Standard Life Aberdeen

Standard Life Aberdeen plc
Annual report and accounts 2018

Investing for a better future

Financial highlights

Key performance indicators from continuing operations[1]

		2018	2017 Pro forma basis[2]	2017 Reported basis[2]
Adjusted profit before tax	KPI R	**£650m**	£660m	£475m
Cost/income ratio	KPI R	**68%**	71%	70%
Adjusted diluted earnings per share[3]	KPI R	**17.8p**	17.2p	15.1p
Assets under management and administration (AUMA)	KPI	**£551.5bn**	£608.1bn	
Gross inflows	KPI R	**£75.2bn**	£72.4bn	
Net flows	KPI R	**£40.9bn outflow**	£32.9bn outflow	
Investment performance Percentage of AUM above benchmark over three years	KPI R	**50%**	63%	
Full year dividend per share	KPI	**21.6p**		21.3p

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

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

Other financial highlights

	2018	2017 Pro forma basis	2017 Reported basis
IFRS (loss)/profit before tax from continuing operations[1]	**(£787m)**		£438m
IFRS profit after tax attributable to equity holders (including discontinued operations)	**£830m**		£699m
Diluted earnings per share[3] (including discontinued operations)	**29.1p**		29.6p

Non-financial highlights

Employee survey	2018 Defaqto ratings	Investment innovation of the year	FTSE4Good
Engagement KPI 56%	**Gold rating for service** Wrap and Elevate **5 star rating for discretionary portfolio services** Aberdeen Standard Capital and Parmenion	2019 Insurance Asset Risk Awards **Financial services company of the year** 2018 Better Society Awards	**Ranked in top 1% of companies** (2017: Top 3%)

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

The KPIs that we use may not be directly comparable with similarly named measures used by other companies. See Supplementary information in Section 10 for further information.

R Measure is a key input to a metric used for executive remuneration. See page 86 for more information.

1 Continuing operations excludes the UK and European insurance business. The sale of this business to Phoenix completed on 31 August 2018.

2 This report includes results for comparative periods on both a Reported basis and a Pro forma basis. See page 1 for details.

3 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. 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. Refer to Note 11 of the Group financial statements for information relating to the calculation of diluted earnings per share.

Our purpose is to invest for a better future.

We do it to make a difference to the lives of our clients, customers, employees and shareholders.

We have a commitment to excellence in everything that we do – drawing on the innovation and global collaboration of our talented people.

Our aim is to build a world-class investment company. We develop products and services for evolving client needs and create meaningful relationships with all of our stakeholders.

We strive to make a positive long-term impact. As well as delivering for clients, this means creating an inclusive culture for our people and contributing to wider society. We operate ethically, encourage good practices among the companies we invest in, and support our local communities.

How to navigate this report

Page cross reference

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

The Annual report and accounts 2018 and the Strategic report and financial highlights 2018 are published on the Group's website at **www.standardlifeaberdeen.com/annualreport**

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

Integrating environmental, social and governance (ESG) factors

The integration of ESG factors is fundamental to us both operationally and within our investment process. Details of our approach to ESG are integrated throughout this report, and in our Corporate sustainability report 2018 which can be found at **www.standardlifeaberdeen.com/annualreport**

Reported and Pro forma results

The merger of Standard Life plc and Aberdeen Asset Management PLC (Aberdeen) completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. Pro forma results for the Group are prepared as if Standard Life Group and Aberdeen had always been merged and are included for comparative periods to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for all years. The difference between the Reported results and Pro forma results is the results of Aberdeen prior to completion of the merger.

Our results for 2018 includes our 19.98% share of the Phoenix results for the four months ended 31 December 2018. Comparative periods have not been restated and therefore Phoenix is not included prior to 31 August 2018 in either Reported or Pro forma results.

Discontinued operations

Discontinued operations relate to the UK and European insurance business. The sale of this business to Phoenix completed on 31 August 2018.

A global opportunity

This is a great company, with a great future, which I am proud to now be a part of. With a challenging year ahead, our priorities are improved investment performance, transformation and growth. I am confident that we have the talented people, the resources and the expertise to deliver on our potential.

Sir Douglas Flint

Global ambitions

I am delighted to be able to share my thoughts for the first time as Chairman of Standard Life Aberdeen. Before I look to the year ahead, I want to share with you a little about what attracted me to the role. In essence, it was through being impressed by the scale of the company's global ambitions, the trust that our clients and customers put in us and the fact that the world is very much in need of the products and services we offer. I believe these together present an exciting opportunity.

That opportunity is truly global. Our company is one of the world's leading investment companies, with a strong presence in the UK, Europe and Asia Pacific, and importantly, developing capabilities in the Americas. There are, I believe, considerable opportunities and significant potential for future growth in all our markets, in particular in the UK and Asia Pacific. We are well positioned and I am confident that we can, through successful delivery of our strategy, capitalise on these opportunities going forward.

There is no denying that it will be challenging, particularly in the short term, considering the current economic and geopolitical landscapes. A continuous eye on improving what we do and how we do it, always putting the customer first, will, I believe, keep us on the path to success.

Transformation and transition

I would like to pay tribute to my predecessor, Sir Gerry Grimstone, who stepped down at the end of 2018. Over the last 11 years he led the Company through one of the most significant transformations in its near-200 year history. Taking on the Chairmanship a year after the company's demutualisation, he steered the company successfully through the global financial crisis, constitutional change and large-scale reforms to the UK pensions and savings markets. Beyond this, he led the re-shaping of the business through major acquisitions and disposals to create Standard Life Aberdeen as it is today. The merger with Aberdeen Asset Management and the sale of the UK and European insurance business to Phoenix in the last two years marked the culmination of the transformation to a capital-light, broad based, investment company.

Such a period of change puts considerable demands on any organisation. It is testament to the talented people in Standard Life Aberdeen that they have absorbed the additional integration and transition challenges, while remaining focused on meeting the needs of our clients and customers.

Looking ahead, delivering on our potential

The savings and investment industry is evolving rapidly as individuals are faced with taking on more personal responsibility for their long-term needs. Technology is playing a large part to offer a variety of platforms and direct channels to fulfil such savings and investment needs. In the wholesale and institutional space, advanced quantitative tools are enabling more tailored solutions to be developed to meet the complex needs of our clients. Increased investment in our people and research capabilities underpins all of the above. As a client-centric business in an ever changing world we must continue to adapt and evolve to meet observable trends and invest in capabilities to anticipate what lies ahead.

The priorities for the year ahead are three-fold. First, improve investment performance, particularly in multi-asset absolute returns and equities, and deliver fresh solutions that meet the needs of an ever more demanding client base. Second, progress integration of the merged businesses and the transition of the technology services that went as part of the Phoenix transaction, so working towards delivering the cost savings promised. And third, deliver the revenue growth potential created both by the merger and the enhanced strategic partnership with Phoenix. All of these are necessary steps to restore value for you, our shareholders.

Shareholder value is, of course, an important topic which I know is concerning to all of us. Our share price has not been where we would have wanted over the past year. Clearly there have been sectoral factors, outside our control, which impacted investor sentiment and therefore investment flows. This was driven in large part by geopolitical risks, including uncertainty over the form Brexit would take and trade tensions between the US and China. These factors contributed to the write-off of a portion of the goodwill recognised on the combination of Standard Life with Aberdeen Asset Management which is referred to in more detail on page 36. There have also been factors specific to ourselves, most notably investment performance in some of our larger strategies, which has led to significant outflows, as well as the notice given of termination of our asset management agreement with Lloyds Banking Group and Scottish Widows, which we have challenged.

We have all the capabilities needed to recover from these setbacks, notably in research, in investment talent, through the depth and breadth of our product range, the diversity of our geographic footprint and most of all, our brand. The sale of our UK and European insurance business has also given us the capital strength to make significant capital returns to shareholders, invest in our businesses while we complete our transition, as well as providing capacity to maintain our dividend while this process completes. This capacity will be further augmented by the recently announced sale of shares in HDFC Life to facilitate achieving the Minimum Public Shareholding required in India.

Proposed dividend

Having reflected on all the above, your Board is proposing a final dividend of 14.3p, the same amount as was paid at this stage last year. Assuming shareholders vote to approve this at the upcoming Annual General Meeting (AGM), this would give a total dividend for 2018 of 21.6p, up 1.4% on the year. It is the Board's current intention that the total annual dividend per share should be held at this level while the business is transformed, cost synergies are delivered and future financial performance confirms the sustainability of this level of distribution and provides line of sight to its future growth.

Brexit and other geopolitical uncertainties

This report is being delivered shortly ahead of the UK's scheduled departure from the EU. We have two significant angles of interest in the Brexit outcome. First, in relation to the ability of our own business to continue seamless service to our clients and customers in any foreseeable scenario; and second, how the shape of Brexit will impact markets and the individual underlying stocks and debt instruments in which we are invested on behalf of the ultimate beneficiaries. We have accordingly been planning across the full range of scenarios under which the UK could leave the EU – including the possibility of leaving without a deal. So far as we are able, we have put in place measures intended to mitigate the impacts on our customers, clients and operations. In particular we have structured the activities and responsibilities of our Dublin and Luxembourg operations to allow us to continue to serve clients across Europe who require such services to be delivered from within the EU.

As the UK's future trading arrangement both with the EU and beyond are clarified, there may be significant market adjustments. Similarly as US/China trade relations develop, markets will reflect the assessed impact of changes to the terms of trade between the world's two largest economies and the related impact on global supply chains. As active asset managers, these geopolitical events, as they impact markets, provide opportunities to assist clients to seek or protect value for their underlying beneficiaries. It is in such market conditions, perhaps more than others, that our distinctive investment style has the potential to create most value.

Management changes

Recognising the progress made since the merger, with the encouragement of the Board, the co-CEOs instigated discussions around the management structure best placed to deliver the strategy agreed by the Board. The management changes now being announced are designed to strengthen our client focus, simplify reporting lines and put in place a structure which will facilitate robust execution of the next stages of our transition and transformation programmes.

With effect from 13 March, the Board has unanimously approved the dissolution of its current co-Chief Executive structure. Keith Skeoch has been appointed sole Chief Executive Officer. Recognising the critical importance of his client facing responsibilities, Martin Gilbert becomes Vice Chairman of Standard Life Aberdeen, Chairman of Aberdeen Standard Investments and will continue to be an executive Director of the Board. In this role, Martin will be able to focus solely on our strategic relationships with key clients, winning new business and realising the potential from our global network and product capabilities.

After an outstanding career with the Group of some 34 years, Bill Rattray will retire from the Board on 31 May 2019. He will be succeeded by Stephanie Bruce who, subject to satisfying all relevant regulatory requirements and processes, will take up the position of Chief Financial Officer (CFO) and executive Director on 1 June 2019. Stephanie's appointment will be subject to election by shareholders at the AGM on 14 May 2019.

Stephanie Bruce is a highly experienced financial services practitioner with over 25 years sector knowledge of technical, reporting and commercial practices. She has been a partner in PwC since 2002 and a member of the Assurance Executive since 2016, leading the Financial Services practice for Assurance in the UK. We are delighted she is joining us.

Governance

Over the past year, much has been done to reshape the Board, to ensure we have the right skills and experience to take our transformed business forward. In addition to the retirement of Sir Gerry Grimstone, we said goodbye to Kevin Parry OBE and Gerhard Fusenig, who both also stepped down from the Board at the end of last year. On behalf of the Board and shareholders I want to thank them both for their considerable contributions over many years.

As previously reported, Cathi Raffaeli joined the Board in August 2018, bringing broad-based financial industry experience and, in particular, knowledge of fintech and high tech services companies. Also as previously announced, Simon Troughton, our Deputy Chairman, will retire at the forthcoming AGM after a 10 year combined association with the Company and Aberdeen Asset Management. His wise counsel has been of great value to the Board over this period and to me as I took up the position of Chairman. Richard Mully has also indicated his intention to step down from the Board at the upcoming AGM, having completed seven years of Board service, in order to concentrate on his other interests. On behalf of shareholders I want to express our deep gratitude for their service and wish them well in their other endeavours.

I am looking forward to our AGM in May for my first opportunity to meet and talk with shareholders about our company in general, its ambitions and future direction. I hope to see as many of you as possible there.

The year ahead will be challenging and there is a very full schedule of actions that the executive is charged with delivering. There will undoubtedly also be unforeseen events to which we will need to respond. Whatever arises, I am confident that we have all the skills and resources in place within Standard Life Aberdeen to capture the opportunities that arise and deal with the challenges. In my three months in role I have been enormously impressed with the talent and dedication of our employees and it is to them that I pay tribute in closing, for their efforts and support.

Douglas Flint

Sir Douglas Flint
Chairman

Transforming our business

Defining our culture

As we continue work on our transformation it's been a priority for us to focus on our culture. The success of our business is about our people, so we want to ensure the environment we work in is innovative, collaborative and inclusive; a place where people can flourish. This will help us set the foundation for delivering what our clients and customers need from us – today, tomorrow and for the longer term.

Keith Skeoch

Q | How has the business performed in 2018?

Adjusted profit before tax from continuing operations of £650m was 2% lower than 2017 on a Pro forma basis and included the benefit of our share of Phoenix adjusted profits from 1 September 2018. IFRS profit attributable to equity holders of Standard Life Aberdeen plc increased by 19% to £830m mainly as a result of the £1,780m gain on the sale of the UK and European insurance business, partially offset by an £880m impairment of the Aberdeen Standard Investments goodwill intangible asset.

Our financial performance undoubtedly reflects challenging market conditions and the impact of outflows and there is work to be done to address this. This is set against the backdrop of fundamental change for Standard Life Aberdeen.

We have transformed the shape of our business through our integration and the sale of our UK and European insurance business to Phoenix, a significant undertaking. In India, the IPO of HDFC AMC completed in August. The shareholding we retain in the business reflects the potential we see in India's asset management sector. On 11 March 2019, we also announced an offer for sale process in respect of up to 4.93% of the shares of HDFC Life, our associate life business in India at a floor price of Rs 357.5 per share. Assuming the offer is fully subscribed at the floor price, net sale proceeds are expected to be c£380m.

I am proud of what our people have achieved in 2018 while recognising we have a challenging year ahead to deliver on the potential of our transformed business.

Q | How do you account for weaker investment performance?

It's been a disappointing year for our investment performance, and our long-term investment approach is being tested by the market environment. More information on markets can be found on pages 24 to 25 and on our investment approach on page 19.

Investment performance over three years was mixed with 50% of total assets under management ahead of benchmark. Over the longer term five year period 62% of total assets under management were ahead of benchmark. The weaker three year performance reflects a challenging period with negative returns within multi-asset absolute return strategies, in particular Global Absolute Return Strategies (GARS), and weakness in most equity classes other than Asia Pacific. Performance for Fixed income, Cash/Liquidity and Alternatives remain strong over three and five years.

A turnaround in performance may take some time but there are signs of recent improvement in equity investment performance and stronger short-term momentum in absolute returns. We discuss our plans to improve investment performance in more detail on page 20.

Q | Can you explain the benefits from selling the UK and European insurance business to Phoenix?

The sale of the business for a total consideration of £3.3bn completed the transformation of Standard Life Aberdeen into a fee based capital-light investment company.

We received cash proceeds of £2.3bn from the sale (including a dividend from SLAL of £0.3bn) and generated an IFRS gain on disposal of £1.8bn. The proceeds enabled us to announce the substantial return of capital to shareholders of up to £1.75bn. We returned £1bn to shareholders by way of a 'B' share scheme in November 2018, and have made good progress on our share buyback programme, with £235m completed by the end of 2018.

In addition to the cash proceeds, we received shares representing a 19.98% stake in Phoenix which allows us to benefit from their strong position in the UK pensions market and significant growth potential. Our share of the Phoenix results for the four months post transaction contributed £86m to our 2018 adjusted profit.

The transaction also strengthens our existing strategic partnership with Phoenix. We've put in place long-term arrangements that allow us to collaborate across a number of areas, and under which we will be Phoenix's asset manager of choice. The partnerships we choose are based on shared values and play a vital role in allowing us to reach clients across different markets. We believe that the enhanced partnership will continue to generate financial benefits for both ourselves and Phoenix.

Under the transaction we have also retained our valuable and fast growing Standard Life branded UK retail platforms Wrap and Elevate, as well as our financial planning and advice business 1825.

Q | What is the role of asset managers in society?

Finance is indispensable within a modern society. It provides funds to borrowers like businesses, start-ups and governments, and provides a way for savers to accumulate wealth and provide for their future. Asset managers are at the centre of this.

As well as acting in the best interests of our clients, we need to operate in a way that takes account of our wider responsibilities to society and to help address the long-standing issue of restoring trust across our industry. As active managers, we engage with the companies in which we invest and hold them to account in the way they operate. As members of civic society we work with governments and regulators to improve the efficiency and relevance of capital markets and the sustainability of the returns they deliver.

Q | Tackling climate change is a growing issue, how are you addressing the issue?

We have been working to reduce our greenhouse gas emissions for many years, through tracking our consumption, improvements in building management, and encouraging our people to reconsider the need for air travel through technology solutions. Our greatest impact, however, is through how we invest our customers' and clients' money.

In support of the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, we've launched two Climate Change working groups. One group is focused on our investment approach across asset classes. The second group focuses on our operations such as our greenhouse gas emissions, reduction activities and TCFD implementation, and how we integrate these considerations into our risk processes.

We've also made commitments to renewable electricity. Operationally, we will procure 100% of our electricity in our global offices from renewable sources by 2020, and the real estate Aberdeen Standard Investments manages in the UK will be powered by 100% renewable electricity by 2020.

Q | How do you retain and attract talented people through change?

The amount of change we have seen as a business can be unsettling for our people – and they are our greatest asset. So we're working hard to create an inclusive culture and environment that enables them to work together effectively. With this motivation in mind, we asked our people to have their say in helping define our values and culture. The values we developed are central to how we will think and act as a business. They are outlined on page 9 and reflected throughout this report.

In 2018, we also conducted an all-employee survey – to find out how our people feel about the significant changes we have been making and how we can help them be more effective. The themes drawn from the survey are already informing new approaches to how we communicate with our colleagues and the work we are doing to enhance our operations. You can read more about how we engage our employees on page 28. Our scale and global ambitions provide opportunities which mean we are an attractive employer to prospective talent.

Q | What are your priorities for the business over the next year?

We have three key priorities; improving investment performance, which I have touched on, growth which Martin discusses over the page, and transformation. Our transformation includes the merger integration, embedding our new operating model and separation activity.

Integration continues to move forward at pace, with delivery of synergies ahead of the original schedule. On the investment side, we have made considerable progress with our fund rationalisation – we have closed 14 funds, 3 umbrella funds and over 100 share classes in ongoing funds. We have returned over £11m of seed investment to enable new product launches and are harmonising features and suppliers across our fund ranges.

We are also making good progress in optimising the benefits from our new simplified global operating model that embraces modern working practices, lays the foundations for a common culture and supports the delivery of our targeted annual efficiency savings of over £350m.

We previously announced that we expected to incur one-off costs relating to the separation of the business sold to Phoenix of approximately £250m, and there has been no change to this estimate. We agreed a transitional services agreement with Phoenix to ensure that both businesses can continue to operate after completion in the same way as they did before. This arrangement covers functions such as IT, Finance, Risk, HR/People and Premises. We expect full separation to take up to three years to complete.

Our growth agenda

Global ambitions

We're focused on building our brand around the world. In 2018, we launched the first Aberdeen Standard Investments global marketing campaign, highlighting our investment capabilities across asset classes. We produced dedicated material and content in 11 languages to support our local teams. Aberdeen Standard Investments was also the global partner for the Ryder Cup in Paris, with an estimated 660 million households watching the TV coverage of this prestigious event.

Martin Gilbert

Q | It's been over a year since the merger, how has the company developed since then?

There is still work to do to reshape our business but we are making good progress. We've co-located over 4,000 employees across 18 offices worldwide. Our people are central to our success so I'm pleased that we have retained talented colleagues through the integration and they understand the journey we are on.

The work we have done to combine our investment and distribution teams ensures they are well placed to manage and promote our diverse investment solutions, our adviser platforms and advice businesses. We've increased our global scale and are seeing the benefits through a more diverse pipeline of new business across the 27 countries where we operate.

We have seen changes in our major shareholdings. In February this year, Mitsubishi UFJ Trust and Banking Corporation, which was one of our major shareholders, sold its stake based on changes in the business environment, but reaffirmed that we are an important partner for them in Japan. The ongoing dispute with Lloyds is covered below.

Q | What has caused the high level of outflows in 2018?

Net flows have been disappointing in a tough market but redemptions were concentrated in equities and multi-asset. Net outflows in equities reflected investment sentiment towards emerging markets and equity markets more generally, and both multi-asset and equities were also impacted by weaker investment performance.

Markets are increasingly volatile, and in those conditions active managers can have the potential to add real value – this is an opportunity for us. It's positive that overall gross inflows are up compared to last year and are well balanced across our asset classes. In particular, we have seen strong demand continue for some of our newer propositions, for instance our MyFolio range and for services offered through the Parmenion platform.

Q | Can you provide an update on the dispute with Lloyds Banking Group/Scottish Widows?

On 15 February 2018, we announced that Lloyds Banking Group (LBG) and Scottish Widows had sent Standard Life Aberdeen (SLA) a notice on 14 February to terminate the long-term asset management arrangements between them (IMAs) covering, in aggregate, around £109bn of AUM at the end of a 12 month notice period.

At 31 December 2018, the AUM was c£100bn and no assets have currently been withdrawn. SLA has informed LBG that it does not agree that, following the merger of Aberdeen Asset Management PLC and Standard Life plc, SLA was in material competition in the UK with LBG and that, therefore, SLA does not consider that LBG, Scottish Widows or their respective affiliates has the right to terminate the IMAs. The parties have been engaged in an arbitration process since last year.

Q | Can you explain why the share price fell significantly in 2018?

2018 has been challenging for asset managers across the world due to significant geopolitical developments and uncertain market conditions. These factors have led to significant share price falls for asset managers generally. For our business, the announcement that Lloyds Banking Group and Scottish Widows wished to terminate arrangements for the assets we manage for them, together with continued net outflows from our flagship products have also had an impact on our share price.

However, as a result of the merger and through the action we've taken to reshape our business, we believe that the Company is well placed to benefit from our broader range of capabilities.

Q | What are the primary issues and concerns for clients?

Investment performance is, of course, very important. Aside from this, individual customers need to take increased responsibility for their financial futures. They want to be confident that their choices are the right ones for themselves and their families. We are also, through our decisions and actions, working to restore trust in our industry, as the after-effects of the 2008 crisis continue to be felt.

Increasingly, clients are interested in how we incorporate environmental, societal and governance concerns into our investment process. This includes topics of societal interest like climate change and equal gender representation, both of which are also areas that we can help address through our operational and employee engagement activities.

Q | What are you doing to address these issues?

We look to provide solutions that deliver strong investment outcomes while also being affordable, inclusive and easy to understand. On the issue of trust, clients need to see that we are committed to doing the right thing, being transparent in terms of fees and levels of risk. Managing investments actively allows us to navigate volatility, not simply to weather it. To deliver the right outcomes, we also consider how we engage and remain connected. Innovation and technology has made a difference to how we connect our global expertise to support and benefit our investment processes.

Q | What are 'new active' investments and why are they central to the growth strategy?

'New active' strategies typically invest in private markets, alternatives, active specialities and solutions, and are designed with a focus on meeting clients' evolving needs. The main difference between 'new active' and traditional active asset management is the focus on outcomes instead of benchmarks. It's also about looking at where the opportunities are – beyond 'core' classes like equities and fixed income and into more specialist sectors like infrastructure.

The size of this sector has more than doubled in just ten years so the demand is there. To be successful though, does take significant expertise and insight. That's where I believe we have a competitive advantage and why it's core to our strategy, because we have the talent to design and deliver compelling propositions and the scale to market them effectively around the world.

Q | What are your plans for growing the company?

In the UK, we want to keep growing assets through our leading adviser platforms – Wrap, Elevate and Parmenion, which continue to benefit from changes in pensions legislation, and our 1825 advice business.

With more than £550bn of assets we have the scale to invest and innovate and we will continue to build on our strengths in 'new active' through product launches and targeted acquisitions in areas where we are seeing growing client demands.

We also continue to broaden our capabilities across our global networks. Our new joint venture with Investcorp will target social and core infrastructure investment projects in Gulf Cooperation Countries and our acquisition of Orion Partners will expand our direct real estate capabilities into Asia.

We are investing to build a modern, dynamic global business which has the talent, scale and high-performing investment solutions to compete against the leading asset management companies across the world.

Investing for a better future

Our focus is on what we do best – understanding and meeting the investment needs of our clients and customers, wherever they are in the world.

Transforming our business…

The sale of our UK and European insurance business to Phoenix in August 2018 marked the completion of our transformation to a fee based capital-light investment company. We have made clear choices, against a backdrop of challenging industry conditions, to get to this point.

As our business has transformed, our strategy has evolved. Our strategic objectives set out on the following page reflect the new shape of our business and our priorities for the future. We have simplified our operations, helping to optimise and modernise our business structure for future success. Our business model as set out on page 11 remains relevant following these changes.

…to drive innovation and efficiencies

We continue to make good progress and remain on track to deliver our previously announced targeted annual efficiency savings of over £350m by the end of 2020. This is comprised of the £250m announced in 2017 at the time of the merger and the additional £100m announced in 2018 resulting from the sale of our UK and European insurance business. The pace of delivery in our merger integration has accelerated across many areas of the business. We are also making progress on delivering the efficiency savings as we implement our simplified operating model. Delivering change on this scale is challenging and will be a key area of focus during 2019 and 2020.

Who we are

Headquartered in Edinburgh, Standard Life Aberdeen has offices in 54 locations employing 6,000 people. We manage and administer over £550bn of assets worldwide.

Our global scale, expertise and resources enable us to offer a wide range of investment solutions and services. They are designed to meet the changing needs of our customers, who come to us through our direct retail channels or via independent financial advisers, and the needs of our clients, the organisations who represent the financial interests of individuals through our wholesale and institutional channels.

Our company is a combination of global asset management, savings and advice services in the UK, and strategic investments. We have two flagship brands, Aberdeen Standard Investments for global asset management and Standard Life for savings, as well as market-specific brands in areas including financial advice and wealth management.

Aberdeen Standard Investments products and innovative solutions are offered across a diverse range of asset classes, either directly to institutional clients, or to wholesale clients such as private banks and third party investment platforms. It is a global brand that brings us close to our clients and the markets in which we invest. As an investment house, we are truly diversified and committed to active management. Our wealth business, Aberdeen Standard Capital, provides discretionary investment management to high net worth individuals. Further detail on our investment capabilities and asset management distribution is included on pages 18 to 19.

As part of the sale of our UK and European insurance business, Standard Life Aberdeen entered into an enhanced strategic relationship with Phoenix. This relationship is based on the complementary strengths of each business: Phoenix as an administrator of insurance and long-term savings books, and Standard Life Aberdeen as a leading provider of investment management solutions, adviser platforms and financial advice. The Standard Life brand is owned by us and licensed to Phoenix.

In addition to providing long-term arrangements in relation to the assets we already manage for Phoenix, the enhanced strategic partnership is expected to deliver incremental assets as Phoenix continues to consolidate life and pensions businesses in the UK and Europe, and expands into the bulk purchase annuity market. We have already started to see the benefits from the enhanced partnership with additional assets secured from Phoenix.

In the UK savings market we have three leading adviser platform businesses: Wrap and Elevate which are Standard Life branded, and the Parmenion digital platform. These platforms give us important access to retail customers. Following the Phoenix transaction, Wrap and Elevate remain part of our business and we maintain the relationships with advisers, while certain products on these platforms are now provided by Phoenix. Parmenion provides integrated discretionary investment management, platform services and intuitive technology to financial advisers.

1825, our financial advice business, has continued to build a national presence across the UK and offers customers a full financial planning and personal tax advice service. We are also developing a digital capability to provide planning and advice in areas of the market where people do not already have easy access to advice.

We have important strategic investments in leading companies in two of the world's most dynamic markets: India and China. These businesses represent substantial potential and provide valuable insight. In India, our stakes in HDFC Asset Management and HDFC Life represent a foothold in one of the world's fastest growing markets. Our joint venture in China, Heng An Standard Life (HASL), gives us potential access to one of the biggest pools of financial assets globally and the possibility of playing a significant role as the pension market develops.

Our purpose – To invest for a better future

We do it to make a difference. To our clients, the lives of our customers, our people and our shareholders.

Our vision – To build a world-class investment company

A modern, dynamic global business which has the talent, scale and high-performing investment solutions to compete against the leading asset management companies across the world.

Our values

Create connections

We bring together our diverse talents, perspectives and insights and use our collective intelligence to deliver value. We remain true to our shared purpose, working as one team and with all our external partners to build better futures.

Read more on page 12.

Adapt and excel

We don't stand still. We improve, challenge, learn and innovate to earn our place in the future. We are ambitious, our sights are set on excellence and our minds are open to ideas.

Read more on page 16.

Deliver what matters

We relentlessly focus on delivering outcomes that truly matter to our clients and customers. We build trusted relationships. We do the right thing and are empowered to make a difference.

Read more on page 20.

Our strategic objectives

Client and customer centricity

Our primary focus is delivering for our clients and customers – this means working to understand and meet their needs while building lasting partnerships.

Enhancing our operations

Helping our people be more productive, simplifying our ways of working and managing our costs effectively enables us to invest for growth.

Innovating for the future

Investing in leading edge capabilities helps us attract clients and customers, enhance relationships and develop smarter ways of working.

Valuing our savings ecosystem

Optimising the breadth and depth of our investment management, platform and advice ecosystem, along with our geographical reach enables us to meet the savings needs of clients and customers around the world.

Read more about our strategic objectives which have been revised to reflect the new shape of our business and our priorities for the future on pages 26 to 27.

Our consistent model for creating value

Our resources to create and preserve value

Client and customer relationships

We aim to become long-term trusted partners for our clients and customers, through our ability to meet their needs effectively. We work to understand what they want and put that at the centre of our decision making. We invest in our brands which are key to sustainable value.

Investment capabilities

We aim to deliver innovative solutions and achieve better long-term investment outcomes for our clients and customers, through a combination of local market knowledge and global oversight. Our capabilities span a broad range of markets, asset classes and strategies.

Talented people

Our ability to deliver for clients relies on having people with the right skills and knowledge, drawn from diverse backgrounds and experiences, and encouraging a collaborative approach to getting results. As well as ensuring our people are engaged and rewarded appropriately, we offer a range of personal development opportunities to help progress their skills, knowledge and careers.

Financial strength and heritage

We operate efficiently and effectively – actively managing our balance sheet to ensure we hold enough capital to allow us to invest for future business growth. Through the actions we've taken to reshape our business, we've created a company that's well positioned for the long term. We will use our experience to make sure we continue to do the right thing for all our stakeholders.

Our value proposition

Standard Life Aberdeen

Global asset management

Aberdeen Standard Investments

UK savings

Standard Life

Our UK savings business includes our Wrap, Elevate and Parmenion adviser platform businesses, and our financial advice business 1825.

Strategic investments

We believe that we can generate attractive returns for shareholders through the development of deeper relationships and the growth potential of these businesses.

HDFC Life Sar utha ke jiyo!

PHOENIX GROUP

恒安标准人寿

HDFC ASSET MANAGEMENT COMPANY LIMITED

Our simple model for generating returns

Increasing assets

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

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

Growing revenue

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

Lowering unit costs

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

As most costs are relatively fixed and revenue can be impacted by market volatility, we aim to control our costs to be efficient throughout the business cycle.

Driving profit

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

Cash generation is closely aligned with profit.

Optimising the balance sheet

We ensure that we have the appropriate level of capital to support and protect our operations while continuing to focus on growing our business. We balance investing for business growth with continuing to pay dividends to shareholders.

Delivering for the benefit of our stakeholders

Our simple business model is designed to create value and deliver long–term sustainable benefits to all our stakeholders – including our clients, our people and also to wider society.

Read more on pages 22 to 23.

Preparing for Brexit

Due to the actions we've taken, we don't anticipate that Brexit, in whatever form it takes, will have a material impact on our business model. See page 14 for details of our preparations in our EMEA (Europe, the Middle East and Africa) business to ensure that we can continue to serve the needs of our clients. As an asset manager, our revenue is exposed to any market uncertainty that may arise due to Brexit. Further details of potential risks to our business relating to Brexit are included in the Risk management section of this report.

Create connections

We bring together our diverse talents, perspectives and insights and use our collective intelligence to deliver value. We remain true to our shared purpose, working as one team and with all our external partners to build better futures.

A collaborative culture

Bringing our people together following the merger has helped to create momentum behind our purpose. Over 4,000 of our people are now co-located in our combined offices. This has helped forge stronger relationships and broader networks.

We have improved connectivity across our global team, evolving how our business is structured to create group-wide functions that support the four regions in which we operate – the UK, EMEA, the Americas and Asia Pacific.

One of our priorities in taking the right actions for our business is listening to our people's views – particularly in light of the changes that we've made to our company since 2017. We create opportunities for dialogue, both face to face and through the use of technology, connecting employees across the globe, providing input to a range of strategic and operational initiatives.

Reflecting our markets

Our structure also puts us closer to our clients and customers. With teams based in 54 locations around the world, we have a deep understanding of the local markets in which we operate.

Our clients and customers come from diverse backgrounds and have different cultural and societal experiences. In order to meet their needs, we need to reflect this diversity. That is why we focus on being an inclusive workplace – we believe that celebrating the diversity in our business brings us closer to our clients and customers and each other.

By encouraging broader and deeper collaboration across our locations, we share in a wider range of perspectives, using that insight to evolve our propositions and to stimulate new ideas.

Read more about our people and culture on pages 28 to 29.

Our transformed business manages assets for clients and customers in around 80 countries…

…across the globe

We have operations in the world's financial capitals as well as in important regional centres. This brings us closer to our clients and customers, and provides invaluable knowledge and insight to share with colleagues around the globe.

UK

Key locations

Aberdeen	Bristol	London
Basingstoke	Edinburgh (HQ)	

Overview

Market conditions were challenging and have impacted on net outflows across our regions, including the UK. However, we have seen strong inflows into strategies such as diversified growth, buy and maintain credit, commercial real estate debt, and long-lease property. We have increased client engagement over the year with some major new wins, particularly with local government pension schemes. We also continued to develop our market-leading adviser platforms – Wrap, Elevate and Parmenion – to address client needs.

2018 highlights

- Our Better Beta OEIC range, with assets of approximately £28bn, passed its third anniversary and six out of its seven funds achieved first quartile, positive growth performance over this period
- In direct response to adviser market needs we launched the Professional Portfolio Manager, which offers greater digital and automated portfolio management capabilities
- Executed the sale of SLAL to Phoenix, while sustaining momentum in our platforms and advice businesses – we remain the UK's largest adviser platform

Market opportunities

The size of the combined retail, wholesale and institutional markets in the UK is estimated at around £5.1trn. In the retail market, our long-term strategic partnership provides potential access to the enlarged Phoenix Group's c10 million customers. We will invest in our products and services to meet demand and maximise the potential of such a large market. We will also focus on offering investors access to low-cost multi-asset solutions, supported by the launch of our MyFolio Index range.

Europe, Middle East and Africa

Key locations

Abu Dhabi	Frankfurt	Milan
Dublin	Luxembourg	Zurich

Overview

A key focus for 2018 and early 2019 was on completing arrangements to ensure continuity of service for our EU clients, whatever the final outcome of the Brexit process, including anticipating the potential loss of passporting rights. We addressed this risk by establishing an EU MiFID firm in Dublin and expanding the activities of our Luxembourg-based company to provide services to an increased number of Irish and Luxembourg domiciled funds.

We continued to diversify our business including through new opportunities resulting from a wider product suite.

2018 highlights

- Secured a regulatory licence in Ireland to operate as an EU MiFID investment firm responsible for eight branches in Europe – our team in Dublin is responsible for this activity
- The top three mandate wins by the EMEA sales team during the year were in Emerging Market Equities, Credit and European Real Estate, totalling £1.3bn
- Consolidated 18 funds and €50bn into our Luxembourg office

Market opportunities

EMEA is one of the largest investment markets in the world with around £14trn of assets. Our strategy focuses on capitalising on this opportunity by launching innovative products to increase our market share.

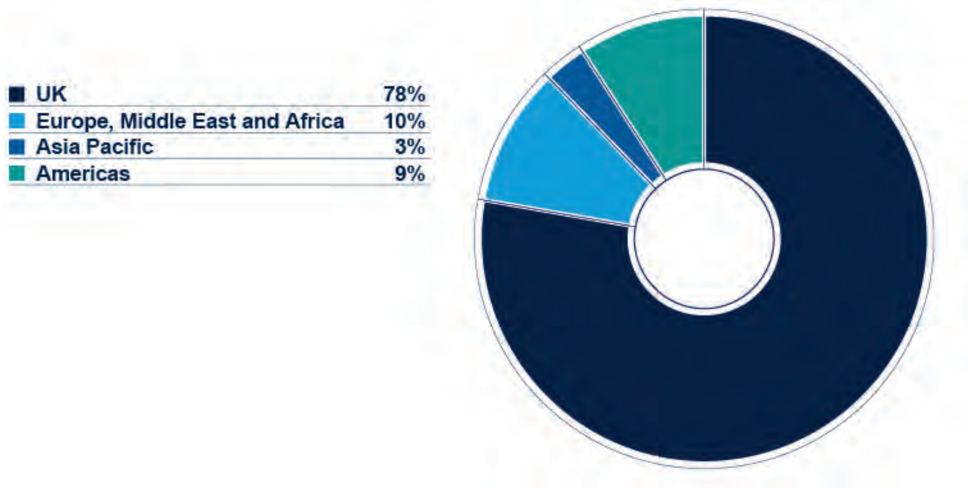
Germany, Italy and Switzerland are some of our key markets in Continental Europe and we are looking to leverage the global, diversified nature of our company as a differentiator and source of competitive advantage.

Office locations
54

Countries
27

People
6,000+

Assets under management and administration by geography
£551.5bn



Asia Pacific

Key locations

Hong Kong	Shanghai	Sydney
Jakarta	Singapore	Tokyo

Overview
We offer a diverse range of solutions and our Aberdeen Standard Investments brand has one of the broadest footprints compared to its competitors across the region.

We expanded our teams in Japan and China, which are two of our target markets. We promoted our enhanced broader range of skills across the territories where we operate. In early 2019, we announced two strategic investments. The first, a minority stake investment in Singapore Life, the first fully digital life insurer in Singapore and, second, the acquisition of Orion Partners, a real estate manager with an enviable track record in three of Asia's most developed markets.

2018 highlights
- First wholly-owned foreign company to gain an onshore asset management licence in China
- IPO of HDFC Asset Management in India completed in August 2018. As part of the IPO we reduced our holding from c38% to c30% for a total net consideration of approximately £180m.
- New fund launches to market, including a domestic China A-Share and a Multi-Asset 360 Income fund in Taiwan

Market opportunities
The Asia Pacific market has grown steadily in recent years, to around $16trn. Our strategy targets growth by increasing our footprint and global collaboration, developing partnerships across our key markets: Japan, Australia, India and China, and also carefully managing wider opportunities.

Americas

Key locations

Boston	Philadelphia	Toronto
New York	São Paulo	

Overview
We saw continued demand for our investment solutions in this region during the year. As a non-domestic brand, this is a positive sign of how well the Aberdeen Standard Investments brand is viewed. As part of our integration work in the region, teams worked across functions to increase the levels of co-operation and collaboration, share best practice and optimise the use of our client management technology to drive insight and actions.

2018 highlights
- New fund launches and bolt-on acquisitions to meet client needs and accelerate our US presence in specialist areas, including private markets, closed-ended funds and exchange-traded funds
- Significant work to reorganise US team to better serve clients

Market opportunities
The Americas market is the largest in the world and predicted to grow to over $29trn of assets in 2019. We want to capitalise on this opportunity by differentiating ourselves from the domestic players that currently dominate the market. Our strategy for driving forward the Americas business is focused on three main components: building a 'new active strategies and solutions' business, creating scope for reinvestment, and considering bolt-on inorganic options to accelerate and extend our US presence.

Adapt and excel

We don't stand still. We improve, challenge, learn and innovate to earn our place in the future. We are ambitious, our sights are set on excellence and our minds are open to ideas.

A focus on innovation

We believe that developing innovative 'new active' solutions that focus on outcomes instead of benchmarks is key to the future growth of the business.

In 2018, we accelerated the pace of innovation with the launch of 32 funds (2017: 22 funds). In addition, we currently have around 20 funds that are in the later stages of development. For example, we're developing two new products for our 'Liability Aware' programme which are due to launch in 2019. This is a continuous programme of development between various asset class and product teams, to provide a range of options that suit small to medium-sized pension fund clients.

As we transform our business, we're working to identify and understand opportunities and trends that may help our company and industry innovate and improve. Our Artificial Intelligence Global Equity Fund, part of our range of quantitative investment strategies, uses powerful machine learning techniques to quickly analyse evolving financial markets data to identify and recall data patterns.

In the UK, with changes to pension policy and provision, many more people are choosing to remain invested throughout retirement, leading to a greater demand for financial advice. In response we've launched the next generation of model portfolio management technology on the Wrap platform – Professional Portfolio Manager. This innovative offering has greater digital and automated capabilities and gives advisers an efficient, scalable and risk controlled operating model. In less than six months since launch, businesses advising on c£3.5bn of assets have chosen to adopt the new functionality.

Adapting effectively, operating efficiently

As well as seeking new, diverse investment opportunities, we aim to make sure that our business continues to adapt to make the most of these.

We believe digital advice is key to the future of retirement planning, especially in the UK, where the percentage of those reaching age 65 is expected to continue to rise. We are developing a dedicated digital advice proposition to develop new, efficient ways to meet our customers' retirement planning needs.

In integrating our businesses and coming together as one company, we have worked to evolve our investment and distribution processes. We have carried out an extensive programme to integrate and rationalise our fund ranges. In reviewing and refreshing our distribution strategies, we've aimed to bring more discipline and consistency to our relationship and client teams across the world – with an emphasis on growing our business in G10 countries.

We also continue to ensure that we are operating efficiently and controlling our costs. This includes the delivery of the merger synergies and the implementation of a simplified global operating model. While change on this scale creates opportunities for our people, cost savings include reductions in employee numbers. We continue to aim to manage much of this through natural employee turnover and to do everything possible to minimise compulsory redundancies.

Our transformed business actively seeks out new and innovative ways…

…to extend our capabilities

Our investment capabilities are truly global, covering a broad range of markets, asset classes and strategies. Our aim is to drive better investment outcomes for clients and customers.

To achieve this, we draw on our talented people, deep knowledge of local markets and coordinated global oversight – combined with a commitment to embedding Environmental, Social and Governance (ESG) factors across each asset class.

Diagram shows analysis of total assets under management at 31 December 2018 including strategic insurance partners.

AUM at 31 December 2018 (£bn)[1]

Equities

Disciplined, high-conviction, fundamental investment aims to deliver superior outcomes for clients

- One of world's largest active asset managers offering wide ranging equity strategies
- Research and insight are used to exploit market inefficiencies and identify the best investment opportunities for client portfolios
- Active engagement and effective analysis of ESG issues mitigate risks and identify companies most likely to outperform over the longer term

> 140
investment professionals

10 countries
Global team presence

Two complementary investment approaches

Fixed income

Our approach is based on research-driven, team-based active management

- One of largest fixed income managers in Europe with a diverse client base
- Capabilities across developed and emerging markets, public and private credit, investment-grade and high-yield markets
- Long track record of delivering targeted and local solutions to meet specific client goals and objectives

> 140
investment professionals

11 countries
Global team presence

Client driven outcomes

Multi-asset

We seek to provide better, more predictable outcomes for investors

- Scale and experience to provide a multi-asset solution to meet a range of client needs and priorities
- Developed range of advanced, flexible solutions that target positive returns while also constraining and controlling risk
- A broad and diverse investment universe through multi-asset investing can enhance return potential and reduce volatility

> 150
investment professionals

Europe, US & Asia presence

Industry leading risk management

Private markets

Providing excellent capital growth, income generating or risk adjusted outcomes

- One of the top 10 largest managers of private markets assets globally (includes real estate assets)
- Capabilities across private equity, infrastructure, private credit, real assets and private market solutions
- Long track record of managing private markets portfolios

> 105
investment professionals

10 countries
Global team presence

Top 10 – Global private markets ranking

[1] Excludes strategic insurance partners.

Our investment approach

We continue to believe that active investment management delivers superior outcomes for clients over the long term. We believe in a connected team-based ethos, fundamental research delivering insights to exploit market inefficiencies, and the embedding of ESG criteria within our investment approach. We make deliberate, active decisions at each stage of the investment process and believe that all investment approaches require active decision making at some level, whether that be incorporating fundamental discretionary or systematic quantitative techniques.

We have diverse investment capabilities offering a range of outcomes for our clients, including some 100 strategies, all united by these beliefs. For example, within Equities we run a number of strategies under two differentiated but complementary investment styles: Long Term Quality and Focus on Change.

The market environment for active asset managers was challenging in 2018. As one of the largest active managers in the world, we are inevitably affected by these headwinds, and that is clearly reflected in our investment performance. We remain focused on supporting our teams and improving performance, while remaining true to our investment approach.

Our distribution

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

In the institutional market, we are a chosen investment partner of pension funds, insurers, sovereign wealth funds, governments and local authorities, charities and financial institutions, providing both pooled and segregated investment management.

In the wholesale investment market, we support wealth managers, private banks and financial advisers, as well as making our investment products available directly to private investors. We also offer investment solutions to private investors via our wealth management channel.

AUM at 31 December 2018[1] (£bn)

Alternatives

We create and manage outcome-oriented portfolios of alternative strategies

- Offer a full range of global hedge fund and diversification strategies across the liquidity spectrum
- Outcome orientated portfolios that use a disciplined and proven research-driven investment process
- Highly experienced team in alternative investing supported by global research coverage

> 25
investment professionals

London & New York
Global reach hubs

Award winning – innovative solutions

Real estate

Our approach to real estate is global, but implemented locally

- Our status as one of the world's largest real estate managers helps credibility, deal flow and our ability to provide a one-stop shop for clients
- Global reach allows us to uncover more investment opportunities that have potential to enhance investors' returns
- Well established and long-term track record with demonstrated ability of adapting to ever changing market conditions

> 270
investment professionals

11 countries
Global team presence

Leading global rankings in real estate sustainability benchmark

Quantitative

Experts in proprietary multifactor investing

- Experienced team managing assets across a range of strategies: traditional passive indexation, enhanced indexation, smart beta and active quant using artificial intelligence
- Provide clients with products and solutions that are customised to their needs
- Open-innovation approach focuses on collaboration with world-class partners

> 30
investment professionals

Experienced team formed in 2005

Multifactor investment approach to drive improved returns

Cash/liquidity

We offer bespoke solutions to meet specific client liquidity and yield objectives

- Manage assets for a broad range of institutional clients
- Enhanced size and scale enable us to deliver better outcomes for clients
- Offer tailored solutions for capital preservations, daily dealing and enhanced yield objectives

> 10
investment professionals

Portfolio managers in Edinburgh, London and Philadelphia

Key player in the liquidity market

1 Excludes strategic insurance partners.

Deliver what matters

We relentlessly focus on delivering outcomes that truly matter to our clients and customers. We build trusted relationships. We do the right thing and are empowered to make a difference.

Improving investment performance

It's been a disappointing year for our investment performance, and our long-term approach is being tested by the market environment. Our weaker three year investment performance reflects negative returns within multi-asset absolute return strategies, and weakness in most equity classes other than Asia Pacific and smaller companies. Investment performance remains robust across other asset classes. Investment process evaluation and enhancement is a continuous practice within investment teams, however formal plans have been developed for absolute return and equities.

Our process enhancement plans aim to improve performance while remaining true to our investment style. They focus on idea generation, capture and implementation. Actions we have taken include:

- Investment in new talent and enhanced risk analytics tools
- Creation of a new Performance and Investment Review Committee to strengthen review processes
- Establishment of our research platform with appointed heads of research, and creation of a research institute to inform our macro and longer-term thematic house views
- Enhanced Board level focus and oversight of actions to improve investment performance

We recognise that improving multi-asset absolute return strategies and equity performance may take some time and will depend partly on market conditions, but we are encouraged by recent performance improvement seen in emerging market equities.

We have also focused on maintaining trusted, long-term relationships with our clients to help them understand the causes of weak investment performance and, importantly, what we are doing to address this. We've engaged with clients in a variety of ways to keep them informed. This includes white papers, market analysis, and webinars led by our senior leaders.

ESG at the heart of everything we do

We believe that positive investment outcomes can be aligned with positive outcomes for society and the environment. We integrate, review and research ESG considerations throughout the investment process. We see this as an important way of protecting our clients' investments and believe it really adds to the value we offer to them. It's about analysing the key issues for each asset class and using that analysis to make better-informed investment decisions for our clients. In 2018, we announced our involvement as joint lead partner and founder of The Big Exchange, part of The Big Issue Group's social investment arm. The Exchange is a platform providing investors with access to funds that meet ethical investment criteria.

In addition, five of our real estate funds were awarded 'five star' status by the global sustainability benchmark GRESB for reaching significant environmental targets, placing us in the top 20% of our peers. Three of our funds achieved the highest ESG performance of their peer group.

…for our stakeholders

Clients and customers

Understanding our clients and customers

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

How we engage

We operate in a way that allows us to stay close to our clients and actively seek feedback to inform ongoing improvements. We create meaningful partnerships to understand how their requirements evolve. We have a large global distribution team, and they significantly increased engagement with clients in 2018 across the full sales process.

We build up insight from clients and customers which helps to inform future product development and innovation. For example, we conducted an online survey in 2018 of our institutional and wholesale clients with respondents representing £31bn in AUM. Strengths included brand loyalty, however certain clients were disappointed with the level of investment performance.

We also continue to engage with our adviser platform users and regularly monitor customer satisfaction. Our Board receives regular updates on both satisfaction and complaints data.

Our people

Understanding our people

Having people who bring a diverse range of talents and perspectives, and who feel engaged in their roles, is fundamental to the long-term success of our business. It is crucial that we understand their values and what motivates them – and reflect this in the way we operate.

How we engage

In November 2018, we conducted a company-wide employee survey. 69% of our people responded, giving us their views on our strategic direction, the impact of transformation, and confidence in our leaders. The survey results are discussed on page 28.

We ran company-wide workshops in 2018 to ask our people to help shape our culture and values.

Existing employee representative forums have joined together to form a new single employee forum representing employees in the UK. In Q1 2019, we agreed that one of our non-executive Directors would take on the role of liaising on employee engagement.

Wider society

Understanding our role in wider society

As a global investment company we have a responsibility in terms of the influence we can have on our industry, our supply chain and wider society. We take these responsibilities seriously and we are proud to serve the communities in which we operate.

How we engage

We are active investors. During 2018, we engaged regularly with the boards and senior leaders of companies. We voted at 4,875 shareholder meetings and, in some cases, spoke publicly about areas of concern.

We actively engage with all material suppliers and take part in regular oversight, monitoring and feedback with them, up to and including at chief executive level. We aim to ensure all suppliers are paid promptly.

Corporate sustainability is central to our business. We've been recognised in high-profile sustainability indices, including the Dow Jones Sustainability Index, where we were ranked in the top 5% for our sector, and also the FTSE4Good index where we were listed in the top 1% of companies. We were also awarded Better Society's 2018 Financial Services Company of the Year award.

Stakeholder interests at the heart of the SLAL sale and our strategic partnership with Phoenix

For it to be a success, we knew that the sale and our partnership would need to work for all our stakeholders.

Many of Standard Life's systems, processes and people transferred; which, combined with a licence granted to Phoenix to use the Standard Life brand, meant customers would have the same experience before and after completion of the sale. They will have continued access to Aberdeen Standard Investments' investment capabilities; and the advice and platforms businesses are retained by Standard Life Aberdeen.

In the long term, we considered that the deal would be good for transferred and retained employees, as the partnership offered new and exciting opportunities going forward. However, we recognise that it has and will create shorter-term uncertainty.

The enhanced partnership with Phoenix and sale of SLAL facilitated our new operating model and we expect this to enable significant cost savings. The sale also enabled the delivery of the significant capital return to shareholders.

Phoenix now has a significant presence in Edinburgh. This enhances Scotland's reputation as a key financial centre, helping attract talented people to the capital.

Section 172 (1) statement

The Directors are fully aware of their responsibilities to promote the success of the company in accordance with s172 of the Companies Act. The content on stakeholder engagement on pages 22 to 23 and business practices on pages 48 to 49 highlight key actions in this area.

Further details on how the Directors' duties are discharged and the oversight of these duties are included in the Governance section on pages 54 to 62 and 75 to 80.

…for our shareholders

Our shareholders

Understanding our shareholders

The support and engagement of our shareholders is imperative to the future success of our business. We have a productive ongoing dialogue with both large investors and retail shareholders. Our aim is to provide best-in-class service and relevant, timely communications. We believe that maintaining our reputation for high standards of conduct is not just doing the right thing, but something that builds value for our shareholders.

How we engage

We are in touch with our shareholders at least three times a year with information about shareholder meetings, dividend payments, and financial results.

Our annual general meetings alternate between London and Edinburgh to allow more shareholders to attend and enable us to gather shareholders' views while giving them the opportunity to hear directly from our Chairman and Board.

Shareholders can view and manage their holdings using our online share portal, and can also download the Standard Life Aberdeen investor app for share price information, press releases and regulatory news.

We have a programme of regular meetings with institutional investors and analysts around the world, to understand their views and address any concerns.

Read more in the Governance section on page 60.

Our investment case

Well positioned to benefit from the trends shaping the global savings and investment landscape

- Strong track record of reacting and adapting to changes in our markets
- Ability to respond through innovation in key areas of growing client demand
- Scale to meet expected growth in demand for advice and platforms in the UK
- We own significant shareholdings in savings and investment businesses in the growing economies of India and China

A broad and compelling client offering

- Aberdeen Standard Investments is one of the largest active asset managers in the world
- Formal plans in place to improve investment performance for absolute return and equities, with recent improvement seen in emerging market equities
- Track record of product innovation across a broad range of asset classes
- Strong pipeline of innovative ideas across region, channel, asset class and outcome

Global distribution with close proximity to clients

- Offices in 54 locations around the world
- Clients in around 80 countries
- Partners around the world provide local expertise in some of the world's largest economies – including Mitsubishi UFJ and Sumitomo Mitsui in Japan, Bosera in China, Manulife and John Hancock in North America, HDFC in India, and Challenger in Australia
- Enhanced partnership with Phoenix providing potential access to up to 10 million customers in the UK

Fast growing UK adviser platforms and financial advice capability

- Market-leading UK adviser platform business with over £59bn of assets under administration
- Scalable through operational leverage, with a clear path to growing profitability
- Expanding national financial planning and advice business 1825, acquiring two IFA firms in 2018
- Proposed new strategic joint venture with Virgin Money/CYBG provides potential opportunity to leverage our platform technology to offer investment solutions to their six million retail customers

Enhanced operational efficiency

- Targeting annualised cost efficiencies of at least £350m to be achieved by end of 2020 with £175m already implemented. 2018 results benefited by c£120m with further benefit to come
- Announced a simplified operating model, providing platform for growth and increased efficiency
- Targeting a cost/income ratio of 60% over the longer term

Strong balance sheet and valuable listed investments

- £2.6bn of Group cash and liquid resources, providing financial strength and supporting investment in innovation, technology and our people
- Track record of reshaping our balance sheet and returning capital to shareholders
- Combined value of our shareholdings in Phoenix, HDFC Asset Management and HDFC Life at 11 March 2019 was c£4.5bn

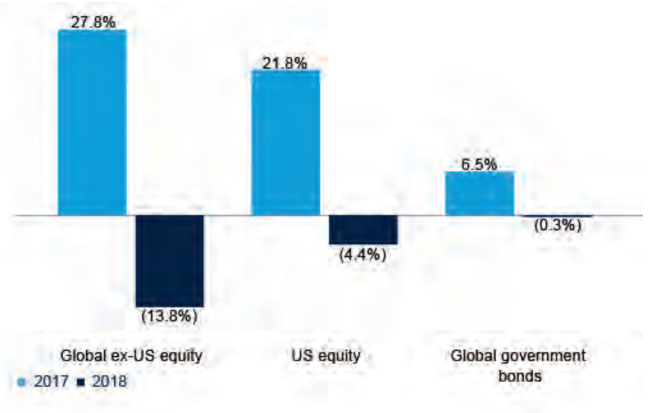
Responding to challenging markets

2018 proved to be a challenging year for markets, which shared little resemblance to the year before. A wide variety of political, economic and financial issues overwhelmed investors across almost all asset classes and regions. Meanwhile volatility, which was largely absent in 2017, reappeared to the detriment of global investors. Most asset classes registered negative returns in 2018.

Rod Paris, Chief Investment Officer

A year of challenging market conditions

Across global markets, some of the positive drivers from 2017 reversed and a number of potential risks we had identified at the start of last year did become reality. The US equity market outperformed most other developed markets, assisted by above-trend growth in the US economy and tax cuts, however December was an exceptionally poor month. There was rotation within equity markets in terms of which sectors performed best. Defensive sectors like healthcare and utilities took the lead, while energy and financials were the hardest hit. Large technology stocks faced a perfect storm of stretched valuations, slower subscriber/revenue growth, data breaches and increased regulatory scrutiny. Credit markets in the US and Europe – in lower-risk investment grade bonds and higher-risk high yield bonds – achieved negative annual returns. Despite risk aversion, over the year as a whole only a few sovereign bond markets, such as Germany, achieved positive returns.



Total market return

Source: Refinitiv Datastream, Bloomberg, Aberdeen Standard Investments (as at 31 December 2018)

The strength of the US economy allowed the Federal Reserve to continue monetary tightening. Japan and Europe continued quantitative easing and kept rates on hold, while China first tightened and then relaxed its restrictions on bank lending in response to faster or slower growth. The US Dollar strengthened against most other major currencies in 2018. Falling unemployment and periodically higher oil prices gave rise to inflation concerns. Volatility, meanwhile reappeared, with two particularly sharp episodes in early February and late December, reaching levels not seen since the financial crisis.

Barriers to market growth

Rising US interest rates and a strong dollar, accompanied by rising oil prices and geopolitical factors, were significant barriers to emerging market growth. China, a key global driver in recent years, signalled a transition in its growth as it embarked on a deleveraging campaign to reduce debt. This, combined with US tariffs, caused negative sentiment in Chinese equity markets which spread to other emerging markets.

Geopolitical risk, which had been relatively subdued coming into 2018, became front of mind for investors. US-China relations, especially over trade tensions, deteriorated substantially. Populist gains in Italy, Brazil and parts of Germany, as well as the Democrats' success in the US mid-term elections, reshaped governments and played through markets. Brexit loomed large at various points, translating to increased volatility in UK assets.

Looking ahead

As the effects of tax cuts in the US fade and trade tensions continue, market participants are focused on economic data signalling further slowing in 2019. This has made markets more responsive to bad, relative to good news. Although a number of economic indicators now suggest slowing growth, it should be emphasised that they are not currently signalling imminent recession; indeed the response from governments and central banks makes us more positive on such a view.

The backdrop to the market remains complex and we believe this will continue to impact on returns. That said, we believe our continuous focus on understanding client needs, and on improving and innovating our investment solutions, will create opportunities to manage risk and achieve sustainable goals of growth, income and capital preservation.

Responding to the changing investment landscape

Despite the challenges we faced in 2018, we are a resilient business, committed to our purpose. We remain well-positioned to continue benefiting from the trends that shape the global savings and investments landscape.

Keith Skeoch, Co-Chief Executive

Democratisation of financial risk

Changes to the savings landscape have continued to move risk and responsibility further towards individuals. This trend is driving the need for simpler products and services to help clients and customers invest and save effectively. Changes in pension legislation giving more choice and more responsibility to savers is also increasing demand for financial advice – and from financial advisers for platforms that help them to offer the support that their customers expect.

Our response

Our focus on active investment management helps us to meet the growing demand for outcome-oriented products. Following the sale of our UK and European insurance business to Phoenix, we have retained our fast-growing, market-leading adviser platforms, as well as our wholly-owned financial advice business, 1825, to meet the growing demand for financial advice from individuals. These channels will remain important to our retail growth strategy in the UK. Our shareholding in Phoenix means we also retain a significant presence in the UK pensions and savings market.

Rebuilding trust in financial services

The global financial crisis damaged trust in financial services organisations. We believe our industry has a duty to build trust through transparency on fees, clarity on risks and education on investment strategy. Asset managers also have a role in developing trust and driving transparency more broadly by challenging the companies in which they invest to provide evidence, not only of their financial returns, but also of their societal and environmental impact.

Our response

As long-term investors we take our stewardship responsibilities very seriously. We engage with businesses, governments and regulators to improve the efficiency and relevance of capital markets and the sustainability of returns they deliver. We completed a programme of work to meet the requirements of MiFID II – a 2018 EU directive that aims to improve transparency in how financial market participants operate. The processes put in place are now part of our business as usual operations.

We offer investment strategies that aim to provide a social as well as a capital return, by reflecting society's concerns about issues like fair employment, environment, inequality and sustainability. A practical example of this is our Global Equity Impact Fund, which invests in companies that aim to generate measurable positive social and environmental impact alongside financial returns.

Innovation, technology and digitalisation

Successful innovation is a key driver of long-term value for clients and shareholders. The next generation of savers will interact with investments in different ways, as technology provides new tools that allow them to manage their own affairs. Machine learning is playing a growing role in how these tools are developed across our industry. At the same time, cyber security remains a growing issue. Managing the risks is critical for large companies and their customers.

Our response

Our ability to innovate is crucial to ensuring that we can continue to meet customer and client needs. We've put in place a Collective Investment Technology Solutions team to support how we deliver to retail, wholesale and institutional clients globally. Artificial intelligence processes are also helping us to identify sources of potential returns within our investment portfolios, and to develop our digital advice capabilities in the UK.

Managing cyber security is about more than having the right IT systems and software in place. As part of our Cyber Awareness Week, we highlighted to employees their responsibilities and steps they can take to be more secure, resilient and vigilant in this area.

Slow growth, low inflation, compressed return environment

Market volatility and uncertainty will be with us for some time, which will result in changing client demands. Clients are looking for simple and transparent products with clear outcomes that will meet their investment needs, and we're seeing a continued demand for active investment solutions – particularly 'new active' solutions, which focus on achieving specific outcomes to meet specific client needs.

Our response

'New active' is likely to play a major role in building long-term relationships with clients and meeting their growing demands for more variety and choice. We are already one of the leading companies in private markets/alternatives globally and we continue to make significant investment in designing innovative outcome focused funds.

2022 market revenue opportunity

c75% 'new active'

Source: BCG, July 2018

Enabling our ambitions

Strategic objective	Why it's important	Progress this year
Client and customer centricity	Our primary focus is on delivering for our clients and customers. It means working to understand their evolving needs, and using that knowledge to innovate and improve our products and services. We continually look to develop new relationships across the globe, to provide trusted expertise and build lasting partnerships.	• Investment performance was mixed in 2018 – see the Chief Financial Officer's overview on page 33 for details • Enhanced offering to advisers through launch of Professional Portfolio Manager on the Wrap platform • Refreshed our distribution strategies, bringing more consistency and discipline to our relationship and client teams globally • Ran our institutional and wholesale client survey in our four global regions, to understand factors affecting levels of client satisfaction, engagement, loyalty and advocacy
Enhancing our operations	We're helping our people be more productive, by simplifying and improving our ways of working and creating a collaborative, insight-driven culture to ensure we deliver a world-class service. Through enhanced technology our business will be more agile, flexible and scalable. The systems, processes and external service providers we use will be efficient and help us manage costs, allowing us to invest for growth.	• Sale of our UK and European insurance business to Phoenix completed transformation to a fee based, capital-light business • Delivered further annualised cost savings bringing total delivered to £175m with actions including – Integration completed across our client and consultant facing investment and distribution teams – New operating model implemented – simplifying our structure and establishing clear functional and regional responsibilities and accountabilities – Over 4,000 of our people co-located as part of our estate optimisation
Innovating for the future	The ways in which people invest and save continues to evolve. Clients and customers want a diverse range of products that meet their needs and generate positive investment outcomes through a modern technology-enabled experience. Investing in innovative, leading edge capabilities gives us the potential to attract a wider range of investors, enhance existing relationships and develop smarter, more effective ways of engaging with them.	• Accelerated pace of innovation with 32 fund launches in 2018 compared to 22 in 2017 and around 20 funds in the later stages of development • Completed IPO of HDFC Asset Management in August 2018, generating approximately £180m from the sale of part of our stake, supporting further reinvestment in our business • Three bolt-on acquisitions accelerated our US capabilities in private markets, closed-ended funds and exchange-traded funds • Launched an innovative financing strategy for private market funds, developed in collaboration with Phoenix
Valuing our savings ecosystem	Optimising the breadth and depth of our investment management, platform and advice ecosystem, along with our geographical reach, enables us to meet the savings needs of clients and customers around the world. We aim to play a stronger role in helping people save effectively and understand the investment solutions which are right for them. We make the most of our strong brands to deliver enhanced value across all of the products and services we offer.	• Extended and enhanced strategic partnership with Phoenix, providing further opportunity for future growth • Joint venture announced with Virgin Money with potential to offer investment solutions to the combined retail customer base of Clydesdale Bank, Yorkshire Bank and Virgin Money • Launched Aberdeen Standard Investments' first global marketing campaign, to show the breadth of expertise and solutions we can offer to high net worth customers • New advertising campaign for Standard Life in the UK targeting improved brand sentiment and product association

Our business has transformed in line with our vision. Our strategic objectives now reflect the new shape of our business and our priorities for the future.

Performance highlights	Key risks	Focus for 2019
Investment performance[1] **1 year: 47%** (2017: 70%) **3 years[2]: 50%** (2017: 63%) **5 years: 62%** (2017: 64%) **2018 Defaqto Gold rating for service** **Wrap and Elevate** **2018 Defaqto 5 star rating for discretionary portfolio services** **Aberdeen Standard Capital and Parmenion**	4, 9, 5, 11, 7	• Supporting our teams and improving investment performance through process enhancement plans across all asset classes • Continue to develop trusted client relationships at a local level, through 23 investment centres worldwide • In our UK savings business, further invest in our retail platforms to enhance functionality and adviser experience • Enhance profile of our flagship brands (Aberdeen Standard Investments and Standard Life) and our profile as an ESG leader
Cost/income ratio[2,3] **68%** (2017: 71%) **Adjusted profit before tax[2,3]** **£650m** (2017: £660m) **IFRS profit after tax attributable to equity shareholders** **£830m** (2017: £699m) **Employee survey – Engagement** **56%**	1, 5, 10, 2, 6, 11, 3, 7, 12, 4, 8	• Maintain progress towards combined merger and simplification efficiencies of at least £350m including: – Migration of assets administered by Aberdeen Asset Management to an integrated global investment platform – Develop working practices to enhance productivity by reducing duplication and delayering of processes – Further systems integration including single HR platform • Progress implementation of separation plan to reduce transitional services provided by Phoenix • Implement actions to improve employee engagement, based on themes from our company-wide survey
AUMA[2,3] **£551.5bn** (2017: £608.1bn) **Gross inflows[2,3]** **£75.2bn** (2017: £72.4bn) **Adjusted profit before tax[2,3]** **£650m** (2017: £660m)	2, 11	• Develop our private markets offering by working with clients, delivering innovative solutions and generating performance through diversified and connected capabilities • Develop our connected, global, proprietary research platform incorporating insights into macro and micro investment strategies • Further expand our 'new active' capabilities – including our first Active Macro Systematic fund, applying quantitative principles to multi-asset investing • Progress build of digitally-enabled advice offering to serve broader retail market
AUMA[2,3] **£551.5bn** (2017: £608.1bn) **Gross inflows[2,3]** **£75.2bn** (2017: £72.4bn) **Net flows[2,3]** **£40.9bn outflow** (2017: £32.9bn outflow)	11, 12	• Leverage strategic partnership with Phoenix to grow retail business and access new customers • Launch of proposed joint venture with Virgin Money, anticipated Q2 2019 • Pursue our structured programme to seek further opportunities to grow and diversify our business, including by selective bolt-on acquisitions • Drive accelerated growth and increase flows through our platform business through our new Professional Portfolio Manager capability, the launch of auto-tailoring Individually Managed Accounts and the competitive repositioning of Elevate

[1] Percentage of AUM ahead of benchmark.
[2] KPI.
[3] From Continuing operations.

Read about key risks on pages 42 to 47.

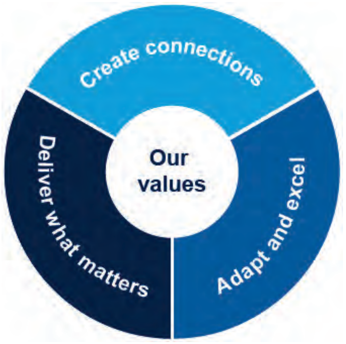
Building the foundations for success

We want to develop a culture that will enable us to be the best that we can – where we are inspired by our differences and united behind a common purpose.

Defining our desired culture

There has been a significant amount of work across the organisation to identify the best attributes of our existing culture and to understand what we need our culture to be in order to realise our vision and to deliver our strategy.

An important aspect of nurturing our culture is articulating our values. Around 1,800 of our people took the opportunity to co-create and shape our values using several feedback channels. Their input was an essential part in defining values that underpin our strategy and help us deliver great outcomes for clients and customers.



Measuring employee engagement

In 2018 we ran a full engagement survey for all employees, to help us understand how it currently feels to work for us, how our people would like this to feel in the future, and what action our company needs to take. 69% of our employees responded to the survey. The results reflect that recent company change has been difficult for colleagues – but provide an important baseline from which to build and improve, and help us to identify the main areas we need to focus on.

The responses gave us an overall engagement score of 56%. This represents the average score that employees gave for questions measuring advocacy, pride, motivation and job satisfaction. The main themes that emerged from the survey included the need to improve how we communicate our strategic direction to employees, and how we minimise the factors that can prevent people from doing their jobs as effectively as possible. Positive views centred on how our managers lead through change, colleagues feeling able to be themselves at work and our continued focus on inclusion.

Over the year ahead we will plan actions based on the themes that emerged, and continue to measure engagement, mood and culture across the company.

Demonstrating our values in society

Our culture encourages playing a role in wider society and supports our people to contribute to the communities around us.

We offer three days' paid leave to each employee to encourage our people to volunteer in their local communities – making a difference and learning new skills. 15,118 hours of volunteering took place in 2018. As part of our global volunteering day in 2018, over 400 employees around the world took part in activities to support initiatives in the communities we operate in.

In Scotland, we are supporting and funding The Big Issue Invest 'Power Up Scotland' programme to help early stage social enterprises tackling issues, like homelessness, food poverty, unemployment and care for the elderly. A number of our people have been involved in coaching social enterprises for a period of three months, providing expertise to help develop their business models.

In the UK, we also partner with the charity Career Ready, which connects young people with the world of work.

As part of the programme, mentors support young people in their last couple of years of school. To date our people have mentored 113 young people.

During 2018, 12 of our people from the Americas, Asia and Europe spent five days in Northern Thailand helping to build a water sanitisation system with the Karen Hilltribes Trust. In December 2018, 16 colleagues travelled to Senegal with buildOn to start building a school.

In December 2018, our colleagues voted for our new UK charity partner. We selected a shortlist of charities that may have impacted employees or their friends and families at various stages of their lives. The winner was Dementia UK. The aim of the partnership is to fund the first Admiral Nurses in Scotland, and additional nurses in communities across the UK.

Amanda Young, Global Head of ESG Research and Craig Macdonald, Global Head of Fixed Income join John Montague, Managing Director at Big Issue Invest and Ben Macpherson MSP for the launch of Power Up Scotland.

A strategic approach to improving inclusion

Building a diverse talent pipeline and understanding our people's needs help us respond to changing client demands, deliver valuable insights, and fulfil our strategic objectives.

We were one of the first asset managers to publish a co-created inclusion strategy which aims to create an inclusive culture by engaging people at all levels of our organisation. The principles that continue to inform our inclusion strategy are:

- Being transparent
- Promoting our commitment to inclusion
- Bringing value to our business

We have strengthened oversight and governance of our progress against these areas of focus at a senior level. We are also working to improve the quality of the demographic-based information we gather from our employees.

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

Putting inclusion into action

During 2018, we made good progress in a number of important areas that contribute to creating a more inclusive workplace.

We delivered our first gender action plan and published our refreshed plan outlining areas of focus for the next 12-18 months. We have increased female representation at a senior level by 7% under our Women in Finance Charter commitments, and are now working on sustaining progress. We were also included in the Bloomberg Gender Equality and Equileap Top 200 global indices for the first time.

We were one of the founding signatories of the Race at Work Charter which commits organisations to tackling barriers that ethnic minority people face in recruitment and progression. As part of delivering on our commitments we launched our ethnic diversity action plan, and continued our work with external organisations that help to provide employment opportunities to ethnic minority young people. These include the Taylor Bennett Foundation, The Prince's Trust, and Sponsors for Educational Opportunity (SEO) London.

Our focus on social mobility has gained important external recognition, such as being included as one of the Social Mobility Foundation's top 50 employers in its Social Mobility Employer Index.

We partner with a number of charities to open up employment and internship opportunities for young people from all backgrounds. These include The Prince's Trust, Investment 2020 and Career Ready. We have also signed up to the Social Mobility Pledge, a cross-party campaign to improve social mobility across the UK.

Over 1,100 people contribute to and are supported by our employee-led networks. Championing aspects of diversity and inclusion across our global business, these groups work collaboratively to effect change and are sponsored by our senior leaders. In 2018 we launched a new network supporting mental health awareness and refreshed our LGBT+ network and gender balance network. Through our support for the Armed Forces, to which our Armed Forces network makes a big contribution, we achieved a Gold award from the Ministry of Defence's employer recognition scheme.

For all of our employees, we've developed guidelines for agile working, supporting them to work where, when and how is most effective for both them and our company. We share case studies among employees to provide insight and examples of how their colleagues work in an agile way.

The gender pay gap

This is the first year we have reported a Standard Life Aberdeen gender pay gap. As at April 2018, our mean gender pay gap was 40% and our mean gender bonus gap was 69%. Last year we shared separate data sets for Standard Life and Aberdeen Asset Management, as these were calculated before the merger. However, even without being able to compare directly to last year, there is little material change in our gender pay gap for this year.

Our pay gap is primarily the result of our workforce structure, with a higher number of men in senior roles – the roles that attract higher salary and bonus potential – and a higher number of women in junior, lower paid roles.

We have made progress in improving gender representation two leadership levels below CEO level, but we have more work to do at both the Board and Executive Team levels.

Our gender pay gap remains high but we know that improving our gender balance and reducing our gap will take time and enduring focus. Through increased transparency and communication since our publication of Year 1 gender pay and bonus information, we are building momentum for change across the organisation.

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

Our gender targets

As part of our commitments to HM Treasury's Women in Finance Charter, we have published the following targets for women in different levels in our organisation:

Level	Target by June 2020 %	**Actual 31 Dec 2018 %[3]**	**Actual 31 Dec 2018 Number**
Board	33	**25**	**3 of 12**
Executive[1]	33	**34**	**80 of 235**
Entire global workforce	50[2]	**45**	**2,801 of 6,192**
Entire UK workforce	50[2]	**45**	**2,119 of 4,727**

1 People employed in roles across the two leadership levels below CEO, excluding admin employees. Our CFO and CIO, who sit on our Board, are included in both our Board and Executive populations.

2 Target has a tolerance of 3%.

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

To demonstrate progress in developing our talent pipeline we will continue to track the gender balance in our succession pool, for those ready for our most senior roles within the next three to five years. At January 2019, women made up 56% of named individuals on the succession list for these roles.

Continued delivery of cost efficiencies in a difficult market and flows environment

We remain focused on driving operational efficiency and cost control as we move closer to completing the integration and the implementation of our simplified global operating model.

We have delivered a resilient performance against a challenging industry backdrop and weak investor sentiment.

Bill Rattray

Q | What are the main changes you have made to the reporting of financial performance in this year's results?

The discussion of the results on the following pages focuses mainly on our Continuing operations, excluding the results of the UK and European insurance business which we sold during the year. The results for this disposed business are discussed separately on page 37.

Following the sale of the UK and European insurance business we have also changed how we report our business segment performance to align with how the continuing business is managed and reported internally. The Asset management and platforms segment comprises our asset management (including HDFC Asset Management), platforms and advice businesses. The Insurance associates and joint ventures segment comprises our associate and joint venture life businesses – Phoenix, HDFC Life and HASL.

Q | Can you explain your capital position?

Following the sale of our UK and European insurance business to Phoenix, we are now regulated under the CRD IV regime for group-level prudential regulatory capital. Previously, the Group was regulated as an insurance company under Solvency II.

The sale has resulted in a significant reduction in our capital requirements reflecting the completion of our transformation into a fee based, capital-light business; however, the change of regulatory regime meant that our subordinated debt instruments no longer counted as regulatory capital under CRD IV. We therefore undertook a tender to retire two instruments with nominal value of £800m and reached agreement with holders to amend the terms of a $750m bond to comply with CRD IV requirements. The Group total capital requirement under CRD IV is £1.1bn at 31 December 2018.

The sale proceeds enabled us to announce the substantial return of capital to shareholders of up to £1.75bn. We returned £1bn to shareholders by way of a 'B' share scheme in November 2018, and have made good progress on our share buyback programme, with £235m completed by the end of 2018.

We remain strongly capitalised with a CRD IV Group regulatory capital surplus of £0.6bn at 31 December 2018. This surplus includes a deduction to allow for the proposed final dividend which will be paid in May 2019, and a deduction for £140m of share buyback which had been announced in 2018 but which is being completed in 2019.

Reported and Pro forma results

The merger of Standard Life plc and Aberdeen Asset Management PLC (Aberdeen) completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. Pro forma results for the Group are prepared as if Standard Life Group and Aberdeen had always been merged and are included for comparative periods to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for all years. The difference between the Reported results and Pro forma results is the results of Aberdeen prior to completion of the merger.

Our results for 2018 includes our 19.98% share of the Phoenix results for the four months ended 31 December 2018. Comparative periods have not been restated and therefore our share of Phoenix is not included prior to 31 August 2018 in either Reported or Pro forma results.

Alternative performance measures

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

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

Key performance indicators	2018	2017 Pro forma basis	2017 Reported basis
Adjusted profit before tax			
Continuing operations[1]	**£650m**	£660m	£475m
Total	**£860m**	£1,039m	£854m
Adjusted diluted earnings per share[2]			
Continuing operations[1]	**17.8p**	17.2p	15.1p
Total	**22.5p**	28.9p	29.9p
Cost/income ratio[1]	**68%**	71%	70%
Assets under management and administration (AUMA)[1]	**£551.5bn**	£608.1bn	
Gross inflows[1]	**£75.2bn**	£72.4bn	
Net outflows[1]	**(£40.9bn)**	(£32.9bn)	
Investment performance – 3 years[3]	**50%**	63%	
Full year dividend per share	**21.6p**		21.3p

Other financial highlights	2018	2017 Reported basis
IFRS (loss)/profit before tax[1]	**(£787m)**	£438m
IFRS profit after tax attributable to equity holders	**£830m**	£699m
Diluted earnings per share[2]	**29.1p**	29.6p

1 Continuing operations excludes the UK and European insurance business. The sale of this business to Phoenix completed on 31 August 2018.

2 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. 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. Refer to Note 11 of the Group financial statements for information relating to the calculation of diluted earnings per share.

3 Percentage of AUM above benchmark. Calculated on a Pro forma basis and gross of fees. A full definition is included in the Glossary on page 253.

Q | Can you explain your profitability and actions taken to reduce costs?

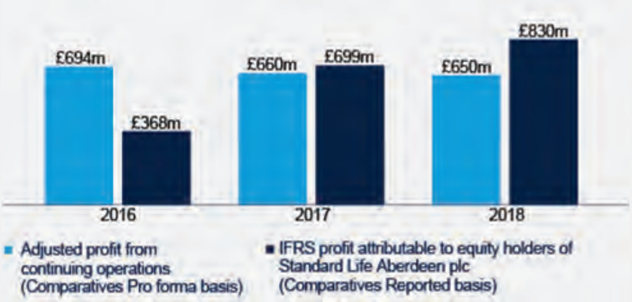
Adjusted profit before tax from continuing operations was £650m (2017: £660m Pro forma basis) with lower revenue reflecting the impact of net outflows in 2017 and 2018 partially offset by a reduction in operating costs and the inclusion of our share of Phoenix adjusted profits from 1 September 2018. Net outflows in 2018 were disappointing and this is a key area of management focus.

IFRS profit after tax attributable to equity holders of Standard Life Aberdeen plc increased by 19% to £830m mainly as a result of the £1,780m gain on sale of the UK and European insurance business. Partially offsetting the gain on sale is an £880m impairment of the Aberdeen Standard Investments goodwill, which reflects an appraisal of the asset based on the prevailing market conditions at 31 December 2018 and excludes future merger synergy benefits.

Careful cost control as we continue to implement the merger synergy benefits resulted in operating costs reducing by 10%. This, together with the inclusion of our share of Phoenix adjusted profits, led to the cost/income ratio improving significantly to 68% (2017: 71% Pro forma basis).

We continue to make good progress towards our total targeted annual cost savings of £350m to be achieved by end 2020, which reflects both merger synergies and the benefits from simplifying our operating model following the sale of the UK and European insurance business. As at 31 December 2018, actions had been taken to deliver £175m of the annualised costs savings, some of which will not begin to take effect until 2019. This means that we have already delivered 88% of our initial estimate of the merger synergies of £200m, and 70% of the increased target of £250m that we reported in 2017.

Adjusted profit before tax from continuing operations and IFRS profit



Cost/income ratio
(Continuing operations)

Assets under management and administration (AUMA) and net flows

We have the scale and global reach to offer a broad range of investment capabilities with total AUMA of over £550bn. AUMA fell 9% in 2018 due to net outflows and adverse market movements.

AUMA[1]	2018 £bn	2017 £bn
Institutional	**166.7**	192.5
Wholesale	**72.5**	86.6
Wealth/Digital	**10.9**	11.2
Strategic insurance partners	**255.0**	271.8
Total assets under management	**505.1**	562.1
Retail – Wrap and Elevate	**54.2**	54.0
Eliminations	**(7.8)**	(8.0)
Total AUMA	**551.5**	608.1

1 Following the sale of the UK and European insurance business, AUMA has been restated to exclude associates, joint ventures and SL Asia and is only presented on a continuing operations basis. Comparatives shown on a Pro forma basis.

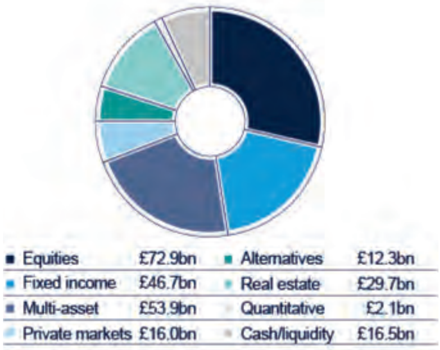
AUMA decreased by 9% to £551.5bn (2017: £608.1bn) as a result of asset management net outflows and adverse market movements.

In both institutional and wholesale the AUM reduction was primarily within equities, which was impacted by outflows reflecting investor sentiment and investment performance concerns as well as market movements, and multi-asset where the AUM reduction primarily related to GARS investment performance. Wholesale AUM was supplemented by corporate actions of £4.8bn in the year. This related to three bolt-on acquisitions which accelerated our US capabilities in private markets, closed ended funds and exchange traded funds.

Wealth/Digital includes our Parmenion platform as well as Aberdeen Standard Capital, our wealth business which was re-branded in January 2019. AUM was broadly stable at £10.9bn.

AUM managed for our strategic insurance partners, which includes Phoenix, decreased by 6% to £255.0bn (2017: £271.8bn) mainly due to adverse market movements of £11.3bn.

Institutional/Wholesale/Wealth/Digital split by asset class



Retail – Wrap and Elevate

Retail comprises our Wrap and Elevate platforms. Assets under administration remained flat in 2018 at £54.2bn (2017: £54.0bn), with net inflows of £4.2bn (2017: £7.0bn) largely offset by adverse market movements of £4.0bn.

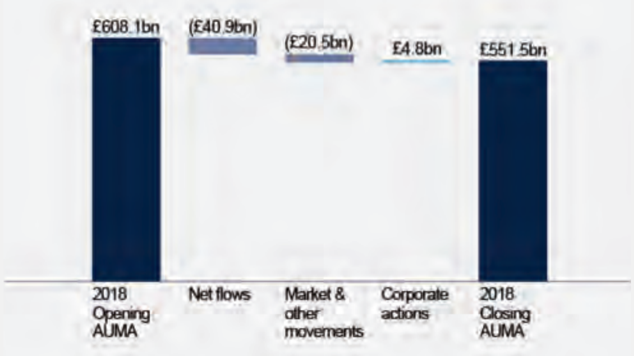
These platforms offer customers access to a wide range of investment capabilities including over 5,000 in-house and third party mutual funds. Of Wrap and Elevate assets, 14% are managed by Aberdeen Standard Investments.

Building our advice capability

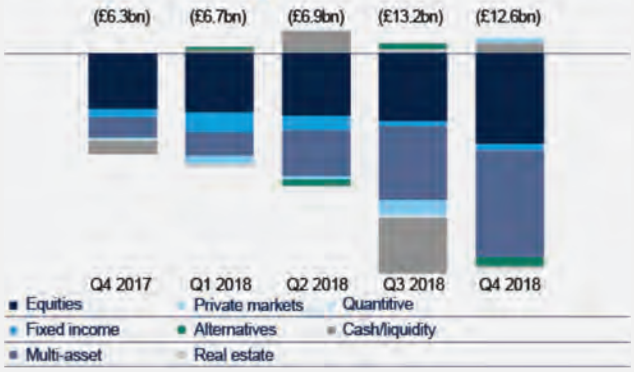
Assets under advice in 1825 increased to £4.0bn (2017: £3.6bn) during the year as we continue to build scale and aim for nationwide coverage in the UK. Following completion of a further two acquisitions this year, we now have 80 financial planners across 14 locations providing face-to-face and over the phone advice to in excess of 9,000 clients. Only the proportion of assets under advice that are held on our platforms are included in Retail assets under administration above.

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

Movement in AUMA



Quarterly net flows by asset class



Gross and net flows

Flows

	Gross[1]		Net[1]	
	2018 £bn	2017 £bn	**2018 £bn**	2017 £bn
Equities	**11.8**	14.2	**(17.6)**	(10.2)
Fixed income	**6.0**	8.6	**(2.8)**	(3.1)
Multi-asset	**9.3**	13.9	**(15.7)**	(6.9)
Private markets	**1.1**	1.1	**(1.3)**	(0.3)
Alternatives	**0.8**	0.8	**(0.4)**	(0.5)
Real estate	**3.8**	3.6	**(0.2)**	(1.0)
Quantitative	**0.2**	0.2	**(0.1)**	(0.5)
Cash/Liquidity	**7.4**	6.4	**(1.3)**	(1.7)
Institutional/Wholesale[2]	**40.4**	48.8	**(39.4)**	(24.2)
Strategic insurance partners	**28.6**	15.6	**(5.5)**	(15.2)
Total asset management	**69.0**	64.4	**(44.9)**	(39.4)
Retail – Wrap and Elevate	**8.5**	10.7	**4.2**	7.0
Eliminations	**(2.3)**	(2.7)	**(0.2)**	(0.5)
Total	**75.2**	72.4	**(40.9)**	(32.9)

1 Following the sale of the UK and European insurance business, AUMA has been restated to exclude associates, joint ventures and SL Asia and is only presented on a continuing operations basis. Comparatives shown on a Pro forma basis.

2 Includes Wealth/Digital.

Gross inflows remained strong at £75.2bn (2017: £72.4bn) with decreases in institutional and wholesale being more than offset by increased gross inflows from strategic insurance partners. Institutional/Wholesale gross inflows decreased by £8.4bn to £40.4bn (2017: £48.8bn) but remained robust in all asset classes.

Net outflows were disappointing, increasing to £40.9bn (2017: £32.9bn) as we saw continued high levels of redemptions. Equities had net outflows of £17.6bn (2017: £10.2bn), reflecting investor sentiment towards emerging markets and equity markets more generally, as well as weaker investment performance. Emerging markets equities saw net outflows of £9.2bn (2017: £2.8bn) and global equities net outflows were £4.1bn (2017: £3.5bn).

Multi-asset saw net outflows of £15.7bn (2017: £6.9bn) due to weaker GARS three year investment performance. GARS dominated with net outflows of £16.7bn (2017: £10.7bn) reducing AUM to £19.9bn (2017: £37.4bn). Multi-asset (excluding GARS) generated net inflows of £1.0bn (2017: £3.8bn) which included continued demand for MyFolio and Parmenion products which delivered net inflows of £1.2bn (2017: £2.0bn) and £1.1bn (2017: £1.3bn) respectively.

Our strategic insurance partners gross inflows increased by 83% to £28.6bn as we benefited from additional assets secured from Phoenix under our enhanced strategic partnership, including two fixed income bulk annuity mandates. Strategic insurance partners net outflows reduced by £9.7bn to £5.5bn (2017: £15.2bn) reflecting redemptions from maturing insurance business in long-term run-off, partially offset by the higher gross flows.

Our Wrap and Elevate retail platforms had net inflows of £4.2bn representing 8% of opening assets, although down on the record net inflows of £7.0bn in 2017. The benefit from the boost in the pensions market from individuals looking to take advantage of high defined benefit transfer values has declined over 2018. However, these transfers continue to provide a significant source of inflows into our platform products which provide the flexibility offered by drawdown and pensions freedom. The need for financial advice continues to increase as the savings industry becomes more complex and people take on more responsibility for their life savings.

Investment performance

Investment performance (Pro forma basis) % of AUM ahead of benchmark[3]

	1 year		3 years		5 years	
	2018	2017	**2018**	2017	**2018**	2017
Equities	**40**	35	**31**	21	**29**	28
Fixed income	**50**	85	**76**	68	**64**	69
Multi-asset	**20**	87	**35**	85	**62**	88
Alternatives	**77**	58	**82**	86	**79**	81
Real estate	**71**	71	**56**	44	**61**	40
Quantitative	**69**	68	**59**	55	**67**	75
Cash/Liquidity	**81**	69	**81**	63	**82**	82
Total	**47**	70	**50**	63	**62**	64

3 Investment performance excludes non-discretionary portfolios and funds where no applicable index is available. Includes strategic insurance partners.

Investment performance over three years was mixed, with 50% (2017: 63%) of total assets under management ahead of benchmark on a gross of fees basis. Over the longer term five year period 62% (2017: 64%) of total assets under management were ahead of benchmark. The weaker three year performance reflects a challenging period with negative returns within multi-asset absolute return strategies (in particular GARS), and weakness in most equity classes other than Asia Pacific. Performance for Fixed income, Cash/Liquidity and Alternatives remain strong over three and five years. Investment performance over one year stands at 47% (2017: 70%).

The investment performance calculation covers 81% of total AUM. Further details about the calculation of investment performance are included in the Glossary.

The performance results of our investment capabilities and their underlying investment processes are actively monitored and independently evaluated by our Investment Governance and Oversight team.

Profitability

Adjusted profit before tax from continuing operations of £650m was 2% lower than 2017 on a Pro forma basis and included the benefit of our share of Phoenix adjusted profits from 1 September 2018. IFRS profit attributable to equity holders of Standard Life Aberdeen plc increased by 19% to £830m mainly as a result of the £1,780m gain on sale of the UK and European insurance business, partially offset by an £880m impairment of the Aberdeen Standard Investments goodwill intangible asset.

Adjusted profit before tax from continuing operations

Analysis of adjusted profit before tax from continuing operations	2018 £m	Pro forma basis 2017 £m	Reported basis 2017 £m
Asset management and platforms	**510**	602	417
Insurance associates and joint ventures	**140**	58	58
Adjusted profit before tax	**650**	660	475

Asset management and platforms

Adjusted profit before tax in our Asset management and platforms segment was £510m, a decrease of £92m compared to 2017 on a Pro forma basis of £602m mainly due to lower fee based revenue reflecting the impact of net outflows in 2017 and 2018. This was partially offset by a reduction in expenses.

On a Reported basis, adjusted profit before tax in the Asset management and platforms segment increased by £93m compared to 2017 primarily due to the inclusion of a full year's profit from Aberdeen in 2018 compared to four months profit in 2017.

Asset management and platforms includes the results of HDFC Asset Management, our associate asset management business in India. Our share of adjusted profit increased to £46m (2017: £41m) and the value of our shareholding in this business at 11 March 2019 was approximately £1.0bn. Our percentage ownership at 31 December 2018 was 29.96% (2017: 38.24%).

Insurance associates and joint ventures

	Ownership at 31 Dec 2018 %	2018 £m	2017 £m
Phoenix	**19.98**	**86**	–
HDFC Life	**29.23**	**42**	48
HASL	**50.00**	**12**	10
Adjusted profit before tax		**140**	58

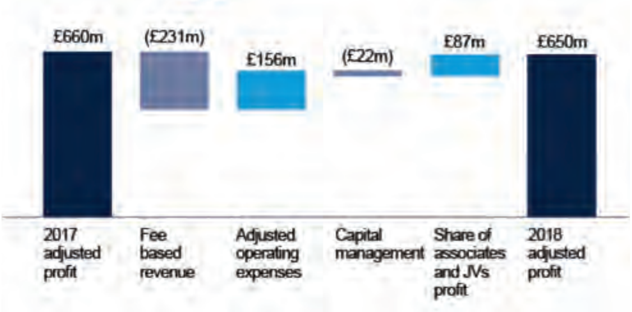
Adjusted profit before tax in our Insurance associates and joint ventures segment increased by 141% to £140m (2017: £58m) mainly due to the inclusion of our share of Phoenix adjusted profit of £86m from 1 September 2018. Our share of Phoenix adjusted profit before tax included a benefit of £42m from actuarial assumption changes, primarily relating to changes in annuity longevity assumptions.

HDFC Life profits increased in 2018 due to strong premium growth. However our share of profits fell to £42m (2017: £48m) due to the reduction in our shareholding following the IPO in November 2017 and adverse movements in exchange rates. On 11 March 2019, we also announced an offer for sale process in respect of up to 4.93% of the shares of HDFC Life, our associate life business in India at a floor price of Rs 357.5 per share. Assuming the offer is fully subscribed at the floor price, net sale proceeds are expected to be c£380m.

Based on the closing share price at 11 March 2019, the approximate value of our shareholding in Phoenix was £1.0bn and in HDFC Life £2.5bn (based on the value of our shareholding prior to announcement of the offer for sale described above). Combined with HDFC Asset Management, this gives a total value of our shareholdings in listed associates of approximately £4.5bn.

Profitability	2018 £m	Pro forma basis 2017 £m	Reported basis 2017 £m
Fee based revenue	**1,868**	2,099	1,447
Adjusted operating expenses	**(1,395)**	(1,551)	(1,084)
Adjusted operating profit	**473**	548	363
Capital management	**(9)**	13	13
Share of associates' and joint ventures' profit before tax	**186**	99	99
Adjusted profit before tax from continuing operations	**650**	660	475
Adjusted profit before tax from discontinued operations	**210**	379	379
Adjusted profit before tax	**860**	1,039	854
Total adjusting items	**122**		(40)
Share of associates' and joint ventures' tax expense	**(40)**		(41)
Profit attributable to non-controlling interests (preference shares and perpetual notes)	**(33)**		(8)
Tax expense	**(79)**		(66)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**830**		699

Analysis of adjusted profit before tax from continuing operations



The primary movement in fee based revenue and adjusted operating expenses in 2018 compared to 2017 on a Reported basis is due to the inclusion of a full year's results from Aberdeen in 2018. The analysis of adjusted profit below compares 2018 to 2017 on a Pro forma basis.

Fee based revenue

Fee based revenue reduced by 11% to £1,868m (2017: £2,099m) reflecting the impact of net outflows in 2017 and net outflows and adverse market movements in 2018. In the asset management business the reduction in revenue was concentrated in the equities and multi-asset asset classes. Performance fees represent less than 1% of total revenue at £9m (2017: £26m).

The average fee revenue yield (excluding performance fees) for asset management (excluding strategic insurance partners) decreased to 48.1bps (2017: 51.1bps), reflecting the change in product mix driven by net outflows from higher margin equity and multi-asset funds. Within private markets, 2017 revenue included a non-recurring benefit of £7m from deferred income recognised.

The revenue yield from Strategic insurance partners fell slightly to 13.1bps (2017: 13.7bps).

Revenue from Wrap and Elevate increased by 10% to £142m (2017: £129m) reflecting the continuing growth in our platforms offering. Our retail advice and other business revenue of £43m (2017: £46m) comprises our 1825 advice business revenue of £34m (2017: £32m) and other business of £9m (2017: £14m). Other business fee based revenue includes a one-off reduction in 2018 of £5m following the adoption of the new revenue recognition accounting standard (IFRS 15).

Adjusted operating expenses

Adjusted operating expenses decreased by 10% to £1,395m (2017: £1,551m) mainly due to lower staff costs including the benefit from the ongoing merger integration and reduced variable compensation. Expenses also benefited from careful cost control as we responded to lower fee based revenue.

The cost/income ratio, which includes our share of associates' and joint ventures' profit, improved to 68% (2017: 71%) including the benefit from our share of Phoenix profit in 2018.

We remain on track to achieve our previously announced targeted annual efficiency savings of over £350m by the end of 2020. The merger integration continues to progress well with the pace of delivery accelerating across many areas of the business and we are making good progress implementing our simplified operating model. As at 31 December 2018, actions have been taken which will deliver £175m of annualised cost savings, benefiting 2018 adjusted operating expenses by c£120m with further benefits to come in 2019.

Total implementation costs incurred since the completion of the merger are £222m and we expect these to remain in line with the previous estimates of approximately £430m in aggregate to deliver the £350m annualised cost savings.

Capital management

Capital management resulted in a loss of £9m (2017: profit £13m) mainly due to the impact of markets on pooled investment fund holdings. The net interest credit on the UK pension scheme surplus was £29m (2017: £30m). Interest expense on debt was £45m (2017: £59m) reflecting the $750m debt issued in October 2017 and the redemption of a more expensive $500m bond in March 2018.

Revenue analysis	Average AUMA		Fee based revenue		Fee revenue yield	
	2018 £bn	2017 £bn	**2018 £m**	2017 £m	**2018 bps**	2017 bps
Equities	**86.3**	98.1	**578**	666	**66.9**	67.9
Fixed income	**46.9**	49.0	**130**	144	**27.7**	29.4
Multi-asset	**65.4**	74.7	**350**	432	**53.6**	57.7
Private markets	**15.8**	16.7	**68**	84	**43.1**	50.7
Alternatives	**10.5**	7.1	**18**	12	**17.4**	16.9
Real estate	**28.9**	29.2	**154**	159	**53.2**	54.4
Quantitative	**2.1**	2.2	**3**	3	**12.2**	12.1
Cash/Liquidity	**17.3**	19.1	**14**	14	**8.0**	7.4
Institutional/Wholesale[1]	**273.2**	296.1	**1,315**	1,514	**48.1**	51.1
Strategic insurance partners	**265.0**	271.1	**347**	372	**13.1**	13.7
Retail – Wrap and Elevate	**55.6**	49.2	**142**	129	**25.6**	26.2
Eliminations	**(7.9)**	(7.2)	**N/A**	N/A	**N/A**	N/A
Group fee revenue yield	**585.9**	609.2	**1,804**	2,015	**30.8**	33.1
SL Asia			**12**	12		
Retail advice and other[2]			**43**	46		
Performance fees			**9**	26		
Group fee based revenue			**1,868**	2,099		

[1] Includes Wealth/Digital. [2] Includes 1825, Focus and Threesixty.

Fee based revenue

IFRS profit

(2017 on a Reported basis)

IFRS profit attributable to equity holders of Standard Life Aberdeen plc increased by 19% to £830m mainly as a result of the £1,780m gain on sale of the UK and European insurance business.

IFRS loss before tax from continuing operations was £787m (2017: profit £438m) mainly due to a £1,397m loss from adjusting items (2017: profit £4m). This was partly offset by the inclusion of a full year's adjusted profit from Aberdeen in 2018.

IFRS profit	**2018 £m**	2017 £m
Adjusted profit before tax – continuing	**650**	475
Adjusting items – continuing	**(1,397)**	4
Share of associates' and joint ventures' tax expense[1]	**(40)**	(41)
(Loss)/profit before tax	**(787)**	438
Tax expense	**(43)**	(28)
(Loss)/profit for the year from continuing operations	**(830)**	410
Discontinued operations	**1,698**	322
Profit attributable to non-controlling interests	**(38)**	(33)
Profit for the year attributable to equity holders of Standard Life Aberdeen plc	**830**	699

1 2018 Includes £3m (2017: £nil) relating to tax on adjusting items.

Adjusting items are shown in the table below.

The profit on disposal of interests in associates of £185m includes £177m relating to the IPO of HDFC Asset Management which completed on 6 August 2018. As part of the IPO we reduced our holding from c38% to c30% for a total net consideration of £180m. 2017 included £302m from the sale of 5.4% of the shares in HDFC Life as part of its IPO in November 2017.

Restructuring and corporate transaction expenses were £239m (2017: £162m), mainly comprised of integration and merger related costs of £191m (2017: £109m). Further details on restructuring and corporate transaction expenses are provided in the Supplementary information section.

The amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts increased to £1,155m (2017: £138m) mainly due to the £880m impairment of the Aberdeen Standard Investments goodwill intangible asset. This reflects future cash flows which assume that the lower market levels seen at 31 December 2018 prevail for the longer term and which, as required by IAS 36, exclude future merger synergy benefits. Further details are provided in Note 14. 2018 also includes a full year's amortisation charge on the intangible assets recognised as a result of the merger. 2017 included an impairment charge of £40m relating to the Lloyds Banking Group customer relationship intangible asset with no further charge in 2018.

Impairment of associates of £228m relates to our investment in Phoenix. In accordance with IAS 28 requirements the Phoenix carrying value is the market value of this investment on 31 December 2018. Under IAS 28, the additional strategic value of our relationship with Phoenix is not taken into account in the impairment assessment. The Phoenix share price has recovered strongly since the year end and we will reverse this impairment to reflect any such improvement at the end of subsequent accounting periods.

Investment return variances and economic assumption changes of £54m relates to our share of Phoenix adjusting items. Refer to Note 12 of the Group financial statements.

The gain in adjusting items from discontinued operations of £1,519m (2017: loss £44m) includes the £1,780m gain on sale. See page 130 for more details.

See pages 119 and 145 for further details on adjusted profit and reconciliation of adjusted profit to IFRS profit.

Analysis of adjusting items (2017 on a Reported basis)	**2018 £m**	2017 £m
Profit on disposal of interests in associates	**185**	319
Restructuring and corporate transaction expenses	**(239)**	(162)
Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts	**(1,155)**	(138)
Impairment of associates	**(228)**	–
Investment return variances and economic assumption changes	**54**	–
Other	**(14)**	(15)
Total adjusting items from continuing operations	**(1,397)**	4
Discontinued operations	**1,519**	(44)
Total adjusting items	**122**	(40)

Adjusted diluted earnings per share

Adjusted diluted earnings per share was 22.5p (2017: Pro forma basis 28.9p, 2017: Reported basis 29.9p).

Adjusted cash generation from continuing operations

(2017 on a Pro forma basis)

This measure provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to our shareholders. Adjusted cash generation decreased to £453m (2017: £505m), due to the impact of lower asset management profits, partly offset by a dividend of £33m received from Phoenix in 2018.

Adjusted cash generation from continuing operations	2018 £m	2017 £m
Asset management and platforms	**420**	495
Insurance associates and joint ventures	**33**	10
Adjusted cash generation	**453**	505

Profit from discontinued operations

Discontinued operations relates to the UK and European insurance business which comprised Spread/risk, Europe, Workplace and non-platform elements of our Retail business. We successfully concluded the sale of this business to Phoenix on 31 August 2018 and recognised a gain on sale of £1,780m. Profitability in 2018 therefore only includes the result for the 8 months to 31 August 2018.

Discontinued adjusted profit before tax was £210m (2017: £379m) reflecting the 8 month period in 2018 and the benefit of operating assumption and actuarial reserving changes of £91m in 2017 (2018: £nil).

IFRS profit after tax attributable to equity holders from discontinued operations was £1,665m (2017: £297m). The result benefited from adjusting items of £1,519m (2017: loss £44m) which primarily related to the gain on sale of £1,780m. 2018 also benefited from a held for sale accounting adjustment of £44m relating to the amortisation of intangible assets (primarily deferred acquisition costs) and depreciation of tangible assets. Following the classification of the UK and European insurance business as held for sale on the announcement of the transaction on 23 February 2018, no further amortisation or depreciation was recognised. This increase to profit was classified as an adjusting item. These positive adjusting items were partially offset by £198m (2017: £nil) relating to the redemption of our tier 1 subordinated bonds, separation costs of £53m and losses from investment return variances and economic assumption changes of £41m (2017: profit £67m), primarily relating to credit spread widening in 2018 compared to narrowing in 2017.

Further details on adjusting items from discontinued operations are provided in the Supplementary information section.

Separation costs

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. The 2018 result for discontinued operations included total separation costs of £133m. £53m was included within restructuring and corporate transaction expenses, and £80m was included in the gain on sale relating to contractual obligations arising from the transaction.

Tax expense from continuing operations

(2017 on a Reported basis)

The total IFRS tax expense attributable to the profit for the year from continuing operations was £43m (2017: £28m) including a credit of £52m (2017: credit £49m) relating to adjusting items. The effective tax rate on total IFRS profit is (5.5%) (2017: 6.4%). The main factors that have caused there to be a tax expense whilst there is an IFRS loss before tax are:

- Impairment losses on intangible assets are not tax deductible
- Loss on impairment of interest in associates is not tax deductible
- Costs which are not deductible for tax purposes
- Deferred tax assets have not been recognised on tax losses in some jurisdictions in which we operate

These factors are partially offset by:

- The gain arising from the IPO of HDFC Asset Management was subject to tax in India at a rate which is lower than the UK corporation tax rate
- Profits of some of our Asian subsidiaries are taxed at rates lower than the UK corporation tax rate
- A revaluation of deferred tax liabilities relating to intangible assets of the asset management business
- Our share of profit from our associate and joint venture holdings is already included on a net of tax basis and so no further amount is included in the tax expense

The tax expense attributable to adjusted profit before tax totalled £138m (2017: £118m), of which £43m (2017: £41m) represents equity holders' share of tax which is borne directly by our associates and joint ventures. The effective tax rate on adjusted profit is 21.2% (2017: 24.8%). This reflects costs which are not tax deductible and the tax on associate and joint ventures being at a higher rate than the UK Corporation tax rate.

Total tax contribution from continuing operations

Total tax contribution is a measure of all the taxes the Group pays to and collects on behalf of governments in the territories in which we operate. Our total tax contribution for continuing business was £538m. Of the total £218m was borne by Standard Life Aberdeen Group whilst £320m represents tax collected by us on behalf of the tax authorities. Taxes borne by the Group mainly consist of corporation tax, employer's national insurance contributions and irrecoverable VAT. The taxes collected figure is mainly comprised of pay-as-you-earn (PAYE) deductions from employee payroll payments, employee's national insurance contributions, VAT collected and income tax collected on behalf of HMRC on platform pensions business.

Tax policy

Understanding tax risk, how to manage it, and how it impacts all our stakeholders are important elements of running our business responsibly and as a responsible business we recognise the contribution the taxes we pay and collect make to wider society. The tax environment is also dynamic and to ensure we meet our responsibilities we employ an in-house tax team to oversee the tax affairs of the Group and have a tax risk management policy that is approved annually by the Board.

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

Financial strength and liquidity

CRD IV

Following the sale of the UK and European insurance business, the Group is classified as an investment group for prudential supervision and is subject to regulation under CRD IV. Previously, the Group was regulated as an insurance group subject to Solvency II. This has resulted in a significant reduction in the Group's total capital requirements. The Group's regulatory resources comprise shareholders' equity reduced by a number of deductions (including deductions for intangible assets, defined benefit pension plan surpluses and significant investments in associates). Capital requirements take into account the impact of the ICAAP process. The Group remains strongly capitalised. At 31 December 2018, the Group's regulatory capital position was as follows:

CRD IV Group regulatory capital position	**2018 bn**
Common Equity Tier 1 capital resources	**1.1**
Tier 2 capital resources	**0.6**
Total capital resources	**1.7**
Total capital requirements	**(1.1)**
Surplus regulatory capital	**0.6**

The above position includes a deduction to allow for the proposed final 2018 dividend which will be paid in May 2019.

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

Shareholder equity

IFRS equity attributable to equity holders of Standard Life Aberdeen plc decreased to £7.4bn (2017: £8.6bn) mainly due to distributions to shareholders, including the return of capital. This was partly offset by profitability in the year which included the gain on sale of the UK and European insurance business.

Our balance sheet is significantly simplified following the sale to Phoenix. Total assets reduced to £12.5bn (2017: £198.1bn) and total liabilities reduced to £5.0bn (2017: £189.1bn).

Intangible assets of £3.4bn (2017: £4.5bn) primarily relate to goodwill, customer relationships, technology and brands from acquired businesses. Further details are provided in Note 14.

The principal defined benefit staff pension scheme, which is closed to future accrual, continues to have a significant surplus of £1.1bn (2017: £1.1bn). Further details are provided in Note 35.

Subordinated liabilities reduced to £1.1bn (2017: £2.3bn) as we completed the redemption of our outstanding tier 1 subordinated bonds on 25 October 2018, primarily funded by cash returned from the UK and European insurance business prior to sale. In November 2018 we obtained consent from bondholders to convert our $750m subordinated debt to CRD IV capital resources (Tier 2), as shown in the section above. Further details are provided in Note 34.

The Group holds £179m (2017: £193m) in newly established investment vehicles which the Group has seeded. The Group sets limits for investing in seed capital and regularly monitors the exposure. Additional detail is provided in the Risk management Note 39.

On 22 October 2018 in conjunction with the £1bn 'B' share scheme capital return, we undertook a share consolidation of the Company's share capital. The Company issued 7 new ordinary shares for each holding of 8 existing ordinary shares resulting in the number of shares in issue reducing from 2,942m to 2,574m. Refer to Note 26.

Liquidity management

Group cash and liquid resources were £2.6bn as at 31 December 2018 and includes those of the holding company detailed below.

Standard Life Aberdeen plc, the group holding company, holds substantial cash and liquid resources. At 31 December 2018 Standard Life Aberdeen plc held £1.3bn (2017: £1.2bn) of cash and liquid resources, comprises £789m (2017: £693m) of cash and short-term debt securities, £285m (2017: £298m) of bonds and £197m (2017: £204m) of holdings in pooled investment funds.

Dividends received from subsidiaries/associates consisted of £312m (2017: £180m) from Standard Life Assurance Limited, £346m (2017: £285m) from Aberdeen Standard Investments entities, £33m (2017: £nil) from Phoenix and £7m relating to dividends from HDFC Life (2017: £367m net remittance following IPO). Capital injections of £218m include £100m to Aberdeen Asset Management PLC as funding for acquisitions and £72m to support HASL growth. The remainder relates to funding for 1825 growth and support for other subsidiaries. Cash paid for the tender and conversion of subordinated debt instruments of £1.0bn were offset by £0.8bn of internal loan repayments by Standard Life Assurance Limited prior to the disposal.

Holding company cash and liquid resources (2017 on a Reported basis)	**2018 £m**	2017 £m
Opening 1 January	**1,195**	900
SLAL sale proceeds	**1,971**	–
Return of capital	**(1,235)**	–
Dividends received	**698**	832
Cash dividends paid to shareholders	**(634)**	(469)
Cash investments in subsidiaries, associates and joint ventures	**(218)**	(413)
Debt redemptions/issue	**(207)**	565
Expenses (including SLAL sale related)	**(163)**	(128)
Acquisition of shares by Employee Share Trust	**(75)**	(79)
Other	**(61)**	(13)
Closing 31 December[1]	**1,271**	1,195

1 Excludes collateral held on cross-currency swap.

Dividends

Proposed dividend

Our progressive dividend policy is to grow the annual dividend per share at a sustainable rate over the medium term. It is the Board's current intention that the total annual dividend will be held at the 2018 level of 21.6p while the business is transformed, cost synergies are delivered and future financial performance confirms the sustainability of this level of distribution and provides line of sight to its future growth.

The Board is recommending a final dividend for 2018 of 14.3p (2017: 14.3p) per share. Subject to shareholder approval, this will be paid on 21 May 2019 to shareholders on the register at close of business on 12 April 2019. The 2018 final dividend and future dividends will be paid on the lower number of ordinary shares following the share consolidation and buyback.

The dividend payment is expected to be £345m. At 31 December 2018 Standard Life Aberdeen plc held £1.3bn of cash and liquid resources and £1.6bn of distributable reserves, which will be used to support the dividend and remaining share buyback programme.

The final dividend, combined with the 2018 interim dividend of 7.3p, brings the total dividend for the year to 21.6p – an increase of 1.4% on the 2017 full year dividend.

How the dividend is funded

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

Return of capital

The general meeting on 25 June 2018 approved a return of capital of £1bn via a ‘B’ share scheme, and a return of up to £750m by a share buyback programme. The ‘B’ share scheme return of £1bn was completed in November 2018 and a further £235m has been returned to shareholders during 2018 under the share buyback programme. As at 11 March 2019, we have returned £358m through the share buyback programme with 132m shares repurchased at an average price of £2.72 per share.

Dividend per share paid by the Company

21.60p

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have carried out a robust assessment of the key risks facing the Group in considering the Group’s viability and longer-term prospects. This assessment is based on information known today.

Viability: We consider that three years is an appropriate period for this viability assessment. This is in line with our business planning horizon and is the period over which strategic actions, such as the launch of new investment propositions, are typically delivered. It also reflects the timescale over which changes to major regulations and the external landscape affecting our business typically take place. The key processes used by the Board to assess viability are set out below. We consider that the severe scenarios assessed as part of our reverse stress testing are appropriate over this three-year period.

Business plan scenarios: Our business planning process projects the performance, regulatory capital and liquidity of the Group over a three-year period, and considers scenarios including a severe downside. The severe downside scenario assumes a significant global recession; a sharp fall in global equity markets, with markets remaining considerably below recent levels throughout the three-year period, with bond yields falling through 2019 before steadying and some modest increases in 2020. Our analysis shows that, whilst capital is eroded under this scenario, the strength and quality of our capital base and the range of management actions that are available means that sufficient regulatory capital is maintained.

Stress testing and scenario analysis looks at plausible, adverse individual and combined stresses that could adversely impact profits, capital and liquidity. Stresses are calibrated at a 1-in-200 year probability level or worse. We performed a broad range of stresses during the year which, for the asset management business, included an exploration of: (i) individual stresses applied to fixed interest, equity and property market values, business outflows and expense levels, (ii) sensitivity to combinations of the above, (iii) combined stress scenarios considering market stagnation, poor fund performance and fee pressure.

The platforms business explored: (i) individual stresses applied to fees charged, flows, expenses, persistency and market movements, (ii) sensitivity to combinations of the above, (iii) the sequential analysis of the impact of data breaches on the business.

Under the most severe combined scenario impacting markets, persistency and expenses, the platforms business would have required a capital injection of £20m in order to maintain a regulatory capital surplus in the absence of any other actions being taken. A capital injection of this magnitude would be affordable for Standard Life Aberdeen without threatening viability. For all other scenarios the asset management and platforms businesses maintained sufficient regulatory capital.

Reverse stress testing gives a quantitative and qualitative understanding of plausible but severe risk scenarios which could threaten business model viability. In 2018, reverse stress testing was carried out by both the asset management and platforms businesses. This analysis explored the following scenarios: the rise of populism and protectionism; the breakdown of relationships with strategic partnerships and clients; the failure of multiple key projects; the failure of key third party service providers within the platforms business; and various Brexit scenarios. The reverse stress testing results highlighted the potential customer and cost impacts for the platforms business in the event of the complete failure of its key third party outsourced service provider. Although this would represent a significant stress for the platforms business it would not threaten the viability of Standard Life Aberdeen. The businesses were resilient under all other reverse stress tests.

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

Longer-term prospects: The Group’s prospects are primarily assessed through the strategic and business planning process which considers our business model and how this is designed to be sustainable and resilient in the long term as described on pages 9, 10, 11 and 25 of this report. The Directors’ assessment of prospects also takes into account: (i) the Group’s current capital and liquidity position, as set out on page 38, which shows a regulatory capital surplus of £0.6bn, (ii) the substantial cash and liquid resources held by Standard Life Aberdeen plc, (iii) the Group’s holdings in strategic investments.

Assessment of prospects: Based on the above, the Directors consider the Group’s current transformation plans will preserve the strengths of the existing business, create a compelling offering in response to changing client demands and enable the business model to deliver the vision of strong and sustainable growth. Furthermore, the Group’s financial position and business model are considered to support the assumption in the business plan scenarios that the Group’s dividend policy can be maintained over the planning horizon. The Board would expect to reassess the suitability of this assumption should future conditions be more adverse than those analysed.

Strong risk management underpins our approach to strategic delivery

Our approach to risk management

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

Three lines of defence

We operate 'three lines of defence' in the management of risk so that there are clearly defined roles and responsibilities within our Enterprise Risk Management (ERM) framework:

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

Enterprise Risk Management framework

As part of our corporate transformation, we have taken the opportunity to refresh our ERM framework. This also ensures that we continue to raise standards in risk management as we build a world-class investment company. Specifically, we have made changes across all the key building blocks of our framework so that they better support the management of risk in our transformed business.

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), that is where they should be managed. The second line oversees business risk assessments and provides advice and challenge where necessary.

- **Risk governance:** Our governance drives how we make decisions on current and future risks drawing on our assessment, monitoring and control processes. We seek to ensure that risk decisions are taken at the right level. Most risk decisions are taken in our business units but certain decisions will be taken in senior executive committees or at Board level.
- **Risk assessment:** All three lines of defence have their own processes for assessing risk thoroughly in line with their respective roles. There are well developed processes for coordinating viewpoints, challenging specific assessments and escalating points of difference that might warrant action.
- **Risk monitoring:** The ongoing monitoring of risks and the performance of key controls is a critical activity to allow us to keep track of developments, drive action and ensure appropriate capital allocation
- **Risk control:** We operate processes so that risk is mitigated using controls with clearly identified control-owners. The effectiveness of controls is reviewed on a regular basis.

Internal Capital Adequacy Assessment Process (ICAAP)

The Group supervisory regime has changed from Solvency II to that of the Capital Requirements Directive. As required under the Capital Requirements Directive, the ERM framework is structured to support a comprehensive ICAAP which covers:

- Awareness and understanding of the current and potential risks to the business including both financial and non-financial risks and their potential to affect both long and short-term value
- Accountability for the management of risks
- The appetite to accept these risks and how we manage them
- The assessment of capital requirements with respect to the risks
- A forward-looking assessment of the risk and capital strength of Standard Life Aberdeen over a multi-year time horizon in light of business plans, considering a range of stress scenarios

Business risk environment

The delivery of good investment performance and our ability to innovate to respond to changing clients' needs is fundamental to the Group's ongoing success as is our ability to effectively distribute our investment solutions. Following the sale of the UK and European insurance business, and the diversification of revenues it previously provided, these key aspects of asset management delivery become even more fundamental to the success of the Group. We recognise that investment performance remains mixed with challenges across key funds and asset classes such as absolute return and equities. This weakened performance has impacted on overall net flows but gross inflows have been encouraging and are spread across a diverse range of capabilities.

The sale of the UK and European insurance business to Phoenix has significantly simplified the risk profile of the Group (though we still have indirect exposure to insurance risks through the 19.98% holding of Phoenix). As well as our core investment business, the financial success of the Group is materially influenced by holdings in our insurance and asset management associates and joint ventures in the UK, India and China which we oversee through a dedicated function to ensure we maximise value for shareholders.

As with any transformational corporate event, there are new risks introduced following the sale of the UK and European insurance business. There are increased dependencies on Phoenix for the efficient and effective operation of the Group through Transitional Services Arrangements and failures of these services could result in detriment to customer and client outcomes and subsequently to the Group's reputation and future financial performance. The Group has dedicated significant time and resource to structuring the Transitional Services Agreements and their ongoing oversight to mitigate such risks. Additionally, the Group is exposed to the dividend declared by Phoenix through our 19.98% holding and hence unexpected earnings volatility at Phoenix could impact on the Group's profitability. Our Investment Management Agreements and Ancillary Service Agreements with entities within the Phoenix Group are designed to ensure that service standards are maintained for both clients and customers. We follow our Group policy on material outsourcing arrangements which are subject to oversight by Risk and Compliance.

Operational stretch continues to exist within the business as work is underway to integrate and transform the Group in line with its new focus. This brings with it operational risks including the retention of talent and the engagement of our people. We have undertaken careful resource planning with executive ownership and accountability for delivery of our integration and transformation programmes alongside delivery of our business as usual activities for the benefit of our customers, clients and ultimately our shareholders.

The delivery of good investment performance and our ability to innovate to respond to changing clients' needs is fundamental to the Group's ongoing success as is our ability to effectively distribute our investment solutions. Following the sale of the UK and European insurance business, and the diversification of revenues it previously provided, these key aspects of asset management delivery become even more fundamental to the success of the Group. We recognise that investment performance remains mixed with challenges across key funds and asset classes such as absolute return and equities. This weakened performance has impacted on overall net flows but gross inflows have been encouraging and are spread across a diverse range of capabilities.

In view of the corporate transformation over the last two years, the business remains well positioned to benefit from the trends which are shaping the investment landscape. However, there remains unavoidable uncertainty due to Brexit, and in particular, a no-deal Brexit. The Group has well established plans for an orderly Brexit however there are impacts of a no-deal Brexit that are difficult to plan for and which could be disruptive. The degree of market disruption, and hence volatility, as a result of a no-deal Brexit is difficult to predict but our teams have processes in place to support the smooth and orderly governance of our funds should there be a disruption to pricing or liquidity of underlying assets.

Apart from the potential for increased market volatility impacting clients' investments, we have also had to consider (i) how to maintain the Group's portfolio management and distribution capabilities for European clients and (ii) the risk that key suppliers to the Group might suffer disruption.

In light of the multilateral memorandum of understandings which the European Securities and Markets Authority has co-ordinated on behalf of EU-27 securities regulators to allow supervisory cooperation with the UK FCA, we have analysed and planned for the residual risk that delegation arrangements between our Luxembourg and Irish subsidiaries and our UK offices may not be permitted. A no-deal Brexit could also threaten the Group's operations, as they could for many other industries and companies. Our Brexit preparations cover all areas of business including ensuring that our staff can continue to perform roles, maintaining continuity of personal data flows and addressing areas of concern with key suppliers. Our platform businesses are also preparing for the consequences of market disruption which could see markets, and hence platform funds, become illiquid and also high trade volumes as our customers and clients react to the evolving market conditions.

Cyber security has continued to be a major issue facing all large corporates and we are no exception especially given our global footprint and renewed focus on digital transformation. Dedicated teams of internal experts, augmented by external expert input, help to ensure we actively manage this continually evolving risk.

We have a strong proactive relationship with our regulators and seek opportunities to engage both directly and indirectly through trade associations to contribute to the regulatory agenda and ensure that our knowledge and experience are considered in the decisions taken.

The regulatory agenda continues to evolve with increasing focus from UK and EU regulators on value for money and competition and the FCA Asset Management Market Study and Investment Platforms Market Study have continued to remain important areas of our work.

Our ambition is to be an industry leader in conduct governance and the delivery of fair client and customer outcomes. This will be achieved through a strong conduct risk culture and we have made significant strides in this area to benchmark and strengthen our conduct risk framework.

Our principal risks and uncertainties

The specific risks we face as a business are driven by what we choose to do and how we do it, as well as the wider environment in which we operate. We group these under 12 principal risks which form the basis of our detailed risk taxonomy. This risk taxonomy sets the framework for assessing, monitoring, controlling and governing the risks of the business. Our principal risks were subject to robust assessment by the Board and are described in the following pages.

Operational risk

1 Process Execution and Trade Errors ▲

Risk appetite statement:

The Company maintains a number of significant business and operational processes. We have no appetite for significant process, operations and trade errors that are detrimental to our clients or customers or compromise our financial strength or our reputation. We will maintain a strong and well established risk management framework as a foundation for the effective management of process risk across the business.

The risks to our business and how they have evolved in 2018

Failing to execute operational processes may result in poor client and customer outcomes, operational losses, reputational damage and potentially increase the amount of capital we have to hold.

Our increase in operational activity resulting from our merger which created the Standard Life Aberdeen Group, the sale of our UK and European insurance business and the implementation of our transformation has resulted in some additional strain to the normal operating environment. We recognise that these additional challenges require additional oversight and support to ensure we deliver against our strategy.

We employ robust risk control processes to ensure that there is effective management and oversight of any process execution or trade error issues.

Our approach to managing these risks

- Clearly defined three lines of defence risk management model where accountability and awareness are central to managing risks in the first line
- Risk and control self-assessment process redesigned to fit the capital-light business proposition
- Effective deployment of our Operational Risk team to effectively oversee and challenge process controls
- Launch of a new risk management system to facilitate use of management intelligence and effective reporting
- Evolution of our ERM framework to reflect our changing business will ensure that these risks are managed effectively across our business
- Continued investment in our system capabilities as part of our transformation project will identify synergies and simplify our operating environment

Link to strategy

Enhancing our operations

2 People ▲

Risk appetite statement:

Our people are crucial to the success of the Company and efforts will focus on maintaining a skilled and highly motivated workforce. We will accept a level of staff turnover provided that resource gaps are not detrimental to achieving strategic objectives. We seek to uphold our corporate values and we will take necessary action to eliminate individual and institutional discrimination and to make equality, diversity and inclusion core issues in the development and implementation of policies and initiatives and in the way we manage our staff. We accept that our international footprint and profile presents new challenges and we operate in some countries that maintain different values to our own. We will respect local laws, we will not knowingly expose our people to personal risk, and we will use our influence to contribute to development in our local operating context and maximise our positive impact as we operate around the world.

The risks to our business and how they have evolved in 2018

Our people drive the success of our business. We must retain, attract and develop a skilled and diverse workforce with the right experience to meet our strategic goals.

With the creation of the Standard Life Aberdeen Group and sale of our UK and European insurance business our people are more clearly aligned to achieving our strategic objectives.

Increased challenges in an uncertain business and political environment have the potential to impact our ability to attract and retain staff globally. In addition, our complex corporate change activity has been challenging for our people.

Our approach to managing these risks

- We listen to our people and seek to understand their views through active leadership and ongoing staff engagement, including periodic surveys
- We regularly benchmark our terms and conditions against the market
- We are committed to driving inclusion and diversity
- Employee networks are used to support our people ensuring their voices are heard. These include: Carers' Network, Mind Matters (mental health), Young Persons Development Network, Balance (gender), Unity (BAME), Armed Forces, Lighthouse (LGBT+)
- We are committed to the Women in Finance Charter and meeting the targets by 2020
- We operate a global business where our people are able to work across borders and help us achieve our strategic goals

Link to strategy

Enhancing our operations

Innovating for the future

Trends

▲ Increase

◀ ▶ Stable

▼ Decrease

Link to strategic priorities

Client centricity

Enhancing our operations

Innovating for the future

Valuing our savings ecosystem

Operational risk continued

3 Technology ▲

Risk appetite statement:

The Company operates in an ever increasing technology driven environment, which brings complex challenges around data governance and cyber security. We have no appetite for substantial flaws in our technology infrastructure that could expose our systems to reoccurring or prolonged failure, unauthorised access, compromise by third parties, or breach of data protection regulation. We will maintain the confidentiality and integrity of our data, technology infrastructure and systems by implementing credible risk-prioritised controls to protect against known and emerging threats, focusing protection around our risk-sensitive assets and protect customer and staff data from unauthorised or accidental access, misuse or disclosure.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Our business is built upon our ability to advance alongside the technology available to us. We rely upon a wide range of IT systems and require greater use of online functionality to better serve our clients and our people. Effective management of technology can improve efficiency and cost savings. The risk of operational disruption and data loss is increasing as seen by the rise in phishing and malware attacks. Our exposures extend beyond our Group as we have a number of key suppliers who can be exposed to cyber risks resulting in impacts to our supply chain. This risk applies to our outsourcing of some IT services to Phoenix.	• We utilise layered controls and engagement in both change and business as usual activities • We undertake regular penetration testing and crisis management exercises • Our business invests in enhancing and developing controls in IT infrastructure • Continued engagement with our clients and with our regulators concerning technology risks • Security is considered as part of our ICAAP report and considers data security as well as virus and malware attacks • Delivery plans exist to ensure mitigating actions are in place covering our change risks. Embracing more agile working practices allows us to deliver multi-speed change for our business.	Enhancing our operations

4 Business Resilience and Continuity ◀ ▶

Risk appetite statement:

We are committed to identifying the threats, interruptions and potential impacts to the Company, and building the resilience and capability required to provide an effective response. We have no appetite for reoccurring or prolonged interruption to our critical business operations and systems, including those undertaken by our outsourced partners, that could result in significant operational loss, material reputational damage or that impacts on client or customer service. Business resiliency planning and execution must be proactive, consistent and aligned with strategic objectives.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Identification and management of impacts of potential threats to our business requires resilience. Our processes are the safeguards that put the needs of our stakeholders at the heart of our continuity planning. A failure of business continuity could damage our ability to maintain day-to-day activity and serve our clients and customers and cause significant reputational and operational damage. We are exposed to external and uncontrollable events, such as extreme weather, which have an ability to impact our business operations. These events require resilience and continuity processes in order to manage potential impacts. We are well placed to maintain service and view this risk as stable.	• We maintain appropriate business continuity and contingency plans. We have achieved ISO 22301 in relation to fund management activities. • Our business supports remote access working to manage at times when some of our offices are unable to be accessed • We hold work area recovery locations as alternatives for our key office locations with capacity for key functions to continue servicing our clients and customers • We ensure our people are informed of any scenarios whereby physical or remote access is challenged. This communication system is tested regularly. • We are engaged with our key third party suppliers to ensure we have resilient operations. This is achieved through assurance activities and ongoing supplier management.	Client centricity Enhancing our operations

Operational risk continued

5 Fraud and Financial Crime ◀ ▶

Risk appetite statement:

The Company acknowledges that financial crime could arise from either internal or external parties who attempt to defraud the Company or our clients by circumventing our processes or controls, including those operated by our outsourced partners. We have no appetite for knowingly exposing our systems and processes to misuse, or conducting business with clients, suppliers or other third parties intent on misusing our products or services for the purpose of committing financial crime. We will take measures to detect, deter and report such behaviour and activity.

The risks to our business and how they have evolved in 2018

We are vigilant to potential instances of fraud, both internal and external, financial crime or bribery and actively work to deter and prevent such behaviour. We have a number of supplier partnerships which increase our risk and we have controls in place to manage them.

Risk detection methods are used to ensure we are able to protect clients and customers and our business.

Our approach to managing these risks

- We operate a number of controls covering anti-money laundering, anti-bribery, fraud and other areas of financial crime and monitor them closely
- Our Global Code of Conduct and Policy Framework provide our people with minimum standards and drive our culture
- Our mandatory learning module on anti-financial crime provides our people the necessary information to identify and escalate potential issues
- Our integrated Risk and Compliance function ensures that our controls are effective in combating financial crime and fraud

Link to strategy

Client centricity

Enhancing our operations

6 Change Management ◀ ▶

Risk appetite statement:

The Company is undergoing a significant transformation programme that requires our staff and processes to adapt quickly. We will not undertake change initiatives that do not meet the criteria for delivering these strategic objectives and/or regulatory requirements to the Company. We have no appetite for material wastage in time, scope, cost or quality of deliverables. Our change portfolio will be governed to predict and overcome change barriers in preparation for change implementation.

The risks to our business and how they have evolved in 2018

Implementing change activities supports our strategy and business plan. Our complex portfolio of internal change projects coupled with regulatory and political changes mean we face significant delivery challenges where there are competing demands for resources.

Completing projects on time and on budget are risks in this space along with failure to meet the objectives of the change.

Regulatory pressures continue along with political planning for Brexit. These challenge our deployment of technology, people and capital.

We have actively planned for Brexit and other regulatory projects and view our change management trend as stable.

Our approach to managing these risks

- Our major change projects are centrally managed with clear governance processes and consolidation of our change workload
- As part of our stress and scenario testing we have considered change management
- Our second line Risk and Compliance function engages with change activities to ensure appropriate governance is in place

Link to strategy

Enhancing our operations

Trends

▲ Increase

◀ ▶ Stable

▼ Decrease

Link to strategic priorities

Client centricity

Enhancing our operations

Innovating for the future

Valuing our savings ecosystem

Operational risk continued

7 Supplier Risk ▲

Risk appetite statement:

The Company recognises that to achieve certain objectives and improve efficiency the use of suppliers is required and we have a number of outsourced supplier relationships as part of our business model, particularly in relation to fund administration, custody and transfer agency services, and retail platforms. We recognise that some suppliers may fail, but we have no appetite for our critical suppliers to fail to fulfil their obligations or provide inadequate service. Our supplier relationships will be governed and overseen, on a risk based approach, against the standards set within our procurement and supplier risk framework.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
We have a number of supplier relationships in operation to allow us to deliver our strategy such as, BNP Paribas and Citigroup for our asset management business, FNZ for our platform business and Phoenix for some of our IT services. The failure of any of our outsourcing providers could instigate a resilience and business continuity event disrupting our operations. Adding new outsourcers increases our exposure to our risk culture, framework and business performance.	• Our outsourcing and third party management policy includes the standards to which we hold our suppliers in relation to both new and existing arrangements • We have oversight and policies over our third parties as their changing business models affect our risk profile • Our stress and scenario testing programme considers supplier risk • We are committed to maintaining strong relationships with our external providers to ensure we understand arising risks and that early management can take place	Client centricity Enhancing our operations

8 Financial Management Process ◄ ►

Risk appetite statement:

We are committed to operating a robust financial planning and control process to enable strategic and business decisions to be based on robust financial information. We have no appetite for accounting irregularities or making material financial mis-statements.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Standard Life Aberdeen has established financial management processes and controls. Our business decision making is based on accurate and timely financial information. Provision of inaccurate or incomplete information could result in poor strategic decision making and negatively impact our business planning processes.	• Application of robust governance and challenge ensures that where business decisions are made, there is appropriate oversight • Our Audit Committee challenges our reporting as part of financial planning and control processes • Our Risk function provides second line challenge of our business plan to support decision making • Our financial reporting is aligned to external reporting standards and industry best practices	Enhancing our operations

Conduct risk

9 Conduct Risk ◄ ►

Risk appetite statement:

The Company has no appetite for unfair customer outcomes or poor market conduct, whether through deliberate or negligent actions.

Consistent with our values, where unfair outcomes arise, the Company will put it right in a fair and prompt manner.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Our business relies on our ability to ensure fair client and customer outcomes. Failure to achieve these outcomes poses significant reputational damage and likely financial losses for our business. We are fully supportive of our regulators driving better customer outcomes and mindful that in a changing landscape we need to remain agile to change. Our ambition remains to become an industry leader in conduct governance and the delivery of fair client and customer outcomes.	• Seeking good customer and client outcomes is an essential aspect of our corporate values and our franchise • Our Global Code of Conduct contains the standards required of our people. Along with our mandatory training modules we embed a strong conduct aware culture across our business. • The second line actively oversees the operation of the Conduct Risk Framework including the governance of conduct risks, the quality of risk assessment and action. We openly engage with our regulators around the world.	Client centricity

Regulatory and legal risk

10 **Regulatory and Legal Risk** ▲

Risk appetite statement:

Standard Life Aberdeen has no appetite for any breach of laws, regulations or prescribed codes that apply to its business. We have no appetite for wilfully breaching contractual obligations where this could give rise to a materially adverse financial or reputational impact on the Group. Financial materiality will be assessed against the materiality threshold used for the Group's consolidated financial statements in any given reporting period. Where laws require interpretation or where regulations or codes are ambiguous or untested, we will take reasonable steps to determine their applicability, including seeking legal advice where necessary. When determining the appropriate course of action, we will have due regard to fair outcomes for our customers, clients, shareholders and other relevant stakeholders. Where breaches are identified, we will ensure that these are resolved in a timely manner taking into account (where relevant) the interests of customers, clients, shareholders and other stakeholders including, if appropriate, by informing the relevant authorities.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
As part of a highly regulated industry globally, we are exposed to a number of different regulators and legal systems. Regulatory or legal change can drive opportunities and threats to our business activities. With current focus on platform activities and asset management fee pressure we are exposed to some risks in this area. An increase in regulatory change and information demands can require a significant diversion of people resource and impact growth opportunities due to climbing compliance costs.	• We are open with our regulators in order to maintain strong relationships and high levels of trust. This allows us to have timely and meaningful discussions on supervisory matters and any areas of potential regulatory change. • We conduct horizon scanning to plan any upcoming regulatory changes and establish programmes to manage them • The Policy Framework sets out the compliance standards for our business • Our internal legal team supports our senior management on relevant areas across our business	Enhancing our operations

Strategic risk

11 **Strategic Risk** ▲

Risk appetite statement:

The Company has an appetite for strategic risk that arises as a consequence of pursuing its chosen business model. We will proactively identify and understand the strategic risks that it is exposed to, the options available to manage them and ensure that these inform strategy formation and business planning. We have a limited appetite for failing to deliver our business plan objectives as a result of underperformance that is within our direct control. Ongoing performance against the business plan will be closely monitored and prompt action taken to address any material adverse divergence.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Our vision to build a world-class investment company requires us to generate sustainable long-term value for our clients and customers. We utilise active investment management to achieve this outcome. With variable investment performance across our products we are focused on managing our investment performance risks. Managing our strategic goals in line with completing our strategic transition to a capital-light business has created some potential distraction risks. Geopolitical unrest and associated risks can affect the markets in which we operate and impact our reputation Ensuring we have captured the demands and needs of clients and customers and adapting to preference changes can impact our business significantly.	• Ongoing engagement with clients and customers on service and performance • Our first and second line investment risk teams provide multiple levels of oversight and challenge to our investment function • Our Board and executives are responsible for our strategy and its execution, with our Co-CEOs responsible for the development and promotion of our strategy and overall monitoring of its operational performance • We proactively manage our relationships with our strategic partners allowing us to expand our existing investment capabilities and diversify our business capabilities	Impacts all areas of strategy

Trends

▲ Increase

◄ ► Stable

▼ Decrease

Link to strategic priorities

Client centricity

Enhancing our operations

Innovating for the future

Valuing our savings ecosystem

Financial risk

12 Financial Risk

Risk appetite statement:

The Company has no appetite to fail to maintain sufficient resources to meet its contractual, business and regulatory obligations. We will ensure it can do so under both normal conditions and an appropriate range of company and market stressed scenarios. The Company has an appetite for market and credit risk exposures where these are required in pursuit of its business objectives. Exposures must be controlled to manage capital and liquidity requirements, concentration risk and the risk of financial loss.

The risks to our business and how they have evolved in 2018	Our approach to managing these risks	Link to strategy
Our transition to a fee based model has increased the exposure of our revenue streams to volatility in financial markets given the impact this has on the value of assets on our platforms and under management. The value of our shareholder assets are also exposed to volatility in financial markets. Liquidity risk may impact our business if we were unable to maintain enough liquid capital to cover liabilities as they fall due. Our counterparty exposures have reduced as a result of the sale of our UK and European insurance business. We have effective processes in place to manage our counterparty exposures.	• We maintain a strong capital position to ensure any increased capital costs are covered • Through our ICAAP we allocate appropriate capital against our risks and review these risks on an ongoing basis • Our stress and scenario testing programme cover our financial risks in particular: market, liquidity and counterparty risks • Counterparty exposures are proactively monitored with mitigation action taken where necessary • We ensure we have appropriate capital to support and optimise our balance sheet • We monitor our current and projected liquidity position to identify where any management actions may be required • We maintain a revolving credit facility as part of our contingent funding plans	Enhancing our operations Valuing our savings ecosystem

A responsible approach

We hold ourselves to the same high standards that we expect of companies that we invest in.

Sustainability at Board level

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

Code of conduct

Our Global Code of Conduct, which details the standards of behaviour we expect across the Group, is reviewed and updated annually. All our employees are required to read, agree and adhere to the principles of the code which focuses on doing the right thing and putting our customers and clients at the heart of our business. At the end of February 2019, 95% of employees have confirmed they understand and will comply with the code. Reminders are sent to individuals who have not completed the confirmation and these are escalated through line management. A six-monthly report is presented to the Conduct and Conflicts Committee. If employees have any concerns relating to issues covered by the code such as bribery, environmental or human rights issues, we encourage them to speak to their manager in the first instance; if they feel they cannot raise their concern using their normal reporting line, or wish to raise it anonymously, we provide an independent and confidential Speak Up hotline. Fifteen incidents were reported with investigations carried out in 2018.

Modern slavery statement

As a global investment company, we want to do all we can to help tackle human trafficking, forced labour, bonded labour and child slavery. We focus on raising awareness of modern slavery issues, and encouraging good practices among our suppliers and the companies we invest in. We have published our 2018 statement and outcomes on our website, reinforcing our commitment to this important issue.

Human rights policy

Our policy summarises our approach to identifying and upholding the human rights of our people, customers and clients, community and those impacted by our suppliers, partners and the companies we invest in. As an investor we consider ESG factors, including human rights, when evaluating companies. We assess the management of human rights impacts and engage when appropriate to highlight issues and promote good practice. We publish the outcomes of our ESG engagements with investee companies in a quarterly summary available on our website.

Financial crime prevention

We have a zero tolerance approach to financial crime, bribery and corruption. We have policies, frameworks and controls in place to help ensure that we only receive or pay money to or from clients, third parties, partners and suppliers that we've identified as suitable to do business with. We run mandatory annual training for our employees which requires passing a test that confirms their understanding of both our policies and the part our people play. We also maintain a register for gifts and entertainment we receive or provide. We have processes for reporting and reviewing breaches of our policies. In 2018 we had no breaches.

Managing our environmental impact

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

Our operational environmental impact is mostly comprised of the energy we use in our buildings and air travel. To reduce our impact in these areas we track our consumption, pursue ongoing improvements in building management, and encourage our people to reconsider the need for air travel by offering technology solutions. This year we have pledged to procure 100% renewable electricity for our globally operated offices by 2020. We have also had a significant focus on supporting biodiversity, and have pledged to remove all single-use plastics in our globally operated offices where practical by 2020. Our 2018 greenhouse gas emissions (GHG) data is our new baseline year and we will be developing GHG reduction targets in 2019.

Climate change is an investment risk we consider across all asset classes, so we have been actively supporting efforts to promote more transparency on the climate risks that companies may be facing and how they are tackling them. We have publicly declared our support for the G20's Task Force on Climate-related Financial Disclosures. To enable us to meet the recommendations, we initiated two working groups on climate change in 2018 – one focused on our investment approach, and the other looking at our operations and stakeholder interactions.

You can read more on these topics and also find our Corporate sustainability report 2018 on our website
www.standardlifeaberdeen.com/annualreport

Greenhouse gas emissions		2018 (Location-based)	2017 (Location-based)	2018 (Market-based)[2]
Greenhouse gas emissions (tonnes CO_2e) continuing business	Scope 1	**2,667**		**2,667**
	Scope 2	**7,069**		**4,376**
	Scope 3	**22,482**		**22,106**
	Total	**32,218**[1]		**29,149**
Tonnes CO_2e/FTE ratio		**5.21**		**4.71**
Greenhouse gas emissions (tonnes CO_2e) including discontinuing business	Scope 1	**3,469**	3,518	**3,469**
	Scope 2	**10,847**	14,717	**4,782**
	Scope 3	**22,756**	17,543	**22,231**
	Total	**37,072**[1]	35,778[1]	**30,482**
Tonnes CO_2e/FTE ratio		**3.89**	2.89	**3.20**

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

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

Note: Emissions associated with real estate investment assets owned by Standard Life Assurance Limited for the 8 months prior to the sale on 31 August 2018 are 6,480 tonnes CO_2e.

Non-financial information statement

Standard Life Aberdeen aims to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.This information is intended to help stakeholders better understand how we address key non-financial matters. This aligns with the work we already do in support of Carbon Disclosure Project, UN Global Compact and UN Sustainable Development Goals. Further details of the activities we undertake in supporting these frameworks is available in our Corporate sustainability report. Details of our principal risks and how we manage those risks are included in the Risk management section.

Reporting requirement	Relevant policies and publications	Where to find more information
Environment	Environmental policy[1]	**Our business practices** (page 48)
	Single-use plastics policy[1]	**www.standardlifeaberdeen.com/annualreport**
Employees	Global code of conduct[1]	**Our business practices** (page 48)
	Diversity strategy[1]	**Our people and culture** (pages 28 to 29)
	Anti-bribery and corruption policy[2]	**Our business practices** (page 48)
Human rights	Human rights policy[1]	**Our business practices** (page 48)
	Modern slavery statement[1]	**Our business practices** (page 48)
Social matters	Young people and money report	**www.standardlifeaberdeen.com/annualreport**
	Corporate sustainability report	**www.standardlifeaberdeen.com/annualreport**
	Supplier code of conduct[1]	**www.standardlifeaberdeen.com/annualreport**
Other matters	Business model	**Our business model** (pages 10 to 11)
	Non-financial KPIs	**Our strategy** (page 27), **Our business practices** (page 48)

1 Group policies are published on our website at **www.standardlifeaberdeen.com/annualreport**

2 Certain Group policies are not published externally.

Basis of preparation

Overview

Our Strategic report for the year to 31 December 2018 has been prepared in accordance with the Companies Act 2006 and the Disclosure and Transparency Rules (DTR) issued by the FCA. Under section 414 of the Companies Act 2006, DTR 4.1.8 and DTR 4.1.9, the Group is required to provide a fair, balanced and understandable review of the business and a description of the principal risks and uncertainties facing the Group. Principal risks and uncertainties are detailed in the Risk management section of this Strategic report and Note 39 in the Group financial statements section. To provide clear and helpful information, we have also considered the revised voluntary best practice principles of the Guidance on the Strategic report issued by the Financial Reporting Council in July 2018. We have also considered the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures issued in October 2015.

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

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

Going concern

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

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

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

Forward-looking statements

Details of forward-looking statements are included in the Glossary on page 253.

Kenneth A Gilmour
Company Secretary,

Standard Life Aberdeen plc (SC286832)

13 March 2019

Contents

2. Board of Directors

Our business is overseen by our Board of Directors. Biographical details (and shareholdings) of the Directors as at 12 March 2019 are listed below.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Key to Board committees

- A – Audit committee
- NG – Nomination and governance committee
- R – Remuneration committee
- RC – Risk and capital committee
- ☐ – Chair

1 Sir Douglas Flint CBE – Chairman (NG)

Appointed to the Board: November 2018

Nationality: British **Age:** 63 **Shares:** 50,374

Sir Douglas was appointed Chairman on 1 January 2019, having been a Director since 1 November 2018. He is also chairman of IP Group plc, non-executive director of the Centre for Policy Studies and member of the Global Advisory Council of Motive Partners. Additionally, he is chairman of the Just Finance Foundation, the Corporate board of Cancer Research UK and trustee of the Royal Marsden Cancer Charity. In December 2017 he was appointed by the Chancellor of the Exchequer as special envoy to China's Belt and Road Initiative. Previously, he served as chairman of HSBC Holdings plc from 2010 to 2017. For 15 years prior to this he was HSBC's group finance director, joining from KPMG where he was a partner. Between 2005 and 2011 he also served as a non-executive director of BP plc.

2 Simon Troughton – Deputy Chairman and Senior Independent Director (NG)

Appointed to the Board: August 2017

Nationality: British **Age:** 65 **Shares:** 64,054

Simon was appointed Senior Independent Director on 1 January 2019, and has been Deputy Chairman since August 2017. Previously, he was a non-executive director of Aberdeen Asset Management PLC from July 2009 and chairman from October 2016. Simon is also chairman of Redburn (Europe) Limited. Previously, he was a partner at Cazenove and Company Limited before moving to Fauchier Partners in 2003 where he became chief operating officer.

As announced, Simon intends to retire from the Board at the conclusion of the 2019 AGM.

3 Keith Skeoch – Co-Chief Executive

Appointed to the Board: May 2006

Nationality: British **Age:** 62 **Shares:** 2,472,605*

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

As announced, from 13 March Keith will be the sole Chief Executive.

4 Martin Gilbert – Co-Chief Executive

Appointed to the Board: August 2017

Nationality: British **Age:** 63 **Shares:** 1,354,623*

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

As announced, from 13 March Martin will be Vice Chairman of Standard Life Aberdeen and Chairman of Aberdeen Standard Investments.

5 Bill Rattray – Chief Financial Officer

Appointed to the Board: August 2017

Nationality: British **Age:** 60 **Shares:** 1,851,706*

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

As announced, Bill intends to retire from the Board on 31 May 2019.

6 Rod Paris – Chief Investment Officer

Appointed to the Board: August 2017

Nationality: British **Age:** 59 **Shares:** 671,881

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

7 Cathleen Raffaeli – Non-executive Director R RC

Appointed to the Board: August 2018

Nationality: American **Age:** 62 **Shares:** Nil

Cathleen was appointed Director on 1 August 2018. She is also a non-executive director of Federal Home Loan Bank of New York and managing partner of Hamilton White Group, LLC and Soho Venture Partners Inc. Previously, Cathleen was lead director of E*Trade Financial Corporation, non-executive director of Kapitall Holdings, LLC and president and chief executive officer of ProAct Technologies Corporation.

8 John Devine – Non-executive Director A R RC

Appointed to the Board: July 2016

Nationality: British **Age:** 60 **Shares:** 28,399

Appointed Director on 4 July 2016, John is also a non-executive director of Credit Suisse International, Credit Suisse Securities (Europe) Limited, Citco Custody Limited and Citco Custody (UK) Limited. From 2008-2010, John was chief operating officer of Threadneedle Asset Management Limited. Prior to joining Threadneedle, John held a number of senior positions at Merrill Lynch in London and New York.

9 Jutta af Rosenborg – Non-executive Director A R

Appointed to the Board: August 2017

Nationality: Danish **Age:** 60 **Shares:** 8,750

Jutta was appointed Director on 14 August 2017, having been a non-executive director of Aberdeen Asset Management PLC since January 2013. She is also a non-executive director of JPMorgan European Investment Trust plc, NKT A/S, Nilfisk Holding A/S and BBGI SICAV S.A. Previously, she was the executive vice president, chief financial officer of ALK-Abelló A/S.

10 Martin Pike – Non-executive Director RC A

Appointed to the Board: September 2013

Nationality: British **Age:** 57 **Shares:** 69,476

Martin was appointed Director on 27 September 2013. He is also chairman and non-executive director of Faraday Underwriting Limited. He joined R Watson & Sons in 1983, and progressed his career with the firm to partner level. His senior roles included head of European insurance and financial services practice, Watson Wyatt from 2006 to 2009, vice-president and global practice director, insurance and financial services, Watson Wyatt during 2009 and, latterly, managing director, risk consulting & software, EMEA, Towers Watson from 2010 to 2013.

11 Melanie Gee – Non-executive Director A RC NG

Appointed to the Board: November 2015

Nationality: British **Age:** 57 **Shares:** 67,500

Appointed Director on 1 November 2015, Melanie is also a senior adviser at Lazard and Co. Limited, having been a managing director between 2008 and 2012. Previously, she held various roles with UBS, and was appointed a managing director in 1999. Melanie was a non-executive director of The Weir Group PLC between 2011 and 2017 and the Drax Group plc between 2013 and 2016. She is also chairman of Ridgeway Partners Holdings Limited.

12 Richard Mully – Non-executive Director R NG

Appointed to the Board: August 2017

Nationality: British **Age:** 57 **Shares:** 90,116

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

As announced, Richard intends to retire from the Board at the conclusion of the 2019 AGM.

* Shares include qualifying awards as described on page 94 of the Directors' remuneration report 2018.

3. Corporate governance statement

3.1 Nomination and Governance Committee report

The Nomination and Governance Committee oversees the governance framework so the report on its activities is presented both in summary here and integrated in more detail into the relevant parts of the corporate governance statement.

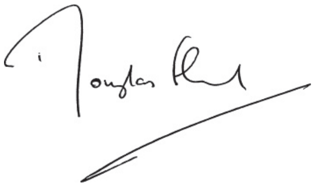
Dear Shareholder

One of my core responsibilities is to ensure effective corporate governance throughout the Group and so I am pleased to introduce the 2018 Corporate governance statement and Nomination and Governance Committee report. Recognising that I only took up my role as Chair of the Group and the Committee on 1 January 2019, I want, up front, to recognise the strength of the extant governance framework overseen by my predecessor, Sir Gerry, and confirm my commitment to continuing his robust work in this area.

During 2018, the two main points of focus of the Committee were to ensure that the leadership and governance processes remained strong and effective, both in the run up to completion of the sale of Standard Life's UK and European insurance business to the Phoenix Group (the Sale) and thereafter, and to conclude the Chair succession process successfully. Throughout the year in conducting these significant transitions, the members of your Board continued to adhere to the highest standards of corporate governance and ethical behaviour in directing the Group's affairs, reflecting their accountability to you as shareholders. Fulfilling this accountability responsibly is recognised by all your Directors as key to understanding and managing our business effectively, providing engaged leadership, and delivering shareholder value over the longer term. Your Board takes the quality of its own performance seriously and strives to improve performance through annual reviews and continuing self-assessment, as well as learning from and implementing feedback from external reviews. The key governance activities during the year included:

- Maintaining high quality membership of the Board and its Committees, including appropriate diversity
- Reviewing the governance content of the Sale Circular
- Reviewing the executive governance structures, including the balance between the individual roles and responsibilities of the Co-Chief Executives and the duties of the key management committees
- Reviewing and conducting oversight of the new operating models within the Group
- Oversight of our transition and transformation programmes, including assessment of the evolution of the firm's culture to align with our purpose, values and strategy
- Reviewing employee feedback on our purpose, values and culture and executive management's response thereto
- Supporting the externally facilitated Board effectiveness review and ensuring feedback was fully considered
- Leading the Chair succession process

Your Board continues to emphasise the importance of robust governance arrangements in carrying through its responsibilities and I look forward to updating you on the work of the Committee in future reports.



Sir Douglas Flint
Chair, Nomination and Governance Committee

Membership

The members of the Committee are the Chair and a number of the independent non-executive Directors. On 1 January 2019, Sir Douglas Flint succeeded Sir Gerry Grimstone as Chair of the Committee. The table below reflects the composition of the Committee and the members' attendance during 2018:

Member	Attendance
Sir Gerry Grimstone, Chair until 31/12/2018	5/5
Melanie Gee	5/5
Richard Mully	5/5
Simon Troughton	5/5
Former member	
Lynne Peacock	2/3
Julie Chakraverty	2/3
Kevin Parry	5/5

Keith Skeoch and Martin Gilbert, in their Co-Chief Executive roles, were invited to Committee meetings to discuss relevant topics, such as the role and membership of key executive management committees, talent development and management succession.

The Committee supports the composition and effectiveness of the Board, and oversees the Group's activities to strengthen its talent pipeline at all levels. It also oversees the development and implementation of the Group's governance framework.

In this statement you can read about the Committee's role, both in the context of business as usual activities including integration, separation and transformation, and in the Sale discussions, in relation to:

- Identifying and recommending Directors to be appointed to the Board
- Reviewing and commenting on the new operating model
- Reviewing and assisting in the implementation of the Company's culture, diversity and inclusion activities, including recommending that a designated non-executive director should be responsible for representing the views of the workforce to the Board
- Reviewing Board diversity, skills and experience
- Considering employee feedback on the purpose, values and culture of the Group
- Supporting the review of the Board's effectiveness
- Overseeing succession planning, leadership and talent development and diversity levels throughout the Group

Ultimate responsibility for these important topics rests with the Board and the Committee reports regularly to the Board so that all Directors can be involved as appropriate.

The Committee's work in 2018

An indicative breakdown as to how the Committee spent its time is shown below:

- Reviewed compliance with the Corporate Governance Code
- Reviewed the corporate governance statement
- Reviewed the Board Committees' terms of reference
- Appointment of subsidiary Board members

- Board and Committee composition
- Review of the target operating model for the Group
- Diversity and Inclusion review
- Review of the Corporate Culture
- Appointment of subsidiary Board members
- Supporting the externally facilitated Board Effectiveness Review
- Reviewing Chair succession arrangements (via the Appointments Committee)

- Appointment of subsidiary Board members
- Considered the Diversity and Inclusion action plan
- Discussed the revised UK Corporate Governance Code
- Reviewed Chair transition arrangements

The Committee's work in 2018

An indicative breakdown as to how the Committee spent its time is shown below:

- Governance and organisational design framework
- Board and committee composition
- Culture, diversity and inclusion
- Succession planning

Committee effectiveness

The Committee reviews its remit and effectiveness each year. The 2018 review was carried out via an external review and Independent Board Evaluation (IBE) was appointed as the external facilitator. The review concluded that the Committee members had debated issues well and had dealt with several complex matters appropriately. While the Committee's main activities during 2018 related to Board non-executive membership, going forward, the Committee should find time to discuss fully senior succession planning, talent management, and gender, diversity and inclusion activities as well as the skills and experience needed by the Board in the future to support its strategy. The Committee's workplan for 2019 increases its coverage of these matters. The Committee will also report fully to the Board on the progress of its discussions.

Roles and responsibilities

The roles and responsibilities of the Board, Chair and Co-Chief Executives are outlined below. The role of the Deputy Chair is to stand in for the Chair in his absence.

The Board

The Board's role is to organise and direct the affairs of the Company and the Group in accordance with the Company's constitution, all relevant laws, regulations, corporate governance and stewardship standards. The Board's role and responsibilities, collectively and for individual Directors, are set out in the Board Charter. The Board Charter also identifies matters that are specifically reserved for decision by the Board. These include approving, overseeing and challenging:

- The development and implementation of strategy, objectives and business plans
- Capital and management structures including capital allocation strategy and how it supports the Group's long-term sustainable growth
- Oversight of culture, our standards and ethical behaviours
- Dividend policy
- Appointment of the External auditor
- Financial reporting which, during 2018 included the impact of the Sale and the agreement of the level of provision in respect of past annuity sales practices
- How risks are managed, including the Enterprise Risk Management (ERM) framework, risk strategy, risk appetite limits and internal controls
- Significant corporate and other transactions during 2018 which, as well as the Sale, included the initial public offering (IPO) process for our Indian asset management associate HDFC Asset Management Company Limited, preparation for the sale of our Hong Kong subsidiary, Standard Life (Asia) Limited to our Chinese joint venture business, Heng An Standard Life Insurance Company Limited and the proposed joint venture with Virgin Money
- Remuneration policy
- Succession planning
- The sustainability of the Group's business and our own sustainability responsibilities to stakeholders, including wider society and the environment
- Significant external communications
- Terms of reference of Board Committees
- Appointments to the Board and to Board Committees
- Matters escalated from subsidiary boards to the Board for approval

The Board regularly reviews reports from the Co-Chief Executives and from the Chief Financial Officer on progress against approved strategies, plans and budgets, as well as updates on stock market and global economic conditions. There are also regular presentations from key business functional leaders and regional heads including from the Chief Risk Officer. The Chair reports at each Board meeting on the activities he has undertaken on behalf of the Board and the Group since the previous meeting.

The Chair

- Leads the Board and ensures that its principles and processes are maintained
- Promotes high standards of corporate governance
- Together with the Co-Chief Executives and the Company Secretary, sets agendas for meetings of the Board

- Ensures Board members receive accurate, timely and clear information on the Group and its activities
- Encourages open debate and constructive discussion and decision making
- Leads the performance assessments and identification of training needs for the Board and individual Directors
- Speaks on behalf of the Board and represents the Board to shareholders and other stakeholders

The Co-Chief Executives

During 2018, the Co-Chief Executives, within authorities delegated by the Board:

- Develop strategic plans and structures for presentation to the Board
- Make and implement operational decisions
- Lead the other executive Directors and the executive team in the day-to-day running of the Group
- Report to the Board with relevant and timely information
- Develop appropriate capital, corporate, management and succession structures to support the Group's objectives
- Together with the Chair, represent the Group to external stakeholders, including shareholders, customers, suppliers, regulatory and governmental authorities, and the local and wider communities
- Keith Skeoch has individual accountability for the day-to-day running of the fabric of the business including responsibility for Investments, the Indian associates and the China Insurance Joint Venture, Operations, Finance, HR, Risk and Regulatory Culture, as well as the Legal and Secretariat functions
- Martin Gilbert has individual accountability for external matters including responsibility for International Activities, Distribution including client engagement and business development, Marketing and Corporate Development

As announced, from 13 March 2019, Keith Skeoch will be sole Chief Executive and Martin Gilbert will be Vice Chairman of Standard Life Aberdeen and Chairman of Aberdeen Standard Investments. In this role, Martin will focus on managing relationships with clients, winning new business and realising the potential from our global network and product capabilities. Both Martin and Keith will continue to report directly to the Chairman.

Code compliance

As well as covering the formal disclosure requirements of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC), this statement describes how the Board meets its governance responsibilities.

Throughout 2018, the Company complied with all of the provisions set out in the Code issued by the FRC in April 2016 other than the following:

Provision B.3.3. states that 'The Board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE100 company, nor the chairmanship of such a company'. For the period 1 January to 16 May 2018 Martin Gilbert held non-executive directorships with Sky plc and Glencore plc.

The Code is available at **www.frc.org.uk**

Together with the Directors' remuneration report, this statement explains how our governance framework supports the way we apply the Code's principles of good governance.

During 2018, the Committee has closely followed the development of the revised Code to ensure that the Group is well placed to implement and comply with its requirements for 2019.

Governance framework

The Group's governance framework is approved by the Board and documented in the Board Charter.

You can read the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

The Group's Code of Conduct guides our people to do the right thing and complements the Board Charter. It sets out our standards of conduct and culture, and shows the governing principles for operational excellence, compliance responsibilities, customer service, and how we should treat our people, and other stakeholders.

The Board expects the Group to be a leader in corporate governance activities through its own actions and through its stewardship activities. The Nomination and Governance Committee regularly reviews the Group's corporate governance framework against relevant directors' duties, generally accepted standards, guidance and best practice, and, as appropriate, recommends to the Board changes to the Board Charter.

The Committee previously oversaw the implementation of the governance map and processes to support the Senior Insurance Managers Regime (SIMR). During 2018, we began the process to implement the Senior Managers and Certification Regime (SMCR) across the relevant parts of the business, which will conclude in late 2019 when SMCR comes into force for all UK financial services firms.

The governance framework sets out the Board's relationship with the boards of the principal subsidiaries in the Group. In particular, it specifies the matters which these subsidiaries are required to refer to the Board or to a Committee of the Board for approval. It also ensures that all decisions which require or would benefit from it, receive the independent input of the non-executive Directors.

The roles of the Chair and the Co-Chief Executives are separate. Each has clearly defined responsibilities, which are described in the Board Charter.

The heads of each business function and each region manage their teams within authorities set out in the Board Charter and within an approved scheme of delegation. This includes reporting to the Co-Chief Executives on how they are complying with Group policies and performing against approved plans and budgets.

The Company Secretary is responsible for advising the Board on governance matters.

Board composition, balance and diversity

The Board's policy is to appoint and retain non-executive Directors who bring relevant expertise as well as a wide perspective to the Group and its decision-making framework. The Directors believe that at least half of the Board should be made up of independent non-executive Directors. As at 13 March 2019, the Board comprises the Chair, 7 independent non-executive Directors and 4 executive Directors. The Board is made up of 9 men (75%) and 3 women (25%) (2017: men 75%, women 25%). The Board continues to support its Board Diversity statement which states that the Board:

- Believes in equal opportunities and supports the principle that due regard should be had for the benefits of diversity, including gender, ethnicity, age, and educational and professional background when undertaking a search for candidates, both executive and non-executive
- Recognises that diversity can bring insights and behaviours that may make a valuable contribution to its effectiveness
- Believes that it should have a blend of skills, experience, independence, knowledge, ethnicity and gender amongst its individual members that is appropriate to its needs

- Believes that it should be able to demonstrate with conviction that any new appointee can make a meaningful contribution to its deliberations
- Is committed to maintaining its diverse composition
- Supports the Co-Chief Executives' commitment to achieve and maintain a diverse workforce and an inclusive workplace, both throughout the Group, and within the executive team
- Has a zero tolerance approach to unfair treatment or discrimination of any kind, both throughout the Group and in relation to clients, customers and individuals associated with the Group

You can read more about our Directors in their biographies in Section 2.

The Nomination and Governance Committee supports the Group's commitment to diversity and inclusion in the broadest sense and receives updates on progress towards achieving and maintaining diversity targets throughout the Group. This includes reviewing statistics on gender representation and approving gender diversity targets and oversees progress against these on a regular basis. The Group also promotes initiatives and programmes to raise awareness of why diversity and inclusion matter. You can read more about our diversity activities and current targets in the People and Culture section of the Strategic report and in our stand alone Corporate sustainability report. We are committed to working to make the Group as inclusive a place to work as possible. Our activities and targets are in pursuit of 'our vision for an inclusive future' which is published on our website **www.standardlifeaberdeen.com**. You can find our gender pay gap disclosure statement on page 29. The Committee continues to follow the development of, and the Group's participation in, significant diversity reviews, including the Hampton Alexander review, and we are one of the initial signatories to the Women in Finance Charter. In October 2018 we became one of the founding members of the UK Government Race at Work Charter. The Committee supports our commitments under these charters and continues to oversee our progress against these, which we report publically on an annual basis. The Committee also supports the goal of strong engagement with the wider workforce, and Melanie Gee has taken the role as the designated non-executive director responsible for representing the views of the workforce at the Board.

Board changes during the period

Appointments

There were no executive Director appointments over the year. Cathleen Raffaeli was appointed as non-executive Director on 1 August 2018, and Sir Douglas Flint was appointed as a non-executive Director on 1 November 2018. Sir Douglas was subsequently appointed Chair on 1 January 2019. Heidrick and Struggles were engaged to support the appointment of Cathleen Raffaeli. Heidrick and Struggles have no other commercial relationships with the Group. MWM were engaged to support the Chair's appointment. The Group has additionally used the services of MWM to support a recent senior management search for the Chief People Officer role.

Retirements

Julie Chakraverty, Akira Suzuki and Lynne Peacock retired from the Board on 29 May 2018. Gerhard Fusenig, Kevin Parry and Sir Gerry Grimstone retired from the Board on 31 December 2018. It is intended that Simon Troughton and Richard Mully will retire from the Board at the conclusion of the 2019 AGM and Bill Rattray will retire from the Board on 31 May 2019.

Board appointment process, terms of service and role

During 2018, the Board composition was reviewed. In order to assist with determining the right balance of skills, diversity, knowledge and expertise for the Board going forward, IBE were engaged to support and facilitate this. IBE conducted individual interviews with each of the Directors and prepared a report for the Chair to discuss with the Board. The Board is not aware of any other connection between the Group and IBE.

When seeking to make appointments from outside the Group, and having already identified the capabilities needed for Board roles and the succession timeframe, the Committee considers the related role profile submitted to external search consultants along with the request to prepare a list of suitable candidates. The Committee then considers the potential suitable candidates and agrees a shortlist. Following interviews with potential candidates, the Committee then makes recommendations to the Board on any proposed appointment, subject always to the satisfactory completion of all background checks and regulatory notifications or approvals. The other Board members are also offered the opportunity to meet the recommended candidates. The Committee considers the external commitments of candidates to assess their ability to meet the necessary time commitment and whether there are any conflict of interest matters to address. This process was followed for the appointment of Cathleen Raffaeli.

Each non-executive Director is appointed for a three-year fixed term and shareholders vote on whether to elect/re-elect him or her at every AGM. Once a three-year term has ended, a non-executive Director can continue for further terms if the Board is satisfied with the non-executive Director's performance, independence and ongoing time commitment. There is no specified limit to the number of terms that a non-executive Director can serve. The Board recognises the Code provisions regarding length of service when considering whether or not Directors' appointments should be continued. Taking account of their appointment dates to the predecessor boards, the current average length of service of the non-executive Directors (excluding the Chair) is five years. The Nomination and Governance Committee oversees the process to recommend continued appointments, but members of the Committee do not take part in discussions when their own performance – or continued appointment – is being considered.

The role of our non-executive Directors is to participate fully in the Board's decision-making work – advising, supporting and challenging management as appropriate.

The letter of appointment confirms that the amount of time we expect each non-executive Director to commit to each year which, once they have met all of the approval and induction requirements, is around 35 days. The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Company Secretary at the Company's registered address (which can be found in the Shareholder information section) and at the 2019 AGM. Non-executive Directors are required to confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively. You can read more about the induction and development programme later in this section.

Director election and re-election

One of the Committee's duties is to make recommendations regarding the election or re-election by members of any Director. In making its recommendations, the Committee reviews, as applicable, the appropriateness of continued service beyond a term of six years.

Therefore, at the 2019 AGM, all of the current Directors will retire. Sir Douglas Flint and Cathleen Raffaeli, having been appointed since the previous AGM, will retire and stand for election. All the others with the exception of Simon Troughton will stand for re-election.

You can read more background information about the Directors, including the reasons why the Chair believes you should support their election or re-election, in our AGM guide 2019, which will be published online at **www.standardlifeaberdeen.com** in advance of this year's AGM, and in Section 2.

Director independence, external activities and conflicts of interest

The Board carries out a formal review of the independence of non-executive Directors annually. The review considers relevant issues including the number and nature of their other appointments, any other positions they hold within the Group, any potential conflicts of interest they have identified and their length of service. Their individual circumstances are also assessed against independence criteria, including those in the Code. Following this review, the Board has concluded that all the current non-executive Directors are independent and consequently, the Board continues to comprise a majority of independent non-executive Directors. The Board recognised that Simon Troughton's cumulative term of service as a Director on the Standard Life Aberdeen and Aberdeen Asset Management Boards reached nine years in July 2018 and after consideration, agreed that this did not compromise his independence. Before his retiral on 29 May 2018, the Board determined that Akira Suzuki, as a representative of a shareholder, was not independent.

Sir Gerry Grimstone was Chair of the Board throughout 2018. He retained his non-executive positions with Barclays PLC. He also retained his non-executive positions with Deloitte North West Europe and the UK Government's Ministry of Defence where he is the lead non-executive. He is also an adviser to the board of the Abu Dhabi Commercial Bank.

Kevin Parry was Senior Independent Director (SID) throughout 2018. In this role, Kevin supported the Chair, and often met with him one-to-one. He was also available to talk with our shareholders about any concerns that they may not have been able to resolve through the channels of Chair, the Co-Chief Executives or Chief Financial Officer, or where a shareholder considered these channels as inappropriate.

Following Kevin's retirement from the Board, Simon Troughton took on the additional responsibilities of the SID on 1 January 2019. It is intended that Simon will serve as SID until the close of the 2019 Annual General Meeting when he will retire from the Board.

The Directors continued to review and authorise Board members' actual and potential conflicts of interest on a regular and ad hoc basis in line with the authority granted to them in the Company's Articles. As part of the process to approve the appointment of a new Director, the Board considers and, where appropriate, authorises his or her potential or actual conflicts. The Board also considers whether any new outside appointment of any current Director creates a potential or actual conflict before, where appropriate, authorising it. All appointments are approved in accordance with the Group's Outside Appointments and Conflicts of Interest policies.

In January 2019, the Board reviewed all previously authorised potential and actual conflicts of interest of the Directors and their connected persons, and concluded that the authorisations should remain in place until January 2020. Under the terms of the approval, conflicted Directors can be excluded from receiving information, taking part in discussions and making decisions that relate to the potential or actual conflict. The Board and relevant Committees follow this process when appropriate.

The Board's policy encourages executive Directors to take up one external non-executive director role. Keith Skeoch continued as a non-executive director of the Financial Reporting Council. Martin Gilbert is a non-executive director at Glencore plc, a position from which he took a leave of absence during the period from 16 May to 9 October. He was previously a non-executive director at Sky plc having resigned on 9 October 2018. Bill Rattray is a non-executive director at Curtis Banks Group PLC.

You can read more about the Directors' outside appointments in their biographies in Section 2.

Advice

Directors may sometimes need external professional advice to carry out their responsibilities. The Board's policy is to allow them to seek this where appropriate and at the Group's expense. Directors also have access to the advice and services of the Company Secretary, whose appointment and removal is a matter for the Board. No Directors sought external advice in 2018.

Board effectiveness

Review process

The Board has, with the help of the Nomination and Governance Committee, developed a formal review process to assess how well the Board, its Committees, the Chair and the Directors are performing collectively and individually and how performance could be improved.

In accordance with the Code, the Board commissions externally facilitated reviews regularly. As announced in the 2017 ARA, the externally facilitated review which was due in 2017 was rescheduled to 2018 to allow some time for the post merger Board to come together. Also as announced at that time, IBE was appointed as the external facilitator and carried out the 2018 review. IBE does not have any other connection with the Group.

To carry out the review, senior representatives of IBE were in attendance and observed a Board meeting and a meeting of each Board Committee. They also had access to the papers for each of these meetings. In addition to this observation and analysis, they held individual meetings with each Board member and the key members of the Board and Committee support team. Following this, IBE prepared a draft report for review and discussion. The Board then met specifically to review and discuss the report, and representatives of IBE attended to present the report and recommendations.

Outcome

Overall the report recognised that this has been a time of significant change and challenge for the Board. The necessary focus on the major structural transactions in the past two years has minimised the opportunities for consolidation and relationship-forming and has not yet allowed the Board members as much time as they would like, ideally, to focus on other key matters. As a consequence, the Board's most valuable contribution over the short to medium term would be to support the executive team in:

- Identifying and delivering priorities
- Attracting and retaining key talent
- Establishing the appropriate culture for the transformed business
- Continuing to develop strategy

The key conclusions and recommendations from the review included:

- Strategy: create more space in the Board calendar to define and understand the strategic direction by using the Board Committees as efficiently as possible
- People: refresh the Board's own line-up over time and oversee senior leadership, succession, diversity and inclusion and talent and development programmes
- Tone from the top: make sure the Board embodies the behaviours it wishes to see throughout the organisation and is visible enough to set such an example
- Board Information: continue to challenge the quality and context of Board and Committee papers so that they fully support effective decision-making

Progress to implement the recommendations is monitored by the Company Secretary and reported to the Nomination and Governance Committee.

Chair

The review of Sir Gerry's performance as Chair was led by the previous SID, Kevin Parry and supported by IBE. It was based on feedback given in individual interviews between the external facilitator and each Director as well as regular discussions between the SID and other NEDs.

The feedback was summarised into a report which was reviewed by the SID and distributed to all Board members, except Sir Gerry. The Directors, led by Kevin Parry and without Sir Gerry being present, met to consider the report. They concluded that during 2018, Sir Gerry had performed his role effectively, shown strong leadership of the Board, continued to devote significant time to the Group and continued to have sufficient time to carry out his duties. Kevin Parry met with Sir Gerry to pass feedback from the review directly to him.

Directors

As part of their review, IBE prepared an individual evaluation of the performance of the members of the Board. The purpose was two-fold: to support the Chair's annual round of feedback to Directors and to assist the Nomination and Governance Committee in its ongoing succession planning activities. Sir Gerry discussed the individual results with each Director. These discussions also considered individual training, development and engagement opportunities.

Director induction and development

The Chair, supported by the Company Secretary, is responsible for arranging a comprehensive preparation and induction programme for all new Directors. The programme is tailored to their individual requirements and takes their background knowledge and experience into account. All Directors are required to complete the FCA's approval process and, if relevant, the PRA's and FCA's SMCR notification or approval process before they are appointed and to self-certify annually that they remain competent to carry out this aspect of their role. These processes continue to adapt to meet evolving best practice in respect of SMCR.

The formal preparation and induction programme includes:

- Meetings with the executive Directors, key members of senior management, the heads of the operating businesses and our corporate centre functions
- Focused technical meetings with internal and external experts on specific areas including investments, CRD IV, conduct risk, risk and capital management, and financial reporting
- Visits to business areas to meet our people and gain a better insight into the operation of the business and its culture
- Meetings with the External auditors and the FCA/PRA supervisory teams
- Meetings with the Company Secretary on the Group's corporate governance framework and the role of the Board and its Committees, and with the Chief Risk Officer on the risk management framework as well as meetings on their individual responsibilities both as Directors and as holders of a Controlled Function/Senior Management Function role

Background information is also provided including:

- Key Board materials and information, shareholder communications and financial reports
- The Group's organisational structure, strategy, business activities and operational plans
- The Group's key performance indicators, financial and operational measures and industry terminology

The induction programme provides the background knowledge new Directors need to perform to a high level as soon as possible after joining the Board and to support them as they build their knowledge and strengthen their performance further.

When a non-executive Director is appointed to one of the Board's Committees, they receive relevant induction training on the Committee's role and duties.

When Directors are appointed to the Board, they make a commitment to broaden their understanding of the Group's business. Our corporate centre monitors relevant external governance and financial and regulatory developments and keeps the ongoing Board training and information programme up to date. During 2018, while the Board spent a significant amount of its time discussing the Sale and integration and transformation activities, specific Board awareness sessions took place on cyber risks and security, the UK withdrawal from the EU, the Group's strategy regarding joint venture operations, staff interaction surveys and corporate culture. Similarly, the relevant Board Committees received updates on developments in financial reporting, remuneration and corporate governance. Non-executive Directors are actively invited to all parts of the Group's business in order to familiarise themselves with how our business is conducted and to meet with our people.

Succession and talent management activities

The Nomination and Governance Committee regularly reviews the results of succession planning activities, including key person and retention risk, and talent development programmes at all levels across the Group.

At its meetings, the Committee discussed the future leadership and talent needs of the Group and how the current programmes would be revised to take account of the skills and expertise required by the Board and senior management. The programmes recognise the changing shape of the Group, and also identify both the talent available within the Group and the need for external recruitment. The programmes are led by the Chief People Officer, with input from the Co-Chief Executives and supported by the Group Talent and Organisation Development team.

Also during 2018, the non-executive Directors held specific discussions on Board and executive succession, the results of which fed into the overall plan.

The Board members are keen to interact with the members of the development schemes and have met with, and had presentations from, key talent across the Group.

Chair's Succession

As disclosed in the ARA 2017, Sir Gerry Grimstone indicated his intention to step down from his role by the end of 2019. In February 2018, the Nomination and Governance Committee considered and agreed the appropriate arrangements to oversee the governance of the succession process. As a result an Appointments Committee was established, chaired jointly by Simon Troughton and Melanie Gee and comprising all of the non-executive Directors other than those who indicated they wished to be considered as internal candidates. Sir Gerry was not a member. The key tasks of the Appointments Committee were:

- To agree the candidate and role profile for the Chair
- To receive presentations from potential external search consultants, and following these presentations, to appoint MWM to support the search
- To review the long-list of potential candidates against the agreed criteria
- To work with MWM to revise the long-list
- To assess the revised list against agreed criteria

- To meet with the candidates on the revised list
- To reach agreement on candidates to recommend to the Board
- To discuss the potential Chair's fee with the Remuneration Committee

Following the completion of the process, the Board accepted the Appointments Committee's recommendation that Sir Douglas Flint should be appointed as a NED and Chair designate on 1 November 2018, and should then succeed Sir Gerry as Chair on 1 January 2019. MWM's other services provided to the Group in 2018 were to support the senior management search for the Chief People Officer role.

Annual review of internal control

The Directors have overall responsibility for the governance structures and systems of the Group, which includes the Enterprise Risk Management (ERM) framework and system of internal control, and for the ongoing review of their effectiveness. The framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss. The framework covers all of the risks as set out in the risk management section of the Strategic report.

In line with the requirements of the Code, the Board has reviewed the effectiveness of the system of internal control. The system was in place throughout the year and up to the date of approval of the Annual report and accounts 2018.

To support the review, the Risk and Compliance function undertook an assessment of the effectiveness of risk management and internal controls in line with the FRC's guidance on the requirements of the annual review. In carrying out the review, the Risk and Compliance function considered reports presented to the Board, the Group Audit Committee and Risk and Capital Committee during the period. The review also assessed the top control issues escalated to the Board during the period.

Following this review the Board concluded that the system of internal control was effective, and that there had been no significant failings or weaknesses during the period.

With regard to regular financial reporting and preparing consolidated accounts, the Finance function participates in the risk and control self-assessment and policy compliance elements of the ERM framework. The Finance function sets formal requirements for financial reporting, defines the process and detailed controls for the IFRS consolidation, reviews and challenges submissions and receives formal sign-off on financial reporting from business unit finance heads. In addition, the Finance function runs the Technical Review Committee and the Financial Reporting Executive Review Group which review external technical developments and detailed reporting disclosure and accounting policy issues.

Communicating with investors

The Company continues to maintain and further develop a dialogue with its shareholders. As part of this, our investor relations and Group secretariat teams support communication with investors. During 2018, the Group continued its programme of domestic and international presentations and meetings between Directors and institutional investors, fund managers and analysts. As well as the Sale, the wide range of relevant issues discussed, in compliance with regulations, at investor presentations and meetings, included integration, separation and transformation, business strategy, financial performance, operational activities and corporate governance. The Chair has his own investor contact programme and brings relevant issues to the attention of the Board. The Remuneration Committee also consulted with major institutional investors regarding executive remuneration plans during the year. More information on this consultation can be found in the Directors' remuneration report.

The Board is equally committed to the interests of the Company's 1.1 million individual shareholders who hold approximately one third of the Company's issued shares. Given this large shareholder base, it is impractical to communicate with all shareholders using the same direct engagement model we follow for our institutional investors. The Company has continued to gather and respond to shareholders' views on the services and means of communication available to them, mainly through shareholders contacting the shareholder helpline. Around 430,000 shareholders receive all communications electronically helping to reduce our environmental impact. We encourage shareholders to use our share portal to access information relating to their personal shareholding over 400,000 have signed up to this service. Share portal participants can also change their personal details online and view and download their tax documents and statements. Most of our shareholders hold their shares in the Standard Life Aberdeen Share Account where shares are held electronically. 90% of individual shareholders hold their shares in this way.

To give all shareholders access to the Company's announcements, all material information reported via the London Stock Exchange's regulatory news service is published on the Company's website. We have continued to host formal presentations to support the release of both the full year and half year financial results. These results-related events are also made available live on the Group's website and have a permanent replay facility. We also undertook a comprehensive programme of investor engagement following the announcement of the Sale including investor presentations and meetings.

We publish Company profiles to provide a high level introduction to the Group and its divisions. We also distribute a quarterly newsletter featuring articles designed to give investors deeper insight into particular areas of our business including our sustainability strategy. Copies of our Company profiles and newsletters are available on the Investors section of the Group's website.

The Chair's statement and the Strategic report in the Annual report and accounts aim to provide a balanced overall assessment of the Group's activities, performance and prospects. This information will be supported by a presentation at the 2019 AGM. Shareholders will be invited to ask questions during the meeting and have an opportunity to talk with the Directors after the formal part of the meeting. The voting results will be published on our website at **www.standardlifeaberdeen.com** after the meeting. These will include the number of votes withheld.

The 2018 AGM was held in London on 29 May 2018 when Directors were available to answer shareholders' questions. In accordance with best practice, all resolutions were considered on a poll which was conducted by our registrars and monitored by independent scrutineers. The results, including proxy votes lodged prior to the meeting, were made available on our website the same day. 40% of the shares in issue were voted and all resolutions were passed.

In addition, a General Meeting was held on 25 June 2018 at which shareholders were asked to consider the resolutions recommended by the Board, to approve the Sale, the issue and allotment of new shares and an amended remuneration policy 50% of the shares in issue were voted and the resolutions were passed.

Our 2019 AGM will be held in Edinburgh in line with our plan to hold the AGM in Edinburgh and London in alternate years in order to give more shareholders the opportunity to attend.

Our role as an institutional investor

Standard Life Investments and Aberdeen Asset Management (together Aberdeen Standard Investments) are signatories to and supporters of 23 stewardship codes around the globe including the UK Stewardship Code and the United Nations Principles for Responsible Investment. Both companies promote the importance of good governance and stewardship including the management of broader aspects of risk relating to the environment, society and governance (ESG).

In addition to holding to account the boards of the companies in which we invest, through our ongoing engagement and voting at general meetings, we will work to encourage the high levels of governance and management of environmental and societal risks in the markets around the world in which we invest on behalf of our clients. We believe that it is important for us to transparently report on our activities so that our clients can, in turn, hold us to account for the delivery of the very highest standards.

Aberdeen Standard Investments' role, as an institutional investor that invests its clients' savings in a responsible manner, is key to Standard Life Aberdeen behaving as a responsible business. Its influence over the companies in which it invests, provides the Group with the ability to encourage others to act similarly.

When assessing the Company's compliance with the principles and provisions of the Code, the Nomination and Governance Committee also reviewed the Company's compliance with the Standard Life Investments ESG investment principles and policy guidelines, and with the Aberdeen Asset Management holistic risk and assessment criteria. The Committee concluded that the Company complied with the guidelines and fulfilled the criteria during the year.

You can read more about this at
www.aberdeenstandard.com/annualreport

Other information

You can find details of the following, as required by Disclosure and Transparency Rule 7.2.6, in the Directors' report and in the Directors' remuneration report:

Share capital

- Significant direct or indirect holdings of the Company's securities
- Confirmation that there are no securities carrying special rights with regard to control of the Company
- Confirmation that there are no restrictions on voting rights in normal circumstances
- How the Articles can be amended
- The powers of the Directors, including when they can issue or buy back shares

Directors

- How the Company appoints and replaces Directors
- Directors' interests in shares

Board meetings and meeting attendance

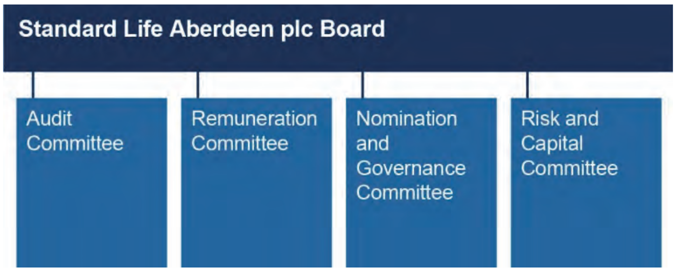
The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are usually held in Edinburgh or London and, on occasion, at the offices of one of our international businesses. In September 2018, the Board held its meeting in New York. As well as meeting with clients in New York, this allowed the Board to spend time with colleagues in New York, Boston and Philadelphia. During the year, the Board held specific sessions to consider the Group's strategy and business planning. The Chair and the non-executive Directors also met during the year, formally and informally, without the executive Directors present. At these meetings, matters including executive performance and succession and Board effectiveness were discussed. During 2018 these meetings also covered discussions in relation to the Sale.

Directors are required to attend all meetings of the Board and the Committees they serve on, and to devote enough time to the Company to perform their duties. Board and Committee papers are distributed before meetings other than, by exception, urgent papers which may need to be tabled at the meeting. The Board sometimes needs to call or rearrange meetings at short notice and it may be difficult for all Directors to attend these meetings. If Directors are not able to attend a meeting because of conflicts in their schedules, they receive all the relevant papers and have the opportunity to submit their comments in advance to the Chair or to the Company Secretary. If necessary, they can follow up with the Chair of the meeting. The Board has established the Standing Committee as a formal procedure for holding unscheduled meetings. The Standing Committee meets when, exceptionally, decisions on matters specifically reserved for the Board need to be taken urgently. All Directors are invited to attend Standing Committee meetings. The Standing Committee did not meet during 2018.

The Chair is not a member of the Audit, Risk and Capital, or Remuneration Committees. He may, however, attend meetings of all Committees, by invitation, in order to keep abreast of their discussions. The table below reflects the composition of the Board during 2018 and the members' attendance. The Board met 10 times during the year.

Number of meetings	Board
Chair	
Sir Douglas Flint (attended as Non-executive Director)	1/1
Sir Gerry Grimstone (Chair until 31/12/2018)	10/10
Executive Directors	
Keith Skeoch	10/10
Martin Gilbert	10/10
Bill Rattray	10/10
Rod Paris	10/10
Non-executive Directors	
John Devine	10/10
Melanie Gee	10/10
Richard Mully	10/10
Martin Pike	10/10
Cathleen Raffaeli	4/4
Jutta af Rosenborg	10/10
Simon Troughton	9/10
Former members	
Julie Chakraverty	3/5
Gerhard Fusenig	10/10
Kevin Parry	10/10
Lynne Peacock	5/5
Akira Suzuki	4/5

Board Committees



The Board has established Committees that oversee, consider and make recommendations to the Board on important issues of policy and governance. At each Board meeting, the Committee Chairs provide reports of the key issues considered at recent Committee meetings, and minutes of Committee meetings are circulated to the appropriate Board members. The Committees operate within specific terms of reference approved by the Board and kept under review by the Nomination and Governance Committee.

These terms of reference are published within the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

All Board Committees are authorised to engage the services of external advisers at the Company's expense, whenever they consider this necessary.

The Chair of each Committee and of the Nomination and Governance Committee review Committee membership at regular intervals. The Nomination and Governance Committee considers all proposed appointments before they are recommended to the Board.

Investment Performance Committee

In October 2017, following the Merger and further consideration of its oversight responsibilities at that time, the Board established the Investment Performance Committee. This Committee provided insight into investment performance results by asset class, the market and economic environment influencing investment results, supported the review and oversight of performance issues and supported the ongoing innovation and evolution of the investment process and capabilities of the Group.

Following on from the Sale, during the latter part of 2018, the Board revisited what it should be considering collectively and what it should be delegating to Board Committees. This discussion recognised the revised shape of the business after the Sale and its ongoing transformation into an investment management company.

As a result of this review it was determined that the duties of the Investment Performance Committee should more properly be performed by the full Board, so the Committee was discontinued and its reporting information was built into the Board's programme. During 2018, the IPC met five times and its members were Gerhard Fusenig (Chair), Melanie Gee, Richard Mully and Kevin Parry. At its meetings, it received and discussed reports on:

- Quarterly investment performance
- Asset class deep-dives
- Market context
- Investment governance and oversight
- Investment process enhancements

Committee reports

This statement includes reports from the Chairs of the Audit Committee and the Risk and Capital Committee. The report on the responsibilities and activities of the Remuneration Committee can be found in the Directors' remuneration report following this statement.

The Committee Chairmen are happy to engage with you on their reports. Please contact them via **questions@standardlifeaberdeenshares.com**

3.2 Audit Committee report

The Audit Committee assists the Board in discharging its responsibilities for financial reporting, internal control and the relationship with the External auditors.

Dear Shareholder

I am pleased to present my report as Audit Committee Chair.

A major role of the Audit Committee in 2018 related to the Sale. In advance of this, the Audit Committee's specific focus was on the work to support the relevant financial disclosures in the Sale Circular. Post Sale, this focus switched to the impact on the group financial reporting of the Sale including the carrying value of the group's strategic holding in the Phoenix Group, along with the treatment of separation costs. During the year the Committee also:

- Considered the carrying value of intangible assets, in particular customer relationship intangibles relating to the Aberdeen merger and goodwill
- Oversaw the succession process for the Chief Internal Auditor
- Reviewed the Solvency and financial condition report as part of the Company's annual Solvency II reporting, and then reviewed CRD IV reporting following the change in the prudential supervision of the Group
- Received reports on compliance with the FCA Client Assets Sourcebook (CASS) rules in the Group's CASS permissioned regulated legal entities

The Committee continued to focus on the quality of financial reporting. In November 2018 we received a letter from the FRC informing us that they had carried out a review of our Annual report and accounts 2017. I am pleased to report that the FRC letter noted that there were no questions or queries they wished to raise with us at this stage, and did not require a substantive response to their letter. The FRC asked us to make clear the inherent limitations of their review, which we have set out in the financial reporting section of this report.

Our report to you is structured in four parts:

1. Governance
2. Report on the year
3. Internal audit
4. External audit

I look forward to engaging with you on the work of the Committee.

John Devine
Chair, Audit Committee

3.2.1 Governance

Membership

All members of the Audit Committee are independent non-executive Directors. The table below reflects the composition of the Committee and the members' attendance:

Member	Attendance
John Devine, Chair	10/10
Melanie Gee	10/10
Martin Pike	9/10
Jutta af Rosenborg	9/10
Former member	
Julie Chakraverty	1/5

The Board believes members have the necessary range of financial, risk, control and commercial expertise required to provide effective challenge to management. John Devine is a member of the Chartered Institute of Public Finance and Accountancy. For the business of the Committee, he is considered by the Board to have competence in accounting and auditing as well as recent and relevant financial experience.

The Committee schedules six meetings per annum, four of which are co-ordinated with external reporting timetables. In 2018, there were four additional meetings, which were focused on the Sale and related financial reporting matters.

Invitations to attend Committee meetings are extended on a regular basis to the Chair, the Co-Chief Executives, the Chief Financial Officer, the Group Financial Controller, the Chief Internal Auditor and the Group Chief Risk Officer.

The Committee meets privately for part of its meetings and also has regular private meetings separately with the External auditors, Chief Internal Auditor and Chief Financial Officer. These meetings address the level of co-operation and information exchange and provide an opportunity for participants to raise any concerns directly with the Committee.

Key responsibilities

The Committee's responsibilities are to oversee and report to the Board on:

- The appropriateness of the Group's accounting and accounting policies, including the going concern presumption and viability
- The findings of its reviews of the financial information in the Group's annual and half year financial reports
- The clarity of the disclosures relating to accounting judgements and estimates
- Its view of the 'fair, balanced and understandable' reporting obligation
- The findings of its review of key Group prudential returns and disclosures
- Internal controls over financial reporting and procedures to prevent money laundering, financial crime, bribery and corruption
- Outcomes of investigations resulting from whistleblowing
- The appointment or dismissal of the Chief Internal Auditor, the approved internal audit work programme, key audit findings and the quality of internal audit work
- The independence of the External auditors, the appropriateness of the skills of the audit team, the approved audit plan, the quality of the firm's execution of the audit, and the agreed audit and non-audit fees

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the Group. It is also authorised to seek, at the expense of the Group, appropriate external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

In accordance with the Senior Insurance Manager's Regime, and its replacement the Senior Managers and Certification Regime which came into effect for insurance firms on 10 December 2018, the Audit Committee Chair is responsible for the oversight of the independence, autonomy and effectiveness of our policies and procedures on whistleblowing including the procedures for the protection of staff that raise concerns from detrimental treatment. Throughout the year the Audit Committee Chair met regularly with the Chief Internal Auditor and the Head of Financial Crime to discuss their work, findings and current developments.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. The 2018 review was carried out by external consultants IBE. The key points arising from the review were:

- Meetings of the Committee were characterised by good debate and mature discussion
- While the Committee's work has been very thorough, it may now benefit from a better sense of proportionality, with more being delegated to the management team, in the interests of allowing the Committee to reflect for longer on the key issues
- The Committee's agenda has been dominated by the merger, the Sale, and year end complexity, and it would be of benefit to now focus more on the ongoing retained business as it completes the transformation. Going forward, the intention is also to spend more time on core control areas so that the Committee covers as much ground as possible in future.

The Board's review similarly confirmed its satisfaction with the performance of the Committee.

3.2.2 Report on the year

Audit agenda

The Audit Committee has a rolling agenda comprising recurring business, seasonal business and other business.

As recurring business, at every meeting the Committee reviews and discusses:

- Updates from the Group Finance function on significant financial accounting, reporting and disclosure matters
- Findings from Internal audit reports and how high priority findings are being followed up by management
- Regular refreshes and updates to the Internal audit plan
- Results of the monitoring of financial crime, fraud risk assessments and whistleblowing including calls to our dedicated Speak Up helpline
- Reports from the chairs of the subsidiary audit committees
- Updates on work completed by the External auditors
- Details of non-audit services requested of the External auditors by business units
- Other agenda items

Other agenda items were aligned to the annual financial cycle as set out below.

Jan-Mar

- Annual report and accounts 2017
- Strategic report and financial highlights 2017
- Financial reporting judgements
- External auditors' review of full year results
- Integration cost and synergies update
- Liaison with the Remuneration Committee on targets and measures

Apr-Jun

- Circular relating to the Sale, including working capital and Financial Position and Prospects Procedures reporting
- Solvency II Solvency and financial condition report
- Two special meetings on the Sale Circular

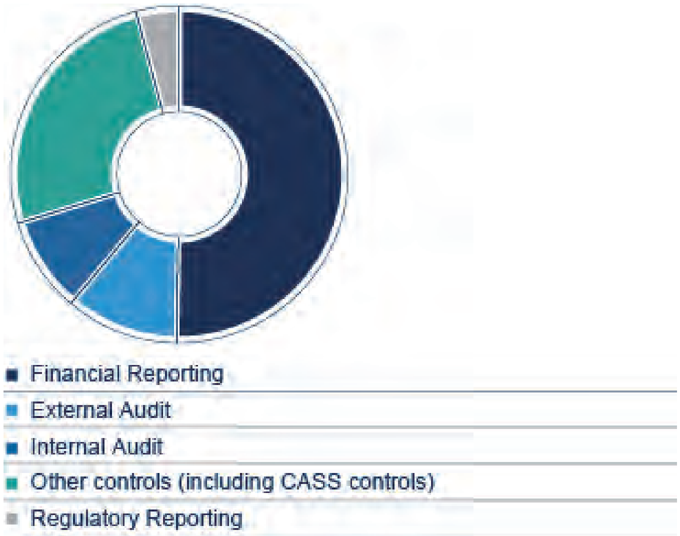
Jul-Sep

- Half year results 2018
- External auditors' review of half year results
- Impact on reporting of the Sale
- CASS update

Oct-Dec

- Initial findings from the 2018 year end work
- The Internal audit plan
- Effectiveness of the External auditors
- Group non-audit services provided by External auditors

The indicative proportion of time spent on the business of the Committee is illustrated below:



Detail of work

The focus of work in respect of 2018 is described below.

Financial reporting

Our accounts are prepared in accordance with International Financial Reporting Standards (IFRS). The Committee believes that some Alternative Performance Measures (APMs) which are also called non-GAAP measures can add insight to the IFRS reporting and help to give shareholders a fuller understanding of the performance of the business. The Committee considered the presentation of APMs and related guidance as discussed further in the 'Fair, balanced and understandable' section below.

The Committee reviewed the Group accounting policies and confirmed they were appropriate to be used for the 2018 Group financial statements. The Committee noted, in particular, that there was no significant impact on the timing of revenue recognition from the adoption of IFRS 15 *Revenue from Contracts with Customers.* This new standard did, however, introduce a number of new disclosure requirements.

The Committee also considered future changes to accounting standards (in particular IFRS 9 *Financial Instruments* and IFRS 16 *Leases*) and ensured that the impact of these future changes was appropriately disclosed in the financial statements. The Committee noted that the Group was eligible to defer IFRS 9 until 2020, and had opted to defer the adoption for the Group in 2018 and intends to adopt this new financial instruments standard in 2019.

The Committee reviewed the basis of accounting and in particular the appropriateness of adopting the going concern basis of preparation of the financial statements. In doing so, it considered the Group's cash flows resulting from its business activities and factors likely to affect its future development, performance and position together with related risks, as set out in more detail in the Strategic report. The Committee recommended the going concern statement to the Board.

In addition, the Committee considered the form of the viability statement and in particular whether the three-year period remained appropriate and concluded that it did. This reflects both our internal planning cycle and the timescale over which changes to major regulations and the external landscape affecting our business typically take place. In formulating the statement, the Committee used the same information it uses when considering the risks that are taken into account to determine regulatory capital. The Committee recommended the viability statement to the Board.

The Committee reviewed the Annual report and accounts 2017 and the Half year results 2018. For the half year it received written and/or oral reports from the Chief Financial Officer, subsidiary audit committee chairs or boards, the Company Secretary, the Chief Internal Auditor and the External auditors. In addition, for the 2017 year end it received a report from the Head of Group Actuarial. The Committee used these reports to aid its understanding of the composition of the financial statements, to confirm verification and compliance with reporting standards and to justify accounting judgements and estimates. Following its reviews, the Committee was able to recommend the approval of each of the reports to the Board, being satisfied that the annual and half year financial statements complied with laws and regulations and had been appropriately compiled.

We received a letter from the FRC in November 2018 informing us that they had carried out a review of our Annual report and accounts 2017 and that there were no questions or queries they wished to raise with us at this stage. The FRC asked us to note that their letter provides no assurance that our report and accounts are correct in all material respects, and that the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC noted that their review is based on our report and accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into.

Accounting estimates and judgements

The Audit Committee considered all estimates and judgements that Directors understood could be material to the 2018 financial statements. The Committee also focused on disclosure of these key accounting estimates and judgements.

In compiling a set of Group financial statements, it is necessary to make judgements and estimates about outcomes that are typically dependent on future events. This is particularly relevant to the defined benefit pension plan surplus which is inherently dependent on how long people live and future economic outcomes. Estimates also impact the value of contingent consideration (indemnities) and our assessment of the carrying value of intangible assets as discussed further below.

We considered key assumptions determining the pension fund surplus: inflation (including the gap between the retail price index and the consumer price index), mortality and the discount rate. The assumptions were compared with market data and expert opinions. Further details are set out in Note 35 of the Group financial statements.

The Aberdeen merger in 2017 was accounted for under IFRS as an acquisition by Standard Life plc of Aberdeen Asset Management PLC. This resulted in the recognition of significant intangible assets. The year end impairment review of the Aberdeen Standard Investments goodwill resulted in the recognition of an impairment of £880m. The Committee spent time at two meetings reviewing and challenging assumptions relating to future cash flow projections, the discount rate and long term growth rates. The Committee agreed it was appropriate to base the cash flow projections on the lower market levels at 31 December 2018. The Committee considered, in particular, the margin for forecasting risk in the discount rate and concluded that this was appropriate. See Note 14 for further details. The Committee also considered the Aberdeen customer relationship intangibles and concluded that for one of these intangibles an impairment of £35m was appropriate.

The Committee spent significant time discussing financial reporting issues arising from the Sale. Estimation was required in relation to the valuation of certain indemnities relating to the sale. This particularly included indemnities relating to the SLAL review of past sales practices of annuities, where the main financial risks (both positive and negative) continue to be with the Group. The Committee considered key assumptions and sensitivities to these assumptions and was satisfied that the fair value of the indemnity was appropriate at this time. Further details are disclosed in Note 41.

Also in relation to the Sale, the Group considered accounting for the 19.98% stake acquired in Phoenix. The Committee concluded that Phoenix should be considered an associate and be subject to equity accounting, notwithstanding that the holding was less than 20%. See Note 16. Acquisition accounting for this stake in Phoenix requires significant judgement and was an area of focus for the Committee in the second half of 2018. The key judgements related to the recognition and valuation of intangibles, in particular the Acquired Value of In-force business (AVIF). The Committee reviewed and challenged the assumptions, including useful lives, and concluded that these assumptions were reasonable. See Note 16. Further, the carrying value of the investment in Phoenix at 31 December 2018 was higher than the market value. Accordingly, the Committee considered whether an impairment in the investment should be recognised and concluded that, in accordance with International Accounting Standard IAS 28, this investment should be stated at its market value at

31 December 2018. The Committee noted that under IAS 28 the additional strategic value of our relationship with Phoenix is not taken into account in the impairment assessment. See Note 16.

The Sale will result in the Group incurring separation costs of c£200m in future periods. The Committee considered whether it was appropriate to provide for these costs under IAS 37 and concluded that management's judgement that a provision should only be recognised for costs for which the Group will not derive ongoing benefits, such as those relating to de-coupling and decommissioning of systems and data, was appropriate. See Note 38 for further details.

Principal risks are disclosed in the Strategic report and recommended to the Board by the Risk and Capital Committee. The Committee was satisfied that the estimates and quantified risk disclosures in the financial statements were consistent with the Strategic report. The Committee concluded that appropriate judgements had been applied in determining the estimates and that sufficient disclosure had been made to allow readers to understand the uncertainties surrounding outcomes.

Fair, balanced and understandable

The Committee supported the financial reporting team's continued review of the Annual report and accounts. A focus in 2018 was ensuring that the Strategic report appropriately explained financial performance and the implications of the Sale.

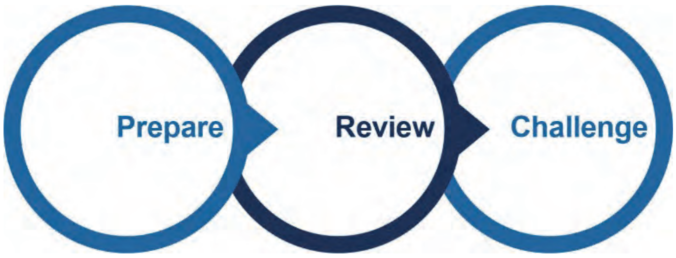
Standard Life Aberdeen's principles

To create clarity around what Standard Life Aberdeen means when it talks of being fair, balanced and understandable, a set of principles were developed, which can also act as an organisational definition for each aspect:

Fair *'We are being open and honest in the way we present our discussions and analysis, and are providing what we believe to be an accurate assessment of business and economic realities'*	• The narrative contained in the report is honest and accurate • The key messages in the narrative in the 'front half' of the report reflect the financial reporting contained in the financial statements • The Key Performance Indicators (KPIs) results for the period are consistent with the key messages outlined in the Strategic report
Balanced *'We are fully disclosing our successes, the challenges we have faced in the period, and the challenges and opportunities we anticipate in the future – all with equal importance and at a level of detail that's appropriate for our stakeholders'*	• The report presents the 'whole' story where both successes and challenges experienced during the year and expected in the future are covered • The level of prominence we give to successes in the year versus challenges faced is appropriate • The narrative and analysis contained in the report effectively balances the information needs and interests of each of our key stakeholder groups
Understandable *'The language we use and the way we structure our report is helping us present our business and its performance clearly – in a way that someone with a reasonably informed knowledge of financial statements and our industry would understand'*	• There is a clear and easy to understand framework to the report which is effective in addressing Standard Life Aberdeen's objectives, vision, mission and values • The layout is clear and consistent and the language used is simple and easy to understand (industry specific terms are defined where appropriate) • There is a consistent tone across and good linkage between all sections in a manner that reflects a complete story and clear signposting to where additional information can be found

Prepare, Review and Challenge

The above principles and supporting statements are considered in each stage of the Annual report and accounts production process.



Activities

- An Internal Review Group (IRG) is in place which reviews the Annual report and accounts specifically from a fair, balanced and understandable perspective and provides feedback to our financial reporting team on whether it conforms to our standards. The members of the IRG are independent of the financial reporting team.
- We provided fair, balanced and understandable guidance to all key stakeholders involved in the Annual report and accounts production process
- We, as an Audit Committee, reviewed the messaging in the Annual report and accounts, taking into account material received and Board discussions during the year
- Three drafts of the Annual report and accounts 2018 were reviewed by the Audit Committee at three meetings. The Committee complemented its knowledge with that of executive management and the Internal and External auditors. An interactive process allowed each draft to embrace contributions.
- Our Annual report and accounts goes through an extensive internal verification process of all content to verify accuracy

The Committee also reviewed the use and presentation of APMs which complement the statutory IFRS results in order to give a more complete view of the performance of the business. This review considered guidelines issued by the European Securities and Markets Authority in 2016 and the thematic reviews by the FRC during 2017 and 2018. A Supplementary information section is included in the Annual report and accounts to explain why we use these metrics and to provide reconciliations of these metrics to IFRS measures where relevant. This section also provides increased transparency over the calculation of reported financial ratios.

Adjusted profit before tax is a key profit APM. The Committee considered whether the allocation of items to adjusted profit was in line with the defined accounting policies, was consistent with previous practice and was appropriately disclosed. Where there were judgemental areas, such as in relation to the merger of Aberdeen and

Standard Life Investments variable remuneration schemes, the Committee specifically reviewed the proposed treatments and ensured that the Supplementary Information section provided appropriate disclosures.

We agreed to recommend to the Board that the Annual report and accounts 2018, taken as a whole, is fair, balanced and can be understood by someone with a reasonably informed knowledge of financial statements and our industry.

We are interested in feedback from stakeholders and will carefully consider any feedback received.

Prudential reporting

During 2018 the Group published its second Solvency and financial condition report (for the year ended 31 December 2017) in April, and submitted full annual Solvency II reporting to the PRA. The Committee continued to adopt a compliance approach to Solvency II reporting, drawing on work undertaken by management, Group Risk, Internal audit and the External auditors. The procedures are designed to give the Audit Committee a high degree of comfort that returns have been properly prepared. The Committee also reviewed a final draft of the Solvency and financial condition report, and following due consideration agreed to recommend the Solvency and financial condition report to the Board for approval.

In relation to actuarial assumptions used for year end 2017 Solvency II reporting, including mortality, persistency and expenses assumptions, the Committee received a report from the Chair of the Standard Life Assurance Limited (SLAL) Audit Committee which noted the consideration of these assumptions by the SLAL Audit Committee and External auditors. After due consideration of this reporting the Committee was satisfied that these assumptions were appropriate for year end Solvency II reporting.

Following the Sale, the Group is classified as an investment group for prudential supervision and is subject to CRD IV and the Capital Requirements Regulation. The Committee considered the results of CRD IV group reporting at a number of meetings and reviewed disclosures relating to CRD IV results included in the Strategic report section of the Annual report and accounts 2018, together with related assurance over these disclosures.

Internal controls

As noted earlier, the Directors have overall responsibility for the Group's internal controls and for ensuring their ongoing effectiveness. Together with the Risk and Capital Committee, the Committee provides comfort to the Board of their ongoing effectiveness.

Internal audit regularly reviews the effectiveness of internal controls and reports to the Committee and the Risk and Capital Committee.

The Group Finance function sets formal requirements for financial reporting which apply to the Group as a whole, defines the processes and detailed controls for the consolidation process and reviews and challenges reporting segment submissions. Further, the Group Finance function runs a technical review committee and is responsible for monitoring external technical developments.

The control environment around financial reporting will continue to be monitored closely.

Financial crime and whistleblowing

Staff are trained to detect the signs of possible fraudulent or improper activity and how to report concerns either directly or via our independent whistleblowing hotline. The Committee receives regular updates from the Head of Financial Crime who reports on compliance with the Group's Anti-Financial Crime and Anti-Bribery policy, and any other activities associated with financial crime, including fraud risk.

The Committee Chair is the designated whistleblower's champion and the Committee receives regular updates on the operation of the whistleblowing procedures from the Global Head of Conduct and Compliance. The anonymised reports include a summary of the incidents raised as whistleblowing, and information on developments of the arrangements in place, to ensure concerns can be raised in confidence about possible malpractice, wrongdoing and other matters.

The Committee oversees the findings of investigations and required follow-up action. If there is any allegation against the Risk or Internal audit functions, the Committee directs the investigation. The Committee is satisfied that the Group's procedures are currently operating effectively.

3.2.3 Internal audit

The Group has an Internal audit function comprising of approximately 60 people, spread across Standard Life Aberdeen's global footprint, supported by PwC as primary co-source provider. The Chief Internal Auditor reports to the Committee Chair. During the year, regular dialogue takes place, at least monthly, between the Committee Chair and the Chief Internal Auditor.

Internal audit operates in accordance with a publicly available global charter which is reviewed by the Committee every year. The overall remit of the function is to protect Standard Life Aberdeen and influence positive change by delivering independent strategic insight and confidence. Their workplan covers all areas of the Group, and is informed by risk based discussions with management, regulators, the External auditors and the Committee, as well as data analytics and testing of business processes and controls.

The Committee approves the scope and content of the annual Internal audit plan, which is updated on a rolling basis to allow Internal audit to address any emerging issues and reflect changes in the Group's activity.

The Committee receives regular reports from the Chief Internal Auditor on:

- The implementation of the approved plan and proposed changes to it
- Key findings from completed reviews, including the impact on financial reporting processes and related applications
- The status of management's implementation of agreed improvement actions
- The assessment of the internal control environment across functions and regions, where SLA Internal Audit has responsibility. The internal control environment of material Joint Ventures and associates is not within the scope of this work.

During 2018, approximately 100 internal audit engagements were completed. The Committee considered the following reports to be particularly insightful and contributed to the strengthening of Standard Life Aberdeen's control environment:

- Key regulatory change projects such as the Markets in Financial Instruments Directive II (MiFID II), the General Data Protection Regulation (GDPR) and the Senior Manager and Certification Regime (SMCR)
- Separation audit work in relation to the Sale, specifically around data segregation
- On-boarding and integration of acquisitions in the Americas
- CASS

The Committee considers the effectiveness of Internal audit as a function annually, monitoring its independence, objectivity and resourcing in the context of the Chartered Institute of Internal Auditors' professional standards. During the year, Internal audit carried out its own internal effectiveness review as well as a comprehensive quality assurance programme that included an element of independent external challenge. These processes reported satisfactory results back to the Committee. Based on its annual effectiveness review, the Committee concluded that the function continued to be highly effective.

During the year, a managed transition was completed where the incumbent Chief Internal Auditor took on a new role within the Group. An internal candidate was appointed as Chief Internal Auditor, ensuring continuity.

In accordance with the relevant independence standards, the External auditors do not place reliance on the work of Internal audit.

3.2.4 External auditors

The appointment

The Committee has responsibility for making recommendations to the Board on the reappointment of the External auditors, determining their independence from the Group and its management and agreeing the scope and fee for the audit. Following its review of KPMG's performance, the Committee concluded that there should be a resolution to shareholders to recommend the reappointment of KPMG at the 2019 AGM.

The Committee complies with the UK Corporate Governance Code, the FRC Guidance on Audit Committees with regard to the external audit tendering timetable, the provisions of the EU Regulation on Audit Reform and the Competition and Markets Authority Statutory Audit Services Order with regard to mandatory auditor rotation and tendering. The Committee will continue to follow the annual appointment process but does not currently anticipate re-tendering the audit before 2026.

Auditor independence

The Board has an established policy (the Policy) setting out what non-audit services can be purchased from the firm appointed as External auditors. The Committee monitors the implementation of the Policy on behalf of the Board. The aim of the Policy, which is reviewed annually, is to support and safeguard the objectivity and independence of the External auditors and to comply with the FRC Ethical standards for auditors (Ethical Standards). It does this by prohibiting the auditors from carrying out certain types of non-audit services to ensure that the audit services provided are not impaired. It also ensures that where fees for approved non-audit services are significant, they are subject to the Committee's prior approval. KPMG has implemented its own policy preventing the provision by KPMG of non-audit services to FTSE 350 companies which are audit clients.

The services prohibited by the Policy are in line with the Ethical Standards and include:

- Tax services, other than in exceptional circumstances and subject to specific Audit Committee approval in line with ethical standards
- Services that involve playing any part in the management of decision-making of the audited entity
- Book-keeping and preparing accounting records and financial statements
- Payroll services
- Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
- Valuation services, including valuations performed in connection with actuarial services or litigation support services
- The majority of legal services
- Services related to the audited entity's Internal audit function
- Services linked to the financing, capital structure and allocation and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses
- Promoting, dealing in, or underwriting shares in the audited entity
- The majority of human resources services

The Policy permits non-audit services to be purchased, following approval, when they are closely aligned to the external audit function and when the external audit firm's skills and experience make it the most suitable supplier.

These include:

- Audit related services, such as regulatory reporting
- Accounting consultations and audits in connection with proposed transactions
- Investment circular reporting accountant engagements
- Due diligence related to mergers and acquisitions
- Employee benefit plan audits
- Attesting to services not required by statute or regulation (e.g. controls reports)
- Consultations concerning financial accounting and reporting standards not relating to the audit of the Group's financial statements
- Other reports required by a regulator or assurance services relating to regulatory developments
- Sustainability audits/reviews
- Auditing IT security where this does not extend to designing and implementing internal control or risk management procedures

KPMG has reviewed its own independence in line with these criteria and its own ethical guideline standards. KPMG has confirmed to the Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements and that its objectivity is not impaired.

Having considered compliance with our policy and the fees paid to KPMG, the Committee is satisfied that KPMG has remained independent.

Audit and non-audit fees

The Group audit fee payable to KPMG in respect of 2018 was £4.7m (2017: KPMG £5.7m), with the reduction reflecting the impact of the Sale. In addition £1.7m (2017: £1.9m) was incurred on audit related assurance services. Fees for audit related assurance services are primarily in respect of client money reporting and the half year review. The Committee is satisfied that the audit fee is commensurate with permitting KPMG to provide a quality audit and monitors regularly the level of audit and non-audit fees. Non-audit work can only be undertaken if the fees have been approved in advance in accordance with the Policy for non-audit fees. Unless fees are clearly small (which we have defined as less than £75,000), the approval of the whole Committee is now required.

Non-audit fees amounted to £1.8m (2017: £0.4m) of which £1.6m (2017: £0.3m) related to other assurance services. Other assurance services in 2018 primarily relate to control assurance reports (£0.7m), in particular those provided to Aberdeen Standard Investments' clients, which are closely associated with audit work, reporting accountant fees relating to the Sale (£0.5m), and assurance reporting relating to fund mergers where KPMG are the auditors of the relevant funds (£0.3m). The External auditors were considered the most suitable supplier for these services taking into account the alignment of these services to the work undertaken by external audit and the firm's skill sets. The Committee also monitors audit and non-audit services provided to non-consolidated funds and were satisfied fees for those services did not impact auditor independence.

Further details of the fees paid to the External auditors for audit and non-audit work carried out during the year are set out in Note 7 of the Group financial statements.

The ratio of non-audit fees to audit and audit related assurance fees is 28% (2017: 5%). The total of audit related assurance fees (£1.7m) and non-audit fees (£1.8m) is £3.5m, and the ratio of these audit related assurance fees and non-audit fees to audit fees is 75% (2017: 40%). As noted above the audit related assurance fees are primarily fees in relation to required regulatory reporting, where it is normal practice for the work to be performed by the external auditor.

The Committee is satisfied that the non-audit fees do not impair KPMG's independence.

Audit quality and materiality

The Committee places great importance on the quality and effectiveness of the External audit. The Senior Statutory Auditor is Jonathan Mills, who is our lead audit partner. The Committee looks to the audit team's objectivity, professional scepticism, continuing professional education and its relationship with management, all in the context of regulatory requirements and professional standards. Specifically:

- The Committee discussed the scope of the audit prior to its commencement
- The Committee reviewed the annual findings of the Audit Quality Review (AQR) team of the FRC in respect of KPMG's audits. We requested a formal report from KPMG of the applicability of the findings to Standard Life Aberdeen both in respect of generally identified failings and failings specific to individual audits. The Chair of KPMG presented to the Committee in person. The AQR team also provided a report following its inspection of KPMG's audit of Standard Life Aberdeen for the year ended 31 December 2017. The Committee Chair discussed the specific findings of the AQR team with KPMG. We were satisfied that the KPMG audit was effective overall and that any identified areas for further improvement had been addressed or had appropriate action plans in place.
- The Committee approved a formal engagement with the auditor and agreed its audit fee
- The Committee Chair had at least monthly meetings with our lead audit partner to discuss Group developments
- The Committee received an update of KPMG's work, compliance with independence and its findings at nearly every meeting
- There was a detailed interview by the Committee Chair with our lead audit partner on the subject of the work undertaken to support their opinion on the financial statements and the consistency of the remainder of the Annual report and accounts with their work
- The Committee reviewed and discussed the audit findings including audit differences prior to the approval of the financial statements. See the discussion on materiality in the paragraph below for more detail
- Additional work was again undertaken on Solvency II reporting and the Committee also reviewed separate papers from KPMG covering this specific work

We have discussed the accuracy of financial reporting (known as materiality) with KPMG both as regards accounting errors that will be brought to the Committee's attention and as regards amounts that would need to be adjusted so that the financial statements give a true and fair view. Differences can arise for many reasons ranging from deliberate errors (fraud etc.) to good estimates that were made at a point in time that, with the benefit of more time, could have been more accurately measured. Overall audit materiality has been set at £32m (2017: £38m). This equates to approximately 4.8% of normalised profit before tax. This is within the range in which audit opinions are conventionally thought to be reliable. To manage the risk that aggregate uncorrected differences become material, we supported that audit testing would be performed to a lower materiality threshold for individual reporting units. Further, KPMG agreed to draw the Committee's attention to all identified uncorrected misstatements greater than £1.6 million (2017: £2m). The aggregated net uncorrected misstatements were approximately £20m which was less than audit materiality. The gross differences were attributable to various individual components of the consolidated income statement and balance sheet. No audit difference was material to any line item in either the income statement or the balance sheet. Accordingly, the Committee did not require any adjustment to be made to the financial statements as a result of the audit differences reported by the External auditors.

KPMG has confirmed to us that the audit complies with their independent review procedures.

3.3 Risk and Capital Committee report

The Risk and Capital Committee supports the Board in providing effective oversight and challenge of risk management and the use of capital across the Group.

Dear Shareholder

I am pleased to present my report as Chair of the Risk and Capital Committee.

Activities related to the Sale formed a significant part of the Committee's work this year. In overall terms, this transaction has significantly reduced the risk profile and therefore the capital requirements of the Group, but the transaction itself was also risky in terms of the amount of work required to separate the business and the transitional arrangements. The Committee therefore assessed the transaction from a risk and capital perspective to advise the Board on the impact of the transaction. This involved the Committee providing regular review and challenge of the key risks and capital implications associated with the transaction and included reviewing assessments:

- In advance of announcing externally the intention to sell the UK and European insurance business
- To support disclosure of the Risk Factors in the Circular
- On the anticipated operational readiness of the business on 'Day One' following completion of the transaction

During 2018 the overall risk environment for the Group has been at an elevated level given the combination of the integration activity following the 2017 merger of Standard Life plc and Aberdeen Asset Management PLC, and the additional risks arising from the Sale, together with the ongoing level of regulatory change. The Committee kept a close eye on the most significant risks and ensured that these were given good visibility at the Board.

In addition to this, the Committee has continued to provide oversight and challenge in respect of the principal risks faced by the business during 2018. This included:

- The risks involved in the delivery of significant regulatory change in response to the second Markets in Financial Instruments Directive (MiFID II) and the General Data Protection Regulation (GDPR)
- The management of operational pressures arising from the delivery of integration and strategic change following the 2017 merger of Standard Life plc and Aberdeen Asset Management PLC
- The documentation of the first Internal Capital Adequacy Assessment Process (ICAAP) for the combined asset management business which operates under the brand Aberdeen Standard Investments
- The political change risk arising from uncertainty regarding the nature and form of the UK's exit from the European Union
- Process execution risks within the asset management business given the potential for periods of heightened market volatility to result in operational errors

Further details on these and other activities carried out by the Committee during the year can be found in the report that follows.

Martin Pike
Chair, Risk and Capital Committee

Membership

All members of the Risk and Capital Committee are independent non-executive Directors. The table below reflects the composition of the Committee and the members' attendance both pre and post the merger:

Member	Attendance
Martin Pike, Chair	**10/10**
John Devine	**8/10**
Melanie Gee	**10/10**
Former member	
Julie Chakraverty	**3/5**
Gerhard Fusenig	**9/10**

Cathleen Raffaeli was appointed to the Committee on 1 January 2019. The Committee meetings are attended by the Chief Risk Officer. Others invited to attend on a regular basis include the Chair, the Co-Chief Executives, the Chief Financial Officer, the Chief Investment Officer and the Chief Internal Auditor as well as the External auditors.

Regular private meetings of the Committee's members have been held during the year providing an opportunity to raise any issues or concerns with the Chair of the Committee. The Committee's members have also held regular private meetings with the Chief Risk Officer and the Chief Internal Auditor and have been given additional access to management and subject matter experts outside of the Committee meetings in order to support them in gaining an in-depth understanding of specific topics.

Key responsibilities

Our vision to build a world-class investment company results in exposure to a range of risks and uncertainties. Understanding and actively managing the sources and scale of these risks and uncertainties are key to fulfilling this vision.

The Risk and Capital Committee helps support this by advising the Board and providing oversight and challenge on:

- The Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital
- The structure and implementation of the Group's Enterprise Risk Management (ERM) framework and its suitability to react to forward-looking issues and the changing nature of risks
- Changes to the risk appetite framework and quantitative risk limits
- Risk aspects of major investments, major product developments and other corporate transactions
- Regulatory compliance across the Group

Further detail on the work performed in each of these areas is set out in the report below.

In carrying out its duties, the Committee is authorised by the Board to obtain any information it needs from any Director or employee of the

Group. It is also authorised to seek, at the expense of the Group, appropriate external professional advice whenever it considers this necessary. The Committee did not need to take any independent advice during the year.

The Committee's work in 2018

An indicative breakdown as to how the Committee spent its time is shown below:

- Financial risks
- Operational risks
- Conduct risks
- Sale of UK and European insurance business
- Other

The Committee operates a rolling agenda and uses each meeting to consider a range of recurring items as well as other items that are more ad hoc and/or more forward-looking in nature.

One of the recurring items that is reviewed and discussed at each meeting is the Views on Risk report which provides a holistic assessment from the Chief Risk Officer of the key risks and uncertainties faced by the Group's businesses and the actions being taken to manage these. In 2018 this report provided the Committee with a comprehensive view of the key risks and uncertainties and allowed the Committee to review and challenge risks including those relating to flows and performance, the delivery of change, liquidity and capital, operational risk, conduct risk and regulatory compliance.

The Committee's agenda also includes the regular review of minutes from the Standard Life Aberdeen plc Enterprise Risk Management Committee and minutes from those risk committees comprising non-executives that operate in Standard Life Aberdeen plc's directly-held subsidiaries.

During 2018 the risk committee minutes reviewed by the Committee included minutes from meetings of the Aberdeen Asset Management Life and Pensions Limited risk committee and the Standard Life (Asia) Limited risk committee. Prior to the Sale in August the Committee reviewed the minutes of the SLAL risk and capital committee. On completion of the sale, Standard Life Savings Limited became a directly held subsidiary of Standard Life Aberdeen plc and, since then, the Committee has reviewed the minutes from the Standard Life Savings Limited and Elevate Portfolio Services Limited risk committees.

Regular reporting was also presented to the Committee during the year regarding the Group's internal risk and capital assessment. This covered the ICAAP performed in connection with the requirements of the Capital Requirements Directive following the Sale and, prior to this, the Group's Own Risk and Solvency Assessment (ORSA) performed in connection with Solvency II requirements. This supported the Committee in understanding changes to the Group's risk profile and capital position over the course of the year and allowed the Committee to challenge management's assessment of risks and to oversee key actions being taken to manage these risks.

In addition to reviewing these recurring items and undertaking work in connection with the Sale, the Committee provided oversight of a broad range of topics in 2018. This included consideration of:

Jan-Mar

- Status of compliance with MiFID II
- Plans to deliver GDPR compliance
- Advice to be provided to the Remuneration Committee regarding the delivery of performance in 2017 relative to risk appetites
- Findings included in the 2017 Internal Controls Report issued for Standard Life Investments Limited and Aberdeen Asset Management PLC
- Plans for testing, assurance reviews, business risk reviews and validation activity to be performed in 2018

Apr-Jun

- The due diligence and key risks associated with the planned acquisition of ETF Securities (US) LLC and its US affiliates
- The risk profile of suppliers and the approach adopted in managing supplier risk
- The state of compliance on implementation of GDPR
- The semi-annual update on cyber risk and security
- Currency risks and the strategy followed in managing and monitoring these risks
- The operation of activities related to the investment process and performance
- Planned enhancements to the framework for escalating risk items to the Remuneration Committee
- Actions taken to enhance the conduct risk framework

Jul-Sep

- Risk assessment of the Sale, the Transitional Services Agreement and the proposed ongoing relationship with Phoenix
- Resources to support the management of supplier risk
- Ongoing activity to support GDPR compliance
- The remit and resources of the cyber risk management function
- Proposals to ensure effective regulatory compliance for the Advice and Platforms business following sale of the UK and European insurance business
- Plans for the transformation of risk and compliance processes

Oct-Dec

- The Group's current and projected capital position following the transition to reporting under Capital Requirements Directive IV (CRD IV)
- The Aberdeen Standard Investments ICAAP report
- Results from the 2018 stress and scenario testing programme
- The remit and resources of the investment risk oversight function
- The potential impacts of a disorderly Brexit and plans to mitigate the risks arising from this
- Progress in the management of IT obsolescence risk
- The management of conflicts of interest in Aberdeen Standard Investments
- The semi-annual update on cyber risk and security
- An update on data privacy and the management of this in 2018
- Actions taken to enhance the conduct risk framework
- Proposed changes to the risk appetite framework
- Risks associated with the 2019 – 2021 business plan

After each meeting, the Committee Chair reports to the Board, summarising the key points from the Committee's discussions and any specific recommendations.

Risk appetites, exposures and capital

The risk appetite framework provides a common framework to enable stakeholders to communicate, understand and control the types and levels of risk that the Board is willing to accept in pursuing its strategy and business plan objectives and the capital that is required in this regard.

The Committee has continued to support the Board through monitoring exposures against tolerances and appetites throughout the year. This included, prior to announcing the decision to sell the UK and European insurance business, reviewing the likely impact on the Group's risk profile and capital requirements of the proposed transaction.

In May the Committee reviewed proposals from management to revise the tolerance for operational risk in light of the increased level of change being undertaken by the business in view of the ongoing integration of the asset management business and taking into account the preparation for the Sale. Following completion of the transaction, proposals to rescale this tolerance in line with the refocused business model were presented by management for consideration by the Committee. In both cases the Committee supported management's proposals and advised the Board accordingly.

At its December meeting the Committee reviewed and challenged proposals presented as part of the annual review of the risk appetite framework. This included reviewing proposed updates to ensure that the Group's risk appetites and risk limits appropriately reflected changes to the risk profile in view of the ongoing transformation of the business. The Committee recommended and the Board subsequently approved the changes that were presented.

The Committee has continued to receive regular reporting through the Views on Risk report on financial exposures, conduct and operational risks, and the Group's capital position. Through reviewing the relevant dashboards, commentaries and associated management information, the Committee has monitored risks relative to applicable quantitative and qualitative appetites and views on the resilience of the capital position under current and stressed conditions.

The Views on Risk report also includes dashboards covering financial crime and regulatory risk. These provide the Committee with status updates on the financial crime framework, addressing risks related to money laundering, terrorist financing, market abuse, fraud and bribery and corruption, and the regulatory outlook. Environmental, social and governance risks are actively managed within the business and updates on this are also included within the report. Using this material, the Committee is able to oversee, challenge and advise the Board on the Group's risk appetite, material risk exposures and the impact of these on the levels and allocation of capital.

Key items that the Committee discussed during the year in this context included:

- The Sale and the change in the Group's capital requirements moving from the Solvency II to CRD IV regime
- Risks associated with outflows and investment performance
- Risks relating to the status of the Group's Brexit preparations and the possibility of a disorderly exit from the EU
- The ICAAP report produced for the combined ASI business
- Enhancements to the Risk and Compliance function through the transformation programme

As highlighted in the table on page 71, we received a number of one-off reports during the year which directly supported the Committee in our oversight of risk appetites, exposures and capital.

Stress testing and scenario analysis performed in 2018 also supported the Committee in understanding, monitoring and managing the risk and capital profile of the business under stressed conditions. This provided a forward-looking assessment of resilience to potentially significant adverse events affecting key risk exposures and comprised:

- Univariate stresses – looking at stresses to financial and demographic risks in isolation
- Combined stresses – looking at simultaneous stresses to a combination of financial and demographic risks
- Reverse stress testing – considering circumstances or severe events, including as a result of operational, conduct or reputational risks, that have the potential to cause the business to become unviable
- Tail risk analysis – exploring the possible sequential development of a low likelihood but high impact scenario

The Committee reviewed the results of the stress testing and scenario analysis that was performed. This included reviewing the results of three scenarios which were explored as part of the reverse stress testing exercise: the breakdown of strategic partnerships and client relationships; the failure of multiple key projects; and the rise of populism and protectionism. The latter scenario was globally focused but included consideration of both a 'hard' Brexit and a 'no-deal' Brexit. At the time of the exercise, although a 'no-deal' Brexit was considered an unlikely outcome, the work performed prompted an increased focus on understanding the risks to the business of such a scenario and the options available to mitigate these risks.

The Committee also reviewed the results of the tail risk analysis performed for two scenarios. The scenarios considered were a successful cyber-attack on a critical third party supplier and the failure of IT software which meant the business was unable to operate within normal timeframes and resulted in reputational damage as the business was unable to provide the usual functions expected by clients and customers.

Based on the results of the stress testing and scenario analysis, the Committee concluded there was no requirement for the business to reduce its risk exposures and that the business was resilient to extreme events as a result of the robust controls, monitoring and triggers in place to identify events quickly and the range of management actions available to help mitigate their effects.

The Committee also provided oversight of risk exposures and projected capital requirements in the context of the business planning and reforecasting process. This included reviewing reporting produced as part of the mid-year reforecasting exercise and reporting produced in December as part of the annual business planning process.

Enterprise Risk Management (ERM) framework

During the year the business took the opportunity to refresh the ERM framework used to identify, assess, control and manage the Group's risks. Details of the proposed changes were presented to the Committee to allow the Committee to consider the structure of the framework and its suitability for identifying, assessing and managing current and new risk types and for reacting to forward-looking risk issues and the changing nature of risks. The Committee supported the proposed changes and considered they would help drive greater risk awareness and accountability across the business.

The changes that were introduced aligned risk and compliance practices to the broader corporate transformation being undertaken, including the introduction of the new operating model, and reflected the impact of the Group moving to the CRD IV capital regime and regulatory developments regarding senior management accountability.

The Committee has continued to obtain assurance regarding the operation of the ERM framework through its review of regular content within the Views on Risk report. In particular we have used our review of the various risk and capital dashboards, including the consolidated dashboard on key conduct risk indicators, to understand the Group's risk profile and the effectiveness of the framework in supporting the management of these risks.

Following the refresh of the ERM framework the Committee now receives reporting from the Risk and Compliance function on the results of the quarterly risk management survey of regional and functional executives which is used to identify the key risks facing the business. The completion of this survey along with subsequent discussion of the results at ERMC meetings is noted as helping to drive greater risk awareness and accountability. Furthermore, through reviewing the results of the survey, the Committee has been able to ensure there is appropriate focus on these key risks facing the business.

The Committee specifically monitors risk control processes through reviewing the results of quarterly policy compliance reporting and updates regarding action plans raised in response to risk events which are included within the Views on Risk report.

Exceptions-based reporting is provided to the Committee through the Views on Risk report setting out any matters of significance in respect of the results of quarterly policy compliance reporting and actions being taken in response to risk events. These two items also support the Committee in performing its oversight of the ERM framework.

The Committee also receives regular reporting from the Chief Internal Auditor which provides an independent assessment of the internal control environment relating to the operation of the framework.

Regulatory compliance and reporting

The Committee reviews and assesses regulatory compliance plans detailing the planned schedule of monitoring activities to be performed by the Risk and Compliance function to ensure there is appropriate coverage. Regular updates on key findings from regulatory compliance activity and progress against the plan were reported to the Committee through the Views on Risk report.

The business has once again faced a busy regulatory agenda in 2018 which included responding to the introduction of new regulations as a result of MiFID II and GDPR. In light of the significance of these regulations, the Committee received regular updates on the state of business readiness in advance of these regulations being implemented.

As a Committee we have closely monitored regulatory developments to understand and anticipate potential implications for the Group and the wider financial services sector. This included monitoring regulatory developments regarding statements from the European Securities and Markets Authority, the FCA and other European regulators in advance of Brexit. In particular the Committee paid close attention to statements regarding plans for the FCA and European regulators to put in place Memorandums of Understanding that would mitigate the risk of the Group's EU subsidiaries being unable to delegate asset management services to the UK in the event of a 'no-deal' Brexit.

The Committee's monitoring of regulatory developments also included monitoring the FCA's announcements in connection with their Asset Management Market Study, in particular the potential impacts this could have on fund charging across the industry.

Corporate and strategic risk reporting

The Committee has continued to support the Board in considering the risk aspects of proposed material corporate transactions.

In 2018 the Committee's activities included reviewing risk assessments produced in advance of the announcement of the Sale. Based on the assessments presented, the Committee was satisfied that the degree of risk presented by the proposed transaction was acceptable and that the transaction was expected to result in de-risking the Group. As part of the advice provided to the Board, the Committee highlighted the key risks associated with the transaction and the possible impacts of Brexit on the transaction.

The Committee subsequently considered the proposed content to be included in the Risk Factors that were disclosed in the Circular produced to support the Sale and related reporting provided to the PRA on risks arising from the transformation programme.

Prior to the final decision being taken to conclude the Sale, the Committee considered the anticipated operational readiness of the business for 'Day One' following completion of the transaction. The Committee noted the risks associated with operational readiness and the associated mitigants that were in place. Key items discussed by the Committee in this context included data segregation, cyber risk, conduct risk and regulatory matters. Based on these discussions and the material presented the Committee was able to confirm its support for the proposed deal completion date.

During the year the Committee also reviewed assessments relating to the proposed acquisition of ETF Securities (US) LLC and its US affiliates. This included considering the due diligence that had been performed and the key risks associated with the transaction.

The Committee also received reports (previously called Business Risk Reviews) on other aspects of corporate and strategic risk. These reports provided the Committee with an independent assessment from the Risk and Compliance function of aspects of the business that could have a material impact on long-term profitability or delivery of strategy, or that could introduce a material new risk. One such report presented to the Committee in 2018 concerned the product development process in the asset management business, recognising the importance of this process in delivering long-term value for clients. In particular this supported the Committee in understanding the process around prioritising activity, the management of seed capital and resourcing in the context of the implementation of strategic innovation.

Governance arrangements

The Committee has continued to rely on the work of those risk committees comprising non-executives operating in subsidiary companies to provide oversight and challenge of risks within those subsidiaries. The Committee receives updates and minutes from these committees in order to maintain awareness and oversight of risks across the Group. The Committee also reviews the terms of reference for these committees in order to ensure their remit is suitably aligned.

As previously noted in this report, prior to the Sale in August the Committee received minutes from the SLAL risk and capital committee. On completion of the Sale, Standard Life Savings Limited became a directly held subsidiary of Standard Life Aberdeen plc and, since then, the Committee has received minutes from the Standard Life Savings Limited and Elevate Portfolio Services Limited risk committees.

The Committee has also received reporting during the year from the risk committees in place for Aberdeen Asset Management Life and Pensions Limited and Standard Life (Asia) Limited, the latter committee having been established in 2018.

In addition to the Committee reviewing reporting from the subsidiary risk committees, arrangements also exist for the Committee's Chair to attend those subsidiary risk committees.

During the year the Committee once again provided advice to the Remuneration Committee regarding the delivery of performance in the context of incentive packages. In particular, the Committee considered whether performance had been delivered in a manner that was consistent with the Group's strategy, risk appetite and tolerances, and capital position. The provision of this advice helps ensure the Group's overall remuneration practices are aligned to the business strategy, objectives, culture, values and long-term interests of the Group and that individual remuneration is consistent with and promotes effective risk management.

Committee effectiveness

The Committee reviews its remit and effectiveness annually. In 2018 this was carried out by external consultants IBE who produced an independent report on the operation and effectiveness of the Committee.

The report on the operation and effectiveness noted the role of the Committee in supporting the Board and recognised that risk was high on the agenda. The review confirmed that the Committee's agenda and composition was fit for purpose, highlighting the need for this to be kept under review as business transformation progressed following the Sale.

For 2019, the review highlighted an expectation that to continue to operate effectively the Committee would need to remain focused on key items including MiFID and GDPR compliance as well as cyber and data risk. Plans are already underway to enhance the Committee's coverage of these items in 2019.

4. Directors' report

The Directors present their annual report on the affairs of the Standard Life Aberdeen group of companies (the Group), together with the audited International Financial Reporting Standards (IFRS) consolidated financial statements for the Group, financial information for the Group and financial statements for Standard Life Aberdeen plc (the Company) for the year ended 31 December 2018.

Reporting for the year ended 31 December 2018

The Company is the holding company of the Group. You can find out about the relevant activities of the Company's principal subsidiary undertakings and their overseas branches in the Strategic report. During 2018, the Company's principal undertakings operated branches in Europe, together with Hong Kong and India.

The main trends and factors likely to affect the future development, performance and position of the Group are outlined in the Co-Chief Executives' overview section of the Strategic report. Reviews of the operating and financial performance of the Group for the year ended 31 December 2018 are given in the Strategic report.

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

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

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

Dividends

The Board recommends paying a final dividend for 2018 of 14.30p per ordinary share. This will be paid on 21 May 2019 to shareholders whose names are on the Register of members (the Register) at the close of business on 12 April 2019.

The total payment is estimated at £345m for the final dividend and together with the interim dividend of 7.30p per share totalling £214m paid on 25 September 2018, the total dividend for 2018 will be 21.60p per share (2017: 21.30p) totalling £559m (2017: £627m).

Share capital

You can find full details of the Company's share capital, including movements in the Company's issued ordinary share capital during the year, in Note 26 to the Group financial statements. You can also find an analysis of registered shareholdings by size, as at 31 December 2018, in the Shareholder information section.

In May 2018 a Circular was published, giving details of the proposed sale of Standard Life Assurance Limited to Phoenix Group. The Circular also gave details of a proposed return of capital to shareholders via a B Share Scheme, and a share buyback programme. Following completion, approval was given to return up to £1.75 billion in aggregate to shareholders, with the first £1.0 billion to be returned by way of the B Share Scheme and the remaining up to £750 million to be returned by way of the share buyback programme. Authority for the Company to purchase its own shares had previously been granted at the Annual General Meeting (AGM) but was superseded by the authority granted at the general meeting.

On 25 June 2018, shareholders voted at a general meeting to approve a return of capital of 33.99 pence per share via a B Share Scheme, along with an associated share capital consolidation. Shareholders received 7 new ordinary shares of 13 61/63 pence for every 8 existing ordinary shares of 12 2/9 pence held at 5pm on 19 October 2018. The total number of shares in issue at 6pm on Friday 19 October 2018 was 2,941,738,848 ordinary shares of 12 2/9 pence each. The total number of shares in issue at the opening of markets on Monday 22 October 2018 was 2,574,021,492 (new) ordinary shares of 13 61/63 pence each.

As a result, 2,941,738,848 B shares of 33.99 pence each were allotted and issued on 22 October 2018. No application was made to the UK Listing Authority or to the London Stock Exchange respectively, for any of the B Shares to be admitted to the Official List or to trading on the London Stock Exchange's main market for listed securities, nor were the B Shares listed or admitted to trading on any other recognised investment exchange. The B Shares were redeemed on 24 October 2018 for 33.99 pence per B Share. All B Shares were redeemed and cancelled.

On 9 August 2018 the Company announced the commencement of an initial share repurchase programme of the Company's ordinary shares up to a maximum aggregate consideration of £175m. This was followed by an announcement on 20 November 2018 of a further share repurchase programme up to a maximum aggregate consideration of £200m. The purpose of this programme is to reduce the share capital of the Company. All shares purchased have been cancelled.

As at 31 December 2018, there were 2,529,412,224 ordinary shares in issue held by 101,181 registered members. The Standard Life Aberdeen Share Account (the Company-sponsored nominee) held 648,081,141 of those shares on behalf of 1,022,001 participants. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

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

Shareholder	Date of transaction	Type of transaction	Number of voting rights following the transaction	Percentage of voting rights following the transaction
Lloyds Banking Group plc	8 June 2018 (pre share consolidation)	Disposal	–	Below 3%
Mitsubishi UFJ Trust and Banking Corporation	8 February 2019	Decrease of common shares outstanding by the issuer	150,500,406	6.002%
	15 February 2019	Disposal	–	Below 3%

In accordance with the terms of the Standard Life Employee Trust Deed, the trustees waived all entitlements to current or future dividend payments for shares they hold.

Similarly, in accordance with the terms of The Aberdeen Asset Management Employee Benefit Trust 2003, the trustees waived all entitlements to current or future dividend payments for shares they hold other than dividends payable on any shares held by the trustee as nominee for any other person.

The trustees of the Standard Life Aberdeen (Employee) Share Plan voted the appropriate shares in accordance with any instructions received from participants in the plan.

Restrictions on the transfer of shares and securities

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

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

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

The Board may decline to register the transfer of:

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

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

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

Rights attached to shares

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

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

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

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

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

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

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

Power to purchase the Company's own shares

At the 2018 Annual General Meeting (AGM), shareholders granted the Directors limited powers to:

- Allot ordinary shares in the Company up to a maximum aggregate amount of £121,370,072
- Disapply, up to a maximum total nominal amount of £18,205,510 of its issued ordinary share capital, shareholders' pre-emption rights in respect of new ordinary shares issued for cash
- Make market purchases of the Company's ordinary shares up to a maximum of 297,908,360 of its issued ordinary shares

As noted earlier in this share capital section, this authority was subsequently superseded by the authority granted at the general meeting held on 25 June 2018. Under the buyback programme, the Company purchased 37,983,529 of its ordinary shares of 12 2/9 pence each, paying an aggregate amount of £119,860,054. As at the time of the share capital consolidation in October, the percentage of share capital represented by the purchased shares was approximately 1.29%. Following the share consolidation, the Company purchased 44,609,556 of its ordinary shares of 13 61/63 pence, paying an aggregate amount of £115,040,275. As at 31 December 2018, the percentage of share capital represented by the purchased shares was approximately 1.8%.

Significant agreements

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

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

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

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

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

Appointment and retirement of Directors

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

The UK Corporate Governance Code recommends that directors of FTSE 350 companies should stand for election every year. During the year, Julie Chakraverty, Akira Suzuki and Lynne Peacock retired as Directors on 29 May 2018, and on 31 December 2018 Gerhard Fusenig and Kevin Parry resigned as Directors and Sir Gerry Grimstone resigned as Chairman and Director. Simon Troughton and Richard Mully will stand down as Directors at the conclusion of the 2019 AGM and Bill Rattray will stand down on 31 May 2019.

Cathleen Raffaeli was appointed to the Board on 1 August 2018. Sir Douglas Flint was appointed to the Board on 1 November 2018 and was appointed Chairman with effect from 1 January 2019. Having been appointed since the last AGM, Cathleen Raffaeli and Sir Douglas will stand for election at the 2019 AGM. It is intended that Stephanie Bruce will succeed Bill Rattray as CFO on 1 June 2019. Whilst Stephanie would not take up her role until then, the Board felt it was important that shareholders were given the opportunity to vote on her election at this year's AGM.

All remaining Directors as at the date of the AGM will retire at the 2019 AGM and, if they wish to continue in office, will stand for re-election.

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

Directors and their interests

The Directors who served during the year were:

Sir Douglas Flint[1] (Chairman)	Gerhard Fusenig[2]
Sir Gerry Grimstone[2]	Melanie Gee
Keith Skeoch	Richard Mully
Martin Gilbert	Lynne Peacock[3]
Bill Rattray	Martin Pike
Rod Paris	Cathleen Raffaeli[4]
Kevin Parry[2]	Jutta af Rosenborg
Julie Chakraverty[3]	Akira Suzuki[3]
John Devine	Simon Troughton

1 Appointed 1 November 2018.

2 Resigned 31 December 2018.

3 Retired 29 May 2018.

4 Appointed 1 August 2018.

Biographies of the current Directors can be found on pages 52 to 53.

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

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

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

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

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

Directors' liability insurance

During 2018, the Company maintained directors' and officers' liability insurance on behalf of its directors and officers to provide cover should any legal action be brought against them. The Company also maintained pension trustee liability indemnity policies (which includes third party indemnity) for the boards of trustees of the UK and Irish staff pension schemes where required to do so.

Our people

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

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

Diversity and Inclusion

At Standard Life Aberdeen our Vision for an Inclusive Future aims to create a workplace where everyone feels they can be themselves and are valued for what they bring. We believe that inclusion is core to delivering our company values and developing an environment which enables everyone to perform and progress. By building and sustaining a diverse talent pipeline and enabling people to reach their potential, we will provide our global customers with the diversity of thought and creativity required to bring long-term value.

We have a published inclusion strategy, which was co-created with our people, and which defines our priorities over the next three to five years. Progress against this is reviewed by the Nomination and Governance Committee at every meeting. The strategy aims to embed inclusion in everything we do, and this year we have worked with our Executive team to make sure there are actions in place relevant to their business areas, which build more inclusive workplaces. Our strategy is also about improving transparency in how we talk about and report on diversity in our business. Our transparency was recognised this year by Equileap who ranked us in their Top 200 Global companies for gender equality and also by Bloomberg who included us for the first time in their Gender Equality Index.

We empower people to take an active and collective approach as we all have a role to play in creating an inclusive environment. For example our seven employee network groups support members of the diverse groups and communities they represent, and raise awareness of issues that affect them. With over 1,200 members, our networks continue to expand their global reach, and focus on gender, LGBT+, ethnicity, mental health, young people, carers and armed forces.

We consider diversity in the broadest sense – in our backgrounds, experiences, strengths and thinking. To begin extending our areas of focus, we have recently run focus groups to understand how we can better support our ageing workforce and disabled employees. We treat those with disabilities fairly in relation to job applications, training, promotion and career development. Reasonable adjustments are made to train and enable employees who become disabled while working at Standard Life Aberdeen to allow them to continue and progress in their career.

Achieving a better gender balance at all levels is a priority for us. Last year we published our year one gender pay gap figures, refreshed our Women in Finance Charter targets following the merger, and published our first gender action plan. Following this, our Co-Chief Executives undertook a series of conversations to better understand the experiences of our people across all levels, locations and divisions of our business. This included focus groups on gender diversity to partner on creating our refreshed gender action plan, which was published in October.

We know we have more to do to improve representation of women at our Board and Executive levels. At Board level, we remain committed to our 33% target by June 2020, in line with our pledge to the 30% Club. We welcome the progress reported against our targets, with an improvement at our CEO-1 and CEO-2 levels from 27% at the same point last year to 34% as at 31 December 2018. The actions we have in place to improve representation of women at all levels in our organisation are stretching, benchmarked and sponsored by our Co-Chief Executives. Increasing women in our senior roles will also improve our gender pay gap, which is heavily influenced by the significant number of men in senior and most highly remunerated roles, and by the larger number of women in more junior roles. Our actions are making a difference and our strong gender pool balanced pipeline continues to grow, particularly at CEO-2 level; however we know that we have more to do at Board and Executive team level.

This year we were delighted to be one of the inaugural signatories to the Race at Work Charter launched by Business in the Community in partnership with the government. This commits organisations to tackling barriers that ethnic minority people face in recruitment and progression. As part of delivering on our commitments, we published our first ethnicity action plan and provided diverse employment opportunities to ethnic minority and socially mobile young people through the Taylor Bennett Foundation, The Prince's Trust and our inclusive employment strategy.

You can read our gender pay gap report and our gender and ethnicity action plans on our website
www.standardlifeaberdeen.com/annualreport

Talent

Attracting, retaining and developing talent is a key strategic objective for the organisation. We remain committed to investing in the recruitment and development of early careers talent. Over the past 12 months, we have hired a total of 146 individuals on to early careers programmes across Standard Life Aberdeen. This consists of our Graduate, Intern programme, and Edinburgh Guarantee populations across the UK, Europe, Asia and America.

We continued our strategic partnership with Career Ready throughout 2018, aligning 34 students with internal mentors as well as providing a four week internship in Edinburgh, London or Aberdeen, paid at the Living Wage. Standard Life Aberdeen is also one of six Scottish-based Financial Services firms piloting an approach to increase school students' awareness, and understanding, of the diversity of careers in our industry.

We are proud to be recognised for our commitment to early career talent. Feedback from our 2018 intern cohort saw us feature in the Top 100 Undergraduate Employers for 2018. (Our 2019 ranking will be confirmed in Q1.) In May, our early careers and employer brand team won Bronze at the Employer Brand Management Awards for Best Employer Brand Management Programme following a merger or acquisition.

We are committed to talent progressing at every career stage. We promote a philosophy of individual-driven development linked to business need: learning in real-life and real-time backed by a range of open-access learning opportunities available to all colleagues. Our Board and Executive Committee are highly engaged in our talent and succession agenda and in mentoring future talent. Succession Bench-strength Reviews, including Talent Reviews and profiling of individual talent, are executed regularly within the organisation to ensure that a strong pipeline of 'expertise talent' as well as leadership talent is being developed both to fuel our growth agenda and to assure our clients of seamless transitions in the event of natural individual movement. Where gaps in our pipeline are identified, we are proactive in identifying external talent who are additive to our organisation and culture.

Engagement

In our mood and sentiment survey carried out post-merger in 2017, our employee insights partner Karian and Box believed our results showed a high level of positivity towards the merger in comparison to others in a merger/acquisition situation. In Q4 2018 we ran a global deep dive engagement survey 'Viewpoints' based on a number of key organisational themes. This has given us further organisational insight and has created a baseline to build on. In addition, there are employee representation arrangements across the organisation aimed at providing ongoing insights from our people to help the Company understand the employee perspective.

The main themes that emerged from the most recent survey included the need to build, through better communication with our employees, a clearer and more consistent understanding of our strategic direction, and how we can speed elimination of factors that can prevent people from doing their jobs as effectively as possible. Positive feedback centred on how our managers lead through change, colleagues feeling able to be themselves at work and our continued focus on all aspects of inclusion.

Over the year ahead we plan actions based on the themes that emerged, and we will continue to measure engagement, mood and culture across the Group.

Results:

- Participation: 69% (4,274 colleagues)
- Engagement score: 56%

Workforce Engagement

Recognising the 2018 Corporate Governance Code provision on workforce engagement, the Nomination and Governance Committee discussed the three possible options and agreed that it would be appropriate to propose a designated non-executive director to support this. After discussion with the Committee, Melanie Gee has accepted this proposal and the following parameters have been identified for her engagement role:

- Meet regularly with the employee representative forums
- Meet collectively with the representatives of the employee networks
- Meet with the Regional Heads to discuss local initiatives on employee engagement in the regions
- Meet with the Transformation team to discuss how workforce engagement is built into the various work streams
- Meet with the Talent and Leadership team to discuss how they are taking forward employee engagement matters, including those arising from the Viewpoint survey
- Consider how “employee engagement” can be built into the regular Board reporting templates
- Attend an innovation Panel meeting
- Attend several senior talent NED engagement dinners
- Report back to the Board on a regular basis on the output from her workforce engagement activities
- Prepare a report for the 2019 Annual Report and Accounts on the impact of her workforce engagement activities

Information about stakeholder engagement, together with the section 172 (1) statement, is on pages 22 to 23 of the Strategic report.

Developing our People

Throughout 2018 we have continued to strengthen our approach to supporting the development of our people.

Recognising the vital contribution that our people managers make, we recently launched the People Management Academy, an exciting new global framework and learning curriculum designed to enhance the skills and capabilities of line managers. Over 300 line managers enrolled within days for in-person development sessions and the offering will continue to develop throughout 2019, with the addition of new digital and workshop solutions.

Our drive to be effective is reflected in the launch of a range of personal effectiveness and business skills courses, to support personal career growth. We make full use of digital learning channels to promote regular and ongoing learning and development in the workplace to all employees. During our recent digital learning campaign, The Leading Edge Challenge Series, over 50,000 learning resources were accessed by employees and the campaign has been shortlisted for two industry awards.

As outlined above, developing world-class early careers talent is a priority. Our new Graduate Development framework enables graduates to develop key skills and capabilities that we have identified as critical to their personal and professional development, ranging from resilience to commercial awareness.

In 2018, 59 students participated in our Intern Development Programme supporting their transition into the workplace. In addition to developing a range of skills, the programme also showcased our support for social causes, raising money in aid of a high profile charity (Chest, Heart and Stroke Scotland).

We are enthusiastic in deploying a broader range of Apprenticeships to support individuals to combine work and study. This year, we enrolled our first graduate apprentices in study for in-demand industry skills such as cyber security and software development, as well as continuing the focus on working towards qualifications in subjects including Providing Financial Services and Management.

In 2018 we have ensured that employees have been able to continue using intranet services throughout the period of organisational change. As part of the separation programme we created an additional version of the intranet in order that both Standard Life Aberdeen employees, and employees transferring to Phoenix group, were able to access the intranet without disruption. Additionally, we have created a new global communications hub to support Standard Life Aberdeen employees through the transition period. Work is now underway to initiate a digital workplace programme which will see delivery of a new global internet for our transformed Group.

Reward

We believe that when our employees own shares in the Company they understand better the interests of the Company’s shareholders.

The Company invited over 99% of UK and Ireland based employees to participate in the Standard Life Aberdeen Sharesave plan in 2018 and 1,799 employees accepted the invitation. These employees will have the opportunity to acquire Standard Life Aberdeen plc shares for £2.571 (UK) and €2.857 (Ireland) with their accumulated savings when their savings contracts end in three or five years’ time. At 31 December 2018, 2,522 UK employees in UK and Ireland were saving towards the purchase of Standard Life Aberdeen plc shares through this plan.

As at 31 December 2018, 2,197 of the Group's employees were shareholders through participation in the Standard Life Aberdeen (Employee) Share Plan (the Plan). As part of the integration programme in 2019 participation in this Plan will be extended so that over 99% of employees in the UK and Ireland will be eligible to participate. Participation allows employees to buy ordinary shares in the Company directly from their earnings up to a market value of £150 per month (UK) or €175 (Ireland) per month. The Company matches the shares purchased by the employees, matching up to £50 per month in the UK and €70 per month in Ireland.

Sustainability

The commercial aims of our business are linked to our environmental, social and governance responsibilities. You can find out more about how we run our business sustainably throughout the Strategic report. Our non-financial information statement on page 49 summarises where you can find key information on our approach. For details of our greenhouse gas emissions, please see page 48.

Political donations

We have a long-standing policy of not making political donations. The Company has limited authorisation from shareholders to make political donations and incur political expenditure (Resolution 10, 2018 AGM). We request this as a precaution against any inadvertent breach of political donations legislation. While Standard Life Aberdeen has regular interaction with government and elected politicians in the UK and other jurisdictions in which we operate, we are strictly apolitical.

Auditors

The Audit Committee is responsible for considering the Group's external audit arrangements. Resolutions proposing the re-appointment of KPMG LLP as auditors of the Company and giving authority to the Audit Committee to determine their remuneration will be submitted at the 2019 AGM.

Disclosure of information to the auditors

Each Director confirms that he or she has taken all reasonable steps necessary, in his or her role as a Director, to be made aware of any relevant audit information and to establish that KPMG LLP is made aware of that information.

As far as each Director is aware, there is no relevant audit information that KPMG LLP is not aware of as at the date this report was approved.

Annual General Meeting

Details of the meeting content can be found in our AGM guide 2019. Currently, AGMs are held in Edinburgh and London in alternate years. The AGM will be held in Edinburgh in 2019. The AGM guide and other materials will be published online at **www.standardlifeaberdeen.com** in advance of this year's AGM.

Post balance sheet events

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.

Other information

Under Listing Rule 9.8.4.CR, a listed company must include all information required by LR 9.8.4R in a single identifiable location or cross-reference table. For the purposes of LR 9.8.4CR, the information required to be disclosed can be found in the following locations. All the relevant information cross-referenced below is hereby incorporated by reference into this Directors' report.

	Location		
Topic	**Directors' report**	**Directors' remuneration report**	**None/ Not applicable**
Interest capitalised			x
Publication of unaudited financial information in a class 1 circular or in a prospectus, other than in accordance with Annexes 1 and 2 of the FCA's Prospectus Rules			x
Details of long-term incentive schemes		x	
Waiver of emoluments by a director			x
Waiver of future emoluments by a director			x
Non pre-emptive issues of equity for cash			x
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings			x
Parent participation in a placing by a listed subsidiary			x
Contracts of significance			x
Provision of services by a controlling shareholder			x
Shareholder waivers of dividends	x		
Shareholder waivers of future dividends	x		
Agreements with controlling shareholders			x

The Directors' report was approved by the Board and signed on its behalf by

Kenneth A. Gilmour

Kenneth A Gilmour
Company Secretary

13 March 2019

5. Directors’ remuneration report

Richard Mully
Chairman, Remuneration Committee

5.1 Remuneration Committee Chairman’s statement

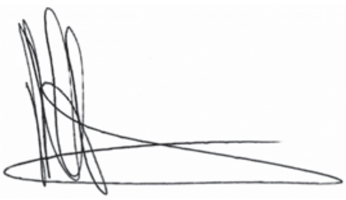
This report sets out what the Directors of Standard Life Aberdeen plc were paid in 2018 and how we will pay them in 2019, together with an explanation of what the Remuneration Committee considered in reaching its recommendations. Where tables and charts in this report have been audited by KPMG LLP we have marked them as ‘audited’ for clarity.

The report is structured in the following sections:

- The annual statement from the Chairman of the Remuneration Committee
- Summary, which sets out an overview of the remuneration policy, how it will be implemented in 2019 and key reward decisions in respect of 2018
- The annual remuneration report, which sets out in detail how the remuneration policy was implemented in 2018

Approval

The Directors’ remuneration report was approved by the Board and signed on its behalf by



Richard Mully
Chairman, Remuneration Committee

13 March 2019

Dear Shareholder

2018 Events

On behalf of the Board I am pleased to present the Remuneration Committee’s report on Directors’ remuneration for the year ended 31 December 2018.

We welcomed Cathleen Raffaeli to the Committee this year. Cathleen brings substantial experience to the Committee from her international roles and we look forward to working with her. I also extend my thanks to Gerhard Fusenig and Kevin Parry, both of whom stepped down from the Board at end of the year and have offered invaluable advice during their time on the Committee.

2018 was a year of change for Standard Life Aberdeen. There has been a significant amount of work behind the scenes and I would like to thank the People team who, under Kerry Christie’s leadership, have helped deliver on critical projects. From an executive remuneration perspective, the new Directors’ Remuneration Policy was submitted at the 2018 AGM and approved by shareholders with 98% of the vote. I would like to thank shareholders for the strong level of support given to the policy and their continued dialogue on remuneration matters. The policy was designed to clearly align the remuneration for executive Directors with company performance, taking into account an assessment of financial, non-financial and personal performance and supports our objective of having a simple and transparent structure for executive remuneration with a focus on sustainable long-term performance.

Business context and remuneration outcomes

As set out in the Chairman’s statement, it is clear that 2018 has been a challenging year for our business with investment performance having fallen below historic levels, particularly within our absolute return strategies and weaknesses within a number of other equity classes. Significant outflows have materialised as a result of both investment performance in those areas and general investor sentiment in challenging market conditions. Conversely, performance for Fixed Income, Cash/Liquidity and Alternatives remains strong over 3 and 5 years, and we have maintained capital strength which has enabled us to sustain strong dividend payments.

We have continued to set and execute our long term strategic agenda with the sale of our UK and European insurance business to Phoenix in August 2018 marking a significant milestone in our transformation to a fee based, capital-light investment company. There has been substantial progress made on transformational and operational integration projects as a result of the merger. We remain on track to deliver the targeted annual efficiency savings of over £350m by 2020. While the strategy remains well supported by shareholders and the execution of the strategy has been good, it is clear that the challenges associated with the prevailing economic and geopolitical environment have impacted our financial performance, as a result of which our share price has not been what we would want over the past year.

Executive Incentive Plan (‘EIP’) outcomes

The financial performance indicated above has rightly impacted executive reward with the outcome of the Executive Incentive Plan (‘EIP’) scorecard being heavily weighted (80%) towards financial outcomes. However, the Committee did acknowledge that achievements from the perspective of strategic and personal performance also need to be taken into account when determining overall remuneration outcomes for our executive Directors.

To consider whether the awards generated by the scorecard were fair in the broader performance context the Committee considered the following factors:

- The outcome from the perspective of overall company performance
- The shareholder experience during 2018
- The context of the incentive funding position across our workforce

As a result, taking a holistic view of these factors, the Committee decided to apply a discretionary reduction to the EIP outcome for the co-CEOs in recognition of the disappointing outturn in 2018, reducing the awards to 50% of the calculated outcome. In addition, the Committee decided that the awards should be deferred in full, with vesting determined by performance against underpins which link the awards to future performance (details of which can be found on page 91).

In the Committee's view, the outcomes for the co-CEOs set out above best balance disappointing financial results and shareholder outcomes with appropriate recognition for the contribution made by the co-CEOs to manage the Company's performance in a challenging marketplace and to continue to move forward on the Company's strategic agenda as articulated to, and strongly supported by, our shareholders.

The overall outcome of the scorecard and the discretionary adjustment for the co-CEOs is set out in the table below.

co-CEOs	Formulaic assessment (% of maximum)	Final outcome (% of maximum)[1]	Final outcome (% of salary)	Final outcome (£000s)
Martin Gilbert	**20.4%**	**10.2%**	**61%**	**367**
Keith Skeoch	**20.4%**	**10.2%**	**61%**	**367**

1 After discretionary adjustment applied.

Further details on EIP outcomes for all executive Directors can be found on pages 88-91.

Vesting of the 2016 Executive LTIP and Standard Life Investments Long Term Incentive Plan ('SLI LTIP')

Keith Skeoch participated in the 2016 Executive LTIP, the outcome of which was dependent on the achievement of stretching performance conditions by reference to adjusted profit and net flows targets. On assessment of performance against these conditions, it was determined that the award did not meet the required thresholds against either of these measures and the award lapsed in full.

Rod Paris participated in the 2016 SLI LTIP which was dependant on the achievement of adjusted profit targets and subject to underpins relating to investment performance. After the performance conditions were assessed, it was determined that 6.35% of the target award vested (3.175% of maximum).

Further details of the LTIP performance assessment, including how these performance conditions were restated to reflect various transactions during the year, can be found on page 91.

Alignment of remuneration across our workforce

As a result of the merger, a diverse range of terms and conditions are currently in operation across the Group. In 2018, work started on a project to harmonise terms and conditions for all UK based colleagues, with other activities underway or planned to achieve similar harmonisation objectives in our other locations. The harmonisation programme includes alignment of pension contributions, variable pay structures and other benefits. This provides an opportunity to improve alignment of remuneration with the Group's culture and to further enhance our 'one company' vision. Proposals have been communicated to staff and are now subject to employee consultation. Implementation is expected to be in the second half of 2019.

The Committee has approved the proposed changes and is monitoring progress in line with its duty to periodically review trends in the wider remuneration landscape and to oversee relevant changes for our employees. Where appropriate, and where this is in line with the approved Directors' Remuneration Policy, the new set of terms and conditions will be extended to executive Directors.

Corporate Governance Code

Alongside the above work, the Committee noted the publication of the 2018 Corporate Governance Code in July 2018. I am pleased to confirm that Standard Life Aberdeen had already introduced a number of the measures proposed, such as a shareholding requirement post-cessation, which was adopted as part of the Directors' Remuneration Policy at the 2018 AGM, and the publication of the CEO pay ratio.

Another recommendation of the review was that executive Director pension arrangements should be aligned with those operating across the wider workforce. At the current time there is not a single set of terms and conditions in operation across the Group, although pension arrangements will be aligned as part of the terms and conditions harmonisation programme set out above. However, pension arrangements for existing executive Directors were aligned to colleagues within the legacy Aberdeen Asset Management heritage (which is a significant proportion of employees) as part of Directors' Remuneration Policy. It is not intended at this stage to make any further changes for current executive Directors in this regard. However, once the harmonisation programme has been implemented, pension arrangements for any executive Directors appointed after that date will be aligned with those operating across the wider workforce.

The Committee also took steps to strengthen the terms under which malus and clawback operate, clarifying additional scenarios under which the Committee could apply either as appropriate. The enhanced circumstances include material corporate failure, and where the grant or vesting of award is based on an error in information, assumptions or erroneous or misleading data.

Restatement of in-flight performance targets

As a result of the sale of our UK and European insurance business to Phoenix in August 2018, and other corporate events, the Remuneration Committee carefully assessed the impact on in-flight performance targets. In relation to executive Directors, this impacted EIP targets and in-flight LTIP arrangements. Where targets have been restated this has been done on a formulaic basis, taking into account the direct impact of the transaction on the relevant targets. The Committee approved these adjustments on the fundamental principle that targets should be no more or less difficult to achieve than the original targets. Restated targets are set out on page 88 for the EIP and page 93 for the LTIP.

How we will implement the policy in 2019

Base Salary

The Committee has determined that no increases to salaries would be made for any of the executive Directors. Salaries will therefore remain in line with 2018 (see page 85).

EIP

The Committee remains comfortable that the overall EIP mechanism remains fit for purpose and, as shown in the 2018 outcomes, appropriately aligns executive remuneration with the interests of the Group and its shareholders. It also allows the Committee an appropriate level of flexibility to apply discretion to ensure that remuneration outcomes are reflective of a holistic view of overall performance.

The Committee did, however, review the individual metrics which make up the financial element of the scorecard. In particular the Committee decided to make the following minor adjustments to metrics for 2019:

- Replace Adjusted Profit (20%) with Adjusted Diluted EPS (20%). In line with the conversations with major shareholders in 2018, the adjusted profit metric will be replaced with an EPS metric to further align the management team with the shareholder experience. EPS was not introduced in 2018 given the intended corporate activity in 2018. In line with the current adjusted profit metric, EPS will continue to be based on a look back period increasing to three years over the life of the policy. The 2018 base year EPS has therefore been taken from the same operating plan as the original adjusted profit target to maintain the integrity of the plan.
- Update the approach to measurement of net new flows. Given the volatility in setting net flows targets, and the relative size of fund flow, the Committee has revised the approach to determining the net flows target range to be based on the differential between gross inflows and gross redemptions. The revised approach is considered to provide a more robust assessment of performance.

Details of the proposed targets for 2019 can be found on page 86.

Board succession

A number of changes to the Board were announced on 13 March 2019. A summary of these changes, and the implications for associated remuneration arrangements, are set out below.

With effect from 13 March 2019, Keith Skeoch will become the sole CEO of Standard Life Aberdeen and Martin Gilbert becomes Vice Chairman of Standard Life Aberdeen and Chairman of Aberdeen Standard Investments from that date. Martin will continue to be an executive Director of the Board and both he and Keith will continue to report into the Chairman. In this role, Martin will be able to focus solely on our strategic relationships with key clients, winning new business and realising the potential from our global network and product capabilities.

Martin's base salary will remain as £600,000 and he will continue to participate in the EIP, although his maximum bonus opportunity will reduce from the current level of 600% to 350% of base salary with effect from the date of his appointment to his new role. There will be no changes to Keith's remuneration as a result of this change.

Stephanie Bruce will succeed Bill Rattray as CFO (subject to shareholder approval) on 1 June 2019.

Stephanie will be appointed on a base salary of £525,000 and she will receive a cash allowance in lieu of pension of 20% of salary in line with the executive remuneration policy. She will be eligible to participate in the EIP on the same basis as other executive Directors with a maximum opportunity of 350% of salary. As set out in the shareholder announcement, to reflect the change in the profile of her remuneration arrangements on leaving PwC, where partners have relatively stable earnings expectations with the full payment made in cash through the year, to joining Standard Life Aberdeen where there is significantly greater variability in out-turns and a significant proportion of awards are deferred for the longer-term, the Remuneration Committee has agreed to grant Stephanie a one-off award over Standard Life Aberdeen plc shares in connection with her appointment as CFO. The award, with a face value of £750,000 at the date of grant, will be over Standard Life Aberdeen shares and will vest in equal tranches in June 2020, June 2021 and June 2022.

Bill Rattray will retire from the Board on 31 May 2019 and will be given notice of cessation of his employment (12 months) at that date. It is intended that Bill will remain employed, to support transition to Stephanie, until 31 December 2019 during which time he will receive salary, benefits and will continue to accrue an award under the EIP. Following that date, in line with his contractual entitlements, Bill will receive salary and benefits for the remainder of his notice period.

As you will be aware from the announcement of 13 March, I have decided to retire from the Board at the 2019 AGM. It has been a pleasure to serve on the Board and I have much appreciated the open and constructive dialogue on remuneration matters that I have been able to enjoy with shareholders during my time as Chair of the Remuneration Committee. Although my successor has yet to be confirmed, I wish them every success and that they are able to enjoy the strong levels of support and engagement that you have afforded me.

I hope you find this report a clear account of how the Committee has implemented our policy during 2018 and are able to support the decisions we have made. I welcome comments from shareholders and look forward to hearing your feedback at the AGM.

For a full overview of our remuneration policy please see the Annual report and accounts 2017 on our website
www.standardlifeaberdeen.com/annualreport

5.2 Summary

What are the principles that underpin our remuneration framework?

The Remuneration Committee developed three key principles designed to support our strategy, culture and values which guided the design of the remuneration framework going forward, as follows:

Underlying principles	How this is achieved with the proposed framework
1 The approach to remuneration within the Group should be simple and transparent	• Our remuneration framework and the basis for awards is simple, transparent and fair for both participants and shareholders alike
2 The approach should encourage a long-term focus on strategy and culture	• The remuneration framework rewards the achievement of long-term sustained business results which support our strategy, culture and values • Conduct and how performance has been achieved will form a key part of how remuneration levels are determined • The remuneration design encourages significant long-term share ownership to ensure wealth and not just income is at risk • An appropriate level of fixed remuneration is provided to balance risk and reward
3 Alignment with stakeholders	• Our remuneration design aligns the interests of executives, shareholders and importantly our clients

How does the remuneration structure support delivery of strategy?

The remuneration structure for executive Directors has consciously been designed to support the delivery of the Group's key strategic priorities as illustrated below:

Our strategy	What this means for us	How our remuneration structure delivers our strategy
Client centricity	Our primary focus is delivering for our customers and clients – this means working to understand and meet their needs while building lasting partnerships	• A balance of non-financial measures forms part of our scorecard for reward which includes a customer and client metric as well as measures on risk, compliance and conduct • These will be assessed in determining reward outcomes to ensure that our culture and values have been adhered to in achieving results delivered
Enhancing our operations	Helping people be more productive, simplifying our ways of working and managing our costs effectively, enabling us to invest for growth	• Cost/income ratio is included in performance measures for reward outcomes and also forms part of underpin measures post-award for a further three years • Remuneration structure which improves transparency between performance and reward
Innovating for the future	Investing in leading edge capabilities, helping us attract clients and customers, enhance relationships and develop smarter ways of working over the long term	• A variable pay award based on a pre-determined balanced scorecard of measures that will reward achievement of key financial milestones across our global business over the long term (up to six years). This includes flows. • Non-financial scorecard includes customer and client as well as strategic measures
Valuing our savings ecosystem	Optimising the breadth and depth of our investment management, platform and advice ecosystem, along with our geographical reach enables us to meet the savings needs of clients and customers around the world	• Investment performance and flows are included in performance measures for reward outcomes, with performance measured over an extended time period • Investment performance is measured over three and five years and flows over three years. Both metrics also form part of the underpin measures post-award for a further three years.

Overview of the policy and how it will be implemented in 2019

<table>
<tr><th>Element</th><th>Overview of remuneration policy</th><th>Implementation in 2019</th></tr>
<tr><td>Base salary</td><td>Provides a core reward for undertaking the role.

Salaries are normally reviewed annually.</td><td>
<table>
<tr><th>With effect from 1 January 2019 base salaries are as follows</th><th>Salary</th><th>Salary increase</th></tr>
<tr><td>Co-Chief Executive officers[1] (Co-CEOs)</td><td>£600k</td><td>0%</td></tr>
<tr><td>Chief Investment Officer (CIO)</td><td>£450k</td><td>0%</td></tr>
<tr><td>Chief Financial Officer (CFO)</td><td>£450k</td><td>0%</td></tr>
<tr><td>Chief Financial Officer (designate)</td><td>£525k</td><td>n/a</td></tr>
</table>
1 Martin Gilbert’s salary will remain at £600k when he takes up his new role from 13 March 2019.</td></tr>
<tr><td>Benefits and Pension</td><td>Provides market competitive and cost effective benefits.

Competitive, flexible retirement benefit delivered in a way that does not create an unacceptable level of financial risk or cost to the Group.</td><td>Benefits in line with approved policy.

Pension allowance for each executive Director set at 20% of base salary.</td></tr>
<tr><td>Executive Incentive Plan (EIP)</td><td>Single incentive plan designed to reward the delivery of the Group’s business plan in a range of financial and non-financial areas.

Maximum award opportunity set at 700% of salary.

Performance assessed against a range of key financial, non-financial and personal performance measures.

Performance is measured both on annual, and where appropriate, trailing performance of up to three years.

Awards are delivered as follows:
• 25% in the form of cash
• 75% in the form of a deferred award

Deferred awards are subject to underpin conditions which are measured over the three financial years from award.

Subject to performance against the underpins, deferred awards vest in equal tranches on the third, fourth and fifth anniversaries of the grant date. Vested awards are subject to a holding period until the fifth anniversary of the grant date.

Cash and deferred awards are subject to malus and clawback.</td><td>Maximum opportunities for 2019:
• Co-CEOs: 600% of salary
• CIO: 600% of salary
• CFO: 350% of salary

80% of the award will be based on financial metrics, with the remainder based on non-financial (10%) and personal (10%) performance.

Underpin metrics for deferred variable pay awards are solely financial in nature.

The performance metrics used to determine awards are set out in the following section.

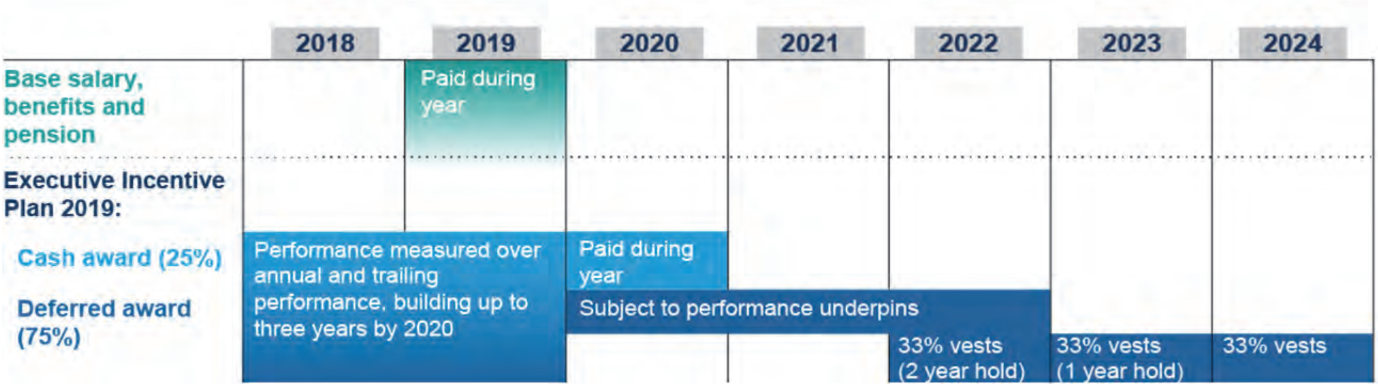
Martin Gilbert’s maximum bonus opportunity will reduce to 350% of base salary with effect from 13 March 2019 when he takes up his new role.</td></tr>
<tr><td>Share Ownership</td><td>Executive Directors are required to build up substantial interests in the Group.

Shares to the value of the share ownership guidelines must be held for 12 months following departure from the Group.</td><td>Executive Directors are required to build up interests in the Group as follows:
• Co-CEOs: 500% of salary
• CIO and CFO: 300% of salary
Martin Gilbert’s shareholding requirement will remain at 500% of salary until 13 March 2020 and will then revert to 300% of salary, in line with other executive Directors.</td></tr>
<tr><td>Non-executive Directors</td><td>Fees for the Chairman and non-executive Directors are set at an appropriate level to reflect the time commitment, responsibility and duties of the position and the contribution that is expected.

The Board annually sets the fees for the non-executive Directors, other than the fee for the Chairman of the Company which is set by the Remuneration Committee.

Fees for non-executive Directors are made up of a base fee and additional fees to reflect additional responsibilities (e.g. the Senior Independent Director / members / Chair of a Board Committee). The Chairman receives an all-inclusive fee. Additional fees or benefits may be provided at the discretion of the Remuneration Committee.</td><td>Details on non-executive Director fees in respect of 2019 can be found on page 98.</td></tr>
</table>

Time horizon of our remuneration structure for executive Directors



Scorecard for the 2019 EIP

The following table sets out the performance scorecard to be used to determine 2019 EIP awards:

Performance metrics	Measurement period	Weighting	Threshold (0% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)
Long-term financial					
Adjusted diluted earnings per share[1]	2018 and 2019	20%	Due to commercial sensitivity this measure will only be disclosed at the end of the performance period		
Gross new business flows (all channels)[1, 2]	2018 and 2019	10%	£137.7bn	£153.0bn	£168.2bn
Net new business flows (excl. Strategic Insurance Partners)[1, 2, 3]	2018 and 2019	10%	(£11.2bn)	£2.9bn	£17.2bn
Investment performance	Three and five years	20%	50.0%	60.0%	70.0%
Short-term financial					
Cost/income ratio	Annual	20%	70.2%	68.2%	66.2%
Non-financial					
Strategic	Annual	2.5%	Remuneration Committee assessment at year end		
Customer and client	Annual	2.5%	Remuneration Committee assessment at year end		
People	Annual	2.5%	Remuneration Committee assessment at year end		
Risk, compliance, conduct	Annual	2.5%	Remuneration Committee assessment at year end		
Personal	Annual	10%	Remuneration Committee assessment at year end		

1 Includes eight months of discontinued business.

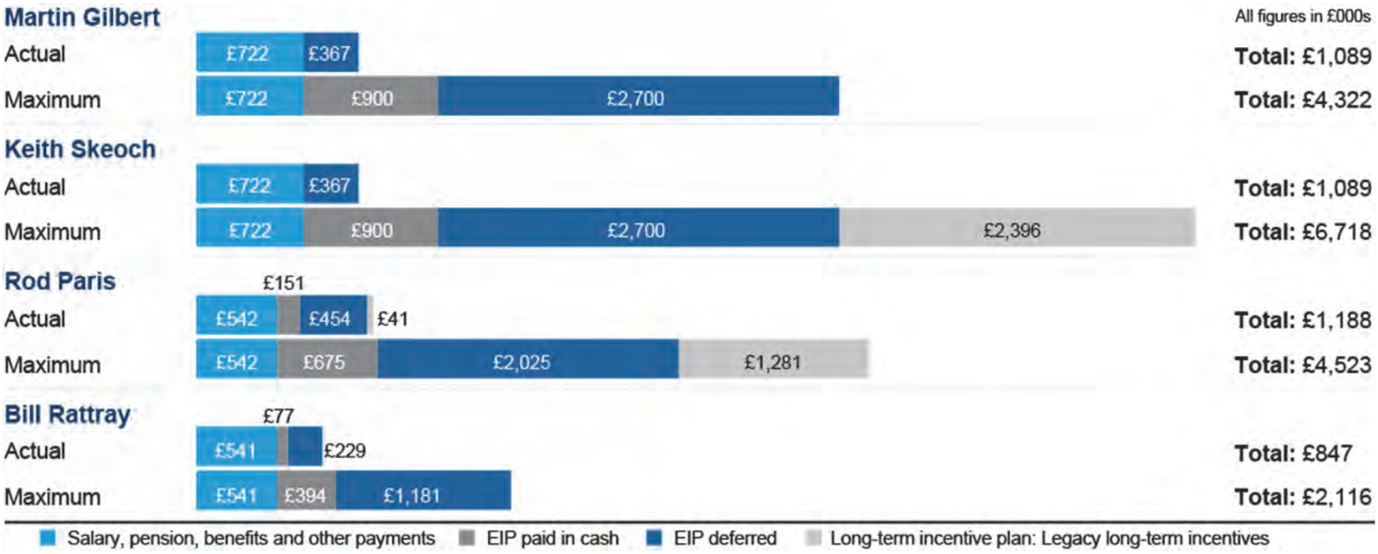
2 Flows exclude investments in cash and liquidity funds.

3 Definition aligns to the previous terminology of 'growth' flows.

How our executives were remunerated in 2018

What was earned during 2018

The remuneration outcomes for executive Directors have been determined by the Remuneration Committee as illustrated below:



Our performance

EIP scorecard outcomes for 2018

The table below shows the outcome of the executive Directors' participation in the EIP plan for the period 1 January 2018 to 31 December 2018. Adjustments made to the performance targets as a result of the sale of Standard Life Aberdeen's UK and European insurance business together with further details on how outcomes have been determined can be found on pages 88-91.

As set out in further detail in the Chairman's statement, the Committee exercised its discretion to reduce the pay-out to the co-CEOs by 50% to reflect the overall performance of the Group over the 2018 performance period. In addition, for the co-CEOs, the full award (rather than 75%) will be delivered in the form of deferred shares. Deferred share awards vest over a five-year deferral period (tranche vesting between years three and five, with a holding period such that no shares are capable of being sold until the fifth anniversary of grant) and are subject to underpin performance conditions measured over three years. Details of the underpin conditions for 2018 deferred awards are set out on page 91.

	% based on financial performance (maximum 80%)	% based on non-financial performance (maximum 10%)	% based on personal performance (maximum 10%)	Scorecard outcome (% of maximum)	Final outcome after discretion applied (% of maximum)[1]	Pay-out (£000s)
Martin Gilbert	9.4%	5%	6%	20.4%	10.2%	367
Keith Skeoch	9.4%	5%	6%	20.4%	10.2%	367
Rod Paris	9.4%	5%	8%	22.4%	22.4%	605
Bill Rattray	9.4%	5%	5%	19.4%	19.4%	306

1 After application of the discretionary reduction of 50% to the EIP scorecard outcome, which was applied to the co-CEOs. No discretionary adjustment was applied to the CIO or the CFO.

Long-term incentive plan awards

The table below shows the outcome of the executive Directors' participation in legacy LTIP awards, during the three-year performance period ending on 31 December 2018. Further details on the adjustments made to the performance targets as a result of the sale of Standard Life Aberdeen's UK and European insurance business and additional commentary on performance from the Remuneration Committee can be found on pages 90-91.

	Threshold (0% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)	Actual	Vesting (% of maximum)
2016 Executive LTIP[1]					
Cumulative Group adjusted profit before tax	£2,395m	£2,600m	£2,910m	£2,305m	**0%**
Cumulative Group net flows	£30.8bn	£38.9bn	£51.0bn	(£53.7bn)	**0%**
	Threshold (0% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	Actual	Vesting (% of maximum)
2016 Standard Life Investments[2]					
Cumulative adjusted profit performance	70% of target	100% of target	130% of target	72% of target	**3.175%**

1 Of the executive Directors, only Keith Skeoch participated in this plan in 2016.

4 Of the executive Directors, only Rod Paris participated in this plan in 2016.

5.3 Annual remuneration report – what we did in 2018 for executive Directors

Single total figure of remuneration – executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the executive Directors who served as a Director at any time during the financial year ending 31 December 2018:

Executive Directors		Basic salary for year £000s	Taxable benefits in year £000s[1]	EIP paid in cash[2] £000s	EIP deferred £000s[3,4]	Long-term incentives with performance period ending during the year £000s[5,6]	Other payments £000s[7]	Pension allowance paid in year £000s	Total remuneration for the year £000s
Martin Gilbert[8]	**2018**	**600**	**2**	**–**	**367**	**–**	**–**	**120**	**1,089**
	2017	199	1	279	838	–	–	–	1,317
Keith Skeoch	**2018**	**600**	**1**	**–**	**367**	**–**	**1**	**120**	**1,089**
	2017	700	–	588	413	978	1	175	2,855
Rod Paris[8]	**2018**	**450**	**1**	**151**	**454**	**41**	**1**	**90**	**1,188**
	2017	170	–	311	224	70	–	43	818
Bill Rattray[8]	**2018**	**450**	**1**	**77**	**229**	**–**	**–**	**90**	**847**
	2017	139	1	58	173	–	–	25	396

1 This includes the taxable value of all benefits paid in respect of the year ended 31 December 2018. Included for Keith Skeoch and Rod Paris is private health cover at a cost to the Group of £518 per annum per employee and medical insurance for Martin Gilbert (£1,717) and Bill Rattray (£1,408).

2 For prior years this figure shows the annual cash bonus paid in respect of the year

3 As set out in the Chairman's statement, the Remuneration Committee decided that, for the co-CEOs, the full amount of the EIP award should be deferred in shares vesting over years 3, 4 and 5 and will be subject to the underpin mechanism detailed on page 91. For the CIO and the CFO, 75% of the EIP award is deferred under the same mechanism in line with the Directors' Remuneration Policy. In the event that all, or part, of the award fails to satisfy the underpin and subsequently lapses, the single figure outcome will be restated in the following Annual report and accounts.

4 For prior years this figure shows the annual deferred bonus awarded in respect of the year

5 The values reported for 2018 are the market values of the Executive LTIP awards and the Standard Life Investments LTIP awards granted in 2016 that will vest based on the three-year performance measurement period ending on 31 December 2018 – Executive LTIP (0%); and Standard Life Investments LTIP (3.175% of maximum). As the share price at the date of vesting is not known at the date of publication of this report the number of Standard Life Aberdeen plc shares that will vest (including additional Standard Life Aberdeen plc shares received in respect of accrued dividends from grant through to 31 December 2018) has been multiplied by the average share price over the quarter ending 31 December 2018 (264.15pence). This amount will be restated in the following Annual report and accounts once the share price at vesting is known.

6 The values reported for 2017 have been restated to reflect the value of the shares vesting in respect of the three-year performance measurement period ending on 31 December 2017. Where the awards vested in 2018 the price has been restated using the share price on the vesting date (355.80p). For the Executive LTIP awards which are subject to a further two year holding period until 2020, the restatement is based on the share price on the first trading day following the third anniversary of grant (355.80p).

7 Keith Skeoch, Martin Gilbert and Rod Paris, participate in the Standard Life Sharesave Plan. Keith Skeoch and Rod Paris participate in the Standard Life (Employee) Share Plan – the maximum annual award of matching shares in 2018 was £600.

8 Martin Gilbert, Rod Paris and Bill Rattray were appointed to the Board on 14 August 2017. All reported figures for 2017 are in respect of the period 14 August 2017 to 31 December 2017.

Base salary (audited)

No salary changes were made in 2018.

Pension (audited)

All executive Directors received a cash allowance in lieu of pension contributions of 20%.

Executive Incentive Plan

The following section sets out performance against each of the elements of the EIP for 2018.

Performance target adjustments

As set out in the Chairman's statement, following the sale of Standard Life Aberdeen's UK and European insurance business to Phoenix and other corporate transactions, the following adjustments were made to the EIP performance targets:

- Following its sale to Phoenix, removal of targets related to Standard Life Aberdeen's UK and European insurance business from 31 August 2018
- Addition of Phoenix profit share from 1 September 2018
- Removal of targets as a result of the change in share of HDFC AMC following the IPO and inclusion of interest on the sales proceeds
- Removal of flows relating to India & China life and HDFC AMC (as set out in the Strategic report, this information is no longer available)

The underlying principle to the adjustments made was that the adjusted targets should not be easier / more challenging than the original targets set when the award was made.

The table on the following page contains the original and adjusted targets and shows the outcome of the executive Directors' participation in the EIP plan for the period 1 January 2018 to 31 December 2018 against each of the elements of the EIP scorecard.

Financial performance metrics		Weighting	Threshold (0% of maximum)	Target (50% of maximum)	Stretch (100% of maximum)	Actual	Result (% of max)
Long-term financial							
Adjusted profit before tax (excluding spread/risk margin)[1]	original target		£874m	£941m	£1,010m		
	adjusted target	**20%**	**£815m**	**£877m**	**£942m**	**£801m**	**0%**
Gross new business flows (all channels)[2]	original target		£76.8bn	£85.3bn	£93.8bn		
	adjusted target	**10%**	**£72.2bn**	**£80.2bn**	**£88.2bn**	**£70.5bn**	**0%**
Net new business flows (excl. Strategic Insurance Partners)[2,3]	original target		£1bn	£3.3bn	£6.0bn		
	adjusted target	**10%**	**£0.0bn**	**£0.8bn**	**£1.8bn**	**(£33.9bn)**	**0%**
Investment performance	original target		50.0%	60.0%	70.0%		
	(no adjustment)	**20%**	**50.0%**	**60.0%**	**70.0%**	**55.9%**	**5.90%**
Short-term financial							
Cost/income ratio (excluding spread/risk margin)	original target		68.0%	66.0%	64.0%		
	(no adjustment)	**20%**	**68.0%**	**66.0%**	**64.0%**	**67.3%**	**3.50%**

1 Impacted by all adjustments except flow adjustments.

2 Impacted by adjustments for the removal of targets related to Standard Life Aberdeen's UK and European insurance business following its sale on 31 August 2018 and the removal of flows relating to India & China and HDFC AMC. Flows exclude cash and liquidity flows.

3 Definition is aligned to the previous terminology of 'growth' flows. Vesting outcomes of (£33.9bn) = net flows (see page 31) of (£40.9bn) excluding strategic insurance partners outflows of (£5.5bn) and excluding cash and liquidity outflows of (£1.3bn), plus discontinued inflows to end August 2018 of £0.2bn.

Non-financial performance metrics	Weighting	Highlights	Result (% of max)
Strategic	2.5%	• Strong progress being made to becoming a world-class investment company with the execution of the sale of the UK and European insurance business to Phoenix • SLA Transformation Portfolio progressing well – on track to deliver the targeted annual efficiency savings of over £350m by 2020 • Accelerated pace of innovation with circa 30 fund launches in 2018 and initiatives completed to diversify geographic footprint across Asia, EMEA and the Americas	**50%**
Customer and client	2.5%	• Sustained customer benchmark rating over 2018 however, slight fall in respondents rating SLA good or excellent over the year • Underlying customer confidence remains strong in ASI franchise but is below expected levels • Stable client perceptions across key markets: UK, Germany and USA	**38%**
People	2.5%	• Achieved Women in Finance executive target, up 6% from 2017 • A full talent and succession review of Executive pipelines and other critical roles • Baseline employee engagement survey completed with 69% response rate, but with a score below industry average. However, responses have highlighted key areas for focus and action plans have been developed. • Voluntary turnover within the group remains ahead of the benchmark	**38%**
Risk, compliance, conduct	2.5%	• Global Code of Conduct refreshed in the year with a 99.5% attestation rate across all employees • Enterprise Risk Management Framework established in 2018 • Enterprise Risk Management Framework rated as strong in four out of five components following annual credit rating reviews from external bodies • Group impact risk events were in line with expectations • Regular engagement sessions with Executives on risk matters • Roll out of single compliance system for ASI colleagues	**75%**

Personal Performance metrics	Weighting	Highlights	Result (% of max)
Martin Gilbert	10%	• Strategic review for Asia and Americas with significant restructuring and centralisation as part of transformation programme. Ensured strong focus on responsibilities and cost control. • Implemented system for consistent tracking of customer metrics showing customer service and satisfaction across 16 key investment drivers. 13 of 16 metrics trending positively. • Client retention strategies implemented and plans rolled out for all clients and improvements in the global sales process • Distribution and marketing agenda on target, with 26 product campaigns and over 10m social media engagements. Refocused sponsorship activity post-merger in line with plan.	**6%**
Keith Skeoch	10%	• Leadership role in the evolving regulatory environment via role with Financial Reporting Council, HM Treasury taskforce and Asset Management CEO meetings. Strong focus on promoting good conduct internally and incorporating effective control structures. • Complaint rate below target of less than 1 per 1,000 policies, with no material impact felt as a result of the sale of the UK and European insurance business. Transactional Net Promoter Score above target. • Introduced innovation panel and idea sharing platforms to embed an innovative culture across the Group. Review of working practices is underway to support transformation objectives.	**6%**
Rod Paris	10%	• Integration of the investment teams and the creation of a unified leadership group, bringing together investment capabilities and their associated processes • Led the creation of a single global research platform across asset classes • Introduced Process Enhancement Plans for underperforming asset classes • Promoted our ESG programme and ensured integration into investment processes • Helped deliver a record number of new funds for clients	**8%**
Bill Rattray	10%	• Oversight of the move from Solvency II to the CRD IV regulatory regime that created a capital light company • The associated restructuring of the balance sheet to maintain capital strength • Oversight and management of the capital return through both a share buy-back and the B share scheme • Continued engagement with the institutional investor and analyst communities	**5%**

Before approving the level of performance in 2018, the Remuneration Committee sought the views of the Group Audit Committee on material accounting issues that it considered during the year and the Group Chief Risk Officer and the Risk and Capital Committee on the management of risk within the business. The Remuneration Committee determined there should be no adjustments made to the EIP scores as a result of the feedback from the Group Audit Committee, and the Group Risk and Capital Committee.

As set out in the Chairman's letter, to consider whether the awards generated by the scorecard were fair in the broader performance context the Committee considered the following factors:

- The outcome from the perspective of overall company performance
- The shareholder experience during 2018
- The context of the incentive funding position across our workforce

Taking everything into account, the Committee decided to apply discretion to the EIP outcome for the co-CEO's to reduce the awards to 50% of the calculated outcome. In addition, the Committee decided that this amount would be deferred in full, with vesting determined by performance against underpins which links the award to future performance.

In the Committee's view, this outcome best balances disappointing financial results and shareholder outcomes with appropriate recognition for the contribution made by the executive Directors to manage the Company's performance in a challenging marketplace and to continue to move forward on the Company's strategic agenda as articulated to, and strongly supported by, our shareholders. The overall outcome of the scorecard and the discretionary adjustment is set out on page 91.

As a result of the approved ratings, the EIP outcome for 2018 is as set out in the table below:

	Formulaic outcome (% of maximum)	Final outcome after discretion applied (% of maximum)	Total payable (% of salary)	Total payable (£000s)	EIP cash (£000s)	EIP deferred[1] (£000s)
Martin Gilbert						
Maximum	100%	n/a	600%	3,600	900	2,700
Actual	20.4%	10.2%	61.2%	367	–	367
Keith Skeoch						
Maximum	100%	n/a	600%	3,600	900	2,700
Actual	20.4%	10.2%	61.2%	367	–	367
Rod Paris						
Maximum	100%	n/a	600%	2,700	675	2,025
Actual	22.4%	22.4%	134.4%	605	151	454
Bill Rattray						
Maximum	100%	n/a	350%	1,575	394	1,181
Actual	19.4%	19.4%	67.9%	306	77	229

1 EIP deferred awards are subject to performance underpins measured over three years as set out in the following section.

EIP deferred awards to be granted in 2019

EIP deferred awards will be made in 2019, in the form of nil-cost options, under the Deferred Bonus Plan rules. Awards will be subject to performance underpins, measured over a three-year period. Subject to performance against the underpins, awards will vest pro-rata over years three, four and five following grant. Awards will not be released to participants until the fifth anniversary of grant.

The following table sets out each of the performance underpins:

Performance measure	Weighting	Underpin level
Investment performance	25%	• The outcome is calculated at the end of each financial year in the three-year underpin period (2019-2021), with the average of the three years' results to be at or above 55% of AUM by value to be outperforming benchmark
Flows[1]	25%	• Gross new business flows underpin[2] (12.5%) approved target of £251.5bn is based on 2019 budget for the three year period 2019 – 2021 reduced by the % midpoint of the range between Threshold and Target applied in the 2019 EIP. • Net new business flows underpin[3] (12.5%) approved target of £40.6bn is based on the 2019 budget sum of the differential between gross inflows and gross redemptions for the three year period 2019-2021 reduced by the mid-point between Threshold and Target applied to 2019 in the EIP.
Return on adjusted equity	25%	• The underpin requires return on adjusted equity, calculated as the average rate over the three-year underpin period (2019-2021), to be 17% or higher
Cost/income ratio	25%	• The underpin approved target of 66.0% is based on averaging the three annual cost-income ratios for the three year period 2019-2021 from the 2019 budget increased by the % midpoint of the range between Threshold and Target applied in the 2019 EIP.

1 Flows exclude investments in cash and liquidity funds.

2 All channels excluding Lloyds.

3 Excluding strategic insurance partners.

Long-term incentives

In line with the arrangements in place prior to the merger of Standard Life plc and Aberdeen Asset Management PLC, Keith Skeoch and Rod Paris have outstanding awards under the Standard Life Executive LTIP and Rod Paris also has outstanding awards under the Standard Life Investments LTIP. The following section sets out the level of vesting of outstanding awards due to vest based on performance to the end of 2018.

2016 Executive LTIP award vesting in respect of performance ending in 2018 (audited)

The awards granted in 2016 under the Executive LTIP have two performance conditions. The outcome is based 70% on cumulative Group adjusted profit before tax and 30% on cumulative Group net flows.

The awards are also subject to two underpins when assessing the Group performance. The first requires the Risk and Capital Committee to be satisfied that performance obtained has been achieved within acceptable defined risk parameters. The second requires the Remuneration Committee to be satisfied that performance against the plan metrics appropriately reflects overall Group performance.

Keith Skeoch received an award in March 2016 of 400% of salary with the performance period ending in 2018. Rod Paris does not have an award under the Standard Life Executive LTIP with performance ending in 2018 as he was not an executive Director at the time of grant in March 2016.

The following adjustments were made to the performance targets for the 2016 awards:

- Following its sale to Phoenix, removal of targets linked to the Standard Life Aberdeen's UK and European insurance business from 31 August 2018
- Addition of Phoenix profit share post 31 August 2018
- Removal of targets related to the change in share of HDFC AMC following the IPO and inclusion of interest on the sales proceeds

The underlying principle to the adjustments made was that the adjusted targets should not be easier / more challenging than the original targets.

The table below shows the original and adjusted performance targets together with actual outcomes for the 2016 LTIP award:

	Threshold	Target	Maximum	Actual performance	Level of vesting
Cumulative Group adjusted profit before tax[1] for Standard Life Aberdeen Group for the three years ended 31 December 2018					
Original performance conditions[1]	£2,490m	£2,705m	£3,030m		
Adjusted performance conditions	£2,395m	£2,600m	£2,910m	£2,305m	
Vesting outcome (70% weighting)					0%
Cumulative Group net flows for the Standard Life Aberdeen Group for three years ended 31 December 2018					
Original performance condition[1]	£30.8bn	£38.9bn	£51.0bn		
Adjusted performance condition	£30.8bn	£38.9bn	£51.0bn	(£53.7bn)	
Vesting outcome (30% weighting)					0%

1 These performance conditions were adjusted in 2017 in light of the merger, full details can be found in the Annual report and accounts 2017. No change was made to the net flows condition from those originally set in 2016.

In line with the above results, it was determined the performance conditions were not met and the award lapsed in full.

2016 Standard Life Investments LTIP award vesting in respect of performance ending in 2018 (audited)

Under the Standard Life Investments LTIP, awards are only capable of vesting if Aberdeen Standard Investments' investment performance (three-year money-weighted average) is above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers.

When awarded, the vesting outcome was subject to a consolidated cumulative three-year third party EBITDA performance and this measure was used to capture vesting outcomes up to the end of 2017. As a consequence of the merger the awards became based on an adjusted profit before tax performance target for Aberdeen Standard Investments for the 2018 performance year. The actual profit targets are not disclosed as Aberdeen Standard Investments is a subsidiary business of Standard Life Aberdeen plc and the Board deems that this is commercially sensitive information which, if disclosed, could seriously prejudice the Group's business.

Before an award can vest, the Risk and Capital Committee is required to verify to the Remuneration Committee that the level of vesting was not as a result of behaviour that has exposed the Group to undue risk. The Remuneration Committee took the view of the Risk and Capital Committee into account when determining the level of vesting.

Rod Paris, who was not a Director at the time of grant in March 2016, received an award with a maximum value of 500% of salary with the performance period ending in 2018.

The following table sets out performance against targets for the 2016 award:

Performance level	Below threshold	Threshold	Target	Maximum
Adjusted profit before tax performance target	<70% of target	70% of target	100% of target	130% of target
Actual performance				**72.4% of target**
Vesting outcome				**6.35% of target**

As performance was above the lower quartile of the money-weighted average of all assets under management (both captive and third party assets) compared to other asset managers, and having considered the risk underpin, the Remuneration Committee determined that 6.35% of the target award (3.175% of the maximum award) granted in 2016 would vest in 2019.

Awards granted in 2018

Summary table of scheme interests awarded during the year

The table below shows the key details of scheme interests granted in 2018:

Plan	Participant	Type of award	Basis of award	Face value at grant	Number of shares awarded	% payable for threshold performance	Details on performance conditions
Executive LTIP[1]	Keith Skeoch	Nil-cost option	400% of salary	£2,800,000	761,531	0%	See below
	Rod Paris	Nil-cost option	400% of salary	£1,800,000	489,556	0%	See below
Deferred Bonus Awards[2]	Keith Skeoch	Nil-cost option	Deferred Bonus	£413,000	97,541	Not applicable	Not applicable
	Rod Paris	Nil-cost option	Deferred Bonus	£224,483	53,017	Not applicable	Not applicable
Variable Pay Awards[3]	Martin Gilbert	Nil-cost option	Deferred Bonus	£3,076,827	742,908	Not applicable	Not applicable
	Bill Rattray	Nil-cost option	Deferred Bonus	£636,943	153,786	Not applicable	Not applicable

1 Executive LTIP share price used was 367.68 p.

2 Under the 2017 Group annual bonus plan and Standard Life Investments bonus plan, 50% of bonuses in excess of 25% of salary were deferred for three years into Standard Life Aberdeen plc shares. This resulted in the above awards being granted on 28 March 2018 based on the average share price for December 2017 as per plan rules of 423.41p.

5 Under the Aberdeen variable pay plans, deferred bonus awards in the form of nil-cost options were granted to Martin Gilbert and Bill Rattray. As disclosed in the Annual report and accounts 2017, of the above awards £837,827 (Martin Gilbert); £172,943 (Bill Rattray) relate to the period post completion of the merger (i.e. 14 August 2017 to 31 December 2017). These awards will vest in equal tranches between 5 March 2019 to 5 March 2023 (share price on award 368.88 pence which was the average Standard Life Aberdeen plc share price for the 5 days prior to the 5 March grant). The balancing figures £2,239,000 (Martin Gilbert); £464,000 (Bill Rattray) relate to the period prior to the completion of the merger (i.e. 1 October 2016 to 13 August 2017). These awards will vest in equal tranches between 14 August 2018 to 14 August 2022 (share price on award 328.08 pence, being the average Aberdeen Asset Management share price for the five days prior to grant, i.e. 14 August 2017).

Performance conditions for Executive LTIP awards granted 2018 and 2017

The awards granted in 2018 under the Executive LTIP have two performance conditions. The outcome is based 80% on cumulative Group adjusted profit before tax and 20% on cumulative Group net flows. In addition to business performance criteria, all of the awards are subject to an additional personal performance underpin whereby, if an executive Director performs at an unsatisfactory level in any year during the three-year performance period, their original award would be reduced by one-third, unless the Co-Chief Executive Officers, or the Remuneration Committee in the case of Keith Skeoch, recommends otherwise. Keith Skeoch and Rod Paris were granted awards under the Executive LTIP in 2018 and 2017.

As set out in the Remuneration Committee Chairman's statement, the performance targets for the 2018 and 2017 awards under the Executive LTIP Plan have been adjusted as follows:

- Following its sale to Phoenix, removal of targets linked to the Standard Life Aberdeen's UK and European insurance business from 31 August 2018
- Addition of Phoenix profit share post 31 August 2018
- Removal of targets as a result of the change in share of HDFC AMC following the IPO and inclusion of interest on the sales proceeds

The underlying principle to the adjustments made was that the adjusted targets should not be easier/ more challenging than the original targets.

The table below sets out the adjusted performance targets for Executive LTIP awards granted in 2018:

Performance condition	Performance measurement period	Original/adjusted target	Threshold	Maximum
Cumulative Group adjusted profit before tax (excluding spread/risk margin)	1 January 2018 - 31 December 2020	original	£2,675m	£3,615m
		adjusted	**£2,295m**	**£3,105m**
Cumulative Group growth net flows (excluding strategic insurance partners)		original	£45.1bn	£83.7bn
		adjusted	**£36.5bn**	**£67.9bn**

The table below sets out the adjusted performance targets for Executive LTIP awards granted in 2017:

Performance condition	Performance measurement period	Original[1]/adjusted target	Threshold	Maximum
Cumulative Group adjusted profit before tax	1 January 2017 - 31 December 2019	original	£3,000m	£3,650m
		adjusted	**£2,665m**	**£3,245m**
Cumulative Group net flows		original	£27.7bn	£45.9bn
		No adjustment	**£27.7bn**	**£45.9bn**

1 These are the performance targets after the adjustments in 2017 in light of the merger, full details can be found in the Annual report and accounts 2017. No change was made to the net flows condition in 2017 from those originally set at grant.

Directors' interests in shares (audited)

A shareholding requirement was implemented in 2014 and amended in 2018. We continue to require executive Directors and senior management to maintain a material long-term investment in Standard Life Aberdeen plc shares. The Remuneration Committee reviews progress against the requirement annually and retains discretion to require executive Directors to purchase shares to meet the requirement. Personal investment strategies (such as hedging arrangements) are not permitted. For the purpose of the shareholding requirement, awards qualifying include 50% of the value of deferred awards held by the executive Directors that have vested but not been exercised and 50% of the value of long-term incentive awards that are no longer subject to a performance condition but have not been exercised. As illustrated in the tables below, all executive Directors have complied with the current requirement as at 31 December 2018.

The following table shows the total number of Standard Life Aberdeen plc shares held by the executive Directors and their connected persons:

	Total number of shares owned at 1 January 2018	Shares acquired during the period 1 January 2018 to 19 October 2018	Total number of shares owned at 19 October 2018	Total number of shares owned at 22 October 2018	Shares acquired during the period 22 October 2018 to 31 December 2018	Total number of shares owned at 31 December 2018	Shares acquired between 31 December 2018 and 8 March 2019
	Pre share consolidation on 22 October 2018			Post share consolidation (shares were consolidated on a seven for eight basis)			
Martin Gilbert	139,185	125,000	264,185	231,161	200,000	431,161	–
Keith Skeoch	2,347,467	150,623	2,498,090	2,185,828	200,203	2,386,031	139
Rod Paris	602,257	165,160	767,417	671,489	233	671,722	159
Bill Rattray	1,743,549	–	1,743,549	1,525,603	–	1,525,603	–

The following table shows the number of qualifying awards included in assessing achievement towards the shareholding requirement, as at 31 December 2018:

	Qualifying awards					
	Number of shares available as unrestricted vested deferred awards	Number of shares under option under long-term incentive plans which are no longer subject to performance conditions	Total qualifying holding (shares held from table above) and 50% of qualifying awards	Value[1] of holding	Shareholding requirement	Total of the value of shares (from table above) and 50% of the value of qualifying awards at 31 December 2018 as a % of salary
Martin Gilbert	1,846,924	–	1,354,623	£3,477,994	500%	580%
Keith Skeoch	–	172,871	2,472,466	£6,348,056	500%	1058%
Rod Paris	–	–	671,722	£1,724,646	300%	383%
Bill Rattray	652,206	–	1,851,706	£4,754,255	300%	1057%

1 The closing price at 31 December 2018 used to determine value was 256.75 pence.

Executive Directors will be required to retain shares held in respect of the post cessation requirement (500% of salary for the co-CEOs and 300% of salary for other executive Directors) for a period of one year following their departure from the Group.

All former Directors held or continue to hold the shares required under their post-employment holding requirement. Luke Savage is required to hold 15,940 shares until 28 February 2019 and met this requirement. Paul Matthews met his requirement to hold 157,934 shares until 1 March 2018. Colin Clark retained in excess of his requirement at the point of the share consolidation on 22 October 2018. As no subsequent disposal of shares has been made he therefore has retained the necessary holding at 31 December 2018.

This table shows, in relation to each executive Director, the total number of share options with and without performance conditions held at 31 December 2018:

	Unvested options with performance measures[1]	Unvested options without performance measures[2]	Vested but unexercised options at 31 December[3]	Exercised during the year[4]	Aggregate gains made on awards exercised during the year
Martin Gilbert	–	1,286,106	1,846,924	–	–
Keith Skeoch	2,307,052	387,762	–	282,866	£994,274
Rod Paris	1,400,967	55,763	–	273,244	£1,003,898
Bill Rattray	–	258,585	652,206	–	–

1 This comprises Executive LTIP awards made in 2016, 2017 and 2018, awards under the Standard Life Investments LTIP made in 2016 and 2017 excluding, in each case, shares to be awarded in lieu of dividend equivalents.

2 This comprises awards under the Executive LTIP granted in 2014 and 2015 and deferred bonus awards (including unvested awards under the Aberdeen Variable Pay plans). It does not include shares to be awarded in lieu of dividend equivalents. Also included are options granted under the Standard Life Sharesave Plan.

3 This comprises awards made under the Aberdeen Variable Pay plans which are now exercisable.

4 This comprises, for both Keith Skeoch and Rod Paris, awards made under the 2015 Standard Life Investments LTIPs. Additionally it includes for Keith Skeoch the deferred share award granted in 2016 in respect of the 2015 Group bonus plan, and for Rod Paris a Restricted Stock Plan award granted in 2015, before he became a Director. It includes shares awarded in lieu of dividend equivalents.

The closing market price of Standard Life Aberdeen plc shares at 31 December 2018 was 256.75 pence and the range for the year was 224.85 pence to 442.60 pence.

Executive Directors’ external appointments

Subject to the Board’s approval, executive Directors are able to accept a limited number of external appointments to the boards of other organisations and can retain any fees paid for these services. Significant executive Director appointments held during the year are shown below:

Executive Director	Role and organisation	2018 Fees
Martin Gilbert	Non-executive Director Glencore plc	**$157,000**
	Non-executive Director Sky plc[1]	**£117,508**
	Chairman of the Practitioner Panel – Prudential Regulation Authority	**£nil**
Keith Skeoch	Non-executive Director of the Financial Reporting Council	**£nil**
Bill Rattray	Non-executive Director – Curtis Banks Group PLC	**£50,000**

1 Stepped down from this position with effect 10 October 2018.

Payments to past Directors/Loss of office payments (audited)

No payments were made to former Directors that have not been previously reported elsewhere. Payments made to former Directors that have not been previously reported elsewhere will be reported if they are in excess of £20,000.

Sir Gerry Grimstone is entitled to a six month notice period under the terms of his letter of appointment and will receive fees of £190,000 and an allowance of £10,000 in the period to 30 June 2019 (being the pro-rated value of his annual fee and allowances respectively). Sir Gerry will remain in an advisory position with the Company for this period. During this time, he will be available to advise the new Chairman and the Co-Chief Executives and serve as the Company's representative on the boards of Heng An Standard Life Insurance Company Limited and HDFC Life Insurance Company Limited.

Percentage change in remuneration of the Director in the position of Chief Executive Officer

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between the year ended 31 December 2017 and the year ended 31 December 2018 for Martin Gilbert and Keith Skeoch as Co-Chief Executive Officers compared to the average UK-based Group employee. The Remuneration Committee considers these appropriate comparators as the Co-Chief Executive Officers are UK-based and the largest number of Group employees are based in the UK.

	% change in base salary	% change in EIP outcome/bonus	% change in benefits[1]
Martin Gilbert	**15%**	**(67%)**	**6%**
Keith Skeoch	**(14%)**	**(63%)**	**23%**
UK-based employees	**3%**	**(45%)**	**23%**

1 The change in benefits figure is based on the change in medical premium paid by the Group on behalf of employees. It does not reflect a change to the benefit received by individuals.

Pay Ratio

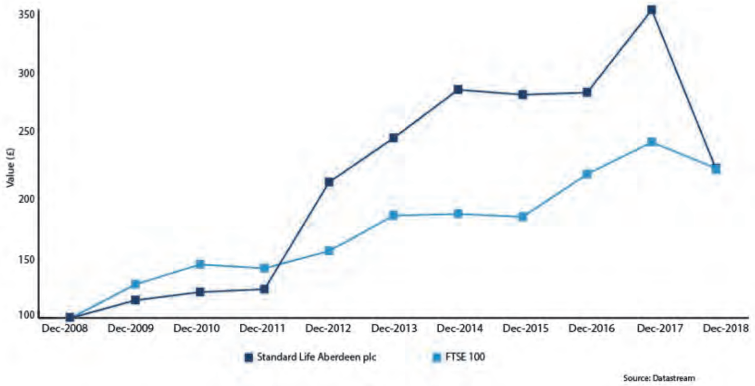
The table below sets out the ratio of both CEO's pay to the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees in accordance with the legislation published by the Government in 2018. We have identified the relevant employees for comparison using our gender pay gap data set and updated the figures for remuneration received in respect of the 2018 performance year (methodology B). While the requirement to disclose the ratio under this methodology does not come into effect until next year, the Remuneration Committee welcomes the opportunity to illustrate its approach to remuneration across the Group.

	25th percentile	50th percentile	75th percentile
Martin Gilbert/ Keith Skeoch	**30**	**19**	**12**

Pay compared to performance

The graph shows the difference in the total shareholder return at 31 December 2018 if, on 1 January 2009 £100 had been invested in Standard Life Aberdeen plc and in the FTSE 100 respectively. It is assumed dividends are reinvested in both. The FTSE 100 has been chosen as Standard Life Aberdeen plc is a member of this FTSE grouping.

Total shareholder return of Standard Life Aberdeen plc compared to the FTSE 100 index



The following table shows the single figure of total remuneration for the Directors in the role of Chief Executive Officer for the same ten financial years as shown in the graph above. Also shown are the annual incentive awards and LTIP awards which vested based on performance in those years:

Year ended 31 December	Chief Executive Officer	Chief Executive Officer single figure of total remuneration (£000s)	EIP outcome / Annual incentive rates against maximum opportunity (%)	Long-term incentive plan vesting rates against maximum opportunity (%)
2018	**Martin Gilbert**	**1,089**	**10.2**	**–**
2018	**Keith Skeoch**	**1,089**	**10.2**	**–**
2017	Martin Gilbert	1,317	56	–
2017	Keith Skeoch	3,028	82	70
2016	Keith Skeoch	2,746	81	31.02
2015	Keith Skeoch	1,411	87	40.77
2015	David Nish	2,143	90	40.77
2014	David Nish	6,083	95	100
2013	David Nish	4,206	75	64
2012	David Nish	5,564	88	100
2011	David Nish	2,601	77	63.5
2010	David Nish	1,971	83	–
2009	Sir Sandy Crombie	2,175	67	49.67

Relative importance of spend on pay

The following table compares what the Group spent on employee remuneration to what is paid in the form of dividends to the Company's shareholders. Also shown is the Group's adjusted profit before tax which is provided for context as it is one of our key performance measures:

	2018	% change	2017
Remuneration payable to all Group employees (£m)[1]	**772**	**(1%)**	781
Dividends paid in respect of financial year (£m)	**559**	**(11%)**	626
Share buybacks and return on capital (£m)	**1,235**	**n/a**	–
Adjusted profit before tax (£m)[1]	**860**	**1%**	854

1 Shown on a Reported basis and includes discontinued operations. The 2017 figure includes remuneration paid to Aberdeen employees from 14 August 2017 and adjusted profit includes Aberdeen from 14 August 2017.

5.4 Annual remuneration report – non-executive Directors

Single total figure of remuneration – non-executive Directors (audited)

The following table sets out the single total figure of remuneration for each of the non-executive Directors who served as a Director at any time during the financial year ending 31 December 2018. Non-executive Directors do not participate in bonus or long-term incentive plans and do not receive pension funding:

Non–executive Directors		Fees for year ended 31 December £000s	Taxable benefits in year ended 31 December £000s[1]	Total remuneration for the year ended 31 December £000s
Sir Gerry Grimstone	**2018**	**380**	**20**	**400**
	2017	380	15	395
Sir Douglas Flint[2]	**2018**	**14**	**–**	**14**
	2017	–	–	–
Simon Troughton	**2018**	**200**	**13**	**213**
	2017	77	–	77
Julie Chakraverty[3]	**2018**	**43**	**–**	**43**
	2017	40	–	40
John Devine	**2018**	**124**	**3**	**127**
	2017	92	4	96
Gerhard Fusenig	**2018**	**124**	**–**	**124**
	2017	36	–	36
Melanie Gee	**2018**	**114**	**4**	**118**
	2017	104	4	108
Richard Mully	**2018**	**124**	**8**	**132**
	2017	43	–	43
Kevin Parry	**2018**	**171**	**14**	**185**
	2017	118	7	125
Lynne Peacock[3]	**2018**	**66**	**–**	**66**
	2017	153	3	156
Martin Pike	**2018**	**114**	**5**	**119**
	2017	107	4	111
Cathleen Raffaeli[4]	**2018**	**35**	**–**	**35**
	2017	–	–	–
Jutta af Rosenborg	**2018**	**94**	**1**	**95**
	2017	36	–	36
Akira Suzuki[3,5]	**2018**	**–**	**–**	**–**
	2017	–	–	–

1 Sir Gerry Grimstone received an allowance of £20,000 towards his business related accommodation costs in Edinburgh in addition to his Chairman's fees. Other amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits, they are included as being a payment which is subject to tax.

2 Appointed to the Board with effect from 1 November 2018. Appointed Chairman with effect from 1 January 2019.

3 Stepped down from the Board with effect from 29 May 2018.

4 Appointed to the Board with effect from 1 August 2018.

5 No fee is paid to a non-executive Director who represents a corporate shareholder.

The non-executive Directors, including the Chairman, have letters of appointment that set out their duties and responsibilities. The key terms are set out in the Remuneration Policy, which can be found in the Annual report and accounts 2017.

The service agreements/letters of appointment for Directors are available to shareholders to view on request from the Company Secretary at the Company's registered address (details of which can be found in Section 12) and at the 2019 AGM.

Details of the date of appointment to the Board and date of election by shareholders are set out below:

Chairman/Non executive Director	Initial appointment to the Board[1]	Initial election by shareholders
Chairman		
Sir Gerry Grimstone[1]	29 May 2007	AGM 2007
Deputy Chairman		
Simon Troughton[2]	14 August 2017	AGM 2018
Senior Independent Director		
Kevin Parry	27 October 2014	AGM 2015
Non-executive Directors		
John Devine	4 July 2016	AGM 2017
Sir Douglas Flint[3]	1 November 2018	
Gerhard Fusenig	14 August 2017	AGM 2018
Melanie Gee	1 November 2015	AGM 2016
Richard Mully	14 August 2017	AGM 2018
Martin Pike	27 September 2013	AGM 2014
Cathleen Raffaeli	1 August 2018	
Jutta af Rosenborg	14 August 2017	AGM 2018

1 Appointment as Chairman.

2 Appointment as Deputy Chairman.

3 Appointed Chairman with effect from 1 January 2019.

Implementation of policy for non-executive Directors in 2019

The following table sets out non-executive Director fees to be paid in 2019. No changes were made to the level of fees from 2018.

With regards to the Chairman's fee, as set out on page 59, Sir Douglas was appointed following an extensive international search led by the Co-Chairs of the Appointment Committee (Simon Troughton and Melanie Gee). Sir Douglas has joined the Company in a period of significant organisational change, following the merger of Standard Life and Aberdeen Asset Management and the sale of Standard Life Aberdeen's UK and European Insurance business. In addition, the wider asset management sector is going through a period of consolidation and market conditions remain challenging as macroeconomic and political uncertainties continue to affect investor sentiment.

Given the calibre of the candidate and taking into account market data on Chairman fees for other large international financial services companies, the Remuneration Committee approved an all-inclusive fee of £475k per annum for Sir Douglas. Whilst the Remuneration Committee acknowledges the fee represents an increase on the base fee for the current incumbent, it was considered appropriate to ensure that the right candidate was appointed to lead the Company through a period of significant change.

Role	2019 fees[1]	2018 fees
Chairman's fees[2, 3]	**£475,000**	£380,000
Deputy Chairman's Fees[2]	**£200,000**	£200,000
Non-executive Director fee[4]	**£73,500**	£73,500
Additional fees:		
Senior Independent Director	**£25,000**	£25,000
Chairman of the Audit Committee	**£30,000**	£30,000
Chairman of the Risk and Capital Committee	**£30,000**	£30,000
Chairman of the Remuneration Committee	**£30,000**	£30,000
Committee membership (Audit, Risk and Capital, Remuneration and Nomination Committees)	**£10,000**	£10,000

1 The core fee of £73,500 paid to each non-executive Director (including the Chairman and Deputy Chairman) is expected to total £588k for 2019 (2018: £775k). This is within the maximum £1,000,000 permitted under Article 87 of Standard Life Aberdeen plc's articles of association. Total fees including additional duties are expected to amount to £1,131k for 2019 (2018: £1,599k).

2 The Chairman's and Deputy Chairman's fees are inclusive of the non-executive Directors' core fee and no additional fees are paid to the Chairman or Deputy Chairman where they chair, or are members of, other committees/boards.

3 The Committee has agreed to provide life insurance benefits to the Chairman with effect from April 2019 to reflect his personal circumstances and business travel requirements.

4 For non-executive Directors, individual fees are constructed by taking a base fee and adding extra fees for being the senior independent Director or, the chairman of, or member of, committees and subsidiaries' boards where a greater responsibility and time commitment is required.

Non-executive Directors' interests in shares (audited)

The following table shows the total number of Standard Life Aberdeen plc shares held by each of the non-executive Directors and their connected persons:

	Total number of shares owned at 1 January 2018 or date of appointment if later	Shares acquired during the period 1 January 2018 to 19 October 2018	Total number of shares owned at 19 October 2018 or date of cessation if earlier	Total number of shares owned at 22 October 2018 or date of appointment if later	Shares acquired during the period 22 October 2018 to 31 December 2018	Total number of shares owned at 31 December 2018	Shares acquired between 31 December 2018 and 8 March 2019
	Pre share consolidation on 22 October 2018			Post share consolidation (shares were consolidated on a seven for eight basis)			
Sir Gerry Grimstone[3]	206,626	–	206,626	180,797	–	180,797	–
Sir Douglas Flint[1]				10,375	40,000	50,375	–
Simon Troughton	52,990	20,215	73,205	64,054	–	64,054	–
Julie Chakraverty[2]	2,302	–	2,302				
John Devine	1,321	31,135	32,456	28,399	–	28,399	–
Gerhard Fusenig[3]	26,495	40,000	66,495	58,183	–	58,183	–
Melanie Gee	20,000	–	20,000	17,500	50,000	67,500	–
Richard Mully	52,990	50,000	102,990	90,116	–	90,116	–
Kevin Parry[3]	60,754	39,246	100,000	87,499	–	87,499	–
Lynne Peacock[2]	12,554	–	12,554				
Martin Pike	32,727	–	32,727	28,636	40,840	69,476	–
Cathleen Raffaeli[4]	–	–	–	–	–	–	–
Jutta af Rosenborg	–	10,000	10,000	8,750	–	8,750	–
Akira Suzuki[2]	–	–	–				

1 Appointed to the Board with effect from 1 November 2018.

2 Stepped down from the Board with effect from 29 May 2018.

3 Stepped down from the Board with effect from 31 December 2018.

4 Appointed to the Board with effect from 1 August 2018.

Sir Gerry Grimstone, as Chairman, was subject to a shareholder guideline holding of 100% of the value of his annual fee in Standard Life Aberdeen plc shares to be reached within four years of appointment. Sir Gerry Grimstone fully met this requirement in 2018 with the value of his shares at the end of the year being 122% of his fees.

Sir Douglas Flint will be subject to an equivalent requirement.

5.5 The Remuneration Committee

Membership

During 2018 the Remuneration Committee was made up of independent non-executive Directors: Richard Mully, John Devine, Gerhard Fusenig, Kevin Parry, Cathleen Raffaeli (from 1 August 2018), and Jutta af Rosenberg. A number of meetings during the year were called at short notice which resulted in some members being unable to attend due to prior commitments. All members had the opportunity to review papers and pass comments to the Chairman in advance of the meeting.

Member	Attendance
Richard Mully (Chairman)	12/12
John Devine	12/12
Gerhard Fusenig	9/12
Kevin Parry	12/12
Cathleen Raffaeli	4/4
Jutta af Rosenborg	11/12

The role of the Committee

To consider and make recommendations to the Board in respect of the total remuneration policy across the Group, including:

- Rewards for the executive Directors, senior employees and the Chairman
- The design and targets for any employee share plan
- The design and targets for annual cash bonus plans throughout the Group
- Changes to employee benefit structures (including pensions) throughout the Group

The terms of reference are published within the Board Charter on our website at **www.standardlifeaberdeen.com/annualreport**

Committee effectiveness

The Committee reviews its remit and effectiveness annually. In 2018 an independent externally facilitated review was conducted by IBE. This included observation of a meeting, review of papers and interviews with Committee members. The key points arising from the review were:

- The Committee had worked hard to bring together the remuneration structures of the two heritage companies
- Principally through its Chair, the Committee had engaged well with investors throughout the consultation period and responded to their views to gain consensus
- Committee papers continued to be clear and well articulated
- Going forward, the Chair should continue to update the Board on the key matters debated during the Committee's discussions

External advisers

During the year, the Committee took advice from Deloitte LLP (a member of the Remuneration Consultants Group) who were appointed by the Committee in 2017. The Committee is satisfied that the advice given is objective and independent.

A representative from Deloitte LLP attends, by invitation, all Committee meetings to provide information and updates on external developments affecting remuneration as well as specific matters raised by the Committee. Outside of the meetings, the Committee's Chairman seeks advice on remuneration matters on an ongoing basis. As well as advising the Committee, Deloitte LLP also provided tax, risk, data, consultancy and transaction related services to the Group during the year. Deloitte Total Rewards and Benefits is an investment adviser to the trustees of the Standard Life Staff Pension Scheme. In addition, Standard Life Aberdeen is the current appointed provider for the Defined Contribution Master Plan that Deloitte LLP provides for its employees and Deloitte LLP is one of the employee benefit consultants through which Standard Life Aberdeen has been appointed to provide defined contribution arrangements for Deloitte's clients through competitive tender.

Fees paid to Deloitte LLP during 2018 for professional advice to the Committee were £181,550. Additional fees of £220,450 were paid to Deloitte LLP in respect of professional advice in relation to regulatory disclosures under relevant regulations, the administration of the Discretionary Share Plan and remuneration matters related to the sale of Standard Life Aberdeen's UK and European insurance business to Phoenix.

Where appropriate, the Committee receives input from the Chairman, Co-Chief Executive Officers, Chief Financial Officer, Chief People Officer, Group Director of Reward, Group Chief Risk Officer, and the Head of Stewardship and ESG Investments. This input never relates to their own remuneration. The Committee also receives input from the Risk and Capital Committee and Audit Committee.

The Committee's work in 2018

An indicative breakdown as to how the Committee spent its time is shown below:

Jan-Mar

- 2017 Directors' Remuneration Report
- 2017 bonus payments and 2015 LTIP outcomes
- Set 2018 EIP scorecard targets
- Finalise Directors' Remuneration Policy

Apr-Jun

- Material Risk Takers and related 2018 disclosures
- Group Remuneration Policy review
- Executive Committee remuneration
- Harmonisation of Terms and Conditions across the Group
- Impact of the sale of Standard Life Aberdeen's UK and European insurance business on remuneration matters

Jul-Sep

- Mid-year review of performance against target for annual bonus and LTIP awards
- Remuneration outcomes as a result of the sale of Standard Life Aberdeen's UK and European insurance business
- Review of senior individual appointments and termination agreements

Oct-Dec

- Update on the regulatory position of Standard Life Aberdeen
- Review CEO pay ratio data
- Update on the external environment

Promoting all-employee share ownership

The Group believes that share ownership by employees helps them to understand the interests of the Company's shareholders. The Group promotes employee share ownership with a range of initiatives:

- The Standard Life (Employee) Share Plan which allows eligible employees to buy Standard Life Aberdeen plc shares directly from their earnings. A similar tax-approved plan is used in Ireland. At 31 December 2018, 1,954 employees in the UK and Ireland were making a monthly average contribution of £65. On 31 December 2018, 2,555 of our employees were Standard Life Aberdeen plc shareholders through participation in the Standard Life (Employee) Share Plan.
- The Sharesave Plan, offered in 2018 to eligible employees in the UK. This plan allows UK tax resident employees to save towards the exercise of options over Standard Life Aberdeen plc shares with the option price set at the beginning of the savings period at a discount of up to 20% of the market price. At 31 December 2018, 2,534 employees in the UK were saving to buy Standard Life Aberdeen plc shares.
- The Sharesave Plan in Ireland launched in August 2012, with invitations made annually thereafter. As at 31 December 2018, 5 employees were saving towards one or more of the Sharesave Ireland offers.

Share dilution limits

All share plans operated by the Company which permit awards to be satisfied by issuing new shares contain dilution limits that comply with the guidelines produced by The Investment Association (IA). On 31 December 2018, therefore, the Company's standing against these dilution limits was:

- 1.56% where the guideline is no more than 5% in any ten years under all discretionary share plans in which the executive Directors participate
- 1.97% where the guideline is no more than 10% in any ten years under all share plans

As is normal practice, there are employee trusts that operate in conjunction with the Executive LTIP, Standard Life Investments LTIP, the Restricted Stock Plan, the deferred elements of the Standard Life annual bonus plan and the Aberdeen Asset Management deferred plans. On 31 December 2018 the trusts held 51,917,150 shares acquired to satisfy these awards. Of these shares 9,836,865 are committed to satisfying vested but unexercised awards. The percentage of share capital held by the employee trusts is 2.05% – well within the 5% best practice limit endorsed by the IA.

Shareholder voting

We remain committed to ongoing shareholder dialogue and take an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Committee seek to understand the reasons for any such vote, and will detail here any actions in response to it.

The remuneration policy was subject to a vote at the 2018 AGM on 29 May 2018 and the following table sets out the outcome of the vote.

Policy	For	Against	Withheld
(% of total votes)	97.91%	2.09%	
(No. of votes cast)	1,412,472,135	30,105,977	15,014,089

The Directors' remuneration report was subject to a vote at the 2018 AGM on 29 May 2018 and the following table sets out the outcome.

2017 Directors' Remuneration Report	For	Against	Withheld
(% of total votes)	97.36%	2.64%	
(No. of votes cast)	1,416,364,330	38,430,826	2,795,153

6. Statement of Directors' responsibilities in respect of the Annual report and the financial statements

The Directors are responsible for preparing the Annual report and accounts and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework.*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant, reliable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- Assess the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Directors' report and Strategic report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Sir Douglas Flint
Chairman

13 March 2019

Bill Rattray
Chief Financial Officer

13 March 2019

Financial information

How to navigate our Group financial statements

The Group’s significant **accounting policies** are included at the beginning of the relevant notes to the Group financial statements with this background colour. Critical judgements in applying accounting policies are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Accounting policies that are relevant to the financial statements as a whole are also set out in that section.

The Group’s critical accounting **estimates and assumptions** are summarised in the Presentation of consolidated financial statements section which follows the primary financial statements. Further detail on these critical accounting estimates and assumptions is provided in the relevant note with this background colour.

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Group financial statements

7. Independent auditors' report to the members of Standard Life Aberdeen plc

1. Our opinion is unmodified

We have audited the financial statements of Standard Life Aberdeen plc ('the Company') for the year ended 31 December 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		
Materiality: group financial statements as a whole	£32m (2017: £38m) 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: including 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 *Refer to page 42 to 47 (principal risks), page 39 (viability statement) and page 63 Audit Committee Report),*	**Unprecedented level of uncertainty:** 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. 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. 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: **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. **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. **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. **Our results:** 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 *(Group Goodwill: £2,532m; 2017: £3,427m; Goodwill impairment losses recognised: £891m (2017: £5m)* *(Company: Investments in subsidiaries, Impairment of subsidiaries: £589m (2017: 20 m))* *Refer to page 63 (Audit Committee Report), page 146 (accounting policy) and page 147 (financial disclosures).*	**Subjective estimate:** 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. 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:** **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. **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. **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. **Our results:** 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
Accounting for the obligations arising out of disposal of SLAL and investment in Phoenix *(Investment in associates £1,023m; 2017: Not applicable)* *Refer to page 63 (Audit Committee Report), page 152 (accounting policy) and pages 130 and 153 (financial disclosures).*	**Accounting application** 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. **Subjective valuation – initial investment in Phoenix** 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. 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:** **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. **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. **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. **Our actuarial experience:** We used our own actuarial specialists to review and challenge the rationale for key assumptions adopted. **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. **Our Results** We found the initial valuation of the investment in Phoenix to be acceptable.

	The risk	Our response
Accounting for the obligations arising out of the disposal of SLAL and investment in Phoenix (continued) *(Contingent consideration – Indemnities; 2017: Not applicable)* *Refer to page 63 (Audit Committee Report), page 127, (accounting policy) and page 130 and 202 (financial disclosures).*	**Subjective estimate – indemnities** 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.	**Our procedures included:** **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. **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. **Our actuarial and tax experience:** We used our own actuarial and tax specialists to review and challenge the approach taken to estimate certain indemnities. **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. **Our Results** We found the carrying amount of the contingent consideration for indemnities to be acceptable**.**
(Separation costs provision £80m; 2017: Not applicable) *Refer to page 63 (Audit Committee Report), page 126 (accounting policy) and page 138 (financial disclosures).*	**Subjective estimate – Provision for separation costs** 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. 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:** **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. **Test of details:** We sampled costs included in the Separation Plan and obtained evidence and explanations to validate whether they were appropriately provided for. **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. **Our Results** We found the estimate of the separation cost provision to be acceptable.

	The risk	Our response
Carrying value of investment in Phoenix *(£812 million; 2017: Not applicable: Impairment £228m; 2017: Not applicable)* *Refer to page 63 (Audit Committee Report), page 152 (accounting policy) and page 153 (financial disclosures).*	**Subjective valuation** 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:** **Assessing principles:** We critically assessed management's approach to estimating the recoverable amount against other estimation methods permitted by IAS 28 and 36. **Comparing valuations:** We assessed reasons for the differences in value under use under the different methods. **Our Results** We found the valuation of the investment in Phoenix to be acceptable.

	The risk	Our response
Valuation of Intangible Assets	**Subjective Estimate**	**Our procedures included:**
(Customer relationships and investment management contracts: £633m, 2017: £774m) *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. Customer relationship and investment management contracts acquired through business combinations comprise £633 million of the intangible asset balance. The valuation of these intangible assets is subjective and requires the use of assumptions relating to future cash flows and the use of valuation models. In addition, management need to make subjective judgements when assessing whether there are any indicators of impairment to these intangible assets. 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. 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. **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. **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. **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. **Our results** 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 *(£2,542m, 2017: £2,839m)* *Refer to page 63 (Audit Committee Report), page 178 (accounting policy) and page 180 (financial disclosures).*	**Subjective Valuation:** The present value of the Group's funded obligation for the UK defined benefit pension scheme is an area that involves significant judgement over the uncertain future settlement value. The Group is required to use judgment in the selection of key assumptions covering both operating assumptions and economic assumptions. The key operating assumptions are base mortality and mortality improvement. The key economic assumptions are the discount rate and inflation. The risk is that inappropriate assumptions are used in determining the present value of the funded obligation. 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:** **Our actuarial experience:** We used our own actuarial specialists to perform procedures in this area. **Test of detail and our sector experience:** We considered the appropriateness of the base mortality assumption by reference to scheme and industry data on historical mortality experience. We considered the appropriateness of the mortality improvement assumptions by reference to industry based expectations of future mortality improvements. We considered the appropriateness of the discount rate and inflation assumptions by reference to industry practice. **Benchmarking assumptions and our sector experience:** We utilised the results of KPMG benchmarking of base mortality, mortality improvement, discount rate and inflation assumptions and our knowledge of industry practice to inform our challenge of the Group's assumptions in these areas. **Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the calculation of present value of the funded obligation appropriately represent the sensitivities of the obligation to the use of alternative assumptions. **Our results** We found the valuation of the 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.

KPMG

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.

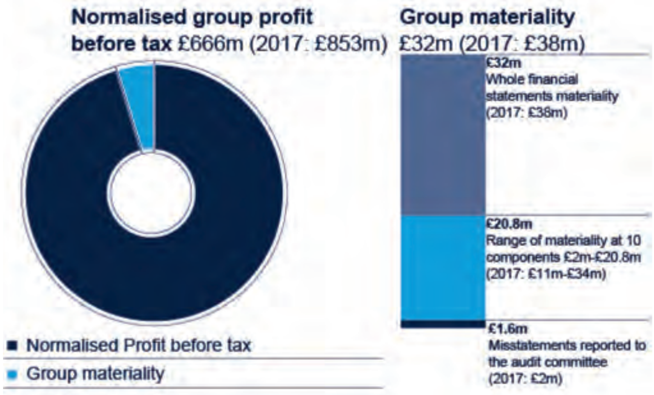
Of the group's 75 (2017: 227, of which 160 were consolidated funds) continuing reporting components, we subjected 6 (2017: 19) to full scope audits for group purposes and 3 (2017: 13) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require 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).

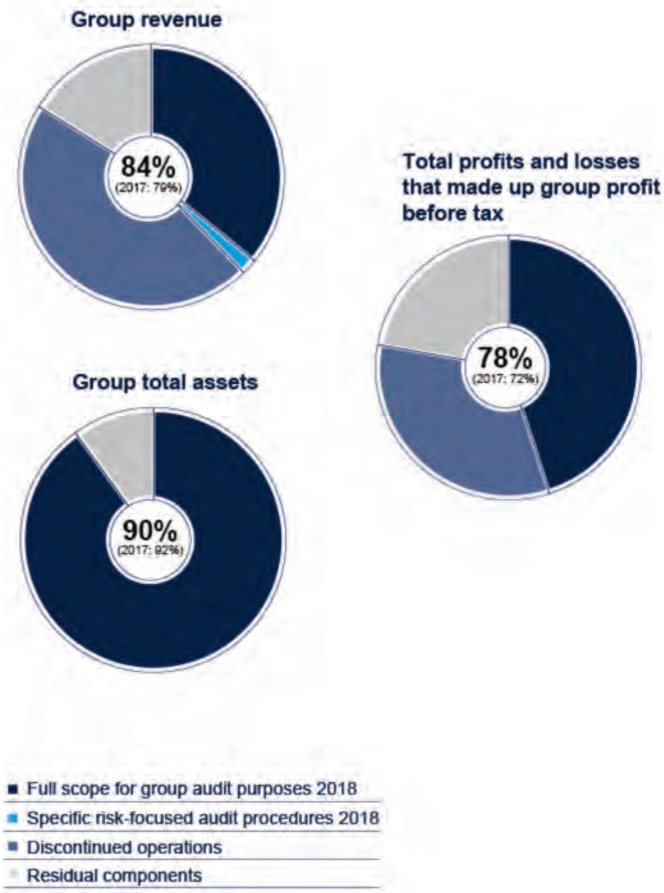
The components within the scope of our work accounted for the percentages illustrated opposite.

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 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Mills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace Edinburgh
EH1 2EG

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

	Notes	2018 Continuing operations £m	2018 Discontinued operations £m	2018 Total £m	2017 restated[1] Continuing operations £m	2017 restated[1] Discontinued operations £m	2017 restated[1] 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:

Douglas Flint

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

								Non-controlling interests		
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	Ordinary shares £m	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 Treatment of tax relating to the surplus	Note 35
Investments in associates	Determining whether the investment in Phoenix should be classified as an associate 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 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 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.

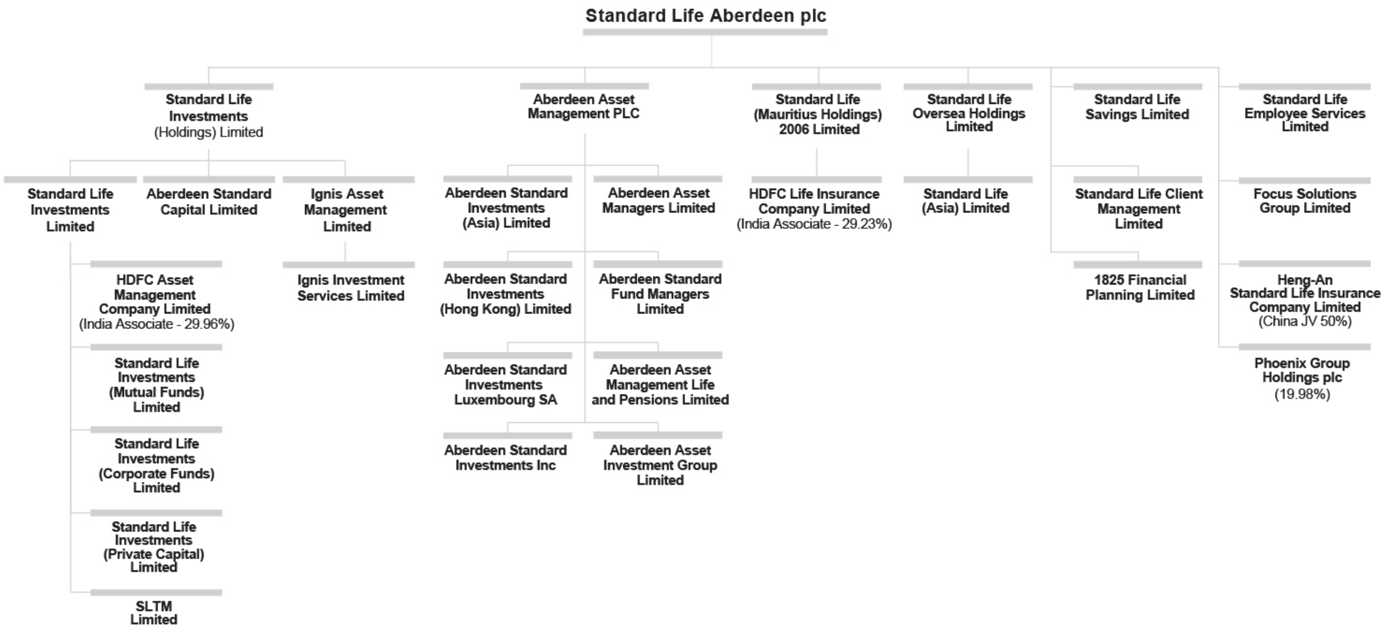
When the Group sells a subsidiary to an associate, the gain on sale of the subsidiary is recognised in full, with no elimination being made for the continuing interest in the subsidiary.

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.



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.

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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.

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(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
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.

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(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.

	Notes	Acquired through business combinations							
		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		
	Notes	**Contract amount £m**	**Fair value assets £m**	**Fair value liabilities £m**	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	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**

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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.

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(c) Share premium

	2018 £m	2017 £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.

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:

2018	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	**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. 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. 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. 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. 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. 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:

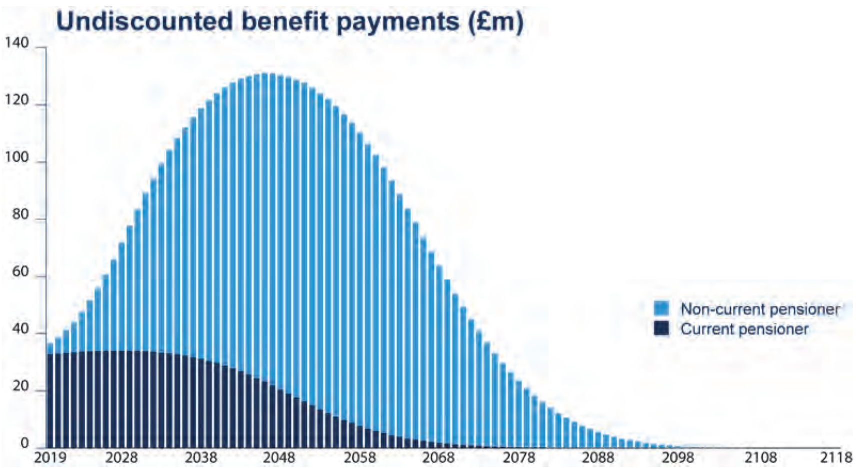
				Expectation of life from NRA			
				Male age today		Female age today	
2018	**Table**	**Improvements**	**Normal Retirement Age (NRA)**	**NRA**	**40**	**NRA**	**40**
	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2013 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%	60	30	32	32	34

				Expectation of life from NRA			
				Male age today		Female age today	
2017	**Table**	**Improvements**	**Normal Retirement Age (NRA)**	**NRA**	**40**	**NRA**	**40**
	Plan specific basis (calibrated by Club Vita) reflecting membership demographics	Advanced parameterisation of CMI 2013 mortality improvements model – adjusted to assume that improvements continue to increase in the short term before declining toward an ultimate long-term rate of 1.375%	60	30	32	31	34

These assumptions reflect a cautious allowance for the recently observed slowdown in longevity improvements.

(f) Duration of defined benefit obligation

The graph below provides an illustration of the undiscounted expected benefit payments included in the valuation of the principal plan obligations.



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

FINANCIAL INFORMATION

(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 Aberdeen Asset Management PLC and all its subsidiaries (excluding Aberdeen Asset Management Life and Pensions Ltd) Standard Life Aberdeen Plc Standard Life Savings Limited (including Elevate) 1825 Financial Planning Ltd Standard Life Client Management Ltd Focus Solutions Group Ltd Standard Life (Asia) Limited (excluding unit linked funds)	n/a	Aberdeen Asset Management Life and Pensions Ltd Standard Life (Asia) Limited unit linked funds
Insurance associates and joint ventures	Interests in Indian and Chinese associates and joint ventures Interest in Phoenix	n/a	n/a
UK and European insurance (discontinued operations)	SLAL – SHF SLAL – PBF (excluding unit linked funds) Vebnet Group SL Intl (excluding unit linked funds)	SLAL – HWPF SLAL – GWPF SLAL – GSMWPF SLAL – UKSMWPF	SLAL – PBF unit linked funds SL Intl unit linked funds

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 policyholder. The shareholder's exposure is limited to changes in the value of future fee based revenue earned on unit linked funds due to market movements.	The shareholder is not exposed to the credit risk from assets in respect of TPICF & NCI since the financial risks of the assets are borne by third parties.
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 derivatives	**108**	255	**(26)**	(146)	**–**	(5)	**–**	(1)	**(68)**	(119)	**–**	18	**–**	(3)	**(14)**	1	**–**	–
	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 £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
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.

		Related amounts not offset on the consolidated statement of financial position		
As at 31 December 2018	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Financial instruments £m	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)**

		Related amounts not offset on the consolidated statement of financial position		
As at 31 December 2017	Gross amounts of financial instruments as presented on the consolidated statement of financial position £m	Financial instruments £m	Financial collateral pledged/(received) £m	Net position £m
Financial assets				
Derivatives[1]	2,043	(465)	(1,508)	70
Reverse repurchase agreements	900	–	(899)	1
Total financial assets	**2,943**	**(465)**	**(2,407)**	**71**
Financial liabilities				
Derivatives[1]	(647)	465	95	(87)
Total financial liabilities	**(647)**	**465**	**95**	**(87)**

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 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £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		Fair value hierarchy: Level 2		Fair value hierarchy: 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 comprehensive income	**–**	–	**–**	1	**–**	–	**–**	–	**–**	–
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 Estimated rental value per square metre per annum	3.3% to 9.0% (5.2%) £32 to £1,716 (£326)
Investment property (hotels)	402	Income capitalisation	Equivalent yield Estimated rental value per room per annum	3.8% to 6.6% (5.1%) £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	
	Notes	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £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 £m	2017 £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 £m	2017 £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 £m	2017 £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%
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%

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Name of related undertaking	Share class[1]	% interest held
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%
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%
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%

Name of related undertaking	Share class[1]	% interest held
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 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 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, Ordinary B shares	100%
Pace Financial Solutions Limited[2]	Ordinary A shares, Ordinary B shares, Ordinary C shares	100%
Pace Mortgage Solutions Limited[2]	Ordinary A shares, 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, Ordinary B shares	100%
Pearson Jones & Company (Trustees) Limited[57]	Ordinary shares	100%
Pearson Jones Limited[2]	Ordinary A shares, 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, Ordinary B shares, Ordinary C shares, 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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[62] 8 Marina Boulevard #05-02, Marina Bay Financial Centre Tower 1 01 8981, Singapore

[63] 2-4, Rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg

[64] 1735 Market St, 32nd FL, Philadelphia, PA 19103, USA

[65] 5 Lister Hill, Horsforth, Leeds, LS18 5AZ

[66] Citadel House, 6 Citadel Place, Ayr, KA7 1JN

[67] c/o Aon, PO Box 33, Maison Trinity, Trinity Square, St Peter Port, Guernsey GY1 4AT

9. Company financial statements

Company statement of financial position

As at 31 December 2018

	Notes	2018 £m	2017 £m
Assets			
Investments in subsidiaries	A	**6,467**	9,425
Investments in associates and joint ventures	B	**1,018**	134
Deferred tax assets	N	**22**	–
Loans to subsidiaries	C	**6**	324
Derivative financial assets	C	**13**	–
Equity securities and interests in pooled investment funds	C	**197**	–
Debt securities	C	**854**	857
Receivables and other financial assets	C	**57**	76
Other assets	F	**35**	27
Cash and cash equivalents	C	**17**	7
Total assets		**8,686**	10,850
Equity			
Share capital	G	**353**	364
Shares held by trusts	H	**(88)**	(36)
Share premium reserve	G	**640**	639
Retained earnings	I		
Brought forward retained earnings		**1,564**	1,351
Profit for the year		**461**	624
Other movements in retained earnings		**10**	(411)
Total retained earnings		**2,035**	1,564
Other reserves	J	**4,505**	6,390
Total equity		**7,445**	8,921
Liabilities			
Subordinated liabilities	L	**1,086**	1,876
Derivative financial liabilities	L	**–**	33
Other financial liabilities	L	**69**	19
Other liabilities	P	**86**	1
Total liabilities		**1,241**	1,929
Total equity and liabilities		**8,686**	10,850

The financial statements on pages 225 to 236 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

The Notes on pages 228 to 236 are an integral part of these financial statements.

Company 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 shareholders' equity £m	Non shareholders' equity £m	Total equity £m
31 December 2017		**364**	**(36)**	**639**	**1,564**	**6,390**	**8,921**	**–**	**8,921**
Effect of change in accounting policy to IFRS 9		–	–	–	–	(15)	**(15)**	**–**	**(15)**
1 January 2018		**364**	**(36)**	**639**	**1,564**	**6,375**	**8,906**	**–**	**8,906**
Profit for the year		–	–	–	461	–	**461**	28	**489**
Other comprehensive income for the year		–	–	–	–	11	**11**	–	**11**
Total comprehensive income for the year		**–**	**–**	**–**	**461**	**11**	**472**	**28**	**500**
Issue of share capital	G	–	–	1	–	–	**1**	–	**1**
Issue of 'B' shares	G	1,000	–	–	–	(1,000)	**–**	–	**–**
Reclassification of perpetual debt instruments to equity	K	–	–	–	–	–	**–**	1,005	**1,005**
Repurchase of perpetual debt instruments	K	–	–	–	–	–	**–**	(970)	**(970)**
Redemption of perpetual debt instruments	K	–	–	–	–	–	**–**	(44)	**(44)**
Dividends paid on ordinary shares		–	–	–	(634)	–	**(634)**	–	**(634)**
Coupons paid on perpetual debt instruments		–	–	–	–	–	**–**	(25)	**(25)**
Redemption of 'B' shares	G	(1,000)	9	–	(1,002)	1,000	**(993)**	–	**(993)**
Shares bought back on-market and cancelled	G	(11)	–	–	(238)	11	**(238)**	–	**(238)**
Reserves credit for employee share-based payment	J	–	–	–	–	36	**36**	–	**36**
Transfer to retained earnings for vested employee share-based payment	J	–	–	–	68	(68)	**–**	–	**–**
Transfer between reserves on disposal of investment in subsidiaries	J	–	–	–	1,290	(1,290)	**–**	–	**–**
Transfer between reserves on impairment of investment in subsidiaries	J	–	–	–	570	(570)	**–**	–	**–**
Shares acquired by employee trusts		–	(101)	–	–	–	**(101)**	–	**(101)**
Shares distributed by employee and other trusts and related dividend equivalents		–	40	–	(44)	–	**(4)**	–	**(4)**
Aggregate tax effect of items recognised directly in equity		–	–	–	–	–	**–**	6	**6**
31 December		**353**	**(88)**	**640**	**2,035**	**4,505**	**7,445**	**–**	**7,445**

The Notes on pages 228 to 236 are an integral part of these financial statements.

2017	Notes	Share capital £m	Shares held by trusts £m	Share premium reserve £m	Retained earnings £m	Other reserves £m	Total equity £m
1 January		**242**	**(2)**	**634**	**1,351**	**2,393**	**4,618**
Profit for the year		–	–	–	624	–	**624**
Other comprehensive income for the year		–	–	–	–	(17)	**(17)**
Total comprehensive income for the year		**–**	**–**	**–**	**624**	**(17)**	**607**
Issue of share capital	G	122	–	5	–	3,972	**4,099**
Dividends paid on ordinary shares		–	–	–	(469)	–	**(469)**
Reserves credit for employee share-based payment schemes	J	–	–	–	–	96	**96**
Transfer to retained earnings for vested employee share-based payment schemes	J	–	–	–	86	(54)	**32**
Shares acquired by employee trusts		–	(63)	–	–	–	**(63)**
Shares distributed or sold by employee trusts		–	29	–	(28)	–	**1**
31 December		**364**	**(36)**	**639**	**1,564**	**6,390**	**8,921**

The Notes on pages 228 to 236 are an integral part of these financial statements.

Company accounting policies

(a) Basis of preparation

These separate financial statements are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC). In the year ended 31 December 2018 the Company has adopted Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) as issued by the FRC and has transitioned from reporting under International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (EU) to FRS 101. Accordingly, these financial statements were prepared in accordance with FRS 101 incorporating the Amendments to FRS 101 issued by the FRC up to March 2018. This transition to FRS 101 had no impact on measurement or recognition in the financial statements. The financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (FVTPL).

As permitted by FRS 101, the Company has taken advantage of the following disclosure exemptions available under that standard:

- A cash flow statement and related notes
- Capital management
- Effect of IFRSs issued but not effective
- Related party transactions with wholly owned subsidiaries

As equivalent disclosures are given in the consolidated financial statements, we have also applied the disclosure exemptions for share based payments and financial instruments.

Other than in relation to IFRS 9, as discussed below, the principal accounting policies adopted are the same as those given in the consolidated financial statements, together with the Company specific policies set out below, and have been consistently applied to all financial reporting periods presented in these financial statements.

The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its own income statement in these financial statements. The auditors' remuneration for audit and other services is disclosed in Note 5 to the consolidated financial statements. The Company has no employees.

(a)(i) Standards, interpretations and amendments to existing standards that have been adopted by the Company

IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2018)

On 1 January 2018 the company adopted IFRS 9 *Financial Instruments: Recognition and Measurement*. Financial assets are classified at initial recognition based on whether their contractual cash flows are solely payments of principal and interest (SPPI) and the nature of the business model they are managed under. This has resulted in the Company's equity securities and interests in pooled investment funds being classified as fair value through profit or loss (FVTPL) and the Company's debt securities, loans to subsidiaries, receivables and other financial assets and cash being measured at amortised cost except where they do not meet the SPPI test and are therefore classified as FVTPL. Derivative instruments are measured at fair value.

Financial liabilities are measured at amortised cost using the effective interest method unless they are derivatives or they are designated as FVTPL.

Changes in fair value of all financial instruments classified as FVTPL and derivative instruments are recognised in profit or loss except for derivative instruments that are designated as a hedging instrument in a cash flow hedge. Interest is credited to profit or loss using the effective interest rate method for financial instruments measured at amortised cost.

An expected credit loss impairment model is applied to financial assets measured at amortised cost. Impairment losses representing the expected credit loss in the next 12 months are recognised unless there has been a significant increase in credit risk from initial recognition in which case lifetime expected losses are recognised.

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.

The Company has elected to continue applying the hedge accounting requirements of IAS 39. Therefore the hedge accounting policy is the same as that given in the consolidated financial statements.

The main impact of adopting IFRS 9 is that the Company's debt securities previously classified as available-for-sale (AFS) and therefore measured at fair value are now measured at amortised cost. As permitted by IFRS 9 comparatives have not been restated.

At 31 December 2017 the fair value of AFS securities was £857m with a corresponding AFS financial assets reserve balance of £15m and deferred tax liability of £3m. On reclassification, the Company's debt securities were recognised at 1 January 2018 at their amortised cost (less expected credit losses) of £839m. The available-for-sale financial assets reserve balance and the related deferred tax liability were no longer recognised. The expected credit losses at 1 January 2018 were less than £1m.

(a)(ii) Investment in subsidiaries, associates and joint ventures

The Company has certain subsidiaries which are investment vehicles such as open-ended investment companies, unit trusts and limited partnerships whose primary function is to generate capital or income growth through holding investments. This category of subsidiary is held at FVTPL since they are managed on a fair value basis.

Investments in subsidiaries (other than those measured at FVTPL), associates (other than those measured at FVTPL) and joint ventures are initially recognised at cost and subsequently held at cost less any impairment charge. An impairment charge is recognised when the carrying amount of the investment exceeds its recoverable amount. Any gain or loss on disposal of a subsidiary, associate or joint venture is recognised in profit for the year.

Distributions received of non-cash assets, including investments in subsidiaries, are recognised at fair value in the balance sheet and as dividends in specie in the income statement.

(b) Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements requires management to make estimates and assumptions and exercise judgements in applying the accounting policies that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses arising during the year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where judgements have the most significant effect on the amounts recognised in the financial statements are as follows:

Financial statement area	Critical accounting estimates and assumptions	Related notes
Investments in subsidiaries	Determining the cash-generating unit to be used in relation to the recoverable amount of investments in subsidiaries	Note A

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 amount of assets and liabilities within the next financial year are as follows:

Financial statement area	Critical accounting estimates and assumptions	Related notes
Investments in subsidiaries, associates and joint ventures held at cost	Determination of the recoverable amount	Note A and B

Notes to the Company financial statements

A. Investments in subsidiaries

	Notes	2018 £m	2017 £m
Investments in subsidiaries measured at cost		**6,249**	9,092
Investments in subsidiaries measured at FVTPL	C	**218**	333
Investments in subsidiaries		**6,467**	9,425

	2018 £m	2017 £m
At 1 January	**9,425**	4,769
Reclassified as operations held for sale during the year	**(2,312)**	–
Investment into existing subsidiaries measured at cost	**167**	413
Acquisition of subsidiaries at cost	**5**	4,243
Acquisition of subsidiaries at cost via in specie dividend	**374**	–
Disposal of subsidiaries measured at cost	**(2)**	(37)
Repayment of loan to subsidiaries classified as equity investment	**(486)**	–
Impairment of subsidiaries measured at cost	**(589)**	(20)
Acquisition of subsidiaries at FVTPL	**90**	55
Reclassification of subsidiaries at FVTPL to interests in pooled investment funds	**(198)**	–
(Losses)/gains on subsidiaries at FVTPL	**(7)**	2
At 31 December	**6,467**	9,425

Details of the Company's subsidiaries are given in Note 49 of the Group financial statements.

(a) Operations held for sale

Following the Group's announcement of the proposed sale (the Sale) of the UK and European insurance business to Phoenix Group Holdings (Phoenix) on 23 February 2018, the Company's investments in Standard Life Assurance Limited (SLAL), excluding the loan to SLAL classified as an equity investment, and Vebnet (Holdings) Limited (Vebnet) were classified as held for sale and measured at their carrying amount.

On 9 August 2018, the Company transferred its investment in Vebnet of £27m to SLAL, which increased the carrying value of SLAL by the same amount.

The Sale completed on 31 August 2018.

(b) Acquisitions

During 2018, the Company made the following acquisitions of subsidiaries measured at cost:

- On 8 August 2018, Standard Life Savings Limited, 1825 Financial Planning Limited and Standard Life Client Management Limited were acquired via dividends in specie from SLAL and recognised at amounts of £320m, £50m and £4m respectively
- On 11 May 2018 the Company increased its investment in Focus Solutions Group Limited through the purchase of 200,000,000 ordinary shares for a cash consideration of £20m
- On 11 May 2018 the Company increased its investment in Standard Life Oversea Holdings Limited through the purchase of 1,750,000 ordinary shares for a cash consideration of £2m
- On 18 May 2018 the Company increased its investment in Aberdeen Asset Management PLC (Aberdeen) through the purchase of 31,547,174 ordinary shares for a cash consideration of £101m
- On 16 August 2018 the Company acquired control of The Standard Life Assurance Company 2006 for a cash consideration of £5m
- On 15 October 2018 the Company increased its investment in 1825 Financial Planning Limited through the purchase of 23,000,000 ordinary shares for a cash consideration of £11m and the capitalisation of a loan of £12m
- On 21 December 2018 the Company increased its investment in Standard Life Employee Services Limited through the purchase of 21,386 ordinary shares for the capitalisation of the intercompany receivable due from its subsidiary of £21m

During 2017, the Company made the following acquisitions of subsidiaries measured at cost:

- On 14 August 2017 the Company acquired Aberdeen and was renamed Standard Life Aberdeen plc. The Company acquired 100% of the share capital of Aberdeen, and Aberdeen ordinary shareholders received 0.757 of a share in Standard Life Aberdeen plc on the completion date satisfied through newly issued shares. The cost of the investment in Aberdeen was £4,243m consisting of £4,098m based on the fair value of the equity consideration at the date of completion including £98m for shares issued to the Aberdeen Asset Management Employee Benefit Trust 2003, £89m for replacement employee share-based payments reflecting the fair value of the pre-acquisition service element of the awards and transaction costs of £56m. Further details are provided in Note 1 of the Group financial statements.

- On 16 August 2017 the Company increased its investment in Standard Life Assurance Limited through the purchase of 13,000,000 ordinary shares for a cash consideration of £13m
- On 13 December 2017 the Company increased its investment in Aberdeen through the purchase of 125,000,000 ordinary shares for cash consideration of £400m

See Section (e) below for details on investments in subsidiaries at FVTPL.

(c) Disposals

During 2018, the Company made the following disposals of subsidiaries measured at cost:

- On 30 August 2018, SLAL repaid a loan from the Company with the principal amount of £500m. This bond had been classified as an equity investment in SLAL and its repayment reduced the Company's investment in SLAL by £486m.
- On 19 April 2018 the Company redeemed £2m of equity capital in Standard Life (Mauritius Holdings) 2006 Limited through the cancellation of 30,000 Participating shares

During 2017, the Company made the following disposals of subsidiaries measured at cost:

- On 22 November 2017 the Company reduced its investment in Standard Life (Mauritius Holdings) 2006 Limited through the disposal of 494,589.5 participating shares for a cash consideration of £37m, as a result of a share capital reduction by Standard Life (Mauritius Holdings) 2006 Limited

(d) Impairment

The company holds investments in Aberdeen and Standard Life Investments (Holdings) Limited (SLIH). As Aberdeen and SLIH are managed and reported together within the Asset management and platforms segment, and the synergies from the merger of these entities are expected to benefit both entities, we judge that it is appropriate to consider the recoverable amount of these entities on a combined basis. The Company impaired its investments in Aberdeen and SLIH by £570m (2017: £nil). The recoverable amount was £5,508m which was its value in use and was determined using a pre-tax discount rate of 11.1%. The impairments are as a result of a decrease in projected future revenues of the entities. Following the impairment loss recognised in the period, the recoverable amount was equal to the carrying amount. Therefore any adverse movement in a key assumption would lead to further impairment. The sensitivity of the carrying value of the investments in Aberdeen and SLIH to changes in key assumptions is the same as the sensitivity of Aberdeen Standard Investments goodwill to changes in key assumptions provided in Note 14 of the Group financial statements.

The Company's investment in its subsidiary Focus Solutions Group Limited (Focus) was impaired during 2018 by £19m (2017: £7m). The recoverable amount of Focus is £13m (2017: £11m) which is its value in use and has been determined using a discount rate of 12% (2017: 12%).

Additionally in 2017, an impairment of £13m was recognised in relation to the Company's investment in its subsidiary Standard Life Employee Services Limited. The recoverable amount was £30m which was its value in use and was determined using a discount rate of 9%.

(e) Investments in subsidiaries at FVTPL

Investments in subsidiaries at FVTPL, valued at £218m (2017: £333m), relate to a holding in money market funds over which the Company has control. Holdings in two further funds were reclassified to equity securities and interests in pooled investment funds, following the sale of Standard Life Assurance Limited to Phoenix.

B. Investments in associates and joint ventures

	2018 £m	2017 £m
Investment in associates measured at cost	**822**	10
Investment in joint venture measured at cost	**196**	124
Investments in associates and joint ventures	**1,018**	134

(a) Investment in associates

Following the completion of the Sale in August 2018, as part of the total consideration, the Company was issued with new Phoenix shares representing 19.98% of the issued share capital of Phoenix, a company incorporated in England and Wales (refer Note 1 and Note 16 of the Group financial statements). The cost of this investment was considered to be the fair value of the shares issued at 31 August 2018.

The Company's investments in associates are measured at cost less impairment. An impairment of £211m was recognised in relation to the company's associate investment in Phoenix. The impairment resulted from the fall in the Phoenix share price between 31 August 2018 and 31 December 2018. The recoverable amount was £812m which is the fair value of the Company's interest in Phoenix at 31 December 2018.

The Company has an interest of 25.3% (2017: 25.3%) in Tenet Group Limited, a company incorporated in England and Wales. The year end date for Tenet Group Limited is 30 September which is different from the Company's year end date of 31 December. For the purposes of the preparation of the Company's financial statements, financial information for the year ended 31 December is used.

(b) Investment in joint venture

The Company has a 50% (2017: 50%) interest in Heng An Standard Life Insurance Company Limited (HASL), a company incorporated in China. On 19 April 2018, the Company made a US$95m (£72m) capital contribution to HASL. Further details on this joint venture are provided in Note 16 of the Group financial statements.

C. Financial investments

2018	Notes	Fair value through profit or loss £m	Derivative financial instruments used for hedging £m	Amortised cost £m	Total £m
Investments in subsidiaries measured at FVTPL	A	218	–	–	**218**
Loans to subsidiaries		–	–	6	**6**
Derivative financial assets	D	–	13	–	**13**
Equity securities and interests in pooled investment funds		197	–	–	**197**
Debt securities		–	–	854	**854**
Receivables and other financial assets	E	8	–	49	**57**
Cash and cash equivalents		–	–	17	**17**
Total		**423**	**13**	**926**	**1,362**

2017	Notes	Designated as at fair value through profit or loss £m	Available -for-sale £m	Loans and receivables £m	Total £m
Investments in subsidiaries measured at FVTPL	A	333	–	–	**333**
Loans to subsidiaries		–	–	324	**324**
Debt securities		–	857	–	**857**
Receivables and other financial assets	E	–	–	76	**76**
Cash and cash equivalents		–	–	7	**7**
Total		**333**	**857**	**407**	**1,597**

The amount of debt securities expected to be recovered or settled after more than 12 months is £270m (2017: £291m). The amount of loans to subsidiaries expected to be recovered or settled after more than 12 months is £6m (2017: £324m).

D. Derivative financial instruments

The Company uses derivative financial instruments in order to reduce the risk from potential movements in foreign exchange rates.

	2018			2017		
	Contract amount £m	Fair value assets £m	Fair value liabilities £m	Contract amount £m	Fair value assets £m	Fair value liabilities £m
Cash flow hedges	**589**	**13**	**–**	559	–	(33)
Foreign exchange forwards	**6**	**–**	**–**	6	–	–
Derivative financial instruments	**595**	**13**	**–**	565	–	(33)

Derivative asset of £13m (2017: derivative liability of £33m) is expected to be settled after more than 12 months.

On 18 October 2017, the Company issued subordinated notes with a principal amount of US$750m. In order to manage the foreign exchange risk relating to the principal and coupons payable on these notes the Company entered into a cross-currency swap which is designated as a hedge of future cash flows.

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	Total £m
Cash inflows					
Cash flow hedges	25	88	714	–	827
Foreign exchange forwards	6	–	–	–	6
Total	**31**	**88**	**714**	**–**	**833**
Cash outflows					
Cash flow hedges	(18)	(64)	(660)	–	(742)
Foreign exchange forwards	(6)	–	–	–	(6)
Total	**(24)**	**(64)**	**(660)**	**–**	**(748)**
Net derivative financial instruments cash flows	**7**	**24**	**54**	**–**	**85**

2017	Within 1 year £m	2-5 years £m	6-10 years £m	11-15 years £m	Total £m
Cash inflows					
Cash flow hedges	28	94	118	566	806
Foreign exchange forwards	6	–	–	–	6
Total	**34**	**94**	**118**	**566**	**812**
Cash outflows					
Cash flow hedges	(22)	(73)	(91)	(578)	(764)
Foreign exchange forwards	(6)	–	–	–	(6)
Total	**(28)**	**(73)**	**(91)**	**(578)**	**(770)**
Net derivative financial instruments cash flows	**6**	**21**	**27**	**(12)**	**42**

E. Receivables and other financial assets

	2018 £m	2017 £m
Due from related parties	**49**	43
Collateral pledged in respect of derivatives contracts	**–**	28
Contingent consideration asset	**8**	–
Other financial assets	**–**	5
Total receivables and other financial assets	**57**	76

The carrying amounts disclosed above reasonably approximate the fair values at the year end.

Amounts due to related parties are expected to be recovered within 12 months.

F. Other assets

Other assets of £35m (2017: £27m) comprise amounts due from related parties in respect of Group relief, which are expected to be recovered within 12 months.

G. Share capital and share premium

Details of the Company's share capital and share premium are given in Note 26 of the Group financial statements including details of the return of capital, the share consolidation and the share buyback.

Details of the dividends paid on the ordinary shares by the Company are provided in Note 13 of the Group financial statements. Note 13 also includes information regarding the final dividend proposed by the Directors for the year ended 31 December 2018.

H. Shares held by trusts

Shares held by trusts relates to shares in Standard Life Aberdeen plc that are held by the Employee Share Trust (EST) and the Unclaimed Asset Trust (UAT). Further details of these trusts are provided in Note 27 of the Group financial statements.

I. Retained earnings

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.

J. Movements in other reserves

The following tables show the movements in other reserves during the year

2018	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Capital redemption reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Total £m
At 31 December 2017	**6,052**	**99**	**241**	**–**	**15**	**(17)**	**6,390**
Effect of change in accounting policy to IFRS 9	**–**	**–**	**–**	**–**	**(15)**	**–**	**(15)**
At 1 January 2018	**6,052**	**99**	**241**	**–**	**–**	**(17)**	**6,375**
Fair value losses on cash flow hedges	–	–	–	–	–	54	**54**
Realised losses on cash flow hedges transferred to income statement	–	–	–	–	–	(41)	**(41)**
Issue/redemption of ‘B’ shares	(1,000)	–	–	1,000	–	–	**–**
Shares bought back on-market and cancelled	–	–	–	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 investment in subsidiaries	(1,290)	–	–	–	–	–	**(1,290)**
Transfer between reserves on impairment of investment in subsidiaries	(570)	–	–	–	–	–	**(570)**
Tax effect of items that may be reclassified subsequently to profit or loss	–	–	–	–	–	(2)	**(2)**
At 31 December	**3,192**	**67**	**241**	**1,011**	**–**	**(6)**	**4,505**

2017	Merger reserve £m	Equity compensation reserve £m	Special reserve £m	Available-for-sale financial assets £m	Cash flow hedges £m	Total £m
At 1 January 2017	2,080	57	241	15	–	**2,393**
Shares issued in respect of business combinations	3,972	–	–	–	–	**3,972**
Fair value losses on cash flow hedges	–	–	–	–	(33)	**(33)**
Realised losses on cash flow hedges transferred to income statement	–	–	–	–	13	**13**
Reserves credit for employee share-based payments	–	96	–	–	–	**96**
Transfer to retained earnings for vested employee share-based payments	–	(54)	–	–	–	**(54)**
Tax effect of items that may be reclassified subsequently to profit or loss	–	–	–	–	3	**3**
At 31 December 2017	**6,052**	**99**	**241**	**15**	**(17)**	**6,390**

On completion of the sale of the investment in Standard Life Assurance Limited, (refer Note A) £1,290m (2017: £nil) was transferred from the merger reserve to retained earnings.

As part of the return of capital, £1,000m (2017: £nil) was transferred from the merger reserve to the capital redemption reserve. A further £11m (2017:£nil) was also recognised in the capital redemption reserve for the share buyback (refer Note 26 of the Group financial statements).

Following the impairment loss recognised in the period on the Company's investments in Aberdeen and SLIH (refer to note A), £570m (2017:£nil) was transferred from the merger reserve to retained earnings.

Following the completion of the merger of Standard Life plc and Aberdeen on 14 August 2017 an amount was recognised in the merger reserve representing the difference between the nominal value of shares issued to shareholders of Aberdeen and their fair value on that date. Further information on the merger reserve and special reserve is given in Note 29 of the Group financial statements.

For the year ended 31 December 2017 the 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.

K. Non shareholders' equity

On 30 August 2018, the Company's subordinated guaranteed bonds and Mutual Assurance Capital Securities (MACS) were reclassified as non shareholders' equity from subordinated liabilities. Following a tender and mandatory redemption process which completed on 25 October 2018, the Company repurchased/redeemed the guaranteed bonds and MACS. Further information is given in Note 30 of the Group financial statements.

L. Financial liabilities

2018	Notes	Amortised cost £m	Total £m
Subordinated liabilities	M	1,086	**1,086**
Other financial liabilities	O	69	**69**
Total		**1,155**	**1,155**

2017	Notes	Cash flow hedge £m	Amortised cost £m	Total £m
Subordinated liabilities	M	–	1,876	**1,876**
Derivative financial liabilities	D	33	–	**33**
Other financial liabilities	O	–	19	**19**
Total		**33**	**1,895**	**1,928**

M. Subordinated liabilities

	2018		2017	
	Principal amount	**Carrying value**	Principal amount	Carrying value
Subordinated notes:				
4.25% US Dollar fixed rate due 30 June 2028 (2017 – 30 June 2048)	**$750m**	**£586m**	$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		**£1,086m**		£1,876m

Subordinated liabilities are considered current if the contractual re-pricing or maturity dates are within one year. The principal amount of all the subordinated liabilities is expected to be settled after more than 12 months. The accrued interest on the subordinated liabilities of £2m (2017: £42m) is expected to be settled within 12 months.

On 18 October 2017, the Company issued US Dollar subordinated notes with a principal amount of $750m. The subordinated notes of US$750m have been subject to renegotiation during the year which resulted in a modification loss of £4m. Further information including the terms and conditions of all subordinated liabilities is given in Note 34 of the Group financial statements.

On 30 August 2018, the Company's subordinated guaranteed bonds and MACS were reclassified as non shareholders' equity. Refer Note K.

N. Deferred tax assets and liabilities

	2018 £m	2017 £m
Deferred tax assets	**22**	–

The amount of deferred tax assets expected to be recovered or settled after more than 12 months are £22m (2017: £nil).

The Company has surrendered the benefit of its tax losses to underlying subsidiaries for a consideration of £35m (2017: £27m).

Recognised deferred tax

	2018 £m	2017 £m
Deferred tax assets comprise:		
Unused tax losses	**21**	–
Unrealised losses on cash flow hedges	**1**	3
Deferred tax liabilities comprise:		
Unrealised gains on assets held as available-for-sale	**–**	(3)
Net deferred tax assets	**22**	–
Movements in net deferred tax assets comprise:		
At 1 January	**–**	(3)
Effect of change in accounting policy to IFRS 9	**3**	–
Amounts credited to profit or loss	**21**	3
Amounts charged to other comprehensive income	**(2)**	–
At 31 December	**22**	–

The deferred tax assets recognised are in respect of unused tax losses arising in the year and unrealised losses on cash flow hedges. The deferred tax assets are recognised to the extent that it is probable that the losses will be capable of being offset against future taxable profits.

O. Other financial liabilities

	2018 £m	2017 £m
Amounts due to related parties	**38**	13
Collateral held in respect of derivative contracts	**21**	–
Other	**10**	6
Other financial liabilities	**69**	19

Other financial liabilities are expected to be settled within 12 months (2017: £19m).

P. Other liabilities

Other liabilities of £86m (2017: £1m) are expected to be settled within 12 months.

Q. Contingent liabilities, contingent assets, indemnities and guarantees

(a) Legal proceedings and regulations

The Company, like other financial organisations, is subject to legal proceedings and complaints in the normal course of its business. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Company incurring a liability. Where it is concluded that it is more likely than not that a material outflow will be made a provision is established based on management's best estimate of the amount that will be payable. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly investigate, and no provisions are held for such matters. It is not possible to predict with certainty the extent and timing of the financial impact of legal proceedings, complaints and related regulatory matters.

(b) Indemnities and guarantees

Under the trust deed in respect of the UK Standard Life defined benefit pension plan, Standard Life Employee Services Limited (SLESL), the principal employer, must pay contributions to the pension plan as the trustees' actuary may certify necessary. The Company guarantees the obligations of certain subsidiaries' UK and Ireland defined benefit pension plans, which did not give rise to any liabilities at 31 December 2018 (2017: £nil).

R. Related party transactions

(a) Compensation of key management personnel

The Directors and key management personnel of the Company are considered to be the same as for the Group. See Note 46 of the Group financial statements for further information.

10. Supplementary information

10.1 Alternative performance measures

We assess our performance using a variety of measures that are not defined under IFRS and are therefore termed alternative performance measures (APMs). The APMs that we use may not be directly comparable with similarly named measures used by other companies.

We have presented below reconciliations from these APMs to the most appropriate measure prepared in accordance with IFRS. All APMs should be read together with the IFRS consolidated income statement, IFRS consolidated statement of financial position and IFRS consolidated statement of cash flows, which are presented in the Group financial statements section of this report.

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

R Measure is a key input to a metric used for executive remuneration. See page 86 for more information.

Definition	Purpose and changes made
Adjusted profit before tax KPI R 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, which are only accounted for when paid (as if interest is not paid it is cancelled), is excluded from adjusted profit.	Adjusted profit reporting provides further analysis of the results reported under IFRS and the Directors believe it helps to give shareholders a fuller understanding of the performance of the business by identifying and analysing adjusting items. Adjusted profit before tax is consistent with the way that financial performance is measured by management and reported to the Board and executive committee. Adjusted profit before tax is also a key input to the adjusted earnings per share measure which is used to assess performance for remuneration purposes.
Adjusted cash generation Adjusted cash generation presents a shareholder view of cash generation. For the Aberdeen Standard Investments element of the Asset management and platforms segment, adjusted cash generation adjusts IFRS net cash flows from operating activities for restructuring and corporate transaction expenses paid. For the platforms and corporate centre elements of the Asset management and platforms segment, adjusted cash generation removes certain non-cash items from adjusted profit before tax. Adjustments are made for deferred acquisition costs/deferred income reserve and fixed/intangible assets. Adjusted cash generation is stated net of current (cash) tax. IFRS net cash flows from operating activities is not used as the basis for these segments as it includes policyholder cash flows, and does not exclude adjusting items. For the Insurance associates and joint ventures segment, adjusted cash generation reflects dividends received in the period.	This APM presents a shareholder view of cash generation and removes adjusting items to make this cash metric more comparable to adjusted profit after tax. Adjusted cash generation provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to shareholders. The IFRS consolidated statement of cash flows includes policyholder cash flows, and therefore does not present a shareholder view, and does not exclude adjusting items.

Adjusted profit before tax

The table below reconciles adjusted profit before tax from continuing operations to Profit before tax.

The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The Reported basis results reflect this accounting treatment with Aberdeen results included from 14 August 2017 only. Therefore, Aberdeen is included from 14 August 2017 only in the 2017 results on a Reported basis. In our Strategic report we have also presented comparative results on a Pro forma basis to assist in explaining trends by showing performance for the combined Group as if Standard Life plc and Aberdeen had always been merged. The difference between the Reported results and Pro forma results is the results of Aberdeen in the period prior to completion of the merger.

	Pro forma basis			Remove Aberdeen results pre-merger completion			Reported basis		
	2018 £m	2017 £m	2016 £m	**2018 £m**	2017 £m	2016 £m	**2018 £m**	2017 £m	2016 £m
Fee based revenue	**1,868**	2,099	2,051	**–**	(652)	(1,035)	**1,868**	1,447	1,016
Total adjusted operating expenses	**(1,395)**	(1,551)	(1,453)	**–**	467	697	**(1,395)**	(1,084)	(756)
Adjusted operating profit	**473**	548	598	**–**	(185)	(338)	**473**	363	260
Capital management	**(9)**	13	20	**–**	–	2	**(9)**	13	22
Share of associates' and joint ventures' profit before tax	**186**	99	76	**–**	–	–	**186**	99	76
Adjusted profit before tax from continuing operations	**650**	660	694	**–**	(185)	(336)	**650**	475	358
Share of associates' and joint ventures' tax expense[1]							**(40)**	(41)	(13)
Total adjusting items from continuing operations							**(1,397)**	4	(83)
Profit before tax							**(787)**	438	262

[1] 2018 Includes £3m (2017: £nil) relating to tax on adjusting items.

The table below provides a segmental breakdown of adjusted profit before tax on a continuing operations basis. Comparatives are shown on a pro forma basis:

	Asset management and platforms			Insurance associates and joint ventures			Total		
	2018 £m	2017 £m	2016 £m	**2018 £m**	2017 £m	2016 £m	**2018 £m**	2017 £m	2016 £m
Fee based revenue	**1,868**	2,099	2,051	**–**	–	–	**1,868**	2,099	2,051
Total adjusted operating expenses	**(1,395)**	(1,551)	(1,453)	**–**	–	–	**(1,395)**	(1,551)	(1,453)
Adjusted operating profit	**473**	548	598	**–**	–	–	**473**	548	598
Capital management	**(9)**	13	20	**–**	–	–	**(9)**	13	20
Share of associates' and joint ventures' profit before tax	**46**	41	35	**140**	58	41	**186**	99	76
Adjusted profit before tax from continuing operations	**510**	602	653	**140**	58	41	**650**	660	694

The table below provides a breakdown for the calculation of our share of adjusted profit before tax from Phoenix of £86m which is included in the Insurance associates and joint ventures total of £140m above. Phoenix use an operating profit alternative performance measure which is before finance costs, while the Group's adjusted profit is after deducting finance costs.

Phoenix profitability for the four months ended 31 December 2018	2018 100% £m	**2018 19.98% £m**
Operating profit before tax (Phoenix APM)	458	**92**
Finance costs	(30)	**(6)**
Adjusted profit before tax (Standard Life Aberdeen APM)	428	**86**

The table below provides a summarised reconciliation of adjusted profit before tax (split by continuing operations, discontinued operations and Total) to Profit before tax. Comparatives are shown on a Reported basis.

	Continuing operations			Discontinued operations			Total		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Adjusted profit before tax	**650**	475	358	**210**	379	360	**860**	854	718
Share of associates' and joint ventures' tax expense	**(40)**	(41)	(13)	**–**	–	–	**(40)**	(41)	(13)
Total adjusting items	**(1,397)**	4	(83)	**1,519**	(44)	(186)	**122**	(40)	(269)
Profit attributable to non-controlling interests – ordinary shares	**–**	–	–	**5**	25	51	**5**	25	51
Profit before tax[1]	**(787)**	438	262	**1,734**	360	225	**947**	798	487

1 Discontinued operations shown as profit before tax expense attributable to equity holders.

Analysis of adjusting items

The table below provides detail of the adjusting items made in the calculation of adjusted profit before tax:

	Continuing operations			Discontinued operations			Total		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Restructuring and corporate transaction expenses	**(239)**	(162)	(42)	**(264)**	(11)	(25)	**(503)**	(173)	(67)
Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts	**(1,155)**	(138)	(38)	**–**	–	–	**(1,155)**	(138)	(38)
Provision for annuity sales practices	**–**	–	–	**–**	(100)	(175)	**–**	(100)	(175)
Profit on disposal of subsidiaries	**–**	–	–	**1,780**	–	–	**1,780**	–	–
Profit on disposal of interests in associates	**185**	319	–	**–**	–	–	**185**	319	–
Impairment of associates	**(228)**	–	–	**–**	–	–	**(228)**	–	–
Investment return variances and economic assumption changes	**54**	–	–	**(41)**	67	13	**13**	67	13
Other	**(14)**	(15)	(3)	**44**	–	1	**30**	(15)	(2)
Total adjusting items	**(1,397)**	4	(83)	**1,519**	(44)	(186)	**122**	(40)	(269)

An explanation for why individual items are excluded from adjusted profit is set out below:

- Restructuring and corporate transaction expenses are excluded from adjusted profit. Restructuring includes the impact of major regulatory change. By highlighting and excluding these costs we aim to give shareholders a fuller understanding of the performance of the business. Restructuring and corporate transaction expenses include costs relating to the integration of businesses acquired. Other restructuring costs excluded from adjusted profit relate to projects which have a significant impact on the way the Group operates. Costs are only excluded from adjusted profit where they are outwith business as usual activities and the costs would not have been incurred had the restructuring project not taken place. For headcount related costs, where duplicate posts are identified as a result of an integration plan, the duplicated cost will be treated as a restructuring cost from the beginning of the process which eliminates the duplicate cost. For continuing operations, the 2018 expenses mainly relate to integration and merger related costs of £191m (2017: £109m of which £59m relates to transaction costs) which included £20m of merger related costs relating to the accounting impact of the alignment of Aberdeen and Standard Life Investments variable pay structures. For discontinued operations, the 2018 expenses mainly related to the redemption of our Tier 1 subordinated bonds of £198m (2017: £nil), and £53m (2017: £nil) of separation costs relating to the sale of the UK and European insurance business to Phoenix. 2018 also included £14m of costs in relation to Brexit which we consider to be a major regulatory change. The residual costs of £47m related to other restructuring and corporate transaction expenses.
- Amortisation and impairment of intangible assets acquired in business combinations and through the purchase of customer contracts is included as an adjusting item. This is consistent with peers and therefore excluding these items aids comparability. Highlighting this as an adjusting item aims to give a fuller understanding of these accounting impacts which arise where businesses have been acquired but do not arise where businesses have grown organically. 2018 includes the £880m impairment of the Aberdeen Standard Investments goodwill intangible asset, reflecting the impact of markets and flows on future earnings expectations. Further details are provided in Note 14.

- Profits on the disposal of a subsidiary, joint venture or associate are also removed to assist comparability of results period on period. The sale of our UK and European insurance subsidiary completed on 31 August 2018. Profit on disposal of interests in associates in 2018 of £185m includes £177m in relation to the HDFC Asset Management IPO. Details are provided in Note 1 of the Group financial statements.
- Impairment of associates in 2018 of £228m relates to our investment in Phoenix and reflects the fall in the Phoenix share price between 31 August 2018 and 31 December 2018. This impairment will reverse in future periods if the Phoenix share price increases. The impairment of Phoenix is considered an item which is one-off and not indicative of the long-term operating performance of the Group and has therefore been excluded from adjusted profit to assist comparability of results period to period. More details are provided in Note 12 of the Group financial statements.
- Investment return variances and economic assumption changes in the Group's insurance entities are excluded from adjusted profit. 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. For annuities, all fluctuations in liabilities and the assets backing those liabilities due to market interest rate (including credit risk) movements over the period are excluded from adjusted profit. Removing these investment return variances and economic assumption changes is consistent with many of our insurance peers and aims to ensure that adjusted profit reflects a long-term view aligned to the maturity profile and economic matching of the corresponding assets and liabilities. In relation to certain subordinated liabilities this adjustment also excludes an accounting mismatch that arises where subordinated liabilities are measured at amortised cost and certain assets backing the liabilities are measured at fair value. 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. Details of the main differences are included in Note 12 of the Group financial statements.
- Details on items classified as 'Other' in the table on the previous page are provided in Note 12 of the Group financial statements. In 2018 this balance primarily relates to a held for sale accounting adjustment. Following the classification of the UK and European insurance business as held for sale on the announcement of the transaction on 23 February 2018, no amortisation or depreciation was recognised. This increase to profit was classified as an adjusting item as it related to the disposal of a subsidiary.

Restructuring and corporate transaction expenses used to determine adjusted profit before tax in 2017 were £215m on a Pro forma basis compared to £173m on a Reported basis. The Pro forma basis in 2017 included merger related costs of £42m incurred by Aberdeen. The results for 2018 are the same on a Pro forma basis as on a Reported basis.

Reconciliation of adjusted profit to IFRS profit by component

The key components of adjusted profit before tax are total adjusted operating income (which is broken down into fee based revenue and spread/risk margin), total adjusted operating expenses and share of associates' and joint ventures' profit before tax. These components provide a meaningful analysis of our adjusted results.

The table below provides a reconciliation of movements between adjusted profit component measures and their closest IFRS equivalent:

Adjusted profit term	Group adjusted profit	Presentation differences	Adjusting items	Capital management	Share of associates' and joint ventures' tax expense	Non-controlling interests	Group IFRS	IFRS term
2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	
Fee based revenue	1,868	70	202	(9)	–		2,131	Total income
Adjusted operating expenses	(1,395)	(70)	(1,355)		–	–	(2,820)	Total expenses
Capital management	(9)	–	–	9	–	–	–	N/A
Share of associates' and joint ventures' profit before tax	186	–	(244)	–	(40)	–	(98)	Share of profit from associates and JVs[1]
Adjusted profit before tax from continuing operations	**650**	**–**	**(1,397)**	**–**	**(40)**		**(787)**	**Profit before tax**
Tax on adjusted profit	(95)	–	52	–	–	–	(43)	Total tax expense
Share of associates' and joint ventures' tax	(43)	–	–	–	43	–	–	N/A
Adjusted profit after tax from continuing operations	**512**	**–**	**(1,345)**	**–**	**3**	**–**	**(830)**	**Profit for the year from continuing operations**
Adjusted profit after tax from discontinued operations	133	–	1,560	–	–	5	1,698	Profit for the year from discontinued operations
Adjusted profit after tax	**645**	**–**	**215**	**–**	**3**	**5**	**868**	**Profit for the year**

[1] Includes £228m loss on impairment of interest in associates.

Adjusted profit term	Group adjusted profit (Reported basis)	Presentation differences	Adjusting items	Capital management	Share of associates' and joint ventures' expense	Non-controlling interests – ordinary shares	Group IFRS	IFRS term
2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	
Fee based revenue	1,447	360	345	13	–	–	2,165	Total income
Adjusted operating expenses	(1,084)	(360)	(328)	–	–	–	(1,772)	Total expenses
Capital management	13	–	–	(13)	–	–	–	N/A
Share of associates' and joint ventures' profit before tax	99	–	(13)	–	(41)	–	45	Share of profit from associates and JVs
Adjusted profit before tax from continuing operations	**475**	–	**4**	–	**(41)**	–	**438**	**Profit before tax**
Tax on adjusted profit	(77)	–	49	–	–	–	(28)	Total tax expense
Share of associates' and joint ventures' tax	(41)	–	–	–	41	–	–	N/A
Adjusted profit after tax from continuing operations	**357**	–	**53**	–	–	–	**410**	**Profit for the year from continuing operations**
Adjusted profit after tax from discontinued operations	**348**	–	**(51)**	–	–	**25**	**322**	Profit for the year from discontinued operations
Adjusted profit after tax	**705**	–	**2**	–	–	**25**	**732**	**Profit for the year**

This reconciliation includes a number of reconciling items which arise due to presentation differences between IFRS reporting requirements and the determination of adjusted operating income and adjusted operating expenses. Adjusted operating income and expenses exclude items which have an equal and opposite effect on IFRS income and IFRS expenses in the consolidated income statement. 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. Further details of presentation differences are included in Note 2(b)(ii) of the Group financial statements section of this report.

Adjusted cash generation from continuing operations

Adjusted cash generation provides insight into our ability to generate cash that supports further investment in the business and the payment of dividends to shareholders. The IFRS consolidated statement of cash flows includes policyholder cash flows, and therefore does not present a shareholder view, and does not exclude adjusting items.

Analysis of adjusted cash generation (Comparatives shown on a Pro forma basis)		**2018** **£m**	2017 £m
Asset management and platforms	(a)	**420**	495
Insurance associates and joint ventures		**33**	10
Adjusted cash generation (continuing operations)		**453**	505

Further details of the calculation of adjusted cash generation for the Asset management and platforms segment are included below:

Investment management

	Per Group financial statements	**2018** **£m**	2017 £m
IFRS Net cash flow from operating activities – total Group	Consolidated statement of cash flows	**826**	2,194
Less: Net cash flows from operating activities – discontinued operations, platforms and corporate centre		**(482)**	(1,846)
Net cash flow from operating activities – Aberdeen Standard Investments[1]		**344**	348
Pro forma adjustment for pre-merger results[2]		**–**	140
Restructuring and corporate transaction expenses paid – Aberdeen Standard Investments		**124**	63
Adjusted cash generation – Aberdeen Standard Investments		**468**	551
Adjusted cash generation – platforms and corporate centre		**(48)**	(56)
Adjusted cash generation – Asset management and platforms (2017 on Pro forma basis)		**420**	495

1 From 2018, net cash flow from operating activities excludes movements between cash and pooled cash funds.

2 The Pro forma adjustment adds pre-merger results for Aberdeen which are excluded from the consolidated statement of cash flows.

10.2 Financial ratios

We also use a number of financial ratios to help assess our performance and these are also not defined under IFRS. Details of our main financial ratios and how they are calculated are presented below.

Definition	Purpose and changes
Cost/income ratio KPI R	
This is an efficiency measure that is calculated as adjusted operating expenses divided by adjusted operating income in the period, and includes the share of associates' and joint ventures' profit before tax.	This ratio is used by management to assess efficiency and reported to the Board and executive committee. This ratio is also a measure used to assess performance for remuneration purposes.
Adjusted diluted earnings per share KPI	
Adjusted diluted earnings per share is calculated on adjusted profit after tax. The weighted average number of ordinary shares in issue is adjusted during the period to assume the conversion of all dilutive potential ordinary shares, such as share options granted to employees. Details on the calculation of adjusted diluted earnings per share are set out in Note 11 in the Group financial statements section.	Earnings per share is a commonly used financial metric which can be used to measure the profitability and capital efficiency of a company over time. We also calculate adjusted diluted earnings per share to illustrate the impact of adjusting items on the metric. This ratio is used by management to assess performance and reported to the Board and executive committee.
Fee revenue yield (bps)	
The fee revenue yield is calculated as annualised fee based revenue (excluding performance fees, SL Asia, 1825, Focus and Threesixty) divided by monthly average fee based AUM/AUA.	The average revenue yield on fee based business is a measure that illustrates the average margin being earned on the assets that we manage or administer.

Cost/income ratio from continuing operations

		Pro forma basis		Reported basis	
	2018	2017	2016	2017	2016
Adjusted operating expenses (£m)	**(1,395)**	(1,551)	(1,453)	(1,084)	(756)
Fee based revenue (£m)	**1,868**	2,099	2,051	1,447	1,016
Share of associates' and joint ventures' profit before tax (£m)	**186**	99	76	99	76
Total adjusted operating income and share of associates' and joint ventures' profit before tax (£m)	**2,054**	2,198	2,127	1,546	1,092
Cost/income ratio (%)	**68**	71	68	70	69

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Adjusted diluted earnings per share

	Continuing operations[1]			Discontinued operations			Total		
		Pro forma basis	Reported basis		Pro forma basis	Reported basis		Pro forma basis	Reported basis
	2018 £m	2017 £m	2017 £m	**2018 £m**	2017 £m	2017 £m	**2018 £m**	2017 £m	2017 £m
Adjusted profit after tax	**512**	516	357	**133**	348	348	**645**	864	705
Dividend paid on preference shares	**(5)**	(5)	–	**–**	–	–	**(5)**	(5)	–
Adjusted profit after tax attributable to equity holders of the Company	**507**	511	357	**133**	348	348	**640**	859	705
Profit attributable to equity holders of the Company	**(835)**	N/A	402	**1,665**	N/A	297	**830**	N/A	699
	Million	Million	Million	**Million**	Million	Million	**Million**	Million	Million
Weighted average number of ordinary shares outstanding	**2,848**	2,943	2,343	**2,848**	2,943	2,343	**2,848**	2,943	2,343
Dilutive effect of share options and awards	**–**	29	17	**–**	29	17	**–**	29	17
Weighted average number of diluted ordinary shares outstanding	**2,848**	2,972	2,360	**2,848**	2,972	2,360	**2,848**	2,972	2,360
	Pence	Pence	Pence	**Pence**	Pence	Pence	**Pence**	Pence	Pence
Basic earnings per share	**(29.3)**	N/A	17.1	**58.4**	N/A	12.7	**29.1**	N/A	29.8
Adjusted diluted earnings per share[1]	**17.8**	17.2	15.1	**4.7**	11.7	14.8	**22.5**	28.9	29.9

1 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. Refer to Note 11 of the Group financial statements for information relating to the calculation of diluted earnings per share.

Fee revenue yield (bps) from continuing operations

Fee revenue yield	Average AUMA (£bn)		Fee based revenue (£m)		Fee revenue yield (bps)	
(Comparatives shown on a Pro forma basis)	**2018**	2017	**2018**	2017	**2018**	2017
Equities	**86.3**	98.1	**578**	666	**66.9**	67.9
Fixed income	**46.9**	49.0	**130**	144	**27.7**	29.4
Multi-asset	**65.4**	74.7	**350**	432	**53.6**	57.7
Private markets	**15.8**	16.7	**68**	84	**43.1**	50.7
Alternatives	**10.5**	7.1	**18**	12	**17.4**	16.9
Real estate	**28.9**	29.2	**154**	159	**53.2**	54.4
Quantitative	**2.1**	2.2	**3**	3	**12.2**	12.1
Cash/Liquidity	**17.3**	19.1	**14**	14	**8.0**	7.4
Institutional/Wholesale[2]	**273.2**	**296.1**	**1,315**	**1,514**	**48.1**	**51.1**
Strategic insurance partners	**265.0**	271.1	**347**	372	**13.1**	13.7
Retail – Wrap and Elevate	**55.6**	49.2	**142**	129	**25.6**	26.2
Eliminations	**(7.9)**	(7.2)	**N/A**	N/A	**N/A**	N/A
Group fee revenue yield	**585.9**	**609.2**	**1,804**	**2,015**	**30.8**	**33.1**
SL Asia			**12**	12		
Retail advice and other[3]			**43**	46		
Performance fees			**9**	26		
Group fee based revenue			**1,868**	**2,099**		

2 Includes Wealth/Digital.

3 Includes 1825, Focus and Threesixty.

10.3 Assets under management and administration and flows

Definition	Purpose and changes
AUMA KPI	
AUMA is a measure of the total assets we manage or administer on behalf of our clients and customers. It includes assets under management (AUM) and assets under administration (AUA). AUM is a measure of the total assets that we manage on behalf of individual customers and institutional clients. AUM also includes captive assets managed on behalf of the Group including assets managed for corporate purposes. AUA is a measure of the total assets we administer for customers through products such as platforms and ISAs.	As an investment company, AUMA and flows are key drivers of shareholder value. AUMA has been restated to exclude associates, joint ventures, SL Asia and is also only presented on a continuing operations basis. This change has been made to simplify disclosures and to better align asset and fee revenue disclosures. A reconciliation of AUMA and net flows to previously disclosed information is provided in Section 10.5.
Gross inflows and net flows KPI R	
Net flows represent gross inflows less gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period.	As an investment company, AUMA and flows are key drivers of shareholder value. Gross inflows have been included as a KPI in 2018 to align with our remuneration measures. Gross inflows and net flows has been restated to exclude associates, joint ventures, SL Asia and is also only presented on a continuing operations basis.

10.3.1 AUMA

12 months ended 31 December 2018

	Opening AUMA at 1 Jan 2018 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation[1] £bn	Closing AUMA at 31 Dec 2018 £bn
Equities	97.5	11.8	(29.4)	(17.6)	(8.2)	1.2	72.9
Fixed income	48.0	6.0	(8.8)	(2.8)	0.6	0.9	46.7
Multi-asset	72.4	9.3	(25.0)	(15.7)	(2.8)	–	53.9
Private markets	16.5	1.1	(2.4)	(1.3)	0.8	–	16.0
Alternatives	8.0	0.8	(1.2)	(0.4)	2.6	2.1	12.3
Real estate	28.5	3.8	(4.0)	(0.2)	0.8	0.6	29.7
Quantitative	2.2	0.2	(0.3)	(0.1)	–	–	2.1
Cash/Liquidity	17.2	7.4	(8.7)	(1.3)	0.6	–	16.5
Institutional/Wholesale[2]	**290.3**	**40.4**	**(79.8)**	**(39.4)**	**(5.6)**	**4.8**	**250.1**
Strategic insurance partners	271.8	28.6	(34.1)	(5.5)	(11.3)	–	255.0
Total AUM	**562.1**	**69.0**	**(113.9)**	**(44.9)**	**(16.9)**	**4.8**	**505.1**
Retail – Wrap and Elevate	54.0	8.5	(4.3)	4.2	(4.0)	–	54.2
Eliminations	(8.0)	(2.3)	2.1	(0.2)	0.4	–	(7.8)
Total AUMA	**608.1**	**75.2**	**(116.1)**	**(40.9)**	**(20.5)**	**4.8**	**551.5**

1 Corporate actions relate to the acquisition of £4.8bn of AUM in transactions with Alpine Woods, ETF Securities and Hark Capital.

2 Includes Wealth/Digital.

12 months ended 31 December 2017 (Pro forma basis)

	Opening AUMA at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation[1] £bn	Closing AUMA at 31 Dec 2017 £bn
Equities	93.6	14.2	(24.4)	(10.2)	14.1	–	97.5
Fixed income	51.6	8.6	(11.7)	(3.1)	0.8	(1.3)	48.0
Multi-asset	79.1	13.9	(20.8)	(6.9)	2.6	(2.4)	72.4
Private markets	16.8	1.1	(1.4)	(0.3)	–	–	16.5
Alternatives	8.9	0.8	(1.3)	(0.5)	(0.4)	–	8.0
Real estate	27.5	3.6	(4.6)	(1.0)	2.0	–	28.5
Quantitative	2.4	0.2	(0.7)	(0.5)	0.3	–	2.2
Cash/Liquidity	18.7	6.4	(8.1)	(1.7)	0.2	–	17.2
Institutional/Wholesale[2]	**298.6**	**48.8**	**(73.0)**	**(24.2)**	**19.6**	**(3.7)**	**290.3**
Strategic insurance partners	271.5	15.6	(30.8)	(15.2)	15.5	–	271.8
Total AUM	**570.1**	**64.4**	**(103.8)**	**(39.4)**	**35.1**	**(3.7)**	**562.1**
Retail – Wrap and Elevate	44.2	10.7	(3.7)	7.0	2.8	–	54.0
Eliminations	(6.4)	(2.7)	2.2	(0.5)	(1.1)	–	(8.0)
Total AUMA	**607.9**	**72.4**	**(105.3)**	**(32.9)**	**36.8**	**(3.7)**	**608.1**

10.3.2 Quarterly net flows

	3 months to 31 Dec 18 £bn	3 months to 30 Sep 18 £bn	3 months to 30 Jun 18 £bn	3 months to 31 Mar 18 £bn	3 months to 31 Dec 17 £bn
Equities	**(5.7)**	(4.3)	(3.9)	(3.7)	(3.5)
Fixed income	**(0.4)**	(0.3)	(0.9)	(1.2)	(0.5)
Multi-asset	**(6.7)**	(4.6)	(2.9)	(1.5)	(1.3)
Private markets	**0.3**	(0.9)	(0.2)	(0.5)	(0.1)
Alternatives	**(0.6)**	0.4	(0.4)	0.2	–
Real estate	**(0.2)**	0.2	–	(0.2)	(0.1)
Quantitative	**0.1**	(0.2)	–	–	–
Cash/Liquidity	**0.6**	(3.5)	1.4	0.2	(0.8)
Institutional/Wholesale[2]	**(12.6)**	(13.2)	(6.9)	(6.7)	(6.3)
Strategic insurance partners	**(1.7)**	1.8	(3.1)	(2.5)	(3.5)
Total net flows from AUM	**(14.3)**	(11.4)	(10.0)	(9.2)	(9.8)
Retail – Wrap and Elevate	**0.7**	1.0	1.0	1.5	1.6
Eliminations	**0.1**	(0.1)	(0.1)	(0.1)	(0.1)
Total net flows	**(13.5)**	(10.5)	(9.1)	(7.8)	(8.3)

1 Corporate actions include the closure of an uneconomic multi-manager fund range and the rationalisation of the US fixed income business.

2 Includes Wealth/Digital.

10.4 AUM and flows (excludes strategic insurance partners)

10.4.1 Detailed asset class split and by channel

12 months ended 31 December 2018	Opening AUM at 1 Jan 2018 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2018 £bn
Developed markets equities	16.3	2.2	(3.6)	(1.4)	(2.0)	–	12.9
Emerging markets equities	37.0	4.2	(13.4)	(9.2)	(2.8)	–	25.0
Asia Pacific equities	27.7	3.9	(6.8)	(2.9)	(2.3)	–	22.5
Global equities	16.5	1.5	(5.6)	(4.1)	(1.1)	1.2	12.5
Total equities	**97.5**	**11.8**	**(29.4)**	**(17.6)**	**(8.2)**	**1.2**	**72.9**
Developed markets credit	32.9	3.3	(5.6)	(2.3)	0.6	0.9	32.1
Developed markets rates	5.7	0.8	(1.2)	(0.4)	(0.1)	–	5.2
Emerging markets fixed income	9.4	1.9	(2.0)	(0.1)	0.1	–	9.4
Total fixed income	**48.0**	**6.0**	**(8.8)**	**(2.8)**	**0.6**	**0.9**	**46.7**
Absolute return	39.8	2.5	(19.0)	(16.5)	(1.4)	–	21.9
Diversified growth/income	1.5	0.7	(0.3)	0.4	(0.2)	–	1.7
MyFolio	13.3	2.7	(1.5)	1.2	(0.6)	–	13.9
Other multi-asset	6.5	0.7	(1.9)	(1.2)	0.2	–	5.5
Parmenion	4.4	2.1	(1.0)	1.1	(0.3)	–	5.2
Aberdeen Standard Capital	6.9	0.6	(1.3)	(0.7)	(0.5)	–	5.7
Total multi-asset	**72.4**	**9.3**	**(25.0)**	**(15.7)**	**(2.8)**	**–**	**53.9**
Private equity	12.4	0.9	(1.9)	(1.0)	0.9	–	12.3
Private credit and solutions	0.3	0.2	(0.2)	–	(0.3)	–	–
Infrastructure equity	3.8	–	(0.3)	(0.3)	0.2	–	3.7
Total private markets	**16.5**	**1.1**	**(2.4)**	**(1.3)**	**0.8**	**–**	**16.0**
Total alternatives	**8.0**	**0.8**	**(1.2)**	**(0.4)**	**2.6**	**2.1**	**12.3**
UK real estate	15.8	1.1	(2.3)	(1.2)	0.7	–	15.3
European real estate	11.1	2.3	(1.4)	0.9	0.2	–	12.2
Global real estate	0.1	0.2	(0.1)	0.1	–	0.6	0.8
Real estate multi-manager	1.5	0.2	(0.2)	–	(0.1)	–	1.4
Total real estate	**28.5**	**3.8**	**(4.0)**	**(0.2)**	**0.8**	**0.6**	**29.7**
Total quantitative	**2.2**	**0.2**	**(0.3)**	**(0.1)**	**–**	**–**	**2.1**
Total cash/liquidity	**17.2**	**7.4**	**(8.7)**	**(1.3)**	**0.6**	**–**	**16.5**
Total	**290.3**	**40.4**	**(79.8)**	**(39.4)**	**(5.6)**	**4.8**	**250.1**

12 months ended 31 December 2018	Opening AUM at 1 Jan 2018 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2018 £bn
Institutional	192.5	19.3	(47.0)	(27.7)	1.9	–	166.7
Wholesale	86.6	18.4	(30.5)	(12.1)	(6.8)	4.8	72.5
Wealth/Digital	11.2	2.7	(2.3)	0.4	(0.7)	–	10.9
Total	**290.3**	**40.4**	**(79.8)**	**(39.4)**	**(5.6)**	**4.8**	**250.1**

AUM and flows (excludes strategic insurance partners) 12 months ended 31 December 2017 (Pro forma basis)	Opening AUM at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2017 £bn
Developed markets equities	15.8	2.4	(3.2)	(0.8)	1.3	–	16.3
Emerging markets equities	33.9	5.6	(8.4)	(2.8)	5.9	–	37.0
Asia Pacific equities	26.1	4.6	(7.7)	(3.1)	4.7	–	27.7
Global equities	17.8	1.6	(5.1)	(3.5)	2.2	–	16.5
Total equities	**93.6**	**14.2**	**(24.4)**	**(10.2)**	**14.1**	**–**	**97.5**
Developed markets credit	37.8	4.8	(9.1)	(4.3)	0.7	(1.3)	32.9
Developed markets rates	5.5	1.4	(1.2)	0.2	–	–	5.7
Emerging markets fixed income	8.3	2.4	(1.4)	1.0	0.1	–	9.4
Total fixed income	**51.6**	**8.6**	**(11.7)**	**(3.1)**	**0.8**	**(1.3)**	**48.0**
Absolute return	48.9	5.8	(15.6)	(9.8)	0.7	–	39.8
Diversified growth/income	0.7	1.0	(0.3)	0.7	0.1	–	1.5
MyFolio	10.6	3.3	(1.3)	2.0	0.7	–	13.3
Other multi-asset	9.1	1.4	(2.2)	(0.8)	0.6	(2.4)	6.5
Parmenion	3.0	1.5	(0.2)	1.3	0.1	–	4.4
Aberdeen Standard Capital	6.8	0.9	(1.2)	(0.3)	0.4	–	6.9
Total multi-asset	**79.1**	**13.9**	**(20.8)**	**(6.9)**	**2.6**	**(2.4)**	**72.4**
Private equity	14.6	0.8	(1.4)	(0.6)	(0.2)	(1.4)	12.4
Private credit and solutions	–	0.3	–	0.3	–	–	0.3
Infrastructure equity	2.2	–	–	–	0.2	1.4	3.8
Total private markets	**16.8**	**1.1**	**(1.4)**	**(0.3)**	**–**	**–**	**16.5**
Total alternatives	**8.9**	**0.8**	**(1.3)**	**(0.5)**	**(0.4)**	**–**	**8.0**
UK real estate	15.2	1.4	(2.0)	(0.6)	1.2	–	15.8
European real estate	10.5	2.1	(2.3)	(0.2)	0.8	–	11.1
Global real estate	0.2	–	(0.1)	(0.1)	–	–	0.1
Real estate multi-manager	1.6	0.1	(0.2)	(0.1)	–	–	1.5
Total real estate	**27.5**	**3.6**	**(4.6)**	**(1.0)**	**2.0**	**–**	**28.5**
Total quantitative	**2.4**	**0.2**	**(0.7)**	**(0.5)**	**0.3**	**–**	**2.2**
Total cash/liquidity	**18.7**	**6.4**	**(8.1)**	**(1.7)**	**0.2**	**–**	**17.2**
Total	**298.6**	**48.8**	**(73.0)**	**(24.2)**	**19.6**	**(3.7)**	**290.3**

12 months ended 31 December 2017 (Pro forma basis)	Opening AUM at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUM at 31 Dec 2017 £bn
Institutional	202.4	24.3	(44.0)	(19.7)	11.1	(1.3)	192.5
Wholesale	86.4	22.1	(27.7)	(5.6)	8.2	(2.4)	86.6
Wealth/Digital	9.8	2.4	(1.3)	1.1	0.3	–	11.2
Total	**298.6**	**48.8**	**(73.0)**	**(24.2)**	**19.6**	**(3.7)**	**290.3**

10.4.2 AUM by geography (excludes strategic insurance partners)

12 months ended 31 December	31 Dec 2018 £bn	31 Dec 2017 £bn
UK	**125.4**	145.6
Europe, Middle East and Africa (EMEA)	**57.1**	61.8
Asia Pacific (APAC)	**18.2**	22.7
Americas	**49.4**	60.2
Total	**250.1**	**290.3**

10.4.3 Total AUM by asset class

	31 Dec 2018			31 Dec 2017		
	Institutional/ Wholesale[1] £bn	Strategic insurance partners £bn	Total £bn	Institutional/ Wholesale[1] £bn	Strategic insurance partners £bn	Total £bn
Equities	**72.9**	**44.0**	**116.9**	97.5	53.1	150.6
Fixed income	**46.7**	**90.0**	**136.7**	48.0	92.6	140.6
Multi-asset	**53.9**	**17.5**	**71.4**	72.4	17.6	90.0
Private markets	**16.0**	**2.3**	**18.3**	16.5	1.2	17.7
Alternatives	**12.3**	**–**	**12.3**	8.0	–	8.0
Real estate	**29.7**	**10.3**	**40.0**	28.5	10.7	39.2
Quantitative	**2.1**	**60.7**	**62.8**	2.2	66.3	68.5
Cash/Liquidity	**16.5**	**30.2**	**46.7**	17.2	30.3	47.5
Total AUM	**250.1**	**255.0**	**505.1**	**290.3**	**271.8**	**562.1**

1 Includes Wealth/Digital.

10.5 AUMA – reconciliation to previously disclosed information

12 months ended 31 December 2017 (Pro forma basis)

	Opening AUMA at 1 Jan 2017 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions and business rationalisation £bn	Closing AUMA at 31 Dec 2017 £bn
Standard Life Aberdeen plc AUMA as reported	647.6	80.1	(111.1)	(31.0)	42.6	(4.3)	654.9
Less: Discontinued operations	(127.4)	(9.2)	12.2	3.0	(9.7)	–	(134.1)
Less: Discontinued eliminations	102.8	4.6	(6.9)	(2.3)	5.2	–	105.7
Less: HDFC AMC	(10.5)	(2.1)	–	(2.1)	(1.0)	–	(13.6)
Less: India and China life	(4.6)	(1.0)	0.5	(0.5)	(0.3)	0.6	(4.8)
Total Standard Life Aberdeen AUMA	**607.9**	**72.4**	**(105.3)**	**(32.9)**	**36.8**	**(3.7)**	**608.1**

FINANCIAL INFORMATION

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11. Glossary

Aberdeen Asset Management or Aberdeen
Aberdeen Asset Management PLC, or Aberdeen Asset Management PLC and its subsidiaries.

Adjusted cash generation
Adjusted cash generation presents a shareholder view of cash generation. The calculation of this measure has been amended following the merger. For the Aberdeen Standard Investments element of the Asset management and platforms segment, adjusted cash generation adjusts IFRS net cash flows from operating activities for restructuring and corporate transaction expenses paid. For the platforms and corporate centre elements of the Asset management and platforms segment, adjusted cash generation removes certain non-cash items from adjusted profit before tax. Adjustments are made for deferred acquisition costs/deferred income reserve and fixed/intangible assets. Adjusted cash generation is stated net of current (cash) tax. IFRS net cash flows from operating activities is not used as the basis for these segments as it includes policyholder cash flows, and does not exclude adjusting items. For the Insurance associates and joint ventures segment, adjusted cash generation reflects dividends received in the period.

Adjusted operating expenses
Adjusted operating expenses is a component of adjusted profit and relates to the day-to-day expenses of managing our business.

Adjusted operating income
Adjusted operating income is a component of adjusted profit and consists of fee based revenue and spread/risk margin.

Adjusted profit
Adjusted profit before tax 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 short-term fluctuations in 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, which are only accounted for when paid (as if interest is not paid it is cancelled), is excluded from adjusted profit.

Assets under management and administration (AUMA)
AUMA is a measure of the total assets we manage or administer on behalf of our clients and customers. It includes assets under management (AUM) and assets under administration (AUA). AUMA does not include AUM/AUA for associates and joint ventures and is also only presented on a continuing operations basis.

AUM is a measure of the total assets that Aberdeen Standard Investments manages on behalf of individual customers and institutional clients. AUM also includes assets managed for corporate purposes.

AUA is a measure of the total assets we administer for customers through our Platforms.

Board
The Board of Directors of the Company.

Capital management
Capital management is a component of adjusted profit and relates to the return from the net assets of the shareholder business, net of costs of financing. This includes the net assets in defined benefit staff pension plans and net assets relating to the financing of subordinated liabilities.

Chief Operating Decision Maker
The executive committee.

Company
Standard Life Aberdeen plc. Prior to the merger, Standard Life plc.

Cost/income ratio
This is an efficiency measure that is calculated as adjusted operating expenses divided by adjusted operating income, and includes the share of associates' and joint ventures' profit before tax.

CRD IV
CRD IV is the European regulatory capital regime (comprising the Capital Requirements Directive and Capital Requirements Regulation) that applies to investment firms. 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. Previously, SLA was regulated as an insurance group subject to Solvency II.

Director
A Director of the Company.

Earnings per share (EPS)
EPS is a commonly used financial metric which can be used to measure the profitability and strength of a company over time. EPS is calculated by dividing profit by the number of ordinary shares. Basic EPS uses the weighted average number of ordinary shares outstanding during the year. Diluted EPS adjusts the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, such as share options awarded to employees.

Effective tax rate
Tax expense/(credit) attributable to equity holders' profit divided by profit before tax attributable to equity holders' profits expressed as a percentage.

Elevate
Elevate adviser platform acquired through the purchase of the entire share capital of AXA Portfolio Services Limited, subsequently renamed Elevate Portfolio Services Limited.

Executive committee

Responsible for supporting the Co-Chief Executives in the day-to-day running of the business and comprises: Co-Chief Executives and the functional/regional leaders for UK, Finance, Distribution, Americas, EMEA, Asia Pacific, People and Investment Management.

Fair value through profit or loss (FVTPL)

FVTPL is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains or losses on assets or liabilities measured at FVTPL are recognised directly in the income statement.

FCA

Financial Conduct Authority of the United Kingdom.

Fee based business/revenue

Fee based business is a component of adjusted profit and includes products where we generate revenue primarily from asset management charges (AMCs), premium based charges and transactional charges. AMCs are earned on products such as SIPP, corporate pensions and mutual funds, and are calculated as a percentage fee based on the assets held. Investment risk on these products rests principally with the customer, with our major indirect exposure to rising or falling markets coming from higher or lower AMCs. Fee based revenue is shown net of fees, commissions and similar charges (e.g. rebates and initial charges).

Fee revenue yield (bps)

The average revenue yield on fee based business is a measure that illustrates the average margin being earned on the assets that we manage or administer. It is calculated as annualised fee based revenue (excluding performance fees, SL Asia, 1825, Focus and Threesixty) divided by monthly average fee based assets under management/administration.

Forward looking statements

This document may contain certain 'forward-looking statements' with respect to the financial condition, performance, results, strategy, objectives, plans, goals and expectations of the Company and its affiliates. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of management about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. For example, statements containing words such as 'may', 'will', 'should', 'could', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'hopes', 'plans', 'pursues', 'seeks', 'targets' and 'anticipates', and words of similar meaning, may be forward-looking. These statements are based on assumptions and assessments made by the Company in light of its experience and its perception of historical trends, current conditions, future developments and other factors it believes appropriate. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and depend on circumstances which may be or are beyond the Company's control, including among other things: UK domestic and global political, economic and business conditions (such as the UK's exit from the EU); market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the impact of inflation and deflation; the impact of competition; the timing, impact and other uncertainties associated with future acquisitions, disposals or combinations undertaken by the Company or its affiliates and/or within relevant industries; the value of and earnings from Standard Life Aberdeen's strategic investments and ongoing commercial relationships; default by counterparties; information technology or data security breaches; natural or man-made catastrophic events; the failure to attract or retain necessary key personnel; the policies and actions of regulatory authorities; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations (including changes to the regulatory capital requirements that the Company is subject to) in the jurisdictions in which the Company and its affiliates operate. As a result, the Company's actual future financial condition, performance and results may differ materially from the plans, goals, objectives and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements. Neither the Company nor its affiliates assume any obligation to update or correct any of the forward-looking statements contained in this document or any other forward-looking statements it or they may make (whether as a result of new information, future events or otherwise), except as required by law. Past performance is not an indicator of future results and the results of the Company and its affiliates in this document may not be indicative of, and are not an estimate, forecast or projection of, the Company's or its affiliates' future results.

Global absolute return strategies (GARS)

A discretionary multi-asset fund provided under several regulated pooled and segregated structures globally by Aberdeen Standard Investments. The investment objective is to target a level of return over a rolling three-year period equivalent to cash plus 5% a year (gross of fees), and to do so with as little risk as possible.

Group, Standard Life Aberdeen Group or Standard Life Aberdeen

Relates to the Company and its subsidiaries following the completion of the merger of Standard Life plc and Aberdeen Asset Management PLC on 14 August 2017.

ICAAP

Internal Capital Adequacy Assessment Process. The ICAAP 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.

International Financial Reporting Standards (IFRS)

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

Investment performance

Investment performance has been aggregated using a money weighted average of our assets under management which are outperforming their respective benchmarks on a gross of fees basis. Benchmarks differ by fund and are defined in each fund's Investment Management Agreement (for example, the benchmark for our GARS unit trust fund is six-month GBP LIBOR). For total AUM, the investment performance calculation covers 81% of Aberdeen Standard Investments AUM, with certain assets excluded such as non-discretionary portfolios e.g. full replication tracker funds or funds where no applicable index is available such as Aberdeen Standard Capital funds.

Key performance indicators (KPI)
A measure by reference to which the development, performance or position of the business can be measured effectively.

Net flows
Net flows represent gross inflows less gross outflows or redemptions. Gross inflows are new funds from clients and customers. Gross outflows or redemptions is the money withdrawn by clients or customers during the period.

Phoenix or Phoenix Group
Phoenix Group Holdings plc or Phoenix Group Holdings plc and its subsidiaries.

Pillar 1
Under CRD IV, 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.

Pillar 2
The requirement for companies to assess the level of additional capital held against risks not covered in Pillar 1.

Pillar 3
This complements Pillar 1 and Pillar 2 with the aim of improving market discipline by requiring companies to publish certain details of their risks, capital and risk management. The Group's Pillar 3 disclosures will be published on the Group's website at **www.standardlifeaberdeen.com/annualreport** before 31 December 2019.

Platform
An investment platform (e.g. Wrap or Elevate) which is essentially a trading platform enabling investment funds, pensions, direct equity holdings and some life assurance contracts to be held in the same administrative account rather than as separate holdings.

Pro forma basis
The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. Pro forma results for the Group are prepared as if Standard Life Group and Aberdeen had always been merged and are included for comparative periods to assist in explaining trends in financial performance by showing a full 12 months performance for the combined Group for all years.

Reported basis
The merger of Standard Life plc and Aberdeen completed on 14 August 2017, with the merger accounted for as an acquisition of Aberdeen by Standard Life plc on that date. The financial statements for 2017 have been prepared on this basis, with Aberdeen results included only from the date of merger onwards. This is referred to as the Reported basis.

Retail
Our UK Retail business offers a range of leading asset administration and financial planning services to advised and non-advised customers through our retail Platforms (Wrap, Elevate and Fundzone) and our 1825 financial advice business.

SLAL
Standard Life Assurance Limited.

Solvency II
Solvency II is the European regulatory capital regime that applies to insurance firms.

Spread/risk business
Spread/risk business relates to our discontinued UK and European insurance business and mainly comprises products where we provide a guaranteed level of income for our customers in return for an investment, for example, annuities. The 'spread' referred to in the title primarily relates to the difference between the guaranteed amount we pay to customers and the actual return on the assets over the period of the contract.

Spread/risk margin
Spread/risk margin is a component of adjusted profit and reflects the margin earned on spread/risk business. This includes net earned premiums, claims and benefits paid, net investment return using long-term assumptions and reserving changes. Spread/risk margin excludes the impact of economic assumption changes, which are not included in determining adjusted profit.

Standard Life
Following completion of the sale of our UK and European insurance business to Phoenix in August 2018, we have retained ownership of the Standard Life brand while also licensing it to Phoenix. The Standard Life brand will continue to be a prominent feature of our retail platforms.

Standard Life Group
Prior to demutualisation on 10 July 2006, The Standard Life Assurance Company 2006 and its subsidiaries and, from demutualisation on 10 July 2006 to 13 August 2017, Standard Life plc and its subsidiaries.

Strategic insurance partners
A measure of the assets managed on behalf of a number of strategic partners such as Lloyds Banking Group and Phoenix.

Subordinated liabilities
Subordinated liabilities are debts of a company which, in the event of liquidation, rank below its other debts but above share capital.

Underpin
In relation to remuneration, refers to a further performance condition that is required to be met in addition to the performance targets when determining the vesting of an award.

12. Shareholder information

Registered office

1 George Street
Edinburgh
EH2 2LL
Scotland

Company registration number: SC286832

For shareholder services call:
0345 113 0045*

*Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

Secretary
Kenneth A Gilmour

Registrar
Link Market Services Limited (Link)

Auditors
KPMG LLP

Solicitors
Slaughter and May

Brokers
JP Morgan Cazenove
Goldman Sachs
Cenkos Securities

Shareholder services

We offer a wide range of shareholder services. For more information, please:

- Contact our registrar, Link, who manage this service for us. Their details can be found on the inside back cover.
- Visit our share portal at **www.standardlifeaberdeenshares.com**

Sign up for Ecommunications

Signing up means:

- You'll receive an email when documents like the Annual report and accounts, Half year results and AGM guide are available on our website
- Voting instructions for the Annual General Meeting will be sent to you electronically

Set up a share portal account

Having a share portal account means you can:

- Manage your account at a time that suits you
- Download your documents when you need them

To find out how to sign up, visit
www.standardlifeaberdeenshares.com

Preventing unsolicited mail

By law, the Company has to make certain details from its share register publicly available. Because of this, it is possible that some registered shareholders could receive unsolicited mail or phone calls. You could also be targeted by fraudulent 'investment specialists'. Remember, if it sounds too good to be true, it probably is.

You can find more information about share scams at the Financial Conduct Authority website **www.fca.org.uk/consumers/scams**

If you are a certificated shareholder, your name and address may appear on a public register. Using a nominee company to hold your shares can help protect your privacy. You can transfer your shares into the Company-sponsored nominee – the Standard Life Aberdeen Share Account – by contacting Link, or you could get in touch with your broker to find out about their nominee services.

If you want to limit the amount of unsolicited mail you receive generally, please visit **www.mpsonline.org.uk**

Financial calendar

Full year results 2018	13 March
Ex-dividend date for 2018 final dividend	11 April
Record date for 2018 final dividend	12 April
Last date for DRIP elections for 2018 final dividend	01 May
Annual General Meeting – Edinburgh	14 May
Dividend payment date for 2018 final dividend	21 May
Half year results 2019	07 August
Ex-dividend date for 2019 interim dividend	15 August
Record date for 2019 interim dividend	16 August
Last date for DRIP elections for 2019 interim dividend	04 September
Dividend payment date for 2019 interim dividend	24 September

Analysis of registered shareholdings at 31 December 2018

Range of shares	Number of holders	% of total holders	Number of shares	% of total shares
1-1,000	66,632	65.85	27,314,687	1.08
1,001-5,000	29,943	29.59	60,755,578	2.40
5,001-10,000	2,464	2.44	16,390,222	0.65
10,001-100,000	1,556	1.54	38,520,767	1.52
#100,001+	586	0.58	2,386,430,970	94.35
Total	**101,181**	**100**	**2,529,412,224**	**100**

These figures include the Company-sponsored nominee – the Standard Life Aberdeen Share Account – which had 1,022,001 participants holding 648,081,141 shares.

OTHER INFORMATION

Notes

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Got a shareholder question? Contact our shareholder services team.

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* Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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Standard Life Aberdeen plc (rest of Annual report and accounts)

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