Standard Life Aberdeen plc - SLA Final Results - Part 5 of 8
Released 07:00 13-Mar-2019

RNS Number : 6669S
Standard Life Aberdeen plc
13 March 2019

**Standard Life Aberdeen plc**
**Full Year Results 2018**
**Part 5 of 8**

# 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 2018 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 and the related notes, including the reconciliation of consolidated adjusted profit before tax to IFRS profit for the year and the accounting policies in Note 1.

### 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 2018 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
- The parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework
- 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 group audit committee.

We were first appointed as auditor by the shareholders on 16 May 2017. The period of total uninterrupted engagement is for the two financial years ended 31 December 2018. 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** | |
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| **Materiality:** group financial statements as a whole | £32m (2017: £38m)<br>4.8% (2017: 4.5%) of normalised profit before tax |
| **Coverage** | 78% (2017:72%) of profits and losses that made up Group profit before tax |

| **Key audit matters** | | **vs 2017** |
|---|---|---|
| **Event Driven** | **New:** The impact of uncertainties due to the UK exiting the European Union on our | |

| | |
|---|---|
| | audit |
| **Recurring Risk** | Recoverability of group goodwill and of parent's investment in subsidiaries |
| **Event Driven** | **New:** Accounting for the obligations arising out of the disposal of Standard Life Assurance Limited ('SLAL') and investment In Phoenix |
| **Event Driven** | **New:** Carrying value of investment in Phoenix |
| **Recurring risk** | Valuation of Intangible Assets |
| **Recurring risk** | Valuation of defined benefit pension scheme 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 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 |
|---|---|---|
| **The impact of uncertainties due to the UK exiting the European Union on our audit**<br><br>*Refer to page 42 to 47 (principal risks), page 39 (viability statement) and page 63 Audit Committee Report),* | **Unprecedented level of uncertainty:**<br><br>All audits assess and challenge the reasonableness of estimates, in particular as described in the recoverability of group goodwill and the parent's investment in subsidiaries, the valuation of the defined benefit pension scheme obligation and the carrying value of the investment in Phoenix below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance.<br><br>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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.<br><br>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. | We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:<br><br>**Our Brexit knowledge** - We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.<br><br>**Sensitivity analysis** - When addressing recoverability of group goodwill, the parent's investment in subsidiaries and the valuation of the defined benefit pension scheme obligation and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.<br><br>**Assessing transparency** - As well as assessing individual disclosures as part of our procedures on recoverability of group goodwill, the parent's investment in subsidiaries, the valuation of the defined benefit pension scheme obligation and the carrying value of the investment in Phoenix below, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.<br><br>**Our results:**<br><br>As reported under the recoverability of group goodwill, the parent's investment in subsidiaries, the valuation of the defined benefit pension scheme obligation and the carrying value of the investment in Phoenix below, we found the resulting estimates and related disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit. |

| | The risk | Our response |
|---|---|---|
| **Recoverability of group goodwill and of parent's investment in subsidiaries**<br>*(Group Goodwill: £2,532m; 2017: £3,427m; Goodwill impairment losses recognised: £891m (2017: £5m)*<br>*(Company: Investments in subsidiaries, Impairment of subsidiaries: £589m (2017: 20 m))*<br>*Refer to page 63 (Audit Committee Report), page 146 (accounting policy) and page 147 (financial disclosures).* | **Subjective estimate:**<br>Goodwill in the group and the carrying amount of certain of the parent company's investments in subsidiaries are significant and at risk of irrecoverability due to reductions in assets under management. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows. In the current year, goodwill in the group was impaired by £891m and the parent company's investments in subsidiaries was impaired by £589m.<br>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and the recoverable amount of certain investments in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. | **Our procedures included:**<br>**Our valuation and sector expertise:** We used our own valuation specialists to assist us in assessing the appropriateness the Group's valuation model. This included comparing the Group discount rate assumptions with our own estimate of a range of reasonable discount rates, based on comparable company information. We also used our sector experience to evaluate the appropriateness of assumptions applied in key inputs such as revenue from customers, operating costs and discount rates.<br>**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 and/or investment in subsidiaries valuation.<br>**Assessing transparency:** We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and the recoverability of investment in subsidiaries.<br>**Our results:**<br>We found the group's assessment of the carrying value of goodwill in the group and the parent company's investment in subsidiaries to be acceptable (2017: acceptable). |

| | The risk | Our response |
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| **Accounting for the obligations arising out of disposal of SLAL and investment in Phoenix**<br>*(Investment in associates £1,023m; 2017: Not applicable)*<br>*Refer to page 63 (Audit Committee Report), page 152 (accounting policy) and pages 130 and 153 (financial disclosures).* | **Accounting application**<br>As SLA's investment in Phoenix is 19.98%, there is judgement as to whether Phoenix should be accounted for as an associate given significant influence is only presumed to exist per IAS 28 when 20% of equity is held. The risk is that the investment in Phoenix has been inappropriately accounted for as an associate, rather than as an equity investment.<br>**Subjective valuation - initial investment in Phoenix**<br>On investment, SLA's share of the fair value of the identifiable assets and liabilities of Phoenix was assessed and compared to the cost of the investment. In doing this, the principle area of risk relates to the valuation of the acquired value of in-force business ('AVIF'), the valuation of insurance contract liabilities and the valuation of level 3 assets. This assessment of fair value was made by the Directors of SLA and involves complex and significant judgements over a number of subjective assumptions.<br>The effect of these matters is that, as part of our risk assessment, we determined that the accounting for the investment in Phoenix has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 16) disclose the key judgements estimated by the Group. | **Our procedures included:**<br>**Assessing principles:** We assessed the nature of the relationship with Phoenix by reviewing the terms in the sale and purchase agreement (SPA) and evaluated these against the criteria in IAS 28 to re-perform the significant influence assessment.<br>**Control design and operation:** We tested the design of key controls including over management's process for modelling insurance contract liabilities, for setting and updating actuarial assumptions and in respect of the valuation of complex and illiquid financial investments.<br>**Benchmarking assumptions and industry experience:** For key inputs we compared and benchmarked the assumptions used, such as the cost of capital, to externally derived data. We also used our knowledge of industry practice to challenge the Group's assumptions in these areas.<br>**Our actuarial experience:** We used our own actuarial specialists to review and challenge the rationale for key assumptions adopted.<br>**Assessing transparency:** We assessed whether the group's disclosure of the valuation of the investment in Phoenix adequately disclose the key judgements and potential estimation uncertainty in deriving the opening investment valuation.<br>**Our Results**<br>We found the initial valuation of the investment in Phoenix to be acceptable. |

| | The risk | Our response |
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| **Accounting for the obligations arising out of the disposal of SLAL and** | **Subjective estimate - indemnities** | **Our procedures included:** |

| | The risk | Our response |
|---|---|---|
| **investment in Phoenix (continued)**<br>*(Contingent consideration - Indemnities; 2017: Not applicable)*<br>*Refer to page 63 (Audit Committee Report), page 127, (accounting policy) and page 130 and 202 (financial disclosures).* | A number of indemnities were included in the SPA with Phoenix. The fair value of these have been estimated by management and recognised as contingent consideration. A number of these involved significant judgement as they relate to uncertain future events. The most significant of which relates to a potential future outflow relating to any loss suffered by SLAL above that already provided for in respect of the ongoing review of non-advised annuity sales. This is an area that involves significant judgement over the redress payable to customers. | **Test of details:** For a sample of indemnities, we reviewed the legal documents to assess the obligations arising out of the indemnity. We obtained evidence to support the valuation calculations made by management.<br>**Test of details:** We assessed the judgements made in determining key assumptions such as eligibility rates, failure rates and average redress used to calculate the annuity sales provision and hence the contingent consideration.<br>**Our actuarial and tax experience:** We used our own actuarial and tax specialists to review and challenge the approach taken to estimate certain indemnities.<br>**Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the calculation of the contingent consideration appropriately represent the sensitivity of the provision to the use of alternative assumptions.<br>**Our Results**<br>We found the carrying amount of the contingent consideration for indemnities to be acceptable**.** |
| *(Separation costs provision £80m; 2017: Not applicable)*<br>*Refer to page 63 (Audit Committee Report), page 126 (accounting policy) and page 138 (financial disclosures).* | **Subjective estimate - Provision for separation costs**<br>The calculation of the provision for separation costs arising out of the disposal of SLAL requires the Directors to determine a number of key inputs. The determination of these is judgemental and requires the Directors to consider a range of information connected to the Separation Plan. The most significant input of which is the costs that are estimated to relate to separating the business and which do not relate to costs related to SLA's ongoing business, including development of new systems. The risk is that the provision is misstated and includes future costs from which the group will derive ongoing benefit.<br>The effect of these matters is that, as part of our risk assessment, we determined that the provision for separation costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 38) disclose the range estimated by the Group. | **Our procedures included:**<br>**Test of details:** We assessed the terms in the SPA and other documents to confirm that SLA has a legal obligation to pay for separation costs.<br>**Test of details:** We sampled costs included in the Separation Plan and obtained evidence and explanations to validate whether they were appropriately provided for.<br>**Assessing transparency:** We assessed whether the group's disclosures detailing separation costs to be incurred adequately disclose the potential expense for the Group, including the range of costs and potential estimation uncertainty.<br>**Our Results**<br>We found the estimate of the separation cost provision to be acceptable. |

| | The risk | Our response |
|---|---|---|
| **Carrying value of investment in Phoenix**<br>*(£812 million; 2017: Not applicable: Impairment £228m; 2017: Not applicable)*<br>*Refer to page 63 (Audit Committee Report), page 152 (accounting policy) and page 153 (financial disclosures).* | **Subjective valuation**<br>At 31 December 2018, the market value of the investment in Phoenix was significantly below the carrying value. We consider this to be objective evidence of impairment per IAS 28. An impairment review was performed by management using a value in use approach. The key judgement was in selecting the appropriate approach for estimating the recoverable amount of the investment in Phoenix. After consideration of alternatives, management determined that the market value of Phoenix represented the best estimate of future dividends and therefore was used to calculate the value in use. An impairment charge of £228m was recognised. | **Our procedures included:**<br>**Assessing principles:** We critically assessed management's approach to estimating the recoverable amount against other estimation methods permitted by IAS 28 and 36.<br>**Comparing valuations:** We assessed reasons for the differences in value under use under the different methods.<br>**Our Results**<br>We found the valuation of the investment in Phoenix to be acceptable. |

| | The risk | Our response |
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| **Valuation of Intangible Assets** | **Subjective Estimate** | **Our procedures included:** |

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| *(Customer relationships and investment management contracts: £633m, 2017: £774m)*<br><br>*Refer to page 63 (Audit Committee Report), page 146 (accounting policy) and page 147 (financial disclosures).* | The Group's intangible assets include customer relationships and investment management contracts. There is a risk of impairment to the carrying value of these intangible assets.<br><br>Customer relationship and investment management contracts acquired through business combinations comprise £633 million of the intangible asset balance.<br><br>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 these intangible assets.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of these assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (Note 14) disclose the sensitivity estimated by the Group. | **Our valuation expertise:** We evaluated whether there are 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 asset.<br><br>Where indicators were identified, we used our own valuation specialists to assist us in assessing the appropriateness the Group's valuation model. This included comparing the Group discount rate assumptions with our own estimate of a range of reasonable discount rates, based on comparable company information.<br><br>**Our sector experience:** Where there was an indicator of impairment, we evaluated the appropriateness of assumptions applied in key inputs such as revenue from contracts with customers, operating costs and discount rates.<br><br>**Sensitivity analysis:** Where there is an indicator of impairment, 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.<br><br>**Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the valuation of management contract and customer relationship intangible assets appropriately represent the sensitivities of the asset valuations to the use of alternative assumptions.<br><br>**Our results**<br><br>We found the valuation of intangible assets to be acceptable (2017: acceptable). |

| | The risk | Our response |
|---|---|---|
| **Valuation of the UK defined benefit pension scheme present value of funded obligation**<br><br>*(£2,542m, 2017: £2,839m)*<br><br>*Refer to page 63 (Audit Committee Report), page 178 (accounting policy) and page 180 (financial disclosures).* | **Subjective Valuation:**<br><br>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.<br><br>The key operating assumptions are base mortality and mortality improvement.<br><br>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.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the pension scheme obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (Note 35) disclose the range estimated by the Group. | **Our procedures included:**<br><br>**Our actuarial experience:** We used our own actuarial specialists to perform procedures in this area.<br><br>**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.<br><br>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.<br><br>**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.<br><br>**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.<br><br>**Our results**<br><br>We found the valuation of the UK defined benefit pension scheme obligation to be acceptable (2017: acceptable). |

We continue to perform procedures over the valuation of internally generated software assets not yet available for use and the valuation of level 3 financial instruments and investment property. However, following the groups disposal of its UK and Europe insurance business, SLAL, in the period, we have not assessed either of these areas as one of the most significant risks in our current year audit and, therefore, they are not separately identified in our report.

In respect of level 3 financial instruments we note that the disposal of the group's UK and Europe insurance business has led to a significant reduction of £1.1bn in the Group's investment portfolio. The risk of material misstatement within the financial statements in respect of valuation of the remaining assets

(£62m) is reduced. £311m of the internally generated software assets were within SLAL and following the disposal, the remaining assets balance is not considered to create the same risk of material misstatement.

Non-Participating insurance contract liabilities and the provision for annuity sales practice were both balances within the SLAL entity. The disposal has resulted in these being transferred to Phoenix and therefore neither are identified as individual key audit matters within our report this year. They are however both identified areas of significant risk within the accounting for the obligations arising out of the disposal of SLAL and investment in Phoenix.

## 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 £32m (2017: £38m), determined with reference to a benchmark of group profit before tax normalised to exclude impairment, to exclude restructuring costs, to exclude the profit on disposal of associates and the profit on disposal of the UK and Europe insurance business as disclosed in Note 14, Note 8, Note 16, and Note 10 respectively. Materiality represents 4.8% of normalised profit before tax.

Materiality for the parent company financial statements as a whole was set at £19m (2017:£17m), determined with reference to a benchmark of normalised profit before tax, of which it represents 3.6% (2017:4.9%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.6m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 75 (2017: 227, of which 160 were consolidated funds) continuing reporting components, we subjected 6 (2017: 19) to full scope audits for group purposes and 3 (2017: 13) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We conducted a review of financial information for one non-significant component (2017:1).

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 16% of total group revenue, 22% of group profit before tax and 10% of total group assets is represented by 246 reporting components, none of which individually represented more than 5% of any of total group revenue, 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 £2.0m to £20.8m, having regard to the mix of size and risk profile of the Group across the components.

The work on 8 of the 9 continuing components (2017: 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.

## 4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- Movements in investment markets and assets under management
- The impact of Brexit on the Group's revenues

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit, which could result in a rapid reduction of available financial resources.

Based on this work, 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 Note 1 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 12 months from the date of approval of the financial statements
- The related statement under the Listing Rules set out on page 49 is materially inconsistent with our audit knowledge

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

## 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
- 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 39 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
- 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

#### 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
- 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
- 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
- Certain disclosures of directors' remuneration specified by law are not made
- 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 103, 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 or other irregularities (see below), 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.

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 general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension's regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct including client assets, money laundering, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

### 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 ofthe 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
13 March 2019

# 8. Group financial statements

## Consolidated income statement

**For the year ended 31 December 2018**

| | Notes | 2018 £m | 2017 restated[1] £m |
|---|---|---|---|
| **Income** | | | |
| Investment return | 3 | **(116)** | 238 |
| Revenue from contracts with customers | 4 | **1,955** | 1,486 |
| Insurance contract premium income | 31 | **73** | 89 |
| Profit on disposal of interests in associates | 1 | **185** | 319 |
| Other income | | **34** | 33 |
| **Total income from continuing operations** | | **2,131** | 2,165 |
| **Expenses** | | | |
| Insurance contract claims and change in liabilities | 31 | **1** | 201 |
| Change in non-participating investment contract liabilities | 32 | **(78)** | 74 |
| Administrative expenses | | | |
| Restructuring and corporate transaction expenses | 8 | **231** | 162 |
| Impairment of goodwill - Aberdeen Standard Investments | 14 | **880** | - |
| Other administrative expenses | 5 | **1,746** | 1,295 |
| **Total administrative expenses** | | **2,857** | 1,457 |
| Change in liability for third party interest in consolidated funds | | **(5)** | 6 |
| Finance costs | | **45** | 34 |
| **Total expenses from continuing operations** | | **2,820** | 1,772 |
| Share of profit from associates and joint ventures | 16 | **130** | 45 |
| Loss on impairment of interest in associates | 16 | **(228)** | - |
| **(Loss)/profit before tax from continuing operations** | | **(787)** | 438 |
| **Tax expense attributable to continuing operations** | 9 | **43** | 28 |
| **(Loss)/profit for the year from continuing operations** | | **(830)** | 410 |
| Profit for the year from discontinued operations | 10 | **1,698** | 322 |
| **Profit for the year** | | **868** | 732 |
| **Attributable to:** | | | |
| Equity holders of Standard Life Aberdeen plc | | | |
| From continuing operations | | **(835)** | 402 |
| From discontinued operations | | **1,665** | 297 |
| Equity holders of Standard Life Aberdeen plc | | **830** | 699 |
| Non-controlling interests | | | |
| From continuing operations - preference shares and perpetual notes | 30 | **5** | 8 |
| From discontinued operations - ordinary shares | 30 | **5** | 25 |
| From discontinued operations - perpetual notes | 30 | **28** | - |
| | | **868** | 732 |
| **Earnings per share from continuing operations** | | | |
| Basic (pence per share) | 11 | **(29.3)** | 17.1 |
| Diluted (pence per share) | 11 | **(29.3)** | 17.0 |
| **Earnings per share** | | | |
| Basic (pence per share) | 11 | **29.1** | 29.8 |
| Diluted (pence per share) | 11 | **29.1** | 29.6 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

The Notes on pages 124 to 224 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

**For the year ended 31 December 2018**

| | Notes | 2018 £m | 2017 restated[1] £m |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Profit for the year** | | **868** | 732 |
| Less: profit from discontinued operations | | **(1,698)** | (322) |
| **(Loss)/profit from continuing operations** | | **(830)** | 410 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement losses on defined benefit pension plans | 35 | **(29)** | (18) |
| Share of other comprehensive income of associates and joint ventures | 28 | **(15)** | - |
| Equity holder tax effect of items that will not be reclassified subsequently to profit or loss | 9 | **-** | (10) |
| **Total items that will not be reclassified subsequently to profit or loss** | | **(44)** | (28) |
| | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Fair value gains/(losses) on cash flow hedges | 29 | **54** | (33) |
| Fair value losses on available-for-sale financial assets | 29 | **(9)** | - |
| Exchange differences on translating foreign operations | 29 | **14** | (31) |
| Share of other comprehensive income of associates and joint ventures | 28 | **-** | 4 |
| Items transferred to the consolidated income statement | | | |
| Fair value (gains)/losses on cash flow hedges | 21 | **(41)** | 13 |
| Realised foreign exchange gains | 1 | **(2)** | (2) |
| Equity holder tax effect of items that may be reclassified subsequently to profit or loss | 9 | **(1)** | 3 |
| **Total items that may be reclassified subsequently to profit or loss** | | **15** | (46) |
| **Other comprehensive income for the year from continuing operations** | | **(29)** | (74) |
| **Total comprehensive income for the year from continuing operations** | | **(859)** | 336 |
| | | | |
| Profit from discontinued operations | | **1,698** | 322 |
| Other comprehensive income from discontinued operations | 10 | **(43)** | 12 |
| **Total comprehensive income for the year from discontinued operations** | | **1,655** | 334 |
| **Total comprehensive income for the year** | | **796** | 670 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of Standard Life Aberdeen plc | | | |
| From continuing operations | | **(864)** | 328 |
| From discontinued operations | | **1,622** | 309 |
| Non-controlling interests | | | |
| From continuing operations -- preference shares and perpetual notes | | **5** | 8 |
| From discontinued operations - ordinary shares | | **5** | 25 |
| From discontinued operations - perpetual notes | | **28** | - |
| | | **796** | 670 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

The Notes on pages 124 to 224 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 2018**

| | | **2018** | | | 2017 restated[1] | | |
|---|---|---|---|---|---|---|---|
| | **Notes** | **Continuing operations £m** | **Discontinued operations £m** | **Total £m** | Continuing operations £m | Discontinued operations £m | Total £m |
| **Adjusted profit before tax** | | | | | | | |
| Asset management and platforms | | **510** | **-** | **510** | 417 | - | 417 |
| Insurance associates and joint ventures | | **140** | **-** | **140** | 58 | - | 58 |
| UK and European insurance | | **-** | **210** | **210** | - | 379 | 379 |
| **Adjusted profit before tax** | 2 | **650** | **210** | **860** | 475 | 379 | 854 |
| Adjusted for the following items | | | | | | | |
| Restructuring and corporate transaction expenses | 8 | **(239)** | **(264)** | **(503)** | (162) | (11) | (173) |
| Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts | 2 | **(1,155)** | **-** | **(1,155)** | (138) | - | (138) |
| Provision for annuity sales practices | 38 | **-** | **-** | **-** | - | (100) | (100) |
| Profit on disposal of subsidiaries | 1 | **-** | **1,780** | **1,780** | - | - | - |
| Profit on disposal of interests in associates | 1 | **185** | **-** | **185** | 319 | - | 319 |
| Impairment of associates | 16 | **(228)** | **-** | **(228)** | - | - | - |
| Investment return variances and economic assumption changes | 12 | **54** | **(41)** | **13** | - | 67 | 67 |
| Other[2] | | **(14)** | **44** | **30** | (15) | - | (15) |
| **Total adjusting items** | 2 | **(1,397)** | **1,519** | **122** | 4 | (44) | (40) |
| Share of associates' and joint ventures' tax expense | 2 | **(40)** | **-** | **(40)** | (41) | - | (41) |
| Profit attributable to non-controlling interests - ordinary shares | 2 | **-** | **5** | **5** | - | 25 | 25 |
| **(Loss)/profit before tax expense[3]** | | **(787)** | **1,734** | **947** | 438 | 360 | 798 |
| Tax (expense)/credit attributable to | | | | | | | |
| Adjusted profit | 2 | **(95)** | **(77)** | **(172)** | (77) | (31) | (108) |
| Adjusting items | 2 | **52** | **41** | **93** | 49 | (7) | 42 |
| **Total tax expense** | | **(43)** | **(36)** | **(79)** | (28) | (38) | (66) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **(Loss)/profit for the year** | **(830)** | **1,698** | **868** | 410 | 322 | 732 |

[1] Comparatives for 2017 have been restated to reflect changes in the reportable segments. Refer Note 2.

[2] The Other adjusting item in 2018 relating to discontinued operations is a held for sale accounting adjustment relating to the amortisation of intangible assets (primarily deferred acquisition costs) and depreciation of tangible assets of £44m. Following the classification of the UK and European insurance business as held for sale, no amortisation or depreciation was recognised in accordance with applicable financial reporting standards.

[3] For discontinued operations profit before tax expense attributable to equity holders consists of profit before tax of £1,780m (2017: £526m) less tax expense attributable to policyholders' returns of £46m (2017: £166m).

The Group's key alternative performance measure is adjusted profit before tax. Refer Note 12 for further details.

The Notes on pages 124 to 224 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position

**As at 31 December 2018**

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 14 | **3,404** | 4,514 |
| Deferred acquisition costs | 15 | **6** | 612 |
| Investments in associates and joint ventures accounted for using the equity method | 16 | **1,444** | 503 |
| Investment property | 17 | **-** | 9,749 |
| Property, plant and equipment | 18 | **61** | 146 |
| Pension and other post-retirement benefit assets | 35 | **1,111** | 1,099 |
| Deferred tax assets | 9 | **61** | 65 |
| Reinsurance assets | 31 | **-** | 4,811 |
| Loans | 19 | **-** | 91 |
| Derivative financial assets | 19 | **21** | 3,053 |
| Equity securities and interests in pooled investment funds | 19 | **2,030** | 99,020 |
| Debt securities | 19 | **1,723** | 61,565 |
| Receivables and other financial assets | 19 | **708** | 1,242 |
| Current tax recoverable | 9 | **6** | 192 |
| Other assets | 23 | **40** | 185 |
| Assets held for sale | 24 | **762** | 1,038 |
| Cash and cash equivalents | 19 | **1,140** | 10,226 |
| **Total assets** | | **12,517** | 198,111 |
| **Equity** | | | |
| Share capital | 26 | **353** | 364 |
| Shares held by trusts | 27 | **(115)** | (61) |
| Share premium reserve | 26 | **640** | 639 |
| Retained earnings | 28 | **2,778** | 3,162 |
| Other reserves | 29 | **3,782** | 4,500 |
| **Equity attributable to equity holders of Standard Life Aberdeen plc** | | **7,438** | 8,604 |
| Non-controlling interests | | | |
| Ordinary shares | 30 | **2** | 289 |
| Preference shares | 30 | **99** | 99 |
| **Total equity** | | **7,539** | 8,992 |
| **Liabilities** | | | |
| Non-participating insurance contract liabilities | 31 | **3** | 22,740 |
| Non-participating investment contract liabilities | 32 | **1,468** | 105,769 |
| Participating contract liabilities | 31 | **-** | 30,647 |
| Deposits received from reinsurers | 33 | **-** | 4,633 |
| Third party interest in consolidated funds | 33 | **254** | 16,457 |
| Subordinated liabilities | 33 | **1,081** | 2,253 |
| Pension and other post-retirement benefit provisions | 35 | **38** | 78 |
| Deferred income | 36 | **75** | 157 |
| Deferred tax liabilities | 9 | **100** | 367 |
| Current tax liabilities | 9 | **23** | 166 |
| Derivative financial liabilities | 21 | **6** | 813 |
| Other financial liabilities | 33 | **1,162** | 3,896 |
| Provisions | 38 | **105** | 316 |
| Other liabilities | 38 | **6** | 121 |
| Liabilities of operations held for sale | 24 | **657** | 706 |
| **Total liabilities** | | **4,978** | 189,119 |
| **Total equity and liabilities** | | **12,517** | 198,111 |

The Notes on pages 124 to 224 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 117 to 224 were approved by the Board and signed on its behalf by the following Directors:

**Sir Douglas Flint**
Chairman, 13 March 2019

**Bill Rattray**
Chief Financial Officer, 13 March 2019

## Consolidated statement of changes in equity

**For the year ended 31 December 2018**

| 2018 | 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 debt instruments £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **1 January** | | **364** | **(61)** | **639** | **3,162** | **4,500** | **8,604** | **289** | **99** | **8,992** |
| (Loss)/profit for the year from continuing operations | | - | - | - | (835) | - | (835) | - | 5 | **(830)** |
| Profit for the year from discontinued operations | | - | - | - | 1,665 | - | 1,665 | 5 | 28 | **1,698** |
| Other comprehensive income for the year from continuing operations | | - | - | - | (44) | 15 | (29) | - | - | **(29)** |
| Other comprehensive income for the year from discontinued operations | | - | - | - | - | (43) | (43) | - | - | **(43)** |
| **Total comprehensive income for the year** | 28, 29 | **-** | **-** | **-** | **786** | **(28)** | **758** | **5** | **33** | **796** |
| Issue of share capital | 26 | - | - | 1 | - | - | 1 | - | - | **1** |
| Issue of B shares | 26,29 | 1,000 | - | - | - | (1,000) | - | - | - | **-** |
| Reclassification of perpetual debt instruments to equity | 30 | - | - | - | - | - | - | - | 1,005 | **1,005** |
| Repurchase of perpetual debt instruments | 30 | - | - | - | - | - | - | - | (970) | **(970)** |
| Redemption of perpetual debt instruments | 30 | - | - | - | - | - | - | - | (44) | **(44)** |
| Dividends paid on ordinary shares | 13 | - | - | - | (634) | - | (634) | - | - | **(634)** |
| Dividends paid on preference shares | | - | - | - | - | - | - | - | (5) | **(5)** |
| Coupons paid on perpetual debt instruments | | - | - | - | - | - | - | - | (25) | **(25)** |
| Redemption of B shares | 26, 28 | (1,000) | 17 | - | (1,002) | 1,000 | (985) | - | - | **(985)** |
| Shares bought back on-market and cancelled | 26, 28,29 | (11) | - | - | (238) | 11 | (238) | - | - | **(238)** |
| Other movements in non-controlling interests in the year | | - | - | - | - | - | - | (292) | - | **(292)** |
| Reserves credit for employee share-based payments | 29 | - | - | - | - | 36 | 36 | - | - | **36** |
| Transfer to retained earnings for vested employee share-based payments | 28, 29 | - | - | - | 68 | (68) | - | - | - | **-** |
| Transfer between reserves on disposal of subsidiaries | 1 | - | - | - | 99 | (99) | - | - | - | **-** |
| Transfer between reserves on impairment of subsidiaries | | - | - | - | 570 | (570) | - | - | - | **-** |
| Shares acquired by employee trusts | | - | (100) | - | - | - | (100) | - | - | **(100)** |
| Shares distributed by employee and other trusts and related dividend equivalents | 28 | - | 29 | - | (33) | - | (4) | - | - | **(4)** |
| Aggregate tax effect of items recognised directly in equity | 9 | - | - | - | - | - | - | - | 6 | **6** |
| **31 December** | | **353** | **(115)** | **640** | **2,778** | **3,782** | **7,438** | **2** | **99** | **7,539** |

| 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 from continuing operations | | - | - | - | 402 | - | 402 | - | 8 | **410** |
| Profit for the year from discontinued operations | | - | - | - | 297 | - | 297 | 25 | - | **322** |
| Other comprehensive income for the year from continuing operations | | - | - | - | (24) | (50) | (74) | - | - | **(74)** |
| Other comprehensive income for the year from discontinued operations | | - | - | - | - | 12 | 12 | - | - | **12** |
| **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 combinations | | - | - | - | - | - | - | - | 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 | 9 | - | - | - | - | 1 | 1 | - | 2 | **3** |
| **31 December** | | **364** | **(61)** | **639** | **3,162** | **4,500** | **8,604** | **289** | **99** | **8,992** |

The Notes on pages 124 to 224 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

**For the year ended 31 December 2018**

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before tax from continuing operations | | **(787)** | 438 |
| Profit before tax from discontinued operations | 10 | **1,780** | 526 |
| | | **993** | 964 |
| Change in operating assets | 42 | **3,317** | 1,351 |
| Change in operating liabilities | 42 | **(2,551)** | (84) |
| Adjustment for non-cash movements in investment income | | **(80)** | 40 |
| Change in unallocated divisible surplus | 31 | **(48)** | 140 |
| Other non-cash and non-operating items | 42 | **(581)** | 3 |
| Taxation paid | | **(224)** | (220) |
| **Net cash flows from operating activities** | | **826** | 2,194 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 18 | **(28)** | (37) |
| Proceeds from sale of property, plant and equipment | | **1** | - |
| (Acquisition)/ disposal of seeding investments | | **(4)** | 19 |
| Acquisition of subsidiaries and unincorporated businesses net of cash acquired | | **(33)** | 495 |
| Disposal of subsidiaries net of cash disposed of | 42 | **(5,501)** | - |
| Acquisition of investments in associates and joint ventures | 16 | **(72)** | - |
| Disposal of investments in associates and joint ventures | 1 | **180** | 359 |
| Purchase of intangible assets | | **(128)** | (69) |
| **Net cash flows from investing activities** | | **(5,585)** | 767 |
| **Cash flows from financing activities** | | | |
| Repayment of other borrowings | | **(2)** | (1) |
| Proceeds from issue of subordinated liabilities | | **-** | 565 |
| Repayment of subordinated liabilities and perpetual notes | | **(1,377)** | - |
| Capital flows to third party interest in consolidated funds and non-controlling interests - ordinary shares | | **(507)** | (1,011) |
| Distributions paid to third party interest in consolidated funds and non-controlling interests - ordinary shares | | **(69)** | (109) |
| Shares acquired by trusts | | **(100)** | (61) |
| Sale of shares held by trusts | | **-** | 4 |
| Proceeds from issue of shares | 26 | **1** | 5 |
| Interest paid | | **(117)** | (97) |
| Return of cash to shareholders under B share scheme | 26 | **(983)** | - |
| Shares bought back on-market and cancelled | 26 | **(238)** | - |
| Preference dividends paid | | **(5)** | - |
| Ordinary dividends paid | 13 | **(634)** | (469) |
| **Net cash flows from financing activities** | | **(4,031)** | (1,174) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(8,790)** | 1,787 |
| Cash and cash equivalents at the beginning of the year | | **9,715** | 7,900 |
| Effects of exchange rate changes on cash and cash equivalents | | **32** | 28 |
| **Cash and cash equivalents at the end of the year** | 25 | **957** | 9,715 |
| **Supplemental disclosures on cash flows from operating activities** | | | |
| Interest paid | | **6** | 4 |
| Interest received | | **1,118** | 1,710 |
| Dividends received | | **1,545** | 2,086 |

| | | |
|---|---|---|
| Rental income received on investment property | **329** | 503 |

The Notes on pages 124 to 224 are an integral part of these consolidated financial statements.

## 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) New standards, interpretations and amendments to existing standards that have been adopted by the Group

The Group has adopted the following new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and amendments to existing standards, which are effective by EU endorsement for annual periods beginning on or after 1 January 2018:

**IFRS 15 *Revenue from Contracts with Customers***
IFRS 15 replaces IAS 18 *Revenue* and provides a new five-step revenue recognition model for determining recognition and measurement of revenue from contracts with customers. 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 the scope of IFRS 4 *Insurance Contracts*
- Financial instruments within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*

The adoption of this standard has had no significant impact on the timing of revenue recognition of the Group and therefore no restatement of prior periods was required. The Group did not use any of the practical expedients permitted under IFRS 15.

The Group's accounting policy for revenue within the scope of IFRS 15 has been updated to state that revenue is recognised as performance obligations are satisfied.

The standard introduces a number of new disclosure requirements which are provided in Note 4 of these financial statements. These include disclosures around:

- The nature of the performance obligations within contracts with customers
- Disaggregated revenue and its relationship with revenue reported for each reportable segment
- Contract asset and liabilities

There are no judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers.

Revenue from contracts with customers from continuing operations for the year ended 31 December 2017 consists of £1,479m which was previously presented as fee income, and £7m that was previously presented as other income on the face of the consolidated income statement.

The standard requires the incremental cost of obtaining contracts with customers to be recognised as an asset where it is expected that these costs will be recovered. These costs have been included as an intangible asset and are shown in Note 14.

**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 (which is expected to be amended to 1 January 2022) 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:

| | 31/12/2015 £m | Liabilities in scope of IFRS 4 £m | Liabilities connected to insurance £m |
|---|---|---|---|
| Non-participating insurance contract liabilities | 21,206 | 21,206 | 21,206 |
| Non-participating investment contract liabilities | 92,894 | - | 92,894 |
| Participating contract liabilities | 29,654 | 29,654 | 29,654 |
| Deposits received from reinsurers | 5,134 | 5,134 | 5,134 |
| Third party interest in consolidated funds | 17,196 | - | 17,196 |
| Other liabilities | 6,289 | - | - |
| **Total liabilities** | **172,373** | **55,994** | **166,084** |
| | | **32%** | **96%** |

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 was reassessed as at 31 December 2017. The Group remained eligible to defer and has opted to defer implementation of IFRS 9 in these consolidated financial statements. Further disclosures required as a result of this deferral are set out in Note 16 and Note 19.

**Interpretations and amendments to other standards**

- IFRIC 22 *Foreign Currency Transactions and Advanced Consideration*
- Amendments to IFRS 2 *Share-based payment*: Classification and Measurement of Share-based payment transactions
- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- Annual Improvements 2014-2016 cycle

The Group's accounting policies have been updated to reflect these. Management considers 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 2018. The Group has not early adopted the standards, amendments and interpretations described below:

**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 Group has adopted IFRS 16 on 1 January 2019, and will use the cumulative catch up approach. The Group intends to use the 'practical expedients' available to apply the new standard solely to leases previously identified in accordance with IAS 17 and IFRIC 4 *Determining whether an Arrangement Contains a Lease*, to not recognise leases with a low value or whose term ends within 12 months of the date of initial application (1 January 2019), to apply a single discount rate to leases with similar characteristics and the use of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to onerous leases.

As a result of IFRS 16, assets leased by the Group will be brought onto the statement of financial position at inception of a lease. The right of use asset will be depreciated over the life of the lease and the interest expense on the lease liability recognised in the income statement. The present value of the lease liability takes into account prepayments and incentives and will be measured using the incremental borrowing rate.

The main impact on the Group of the standard will be for property that the Group leases for use as office space which is currently classified as operating leases. The Group estimates that for this property portfolio it will recognise additional right of use assets of approximately £194m and additional lease liabilities of approximately £223m as at 1 January 2019. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. No significant profit impact is expected.

**IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2019 for the Group)**
IFRS 9 replaces 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 are solely payments of 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. IFRS 9 contains an election to continue to apply the hedge accounting requirements of IAS 39.

As well as presentation and measurement changes, IFRS 9 also introduces additional disclosure requirements.

As noted in (a)(i) above, the Group was eligible to defer and has opted to defer implementation of IFRS 9 in these consolidated financial statements. On 31 August 2018, the Group disposed of the UK and European insurance business (refer Note 1 for further details). Following the sale, the Group no longer has significant liabilities within the scope of IFRS 4 and is required to adopt IFRS 9 on or before 1 January 2020. The Group has adopted IFRS 9 on 1 January 2019. The Group has elected to continue applying the hedge accounting requirements of IAS 39.

At 31 December 2018, the Group has available-for-sale debt securities with a fair value of £862m with a corresponding available-for-sale financial assets reserve balance of £7m and deferred tax liability of £1m. On adoption of IFRS 9, these debt securities will be recognised at 1 January 2019 at their amortised cost (less expected credit losses) of £854m. The available-for-sale financial assets reserve balance and the related deferred tax liability will no longer be recognised. The expected credit losses at 1 January 2019 are less than £1m.

At 31 December 2018, the Group also had subordinated liabilities of £1,081m. Under IFRS 9, where the terms of a financial liability are modified and the modification does not result in the derecognition of the liability, the liability is adjusted to the net present value of the future cash flows less transaction costs with a modification gain or loss recognised in the income statement. During the year ended 31 December 2018, the terms of the 4.25% US Dollar fixed rate subordinated notes were modified (refer Note 34). Consequently, on adoption of IFRS 9, these subordinated liabilities will be recognised at 1 January 2019 at a revised amortised cost of £1,086m. The impact on retained earnings will be £5m.

The adoption of IFRS 9 will not significantly impact the other financial assets and liabilities which are currently measured at FVTPL or amortised cost in accordance with IAS 39, and will have no significant impact on profit.

The Company and a number of subsidiaries adopted IFRS 9 at 1 January 2018 for their separate financial statements. The Company's financial statements can be found in Section 9. The financial statements of UK subsidiaries which have adopted IFRS 9 including Standard Life Investments Limited, Aberdeen Asset Management PLC and Standard Life Savings Limited will be available from Companies House.

**IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2021), expected to be amended to 1 January 2022**
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.

Following the sale of the UK and European insurance business, the Group has limited direct exposure to insurance contracts and contracts with discretionary participating features which will be impacted by the adoption of IFRS 17. However, the results of the Group's insurance associates, Phoenix and HDFC Life, are expected to be significantly impacted by IFRS 17. The standard has not yet been endorsed by the EU.

**Other**
**IFRIC 23: *Uncertainty over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)**

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes. The Interpretation addresses issues relating to uncertain tax treatments. An uncertain tax treatment is a tax treatment for which there is uncertainty over whether the relevant tax authority will accept the tax treatment under tax law. A tax treatment is the treatment used or planned to be used in an entities income tax filings.

The Group adopted IFRIC 23 on 1 January 2019. The clarifications set out in IFRIC 23 have not had a material impact on the Group's financial statements.

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 |
|---|---|---|
| Defined benefit pension plans | Assessment of whether the Group has an unconditional right to a refund of the surplus<br>Treatment of tax relating to the surplus | Note 35 |
| Investments in associates | Determining whether the investment in Phoenix should be classified as an associate<br>Identification, valuation and determination of useful lives for equity accounting purposes, of the Group's share of its associate's intangible assets at the date of acquisition of an investment in the associate | Note 16 |
| Intangible assets | Identification and valuation of intangible assets arising from business combinations<br>Determining the group of cash-generating units to which goodwill acquired in a business combination should be allocated | Note 14 |
| Provisions | Determining whether a provision is required for separation costs | Note 38 |

During the year to 31 December 2018 the following changes have been made to critical judgements in applying accounting policies:

- We have identified critical judgements in applying accounting policies for investments in associates, for determining the cash-generating units to which goodwill acquired in a business combination should be allocated and for determining whether a provision should be recognised for separation costs
- As a result of the disposal of the UK and European insurance business the judgements in applying the accounting policies for the classification of insurance, reinsurance and investment contracts and for the assessment of control or significant influence of structured entities are no longer considered to be critical judgements as these judgements only impact the presentation of amounts within discontinued operations. The assessment of whether the group has a contingent liability in relation to conduct matters is no longer considered to be a critical 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 |
|---|---|---|
| Financial instruments at fair value through profit or loss | Determination of the fair value of contingent consideration assets and liabilities | Notes 19, 37 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<br>Determination of the recoverable amount in relation to impairment assessment of goodwill, customer relationships and investment management contract intangibles | Note 14 |
| Investments in associates | Determination of the recoverable amount in relation to the impairment assessment of investments in associates | Note 16 |

The following changes have been made to critical accounting estimates and assumptions as a result of the disposal of the UK and European insurance business and the acquisition of an interest in Phoenix:

- We have identified estimates used in relation to the recoverable amount of investments in associates accounted for using the equity method as a critical area of estimation uncertainty
- We have also identified the valuation of contingent consideration assets and liabilities relating to the disposal as a critical area of estimation uncertainty
- We have removed the critical estimates and assumptions related to the valuation of participating contracts, non-participating contracts and reinsurance contracts, investment property, level 3 private equity investments and debt securities, and the measurement of the provision for annuity sales practices. These assumptions and estimates have been removed as they primarily related to the UK and European insurance business.

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 million pounds Sterling.

The statements of financial position of Group entities, including associates and joint ventures accounted for using the equity method, 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. On disposal of a Group entity the cumulative amount of any such exchange differences recognised in other comprehensive income is reclassified to profit or loss.

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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Income statement and cash flows (average rate)** | **Statement of financial position (closing rate)** | Income statement and cash flows (average rate) | Statement of financial position (closing rate) |

| | | | | |
|---|---|---|---|---|
| Euro | **1.129** | **1.114** | 1.145 | 1.126 |
| US Dollar | **1.333** | **1.274** | 1.297 | 1.353 |
| Indian Rupee | **90.711** | **88.913** | 84.474 | 86.341 |
| Chinese Renminbi | **8.818** | **8.744** | 8.753 | 8.809 |
| Hong Kong Dollar | **10.444** | **9.971** | 10.104 | 10.575 |
| Singapore Dollar | **1.795** | **1.736** | 1.787 | 1.808 |

### (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.

When the Group sells a subsidiary to an associate, the gain on sale of the subsidiary is recognised in full, with no elimination being made for the continuing interest in the subsidiary.

## Notes to the Group financial statements

## 1. Group structure

### (a) Composition

The following diagram is an extract of the Group structure at 31 December 2018 and gives an overview of the composition of the Group.

**Chart removed for the purposes of this announcement. However it can be viewed in full in the pdf document.**

A full list of the Company's subsidiaries is provided in Note 49.

### (b) Acquisitions

#### (b)(i) Subsidiaries

On 27 April 2018, Aberdeen Asset Management Inc. purchased the US business of specialist commodity exchange traded product provider ETF Securities by purchasing the entire members' interests of ETF Securities USA LLC, ETF Securities (US) LLC and ETF Securities Advisers LLC. The acquisition broadens Aberdeen Standard Investments' suite of investment capabilities with the addition of a range of commodity-based Exchange Traded Funds. It also provides the platform and expertise to enable Aberdeen Standard Investments to grow its existing Smart Beta capability by launching strategies within an Exchange Traded Fund vehicle structure.

At the acquisition date the consideration, net assets acquired and resulting goodwill from the ETF Securities acquisition were as follows:

| 27 April 2018 | £m[1] |
|---|---|
| Cash | 27 |
| Fair value of earn-out payment | 8 |
| **Consideration** | **35** |
| **Fair value of net assets acquired** | |
| Customer-related intangible assets | 28 |
| Receivables and other financial assets | 1 |
| Cash and cash equivalents | 1 |
| Total assets | 30 |
| Other financial liabilities | 2 |
| Total liabilities | 2 |
| **Goodwill** | **7** |

1 The fair value of the earn-out payment of £8m has been calculated by reference to revenue retention and increases in assets under management and could range from £nil to £10m.

Customer-related intangible assets relate to the existing customer relationships in place at the acquisition date. The full amount of the goodwill is expected to be deductible for tax purposes.

The amounts of revenue from contracts with customers and profit contributed to the Group's consolidated income statement for the year ended 31 December 2018 from the acquired ETF Securities business were £5m and £nil respectively. The profit contributed excludes amortisation of intangible assets acquired through business combinations. If the acquisition had occurred on 1 January 2018, the Group's total revenue from contracts with customers for the period would have increased by £3m to £1,958m and the profit would have remained unchanged.

During the year, the Group's UK wide financial advice business, 1825, completed the purchase of the entire share capital of Fraser Heath Financial Management Ltd and Cumberland Place Financial Management Ltd on 1 March 2018 and 6 April 2018 respectively. The combined assets under advice totalled £750m at the respective acquisition dates.

#### (b)(ii) Prior year acquisition

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 and Aberdeen, through the acquisition by Standard Life 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 and Standard Life plc was renamed Standard Life Aberdeen plc.

### (c) Disposals

#### (c)(i) Subsidiaries

**UK and European insurance business**

On 23 February 2018, the Group announced the proposed sale of the UK and European insurance business to Phoenix (the Sale), conditional on shareholder and relevant regulatory approvals. The Sale was completed on 31 August 2018 and was implemented by the sale to Phoenix of the entire issued share capital of Standard Life Assurance Limited (SLAL).

Under the transaction the following businesses were 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 staff defined benefit pension plans were retained by the Group.

Total consideration received comprised cash of £2.0bn, a dividend received from SLAL of £312m in March 2018 and new shares issued at completion representing approximately 19.98% of the then issued share capital of Phoenix. The shareholding in Phoenix is subject to a lock-up of 12 months from completion. Following the announcement on 23 February 2018 the UK and European insurance business was classified as held for sale and measured at its carrying amount. The results of the UK and European insurance business to 31 August 2018 have been classified as discontinued operations. Refer Note 10. The Group recognised a gain on disposal in respect of the Sale which is included in profit from discontinued operations in the consolidated income statement for the year ended 31 December 2018.

The gain on sale was calculated as follows:

| | £m |
|---|---|
| Total assets of operations disposed of | (180,444) |
| Total liabilities of operations disposed of | 179,374 |
| **Net assets of operations disposed of** | **(1,070)** |
| Cash consideration less transaction and separation costs | 1,854 |
| Non-cash consideration - Phoenix shares | 1,023 |
| Contingent consideration | 8 |
| Deferred income | (78) |
| Release of foreign currency translation reserve | 43 |
| **Gain on sale** | **1,780** |

A breakdown of the assets and liabilities disposed of is provided in Note 42(d). Refer to Note 4(b) relating to deferred income and Note 38 relating to separation costs.

The gain on sale was exempt from tax under UK tax legislation.

The following additional reserve releases were made as a result of the sale. These releases were taken directly to retained earnings.

| | £m |
|---|---|
| Reserve arising on Group reconstruction | (1,194) |
| Merger reserve | 1,290 |
| Revaluation of owner occupied property reserve | 3 |
| | **99** |

#### (c)(ii) Associates

**HDFC Asset Management Company Limited (HDFC AMC)**

Profit on disposal of interests in associates for the year ended 31 December 2018 of £185m includes £177m in relation to the HDFC AMC initial public offering (IPO).

HDFC AMC, the Group's associate Indian asset management business announced in November 2017 that its board of directors had approved initiation of an IPO with the Group offering up a portion of the paid up capital of HDFC AMC. On 6 August 2018, HDFC AMC listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited following completion of the IPO. Through the IPO, the Group sold 16,864,585 equity shares in HDFC AMC for a total net consideration of Rs.16,212m (£180m). The Group's shareholding in HDFC AMC at 31 December 2018 is 63,650,615 equity shares or 29.96% of the issued share capital of HDFC AMC. The gain on sale from the IPO of £177m (£156m after tax) 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.

#### (c)(iii) Prior year disposal

**HDFC Life Insurance Company Limited (HDFC Life)**

Profit on disposal of interests in associates for the year ended 31 December 2017 of £319m includes £302m in relation to the HDFC Life IPO.

On 17 November 2017, HDFC Life listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited following completion of an IPO. Through the IPO, the Group sold 108,581,768 equity shares in HDFC Life for a total consideration of Rs 31,489m (£359m). The Group's shareholding in HDFC Life at 31 December 2018 is 589,626,265 equity shares or 29.23% of the issued 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:

**Continuing operations:**

#### Asset management and platforms

This segment primarily relates to our asset management and platform businesses. Aberdeen Standard Investments and its asset management associate in India, HDFC AMC, provide a range of investment products and services for individuals and institutional customers through a number of different investment vehicles. The segment includes the Group's three UK adviser platform businesses; Wrap and Elevate which are Standard Life branded, and the Parmenion digital platform; which provide administration services to advisers. The segment also includes other wholly owned activities of the Group including the 1825 financial planning and advice business, corporate centre and related activities and the UK and Ireland Standard Life staff defined benefit pension plans.

Insurance associates and joint ventures

This segment comprises our life insurance associates and joint ventures in India (HDFC life), the UK (Phoenix) and China (HASL). These businesses offer a range of pension, insurance and savings products to the Indian, UK, European and Chinese markets. Phoenix is also the largest life and pensions consolidator in Europe.

**Discontinued operations:**

UK and European insurance

On 23 February 2018, the Group announced the proposed sale of the UK and European insurance business. Refer to Note 1 for further details. As a consequence, the results of this business have been presented as discontinued operations. The UK and European insurance business provided a broad range of long-term savings and investment products to individual and corporate customers in the UK, Germany, Austria and Ireland.

**Changes to reporting segments**

As noted above, the segments are based on information provided to the executive committee. Previously management information was provided separately for our asset management business and our pensions and savings business. Following the completion of the sale of the UK and European insurance business, the Group is being managed as a single company and this is reflected in our new combined Asset management and platforms segment. HDFC Life and HASL, which were previously reported in the India and China life segment, are included in the Insurance associates and joint ventures segment together with Phoenix.

Comparative amounts for the 12 months ended 31 December 2017 have been prepared on the same basis as 31 December 2018 to allow more meaningful comparison.

**(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 2018 | Notes | Asset management and platforms £m | Insurance associates and joint ventures £m | Total continuing operations £m | Discontinued operations £m | Eliminations £m | Total £m |
|---|---|---|---|---|---|---|---|
| Fee based revenue | | 1,868 | - | 1,868 | 532 | (94) | **2,306** |
| Spread/risk margin | | - | - | - | 59 | - | **59** |
| Total adjusted operating income | | 1,868 | - | 1,868 | 591 | (94) | **2,365** |
| Total adjusted operating expenses | | (1,395) | - | (1,395) | (376) | 94 | **(1,677)** |
| Adjusted operating profit | | 473 | - | 473 | 215 | - | **688** |
| Capital management | | (9) | - | (9) | (5) | - | **(14)** |
| Share of associates' and joint ventures' profit before tax[1] | | 46 | 140 | 186 | - | - | **186** |
| **Adjusted profit before tax** | | **510** | **140** | **650** | **210** | **-** | **860** |
| Tax on adjusted profit | | (95) | - | (95) | (77) | - | **(172)** |
| Share of associates' and joint ventures' tax expense | 9 | (17) | (26) | (43) | - | - | **(43)** |
| **Adjusted profit after tax** | | **398** | **114** | **512** | **133** | **-** | **645** |
| Adjusted for the following items | | | | | | | |
| Restructuring and corporate transaction expenses | 8 | (231) | (8) | (239) | (264) | - | **(503)** |
| Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts[2] | | (1,117) | (38) | (1,155) | - | - | **(1,155)** |
| Profit on disposal of subsidiaries | 1 | - | - | - | 1,780 | - | **1,780** |
| Profit on disposal of interests in associates | 1 | 183 | 2 | 185 | - | - | **185** |
| Impairment of associates | | - | (228) | (228) | - | - | **(228)** |
| Investment return variances and economic assumption changes | 12 | - | 54 | 54 | (41) | - | **13** |
| Other | | 4 | (18) | (14) | 44 | - | **30** |
| **Total adjusting items** | | **(1,161)** | **(236)** | **(1,397)** | **1,519** | **-** | **122** |
| Tax on adjusting items | | 52 | - | 52 | 41 | - | **93** |
| Share of associates' and joint ventures' tax expense on adjusting items | | 2 | 1 | 3 | - | - | **3** |
| Profit attributable to non-controlling interests (preference shares and perpetual notes) | | (5) | - | (5) | (28) | - | **(33)** |
| **(Loss)/profit for the year attributable to equity holders of Standard Life Aberdeen plc** | | **(714)** | **(121)** | **(835)** | **1,665** | **-** | **830** |
| Profit attributable to non-controlling interests | | | | | | | |
| Ordinary shares | | | | - | 5 | | **5** |
| Preference shares and perpetual notes | | | | 5 | 28 | | **33** |
| **(Loss)/profit for the year** | | | | **(830)** | **1,698** | | **868** |

1 Share of associates' and joint ventures' profit before tax comprises the Group's share of results of HDFC Life, HDFC AMC, Phoenix and Heng An Standard Life Insurance Company Limited.

2 Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts includes £1,117m included in administrative expenses and set out in Note 14, and £38m 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.

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 £94m (2017: £136m) included within the Asset management and platforms segment which relates to investment management fees arising from intra-group transactions with the UK and European insurance segment classified as discontinued operations. At a Group level an elimination adjustment is required to remove intra-group impacts.

There are no customers whose revenue represents greater than 10% of fee based revenue.

| 31 December 2017 | Notes | Asset management and platforms £m | Insurance associates and joint ventures £m | Total continuing operations £m | Discontinued operations £m | Eliminations £m | Total £m |
|---|---|---|---|---|---|---|---|
| Fee based revenue | | 1,447 | - | 1,447 | 800 | (136) | **2,111** |
| Spread/risk margin | | - | - | - | 165 | - | **165** |
| Total adjusted operating income | | 1,447 | - | 1,447 | 965 | (136) | **2,276** |
| Total adjusted operating expenses | | (1,084) | - | (1,084) | (579) | 136 | **(1,527)** |
| Adjusted operating profit | | 363 | - | 363 | 386 | - | **749** |
| Capital management | | 13 | - | 13 | (7) | - | **6** |
| Share of associates' and joint ventures' profit before tax[1] | | 41 | 58 | 99 | - | - | **99** |
| **Adjusted profit before tax** | | **417** | **58** | **475** | **379** | **-** | **854** |
| Tax on adjusted profit | | (77) | - | (77) | (31) | - | **(108)** |
| Share of associates' and joint ventures' tax expense | 9 | (29) | (12) | (41) | - | - | **(41)** |
| **Adjusted profit after tax** | | **311** | **46** | **357** | **348** | **-** | **705** |
| Adjusted for the following items | | | | | | | |
| Restructuring and corporate transaction expenses | 8 | (162) | - | (162) | (11) | - | **(173)** |
| Amortisation and impairment of intangible assets acquired in business combinations[2] | | (125) | (13) | (138) | - | - | **(138)** |
| Provision for annuity sales practices | 38 | - | - | - | (100) | - | **(100)** |
| Profit on disposal of interests in associates | 1 | 14 | 305 | 319 | - | - | **319** |
| Investment return variances and economic assumption changes | 12 | - | - | - | 67 | - | **67** |
| Other | | (15) | - | (15) | - | - | **(15)** |
| **Total adjusting items** | | **(288)** | **292** | **4** | **(44)** | **-** | **(40)** |
| Tax on adjusting items | | 49 | - | 49 | (7) | - | **42** |
| Profit attributable to non-controlling interests (preference shares and perpetual notes) | | (8) | - | (8) | - | - | **(8)** |
| **Profit for the year attributable to equity holders of Standard Life Aberdeen plc** | | **64** | **338** | **402** | **297** | **-** | **699** |
| Profit attributable to non-controlling interests | | | | | | | |
| Ordinary shares | | | | - | 25 | | **25** |
| Preference shares and perpetual notes | | | | 8 | - | | **8** |
| **Profit for the year** | | | | **410** | **322** | | **732** |

1 Share of associates' and joint ventures' profit before tax comprises the Group's share of results HDFC Life, HDFC AMC and Heng An Standard Life Insurance Company Limited.

2 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.

### (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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Income £m** | **Expenses £m** | Income £m | Expenses £m |
| **Total adjusted operating income and adjusted operating expenses as presented in the analysis of Group adjusted profit by segment from continuing operations** | **1,868** | **(1,395)** | 1,447 | (1,084) |
| Insurance and participating investment contract claims and change in liabilities | **1** | **(1)** | 201 | (201) |
| Change in non-participating investment contract liabilities | **(78)** | **78** | 74 | (74) |
| Change in liability for third party interest in consolidated funds | **(5)** | **5** | 6 | (6) |
| Other presentation differences | **152** | **(152)** | 79 | (79) |
| Adjusting items included in revenue and expenses | **202** | **(1,355)** | 345 | (328) |
| Capital management | **(9)** | **-** | 13 | - |
| **Total income and expenses as presented in the IFRS consolidated income statement from continuing operations** | **2,131** | **(2,820)** | 2,165 | (1,772) |

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 income from continuing operations by geographical location

Total income from continuing operations as presented in the consolidated income statement split by geographical location is as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| UK | **1,291** | 1,140 |
| Europe, Middle East and Africa | **201** | 214 |
| Asia Pacific | **464** | 693 |
| Americas | **175** | 118 |
| **Total** | **2,131** | 2,165 |

The income of the operating businesses is allocated based on where the income is earned. The return on investment funds is allocated based on where funds are registered.

### (d) Non-current non-financial assets by geographical location

| | 2018 £m | 2017 £m |
|---|---|---|
| UK | **3,417** | 13,632 |
| Europe, Middle East and Africa | **2** | 771 |
| Asia Pacific | **6** | 3 |
| Americas | **40** | 3 |
| **Total** | **3,465** | 14,409 |

Non-current non-financial assets for this purpose consist of investment property, property, plant and equipment and intangible assets (excluding deferred acquisition costs).

## 3. 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.

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| Interest and similar income | | |
| Cash and cash equivalents | **18** | 4 |
| Available-for-sale debt securities | **11** | 10 |
| | **29** | 14 |
| Dividend income | **49** | 16 |
| Gains/(losses) on financial instruments at fair value through profit or loss | | |
| Equity securities and interests in pooled investment funds (other than dividend income) | **(193)** | 225 |
| Debt securities | **2** | - |
| Derivative financial instruments | **(8)** | (9) |
| | **(199)** | 216 |
| Foreign exchange gains/(losses) on financial instruments other than those at fair value through profit or loss | **5** | (8) |
| **Investment return from continuing operations** | **(116)** | 238 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

## 4. Revenue from contracts with customers

Revenue from contracts with customers is recognised as services are provided and it is almost certain that the revenue will be received. Where revenue 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).

Revenue from contracts with customers excludes premium written and earned on insurance and participating investment contracts (Refer Note 31).

### (a) Revenue from contracts with customers

The following table provides a breakdown of total revenue from contracts with customers:

| | 2018 £m | 2017 £m |
|---|---|---|
| Asset management | | |
| Management fee income - Strategic insurance partners | **370** | 274 |
| Management fee income - Other clients | **1,372** | 1,023 |
| Performance fees | **9** | 20 |

| | | |
|---|---|---|
| Revenue from contracts with customers for asset management | **1,751** | 1,317 |
| Fund platforms | | |
| Fee income | **173** | 137 |
| Other revenue from contracts with customers | **31** | 32 |
| **Total revenue from contracts with customers from continuing operations** | **1,955** | 1,486 |

Asset management

Through a number of its subsidiaries, the Group provides asset management to its customers. This performance obligation is performed over time with the revenue recognised as the obligation is performed. The Group generally receives asset management fees based on the percentage of the assets under management. The percentage varies depending on the level and nature of assets under management. Asset management fees are either deducted from assets or invoiced. Deducted fees are generally calculated, recognised and collected on a daily basis. Other asset management fees are invoiced to the customer either monthly or quarterly with receivables recognised for unpaid invoices. The payment terms for invoiced revenue vary but are typically 30 days from receipt of invoice. Accrued income is recognised to account for income earned but not yet invoiced. There is also limited use of performance fees. Performance fees are only recognised once it is highly probable that the revenue will be received.

Fund platforms

Through a number of its subsidiaries, the Group offers customers access to fund platforms. The platforms give customers the ongoing functionality to manage and administer their investments. This performance obligation is performed over time with the revenue recognised as the obligation is performed. Customers pay a platform charge which is generally calculated as a percentage of their assets. The percentage varies depending on the level of assets on the specific platform. The main platform charges are calculated either daily or monthly and are collected and recognised monthly. The charges are collected directly from assets on the platform. There are no significant payment terms.

The revenue from the contracts with customers is reported within the Asset management and platforms segment. The following table provides a reconciliation of Revenue from contracts with customers as presented in the consolidated income statement to fee based revenue, as presented in the analysis of adjusted profit before tax for the Asset management and platforms segment.

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Revenue from contracts with customers from continuing operations as presented in the consolidated income statement** | **1,955** | 1,486 |
| Presentation differences | | |
| Commission expenses | **(105)** | (45) |
| Other differences | **18** | 6 |
| **Fee based revenue from continuing operations as presented in the Asset management and platforms segment** | **1,868** | 1,447 |

Commission expenses are netted against fee based revenue in the segment reporting but are included within expenses in the consolidated income statement. Other presentation differences relates to amounts presented in a different income line item of the consolidated income statement and intra-group revenue which is eliminated in the consolidated income statement but grossed up for the purposes of segmental reporting.

### (b) Contract receivables, assets and liabilities

The Group has recognised the following receivables, assets and liabilities in relation to contracts with customers.

| | Notes | **31 December 2018 £m** | 31 December 2017 £m | 1 January 2017 £m |
|---|---|---|---|---|
| Amount receivable from contracts with customers | 22 | **112** | 104 | 68 |
| Accrued income from contracts with customers | 22 | **214** | 249 | 67 |
| Cost of obtaining customer contracts | 14 | **80** | 11 | - |
| Deferred acquisitions costs | 15 | **6** | 356 | 389 |
| **Total contract receivables and assets** | | **412** | 720 | 524 |

| | Notes | **31 December 2018 £m** | 31 December 2017 £m | 1 January 2017 £m |
|---|---|---|---|---|
| Deferred Income | 36 | **75** | 157 | 198 |
| Accruals | 37 | **5** | 6 | - |
| **Total contract liabilities** | | **80** | 163 | 198 |

The deferred income at 31 December 2018 relates to future services to be provided to Phoenix relating to certain client propositions.

The movement in the Cost of obtaining customer contracts is primarily due to investment management contracts obtained via a number of asset purchases in the year.

## 5. Other administrative expenses

| | Notes | **2018 £m** | 2017 restated[1] £m |
|---|---|---|---|
| Interest expense | | **5** | - |
| Commission expenses | | **105** | 49 |
| Staff costs and other employee-related costs | | **673** | 616 |
| Operating lease rentals | | **50** | 31 |
| Auditors' remuneration | | **8** | 5 |
| Depreciation of property, plant and equipment | 18 | **16** | 6 |
| Amortisation of intangible assets | 14 | **207** | 87 |
| Impairment losses on intangible assets[2] | 14 | **46** | 46 |
| Impairment losses on disposal group classified as held for sale | 24 | **2** | 24 |
| Other | | **634** | 432 |
| | | **1,746** | 1,296 |

| | | | |
|---|---|---|---|
| Acquisition costs deferred during the year | 15 | **(2)** | (4) |
| Amortisation of deferred acquisition costs | 15 | **2** | 3 |
| **Total other administrative expenses from continuing operations** | | **1,746** | 1,295 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

[2] Impairment losses on intangible assets excludes a goodwill impairment charge of £880m (2017: £nil) recognised separately as an individual item on the consolidated income statement. Refer note 14.

In addition to interest expense of £5m (2017: £nil), interest expense of £45m (2017: £34m) was incurred in respect of subordinated liabilities.

## 6. Staff costs and other employee-related costs

The following table shows the staff costs and other employee-related costs aggregated for both continuing and discontinued operations.

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **The aggregate remuneration payable in respect of employees:** | | | |
| Wages and salaries | | **655** | 633 |
| Social security costs | | **68** | 75 |
| Pension costs | | | |
| Defined benefit plans | | **(36)** | (22) |
| Defined contribution plans | | **71** | 57 |
| Employee share-based payments and deferred fund awards | 45 | **14** | 38 |
| **Total staff costs and other employee-related costs** | | **772** | 781 |

| | 2018 | 2017 |
|---|---|---|
| **The average number of staff employed by the Group during the year:** | | |
| Asset management and platforms | **6,360** | 5,112 |
| UK and European insurance (classified as discontinued operations)[1] | **1,959** | 2,656 |
| **Total average number of staff employed** | **8,319** | 7,768 |

[1] Includes all staff employed by the UK and European insurance business until 31 August 2018.

Information in respect of Directors' remuneration is provided in the Directors' remuneration report on pages 81 to 102.

## 7. Auditors' remuneration

The following table shows the auditors' remuneration aggregated for both continuing and discontinued operations.

| | 2018 £m | 2017 £m |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's individual and consolidated financial statements | **1.1** | 0.9 |
| Fees payable to the Company's auditors for other services | | |
| The audit of the Company's consolidated subsidiaries pursuant to legislation | **3.6** | 4.8 |
| Audit related assurance services | **1.7** | 1.9 |
| **Total audit and audit related assurance fees** | **6.4** | 7.6 |
| Other assurance services | **1.6** | 0.3 |
| Other non-audit fee services | **0.2** | 0.1 |
| **Total non-audit fees** | **1.8** | 0.4 |
| **Total auditors' remuneration** | **8.2** | 8.0 |

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.

During the year ended 31 December 2018 no audit fees were payable in respect of defined benefit plans to the Group's principal auditor (2017: £nil).

For more information on non-audit services, refer to the Audit Committee report in Section 3 - Corporate governance statement.

## 8. Restructuring and corporate transaction expenses

Total restructuring and corporate transaction expenses incurred from continuing operations during the year were £231m (2017: £162m). The 2018 expenses mainly relate to integration and merger related costs of £191m (2017: £109m) and a number of other business unit restructuring programmes. Deal costs relating to acquisitions included in restructuring and corporate transaction expenses for the year ended 31 December 2018 were £1m (2017: £38m). In 2017 £4m was also recognised directly in the merger reserve in equity in relation to the Aberdeen merger.

For the purposes of determining adjusted profit from continuing operations, an additional £8m was recognised in 2018 relating to our share of insurance associate restructuring and corporate transaction expenses (2017: £nil).

Restructuring and corporate transaction expenses of £264m (2017: £11m) are used to determine adjusted profit before tax from discontinued operations. In 2018 these expenses mainly relate to the sale of the UK and European insurance business discussed in Note 1. This includes separation costs of £53m (2017: £nil) and £198m (2017: £nil) in relation to the redemption of Tier 1 subordinated bonds. A further £80m of separation costs have been included in the gain on sale relating to contractual obligations arising from the transaction. In 2017, an additional £3m of restructuring and corporate transaction expenses were incurred by the Heritage With Profits Fund.

## 9. 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.

### (a) Tax charge in the consolidated income statement

#### (a)(i) Current year tax expense

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| **Current tax:** | | |
| UK | **20** | 12 |
| Double tax relief | **-** | (2) |
| Overseas | **44** | 19 |
| Adjustment to tax expense in respect of prior years | **3** | (1) |
| **Total current tax attributable to continuing operations** | **67** | 28 |
| | | |
| **Deferred tax:** | | |
| Deferred tax (credit)/expense arising from the current year | **(12)** | (12) |
| Adjustment to deferred tax in respect of prior years | **(12)** | 12 |
| **Total deferred tax attributable to continuing operations** | **(24)** | - |
| **Total tax expense attributable to continuing operations** | **43** | 28 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

The share of associates' and joint ventures' tax expense is £40m (2017: £41m) and is included in profit before tax in the consolidated income statement in 'Share of profit from associates and joint ventures'.

In 2018 unrecognised tax losses from previous years were used to reduce the current tax expense by £4m (2017: £3m). Unrecognised tax losses and timing differences were used to reduce the deferred tax expense by £nil (2017: £3m).

Current tax recoverable and current tax liabilities at 31 December 2018 were £6m (2017: £192m) and £23m (2017: £166m) respectively. Current tax assets and liabilities at 31 December 2018 and 31 December 2017 are expected to be recoverable or payable in less than 12 months.

#### (a)(ii) Reconciliation of tax expense

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| (Loss)/Profit before tax from continuing operations | **(787)** | 438 |
| **Tax at 19% (2017: 19.25%)** | **(150)** | 84 |
| Permanent differences | **21** | (55) |
| Tax effect of accounting for share of profit from associates and joint ventures | **(25)** | (8) |
| Impairment losses on intangible assets | **171** | 1 |
| Impairment of investment in associate | **43** | - |
| Different tax rates | **(16)** | (4) |
| Adjustment to current tax expense in respect of prior years | **3** | (1) |
| Recognition of previously unrecognised tax credit | **(4)** | (6) |
| Deferred tax not recognised | **10** | 6 |
| Adjustment to deferred tax expense in respect of prior years | **(12)** | 12 |
| Write down of deferred tax asset | **4** | (1) |
| Non-taxable (profit)/loss on sale of subsidiaries and associates | **(2)** | - |
| **Total tax expense from continuing operations for the year** | **43** | 28 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

The standard UK corporation tax rate for the accounting period is 19%. The UK corporation tax rate will reduce to 17% from 1 April 2020. This change has been taken into account in the calculation of the UK deferred tax balance at 31 December 2018.

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:

Details of significant reconciling items are as follows:

- Permanent differences in 2018 include expenses and accounting losses which are not tax deductible for tax purposes. It also includes the difference between the tax basis and accounting value for employee share-based awards and non-deductible contributions to the Irish pension scheme. In 2017, there were a number of non-recurring items including non-taxable gains arising from the IPO of HDFC Life, a tax deductible donation made to Standard Life Foundation offset by expenses relating to the acquisition of Aberdeen which were not tax deductible.
- The share of profit from associates and joint ventures is presented net of tax in the consolidated income statement and therefore gives rise to a reconciling item
- The impairment of the goodwill intangible asset is not tax deductible
- Impairment of investment in associates is not tax deductible
- Different tax rates will vary according to the level of profit subject to tax at rates different from the UK corporation tax rate (such as in our Asian business) and in 2018 mainly comprises a non-recurring reconciling item from the gain on sale made on the IPO of HDFC AMC. This arose as the Indian rate of tax on capital gains is less than the UK corporate tax rate.
- The ability to value tax losses and other tax assets also affects the tax charge. There is a non-recurring tax credit of £12m attributable to the deferred tax liability relating to intangible assets recognised from the Aberdeen merger in 2017. We have also not recognised a deferred tax asset of £10m on tax losses arising in the year due to uncertainty as to when these losses will be utilised.

The Group operates in a large number of territories and during the normal course of business will be subject to audit or enquiry by local tax authorities. At any point in time the Group will also be engaged in commercial transactions the tax outcome of which may be uncertain due to their complexity or uncertain application of tax law. Tax provisions, therefore, are subject to a level of estimation and judgement and may result in the Group recognising provisions for uncertain tax positions. Management will provide for uncertain tax positions where they judge that it is probable there will be a future outflow of economic benefits from the Group to settle the obligation. In assessing uncertain tax positions management considers each issue on its own merits using their judgement as to the estimate of the most likely outcome. Where the final outcome differs from the amount provided this difference will impact the tax charge in future periods. Management re-assesses provisions at each reporting date based upon latest available information.

### (b) Tax relating to components of other comprehensive income

Tax relating to components of other comprehensive income is as follows:

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| Tax relating to defined benefit pension plan deficits | - | 10 |
| **Equity holder tax effect relating to items that will not be reclassified subsequently to profit or loss** | **-** | 10 |
| Deferred tax on net change in financial assets designated as available-for-sale | **(1)** | - |
| Tax relating to fair value losses recognised on cash flow hedges | **9** | (5) |
| Tax relating to cash flow hedge losses transferred to consolidated income statement | **(7)** | 2 |
| **Equity holder tax effect relating to items that may be reclassified subsequently to profit or loss** | **1** | (3) |
| **Tax relating to other comprehensive income from continuing operations** | **1** | 7 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 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 | 2018 £m | 2017 £m |
|---|---|---|---|
| Tax credit on reserves for employee share-based payments | 29 | **-** | (1) |
| Tax credit relating to coupons payable on perpetual notes classified as equity | | **(6)** | (2) |
| **Tax relating to items taken directly to equity** | | **(6)** | (3) |

### (d) Deferred tax assets and liabilities

(d)(i) Movements in net deferred tax liabilities

| | 2018 £m | 2017 £m |
|---|---|---|
| **At 1 January** | **(302)** | (217) |
| Reclassified as held for sale during the year | **224** | - |
| Acquired through business combinations | **(1)** | (89) |
| Amounts credited/(charged) to the consolidated income statement | **44** | 11 |
| Amounts credited directly to equity in respect of employee share-based payments | **(2)** | 1 |
| Tax on defined benefit pension plan deficits | **-** | (10) |
| Tax on available-for-sale assets | **1** | - |
| Tax on cash flow hedge | **(2)** | 3 |
| Foreign exchange adjustment | **-** | (1) |
| Other | **(1)** | - |
| **Net deferred tax liability at 31 December** | **(39)** | (302) |

(d)(ii) Analysis of recognised deferred tax

| | 2018 £m | 2017 £m |
|---|---|---|
| **Deferred tax assets comprise:** | | |
| Actuarial liabilities | **-** | 5 |
| Losses carried forward | **27** | 11 |
| Depreciable assets | **9** | 12 |
| Deferred income | **-** | 8 |
| Employee benefits | **24** | 37 |
| Provisions and other temporary timing differences | **2** | 2 |
| Insurance related items | **-** | 5 |
| Other | **-** | 4 |
| **Gross deferred tax assets** | **62** | 84 |
| Less: Offset against deferred tax liabilities | **(1)** | (19) |
| **Deferred tax assets** | **61** | 65 |
| **Deferred tax liabilities comprise:** | | |
| Insurance related items | **-** | 4 |
| Unrealised gains on investments | **3** | 196 |
| Deferred acquisition costs | **-** | 53 |
| Employee benefits | **2** | - |
| Temporary timing differences | **1** | - |
| Deferred tax on intangible assets acquired through business combinations | **92** | 130 |
| Other | **3** | 3 |
| **Gross deferred tax liabilities** | **101** | 386 |
| Less: Offset against deferred tax assets | **(1)** | (19) |
| **Deferred tax liabilities** | **100** | 367 |

| | | |
|---|---|---|
| **Net deferred tax liability at 31 December** | **(39)** | (302) |

A deferred tax asset of £27m (2017: £11m) for the Group has been recognised in respect of losses of various subsidiaries. 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.

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 £74m in the UK and £268m overseas (2017: £90m, £293m respectively)
- Tax reserves of the German branch of SLAL of £nil (2017: £102m)
- Loss relating to Irish pension scheme deficit £nil (2017: £42m)

Of these unrecognised deferred tax assets, certain losses have expiry dates as follows:

- US losses of £169m with expiry dates between 2027-2037
- Other overseas losses of £11m with expiry dates before 2023
- Other overseas losses of £3m with expiry dates between 2024 and 2028

## 10. Discontinued operations

The Group classifies as discontinued operations areas of business which have been disposed of or are classified as held for sale at the year end and which either, represent a separate major line of business or geographical area, or are part of a plan to dispose of one. The results of discontinued operations are shown separately on the face of the consolidated income statement from the results of the remaining (continuing) parts of the Group's business.

Discontinued operations relate solely to the UK and European insurance business. The sale completed on 31 August 2018 (refer Note 1). The consolidated income statement, other comprehensive income and cash flows from discontinued operations are shown below:

| Consolidated income statement | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Income** | | | |
| Investment return | | **2,350** | 12,536 |
| Revenue from contracts with customers | | **117** | 185 |
| Insurance and participating investment contract premium income | | **1,256** | 2,054 |
| Profit on disposal of subsidiaries | | **1,780** | - |
| Other income | | **10** | 18 |
| **Total income from discontinued operations** | | **5,513** | 14,793 |
| | | | |
| **Expenses** | | | |
| Insurance and participating investment contract claims and change in liabilities | | **1,657** | 3,427 |
| Change in non-participating investment contract liabilities | | **1,470** | 8,889 |
| Administrative expenses | | | |
| Restructuring and corporate transaction expenses | 8 | **264** | 14 |
| Other administrative expenses | | **339** | 665 |
| **Total administrative expenses** | | **603** | 679 |
| Provision for annuity sales practices | | **-** | 100 |
| Change in liability for third party interest in consolidated funds | | **(32)** | 1,118 |
| Finance costs | | **35** | 54 |
| **Total expenses from discontinued operations** | | **3,733** | 14,267 |
| | | | |
| **Profit before tax from discontinued operations** | | **1,780** | 526 |
| | | | |
| Tax expense attributable to policyholders' returns | | **46** | 166 |
| | | | |
| **Profit before tax expense attributable to equity holders** | | **1,734** | 360 |
| | | | |
| **Total tax expense** | | **82** | 204 |
| Less: Tax attributable to policyholders' returns | | **(46)** | (166) |
| **Tax expense attributable to equity holders** | | **36** | 38 |
| **Profit for the period from discontinued operations** | | **1,698** | 322 |

Intercompany income and expenses that will continue post completion are eliminated in discontinued operations, those that will not continue post completion are eliminated in continuing operations. Revenue from contracts with customers is shown net of elimination of intra-group revenue which will continue post completion.

The Group provides additional disclosure in relation to the total tax expense for discontinued operations. Certain products are subject to tax on policyholders' investment returns. This tax, 'policyholder tax', is accounted for as an element of income 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 period plus the movement of amounts expected to be payable in future periods by policyholders on their investment return. The remainder of the tax expense is attributed to equity holders as tax payable on equity holders' profit.

| Other comprehensive income | 2018 £m | 2017 £m |
|---|---|---|
| **Items that will not be reclassified subsequently to profit or loss:** | | |
| Revaluation of owner occupied property | **2** | 1 |

| | 2018 | 2017 |
|---|---|---|
| **Total items that will not be reclassified subsequently to profit or loss** | **2** | 1 |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translating foreign operations | **3** | (1) |
| Change in unallocated divisible surplus | **(5)** | 12 |
| **Total items that may be reclassified subsequently to profit or loss** | **(2)** | 11 |
| **Items that were transferred to profit or loss on disposal of subsidiaries:** | | |
| Release of foreign currency translation reserve | **(43)** | - |
| **Total items that were transferred to profit or loss on disposal of subsidiaries** | **(43)** | - |
| **Other comprehensive income for the period from discontinued operations** | **(43)** | 12 |

| Cash flows | 2018 £m | 2017 £m |
|---|---|---|
| Net cash flows from operating activities | **155** | 2,247 |
| Net cash flows from financing activities | **(710)** | (1,309) |
| Net cash flows from investing activities | **(7,537)** | (38) |
| **Total net cash flows** | **(8,092)** | 900 |

The net cash flows from investing activities for the year ended 31 December 2018 do not include cash consideration received from the disposal of the UK and European insurance business of £1,971m but includes the cash and cash equivalents of £7,472m at the date of disposal.

## 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 29.1p (2017: 29.8p) and diluted earnings per share was 29.1p (2017: 29.6p) for the year ended 31 December 2018. The following table shows details of basic, diluted and adjusted earnings per share.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Continuing operations £m** | **Discontinued operations £m** | **Total £m** | Continuing operations £m | Discontinued operations £m | Total £m |
| **Adjusted profit before tax** | **650** | **210** | **860** | 475 | 379 | 854 |
| Tax on adjusted profit | **(95)** | **(77)** | **(172)** | (77) | (31) | (108) |
| Share of associates' and joint ventures' tax expense | **(43)** | **-** | **(43)** | (41) | - | (41) |
| **Adjusted profit after tax** | **512** | **133** | **645** | 357 | 348 | 705 |
| Dividend paid on preference shares | **(5)** | **-** | **(5)** | - | - | - |
| **Adjusted profit after tax attributable to equity holders of the Company** | **507** | **133** | **640** | 357 | 348 | 705 |
| Adjusting items | **(1,397)** | **1,519** | **122** | 4 | (44) | (40) |
| Tax on adjusting items | **52** | **41** | **93** | 49 | (7) | 42 |
| Share of associates' and joint ventures' tax expense on adjusting items | **3** | **-** | **3** | - | - | - |
| Adjustment for perpetual debt instruments classified as equity net of tax | **-** | **(28)** | **(28)** | (8) | - | (8) |
| **Profit attributable to equity holders of the Company** | **(835)** | **1,665** | **830** | 402 | 297 | 699 |

| | **Millions** | Millions |
|---|---|---|
| **Weighted average number of ordinary shares outstanding** | **2,848** | 2,343 |
| Dilutive effect of share options and awards | **29** | 17 |
| **Weighted average number of diluted ordinary shares outstanding** | **2,877** | 2,360 |

| | **Pence** | **Pence** | **Pence** | Pence | Pence | Pence |
|---|---|---|---|---|---|---|
| **Basic earnings per share** | **(29.3)** | **58.4** | **29.1** | 17.1 | 12.7 | 29.8 |
| **Diluted earnings per share** | **(29.3)** | **58.4** | **29.1** | 17.0 | 12.6 | 29.6 |
| **Adjusted earnings per share** | **17.8** | **4.7** | **22.5** | 15.2 | 14.9 | 30.1 |
| **Adjusted diluted earnings per share** | **17.8** | **4.7** | **22.5** | 15.1 | 14.8 | 29.9 |

Details of share options and awards which may be treated as dilutive are provided in Note 45. In accordance with IAS 33, no share options and awards were treated as dilutive for the year ended 31 December 2018 due to the loss attributable to equity holders of the Company from continuing operations in the year. This results in the adjusted diluted earnings per share from continuing operations and the total diluted earnings per share including discontinued operations being calculated using a weighted average number of ordinary shares of 2,848 million.

As discussed in Note 26 the Company undertook a share consolidation during the year followed by a return of capital to shareholders. In accordance with IAS 33, earnings per share have not been restated following the share consolidation as there was an overall corresponding change in resources due to the redemption of the B shares. As a result of the share consolidation and share buyback, earnings per share from continuing operations for the year ended 31 December 2018 is not directly comparable with the prior year.

## 12. Adjusted profit and adjusting items

Adjusted profit before tax is the Group's key alternative performance measure. Adjusted profit 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 and through the purchase of customer contracts
- 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

Adjusted profit also excludes impacts arising from investment return variances (formerly called 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.

Coupons payable on perpetual notes classified as non-controlling interests for which interest is accrued are included in adjusted profit before tax. For IFRS purposes, these are recognised directly in equity. This gave rise to an adjusting item in 2017, prior to the reclassification of such instruments to subordinated liabilities on 18 December 2017. Dividends payable on preference shares classified as non-controlling interests are excluded from adjusted profit in line with the treatment of ordinary shares. Similarly to preference shares, our share of interest payable on Tier 1 debt instruments held by associates, for which interest is only accounted for when paid, is excluded from adjusted profit.

### (a) Investment return variances and economic assumptions changes - insurance entities

#### Wholly owned insurance entities

The Group's UK and European insurance business was sold during the year and is classified as discontinued operations. The Group's other wholly owned insurance business, SL Asia, is classified as held for sale (see Note 24).

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% (2017: 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% (2017: 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 2018 or 31 December 2017. If these were to arise they would be excluded from adjusted profit.

Gains and losses on foreign exchange are deemed to represent investment return variances and economic assumption changes and thus are excluded from adjusted profit.

Investment return variances and economic assumption changes for the year ended 31 December 2018 and 31 December 2017 relate principally to the impact of interest rate changes on UK annuity liabilities and the assets backing those liabilities.

#### Associates and joint ventures insurance entities

Where associates and joint ventures have a policy for determining investment return variances and economic assumption changes, the Group uses the policy of the associate or joint venture for including their results in the Group's adjusted profit. This currently applies only to the Group's investment in Phoenix. The Phoenix policy is similar to that used by the wholly owned insurance entities as described above. The main differences are as follows:

- Phoenix investment return variances, including those relating to owners' funds, include gains and losses on derivatives held to hedge life company Solvency II surplus positions. Such hedging positions were not previously held outside with profit funds by wholly owned insurance entities.
- Phoenix recognise charges on unit linked business based on expected investment returns, whereas wholly owned insurance entities use actual investment returns.
- Phoenix include the impact of strategic asset allocation activities, such as investment in higher yielding illiquid assets, as investment variances. Wholly owned subsidiaries treat these within adjusted profit where they are directly related to a significant management action.

### (b) Other

In the reconciliation of consolidated adjusted profit before tax to profit for the period the Other adjusting item sub-total includes (£2m) (2017: (£24m)) in relation to the impairment of a disposal group classified as held for sale and £3m (2017: (£1m)) net fair value movements in contingent consideration.

The Other adjusting item in 2018 relating to discontinued operations includes a held for sale accounting adjustment relating to the amortisation of intangible assets (primarily deferred acquisition costs) and depreciation of tangible assets of £44m. Following the classification of the UK and European insurance business as held for sale on the announcement of the proposed transaction on 23 February 2018, no amortisation or depreciation was recognised. This increase to profit has been recognised as an adjusting item.

## 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.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Pence per share** | **£m[1]** | Pence per share | £m |
| Prior year's final dividend paid | **14.30** | **420** | 13.35 | 263 |
| Interim dividend paid | **7.30** | **214** | 7.00 | 206 |
| **Total dividends paid on ordinary shares** | | **634** | | 469 |
| | | | | |
| **Current year final recommended dividend** | **14.30** | **345** | 14.30 | 421 |

1 Estimated for current year final recommended dividend.

The final recommended dividend will be paid on 21 May 2019 to shareholders on the Company's register as at 12 April 2019, subject to approval at the 2019 Annual General Meeting. After the current year final recommended dividend, the total dividend in respect of the year ended 31 December 2018 is 21.60p (2017: 21.30p).

In addition to the dividend distribution on ordinary shares, the Group returned 33.99 pence per ordinary share (£1,000m) to shareholders through a B share scheme as discussed in Note 26.

## 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.

In addition to intangibles acquired through business combinations, the Group 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.

The Group also recognises the cost of obtaining customer contracts (see Note 4) as an intangible asset. For the cost of obtaining customer contracts, the intangible asset is amortised on the same basis as the transfer to the customer of the services to which the intangible asset relates.

| | | 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 | Cost of obtaining customer contracts £m | Total £m |
| **Gross amount** | | | | | | | | | |
| **At 1 January 2017** | | 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 | 66 | 11 | 5,071 |
| Reclassified as held for sale during the year | | **(18)** | **-** | **-** | **(6)** | **(311)** | **(67)** | **-** | **(402)** |
| Additions | | **14** | **-** | **37** | **-** | **29** | **4** | **79** | **163** |
| Disposals and adjustments | | **-** | **-** | **-** | **(1)** | **-** | **1** | **-** | **-** |
| Other | | **-** | **-** | **-** | **-** | **-** | **-** | **6** | **6** |
| **At 31 December 2018** | | **3,438** | **93** | **1,019** | **67** | **121** | **4** | **96** | **4,838** |
| **Accumulated amortisation and impairment** | | | | | | | | | |
| **At 1 January 2017** | | (10) | - | (100) | (29) | (178) | (39) | - | (356) |
| Amortisation charge for the year | | - | (7) | (68) | (5) | (37) | (7) | - | (124) |
| Impairment losses recognised | | (5) | - | (40) | - | (32) | - | - | (77) |
| Disposals and adjustments | | - | - | - | - | 1 | - | - | 1 |
| Other | | - | - | - | - | (1) | - | - | (1) |
| **At 31 December 2017** | | (15) | (7) | (208) | (34) | (247) | (46) | - | (557) |
| Reclassified as held for sale during the year | | **-** | **-** | **-** | **6** | **204** | **46** | **-** | **256** |
| Amortisation charge for the year | 5 | **-** | **(19)** | **(143)** | **(13)** | **(16)** | **-** | **(16)** | **(207)** |
| Impairment losses recognised[2] | 5 | **(891)** | **-** | **(35)** | **-** | **-** | **-** | **-** | **(926)** |
| Disposals and adjustments | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **At 31 December 2018** | | **(906)** | **(26)** | **(386)** | **(41)** | **(59)** | **-** | **(16)** | **(1,434)** |
| **Carrying amount** | | | | | | | | | |
| **At 1 January 2017** | | 223 | - | 154 | 1 | 167 | 27 | - | 572 |
| **At 31 December 2017** | | 3,427 | 86 | 774 | 40 | 156 | 20 | 11 | 4,514 |
| **At 31 December 2018** | | **2,532** | **67** | **633** | **26** | **62** | **4** | **80** | **3,404** |

1 Included in the internally developed software of £62m (2017: £156m) is £13m (2017: £53m) relating to intangible assets not yet ready for use.

2 Included in goodwill impairment losses recognised of £891m (2017: £5m) is an impairment of £880m (2017: £nil) recognised on the goodwill primarily arising from the acquisition of Aberdeen and £11m (2017: £5m) included in other administrative expenses in Note 5.

The Group's goodwill has been acquired through a series of business combinations, most recently through the acquisitions discussed in Note 1. Of the Group's goodwill of £2,532m (2017: £3,427m) at 31 December 2018, £2,483m (2017: £3,354m) is attributed to the Aberdeen Standard Investments group of cash-generating units, which comprises the Group's asset management business excluding HDFC AMC, in the Asset management and platforms segment. The remaining goodwill of £49m (2017: £73m) is attributable to a number of smaller cash-generating units in the Asset management and platforms segment.

### Acquisition of Aberdeen in 2017

The additions to goodwill and intangible assets acquired through business combinations during the year to 31 December 2017 related solely to the acquisition of Aberdeen. Refer Note 1. On the acquisition of Aberdeen, we identified intangible assets in relation to customer relationships, brand and technology as being separable from goodwill. Identification and valuation of intangible assets acquired in business combinations is a key judgement.

### Goodwill

Goodwill of £3,209m was attributed to the Aberdeen Standard Investments group of cash-generating units in relation to the acquisition of Aberdeen. 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 within the Asset management and platforms 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 was 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 were included in the valuation of the customer relationships discussed below, with additional synergies forming part of goodwill.

### Customer relationships

The customer relationships acquired through Aberdeen were grouped where the customer groups have similar economic characteristics and similar useful economic lives. This gave rise to three separate intangible assets which we have termed Lloyds Banking Group, open ended funds, and segregated and similar.

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 was that the value associated with the open ended fund assets under management was 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 was 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 | 4 |
| Open ended funds | Separate vehicle group - open ended investment vehicles. | 11 years | 223 | 138 |
| Segregated and similar | All other vehicle groups dominated by segregated mandates which represent 75% of this group. | 12 years | 427 | 338 |

Measuring the fair value of intangible assets acquired in business combinations required further assumptions and judgements. Customer relationships were 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 at the acquisition date 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.

### Estimates and assumptions

The key estimates and assumptions in relation to intangible assets are:

- Determination of the recoverable amount of goodwill and customer intangibles
- Determination of useful lives

#### Determination of the recoverable amount of goodwill and customer intangibles

Goodwill is assessed for impairment at least annually by comparing the recoverable amount of each cash-generating-unit to which goodwill has been allocated with its carrying value. For all intangible assets, an assessment is made at each reporting date as to whether there is an indication that the goodwill or intangible asset has become impaired. If any indication of impairment exists and the carrying value exceeds the recoverable amount then the carrying value is written down to the recoverable amount.

The recoverable amounts are defined as the higher of fair value less costs to sell and the value in use where the value in use is based on the present value of future cashflows.

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 the 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.

#### Goodwill

The impairment of goodwill in 2018 includes £880m (2017: £nil) relating to an impairment of the Aberdeen Standard Investments group of cash-generating-units which is in the Asset management and platforms segment. The impairment resulted from the impact of markets and flows on future earnings expectations.

The recoverable amount of this group of cash-generating-units, which is based on value in use, at 31 December 2018 is £4,111m. This was calculated using a terminal growth rate of 2.2% based on global GDP and a pre-tax discount rate of 11.1% based on the group cost of equity adjusted for forecasting risk. Cash flow projections for three years to end 2021 were based on management approved forecasts adjusted to market conditions at 31 December 2018. The impairment has been included within administrative expenses in the consolidated income statement. The recoverable amount in the prior year was based on fair value less costs of disposal.

The following table shows the consequence of downside sensitivities of key assumptions on the carrying amount of the goodwill balance at 31 December 2018.

| | Goodwill £m |
|---|---|
| Reduction in growth rate of 0.2% | (93) |
| Discount rate increased by 0.5% | (231) |
| Forecast cash flows reduced by 5% | (206) |

### Customer intangibles

The recoverable amount for customer intangible assets is 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 the 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 2018 impairment of £35m relates to the open-ended funds customer relationship intangible asset which is in the Asset management and platforms segment and which was recognised on the acquisition of Aberdeen. The impairment resulted from the impact of markets and flows on future earnings expectations. The recoverable amount of this asset which is its value in use is £138m and was calculated using a pre-tax discount rate of 13.1%. The remaining useful life as at 31 December 2018 is 9.7 years.

In relation to customer relationships acquired in business combinations, the most significant judgements relate to assumptions for the open-ended 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 2018:

| | Open-ended £m |
|---|---|
| 20% increase in net attrition | (16) |
| 10% one-off decrease in AUM at 1 January 2019 | (14) |
| Operating margin percentage decreased by 2.5% | (19) |
| Discount rate percentage increased by 2% | (8) |

The carrying value of the life company customer relationships/contracts acquired through Ignis at 31 December 2018 is £42m (2017: £50m). The remaining amortisation period of the life contracts is 9.5 years. As at 31 December 2018, increasing the discount rate by 2%, decreasing the operating margin by 2.5% or decreasing the AUM by 10% would not result in an impairment loss and therefore would have no impact on carrying value.

In February 2018 Lloyds Banking Group (LBG) and Scottish Widows informed the Group that Scottish Widows and LBG's Wealth business intended 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 related to this announcement and was an impairment of the Lloyds Banking Group customer relationship intangible asset in the Asset management and platforms segment. The recoverable amount of this asset, which is its value in use, at 31 December 2017 was £26m and was calculated using a pre-tax discount rate of 13%. The remaining useful live was 1.1 years. The other key assumptions used to measure the value in use calculation as at 31 December 2017 were consistent with those used in the acquisition date valuation set out on page 148.

### Determination of useful lives

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
- Costs of obtaining customer contracts - between 3 and 9 years, generally reducing balance method

### Internally developed software

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.

The impairment of internally generated software recognised during the year to 31 December 2017 included £31m relating to discontinuation of part of an IT transformation project in the UK and European insurance segment classified as discontinued.

## 15. Deferred acquisition costs

The Group incurs costs to obtain and process new business. These are accounted for as follows:

#### 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.

**Non-participating investment contracts**

Incremental costs directly attributable to securing rights to receive fees from non-participating investment 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.

| | 2018 £m | 2017 £m |
|---|---|---|
| **At 1 January** | **612** | 651 |
| Reclassified as held for sale during the year | **(606)** | (22) |
| Additions during the year | **2** | 49 |
| Amortisation charge | **(2)** | (79) |
| Foreign exchange adjustment | **-** | 13 |
| **At 31 December** | **6** | 612 |

The amount of deferred acquisition costs expected to be recovered after more than 12 months is £6m (2017: £536m).

Included in deferred acquisition costs above are costs deferred on investment contracts (deferred origination costs) amounting to £6m (2017: £356m) which relates to contracts with customers (see Note 4(b)). The amortisation charge for deferred origination costs relating to contracts with customers from continuing operations for the year was £2m (2017: £2m).

## 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, direct investments in associates and joint ventures are initially recognised at cost. When an interest is acquired at fair value from a third party, the value of the Group's share of the investee's identifiable assets and liabilities is determined applying the same valuation criteria as for a business combination at the acquisition date. This is compared to the cost of the investment in the investee. Where cost is higher the difference is identified as goodwill and the investee is initially recognised at cost which includes this component of goodwill. Where cost is lower a bargain purchase has arisen and the investee is initially recognised at the Group's share of the investee's identifiable assets and liabilities unless the recoverable amount for the purpose of assessing impairment is lower, in which case the investee is initially recognised at the recoverable amount.

Subsequently 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 Group's share of post-acquisition profit or loss includes amortisation charges based on the valuation exercise at acquisition. 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 FVTPL.

During the year ended 31 December 2017 we 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 was to make the financial statements more relevant to users as it is more consistent with peers. This change in accounting policy only impacted 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.

A full list of the Group's associates and joint ventures is included in Note 49.

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 and joint ventures accounted for using the equity method

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Associates £m | Joint ventures £m | Total £m | Associates £m | Joint ventures £m | Total £m |
| **At 1 January** | **404** | **99** | **503** | 484 | 88 | 572 |
| Reclassified from/(to) held for sale | **8** | **-** | **8** | (33) | - | (33) |
| Exchange translation adjustments | **(15)** | **3** | **(12)** | (19) | (3) | (22) |
| Additions | **1,023** | **72** | **1,095** | - | - | - |
| Disposals | **-** | **-** | **-** | (58) | - | (58) |
| Profit after tax | **121** | **9** | **130** | 35 | 10 | 45 |
| Other comprehensive income | **(16)** | **1** | **(15)** | - | 4 | 4 |
| Dilution gains | **7** | **-** | **7** | 17 | - | 17 |
| Impairment | **(228)** | **-** | **(228)** | - | - | - |
| Distributions of profit | **(44)** | **-** | **(44)** | (22) | - | (22) |
| **At 31 December** | **1,260** | **184** | **1,444** | 404 | 99 | 503 |

The following associates are considered to be material to the Group as at 31 December 2018.

| Name of associate | Nature of relationship | Principal place of business | Measurement Method | Interest held by the Group | Fair value of interest held by the Group at 31 December 2018 |
|---|---|---|---|---|---|
| Phoenix Group Holdings plc (Phoenix) | Associate | United Kingdom | Equity Accounted | 19.98% | 812 |
| HDFC Life Insurance Company Limited (HDFC Life) | Associate | India | Equity Accounted | 29.23% | 2,567 |
| HDFC Asset Management Company Limited (HDFC AMC) | Associate | India | Equity Accounted | 29.96% | 1,077 |

These associates are all listed. The country of incorporation or registration is the same as their principal place of business. The interest held by the Group is the same as the proportion of voting rights held. None of the Group's joint ventures are considered to be material to the Group as at 31 December 2018.

**(b) Investments in associates accounted for using the equity method**

The tables below provide summarised financial information for those associates which are considered to be material to the Group. The summarised financial information reflects the amounts presented in the financial statements or management accounts of the relevant associates amended to reflect adjustments made when using the equity method, including fair value adjustments on acquisition and not the Group's share of those amounts.

| | Phoenix | | HDFC Life | | HDFC AMC | |
|---|---|---|---|---|---|---|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| **Summarised financial information of associate:** | | | | | | |
| Revenue[1] | **1,409** | - | **3,072** | 2,236 | **207** | 193 |
| Profit after tax[2] | **366** | - | **118** | 80 | **83** | 73 |
| Other comprehensive income | **(76)** | - | **-** | - | **-** | - |
| Total assets[2,3] | **230,111** | - | **13,349** | 12,238 | **336** | 471 |
| Total liabilities[3] | **224,042** | - | **12,598** | 11,589 | **23** | 221 |
| Net assets[2] | **6,069** | - | **751** | 649 | **313** | 250 |
| Attributable to NCI | **788** | - | **-** | - | **-** | - |
| Attributable to investee's shareholder | **5,281** | - | **751** | 649 | **313** | 250 |
| Interest held | **19.98%** | - | **29.23%** | 29.35% | **29.96%** | 38.24% |
| Share of net assets[2] | **1,055** | - | **220** | 190 | **94** | 96 |

| | Phoenix | | HDFC Life | | HDFC AMC | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m | 2018 £m | 2017 £m | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Associates accounted for using the equity method | **812** | - | **329** | 304 | **110** | 90 | **9** | 10 | **1,260** | 404 |
| Associates classified as held for sale | **-** | - | **-** | - | **-** | 33 | **-** | - | **-** | 33 |
| **Total amount recognised in consolidated statement of financial position** | **812** | - | **329** | 304 | **110** | 123 | **9** | 10 | **1,260** | 437 |
| Dividends received[4] | **33** | - | **-** | 10 | **14** | 12 | **-** | - | **47** | 22 |

1 2017 revenue for HDFC Life has been restated to exclude investment income.

2 2017 profit after tax, total assets, net assets and share of net assets for HDFC Life have been restated to include intangible assets identified at the acquisition date of additional investments in HDFC Life acquired at fair value rather than book value and the related amortisation.

3 As a liquidity presentation is used by insurance companies when presenting their statement of financial position, an analysis of total assets and total liabilities between current and non-current has not been provided for Phoenix and HDFC Life. The majority of HDFC AMC's assets and liabilities are current.

4 2018 dividend received from HDFC AMC includes £3m on interest that was classified as held for sale.

### Phoenix

Phoenix is the largest life and pensions consolidator in Europe. Our investment in Phoenix supports our strategic partnership.

On 23 February 2018, the Group announced the proposed sale of the UK and European insurance business to Phoenix (the Sale), implemented by selling the entire issued share capital of Standard Life Assurance Limited (SLAL). Refer Note 1 for further details. Following the completion of the Sale in August 2018, as part of the total consideration, the Group was issued with new Phoenix shares representing 19.98% of the issued share capital of Phoenix. Our judgement was that taking into account our representation on Phoenix's board and the significant transactions between the Group and Phoenix, Phoenix should be classified as an associate.

At acquisition the value of the Group's share of Phoenix's identifiable assets and liabilities was determined. This value was determined using the same valuation bases as required for a business combination under which most of the identifiable assets and liabilities of the enlarged Phoenix group (including SLAL) were measured at fair value. The most significant assets that were not measured at fair value were Phoenix's defined benefit pension schemes which were measured at their IAS 19 value.

A key judgement was the identification, valuation and determination of useful lives, of the Group's share of Phoenix's intangible assets at the date of acquisition. The main intangible assets identified were the acquired present value of in-force business (AVIF) for both SLAL and other Phoenix entities. AVIF comprises the difference between the fair value and IFRS carrying value of insurance contracts together with the fair value of future profits expected to arise on investment contracts. The valuation of the AVIF has been determined using the application of present value techniques to the best estimate cash flows expected to arise from policies that were in-force at the acquisition date, adjusted to reflect the price of bearing the uncertainty inherent in those cash flows. This approach incorporates a number of judgements and assumptions which have impacted on the resultant valuation, the most significant of which are mortality rates, expected policy lapses, the expenses associated with servicing the policies, future investment returns, the discount rate and the risk adjustment for uncertainty, determined using a cost of capital approach. The Group's share of profit after acquisition under the equity method reflects the amortisation of these intangible assets. This differs from the amortisation recognised in Phoenix's own IFRS financial statements due to the revaluation of the existing Phoenix intangible assets at August 2018 for equity method purposes. The amortisation method reflects the expected emergence of economic benefits which results in higher amortisation in earlier periods.

| | Useful life at acquisition date Years | Fair value at acquisition date £m | Group's share at acquisition date £m |
|---|---|---|---|
| **Intangible asset:** | | | |

| | | | |
|---|---|---|---|
| SLAL AVIF | 24 | 2,931 | 586 |
| Existing Phoenix AVIF | 15 | 1,503 | 300 |

The cost of the Group's investment in Phoenix was equal to the fair value of its 19.98% interest at the date of acquisition, being £1,023m. The Group's share of the value of the identifiable net assets of the enlarged Phoenix group exceeded the cost of the Group's investment in Phoenix resulting in a bargain purchase gain of £15m which was offset by an impairment loss as described below.

**Estimates and assumptions**

At 31 December 2018 the market value of the Group's interest in Phoenix was £812m which was significantly below the carrying value. We considered this to be an indicator of impairment and therefore an impairment review was performed. A key area of estimation was determining the recoverable amount of Phoenix on a value in use basis for the purpose of assessing impairment. Given that the fair value was significantly below the carrying value, we considered that under IAS 28 the market value of Phoenix represented the best estimate of the present value of future dividends and therefore this market value of £812m was used as the value in use. As the value in use was based on the market value, a discount rate was not determined. An impairment loss of £243m has been recognised of which £15m arose at acquisition and has been offset against the bargain purchase gain. This has resulted in a difference between the Group's share of net assets of Phoenix and the carrying value at 31 December 2018.

Phoenix has taken advantage of the temporary exemption granted to insurers in IFRS 4 *Insurance Contracts* from applying IFRS 9 as a result of meeting the exemption criteria as at 31 December 2015. As at that date Phoenix's activities were considered to be predominantly connected with insurance as the percentage of the carrying amount of its liabilities in relation to insurance relative to the total carrying amounts of all its liabilities was greater than 90%.

The table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest (excluding those held for trading or managed on a fair value basis) and all other financial assets, measured at fair value through profit and loss.

| | Fair value as at 31 December 2018 £m |
|---|---|
| Financial assets with contractual cash flows that are solely payments of principal and interest (SPPI) excluding those held for trading or managed on a fair value basis[1] | 423 |
| Financial assets other than those above[2] | 204,154 |
| **Total** | **204,577** |

1 Financial assets that are SPPI are all short term deposits with highly rated external institutions.

2 The change in fair value, for four months ended 31 December 2018, of all other financial assets that are fair value through profit or loss, is a loss of £11,509m.

**HDFC Life**

HDFC Life is one of India's leading life insurance companies.

On 17 November 2017, HDFC Life listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited following completion of an IPO in which the Group reduced its interest to 29.3%. Refer Note 1 for further details.

The difference between the carrying value of this associate and the Group's current share of net assets is due primarily to goodwill of £104m arising from additional investments being made at fair value rather than book value. (2017: £107m.)

The year end date for 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 31 December is used for HDFC Life.

At 31 March 2016 HDFC Life had significant insurance liabilities and its liabilities arising from contracts within the scope of IFRS 4 and liabilities connected with insurance were 97% of its total liabilities. Therefore HDFC Life was eligible to defer the implementation of IFRS 9 for equity accounting purposes.

The fair value of HDFC Life's financial assets at 31 December 2018 that remain under IAS 39 for equity accounting purposes and the change in fair value during the year ended 31 December 2018 are as follows:

| | Fair value as at 31 December 2018 £m |
|---|---|
| Financial assets with contractual cash flows that are solely payments of principal and interest (SPPI) excluding those held for trading or managed on a fair value basis[1] | 5,662 |
| Financial assets other than those above[2] | 7,596 |
| **Total** | **13,258** |

1 Financial assets that are SPPI (excluding those held for trading or managed on a fair value basis) are predominantly AAA debt instruments including central and state government securities. Their carrying value at 31 December 2018 is £5,642m. Securities with fair value and carrying value of £10m are rated below BBB.

2 The change in fair value in the year to 31 December 2018 for financial assets that are SPPI (excluding those held for trading or managed on a fair value basis) is a gain of £385m. The change in fair value for all other financial assets is a gain of £116m.

**HDFC AMC**

HDFC AMC manages a range of mutual funds and provides portfolio management and advisory services.

On 6 August 2018, HDFC AMC listed on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited following completion of an IPO. Refer Note 1 for further details. As a result of the planned IPO, a portion of the equity share capital of the associate was classified as held for sale as at 31 December 2017. Refer Note 24 for further details.

The difference between the carrying value of this associate and the Group's share of net assets is due primarily to goodwill arising on the buyback of shares by HDFC AMC from employees.

The year end date for HDFC AMC 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 is used for HDFC AMC.

### (c) Investments in joint ventures

The Group has a number of joint ventures, none of which are considered material to the Group. The largest joint venture is Heng An Standard Life Insurance Company Limited (HASL). The table below provides summarised financial information for HASL. The summarised financial information reflects the amounts presented in the management accounts amended to reflect adjustments made when using the equity method.

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Summarised financial information of joint venture:** | | |
| Revenue[1] | **361** | 293 |
| Profit after tax | **17** | 20 |
| Other comprehensive income | **1** | 7 |

| | | |
|---|---|---|
| Total assets | **1,714** | 1,358 |
| Total liabilities | **1,347** | 1,160 |
| Net assets | **367** | 198 |
| Interest held | **50%** | 50% |
| Current share of net assets | **184** | 99 |
| **Carrying value of joint venture** | **184** | 99 |
| Dividends received | **-** | - |

1 2017 revenue for HASL has been restated to exclude investment income.

On 25 September 2018, the Group made a US$95m (£72m) capital contribution to HASL. The Group's interest remains at 50%.

### (d) Investments in associates measured at FVTPL

The aggregate fair value of associates accounted for at FVTPL included in equity securities and interests in pooled investment funds at 31 December 2018 is £34m (2017: £5,936m) none of which are considered individually material to the Group. 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 (2017: none).

## 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.

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.

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **At 1 January** | | **9,749** | 9,929 |
| Reclassified as held for sale during the year | | **(9,749)** | (225) |
| Other reclassifications[1] | | **-** | (319) |
| Additions - acquisitions | | **-** | 270 |
| Additions - subsequent expenditure | | **-** | 143 |
| Net fair value gains/(losses) | | **-** | 485 |
| Disposals | | **-** | (525) |
| Transferred to owner occupied property | 18 | **-** | (17) |
| Foreign exchange adjustment | | **-** | 11 |
| Other | | **-** | (3) |
| **At 31 December** | | **-** | 9,749 |

| | | |
|---|---|---|
| **The fair value of investment property can be analysed as:** | | |
| Freehold | **-** | 7,297 |
| Long leasehold | **-** | 2,452 |
| | **-** | 9,749 |

1 During 2017 income strips measured at £319m were reclassified as debt securities. Refer Note 41 for further details.

There was no rental income arising from investment property or direct operating expenses (included within other administrative expenses) arising in respect of such rented property in relation to continuing operations in either year. All such income and expenses relates to discontinued operations (see Note 10).

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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Not later than one year | **-** | 470 |
| Later than one year and no later than five years | **-** | 1,488 |
| Later than five years | **-** | 3,392 |
| **Total operating lease receivables** | **-** | 5,350 |

## 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 2017** | | 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 during the year | | (4) | (2) | (6) |
| Disposals and adjustments[1] | | - | (3) | (3) |
| Revaluations | | 1 | - | 1 |
| Impairment losses reversed | | 4 | - | 4 |
| Foreign exchange adjustment | | - | (1) | (1) |
| **At 31 December 2017** | | 81 | 182 | 263 |
| Reclassified as held for sale during the year | | **(79)** | **(108)** | **(187)** |
| Additions | | **-** | **28** | **28** |
| Disposals and adjustments[1] | | **-** | **(4)** | **(4)** |
| Foreign exchange adjustment | | **-** | **3** | **3** |
| **At 31 December 2018** | | **2** | **101** | **103** |
| **Accumulated depreciation** | | | | |
| **At 1 January 2017** | | - | (107) | (107) |
| Depreciation charge for the year | | - | (15) | (15) |
| Disposals and adjustments[1] | | - | 5 | 5 |
| **At 31 December 2017** | | - | (117) | (117) |
| Reclassified as held for sale during the year | | **-** | **91** | **91** |
| Depreciation charge for the year | 5 | **-** | **(16)** | **(16)** |
| Disposals and adjustments[1] | | **-** | **2** | **2** |
| Foreign exchange adjustment | | **-** | **(2)** | **(2)** |
| **At 31 December 2018** | | **-** | **(42)** | **(42)** |
| **Carrying amount** | | | | |
| **At 1 January 2017** | | 58 | 31 | 89 |
| **At 31 December 2017** | | 81 | 65 | 146 |
| **At 31 December 2018** | | **2** | **59** | **61** |

[1] For the year ended 31 December 2018 £nil (2017: £1m) 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 £2m (2017: £112m). 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.

| 2018 | Notes | Designated as at fair value through profit or loss £m | Held for trading £m | Cash flow hedge £m | Available-for-sale £m | Loans and receivables £m | Total £m |
|---|---|---|---|---|---|---|---|
| Derivative financial assets | 21 | - | 8 | 13 | - | - | **21** |
| Equity securities and interests in pooled investment funds | 39 | 2,030 | - | - | - | - | **2,030** |
| Debt securities | 39 | 861 | - | - | 862 | - | **1,723** |
| Receivables and other financial assets | 22 | 8 | - | - | - | 700 | **708** |
| Cash and cash equivalents | 25 | - | - | - | - | 1,140 | **1,140** |
| **Total** | | **2,899** | **8** | **13** | **862** | **1,840** | **5,622** |

| 2017 | Notes | Designated as at fair value through profit or loss £m | Held for trading £m | Cash flow hedge £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** |

The amount of debt securities expected to be recovered or settled after more than 12 months is £423m (2017: £50,619m). Due to the nature of equity securities and interests in pooled investment funds, there is no fixed term associated with these securities.

Following application of the temporary exemption granted in IFRS 4 *Insurance Contracts* from applying IFRS 9 *Financial Instruments*, the table below separately identifies financial assets with contractual cash flows that are solely payments of principal and interest (excluding those held for trading or managed on a fair value basis) and all other financial assets.

| | Fair value as at 31 December 2018 £m | Change in Fair Value during 2018 £m |
|---|---|---|
| Financial assets with contractual cash flows that are solely payments of principal and interest (SPPI) excluding those held for trading or managed on a fair value basis | 2,702 | 2 |
| Financial assets other than those above | 2,920 | (150) |
| **Total** | **5,622** | **(148)** |

The credit exposure for the financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest above is as follows:

| 2018 | Receivables and other financial assets Carrying amount £m | Debt securities Carrying amount £m | Cash and cash equivalents Carrying amount £m | Total Carrying amount[1] £m |
|---|---|---|---|---|
| **Low Credit Risk Assets** | | | | |
| AAA | - | 23 | 181 | **204** |
| AA | - | 92 | 570 | **662** |
| A | - | 619 | 358 | **977** |
| BBB | - | 112 | 20 | **132** |
| Internally rated/ not rated | 700 | - | 8 | **708** |
| **Total** | **700** | **846** | **1,137** | **2,683** |

[1] Carrying amount applying IAS 39.

In addition, debt securities and cash and cash equivalents with fair value and carrying amount of £16m and £3m respectively at 31 December 2018 are rated below BBB.

### Estimates and assumptions

Determination of the fair value of contingent consideration assets included in receivables and other financial assets 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 | 2018 £m | 2017 £m |
|---|---|---|---|
| Loans secured by mortgages | 41(e) | - | 57 |
| Loans and advances to banks with greater than three months to maturity from acquisition date | | - | 32 |
| Loans secured on policies | | - | 2 |
| **Loans** | 39 | - | 91 |

Loans with variable rates and fixed interest rates at 31 December 2017 were £38m and £53m respectively. Loans that were expected to be recovered after more than 12 months were £60m.

## 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.

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | | Contract amount | Fair value assets | Fair value liabilities | Contract amount | Fair value assets | Fair value liabilities |
| | Notes | £m | £m | £m | £m | £m | £m |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash flow hedges | 19,33 | **589** | **13** | **-** | 562 | - | 33 |
| Net investment hedges | | **6** | **-** | **-** | 6 | - | - |
| Held for trading | 19,33 | **625** | **8** | **6** | 160,838 | 3,053 | 780 |
| **Derivative financial instruments** | 39 | **1,220** | **21** | **6** | 161,406 | 3,053 | 813 |

Derivative assets of £13m (2017: £1,957m) are expected to be recovered after more than 12 months. Derivative liabilities of £nil (2017: £318m) 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 asset position of £13m (2017: £33m liability). During the year ended 31 December 2018 fair value gains of £54m (2017: £33m losses) were recognised in other comprehensive income in relation to the cross-currency swap. Gains of £35m (2017: £13m losses) and £6m (2017: gains of less than £1m) were transferred from other comprehensive income to Investment return and Finance costs respectively in the consolidated income statement in relation to the cross-currency swap during the year.

In addition, at 31 December 2017, foreign exchange contracts with an aggregate notional principal amount of £8m and a net fair value liability position of less than £1m were also designated as hedges of future cash flows arising from revenue receivable in foreign currency. There were no foreign exchange contracts designated as hedges of future cash flows arising from revenue receivable in foreign currency at 31 December 2018. The cash flows from these instruments are expected to be reported in the consolidated income statement for the following year. In 2018 and 2017, 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 (2017: £6m) and a net fair value liability position of less than £1m (2017: net fair value asset position of less than £1m) were designated as net investment hedges and gave rise to losses for the year of less than £1m (2017: gains 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 2018, the losses recognised in the consolidated income statement were less than £1m (2017: 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.

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **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 | **58** | **1** | **-** | 13,244 | 155 | 112 |
| Variance swaps | **4** | **4** | **-** | 13 | 44 | 50 |
| Options | **-** | **-** | **-** | 7,390 | 760 | 37 |
| Total return swaps | **-** | **-** | **-** | 714 | 4 | 16 |
| **Bond derivatives:** | | | | | | |
| Futures | **-** | **-** | **-** | 25,104 | 116 | 50 |
| **Interest rate derivatives:** | | | | | | |
| Swaps | **37** | **-** | **-** | 65,346 | 686 | 215 |
| Floors | **-** | **-** | **-** | 40 | 6 | - |
| Futures | **15** | **-** | **-** | - | - | - |
| Swaptions | **-** | **-** | **-** | 6,521 | 835 | 6 |
| **Foreign exchange derivatives:** | | | | | | |
| Forwards | **475** | **2** | **6** | 35,849 | 345 | 234 |
| **Other derivatives:** | | | | | | |
| Inflation rate swaps | **5** | **-** | **-** | 5,464 | 39 | 49 |
| Credit default swaps | **31** | **1** | **-** | 1,153 | 63 | 11 |
| **Derivative financial instruments held for trading** | **625** | **8** | **6** | 160,838 | 3,053 | 780 |

**(d) Maturity profile**

The maturity profile of the contractual undiscounted cash flows in relation to derivative financial instruments is as follows:

| **2018** | **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 | 34 | 88 | 714 | - | - | - | **836** |
| Derivative financial liabilities | 5 | - | - | - | - | - | **5** |
| **Total** | **39** | **88** | **714** | **-** | **-** | **-** | **841** |
| **Cash outflows** | | | | | | | |
| Derivative financial assets | (18) | (64) | (660) | - | - | - | **(742)** |
| Derivative financial liabilities | (10) | - | - | - | - | - | **(10)** |
| **Total** | **(28)** | **(64)** | **(660)** | **-** | **-** | **-** | **(752)** |
| **Net derivative financial instruments cash inflows** | **11** | **24** | **54** | **-** | **-** | **-** | **89** |

Included in the above maturity profile are the following cash flows in relation to cash flow hedge liabilities:

| 2018 | 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 | 25 | 88 | 714 | - | - | - | **827** |
| Cash outflows | (18) | (64) | (660) | - | - | - | **(742)** |
| **Net cash flow hedge cash inflows** | **7** | **24** | **54** | **-** | **-** | **-** | **85** |

Cash inflows and outflows are presented on a net basis where the Group is required to settle cash flows net.

| 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** |

## 22. Receivables and other financial assets

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Amounts receivable on direct insurance business | | **-** | 71 |
| Amounts receivable on reinsurance contracts | | **-** | 2 |
| Amounts receivable from contracts with customers | 4(b) | **112** | 104 |
| Outstanding sales of investment securities | | **1** | 125 |
| Accrued income | | **220** | 388 |
| Cancellations of units awaiting settlement | | **191** | 219 |
| Collateral pledged in respect of derivative contracts | 39 | **8** | 46 |
| Property related assets | | **-** | 154 |
| Contingent consideration asset | 41 | **8** | 6 |
| Other | | **168** | 127 |
| **Receivables and other financial assets** | | **708** | 1,242 |

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 £10m (2017: £85m).

Accrued income includes £214m (2017: £249m) of accrued income from contracts with customers (see Note 4(b)).

## 23. Other assets

| | 2018 £m | 2017 £m |
|---|---|---|
| Prepayments | **38** | 72 |
| Other | **2** | 113 |
| **Other assets** | **40** | 185 |

The amount of other assets expected to be recovered after more than 12 months is £3m (2017: £7m).

## 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.

| | 2018 £m | 2017 £m |
|---|---|---|
| Assets of operations held for sale | | |
| Standard Life (Asia) Limited | **667** | 703 |
| Investment vehicles | **95** | 91 |
| Investments in associates accounted for using the equity method | **-** | 33 |
| Investment and owner occupied property[1] | **-** | 211 |
| **Assets held for sale** | **762** | 1,038 |
| Liabilities of operations held for sale | | |
| Standard Life (Asia) Limited | **643** | 678 |
| Investment vehicles | **14** | 28 |
| **Liabilities of operations held for sale** | **657** | 706 |

1 The 2017 balance consisted of £199m of investment property and £12m of owner occupied property.

### (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. Standard Life (Asia) Limited is reported in the Asset management and platforms segment and Heng An Standard Life Insurance Company Limited is reported within the Insurance associates and joint ventures segment.

At 31 December 2018, this disposal group was measured at fair value less cost to sell and comprised the following assets and liabilities:

| | 2018 £m | 2017 £m |
|---|---|---|
| **Assets of operations held for sale** | | |
| Equity securities and interests in pooled investment funds | **604** | 638 |
| Cash and cash equivalents | **33** | 31 |
| Other assets | **30** | 34 |
| **Total assets of operations held for sale** | **667** | 703 |
| **Liabilities of operations held for sale** | | |
| Non-participating insurance contract liabilities | **574** | 603 |
| Non-participating investment contract liabilities | **52** | 62 |
| Other liabilities | **17** | 13 |
| **Total liabilities of operations held for sale** | **643** | 678 |
| **Net assets of operations held for sale** | **24** | 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 £2m (2017: £24m) is included in Other administrative expenses in the consolidated income statement. Fair value has been determined by reference to the expected sale price.

Net assets of operations held for sale are net of intercompany balances between Standard Life (Asia) Limited and the rest of the Group. The net assets of Standard Life (Asia) Limited on a gross basis as at 31 December 2018 are £18m (2017: £17m).

### (b) HDFC AMC

On 30 November 2017, HDFC AMC, which is reported within the Asset management and platforms 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 was classified as held for sale at 31 December 2017. The IPO completed in August 2018. Refer Note 1 for further details.

## 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.

| | 2018 £m | 2017 £m |
|---|---|---|
| Cash at bank and in hand | **669** | 1,559 |
| Money at call, term deposits and debt instruments with less than three months to maturity from acquisition | **471** | 8,667 |
| **Cash and cash equivalents** | **1,140** | 10,226 |

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Cash and cash equivalents | | **1,140** | 10,226 |
| Cash and cash equivalents classified as held for sale | 24 | **33** | 31 |
| Bank overdrafts | 37 | **(216)** | (542) |
| **Total cash and cash equivalents for consolidated statement of cash flows** | | **957** | 9,715 |

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 £566m (2017: £661m) and £216m (2017: £533m) relating to balances 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 £343m (2017: £118m) 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 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:

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| **Issued shares fully paid** | **12 2/9p each** | **13 61/63p each** | **£m** | 12 2/9p each | £m |
| **At 1 January** | **2,978,936,877** | **-** | **364** | 1,978,884,437 | 242 |
| Shares issued in respect of business combinations | **-** | **-** | **-** | 997,661,231 | 122 |
| Shares issued in respect of share incentive plans | **435,340** | **288** | **-** | 496,817 | - |
| Shares issued in respect of share options | **350,156** | **-** | **-** | 1,894,392 | - |
| New shares issued immediately prior to share consolidation | **4** | **-** | **-** | - | - |
| Share consolidation | **(2,941,738,848)** | **2,574,021,492** | **-** | - | - |
| Shares bought back on-market and cancelled | **(37,983,529)** | **(44,609,556)** | **(11)** | - | - |
| **At 31 December** | **-** | **2,529,412,224** | **353** | 2,978,936,877 | 364 |

All ordinary shares in issue in the Company rank pari passu and carry the same voting rights and entitlement to receive dividends and other distributions declared or paid by the Company.

On 22 October 2018, the Company undertook a share consolidation of the Company's share capital. 7 new ordinary shares of 13 61/63 pence each were issued for each holding of 8 existing ordinary shares of 12 2/9 pence each. As a result, the number of shares in issue reduced from 2,941,738,848 to 2,574,021,492.

On 25 June 2018, a share buyback of up to £750m through on-market purchases was approved by shareholders. As at 31 December 2018, the Company has bought back and cancelled 82,593,085 shares for a consideration (including transaction costs) of £238m. This consideration has resulted in a reduction in retained earnings of £238m. An amount of £11m has been credited to the capital redemption reserve relating to the nominal value of the shares cancelled.

Shares issued in respect of business combinations during 2017 related 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) Return of capital

2,941,738,848 B shares were issued for nil consideration with a nominal value of 33.99 pence each on 22 October 2018, resulting in a total of £1,000m being credited to the B share capital account. At the same time £1,000m was deducted from the merger reserve. On 24 October 2018 the B shares were redeemed at 33.99 pence each. An amount of £1,000m was deducted from the B share capital account and £1,000m was transferred from retained earnings to the capital redemption reserve. The costs of the B share scheme of £2m were recognised directly in equity.

### (c) Share premium

| | 2018 | 2017 |
|---|---|---|
| | **£m** | £m |
| **1 January** | **639** | 634 |
| Shares issued in respect of share options | **1** | 5 |
| **31 December** | **640** | 639 |

## 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 by trusts at 31 December 2018 was as follows:

| | 2018 | 2017 |
|---|---|---|
| **Number of shares held by trusts** | | |
| Employee Share Trust | **31,589,855** | 16,031,679 |
| Aberdeen Asset Management Employee Benefit Trust 2003 | **20,327,295** | 23,704,305 |
| Unclaimed Asset Trust | **153,020** | 180,766 |

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. The movements are aggregated for both continuing and discontinued operations.

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **At 1 January** | | **3,162** | 2,855 |
| **Recognised in comprehensive income** | | | |
| Recognised in profit for the year attributable to equity holders | | **830** | 699 |
| Recognised in other comprehensive income | | | |
| Remeasurement (losses)/gains on defined benefit pension plans | 35 | **(29)** | (18) |
| Share of other comprehensive income of associates and joint ventures | | **(15)** | 4 |
| Aggregate tax items recognised in other comprehensive income | | **-** | (10) |
| **Total items recognised in comprehensive income** | | **786** | 675 |
| **Recognised directly in equity** | | | |
| Dividends paid on ordinary shares | | **(634)** | (469) |
| Redemption of B shares | 26 | **(1,002)** | - |
| Shares bought back on-market and cancelled | 26 | **(238)** | - |
| Transfer from other reserves on disposal of subsidiaries | 1 | **99** | - |
| Transfer between reserves on impairment of subsidiaries | 29 | **570** | - |
| Transfer for vested employee share-based payments | | **68** | 86 |
| Sale of shares held by trusts | | **-** | 4 |
| Reclassification of perpetual debt instruments to liability | | **-** | 19 |
| Shares distributed by employee and other trusts | | **(33)** | (8) |
| **Total items recognised directly in equity** | | **(1,170)** | (368) |
| **At 31 December** | | **2,778** | 3,162 |

The 2017 transfer for vested employee share-based payments included £32m 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.

## 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. 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. On disposal or impairment of a subsidiary any related component of the merger reserve is released to retained earnings.

**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 any 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.

**Capital redemption reserve:** In August 2018, as part of the return of capital and share buyback (refer Note 26) the capital redemption reserve was created.

The following tables show the movements in other reserves during the year. The movements are aggregated for both continuing and discontinued operations.

| 2018 | 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 | Capital redemption reserve £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January** | | **1** | **(17)** | **82** | **15** | **5,957** | **100** | **241** | **(1,879)** | **-** | **4,500** |
| **Recognised in other comprehensive income** | | | | | | | | | | | |
| Fair value losses on available-for-sale financial assets | | - | - | - | (9) | - | - | - | - | - | **(9)** |
| Fair value gains on cash flow hedges | | - | 54 | - | - | - | - | - | - | - | **54** |
| Revaluation of owner occupied property | 18 | 2 | - | - | - | - | - | - | - | - | **2** |
| Exchange differences on translating foreign operations | | - | - | 17 | - | - | - | - | - | - | **17** |
| With profits funds: Associated UDS movement recognised in other comprehensive income | | - | - | (5) | - | - | - | - | - | - | **(5)** |
| Items transferred to profit or loss from continuing operations | 21 | - | (41) | (2) | - | - | - | - | - | - | **(43)** |
| Items transferred to profit or loss on disposal of a subsidiary | 1 | - | - | (43) | - | - | - | - | - | - | **(43)** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Aggregate tax effect of items recognised in other comprehensive income | | - | (2) | - | 1 | - | - | - | - | - | **(1)** |
| **Total items recognised in other comprehensive income** | | **2** | **11** | **(33)** | **(8)** | **-** | **-** | **-** | **-** | **-** | **(28)** |
| **Recognised directly in equity** | | | | | | | | | | | |
| Issue of B shares | 26 | - | - | - | - | (1,000) | - | - | - | - | **(1,000)** |
| Redemption of B shares | 26 | - | - | - | - | - | - | - | - | 1,000 | **1,000** |
| Shares bought back on-market and cancelled | 26 | - | - | - | - | - | - | - | - | 11 | **11** |
| Reserves credit for employee share-based payments | | - | - | - | - | - | 36 | - | - | - | **36** |
| Transfer to retained earnings for vested employee share-based payments | | - | - | - | - | - | (68) | - | - | - | **(68)** |
| Transfer between reserves on disposal of subsidiaries | 1 | (3) | - | - | - | (1,290) | - | - | 1,194 | - | **(99)** |
| Transfer between reserves on impairment of subsidiaries | | - | - | - | - | (570) | - | - | - | - | **(570)** |
| **Total items recognised directly within equity** | | **(3)** | **-** | **-** | **-** | **(2,860)** | **(32)** | **-** | **1,194** | **1,011** | **(690)** |
| **At 31 December** | | **-** | **(6)** | **49** | **7** | **3,097** | **68** | **241** | **(685)** | **1,011** | **3,782** |

The merger reserve includes £3,084m (2017: £4,650m) in relation to the Group's asset management businesses. This includes £2,601m (2017: £3,877m) relating to the merger with Aberdeen. Following the impairment of the Company's investments in its asset management entities (refer Section 9), £570m (2017: £nil) was transferred from the merger reserve to retained earnings to mitigate the impact on distributable reserves. £996m (2017: £nil) of the merger reserve relating to the asset management businesses was also utilised during the year for the issue of the B shares (refer note 26).

| 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 2017 reserves credit for employee share-based payments included £57m in relation to replacement awards granted to employees of Aberdeen which were unvested at the acquisition date.

## 30. Non-controlling interests

Non-controlling interests include preference shares. In addition, the perpetual notes issued by Standard Life Aberdeen plc and Aberdeen Asset Management PLC were classified as equity whilst no contractual obligation to deliver cash existed.

### (a) Non-controlling interests - ordinary shares

Non-controlling interests - ordinary shares of £2m were held at 31 December 2018 (2017: £289m). A reconciliation of movements during the year is provided in Note 42.

Included in non-controlling interests - ordinary shares of £289m at 31 December 2017 was non-controlling interests of Standard Life Private Equity Trust plc (SLPET) of £269m which was, prior to the sale of the UK and European insurance business, considered material to the Group. Non-controlling interests owned 44% of the voting rights of SLPET at 31 December 2017. SLPET ceased to be a subsidiary on the completion of the sale of the UK and European insurance business on 31 August 2018. The profit allocated to non-controlling interests of SLPET for the year ended 31 December 2018 is £5m (2017: £24m). Dividends paid to non-controlling interests of SLPET during the year ended 31 December 2018 were £8m (2017: £7m). The 2018 profit allocation and dividends relate to the period from 1 January 2018 to 31 August 2018 and were not material to the Group.

Summarised financial information for SLPET prior to intercompany eliminations for the year ended 31 December 2017 is provided in the following table. The summarised financial information is for the year ended 30 September 2017 which was SLPET's 2017 financial reporting date and was considered indicative of the interest that non-controlling interests of SLPET had in the Group's activities and cash flows. The financial statements of SLPET for the year ended 30 September 2017 were adjusted for market movements and any other significant events or transactions for the three months to 31 December 2017 for the purposes of consolidation into the Group's consolidated financial statements for the year ended 31 December 2017.

| SLPET 30 September | 2017 £m |
|---|---|
| **Statement of financial position:** | |
| Total assets | 600 |
| Total liabilities | 1 |
| **Income statement:** | |
| Revenue | 89 |
| Profit after tax | 81 |
| Total comprehensive income | 81 |
| **Cash flows:** | |
| Cash flows from operating activities | 2 |
| Cash flows from investing activities | 1 |
| Cash flows from financing activities | (15) |
| **Net (decrease)/increase in cash equivalents** | (12) |

There were 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 instruments

| | 2018 £m | 2017 £m |
|---|---|---|
| 5% 2015 Non-voting perpetual non-cumulative redeemable preference shares | **99** | 99 |

On the acquisition of Aberdeen, the Group recognised preference shares and perpetual capital notes issued by Aberdeen Asset Management PLC as non-controlling interests. The profit attributable to non-controlling interests from continuing operations for the year ended 31 December 2018 totalled £5m (2017: £8m) being £5m (2017: £nil) in respect of the preference shares and £nil (2017: £8m) in respect of perpetual debt instruments. The profit attributable to non-controlling interests from discontinued operations for the year ended 31 December 2018 totalled £33m (2017: £25m) being £5m (2017: £25m) in respect of ordinary shares and £28m (2017: £nil) in respect of perpetual debt instruments.

#### (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. During the year ended 31 December 2018 preference share dividends of £5m (2017: £nil) were paid.

The preference shares can be converted irrevocably into a fixed number of ordinary shares of Aberdeen Asset Management PLC 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%. The CET1 ratio (unaudited) at 31 December 2018 was 34.4% (2017: 36.2%).

#### (b)(ii) Perpetual debt instruments

**6.75% Sterling fixed rate perpetual subordinated guaranteed bonds and 6.546% Sterling fixed rate perpetual Mutual Assurance Capital Securities**

From the date of the repayment of a £100 internal subordinated loan note issued by Standard Life Assurance Limited (SLAL) to the Company on 30 August 2018, the perpetual subordinated guaranteed bonds and Mutual Assurance Capital Securities (MACS) issued by the Company were reclassified to equity from subordinated liabilities (see Note 34). The perpetual subordinated guaranteed bonds and MACS were recognised in equity at their fair value of the subordinated debt liabilities at 30 August 2018 of £672m and £334m respectively. The Group recognised a fair value loss of £198m on the reclassification which is included in Restructuring and corporate transaction expenses from discontinued operations (see Note 8).

The prior classification as liabilities was determined by the interaction of these perpetual debt instruments with the £100 internal subordinated loan note. There was no fixed redemption date for the internal loan note, but interest payments could not be deferred and had to be paid on the date they became due and payable. Under the terms for the guaranteed bonds and MACS any interest deferred on these instruments would have become 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 removed the discretionary nature of the interest payments on the subordinated guaranteed bonds and MACS, and resulted in their classification as liabilities.

Following a tender and mandatory redemption process which completed on 25 October 2018, the Company repurchased/redeemed the guaranteed bonds and MACS for £703m and £336m respectively (including accrued interest and fees). The difference between the carrying value of the guaranteed bonds and MACS and the cost of the repurchase and mandatory redemption of £21m (net of tax) was recognised directly as profit attributable to non-controlling interests.

The guaranteed bonds bore interest on their principal amount at 6.75% per annum payable annually in arrears on 12 July. The MACS bore interest on their principal amount at 6.546% per annum payable annually in arrears on 4 November. The coupons payable on the guaranteed bonds and MACS were tax deductible. During the year ended 31 December 2018 £7m (net of tax) (2017: £nil) was recognised directly in equity as profit attributable to non-controlling interests in relation to the coupons payable on the guaranteed bonds and MACS.

**7.0% US Dollar fixed rate perpetual capital notes**

Until 18 December 2017, the perpetual capital notes were classified as equity. On this date 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 on 18 December 2017 with fair value movements since acquisition of £17m being transferred to retained earnings at this date. On reclassification £2m in relation to tax allocated to non-controlling interests was also transferred to retained earnings. The perpetual capital notes were redeemed on 1 March 2018. Refer Note 34.

The perpetual capital notes bore interest on their principal amount at 7.0% per annum, the discretionary coupons were payable quarterly in arrears on 1 March, 1 June, 1 September and 1 December in each year. Interest accrued on any deferred payments. The coupons payable on perpetual notes were tax deductible. During the year ended 31 December 2018 £nil (2017: £8m (net of tax)) was recognised directly in equity as profit contributable to non-controlling interests in relation to the coupons payable on the perpetual capital notes.



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Final Results - Part 5 of 8 - RNS

Standard Life Aberdeen plc - SLA Final Results - Part 6 of 8
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RNS Number : 6654S
Standard Life Aberdeen plc
13 March 2019

**Standard Life Aberdeen plc**
**Full Year Results 2018**
**Part 6 of 8**

## 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.

### (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 based on 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 based on 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 and associates.

### (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.

Prior to the sale of Standard Life Assurance Limited (SLAL) to Phoenix Group Holdings Plc (Phoenix), the Group's principal with profits fund was the Heritage With Profits Fund (HWPF). The application to the HWPF of the Group's accounting policy for participating insurance and investment contract liabilities is described below. This policy for the HWPF now applies, for equity accounting purposes, to the Group's associate Phoenix.

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 were 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 was measured as described above. Any liability for insurance features retained in the non-participating fund was 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

An amount is recognised for the PVFP on non-participating contracts held in the HWPF 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 with profits funds. This amount is recognised as a liability when 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 on 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

Measurement for UK business is based on a best estimate with a margin for prudence.

#### UK and European insurance business

The liability for annuity in payment contracts was 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.

#### UK Associates - Phoenix

Non-participating insurance contract liabilities are measured, for equity accounting purposes, at best estimate with an explicit margin for prudence with the process used to determine assumptions based on Solvency II data. The valuation interest rate is a risk free rate (swap curve plus 10 bps) with an explicit adjustment for illiquidity in respect of assets backing illiquid liabilities. Demographic assumptions are based on a best estimate with an explicit margin for demographic risks.

Standard Life (Asia) Limited

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 did not give rise to a significant transfer of insurance risk to the reinsurer are considered financial reinsurance and are accounted for in a manner consistent with financial instruments.

Contracts that gave rise to a significant transfer of insurance risk to the reinsurer are assessed to determine whether they contained an element that did not transfer significant insurance risk and which could be measured separately from the insurance component. Where such elements are present, they are accounted for separately with any deposit element being accounted for 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) Insurance contract premium income

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| Gross earned premium | **75** | 91 |
| Premium ceded to reinsurers | **(2)** | (2) |
| **Insurance contract premium income from continuing operations** | **73** | 89 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

## (b) Insurance contract claims and change in liabilities

| | Notes | 2018 £m | 2017 restated[1] £m |
|---|---|---|---|
| Claims and benefits paid | | **62** | 53 |
| Claim recoveries from reinsurers | | **(4)** | (1) |
| **Net insurance claims** | | **58** | 52 |
| Change in reinsurance assets and liabilities | 31(d) | **5** | (7) |
| Change in insurance contract liabilities | 31(d) | **(62)** | 156 |
| **Insurance contract claims and change in liabilities from continuing operations** | | **1** | 201 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

## (c) Insurance and participating investment contract liabilities

| | 2018 £m | 2017 £m |
|---|---|---|
| **Non-participating insurance contract liabilities** | **3** | 22,740 |
| **Participating contract liabilities:** | | |
| Participating insurance contract liabilities | **-** | 14,659 |
| Participating investment contract liabilities | **-** | 15,313 |
| Unallocated divisible surplus | **-** | 675 |
| **Participating contract liabilities** | **-** | 30,647 |

Non-participating insurance contract liabilities includes UK immediate annuities of £nil (2017: £12,667m) and UK deferred annuities of £nil (2017: £1,289m).

## (d) 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:

| | Participating insurance contract liabilities | Non-participating insurance contract liabilities | Participating investment contract liabilities | Total insurance and participating contract liabilities | Reinsurance contracts | Net |
|---|---|---|---|---|---|---|

| 2018 | £m | £m | £m | £m | £m | £m |
|---|---|---|---|---|---|---|
| **At 1 January** | **14,659** | **22,740** | **15,313** | **52,712** | **(4,811)** | **47,901** |
| Reclassified as held for sale during the year | (14,659) | (22,736) | (15,313) | (52,708) | 4,811 | **(47,897)** |
| Change in contract liabilities recognised in the consolidated income statement[1] | - | (1) | - | (1) | - | (1) |
| **At 31 December** | **-** | **3** | **-** | **3** | **-** | **3** |

1 Total change in contract liabilities recognised in the consolidated income statement in the table above excludes (£61m) (2017: (£100m)) and £5m (2017: £7m) of insurance and participating contract liabilities and reinsurance contracts respectively relating to assets and liabilities held for sale.

| 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) and £7m of insurance and participating contract liabilities and reinsurance contracts respectively relating to assets and liabilities held for sale.

### (e) Movement in components of unallocated divisible surplus (UDS)

The movement in UDS was as follows:

| | **2018 £m** | 2017 £m |
|---|---|---|
| **At 1 January** | **675** | 585 |
| Reclassified as held for sale during the year | **(675)** | - |
| Change in UDS recognised in the consolidated income statement | **-** | 140 |
| Change in UDS recognised in other comprehensive income | **-** | (12) |
| Foreign exchange adjustment | **-** | (38) |
| **At 31 December** | **-** | 675 |

### (f) 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.

## 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 4, 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.

The change in non-participating investment contract liabilities was as follows:

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **At 1 January** | | **105,769** | 102,063 |
| Reclassified as held for sale during the year | | **(104,174)** | (68) |
| Acquired through business combinations | | **-** | 1,411 |
| Contributions | | **183** | 9,579 |
| Account balances paid on surrender and other terminations in the year | | **(235)** | (15,903) |
| Change in non-participating investment contract liabilities recognised in the consolidated income statement[1] | | **(72)** | 8,954 |
| Recurring management charges | | **(3)** | (490) |
| Foreign exchange adjustment | | **-** | 223 |
| **At 31 December** | 33 | **1,468** | 105,769 |

[1] Change in non-participating investment contract liabilities recognised in the consolidated income statement in the table above excludes (£6m) (2017: £9m) 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. Financial liabilities are designated as at FVTPL when they are managed and their performance evaluated on a fair value basis. 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 measured at amortised cost.

| 2018 | 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 | 1,468 | - | - | - | **1,468** |
| Third party interest in consolidated funds | 39 | 254 | - | - | - | **254** |
| Subordinated liabilities | 34 | - | - | - | 1,081 | **1,081** |
| Derivative financial liabilities | 21 | - | 6 | - | - | **6** |
| Other financial liabilities | 37 | 29 | - | - | 1,133 | **1,162** |
| **Total** | | **1,751** | **6** | **-** | **2,214** | **3,971** |

| 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** |

## 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. 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.

| | | **2018** | | 2017 | |
|---|---|---|---|---|---|
| | **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 2028 | | **$750m** | **£581m** | $750m | £556m |
| 5.5% Sterling fixed rate due 4 December 2042 | | **£500m** | **£500m** | £500m | £500m |
| Subordinated guaranteed bonds | | | | | |
| 6.75% Sterling fixed rate perpetual | | **-** | **-** | £500m | £502m |
| Mutual Assurance Capital Securities | | | | | |
| 6.546% Sterling fixed rate perpetual | | **-** | **-** | £300m | £318m |
| **Total subordinated liabilities** | 39 | | **£1,081m** | | £2,253m |

A description of the key features of the Group's subordinated liabilities as at 31 December 2018 is as follows:

| | 4.25% US Dollar fixed rate[1,2] (from 15 November 2018) | 4.25% US Dollar fixed rate[1,2] (until 15 November 2018) | 5.5% Sterling fixed rate |
|---|---|---|---|
| Principal amount | $750,000,000 | $750,000,000 | £500,000,000 |
| Issue date | 18 October 2017 | 18 October 2017 | 4 December 2012 |
| Maturity date | 30 June 2028 | 30 June 2048 | 4 December 2042 |
| Callable at par at option of the Company from | Not applicable | 30 June 2028 and on every interest payment date (semi-annually) thereafter | 4 December 2022 and on every interest payment date (semi-annually) thereafter |
| If not called by the Company interest will reset to | Not applicable | 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) |

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.

2 During the year to 31 December 2018, the terms of the 4.25% US Dollar fixed rate subordinated notes were renegotiated to allow the notes to qualify as regulatory capital under CRD IV (see Note 47).

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 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 £2m (2017: £44m) is expected to be settled within 12 months.

During the year to 31 December 2018, the Group redeemed/repurchased subordinated liabilities with the following key features

| | 7% US Dollar fixed rate | 6.75% Sterling fixed rate | 6.546% Sterling fixed rate |
|---|---|---|---|
| Principal amount | $500,000,000 | £500,000,000 | £300,000,000 |
| Issue date | 1 March 2013 | 12 July 2002 | 4 November 2004 |
| Maturity date | Perpetual | Perpetual | Perpetual |
| Callable at par at option of the Company from | 1 March 2018 and on any interest payment date 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 | Not applicable | 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 |

The 7% US Dollar fixed rate perpetual capital notes with a principal amount of $500m were redeemed on 1 March 2018. The capital notes had been reclassified from equity during the year ended 31 December 2017. Refer Note 30 for further details.

The 6.75% Sterling fixed rate subordinated guaranteed bonds and 6.546% Sterling fixed rate Mutual Assurance Capital Securities with principal amounts of £500m and £300m respectively were redeemed on 25 October 2018. These debt instruments were classified as equity for the period from 30 August 2018 to their redemption/repurchase on 25 October 2018. Refer Note 30 for further details.

## 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. A past service cost is also recognised which represents the change in the present value of the defined benefit obligation for service in prior periods, resulting from an amendment or curtailment to a plan.

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.<br><br>The transfer of employees to Phoenix, in connection with the sale of our UK and European insurance business, caused a curtailment in this plan that reduced plan liabilities by £42m. However, a plan amendment was agreed that reduced this fall in liabilities to £18m. These movements are recognised within past service cost, together with the associated movement in the asset ceiling.<br><br>Following a High Court ruling against a third party's pension scheme, that requires that scheme to address the inequalities in the statutory benefits paid to men and women, an allowance for assumed equalisation has been introduced for our principal defined benefit plan at 31 December 2018. The estimated impact is recognised as a past service cost, though is not material.<br><br>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. At the last statutory valuation date, these plans were in deficit and the Group agreed funding plans which aimed to eliminate the deficits, with the plans' trustees. At 31 December 2018, one of the two schemes is now in surplus on an IAS 19 basis. |
| **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. Following the sale of the UK and European insurance business, there remains less than 10 employees that continue to accrue benefits under this plan.<br><br>The transfer of employees to Phoenix, in connection with the sale of our UK and European insurance business, caused a curtailment in this plan that reduced plan liabilities by £4m. This movement is recognised in past service cost.<br><br>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:

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| Current service cost | **67** | 46 |

| | | |
|---|---|---|
| Past service cost | **(15)** | ---- |
| Net interest income | **(27)** | (28) |
| Administrative expenses | **2** | 3 |
| **Expense from continuing operations recognised in the consolidated income statement** | **27** | 21 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

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 2018 were £37m (2017: £12m). Expected contributions to defined benefit plans in 2019 are £18m and are not expected to materially change over the next three to five years. These include £33m in 2018 and £15m contributions expected in 2019 to Aberdeen UK plans and the Ireland Standard Life plan in respect of deficit funding agreed with the trustees. The current deficit on these plans is £35m.

### (b) Analysis of amounts recognised in the consolidated statement of financial position

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Principal plan £m** | **Other £m** | **Total £m** | Principal plan £m | Other £m | Total £m |
| Present value of funded obligation | **(2,542)** | **(311)** | **(2,853)** | (2,839) | (345) | (3,184) |
| Present value of unfunded obligation | **-** | **(3)** | **(3)** | - | (9) | (9) |
| Fair value of plan assets | **4,251** | **276** | **4,527** | 4,530 | 276 | 4,806 |
| Effect of limit on plan surplus | **(598)** | **-** | **(598)** | (592) | - | (592) |
| **Net asset/(liability)** | **1,111** | **(38)** | **1,073** | 1,099 | (78) | 1,021 |

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

| **2018** | **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** | **(3,193)** | **4,806** | **1,613** | **(592)** | **1,021** |
| Reclassified as held for sale during the year | 8 | - | 8 | - | **8** |
| Total expense | | | | | |
| Current service cost | (5) | - | (5) | 1 | **(4)** |
| Past service cost | 21 | - | 21 | (6) | **15** |
| Interest (expense)/income | (80) | 122 | 42 | (15) | **27** |
| Administrative expenses | (3) | - | (3) | 1 | **(2)** |
| **Total (expense)/income recognised in consolidated income statement** | **(67)** | **122** | **55** | **(19)** | **36** |
| Remeasurements | | | | | |
| Return on plan assets, excluding amounts included in interest income | - | (253) | (253) | - | **(253)** |
| Loss from change in financial assumptions | 224 | - | 224 | - | **224** |
| Experience gains | (13) | - | (13) | - | **(13)** |
| Change in effect of limit on plan surplus | - | - | - | 13 | **13** |
| **Remeasurement (losses)/gains recognised in other comprehensive income** | **211** | **(253)** | **(42)** | **13** | **(29)** |
| Exchange differences | (1) | 1 | - | - | **-** |
| Employer contributions | - | 37 | 37 | - | **37** |
| Benefit payments | 186 | (186) | - | - | **-** |
| **At 31 December** | **(2,856)** | **4,527** | **1,671** | **(598)** | **1,073** |

| **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** |

### (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 | |
|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Assets measured at fair value based on level 1 inputs** | | | | | | |
| Derivatives | **9** | 33 | **1** | 1 | **10** | 34 |
| Equity securities | **81** | - | **-** | - | **81** | - |
| Interests in pooled investment funds | | | | | | |
| Debt | **308** | 372 | **-** | - | **308** | 372 |
| Equity | **-** | - | **26** | 29 | **26** | 29 |
| Property | **115** | 62 | **9** | 20 | **124** | 82 |
| Absolute return | **60** | 64 | **109** | 102 | **169** | 166 |
| Cash | **297** | 339 | **36** | - | **333** | 339 |
| Debt securities | **2,494** | 2,841 | **31** | 32 | **2,525** | 2,873 |
| Total assets measured at fair value based on level 1 inputs | **3,364** | 3,711 | **212** | 184 | **3,576** | 3,895 |
| **Assets measured at fair value based on level 2 or 3 inputs** | | | | | | |
| Derivatives | **289** | 334 | **(6)** | - | **283** | 334 |
| Equity securities | **102** | 197 | **-** | - | **102** | 197 |
| Interests in pooled investment funds | | | | | | |
| Debt | **249** | 100 | **-** | - | **249** | 100 |
| Debt securities | **163** | 76 | **-** | - | **163** | 76 |
| Qualifying insurance policies | **5** | 5 | **64** | 75 | **69** | 80 |
| **Total assets measured at fair value based on level 2 or 3 inputs** | **808** | 712 | **58** | 75 | **866** | 787 |
| Cash and cash equivalents | **381** | 446 | **6** | 17 | **387** | 463 |
| Liability in respect of collateral held | **(300)** | (339) | **-** | - | **(300)** | (339) |
| Other | **(2)** | - | **-** | - | **(2)** | - |
| **Total** | **4,251** | 4,530 | **276** | 276 | **4,527** | 4,806 |

Further information on risks is provided in Section (g) of this note. The £2,688m (2017: £2,949m) of debt securities includes £2,622m (2017: £2,858m) government bonds (including conventional and index-linked). Of the remaining £66m (2017: £91m) debt securities, £42m (2017: £75m) 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 £64m (2017: £75m) 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 2018 (2017: £nil).

### (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:

| | **2018** | 2017 |
|---|---|---|

| | % | % |
|---|---|---|
| Discount rate | **2.85** | 2.60 |
| Rates of inflation | | |
| Consumer Price Index (CPI) | **2.20** | 2.20 |
| Retail Price Index (RPI) | **3.20** | 3.20 |

The changes in economic assumptions over the period reflect 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 Age | Male age today | | Female age today | |
| **2018** | **Table** | **Improvements** | **(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 | 32 | 34 |

| | | | | Expectation of life from NRA | | | |
|---|---|---|---|---|---|---|---|
| | | | Normal Retirement Age | Male age today | | Female age today | |
| **2017** | **Table** | **Improvements** | **(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 |

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.

**Chart removed for the purposes of this announcement. However it can be viewed in full in the pdf document.**

| **Weighted average duration** | **2018 years** | 2017 years |
|---|---|---|
| Current pensioner | **14** | 15 |
| Non-current pensioner | **28** | 29 |

### (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

Increases 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.

| | | 2018 | | 2017[1] | |
|---|---|---|---|---|---|
| | **Change in assumption** | **(Increase)/decrease in present value of obligation £m** | **Increase/(decrease) in fair value of plan assets £m** | (Increase)/decrease in present value of obligation £m | Increase/(decrease) in fair value of plan assets £m |
| Yield/discount rate | Decrease by 1% (e.g. from 2.85% to 1.85%) | **(729)** | **1,534** | (861) | 1,634 |
| | Increase by 1% | **524** | **(1,080)** | 611 | (1,144) |
| Rates of inflation | Decrease by 1% | **479** | **(942)** | 539 | (987) |
| | Increase by 1% | **(683)** | **1,323** | (772) | 1,395 |
| Life expectancy | Decrease by 1 year | **73** | **-** | 56 | - |
| | Increase by 1 year | **(68)** | **-** | (52) | - |

1 Comparatives for 2017 sensitivities have been restated to be comparable with refined 2018 methodology.

## 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 over the period services are provided.

| | **2018 £m** | 2017 £m |
|---|---|---|
| **At 1 January** | **157** | 198 |
| Reclassified as held for sale during the year | **(157)** | (2) |
| Additions during the year | **78** | 11 |
| Released to the consolidated income statement as fee income | **(3)** | (52) |
| Foreign exchange adjustment | **-** | 2 |
| **At 31 December** | **75** | 157 |

The amount of deferred income expected to be settled after more than 12 months is £67m (2017: £115m).

## 37. Other financial liabilities

| | **Notes** | **2018 £m** | 2017 £m |
|---|---|---|---|
| Amounts payable on direct insurance business | | **-** | 318 |
| Amounts payable on reinsurance contracts | | **-** | 5 |
| Outstanding purchases of investment securities | | **2** | 194 |
| Accruals | | **492** | 576 |
| Creation of units awaiting settlement | | **168** | 205 |
| Cash collateral held in respect of derivative contracts | 39 | **21** | 1,501 |
| Bank overdrafts | 25 | **216** | 542 |
| Property related liabilities | | **-** | 198 |
| Contingent consideration liabilities | 41 | **29** | 25 |
| Other | | **234** | 332 |
| **Other financial liabilities** | | **1,162** | 3,896 |

The amount of other financial liabilities expected to be settled after more than 12 months is £15m (2017: £141m).

Accruals includes £5m (2017: £6m) relating to contracts with customers (see note 4(b)).

## 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:

| **2018** | **Provision for annuity sales practices £m** | **Legal provisions £m** | **Other provisions £m** | **Total provisions £m** |
|---|---|---|---|---|
| **At 1 January** | **248** | **-** | **68** | **316** |
| Reclassified as held for sale during the year | (248) | - | (33) | **(281)** |

| | | | | |
|---|---|---|---|---|
| Charged/(credited) to the consolidated income statement | | | | |
| Additional provisions | - | - | 87 | **87** |
| Release of unused provision | - | - | (9) | **(9)** |
| Used during the year | - | - | (8) | **(8)** |
| **At 31 December** | **-** | **-** | **105** | **105** |

| 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)** |
| **At 31 December** | **248** | **-** | **68** | **316** |

Included in other provisions is a provision of £80m (2017: £nil) for separation costs expected to be incurred following the sale of the UK and European insurance business to Phoenix (the Sale). Refer Note 1 and Note 8 for further details. We announced in the Sale Circular on 30 May 2018 that we expected to incur one-off costs relating to the separation of the business sold of approximately £250m, and there has been no change to this estimate. Costs of £53m were incurred in the period to 31 December 2018. Our judgement is that a provision should be recognised for costs for which the Group will not derive ongoing benefits such as those relating to the de-coupling and decommissioning of systems and data but that a provision should not be recognised for costs related to the development of replacement systems and services as these will give future benefits. The costs covered by the provision are expected to be incurred in the three years to 2021.

The amount of provisions expected to be settled after more than 12 months is £72m (2017: £102m).

The provision for annuity sales practices related to the UK and European insurance business sold during 2018. See Note 41 for disclosures relating to the valuation of the related contingent consideration.

### (b) Other liabilities

The amount of other liabilities expected to be settled after more than 12 months is £2m (2017: £nil).

## 39. Risk management

### (a) Overview

#### (a)(i) Application of the Enterprise Risk Management (ERM) framework

Effective risk management is an essential part of delivering our corporate strategy. Our approach is predicated on strong risk awareness and risk accountability across all lines of defence in our business. We believe that this delivers long-term value for our clients, customers and shareholders and protects their interests.

We aim to ensure that:

- Our decision making is attentive to both risk and reward in pursuit of our business plan objectives and strong client outcomes
- Our responsibilities to clients and customers are prioritised
- Capital is appropriately rewarded for the risks that are taken

The ERM framework ensures that risk is assessed, monitored, controlled and appropriately governed based on a common taxonomy and methodology. The major components of the ERM framework can be grouped into four areas related to how we govern, assess, monitor and control risks. Most risks arise in the business (first line) and that is where they should be managed. The second line oversees business risk assessments and provides advice and challenge where necessary.

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 of financial loss as a result of adverse financial market movements. |
| **Credit** | The risk of financial loss as a result of the failure of a counterparty, issuer or borrower to meet their obligations or perform them in a timely manner. |
| **Liquidity** | The risk that the Group is unable to settle its financial obligations when they fall due, as a result of having insufficient liquid resources or being unable to realise investments and other assets other than at excessive costs. |
| **Operational** | The risk that people, processes, systems, or external events impede the Group's ability to meet its strategic objectives. This risk is a function of internal controls, process efficiency, employee conduct, third party oversight, physical security, integrity of data and business resiliency. Operational risk also includes the breakdown of processes to comply with laws, regulations or directives. |
| **Conduct** | The risk that through our behaviours, strategies, decisions and actions the Group delivers unfair outcomes to our customers/clients and/or poor market conduct. |
| **Regulatory & legal** | The risk of regulatory or legal sanction, reputational damage or financial consequences as a result of a failure to comply with, or adequately allow for changes in, all applicable laws and legislation, contractual requirements or regulations in any of the countries in which the Group operates. |
| **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 three 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.

### 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. Such cash flows are included in shareholder 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.

Prior to the sale of the UK and European insurance business the Group also had a participating business risk segment. Participating business referred to the assets and liabilities of the participating funds of SLAL.

The following table sets out the link between the reportable segments set out in Note 2 and the risk segments.

| | Risk segment | | |
|---|---|---|---|
| **Reportable segment** | **Shareholder business** | **Participating business** | **Unit linked funds**[1] |
| **Asset management and platforms** | Standard Life Investments (Holdings) Ltd and all its subsidiaries<br>Aberdeen Asset Management PLC and all its subsidiaries (excluding Aberdeen Asset Management Life and Pensions Ltd)<br>Standard Life Aberdeen Plc<br>Standard Life Savings Limited (including Elevate)<br>1825 Financial Planning Ltd<br>Standard Life Client Management Ltd<br>Focus Solutions Group Ltd<br>Standard Life (Asia) Limited (excluding unit linked funds) | n/a | Aberdeen Asset Management Life and Pensions Ltd<br>Standard Life (Asia) Limited unit linked funds |
| **Insurance associates and joint ventures** | Interests in Indian and Chinese associates and joint ventures<br>Interest in Phoenix | n/a | n/a |
| **UK and European insurance (discontinued operations)** | SLAL - SHF<br>SLAL - PBF (excluding unit linked funds)<br>Vebnet Group<br>SL Intl (excluding unit linked funds) | SLAL - HWPF<br>SLAL - GWPF<br>SLAL - GSMWPF<br>SLAL - UKSMWPF | SLAL - PBF unit linked funds<br>SL Intl unit linked funds |

SLAL = Standard Life Assurance Limited
SHF = Shareholder Fund
PBF = Proprietary Business Fund
SL Intl = Standard Life International Designated Activity Company
HWPF = Heritage With Profits Fund
GWPF = German With Profits Fund
GSMWPF = German Smoothed Managed With Profits Fund
UKSMWPF = UK Smoothed Managed With Profits Fund

1 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 business.

The table below sets out how the shareholder is exposed to market, credit, and liquidity risk at the reporting date, arising from the assets and liabilities of the three risk segments:

| Risk | Shareholder business | Unit linked funds | Third party interests 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. | 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 and derivative financial instruments. | 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 | 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. |

| | | | |
|---|---|---|---|
| | | 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. | |
| **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. | 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. |

Prior to the sale of the UK and European insurance business, the Group had significant direct exposure to demographic risks, in particular persistency risk and longevity risk. Following the sale, the Group's exposure to demographic risk is largely limited to its defined benefit pension plans and is no longer considered a key risk. The risks relating to the Group's defined benefit pension plans are explained in Note 35.

The shareholder is exposed to operational, conduct, regulatory and legal, and strategic risks arising across the three risk segments and any losses incurred are typically borne by the shareholder.

### (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.

Following the sale of the UK and European insurance business the Group no longer has a participating business risk segment and the financial instrument exposures in the shareholder business, unit linked funds, and third party interest in consolidated funds and non-controlling interests risk segments have significantly reduced.

| | **Shareholder business** | | **Participating business** | | **Unit linked funds** | | **TPICF & NCI[1]** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Intangible assets | **3,404** | 4,514 | **-** | - | **-** | - | **-** | - | **3,404** | 4,514 |
| Deferred acquisition costs | **6** | 581 | **-** | 31 | **-** | - | **-** | - | **6** | 612 |
| Investments in associates and joint ventures accounted for using the equity method | **1,444** | 503 | **-** | - | **-** | - | **-** | - | **1,444** | 503 |
| Investment property | **-** | - | **-** | 1,480 | **-** | 5,721 | **-** | 2,548 | **-** | 9,749 |
| Property, plant and equipment | **61** | 67 | **-** | 30 | **-** | 49 | **-** | - | **61** | 146 |
| Pension and other post-retirement benefit assets | **1,111** | 1,099 | **-** | - | **-** | - | **-** | - | **1,111** | 1,099 |
| Deferred tax assets | **61** | 65 | **-** | - | **-** | - | **-** | - | **61** | 65 |
| Reinsurance assets | **-** | 44 | **-** | 4,767 | **-** | - | **-** | - | **-** | 4,811 |
| Loans | **-** | - | **-** | 80 | **-** | 11 | **-** | - | **-** | 91 |
| Derivative financial assets | **18** | 21 | **-** | 1,565 | **2** | 1,164 | **1** | 303 | **21** | 3,053 |
| Equity securities and interests in pooled investment funds at FVTPL | **501** | 331 | **-** | 10,327 | **1,353** | 80,099 | **176** | 8,263 | **2,030** | 99,020 |
| Debt securities | | | | | | | | | | |
| At FVTPL | **708** | 7,781 | **-** | 26,107 | **80** | 22,191 | **73** | 4,630 | **861** | 60,709 |
| At available-for-sale | **862** | 856 | **-** | - | **-** | - | **-** | - | **862** | 856 |
| Receivables and other financial assets | **695** | 697 | **-** | 70 | **11** | 366 | **2** | 109 | **708** | 1,242 |
| Current tax recoverable | **6** | 36 | **-** | 12 | **-** | 135 | **-** | 9 | **6** | 192 |
| Other assets | **40** | 103 | **-** | 11 | **-** | 68 | **-** | 3 | **40** | 185 |
| Assets held for sale | **158** | 180 | **-** | 174 | **604** | 648 | **-** | 36 | **762** | 1,038 |
| Cash and cash equivalents | **1,110** | 2,433 | **-** | 1,581 | **26** | 5,037 | **4** | 1,175 | **1,140** | 10,226 |
| **Total assets** | **10,185** | 19,311 | **-** | 46,235 | **2,076** | 115,489 | **256** | 17,076 | **12,517** | 198,111 |
| Non-participating insurance contract liabilities | **3** | 6,068 | **-** | 8,878 | **-** | 7,794 | **-** | - | **3** | 22,740 |
| Non-participating investment contract liabilities | **-** | 4 | **-** | - | **1,468** | 105,765 | **-** | - | **1,468** | 105,769 |
| Participating insurance contract liabilities | **-** | - | **-** | 14,659 | **-** | - | **-** | - | **-** | 14,659 |
| Participating investment contract liabilities | **-** | - | **-** | 15,313 | **-** | - | **-** | - | **-** | 15,313 |
| Unallocated divisible surplus | **-** | - | **-** | 675 | **-** | - | **-** | - | **-** | 675 |
| Deposits received from reinsurers | **-** | 12 | **-** | 4,621 | **-** | - | **-** | - | **-** | 4,633 |
| Third party interest in consolidated funds | **-** | - | **-** | - | **-** | - | **254** | 16,457 | **254** | 16,457 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Subordinated liabilities | **1,081** | 2,253 | **-** | - | **-** | - | **-** | - | **1,081** | 2,253 |
| Pension and other post-retirement benefit provisions | **38** | 78 | **-** | - | **-** | - | **-** | - | **38** | 78 |
| Deferred income | **75** | 124 | **-** | 33 | **-** | - | **-** | - | **75** | 157 |
| Deferred tax liabilities | **100** | 221 | **-** | 59 | **-** | 87 | **-** | - | **100** | 367 |
| Current tax liabilities | **22** | 77 | **-** | (3) | **1** | 83 | **-** | 9 | **23** | 166 |
| Derivative financial liabilities | **4** | 46 | **-** | 64 | **1** | 556 | **1** | 147 | **6** | 813 |
| Other financial liabilities | **1,160** | 1,588 | **-** | 1,631 | **1** | 527 | **1** | 150 | **1,162** | 3,896 |
| Provisions | **105** | 295 | **-** | 21 | **-** | - | **-** | - | **105** | 316 |
| Other liabilities | **6** | 58 | **-** | 10 | **-** | 41 | **-** | 12 | **6** | 121 |
| Liabilities of operations held for sale | **51** | 59 | **-** | - | **606** | 641 | **-** | 6 | **657** | 706 |
| **Total liabilities** | **2,645** | 10,883 | **-** | 45,961 | **2,077** | 115,494 | **256** | 16,781 | **4,978** | 189,119 |
| Net inter-segment assets/(liabilities) | **(3)** | 275 | **-** | (274) | **1** | 5 | **2** | (6) | **-** | - |
| **Net assets**[2] | **7,537** | 8,703 | **-** | - | **-** | - | **2** | 289 | **7,539** | 8,992 |

[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 £7,438m (2017: £8,604m) and equity attributable to preference shareholders of £99m (2017: £99m).

## (b) Market risk

As described in the table on page 188, the shareholder is exposed to market risk and as a result the following quantitative market risk disclosures are provided in respect of the financial assets of the shareholder business.

Quantitative market risk disclosures are not provided in respect of the assets of the unit linked funds since the shareholder is not directly 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 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 which are discussed in the following section.

### Shareholder business

Market risk exposures in the Asset management and platforms segment primarily arise as a result of holdings in newly established investment vehicles which the Group has seeded. 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** | **2018 £m** | 2017 £m |
|---|---|---|---|
| Equity securities and interests in pooled investment funds at FVTPL | | **76** | 96 |
| Debt securities | | **22** | 34 |
| Assets held for sale | 24 | **81** | 63 |
| **Total** | | **179** | 193 |

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

Market risk exposure also arises to the extent that the market value of assets held to back debt issued does not move in line with the market value of the liabilities being backed. This risk is controlled through having robust processes in place to limit the use of proceeds from debt issuance and includes the use of investment constraints and portfolio limits.

### (b)(i) Elements of market risk

The main elements of market risk to which the Group is exposed are equity risk, interest rate risk and foreign currency risk, which are discussed on the following pages.

Information on the methods used to determine fair values for each major category of financial instrument measured at fair value is presented in Note 41.

### (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
- 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 limits imposed on the amount of seed capital and co-investment activity that may be undertaken.

The table below shows the direct shareholder businesses' exposure to equity markets. Equity securities are analysed by country based on the ultimate parent country of risk.

| | Shareholder business | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| UK | **24** | 50 |
| Belgium | **-** | 1 |
| Denmark | **-** | 2 |
| Finland | **-** | 1 |
| France | **-** | 8 |
| Germany | **-** | 7 |
| Ireland | **-** | 1 |
| Italy | **-** | 5 |
| Japan | **-** | 1 |
| Malaysia | **3** | 2 |
| Netherlands | **-** | 4 |
| Russia | **-** | 1 |
| Spain | **-** | 6 |
| Sweden | **-** | 2 |
| Switzerland | **-** | 4 |
| Taiwan | **7** | 2 |
| US | **-** | 11 |
| Other | **3** | 19 |
| **Total** | **37** | 127 |

In addition to the equity securities analysed above, the shareholder business has interests in pooled investment funds of £464m (2017: £204m). The shareholder exposure to interests in pooled investment funds primarily relates to:

- Co-investment holdings in property and infrastructure funds of £37m (2017: £56m)
- 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 of £53m (2017: £57m)
- Seed capital in funds which are not consolidated of £57m (2017: £73m)
- Holdings in cash funds which are not consolidated of £30m (2017: £5m)
- Corporate funds held in absolute return funds which are not consolidated of £252m (2017: £nil)

### (b)(i)(ii) 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 and cash and cash equivalents. The main financial liabilities giving rise to interest rate risk principally comprise 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 Board's risk appetite. Group companies typically use a combination of cash flow and duration matching techniques to manage their interest rate risk at an entity level.

The sensitivity of profit after tax to changes in interest rates for the shareholder business is included in the profit after tax sensitivity to market risk table, shown in Section (b)(ii).

### (b)(i)(iii) 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 manages this risk through the use of limits on the amount of foreign currency risk that is permitted.

The table below summarise the shareholder businesses' exposure to foreign currency risks in Sterling. The table 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Total assets | **8,520** | 16,353 | **218** | 1,175 | **10** | 8 | **74** | 74 | **407** | 722 | **438** | 396 | **120** | 154 | **398** | 429 | **10,185** | 19,311 |
| Total liabilities | **(1,825)** | (9,186) | **(40)** | (547) | **-** | - | **(38)** | (41) | **(677)** | (1,007) | **-** | - | **(31)** | (19) | **(34)** | (83) | **(2,645)** | (10,883) |
| Net investment hedges | **6** | 6 | **-** | - | **-** | - | **(6)** | (6) | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Cash flow hedges | **(589)** | (567) | **-** | 8 | **-** | - | **-** | - | **589** | 559 | **-** | - | **-** | - | **-** | - | **-** | - |
| Non designated | **108** | 255 | **(26)** | (146) | **-** | (5) | **-** | (1) | **(68)** | (119) | **-** | 18 | **-** | (3) | **(14)** | 1 | **-** | - |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| derivatives | | | | | | | | | | | | | | | | |
| | **6,220** | 6,861 | **152** | 490 | **10** | 3 | **30** | 26 | **251** | 155 | **438** | 414 | **89** | 132 | **350** | 347 | **7,540** | 8,428 |

Other currencies include assets of £13m (2017: £5m) and liabilities of £3m (2017: £36m) 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 2018 the Group reaffirmed its strategy for hedging foreign currency risks, providing a consistent approach to managing these risks. The Group generally does not hedge the currency exposure relating to revenue and expenditure, nor does it hedge translation of overseas profits in the income statement. Where appropriate, the Group may use derivative contracts to reduce or eliminate currency risk arising from individual transactions or seed capital and co-investment activity.

### (b)(ii) Sensitivity of financial instruments 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 below. The analysis has been performed by calculating the sensitivity of profit after tax and equity to changes in equity security prices (price risk) and to changes in interest rates (interest rate risk) as at the reporting date applied to assets and liabilities other than those classified as held for sale. There is no impact in 2018 on profit after tax to changes in property prices.

**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, the change in unit linked liabilities and the corresponding asset movement has not been presented.

#### 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.

These sensitivities concern only the impact on financial instruments and exclude indirect impacts of the variable on fee income and certain costs which may be affected by the changes in market conditions.

#### Profit after tax and equity sensitivity to price risk.

The impact of the following price risk assumptions on profit and equity, net of tax, are as follows:

| | Impact on profit after tax[1] and on equity | |
|---|---|---|
| | **2018 £m** | 2017 £m |
| **Change in equity security prices** | | |
| **+10%** | **16** | 13 |
| **-10%** | **(16)** | (13) |
| **+20%** | **32** | 26 |
| **-20%** | **(32)** | (26) |

[1] A positive number for impact on profit after tax represents a credit to the consolidated income statement.

The sensitivity of the Group's total equity to variations in equity securities prices is the same as the sensitivity of the Group's profit after tax.

#### Profit after tax and equity sensitivity to interest rate risk.

The impact of the following interest rate assumptions on profit and equity, net of tax, are as follows:

| | Impact on profit after tax[1] | | Impact on equity | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Change in interest rates** | | | | |
| +1%[2] | **7** | (24) | **(4)** | (31) |
| -1%[2] | **(7)** | 28 | **4** | 33 |

[1] A positive number for impact on profit after tax represents a credit to the consolidated income statement.

[2] The interest rate sensitivity is a parallel shift subject to a floor of -30bps.

The impact of interest rate changes on profit after tax in 2018 primarily relates to cash and cash equivalents, while the impact in 2017 primarily relates to assets and insurance contract liabilities of the UK and European insurance business.

The Group's financial instruments include certain debt securities classified as available-for-sale. 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.

### (c) Credit risk

As described in the table on page 188, the shareholder is exposed to credit risk and as a result the following quantitative credit risk disclosures are provided in respect of the financial assets held.

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

| Financial instrument with credit risk exposure | Control |
|---|---|
| Cash and cash equivalents | Maximum counterparty exposure limits are set with reference to internal credit assessments. |
| Derivative financial instruments | Maximum counterparty exposure limits, net of collateral, are set with reference to internal credit assessments. The forms of collateral that may be accepted are also specified and minimum transfer amounts in respect of collateral transfers are documented. Refer to Section (c)(ii) for further details on collateral. |
| Debt securities | The Group's policy is to set exposure limits by name of issuer, sector and credit rating. |
| Other financial instruments | Appropriate limits are set for other financial instruments to which the Group may have exposure at certain times, 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. Group Treasury perform central monitoring of exposures against limits and are responsible for the escalation of any limit breaches to the Chief Risk Officer.

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 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:

| | Reinsurance assets | | Loans | | Derivative financial assets | | Debt securities | | Receivables and other financial assets | | Cash and cash equivalents | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| Neither past due nor impaired: | | | | | | | | | | | | | | |
| AAA | **-** | - | **-** | - | **-** | - | **36** | 475 | **-** | - | **162** | 612 | **198** | 1,087 |
| AA | **-** | 30 | **-** | - | **-** | - | **262** | 1,719 | **-** | - | **567** | 947 | **829** | 2,696 |
| A | **-** | 14 | **-** | - | **12** | 10 | **1,121** | 3,782 | **-** | - | **350** | 849 | **1,483** | 4,655 |
| BBB | **-** | - | **-** | - | **-** | 1 | **113** | 1,271 | **-** | - | **20** | 22 | **133** | 1,294 |
| Below BBB | **-** | - | **-** | - | **-** | - | **16** | 155 | **-** | - | **3** | 1 | **19** | 156 |
| Not rated | **-** | - | **-** | - | **6** | 10 | **22** | 51 | **669** | 673 | **8** | 2 | **705** | 736 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Internally rated | **-** | - | **-** | - | **-** | - | **-** | 1,184 | **-** | - | **-** | - | **-** | 1,184 |
| Past due | **-** | - | **-** | - | **-** | - | **-** | - | **26** | 24 | **-** | - | **26** | 24 |
| Impaired | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| **Total** | **-** | 44 | **-** | - | **18** | 21 | **1,570** | 8,637 | **695** | 697 | **1,110** | 2,433 | **3,393** | 11,832 |

At 31 December 2018, receivables and other financial assets of £21m (2017: £19m) were past due by less than three months and £1m (2017: £2m) were past due by three to six months and £4m (2017: £3m) 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** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| UK | **13** | 495 | **13** | 429 | **35** | 1,206 | **93** | 1,791 | **14** | 10 | **168** | 3,931 |
| Australia | **-** | - | **10** | 126 | **-** | 17 | **-** | 14 | **-** | - | **10** | 157 |
| Austria | **-** | 29 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | 29 |
| Belgium | **-** | 3 | **-** | 1 | **-** | - | **-** | 43 | **-** | - | **-** | 47 |
| Canada | **-** | - | **25** | 151 | **-** | - | **-** | - | **-** | - | **25** | 151 |
| Denmark | **-** | - | **45** | 103 | **-** | - | **-** | 17 | **-** | - | **45** | 120 |
| France | **-** | 192 | **459** | 507 | **-** | 4 | **17** | 272 | **-** | - | **476** | 975 |
| Germany | **-** | 11 | **115** | 67 | **-** | 1 | **19** | 312 | **-** | - | **134** | 391 |
| Ireland | **-** | - | **-** | - | **-** | - | **-** | 6 | **-** | - | **-** | 6 |
| Italy | **-** | - | **-** | 29 | **-** | - | **-** | 86 | **-** | - | **-** | 115 |
| Japan | **-** | - | **50** | 90 | **-** | - | **-** | 25 | **-** | - | **50** | 115 |
| Mexico | **-** | 3 | **-** | - | **-** | - | **6** | 105 | **-** | - | **6** | 108 |
| Netherlands | **-** | 22 | **337** | 294 | **-** | - | **-** | 107 | **-** | - | **337** | 423 |
| Norway | **-** | - | **-** | - | **-** | - | **-** | 42 | **-** | - | **-** | 42 |
| Russia | **-** | 3 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | 3 |
| Spain | **-** | - | **25** | 176 | **-** | - | **2** | 71 | **-** | - | **27** | 247 |
| Sweden | **-** | - | **63** | 121 | **-** | 1 | **-** | 8 | **-** | - | **63** | 130 |
| Switzerland | **-** | - | **-** | 78 | **-** | - | **-** | 1 | **-** | - | **-** | 79 |
| US | **-** | 25 | **50** | 182 | **15** | 102 | **10** | 440 | **-** | - | **75** | 749 |
| Other | **-** | 66 | **115** | 275 | **-** | 114 | **8** | 151 | **31** | 213 | **154** | 819 |
| **Total** | **13** | 849 | **1,307** | 2,629 | **50** | 1,445 | **155** | 3,491 | **45** | 223 | **1,570** | 8,637 |

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) 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 2018, the Group had pledged £8m (2017: £46m) of cash and £nil (2017: £103m) of securities
as collateral for derivative financial liabilities. At 31 December 2018, the Group had accepted £21m (2017: £1,501m) of cash and £50m (2017: £947m) 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)(iii) 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 2018 | 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 | Related amounts not offset on the consolidated statement of financial position: Financial collateral pledged/(received) £m | Net position £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivatives[1] | 20 | (1) | (14) | 5 |
| Reverse repurchase agreements | 50 | - | (50) | - |
| **Total financial assets** | **70** | **(1)** | **(64)** | **5** |
| **Financial liabilities** | | | | |
| Derivatives[1] | (5) | 1 | 3 | (1) |
| **Total financial liabilities** | **(5)** | **1** | **3** | **(1)** |

| 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 | Related amounts not offset on the consolidated statement of financial position: 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)** |

1 Only OTC derivatives subject to master netting agreements have been included above.

### (c)(iv) Credit risk on financial liabilities designated as at fair value through profit or loss

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) Liquidity risk

As described in the table on page 188, the shareholder is exposed to liquidity risk from shareholder 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 the 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 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.

Periodic investigations are undertaken 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.

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 Group to the extent that, centrally, the Group:

- Coordinates strategic planning and funding requirements
- 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.

### (d)(i) Maturity analysis

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 unit linked 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. Comparatives exclude financial liabilities of the participating business.

| | Within 1 year | | 2-5 years | | 6-10 years | | 11-15 years | | 16-20 years | | Greater than 20 years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **Shareholder business** | | | | | | | | | | | | | | |
| Non-participating investment contract liabilities | **-** | 4 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **-** | 4 |
| Subordinated liabilities | **53** | 486 | **210** | 390 | **845** | 461 | **144** | 422 | **144** | 422 | **615** | 1,493 | **2,011** | 3,674 |
| Other financial liabilities | **1,141** | 1,822 | **2** | 16 | **-** | - | **-** | - | **-** | - | **-** | - | **1,143** | 1,838 |
| **Total shareholder business** | **1,194** | 2,312 | **212** | 406 | **845** | 461 | **144** | 422 | **144** | 422 | **615** | 1,493 | **3,154** | 5,516 |
| **Unit linked funds** | | | | | | | | | | | | | | |
| Non-participating investment contract liabilities | **1,468** | 105,765 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - | **1,468** | 105,765 |
| Other financial liabilities | **1** | 382 | **-** | 9 | **-** | 8 | **-** | 8 | **-** | 8 | **-** | 118 | **1** | 533 |
| **Total unit linked funds** | **1,469** | 106,147 | **-** | 9 | **-** | 8 | **-** | 8 | **-** | 8 | **-** | 118 | **1,469** | 106,298 |
| **Total** | **2,663** | 108,459 | **212** | 415 | **845** | 469 | **144** | 430 | **144** | 430 | **615** | 1,611 | **4,623** | 111,814 |

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.

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 2018 with a contractual maturity of within one year and between one and five years of £9m and £28m respectively (2017: £411m and £36m).

## (e) Operational risk

The Group defines operational risk as the risk that people, processes, systems, or external events impede the Group's ability to meet its strategic objectives.

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:

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

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

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

- The potential cause and impact of the risk
- The likelihood of the risk being realised in the absence of any controls
- The 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 (RCSA) 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 and Compliance function in its role of 'second line of defence'. Independent assurance as to the effectiveness of the RCSA process is provided by Group Internal Audit in its role of 'third line of defence'. The results of RCSA are reported through the risk governance structure.

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

The 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 RCSA 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.

### (f) 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 customers/clients and/or poor market conduct. Conduct risk can occur across multiple areas and from multiple sources, including the crystallisation of an operational risk.

The Group has a single conduct and operational risk framework that utilises the tools, such as RCSAs, outlined under operational risk (e) 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

### (g) Regulatory and legal risk

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

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.

### (h) 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 2018 and 31 December 2017, 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 2018 and 31 December 2017, 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| Equity securities and interests in pooled investment funds | **451** | 202 | **-** | 806 | **138** | 32,229 | **86** | 3,484 | **675** | 36,721 |
| Debt securities | **13** | 682 | **-** | 1,468 | **-** | 945 | **-** | 138 | **13** | 3,233 |
| **Total** | **464** | 884 | **-** | 2,274 | **138** | 33,174 | **86** | 3,622 | **688** | 39,954 |

1 Third party interest in consolidated funds and non-controlling interests.

Equity securities and interests in pooled investment funds includes £610m (2017: £11,146m) of unconsolidated structured entities which are managed by the Group and in which the Group has a direct investment of which £34m (2017: £5,936m) relates to investments in associates measured at FVTPL. The asset value of these unconsolidated structured entities, net of cross holdings, is £21,020m (2017: £62,741m) of which £20m (2017: £19,219m) 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 2018 were £44m (2017: £254m) of which £nil (2017: £31m) relates to structured entities where the Group's holding is classified as an investment in an associate measured at FVTPL.

The total issuance balance relating to unconsolidated structured debt securitisation vehicles in which the Group has an investment is £1,000m (2017: £59,169m).

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 £136,047m at 31 December 2018 (2017: £80,454m). The fees recognised in respect of these assets under management during the year to 31 December 2018 were £813m (2017: £305m).

## 41. Fair value of assets and liabilities

The Group uses fair value to measure many 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 contingent consideration assets and liabilities is a key estimate. Further details on the methods and assumptions used to value these assets and liabilities, and sensitivities to those assumptions, are set out in Section (d) 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 including those held for sale

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, real estate funds and infrastructure funds. 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 fair value of infrastructure funds is based on the phase of individual projects forming the overall investment and discounted cash flow techniques based on project earnings. The fair value of real estate funds is based on valuations provided by independent professional valuers. The valuation of these securities is therefore 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 including those 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 2018 and 31 December 2017, the residual credit risk is considered immaterial and 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 assets and contingent consideration liabilities

Contingent consideration assets and liabilities have been recognised in respect of acquisitions and disposals. Generally valuations are based on unobservable assumptions regarding the probability weighted cash flows and, where relevant, discount rate and therefore the assets and liabilities are classified as level 3 in the fair value hierarchy. Significant contingent consideration arises under the terms of the sale of SLAL to Phoenix in August 2018. The terms include a number of indemnities that give rise to contingent consideration. The indemnities that have the most significant impact on the fair value of this contingent consideration are as follows:

**Annuity sales practices**: The annuity sales practices indemnity primarily relates to enhanced annuities. At the request of the FCA, SLAL is 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. SLAL continues to work with the FCA regarding the process for conducting this past business review.

Under the indemnity if SLAL suffers a loss in excess of the provision it recognised at 31 December 2017 of £248m in relation to annuity sales practices, the Group will pay the excess to Phoenix subject to a £120m cap. If that provision is not fully utilised Phoenix will pay the Group the unutilised amount. In addition SLAL shall pay to the Group any recovery received under the related insurance policies. SLAL had sought for up to £100m of the financial impact to be mitigated by insurance and an update is provided on this insurance recovery on page 205. If SLAL is subject to an FCA-levied financial penalty relating to the review, the Group shall pay an equivalent amount to Phoenix, subject to a £35m cap.

The technique used to value this element of the contingent consideration is to assess the likelihood of an over or under utilisation of the 31 December 2017 provision. The likelihood of a receipt of recoveries from the related insurance policies is also considered. Finally the likelihood of a payment related to any financial penalty has been considered. (Refer 41(d)(iv) for further details.)

**Persistency:** If SLAL suffers adverse lapse experience relating to certain UK unit linked products (but excluding unit linked products written in a with profits fund) prior to 31 December 2019, the Group shall make a payment to Phoenix, based on the difference between expected and actual lapse experience, subject to a £75m cap.

The technique used to value this element of the contingent consideration is based on a statistical model used for the Group's Solvency II reporting at 31 December 2017, with each possible outcome weighted by the likelihood of that outcome.

**Brexit recapitalisation:** The Group shall pay to Phoenix an amount related to any additional capital, in excess of an agreed amount, that is required to be contributed to Standard Life International Designated Activity Company (SLIDAC) in respect of the transfer of certain German and Irish branch businesses of SLAL to SLIDAC pursuant to Brexit-related transfers. This payment is subject to a cap of £50m.

The technique used to value this element of the contingent consideration determines the range of potential payments under the indemnity with possible outcomes weighted by the likelihood of the outcome.

### 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 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Investment property | **-** | 9,749 | **-** | 200 | **-** | 9,949 | **-** | - | **-** | - | **-** | 9,949 |
| Owner occupied property | **2** | 81 | **-** | 11 | **2** | 92 | **-** | - | **-** | - | **2** | 92 |
| Derivative financial assets | **21** | 3,053 | **-** | - | **21** | 3,053 | **1** | 990 | **20** | 2,063 | **-** | - |
| Equity securities and interests in pooled investment vehicles | **2,030** | 99,020 | **699** | 763 | **2,729** | 99,783 | **2,510** | 98,750 | **160** | 36 | **59** | 997 |
| Debt securities | **1,723** | 61,565 | **13** | 14 | **1,736** | 61,579 | **178** | 25,230 | **1,557** | 34,905 | **1** | 1,444 |
| Contingent consideration asset | **8** | 6 | **-** | - | **8** | 6 | **-** | - | **-** | - | **8** | 6 |
| **Total assets at fair value** | **3,784** | 173,474 | **712** | 988 | **4,496** | 174,462 | **2,689** | 124,970 | **1,737** | 37,004 | **70** | 12,488 |

There were no significant transfers between levels 1 and 2 during the year (2017: none). Refer Note 41(d)(iii) for details of movements in level 3.

### (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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Non-participating investment contract liabilities | **1,468** | 105,765 | **52** | 62 | **1,520** | 105,827 | **-** | - | **1,520** | 105,827 | **-** | - |
| Liabilities in respect of third party interest in consolidated funds | **254** | 16,457 | **14** | 28 | **268** | 16,485 | **-** | - | **268** | 15,187 | **-** | 1,298 |
| Derivative financial liabilities | **6** | 813 | **-** | - | **6** | 813 | **1** | 161 | **5** | 652 | **-** | - |
| Contingent consideration liabilities | **29** | 25 | **-** | - | **29** | 25 | **-** | - | **-** | - | **29** | 25 |
| **Total liabilities at fair value** | **1,757** | 123,060 | **66** | 90 | **1,823** | 123,150 | **1** | 161 | **1,793** | 121,666 | **29** | 1,323 |

There were no significant transfers between levels 1 and 2 during the year (2017: none). Refer Note 41(d)(iii) for details of movements in level 3.

### (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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| **At 1 January** | **9,749** | 9,929 | **81** | 58 | **994** | 958 | **1,444** | 868 | **(1,298)** | (1,228) |
| Reclassified to held for sale during the year | **(9,749)** | (225) | **(79)** | (4) | **(921)** | - | **(1,443)** | - | **1,298** | - |
| 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 | **-** | 4 | **5** | 72 | **-** | 35 | **-** | (57) |
| Purchases | **-** | 413 | **-** | 3 | **18** | 191 | **-** | 362 | **-** | (88) |
| Settlement | **-** | - | **-** | - | **-** | - | **-** | - | **-** | 75 |
| Sales | **-** | (525) | **-** | - | **(37)** | (317) | **-** | (125) | **-** | - |
| Transfers in to level 3[2] | **-** | - | **-** | - | **-** | 8 | **-** | 27 | **-** | - |
| Transfers out of level 3[2] | **-** | - | **-** | - | **-** | (7) | **-** | (42) | **-** | - |
| Transfers between investment property and owner occupied property | **-** | (17) | **-** | 17 | **-** | - | **-** | - | **-** | - |
| Foreign exchange adjustment | **-** | 11 | **-** | - | **-** | (13) | **-** | - | **-** | - |
| Total gains recognised on revaluation of owner occupied property within other | **-** | - | **-** | 1 | **-** | - | **-** | - | **-** | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| comprehensive income | | | | | | | | | | |
| Other | **-** | (3) | **-** | - | **-** | 2 | **-** | - | **-** | - |
| **At 31 December** | **-** | 9,749 | **2** | 81 | **59** | 994 | **1** | 1,444 | **-** | (1,298) |

[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] Transfers are deemed to have occurred at the end of the calendar quarter in which they arose.

| | **Contingent consideration asset** | | **Contingent consideration liabilities** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **£m** | £m | **£m** | £m |
| **At start of period** | **6** | 10 | **(25)** | (15) |
| Acquired through business combinations | **-** | - | **(19)** | (39) |
| Total amounts recognised in the income statement | **(6)** | (4) | **9** | 3 |
| Additions | **8** | - | **-** | - |
| Settlements | **-** | - | **6** | 26[1] |
| **At end of period** | **8** | 6 | **(29)** | (25) |

[1] Restated.

For the year ended 31 December 2018, gains of £6m from continuing operations (2017: gains of £3m) were recognised in the IFRS consolidated income statement in respect of assets and liabilities held at fair value classified as level 3 at the period end, excluding assets and liabilities held for sale. These amounts are recognised in investment return.

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 at 31 December 2018:

| **2018** | **Fair value £m** | **Unobservable input** | **Input used** |
|---|---|---|---|
| Equity securities and interests in pooled investment funds | 59 | This comprises holdings in approximately 80 separate funds, predominantly by value being interests in real estate, infrastructure and private equity funds. Given the numerous unobservable inputs pertaining to the valuation of the underlying assets in the funds no individual unobservable inputs are considered significant. | N/A |
| Contingent consideration assets and liabilities | (21) | Unobservable inputs relate to probability weighted cash flows and, where relevant, discount rates. The most significant unobservable inputs relate to assumptions used to value the contingent consideration related to the sale of SLAL to Phoenix, in particular those related to: | |
| | | • SLAL's annuity sales practices provision (including the likelihood and value of annuity sales practices insurance recoveries and any FCA-levied penalty) | See below |
| | | • Future lapse rates on relevant UK unit linked products of SLAL | Statistical distribution used in the Group's Solvency II internal model at 31 December 2017 |

### Estimates and assumptions

The contingent consideration related to the annuity sales practices indemnity is considered to be an item for which assumptions and other sources of estimation uncertainty within the valuation technique 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.

The valuation of the contingent consideration in relation to this indemnity takes into account our view of the need for any changes in the provision held by SLAL. At 31 December 2018 SLAL has not increased or released any element of the provision that it recognised at 31 December 2017. This reflects the view that the overall level of the provision at 31 December 2017 remains appropriate and therefore that the fair value of this component of the contingent consideration, before considering insurance recoveries and potential FCA-levied penalties, is not material. The valuation technique and underpinning assumptions are as follows:

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 SLAL 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. The provision assumes 40% of customers were eligible for an enhanced annuity based on observed experience from SLAL's review.

The FCA thematic review noted, for the industry as a whole, a plausible range of lost income for customers who were entitled to enhanced annuities but purchased standard annuities to be between £120 and £240 per annum for an average annuity purchase price of £25,000.

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 expected experience from SLAL's review utilising the redress calculator provided by the FCA in early 2018. This assumption is unchanged from that used at end 2017.

Assumptions relating to future annuity payments are consistent with SLAL's 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 SLAL's project planning.

Sensitivities are provided in the table below.

| Assumption | Change in assumption | Consequential change in contingent consideration valuation |
|---|---|---|
| Percentage of customers eligible for an enhanced annuity | Percentage changed by +/-5 (e.g. 40% increased to 45%) | +/- £18m |
| Percentage of eligible customers that did not receive sufficient information from SLAL about enhanced annuities | Percentage changed by +/-5 | +/- £9m |
| Lost income per annum for an average annuity purchase of £25,000 | +/- £50 | +/- £28m |
| Costs per case of conducting the review | +/- 20% of the cost per case | +/- £5m |

In addition, the fair value of the contingent consideration has taken into account that substantially all of the £100m being sought by SLAL under insurance policies to mitigate the financial impact was received by the Group in January 2019 and has been based on an assessment of the likelihood of a financial penalty and the FCA's methodology for calculating such penalties.

The table below identifies the significant unobservable inputs used in determining the fair value of level 3 instruments at 31 December 2017 and quantifies the range of these inputs used in the valuation at that 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%) |

[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 2018 was £nil (2017: £nil).

### (d)(v) Sensitivity of the fair value of level 3 instruments to changes in key assumptions

At 31 December 2018 the shareholder is directly exposed to movements in the value of all level 3 instruments since none are held in the Group's unit linked funds or in consolidated structured entities. Estimates, assumptions and sensitivities relating to contingent consideration assets and liabilities are discussed in Section (d)(iv). Changing unobservable inputs in the measurement of the fair value of other 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.

Prior to the disposal of SLAL the shareholder was directly exposed to movements in the value of level 3 instruments held by the shareholder business (to the extent they were 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 were offset by an opposite movement in investment and insurance contract liabilities and therefore the shareholder was not directly exposed to such movements unless they were 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 were 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 was not directly exposed to such movements.

### (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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **Notes** | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| **Assets** | | | | | | | | | | | |
| Loans secured by mortgages | 20 | **-** | 57 | **-** | 64 | **-** | - | **-** | 64 | **-** | - |
| **Liabilities** | | | | | | | | | | | |
| Non-participating investment contract liabilities | 33 | **-** | 4 | **-** | 4 | **-** | - | **-** | - | **-** | 4 |
| Capital notes | 34 | **-** | 377 | **-** | 377 | **-** | - | **-** | 377 | **-** | - |
| Subordinated notes | 34 | **1,081** | 1,056 | **1,088** | 1,128 | **-** | - | **1,088** | 1,128 | **-** | - |
| Subordinated guaranteed bonds | 34 | **-** | 502 | **-** | 650 | **-** | - | **-** | 650 | **-** | - |
| Mutual Assurance Capital Securities | 34 | **-** | 318 | **-** | 349 | **-** | - | **-** | 349 | **-** | - |

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.

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

| | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Investment property | **(303)** | (373) |
| Equity securities and interests in pooled investment funds | **1,369** | (6,958) |
| Debt securities | **3,142** | 7,279 |
| Derivative financial instruments | **269** | 305 |
| Reinsurance assets | **328** | 568 |
| Investments in associates and joint ventures accounted for using the equity method | **44** | 21 |
| Receivables and other financial assets and other assets | **(1,796)** | 211 |
| Deferred acquisition costs | **(13)** | 30 |
| Loans | **27** | 206 |
| Assets held for sale | **250** | 62 |
| **Change in operating assets** | **3,317** | 1,351 |

### (b) Change in operating liabilities

| | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Other financial liabilities, provisions and other liabilities | **1,260** | (897) |
| Deposits received from reinsurers | **(397)** | (460) |
| Pension and other post-retirement benefit provisions | **(7)** | (33) |
| Deferred income | **57** | (41) |
| Insurance contract liabilities | **(586)** | (1,090) |
| Investment contract liabilities | **(2,756)** | 1,853 |
| Change in liability for third party interest in consolidated funds | **(46)** | 480 |
| Liabilities held for sale | **(76)** | 104 |
| **Change in operating liabilities** | **(2,551)** | (84) |

### (c) Other non-cash and non-operating items

| | **2018** | 2017 |
|---|---|---|

| | £m | £m |
|---|---|---|
| Gain on sale of subsidiaries | **(1,780)** | - |
| Profit on disposal of associates | **(185)** | (319) |
| Loss on disposal of property, plant and equipment | **1** | 1 |
| Depreciation of property, plant and equipment | **20** | 15 |
| Amortisation of intangible assets | **224** | 124 |
| Impairment losses on intangible assets | **926** | 77 |
| Impairment of associates | **228** | - |
| Impairment losses (reversed)/recognised on property, plant and equipment | **-** | (4) |
| Impairment losses on disposal group held for sale | **2** | 24 |
| Equity settled share-based payments | **36** | 39 |
| Other interest cost | **2** | 3 |
| Finance costs | **80** | 88 |
| Share of profit from associates and joint ventures accounted for using the equity method | **(135)** | (45) |
| **Other non-cash and non-operating items** | **(581)** | 3 |

**(d) Disposal of subsidiaries**

| | Notes | 2018 £m |
|---|---|---|
| Deferred acquisition costs | | 622 |
| Investment property | | 10,068 |
| Reinsurance assets | | 4,474 |
| Derivative financial assets | | 2,969 |
| Equity securities and interests in pooled investment funds | | 96,351 |
| Debt securities | | 56,712 |
| Receivables and other financial assets | | 1,162 |
| Other assets of operations disposed of excluding cash and cash equivalents | | 8,086 |
| Non-participating insurance contract liabilities | | (22,207) |
| Non-participating investment contract liabilities | | (102,216) |
| Participating contract liabilities | | (30,244) |
| Deposits received from reinsurers | | (4,236) |
| Derivative financial liabilities | | (957) |
| Third party interest in consolidated funds | | (15,581) |
| Other financial liabilities | | (2,861) |
| Other liabilities of operations disposed of | | (790) |
| Non-controlling interests - ordinary shares | | (282) |
| **Net assets disposed of** | | **1,070** |
| Items transferred to profit or loss on disposal of subsidiaries | 1 | (43) |
| Gain on sale | 1 | 1,780 |
| Transaction and separation costs | 1 | 117 |
| Deferred income recognised | | 78 |
| Non-cash consideration - Phoenix shares | | (1,023) |
| Contingent consideration asset recognised | | (8) |
| **Total cash consideration** | | **1,971** |
| Cash and cash equivalents disposed of | | (7,472) |
| **Cash outflow from disposal of subsidiary** | 1 | **(5,501)** |

There were no operations disposed of in the year ended 31 December 2017.

**(e) 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.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **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** | **289** | **16,457** | **16,746** | 297 | 16,835 | 17,132 |
| **Cash flows from financing activities** | | | | | | |
| Net settlements of units by third parties | **-** | **(507)** | **(507)** | (5) | (1,006) | (1,011) |
| Cash distributions | **(9)** | **(60)** | **(69)** | (7) | (102) | (109) |
| **Cash flows from financing activities** | **(9)** | **(567)** | **(576)** | (12) | (1,108) | (1,120) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Non-cash items** | | | | | | |
| Foreign exchange differences on translating foreign operations | **-** | **28** | **28** | - | (54) | (54) |
| Profit in the year attributable to non-controlling interests - ordinary shares | **5** | **-** | **5** | 25 | - | 25 |
| Change in liability for third party interest in consolidated funds | **-** | **(37)** | **(37)** | - | 1,124 | 1,124 |
| Movements arising from changes in control of subsidiaries and other non-cash movements | **(281)** | **(15,474)** | **(15,755)** | (1) | (157) | (158) |
| Non-cash distributions | **(2)** | **(153)** | **(155)** | (20) | (183) | (203) |
| **At 31 December** | **2** | **254** | **256** | 289 | 16,457 | 16,746 |

### (f) Movement in subordinated liabilities

The following table reconciles the movement in subordinated liabilities in the year, split between cash and non-cash items.

| | 2018 £m | 2017 £m |
|---|---|---|
| **At 1 January** | **2,253** | 1,319 |
| **Cash flows from financing activities** | | |
| Repayment of subordinated liabilities | **(363)** | - |
| Proceeds of issue of subordinated liabilities | **(4)** | 565 |
| Interest paid | **(117)** | (81) |
| **Cash flows from financing activities** | **(484)** | 484 |
| **Non-cash items** | | |
| Amounts reclassified from equity | **-** | 380 |
| Amounts reclassified to equity | **(803)** | - |
| Interest expense | **91** | 88 |
| Amortisation | **1** | 1 |
| Foreign exchange adjustment | **23** | (19) |
| **At 31 December** | **1,081** | 2,253 |

In addition to the interest paid on subordinated liabilities of £117m (2017: £81m), interest paid in the consolidated statement of cash flows includes £nil (2017: £13m) in relation to interest paid on perpetual debt instruments classified as equity. In addition to the repayment of subordinated liabilities of £363m (2017: £nil), an additional £1,014m (2017 £nil) was redeemed from 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.

### 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

The Group's investment property was sold in the year so there are no capital commitments in respect of investment property as at 31 December 2018. As at 31 December 2017, capital expenditure that was authorised and contracted for, but not provided and incurred was £167m in respect of investment property and income strips (discussed in Note 41). Of this amount, £147m related to the contractual obligations to purchase, construct, or develop property and £20m related to repair, maintain or enhance property respectively.

### (b) Unrecognised financial instruments

The Group has committed £37m (2017: £447m) in respect of unrecognised financial instruments to customers and third parties. Of this amount £nil (2017: £360m) 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:

| | 2018 £m | 2017 restated[1] £m |
|---|---|---|
| Not later than one year | **39** | 37 |
| Later than one year and no later than five years | **109** | 90 |
| Later than five years | **102** | 61 |
| **Total operating lease commitments** | **250** | 188 |

[1] Comparatives for 2017 have been restated to reflect the classification of the UK and European insurance business as discontinued operations. Refer Note 1.

### (d) Customer contracts

At 31 December 2017 the Group had contractual commitments in place to acquire Customer contracts for £74m. These acquisitions were completed in 2018.

## 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) Annual bonus deferred share options

The Group operates the following deferred bonus 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) Annual bonus deferred share awards

The Group operates the following deferred bonus 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 an 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:

| | **2018** | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Long-term incentive plans (excluding RSP)** | **RSP** | **Annual bonus deferred share options** | **Sharesave** | **Weighted average exercise price for Sharesave** | Long-term incentive plans (excluding RSP) | RSP | Annual bonus deferred share options | Sharesave | Weighted average exercise price for Sharesave |
| **Outstanding at 1 January** | **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 |
| Granted | **20,476,434** | **1,460,199** | **3,434,492** | **3,712,915** | **257p** | 23,088,821 | 4,909,639 | 4,320,815 | 3,701,031 | 345p |
| Replaced | **-** | **-** | **-** | **-** | **-** | 615,761 | - | 29,081,898 | - | - |
| Forfeited | **(10,979,340)** | **(437,714)** | **(312,312)** | **(807,186)** | **309p** | (7,653,616) | (123,520) | (80,319) | (220,088) | 302p |
| Exercised | **(5,800,093)** | **(1,564,388)** | **(5,118,094)** | **(680,119)** | **287p** | (3,778,506) | (1,464,118) | (5,621,989) | (1,898,442) | 274p |
| Expired | **-** | **-** | **-** | **-** | **-** | (2,431) | - | - | (22,259) | 233p |
| Cancelled | **-** | **-** | **-** | **(1,969,591)** | **328p** | - | (44,120) | (36,809) | (131,151) | 298p |
| **Outstanding at 31 December** | **55,702,777** | **6,562,186** | **26,220,720** | **9,260,389** | **292p** | 52,005,776 | 7,104,089 | 28,216,634 | 9,004,370 | 316p |
| **Exercisable at 31 December** | **-** | **20,152** | **9,816,708** | **2,292,876** | **313p** | 585,889 | 59,611 | 8,447,606 | 291,259 | 288p |
| **Remaining contractual life of options outstanding (years)[1]** | **1.96** | **1.38** | **7.10** | **2.65** | | 2.06 | 1.63 | 10.36 | 2.84 | |

1 Weighted average.

The exercise price for options granted under all long-term and deferred bonus 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 | Annual bonus deferred share options | Sharesave |
|---|---|---|---|---|
| **Options granted during the year** | | | | |
| Grant date | 28 March 2018 | Throughout | 5 March 2018 and 29 March 2018 | 23 October 2018 |
| Share price at grant date[1] | 362p | 335p | 359p | 261p |
| Fair value at grant date[1] | 362p | 335p | 359p | 14p |
| Exercise price | Nil | Nil | Nil | 256p-257p |
| 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)[1] | 3.44 | 2.34 | 3.11 | 3.49 |
| **Options exercised during the year** | | | | |
| Share price at time of exercise[1] | 354p | 352p | 310p | 338p |

1 Weighted average.

The options granted on deferred bonus plans also included 1,026,174 options which related to prior year awards which could only be granted in February 2018 due to market restrictions. The fair value of the awards was determined based on the share price at the date that the awards would have been made if the market restrictions had not been in place rather than the share price at the date the awards were granted. The weighted average fair value of these options was 404p with an option term of 3.75 years.

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 2018. 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 up to 10 years after the grant date.

| | **2018** Number of options outstanding | 2017 Number of options outstanding |
|---|---|---|
| **Long-term incentive plans** | | |
| £nil | **62,264,963** | 58,567,339 |
| 172p | **-** | 542,526 |
| **Annual bonus deferred share options** | | |
| £nil | **26,220,720** | 28,216,634 |
| **Sharesave** | | |
| 200p-327p | **6,102,619** | 3,949,902 |
| 328p-402p | **3,157,770** | 5,054,468 |
| **Outstanding at 31 December** | **97,746,072** | 96,330,869 |

## (b) Other share plans

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Annual bonus deferred share awards** | **Share incentive plan[1]** | Annual bonus deferred share awards | Share incentive plan[1] |
| Number of share awards granted | **285,500** | **562,261** | 955,823 | 529,277 |
| Number of share awards replaced | **-** | **-** | 573,099 | - |
| Share price at date of grant[2] | **364p** | **336p** | 411p[3] | 396p |
| Fair value per granted instrument at grant date[2] | **364p** | **336p** | 411p | 396p |

1 Included in the number of instruments granted are 5,898 (2017: 9,048) rights to shares granted to eligible employees in Germany and Austria.

2 Weighted average.

[3] The fair value of share awards replaced under the Annual bonus deferred share awards in 2017 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.

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. 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.

### (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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Share options granted under long-term incentive plans | - | 19 |
| Share options granted under Sharesave | 2 | 1 |
| Share options and share awards granted under deferred bonus plans | 33 | 18 |
| Matching shares granted under share incentive plans | 1 | 1 |
| **Equity-settled share-based payments** | **36** | 39 |
| Cash-settled share-based payments | - | 1 |
| Cash-settled deferred fund awards | 9 | 10 |
| **Total expense** | **45** | 50 |

Included in the expense above is £31m (2017: £12m) 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 2018 is £2m (2017: £3m).

**Deferred fund awards**
At 31 December 2018, the liability recognised for cash-settled deferred awards was £48m (2017: £52m). The total intrinsic value of unvested awards at 31 December 2018 was £31m (2017: £31m).

## 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 (2017: £4m) from the Group's defined benefit pension plans.

In the year ended 31 December 2018, for associates accounted for using the equity method, the Group recognised sales primarily in relation to management fees of £89m (2017: £nil) and purchases in relation to services received of £28m (2017: £nil).

There were no sales to or purchases from joint ventures during the year ended 31 December 2018 (2017: none).

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 £63m (2017: £nil), balances due to associates accounted for using the equity method of £19m (2017: £nil) and no balances due to or from joint ventures as at 31 December 2018 (2017: none). The Group's defined benefit pension plans have assets of £1,132m (2017: £1,210m) invested in investment vehicles managed by the Group.

### (b) Compensation of key management personnel

In 2018 key management personnel includes Directors of Standard Life Aberdeen plc (since appointment) and the Chief Executive Officer Pensions and Savings for the period from 1 January 2018 until 31 August 2018 and from 1 September 2018 includes Directors of Standard Life Aberdeen plc and the members of the executive committee (since appointment). In 2017 key management personnel included Directors of Standard Life Aberdeen plc (since appointment) and the Chief Executive Officer Pensions and Savings. 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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Salaries and other short-term employee benefits | 6 | 9 |
| Post-employment benefits | - | - |
| Share-based payments | 6 | 3 |
| Termination benefits | - | 1 |
| **Total compensation of key management personnel** | **12** | 13 |

### (c) Transactions with key management personnel and their close family members

Certain members of key management personnel hold investments in investments products which are managed by the Group. None of the amounts concerned are material in the context of funds managed by the Group. 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.

## 47. Capital management

### (a) Capital and risk management policies and 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 our clients, the providers of capital (our equity holders and holders of our subordinated liabilities) and the Financial Conduct Authority (FCA) as the lead prudential supervisor for the Group.

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. The second objective is to create equity holder value by driving profit attributable to equity holders.

The liquidity and capital management policy forms one element 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.

Capital requirements are forecast on a periodic basis and 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 31 August 2018, following the sale of the UK and European insurance business to Phoenix, the Group is supervised under the CRD IV regulatory regime for group prudential supervisory purposes and therefore measures and monitors its capital on that basis. Previously, the Group was subject to the Solvency II (SII) regulatory regime. The Group's regulatory capital position under CRD IV is determined by consolidating the eligible capital and reserves of the Group (subject to a number of deductions) to derive regulatory capital resources, and comparing this to the Group's regulatory capital requirements.

Stress testing is completed to determine the appropriate level of regulatory capital and liquidity that the Group must hold, with results shared with the FCA at least annually. In addition, the Group monitors a range of capital and liquidity statistics on a daily, monthly or less frequent basis as required. Surplus capital levels are forecast, taking account of projected dividends and investment requirements, to ensure that appropriate levels of capital resources are maintained.

The Group is required to hold capital resources to cover both Pillar 1 and Pillar 2 capital requirements, described below.

**Pillar 1 - minimum requirement for capital**

Pillar 1 focuses on fixed overhead requirements and the Group's exposure to credit and market risks in respect of risk-weighted assets, and sets a minimum requirement for capital based on these measures. At 31 December 2018, the Group's draft Pillar 1 minimum requirement for capital was £0.3bn.

**Pillar 2 - ICAAP and supervisory review and evaluation process**

Pillar 2 supplements the Pillar 1 minimum requirement via the ICAAP, which is the means by which the Group assesses the level of capital that adequately supports all of the relevant current and future risks in its business. The ICAAP focuses on the principal risks to the consolidated financial position and examines each risk category to identify exposures that could put the Group's capital at risk. The results of the Group's ICAAP process will be subject to periodic review by the FCA under the Supervisory Review and Evaluation Process (SREP).

#### (b)(ii) Regulatory capital position (unaudited)

| | 2018[1] £bn |
|---|---|
| IFRS equity attributable to equity holders of Standard Life Aberdeen plc | 7.4 |
| Deductions for intangibles and defined benefit pension assets, net of related deferred tax liabilities | (4.5) |
| Deductions for significant investments in financial sector entities | (1.3) |
| Other deductions and adjustments, including provision for foreseeable dividend | (0.5) |
| Common Equity Tier 1 capital resources | 1.1 |
| Tier 2 capital resources | 0.6 |
| Total regulatory capital resources | 1.7 |
| Total regulatory capital requirements | (1.1) |
| **Surplus regulatory capital** | **0.6** |

1 Based on 2018 draft regulatory returns.

The Group has complied with all externally imposed capital requirements during the year. The Group's Pillar 3 disclosures will be published on the Group's website at **www.standardlifeaberdeen.com/annualreport** before 31 December 2019.

## 48. Events after the reporting date

On 11 March 2019, Standard Life (Mauritius Holdings) 2006 Limited informed the National Stock Exchange of India Limited and BSE Limited that it intends to Offer for Sale ('OFS') up to 70,000,000 shares in HDFC Life, with an option to additionally sell up to

29,500,000 shares through the OFS, at a floor price of Rs 357.5 per share. Collectively this represents 4.93% of the total paid up equity share capital of HDFC Life.

Should the full 4.93% be sold through the OFS and at the floor price, it is estimated that the Group would receive a total consideration net of taxes and expenses of approximately Rs.35.3bn (c£380m). Assuming full subscription in the OFS at the floor price, the gain on sale is estimated to be approximately £325m after tax.

Following the sale (assuming full subscription), HDFC Life would remain an associate of the Group and the Group's shareholding subsequent to the OFS would be 490,126,265 equity shares or 24.30% of the issued share capital of HDFC Life.

## 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 2018 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 2018 is £81m (2017: £85m) 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 payable on Aberdeen's preference shares 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 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 |
|---|---:|---:|
| 1825 Financial Planning Limited[2] | Ordinary shares | 100% |
| 30 STMA 1 Limited[2] | Ordinary shares | 100% |
| 30 STMA 2 Limited[2] | Ordinary shares | 100% |
| 30 STMA 3 Limited[2] | Ordinary shares | 100% |
| 30 STMA 4 Limited[2] | Ordinary shares | 100% |
| 30 STMA 5 Limited[2] | Ordinary shares | 100% |
| Aberdeen Asset Management PLC[3] | Ordinary shares | 100% |
| Focus Solutions Group Limited[5] | Ordinary shares | 100% |
| Standard Life Aberdeen Trustee Company Limited | Ordinary shares | 100% |
| Standard Life (Asia Pacific Holdings) Private Limited[7] | Ordinary shares | 100% |
| Standard Life Charity Fund | N/A | 100% |
| Standard Life Client Management Limited | Ordinary shares | 100% |
| Standard Life Employee Services Limited | Ordinary shares | 100% |
| Standard Life Finance Limited | Ordinary shares | 100% |
| Standard Life Foundation | N/A | 100% |
| Standard Life Investments (Holdings) Limited | Ordinary shares | 100% |
| Standard Life (London) Limited[2] | Ordinary shares | 100% |
| Standard Life (Mauritius Holdings) 2006 Limited[8] | Ordinary shares | 100% |
| Standard Life Oversea Holdings Limited | Ordinary shares | 100% |
| Standard Life Savings Limited | Ordinary shares | 100% |
| The Standard Life Assurance Company 2006 | N/A | 100% |
| Threesixty Services LLP[9] | Limited Liability Partnership | 100% |
| Threesixty Support LLP[9] | Limited Liability Partnership | 100% |

### (b) Other subsidiaries, joint ventures, associates and other significant holdings

| Name of related undertaking | Share class[1] | % interest held |
|---|---:|---:|
| 21 Aberdeen Standard Investments Limited[4] | Ordinary shares | 50% |
| 6 SAS 1 Limited | Ordinary shares | 100% |
| 6 SAS 2 Limited | Ordinary shares | 100% |
| Aberdeen ACP LLP[3] | Limited Liability Partnership | 100% |
| Aberdeen Alternatives (Holdings) Limited[3] | Ordinary shares | 100% |
| Aberdeen Asia IV (General Partner) S.a.r.l.[10] | Ordinary shares | 100% |
| Aberdeen Asset Investment Group Limited[4] | Ordinary shares | 100% |

| Name of related undertaking | Share class[1] | % interest held |
|---|---|---|
| Aberdeen Asset Investments Limited[4] | Ordinary shares | 100% |
| Aberdeen Asset Management Cayman Limited[11] | Ordinary shares | 100% |
| Aberdeen Asset Management Denmark A/S[12] | Ordinary shares | 100% |
| Aberdeen Asset Management Finland Oy[13] | Ordinary shares | 100% |
| Aberdeen Standard Investments Inc.[14] | Ordinary shares | 100% |
| Aberdeen Asset Management Life and Pensions Limited[4] | Ordinary shares | 100% |
| Aberdeen Asset Management Norway AS[15] | Ordinary shares | 100% |
| Aberdeen Asset Management Norway Holding AS[15] | Ordinary shares | 100% |
| Aberdeen Asset Management Operations AS[15] | Ordinary shares | 100% |
| Aberdeen Asset Management Sweden AB[16] | Ordinary shares | 100% |
| Aberdeen Asset Management US GP Control LLC[17] | Limited Liability Company | 100% |
| Aberdeen Asset Managers (Luxembourg) S.a.r.l. [18] | Ordinary shares | 100% |
| Aberdeen Asset Managers Limited[3] | Ordinary shares | 100% |
| Aberdeen Asset Middle East Limited[19] | Ordinary shares | 100% |
| Aberdeen Capital Management LLC[20] | Limited Liability Company | 100% |
| Aberdeen Capital Managers GP LLC[21] | Limited Liability Company | 100% |
| Aberdeen Claims Administration, Inc. [14] | Ordinary shares | 100% |
| Aberdeen Direct Property (Holding) Limited[4] | Ordinary shares | 100% |
| Aberdeen Diversified Growth Fund[4] | Unit trust | 56% |
| Aberdeen Diversified-Core Adventurous Fund[4] | Unit trust | 49% |
| Aberdeen Diversified-Core Cautious Fund[4] | Unit trust | 62% |
| Aberdeen Diversified-Core Conservative Fund[4] | Unit trust | 66% |
| Aberdeen do Brasil Gestao de Recursos Ltda[22] | Limited Liability Company | 100% |
| Aberdeen Emerging Capital Limited[23] | Ordinary shares | 100% |
| Aberdeen European Infrastructure Carry GP Limited[3] | Ordinary shares | 100% |
| Aberdeen European Infrastructure Carry Limited[3] | Ordinary shares | 100% |
| Aberdeen European Infrastructure GP Limited[4] | Ordinary shares | 100% |
| Aberdeen European Infrastructure GP II Limited[4] | Ordinary shares | 100% |
| Aberdeen European Infrastructure GP III Limited[4] | Ordinary shares | 100% |
| Aberdeen France S.A. [24] | Ordinary shares | 100% |
| Aberdeen Fund Distributors LLC[17] | Limited Liability Company | 100% |
| Aberdeen Fund Management Ireland Limited[25] | Ordinary shares | 100% |
| Aberdeen Fund Management Norway AS[15] | Ordinary shares | 100% |
| Aberdeen Fund Management Oy[13] | Ordinary shares | 100% |
| Aberdeen Fund Management II Oy[13] | Ordinary shares | 100% |
| Aberdeen General Partner 1 Limited[3] | Ordinary shares | 100% |
| Aberdeen General Partner 2 Limited[3] | Ordinary shares | 100% |
| Aberdeen General Partner CAPELP Limited[11] | Ordinary shares | 100% |
| Aberdeen General Partner CGPLP Limited[11] | Ordinary shares | 100% |
| Aberdeen General Partner CMENAPELP Limited[11] | Ordinary shares | 100% |
| Aberdeen General Partner CPELP Limited[11] | Ordinary shares | 100% |
| Aberdeen General Partner CPELP II Limited[11] | Ordinary shares | 100% |
| Aberdeen Global - Asian Credit Bond Fund[26] | SICAV | 41% |
| Aberdeen Global - Emerging Markets Local Currency Corporate Bond Fund[26] | SICAV | 84% |
| Aberdeen Global - European Equity (ex-UK) Fund[26] | SICAV | 33% |
| Aberdeen Global - German Equity Fund[26] | SICAV | 93% |
| Aberdeen Global ex-Japan GP Limited[11] | Ordinary shares | 100% |
| Aberdeen Global Infrastructure Carry GP Limited[3] | Ordinary shares | 100% |
| Aberdeen Global Infrastructure GP Limited[27] | Ordinary shares | 100% |
| Aberdeen Global Infrastructure GP II Limited[27] | Ordinary shares | 100% |
| Aberdeen GP 1 LLP[3] | Limited Liability Partnership | 100% |

| Name of related undertaking | Share class[1] | % interest held |
|---|---|---|
| Aberdeen GP 2 LLP[3] | Limited Liability Partnership | 100% |
| Aberdeen GP 3 LLP[3] | Limited Liability Partnership | 100% |
| Aberdeen Infrastructure Feeder GP Limited[3] | Ordinary shares | 100% |
| Aberdeen Infrastructure Finance GP Limited[27] | Ordinary shares | 100% |
| Aberdeen Infrastructure GP II Limited[4] | Ordinary shares | 100% |
| Aberdeen Investment Company Limited[3] | Ordinary shares | 100% |
| Aberdeen Investment Solutions Limited[3] | Ordinary shares | 100% |
| Aberdeen Investments Euro Limited[4] | Ordinary shares | 100% |
| Aberdeen Investments Jersey Limited[28] | Ordinary shares | 100% |
| Aberdeen Investments Limited[4] | Ordinary shares | 100% |
| Aberdeen Investments USD Limited[4] | Ordinary shares | 100% |
| Aberdeen Islamic Asia Pacific ex-Japan Equity Fund[29] | Unit trust | 41% |
| Aberdeen Liquidity Fund (Lux) | | |
| Seabury Sterling Liquidity 1 Fund[26] | OEIC | 100% |
| Aberdeen Pension Trustees Limited[3] | Ordinary shares | 100% |
| **Name of related undertaking** | **Share class[1]** | **% interest held** |
| Aberdeen Pooling II GP AB[16] | Ordinary shares | 100% |
| Aberdeen Private Wealth Management Limited[28] | Ordinary shares | 100% |
| Aberdeen Property Fund Limited Partner Oy[13] | Ordinary shares | 100% |
| Aberdeen Property Fund Management (Jersey) Limited[30] | Ordinary shares | 100% |
| Aberdeen Property Fund Management AB[16] | Ordinary shares | 100% |
| Aberdeen Property Fund Management Estonia Ou[31] | Ordinary shares | 100% |
| Aberdeen Property Investors (General Partner) S.a.r.l.[32] | Ordinary shares | 100% |
| Aberdeen Property Investors Estonia Ou[31] | Ordinary shares | 100% |
| Aberdeen Property Investors France SAS[24] | Ordinary shares | 100% |
| Aberdeen Property Investors Limited Partner Oy[13] | Ordinary shares | 100% |
| Aberdeen Property Investors Sweden AB[16] | Ordinary shares | 100% |
| Aberdeen Property Investors The Netherlands BV[33] | Ordinary shares | 100% |
| Aberdeen Real Estate Investors Operations (UK) Limited[23] | Ordinary shares | 100% |
| Aberdeen Real Estate Operations Limited[3] | Ordinary shares | 100% |
| Aberdeen Residential JV Feeder Limited Partner Oy[13] | Ordinary shares | 100% |
| Aberdeen Secondaries II GP S.a.r.l.[26] | Ordinary shares | 100% |
| Aberdeen SP 2013 A/S[12] | Ordinary shares | 100% |
| Aberdeen Standard Asset Management (Shanghai) Co., Ltd.[34] | Ordinary shares | 100% |
| Aberdeen Standard Asset Management (Thailand) Limited[35] | Ordinary shares | 100% |
| Aberdeen Standard Asset Management Limited | Ordinary shares | 100% |
| Aberdeen Standard Capital (CI) Limited[36] | Ordinary shares | 100% |
| Aberdeen Standard Capital International Limited[36] | Ordinary shares | 100% |
| Aberdeen Standard Capital Limited | Ordinary shares | 100% |
| Aberdeen Standard Fund Managers Limited[4] | Ordinary shares | 100% |
| Aberdeen Standard Greater China Value Fund[37] | Investment Trust | 92% |
| Aberdeen Standard Group Limited | Ordinary shares | 100% |
| Aberdeen Standard Indonesia Balanced Growth Fund[38] | Unit Trust | 84% |
| Aberdeen Standard Indonesia Government Bond fund[38] | Unit Trust | 22% |
| Aberdeen Standard Indonesia Money Market Fund[38] | Unit Trust | 81% |
| Aberdeen Standard Investment Management Limited | Ordinary shares | 100% |
| Aberdeen Standard Investments (Asia) Limited[39] | Ordinary shares | 100% |
| Aberdeen Standard Investments (Canada) Limited[40] | Ordinary shares | 100% |
| Aberdeen Standard Investments (Holdings) Limited | Ordinary shares | 100% |
| Aberdeen Standard Investments (Hong Kong) Limited[41] | Ordinary shares | 100% |
| Aberdeen Standard Investments (Japan) Limited[42] | Ordinary shares | 100% |
| Aberdeen Standard Investments (Malaysia) Sdn. Bhd[43] | Ordinary shares, Irredeemable non-convertible preference shares | 100% |
| Aberdeen Standard Investments (Switzerland) AG[44] | Ordinary shares | 100% |

| Name of related undertaking | Share class[1] | % interest held |
|---|---|---|
| Aberdeen Standard Investments Australia Limited[45] | Ordinary shares | 100% |
| Aberdeen Standard Investments Co. Ltd. [46] | Ordinary shares | 100% |
| Aberdeen Standard Investments Columbia SAS[47] | Ordinary shares | 100% |
| Aberdeen Standard Investments Deutschland AG[48] | Ordinary shares | 94% |
| Aberdeen Standard Investments ETFs (US) LLC[49] | Limited Liability company | 100% |
| Aberdeen Standard Investments ETFs Advisors LLC[49] | Limited Liability company | 100% |
| Aberdeen Standard Investments ETFs Sponsor LLC[49] | Limited Liability company | 100% |
| Aberdeen Standard Investments Ireland Limited[50] | Ordinary shares | 100% |
| Aberdeen Standard Investments Limited | Ordinary shares | 100% |
| Aberdeen Standard Investments Luxembourg S.A.[26] | Ordinary shares | 100% |
| Aberdeen Standard Investments Nominees Services (HK) Limited[41] | Ordinary shares | 100% |
| Aberdeen Standard Investments Taiwan Limited[37] | Ordinary shares | 100% |
| Aberdeen Standard Islamic Investments (Malaysia) Sdn. Bhd. [43] | Ordinary shares | 100% |
| Aberdeen Standard Life Asset Management Limited | Ordinary shares | 100% |
| Aberdeen Standard Life Group Limited | Ordinary shares | 100% |
| Aberdeen Standard Life Investments Limited | Ordinary shares | 100% |
| Aberdeen Standard Life Limited | Ordinary shares | 100% |
| Aberdeen Standard Limited | Ordinary shares | 100% |
| Aberdeen Standard Overseas Investment Fund Management (Shanghai) Co., Ltd[34] | Ordinary shares | 100% |
| Aberdeen Sterling Long Dated Corporate Bond Fund[3] | OEIC | 53% |
| Aberdeen Sterling Long Dated Government Bond Fund[3] | OEIC | 34% |
| Aberdeen Trust Limited[3] | Ordinary shares | 100% |
| Aberdeen UK Infrastructure Carry GP Limited[3] | Ordinary shares | 100% |
| Aberdeen UK Infrastructure Carry Limited[3] | Ordinary shares | 100% |
| Aberdeen UK Infrastructure GP Limited[4] | Ordinary shares | 100% |
| Aberdeen Unit Trust Managers Limited[3] | Ordinary shares | 100% |
| AEROF (Luxembourg) GP S.a.r.l. [26] | Ordinary shares | 100% |
| AIPP Pooling I S.A.[26] | Ordinary shares | 100% |
| Airport Industrial GP Limited[4] | Ordinary shares | 100% |
| Amberia General Partner Oy[13] | Ordinary shares | 100% |
| Andean Social Infrastructure GP Limited[11] | Ordinary shares | 100% |
| Arden Asset Management (UK) Limited[23] | Ordinary shares | 100% |
| Arden Asset Management LLC[21] | Limited Liability Company | 100% |
| Arthur House (No.6) Limited[4] | Ordinary shares | 100% |
| Artio Global Investors Inc.[14] | Ordinary shares | 100% |
| Asander Investment Management Limited[51] | Ordinary shares | 100% |
| ASI (General Partner 2019 European PE B) Limited | Ordinary shares | 100% |
| ASI (General Partner PE2) Limited | Ordinary shares | 100% |
| ASI (General Partner PFF 2018) S.a.r.l[32] | Ordinary shares | 100% |
| ASI (General Partner SOF IV) Limited | Ordinary shares | 100% |
| ASI Hark Capital I GP, LLC[17] | Limited Liability company | 100% |
| ASI Hark Capital II GP, LLC[17] | Limited Liability company | 100% |
| ASI Private Equity 2 GP LP | Limited partnership | 100% |
| ASI REMM GP LLP[3] | Limited Liability Partnership | 100% |
| ASI Shin Global Investment GP Limited[11] | Ordinary shares | 100% |
| ASPER (Luxembourg) GP S.a.r.l [26] | Ordinary shares | 100% |
| Baigrie Davies & Company Limited[2] | Ordinary shares | 100% |
| Baigrie Davies Holdings Limited[2] | Ordinary shares | 100% |
| Bedfont Lakes Business Park (GP2) Limited[4] | Ordinary shares | 100% |
| Castlepoint General Partner Limited[52] | Ordinary shares | 100% |
| Castlepoint Nominee Limited[52] | Ordinary shares | 100% |
| Cockspur Property (General Partner) Limited[23] | Ordinary shares | 100% |

| | | |
|---|---|---|
| Cumberland Place Financial Management Limited[2] | Ordinary shares | 100% |
| DEGI Beteiligungs GmbH[48] | Limited Liability Company | 94% |
| Edinburgh Fund Managers Group Limited[3] | Ordinary shares | 100% |
| Edinburgh Fund Managers Plc[53] | Ordinary shares | 100% |
| Edinburgh Unit Trust Managers Limited[3] | Ordinary shares<br>Deferred shares | 100% |
| Elevate Portfolio Services Limited[2] | Ordinary shares | 100% |
| FLAG Squadron Asia Pacific III GP LP[11] | Limited Partnership | 100% |
| Focus Business Solutions Limited[5] | Ordinary shares | 100% |
| Focus Holdings Limited[5] | Ordinary shares | 100% |
| Focus Software Limited[5] | Ordinary shares | 100% |
| Focus Solutions EBT Trustee Limited[5] | Ordinary shares | 100% |
| Fraser Health Financial Management Limited[2] | Ordinary shares | 100% |
| Griffin Nominees Limited[4] | Ordinary shares | 100% |
| HDFC Asset Management Company Limited[54] | Ordinary shares<br>Redeemable preference shares | 30% |
| HDFC Life Insurance Company[55] | Ordinary shares | 29% |
| Heng An Standard Life Insurance Company Limited[56] | Ordinary shares | 50% |
| Ignis Asset Management Limited | Ordinary shares | 100% |
| Ignis Cayman GP2 Limited[11] | Ordinary shares | 60% |
| Ignis Cayman GP3 Limited[11] | Ordinary shares | 60% |
| Ignis Fund Managers Limited | Ordinary shares | 100% |
| Ignis Investment Services Limited | Ordinary shares | 100% |
| Jones Sheridan Financial Consulting Limited[2] | Ordinary shares | 100% |
| Jones Sheridan Holdings Limited[2] | Ordinary shares | 100% |

| **Name of related undertaking** | **Share class[1]** | **% interest held** |
|---|---|---|
| Murray Johnstone Holdings Limited[3] | Ordinary shares | 100% |
| Murray Johnstone Limited[3] | Ordinary shares | 100% |
| North East Trustees Limited[57] | Ordinary A shares,<br>Ordinary B shares | 100% |
| Pace Financial Solutions Limited[2] | Ordinary A shares,<br>Ordinary B shares,<br>Ordinary C shares | 100% |
| Pace Mortgage Solutions Limited[2] | Ordinary A shares,<br>Ordinary B shares | 100% |
| Parmenion Capital Ltd[51] | Ordinary shares | 100% |
| Parmenion Capital Partners LLP[51] | Limited Liability Partnership | 100% |
| Parmenion Investment Management Ltd.[51] | Ordinary shares | 100% |
| Parmenion Nominees Limited[51] | Ordinary shares | 100% |
| Parnell Fisher Child & Co. Limited[2] | Ordinary shares | 100% |
| Parnell Fisher Child Holdings Limited[2] | Ordinary A shares,<br>Ordinary B shares | 100% |
| Pearson Jones & Company (Trustees) Limited[57] | Ordinary shares | 100% |
| Pearson Jones Limited[2] | Ordinary A shares,<br>Ordinary B shares | 100% |
| Pearson Jones Nominees Limited[57] | Ordinary shares | 100% |
| Phoenix Group Holdings plc[6] | Ordinary shares | 20% |
| PT Aberdeen Standard Investments Indonesia[38] | Limited Liability Company | 99% |
| PURetail Luxembourg Management Company S.a.r.l.[18] | Class A shares | 50% |
| Regent Property Partners (Retail Parks) Limited[4] | Ordinary shares | 100% |
| Reksa Dana Syariah Aberdeen Standard Syariah Asia Pacific Equity USD Fund[38] | Unit trust | 21% |
| Residential Zoning Club General Partner Oy[13] | Ordinary shares | 100% |
| Self Directed Holdings Ltd[51] | Ordinary A shares,<br>Ordinary B shares,<br>Ordinary C shares,<br>Preference shares | 100% |

| | | |
|---|---|---|
| Self Directed Investments Ltd[51] | Ordinary shares | 100% |
| Serin Wealth Limited[2] | Ordinary shares | 100% |
| SL Capital Partners (US) Limited | Ordinary shares | 60% |
| SL Capital Partners LLP | Limited Liability Partnership | 60% |
| 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% |
| 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% |

| Name of related undertaking | Share class[1] | % interest held |
|---|---|---|
| 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% |
| 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[32] | Ordinary shares | 100% |
| SLIPC (General Partner PMD Co-Invest 2017) Limited | Ordinary shares | 100% |
| SLTM Limited | Ordinary shares | 100% |
| Sorbin Systems Limited[51] | Ordinary shares | 100% |
| Squadron Capital Asia Pacific GP, LP[11] | Limited Partnership | 100% |
| Squadron Capital Asia Pacific II GP LP[11] | Limited Partnership | 100% |
| Squadron Capital Management Limited[11] | Limited Liability Company | 100% |
| Squadron Capital Partners Limited[11] | Limited Liability Company | 100% |
| Standard Aberdeen Asset Management Limited | Ordinary shares | 100% |
| Standard Aberdeen Group Limited | Ordinary shares | 100% |
| Standard Aberdeen Investment Management Limited | Ordinary shares | 100% |
| Standard Aberdeen Investments Limited | Ordinary shares | 100% |
| Standard Aberdeen Limited | Ordinary shares | 100% |
| Standard Life (Asia) Limited[58] | Ordinary shares | 100% |

| | | |
|---|---|---|
| Standard Life Aberdeen Asset Management Limited | Ordinary shares | 100% |
| Standard Life Aberdeen Group Limited | Ordinary shares | 100% |
| Standard Life Digital Solutions Limited | 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[59] | Ordinary shares | 100% |
| Standard Life Investments (General Partner CRED) Limited[4] | Ordinary shares | 100% |
| Standard Life Investments (General Partner EPGF) Limited | Ordinary shares | 100% |
| Standard Life Investments (General Partner European Real Estate Club) Limited[4] | Ordinary shares | 100% |
| Standard Life Investments (General Partner European Real Estate Club II) Limited[4] | Ordinary shares | 100% |
| Standard Life Investments (General Partner European Real Estate Club III) Limited[4] | 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[4] | Ordinary shares | 100% |
| Standard Life Investments (Hong Kong) Limited[60] | Ordinary shares | 100% |
| Standard Life Investments (Jersey) Limited[61] | Ordinary shares | 100% |
| Standard Life Investments (Mutual Funds) Limited | Ordinary shares | 100% |
| Standard Life Investments (PDF No. 1) Limited[61] | Ordinary shares | 50% |
| Standard Life Investments (Private Capital) Limited | Ordinary shares | 100% |
| Standard Life Investments (Singapore) Pte. Ltd[62] | 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 European RE Club (Offshore Feeder) Ltd[11] | Ordinary shares | 100% |
| Standard Life Investments European RE Club II (Offshore Feeder) Ltd[11] | Ordinary shares | 100% |
| Standard Life Investments Global Absolute Return Strategies Master Fund Limited [11] | Ordinary shares | 100% |
| Standard Life Investments Global Absolute Return Strategies Offshore Feeder Fund Limited[11] | Ordinary shares | 100% |
| Standard Life Investments Global Focused Strategies Master Fund Limited[11] | Ordinary shares | 100% |
| Standard Life Investments Global Focused Strategies Offshore Feeder Fund Limited[11] | Ordinary shares | 100% |
| Standard Life Investments Global SICAV | | |
| Standard Life Investments Global SICAV Global Equity Unconstrained Fund[63] | SICAV | 22% |
| Standard Life Investments Global SICAV II | | |
| Standard Life Investments Global SICAV II Enhanced-Diversification Multi Asset Fund[63] | SICAV | 66% |
| Standard Life Investments Global SICAV II Global Equity Impact Fund[63] | SICAV | 55% |

| **Name of related undertaking** | **Share class[1]** | **% interest held** |
|---|---|---|
| Standard Life Investments Global SICAV II MyFolio Multi-Manager I Fund[63] | SICAV | 35% |
| Standard Life Investments Global SICAV II MyFolio Multi-Manager II Fund[63] | SICAV | 24% |
| Standard Life Investments Global SICAV II MyFolio Multi-Manager III Fund[63] | SICAV | 29% |
| Standard Life Investments Global SICAV II MyFolio Multi-Manager IV Fund[63] | SICAV | 36% |
| Standard Life Investments Global SICAV II MyFolio Multi-Manager V Fund[63] | SICAV | 52% |
| Standard Life Investments GTAA Company[11] | Ordinary shares | 100% |
| Standard Life Investments Limited | Ordinary shares | 100% |
| Standard Life Investments Multi Asset Class Company[11] | Ordinary shares | 100% |
| Standard Life Investments Securities LLC[14] | Ordinary shares | 100% |
| Standard Life Investments UK Equity Impact - Employment Opportunities Fund | OEIC | 90% |
| Standard Life Investments UK Shopping Centre Feeder Fund Company Limited[4] | Ordinary shares | 100% |
| Standard Life Portfolio Investments Limited | Ordinary shares | 100% |
| Standard Life Portfolio Investments US Inc[64] | Ordinary shares | 100% |
| Standard Life Premises Services Limited | Ordinary shares | 100% |
| Standard Life Savings Nominees Limited | Ordinary shares | 100% |
| Tenet Group Limited[65] | Ordinary B shares | 25% |
| Tenon Nominees Limited[3] | Ordinary shares | 100% |
| The Coaching Platform Limited[5] | Ordinary shares | 100% |

| | | |
|---|---|---|
| The Munro Partnership Ltd.[66] | Ordinary shares | 100% |
| Threesixty Partnerships Limited[9] | Ordinary shares | 100% |
| Touchstone Insurance Company Limited[67] | Ordinary shares | 100% |
| Two Rivers One Limited[30] | Ordinary shares | 100% |
| Two Rivers Two Limited[30] | Ordinary shares | 100% |
| UK PRS Opportunities General Partner Limited[4] | Ordinary shares | 100% |
| Waverley Healthcare Private Equity Limited[3] | Ordinary shares | 100% |
| Wealth Horizon Ltd[51] | Ordinary shares | 100% |
| Wise Trustee Limited[51] | Ordinary shares | 100% |

[1] OEIC = Open-ended investment company
SICAV = Société d'investissement à capital variable
ICAV = Irish collective asset-management vehicle

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[6] Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU

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[10] 2-8 avenue Charles De Gaulle, L-1653 Luxembourg, Luxembourg

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