	**(20.8)**	**(6.9)**	**2.6**	**(2.4)**	**72.4**
Private equity	14.6	0.8	(1.4)	(0.6)	(0.2)	(1.4)	12.4
Private credit and solutions	–	0.3	–	0.3	–	–	0.3
Alternative investment solutions	8.9	0.8	(1.3)	(0.5)	(0.4)	–	8.0
Infrastructure equity	2.2	–	–	–	0.2	1.4	3.8
Total private markets/alternatives	**25.7**	**1.9**	**(2.7)**	**(0.8)**	**(0.4)**	**–**	**24.5**
UK real estate	15.2	1.4	(2.0)	(0.6)	1.2	–	15.8
European real estate	10.5	2.1	(2.3)	(0.2)	0.8	–	11.1
Global real estate	0.2	–	(0.1)	(0.1)	–	–	0.1
Real estate multi-manager	1.6	0.1	(0.2)	(0.1)	–	–	1.5
Total real estate	**27.5**	**3.6**	**(4.6)**	**(1.0)**	**2.0**	**–**	**28.5**
Total quantitative	**2.4**	**0.2**	**(0.7)**	**(0.5)**	**0.3**	**–**	**2.2**
Total cash/liquidity	**21.9**	**6.7**	**(8.1)**	**(1.4)**	**(0.1)**	**–**	**20.4**
Total growth assets under management	**309.1**	**50.9**	**(73.0)**	**(22.1)**	**20.6**	**(3.7)**	**303.9**

12 months ended 31 December 2017	Opening AUM at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2017 £bn
Institutional	202.4	24.3	(44.0)	(19.7)	11.1	(1.3)	192.5
Wholesale	96.9	24.2	(27.7)	(3.5)	9.2	(2.4)	100.2
Wealth/Digital	9.8	2.4	(1.3)	1.1	0.3	–	11.2
Growth channels	**309.1**	**50.9**	**(73.0)**	**(22.1)**	**20.6**	**(3.7)**	**303.9**
Standard Life Pensions and Savings	90.2	3.3	(6.0)	(2.7)	4.7	–	92.2
Third party strategic partner life business	181.3	12.3	(24.8)	(12.5)	10.8	–	179.6
Mature channels	**271.5**	**15.6**	**(30.8)**	**(15.2)**	**15.5**	**–**	**271.8**
Total assets under management	**580.6**	**66.5**	**(103.8)**	**(37.3)**	**36.1**	**(3.7)**	**575.7**

Breakdown of growth channel asset classes	Opening AUM at 1 Jan 2016 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2016 £bn
Developed markets equities	15.0	3.0	(3.9)	(0.9)	1.7	–	15.8
Emerging markets equities	25.8	5.6	(5.8)	(0.2)	8.3	–	33.9
Asia Pacific equities	26.2	4.0	(9.7)	(5.7)	5.6	–	26.1
Global equities	23.3	2.4	(9.5)	(7.1)	5.4	–	21.6
Total equities	**90.3**	**15.0**	**(28.9)**	**(13.9)**	**21.0**	**–**	**97.4**
Developed markets credit	38.3	6.3	(10.1)	(3.8)	5.5	(2.2)	37.8
Developed markets rates	4.7	0.9	(1.5)	(0.6)	1.4	–	5.5
Emerging markets fixed income	10.1	2.2	(3.1)	(0.9)	2.6	–	11.8
Total fixed income	**53.1**	**9.4**	**(14.7)**	**(5.3)**	**9.5**	**(2.2)**	**55.1**
Absolute return	49.8	10.6	(14.7)	(4.1)	3.2	–	48.9
Diversified growth/income	0.4	0.2	–	0.2	0.1	–	0.7
MyFolio	8.1	2.6	(1.0)	1.6	0.9	–	10.6
Other multi-asset	9.7	1.6	(3.7)	(2.1)	1.5	–	9.1
Parmenion	–	0.9	(0.1)	0.8	0.2	2.0	3.0
Standard Life Wealth	6.5	0.8	(0.8)	–	0.3	–	6.8
Total multi-asset	**74.5**	**16.7**	**(20.3)**	**(3.6)**	**6.2**	**2.0**	**79.1**
Private equity	12.7	1.2	(1.2)	–	1.9	–	14.6
Private credit and solutions	–	–	–	–	–	–	–
Alternative investment solutions	8.4	0.4	(1.6)	(1.2)	1.7	–	8.9
Infrastructure equity	2.1	–	–	–	0.1	–	2.2
Total private markets/alternatives	**23.2**	**1.6**	**(2.8)**	**(1.2)**	**3.7**	**–**	**25.7**
UK real estate	16.7	1.2	(2.9)	(1.7)	0.2	–	15.2
European real estate	9.8	2.9	(2.7)	0.2	2.2	(1.7)	10.5
Global real estate	0.5	0.1	(0.2)	(0.1)	(0.2)	–	0.2
Real estate multi-manager	1.7	0.1	(0.1)	–	(0.1)	–	1.6
Total real estate	**28.7**	**4.3**	**(5.9)**	**(1.6)**	**2.1**	**(1.7)**	**27.5**
Total quantitative	**2.4**	**0.3**	**(0.5)**	**(0.2)**	**0.2**	**–**	**2.4**
Total cash/liquidity	**19.3**	**7.8**	**(8.1)**	**(0.3)**	**2.9**	**–**	**21.9**
Total growth assets under management	**291.5**	**55.1**	**(81.2)**	**(26.1)**	**45.6**	**(1.9)**	**309.1**

12 months ended 31 December 2016	Opening AUM at 1 Jan 2016 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2016 £bn
Institutional	183.7	28.6	(45.4)	(16.8)	39.4	(3.9)	202.4
Wholesale	101.3	24.8	(34.9)	(10.1)	5.7	–	96.9
Wealth/Digital	6.5	1.7	(0.9)	0.8	0.5	2.0	9.8
Growth channels	**291.5**	**55.1**	**(81.2)**	**(26.1)**	**45.6**	**(1.9)**	**309.1**
Standard Life Pensions and Savings	83.1	3.5	(5.6)	(2.1)	9.2	–	90.2
Third party strategic partner life business	169.1	12.9	(24.4)	(11.5)	23.7	–	181.3
Mature channels	**252.2**	**16.4**	**(30.0)**	**(13.6)**	**32.9**	**–**	**271.5**
Total assets under management	**543.7**	**71.5**	**(111.2)**	**(39.7)**	**78.5**	**(1.9)**	**580.6**

10.4.2 Aberdeen Standard Investments growth assets under management by geography

12 months ended 31 December	2017 £bn	2016 £bn
UK	**145.6**	150.5
Europe, Middle East and Africa (EMEA)	**61.8**	59.0
India	**13.6**	10.5
Asia Pacific (APAC)	**22.7**	25.2
North America	**60.2**	63.9
Total growth channels	**303.9**	309.1

10.4.3 Aberdeen Standard Investments total assets under management by asset class

	2017			2016		
	Growth £bn	Mature £bn	Total £bn	Growth £bn	Mature £bn	Total £bn
Equities	**104.5**	**53.1**	**157.6**	97.4	52.1	149.5
Fixed income	**51.4**	**92.6**	**144.0**	55.1	98.5	153.6
Multi-asset	**72.4**	**17.6**	**90.0**	79.1	15.9	95.0
Private markets/alternatives	**24.5**	**1.2**	**25.7**	25.7	1.3	27.0
Real estate	**28.5**	**10.7**	**39.2**	27.5	11.1	38.6
Quantitative	**2.2**	**66.3**	**68.5**	2.4	60.8	63.2
Cash/liquidity	**20.4**	**30.3**	**50.7**	21.9	31.8	53.7
Total assets under management	**303.9**	**271.8**	**575.7**	309.1	271.5	580.6

10.5 Assets under management and administration – reconciliation to previously disclosed information (Pro forma basis)

12 months ended 31 December 2016

	Opening AUMA at 1 Jan 2016 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2016 £bn
Standard Life plc AUA as reported	307.4	42.1	(44.7)	(2.6)	52.3	N/A	357.1
Add: Aberdeen AUM	290.6	38.3	(72.5)	(34.2)	48.2	(1.9)	302.7
Less: eliminations between Aberdeen AUM and UK Pensions & Savings AUA	(0.6)	–	–	–	–	–	(0.6)
Less: changes due to new AUMA methodology[1]	(10.8)	–	–	–	(0.8)	–	(11.6)
Presentational change for new AUMA layout[2]	–	–	–	–	(11.9)	11.9	–
Total Standard Life Aberdeen AUMA	**586.6**	**80.4**	**(117.2)**	**(36.8)**	**87.8**	**10.0**	**647.6**

1 Some assets which were formerly included in Standard Life plc's AUA are now excluded under the definition of AUMA for Standard Life Aberdeen plc. These assets largely comprise Assets which do not generate revenue from products and Other corporate assets.

2 AUMA tables include separate disclosure of 'Corporate actions and business rationalisation' which was not presented separately in previous disclosures by Standard Life plc. The AUMA impact of the stake increase in HDFC Life in April 2016 and the purchase of Elevate in October 2016 are both corporate actions and have been reallocated out of Market and other movements.

Other information

Contents

11. Glossary

Aberdeen Asset Management or Aberdeen
Aberdeen Asset Management PLC, or Aberdeen Asset Management PLC and its subsidiaries.

Adjusted cash generation
Adjusted cash generation (previously named underlying cash generation) presents a shareholder view of cash generation. The calculation of this measure has been amended following the merger. For the Aberdeen Standard Investments segment, adjusted cash generation adjusts IFRS net cash flows from operating activities for restructuring and corporate transaction expenses paid. For the Standard Life Pensions and Savings segment and Other, adjusted cash generation removes certain non-cash items from adjusted profit before tax. Adjustments are made for deferred acquisition costs/deferred income reserve and fixed/intangible assets. Adjusted cash generation is stated net of current (cash) tax. IFRS net cash flows from operating activities is not used as the basis for these segments as it includes policyholder cash flows, and does not exclude adjusting items. For the India and China life segment, adjusted cash generation reflects dividends received in the period.

Adjusted operating expenses
Adjusted operating expenses is a component of adjusted profit and relates to the day-to-day expenses of managing our business.

Adjusted operating income
Adjusted operating income is a component of adjusted profit and consists of fee based revenue and spread/risk margin.

Adjusted profit
Adjusted profit before tax (previously named operating profit before tax) is the Group's key alternative performance measure. Adjusted profit excludes impacts arising from short-term fluctuations in investment return and economic assumption changes in the Group's wholly owned insurance entities. It is calculated based on expected returns on investments backing equity holder funds, with consistent allowance for the corresponding expected movements in equity holder liabilities. Impacts arising from the difference between the expected return and actual return on investments, and the corresponding impact on equity holder liabilities except where they are directly related to a significant management action, are excluded from adjusted profit and are presented within profit before tax. The impact of certain changes in economic assumptions is also excluded from adjusted profit and is presented within profit before tax.

Adjusted profit also excludes the impact of the following items:

- Restructuring costs and corporate transaction expenses. Restructuring includes the impact of major regulatory change.
- Impairment and amortisation of intangible assets acquired in business combinations
- Profit or loss arising on the disposal of a subsidiary, joint venture or associate
- Fair value movements in contingent consideration
- Items which are one-off and, due to their size or nature, are not indicative of the long-term operating performance of the Group

Coupons payable on perpetual notes classified as non-controlling interests are included in adjusted profit before tax. For IFRS purposes, these are recognised directly in equity. This gives rise to an adjusting item relating to 'coupons payable on perpetual notes classified as equity'. Dividends payable on preference shares classified as non-controlling interests are excluded from adjusted profit in line with the treatment of ordinary dividends.

Annuity
A periodic payment made for an agreed period of time (usually up to the death of the recipient) in return for a cash sum. The cash sum can be paid as one amount or as a series of premiums. If the annuity commences immediately after the payment of the sum, it is called an immediate annuity. If it commences at some future date, it is called a deferred annuity.

Articles
The Articles of Association detail the provisions relating to the regulation of a company in terms of the rights of its members and the authority of its directors.

Assets under management and administration (AUMA)
AUMA is a measure of the total assets we manage or administer on behalf of our clients and customers. It includes Aberdeen Standard Investments assets under management (AUM) and Standard Life Pensions and Savings assets under administration (AUA), as well as AUM and AUA from our associate and joint venture businesses in India and China based on our ownership percentages.

AUM is a measure of the total assets that Aberdeen Standard Investments manages on behalf of individual customers and institutional clients. AUM also includes captive assets managed on behalf of Standard Life Aberdeen Group including assets managed for corporate purposes. These corporate assets are eliminated from Group AUMA.

AUA is a measure of the total assets we administer for customers through products such as pensions, platforms and ISAs, as well as assets backing our Spread/risk products such as annuities. Certain items previously included in AUA for Standard Life plc are now no longer included. These items are other corporate assets and assets which do not generate revenue from products. Comparatives have been restated.

Auto enrolment
The UK Government introduced auto enrolment to help people save for their retirement. Employers have to automatically enrol eligible employees into a qualifying workplace pension scheme. This pension scheme needs to meet the standards set by the Pensions Regulator.

Board
The Board of Directors of the Company.

Capital management
Capital management is a component of adjusted profit and relates to the return from the net assets of the shareholder business, net of costs of financing. This includes the net assets in defined benefit staff pension plans and net assets relating to the financing of subordinated liabilities. Coupons payable on perpetual notes classified as non-controlling interests are recognised in capital management. For IFRS purposes, these are directly recognised in equity. Capital management excludes short-term fluctuations in investment return in the Group's wholly owned insurance entities.

Capital surplus
This is a regulatory measure of our financial strength and is measured on a Solvency II basis.

Chief Operating Decision Maker
The executive committee.

Company
Standard Life Aberdeen plc. Prior to the merger Standard Life plc.

Cost/income ratio
This is an efficiency measure that is calculated as adjusted operating expenses divided by adjusted operating income, and includes the share of associates' and joint ventures' profit before tax.

Deferred acquisition costs (DAC)
The method of accounting whereby acquisition costs on long-term business are deferred on the consolidated statement of financial position as an asset and amortised over the life of those contracts. This leads to a smoothed recognition of up front expenses instead of the full cost in the year of sale.

Deferred income reserve (DIR)
The method of accounting whereby front end fees that relate to services to be provided in future periods are deferred on the consolidated statement of financial position as a liability and amortised over the life of those contracts. This leads to a smoothed recognition of up front income instead of the full income in the year of sale.

Director
A Director of the Company.

Discounting
The reduction to present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money. The choice of a discount rate will usually greatly influence the value of insurance provisions, and may give indications on the conservatism of provisioning methods.

Earnings per share (EPS)
EPS is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.

Effective tax rate
Tax expense/(credit) attributable to equity holders' profit divided by profit before tax attributable to equity holders' profits expressed as a percentage.

Elevate
Elevate adviser platform acquired through the purchase of the entire share capital of AXA Portfolio Services Limited, subsequently renamed Elevate Portfolio Services Limited.

Executive committee
Responsible for the day-to-day running of the business and comprises: Co-Chief Executives, Chief Financial Officer, Chief Investment Officer, Chief People Officer, Chief Executive – Pensions and Savings, Joint Head of Integration and Chief Operations Officer and Joint Head of Integration.

Fair value through profit or loss (FVTPL)
FVTPL is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the income statement.

Fee based business/revenue
Fee based business is a component of adjusted profit and includes products where we generate revenue primarily from asset management charges (AMCs), premium based charges and transactional charges. AMCs are earned on products such as SIPP, corporate pensions and mutual funds, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with our major indirect exposure to rising or falling markets coming from higher or lower AMCs. Fee based revenue is shown net of fees, commissions and similar charges (e.g. rebates and initial charges).

Fee revenue yield (bps)
The average revenue yield on fee based business is a measure that illustrates the average margin being earned on the assets that we manage or administer. It is calculated as annualised fee based revenue (excluding performance fees) divided by monthly average fee based assets under administration.

Global absolute return strategies (GARS)
A discretionary multi-asset fund provided under several regulated pooled and segregated structures globally by Aberdeen Standard Investments. The investment objective is to target a level of return over a rolling three-year period equivalent to cash plus 5% a year (gross of fees), and to do so with as little risk as possible.

Group, Standard Life Aberdeen Group or Standard Life Aberdeen
Relates to the Company and its subsidiaries following the completion of the merger of Standard Life plc and Aberdeen Asset Management PLC on 14 August 2017.

Growth channels
We aim to drive the increase in our assets, revenue and profit via our growth channels. This comprises Aberdeen Standard Investments (excluding mature business), UK Workplace and Retail, Europe (excluding Germany with profits), Hong Kong and Standard Life Wealth.

Heritage With Profits Fund (HWPF)
The Heritage With Profits Fund contains all business – both with profits and non-profit – written in the UK, Irish or German branches within the Standard Life Group before demutualisation, with the exception of the classes of business which the Scheme of Demutualisation allocated to funds outside the HWPF. The HWPF also contains increments to this business.

Ignis
Ignis Asset Management Limited and its subsidiaries.

International Financial Reporting Standards (IFRS)
International Financial Reporting Standards are accounting standards issued by the International Accounting Standards Board (IASB). The Group's consolidated financial statements are prepared in accordance with IFRS as endorsed by the EU.

Investment performance
Investment performance has been aggregated using a money weighted average of our assets under management which are outperforming their respective benchmarks on a gross of fees basis. Benchmarks differ by fund and are defined in each fund's Investment Management Agreement (for example, the benchmark for our GARS unit trust fund is six-month GBP LIBOR). For total AUM, the investment performance calculation covers 83% of Aberdeen Standard Investments AUM, with certain assets excluded such as our share of AUM from HDFC AMC where we do not directly manage the assets, non-discretionary portfolios or funds where no suitable benchmark is available.

Investor view
The investor view of Solvency II adjusts the regulatory position for the impact from unrecognised capital and with profit funds/defined benefit pension plans.

Key performance indicators (KPI)
A measure by reference to which the development, performance or position of the business can be measured effectively.

Liability aware
Liability aware is a framework for proactively managing the various liability risks and requirements that are faced by defined benefit pension plans and insurance companies.

Mature book/business
For Aberdeen Standard Investments, mature books represent the management of assets on behalf of strategic partner life businesses including Standard Life Group and a number of third party strategic partners such as Lloyds Banking Group and Phoenix. For Standard Life Pensions and Savings, mature books include UK mature Retail, UK and Europe spread/risk based business and the with profits business in Germany which closed to new business in April 2015.

Net flows
Net flows represent gross inflows less gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period, including annuity payments.

Own funds
Under Solvency II, the capital resources available to meet solvency capital requirements are called own funds.

Platform
An investment platform (e.g. Wrap or Elevate) which is essentially a trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Pro forma basis
The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. Results on a pro forma basis are prepared as if Standard Life plc and Aberdeen had always been merged and are included on this basis to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for both the current year and prior year. This is applicable to the results of the Group and Aberdeen Standard Investments.

Recourse cash flows (RCF)
Certain cash flows arising in the HWPF on specified blocks of UK and Ireland business, which are transferred out of the fund annually and accrue to the ultimate benefit of equity holders, as determined by the Scheme of Demutualisation.

Regular premium
A regular premium contract (as opposed to a single premium contract) is one where the policyholder agrees at inception to make regular payments throughout the term of the contract.

Reported basis
The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The financial statements have been prepared on this basis, with Aberdeen results included only from the date of merger onwards. This is being referred to as the Reported basis. A reconciliation between profitability on a Pro forma basis and the Reported results is included on page 282.

Scheme of Demutualisation or the Scheme
The scheme pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, under which substantially all of the long-term business of SLAC was transferred to Standard Life Assurance Limited on 10 July 2006.

Single premium
A single premium contract (as opposed to a regular premium contract), which involves the payment of one premium at inception with no obligation for the policyholder to make subsequent additional payments.

SIPP
A self invested personal pension which provides the policyholder with greater choice and flexibility as to the range of investments made, how those investments are managed, the administration of those assets and how retirement benefits are taken.

SLAC
The Standard Life Assurance Company (renamed The Standard Life Assurance Company 2006 on 10 July 2006).

SLAL
Standard Life Assurance Limited.

Solvency II
Solvency II is an EU-wide initiative that brings consistency to how EU insurers manage capital and risk. Solvency II was implemented on 1 January 2016.

Solvency capital requirement (SCR)
Under Solvency II, insurers are required to identify their key risks – for example that equity markets fall – and hold sufficient capital to withstand adverse outcomes from those risks. This amount of capital is referred to as the Solvency capital requirement or SCR.

Solvency cover
Solvency II Own funds divided by the Solvency capital requirement.

Spread/risk business
Spread/risk business mainly comprises products where we provide a guaranteed level of income for our customers in return for an investment, for example, annuities. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount we pay to customers and the actual return on the assets over the period of the contract.

Spread/risk margin
Spread/risk margin is a component of adjusted profit and reflects the margin earned on spread/risk business. This includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes. Spread/risk margin excludes the impact of economic assumption changes, which are not included in determining adjusted profit.

Standard Life
The brand name for our Pensions and Savings business, operating in the UK and Europe.

Standard Life Group
Prior to demutualisation on 10 July 2006, SLAC and its subsidiaries and, from demutualisation on 10 July 2006 to 13 August 2017, Standard Life plc and its subsidiaries.

Strategic partner life business
A measure of the assets that Aberdeen Standard Investments manages on behalf of Standard Life Aberdeen Group companies and under other long-term life book partnership agreements with third party companies such as Phoenix Group.

Subordinated liabilities
Subordinated liabilities are debts of a company which, in the event of liquidation, rank below its other debts but above share capital.

Technical provisions
The best estimate market consistent value of our policyholder liabilities is referred to as technical provisions. The calculation is discounted to recognise the time value of money and includes a risk margin, calculated in accordance with Solvency II regulations.

UK Retail
This relates to business where we have a relationship with the customer either directly or through an independent financial adviser. We analyse this type of business into growth and mature categories. Retail growth includes the products, platforms, investment solutions and services of our UK Retail business that we continue to market actively to our customers. Retail mature includes business that was predominantly written before demutualisation.

UK Workplace
UK Workplace pensions, savings and benefits to UK employers and employees. These are sold through corporate benefit consultants, independent financial advisers, or directly to employers.

Underpin
In relation to remuneration, refers to a further performance condition that is required to be met in addition to the performance targets when determining the vesting of an award.

Unit linked policy
A policy where the benefits are determined by reference to the investment performance of a specified pool of assets referred to as the unit linked fund.

12. Shareholder information

Registered office
Standard Life House
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Edinburgh
EH1 2DH
Scotland

Company registration number: SC286832

Phone: 0800 634 7474* or 0131 225 2552*

For shareholder services call:
0345 113 0045*

*Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Secretary
Kenneth A Gilmour

Registrar
Link Market Services Limited (Link)

Auditors
KPMG LLP

Solicitors
Slaughter and May

Brokers
JP Morgan Cazenove
Goldman Sachs

Shareholder services
We offer a wide range of shareholder services. For more information, please:

- Contact our registrar, Link, who manage this service for us. Their details can be found on the inside back cover.
- Visit our share portal at **www.standardlifeaberdeenshares.com**

Sign up for Ecommunications
Signing up means:

- You'll receive an email when documents like the Annual report and accounts, Half year results and AGM guide are available on our website
- Voting instructions for the Annual General Meeting will be sent to you electronically

Set up a share portal account
Having a share portal account means you can:

- Manage your account at a time that suits you
- Download your documents when you need them

To find out how to sign up, visit
www.standardlifeaberdeenshares.com

Preventing unsolicited mail
By law, the Company has to make certain details from its share register publicly available. Because of this, it is possible that some registered shareholders could receive unsolicited mail or phone calls. You could also be targeted by fraudulent 'investment specialists'. Remember, if it sounds too good to be true, it probably is.

You can find more information about share scams at the Financial Conduct Authority website **www.fca.org.uk/consumers/scams**

If you are a certificated shareholder, your name and address may appear on a public register. Using a nominee company to hold your shares can help protect your privacy. You can transfer your shares into the Company-sponsored nominee – the Standard Life Aberdeen Share Account – by contacting Link, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please visit **www.mpsonline.org.uk**

Financial calendar

2018

Full year results 2017	23 February
Ex-dividend date for 2017 final dividend	19 April
Record date for 2017 final dividend	20 April
Last date for DRIP elections for 2017 final dividend	09 May
Dividend payment date for 2017 final dividend	30 May
Half year results 2018	07 August
Ex-dividend date for 2018 interim dividend	16 August
Record date for 2018 interim dividend	17 August
Last date for DRIP elections for 2018 interim dividend	05 September
Dividend payment date for 2018 interim dividend	25 September

Analysis of registered shareholdings at 31 December 2017

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	62,796	61.11	26,483,000	0.89
1,001-5,000	34,613	33.68	70,528,561	2.37
5,001-10,000	2,980	2.90	19,993,611	0.67
10,001-100,000	1,738	1.69	42,330,605	1.42
#100,001+	636	0.62	2,819,601,100	94.65
Total	**102,763**	**100**	**2,978,936,877**	**100**

These figures include the Company-sponsored nominee – the Standard Life Aberdeen Share Account – which had 1,039,617 participants holding 736,555,571 shares.

Contact us

Got a shareholder question? Contact our shareholder services team.

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* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Download our app

Keep up to date with Standard Life Aberdeen news, share price updates and other useful information on Standard Life Aberdeen's Investor App

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Designed by **Black Sun Plc** (Strategic report) and
Standard Life Aberdeen plc (rest of Annual report and accounts)

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 2017 (unless otherwise indicated). This document has been published by Standard Life Aberdeen plc for information only. It is based on our understanding as at February 2018 and does not provide financial or legal advice.

Standard Life Aberdeen plc is registered in Scotland (SC286832) at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

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