

Scope and application of the requirements

The disclosures in this document are made in respect of the group of companies consolidated under Standard Life Investments (Holdings) Limited ('Standard Life Investments'), a wholly owned subsidiary of Standard Life plc. The primary activity of Standard Life Investments is the provision of discretionary investment management services.

Background

The Capital Requirements Directive ('the Directive') created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, implementation of the Directive's requirements is managed by Standard Life Investments' regulator, the Financial Conduct Authority ('FCA'), which maintains rules and guidance through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The Directive consists of three 'Pillars':

- ▶ Pillar 1 sets out the minimum capital requirement that companies need to retain to meet their credit, market and operational risk;
- ▶ Pillar 2 requires each company, and the FCA, to take a view on whether the company needs to hold additional capital against firm-specific risks not covered by Pillar 1 – this is assessed by implementing the Individual Capital Adequacy Assessment Process ('ICAAP'); and
- ▶ Pillar 3 requires each company to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Chapter 11 of BIPRU sets out the provision for Pillar 3 disclosure. This must be complied with by the provision of a formal disclosure document.

The disclosure of this document meets Standard Life Investments' obligation with respect to Pillar 3.

The rules allow a company to omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criterion of whether the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where a company considers a disclosure to be immaterial, it will have stated this in the document.

In addition, a company may also omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the competitive position of a company. Information is considered to be confidential where there are obligations binding a company to confidentiality with customers, suppliers and counterparties. Where a company has omitted information for either of these two reasons it must state this in the relevant section with reasons for the omission.

Enterprise Risk Management Framework

To protect the interest of its clients, Standard Life Investments operates a strong control environment throughout the company. This is achieved through an Enterprise Risk Management Framework ('ERM Framework'), which provides integrated, robust corporate governance processes to allow the Company's risks to be identified, assessed, monitored and controlled.

Key Risks to Standard Life Investments

Standard Life Investments, in accordance with the Directive, is required to complete an ICAAP. The ICAAP document sets out the key risks to the business and demonstrates how Standard Life Investments has satisfied itself that it has sufficient capital.

The ICAAP also involves:

- ▶ Profit and loss scenarios – These are scenarios that are used to assess the financial impact of events that do not follow Standard Life Investments' economic assumptions.
- ▶ Reverse stress testing – This is a 'forward looking' management tool used to identify the nature and severity of potential events at which Standard Life Investments' business model becomes unviable.
- ▶ A wind-down analysis – This provides reassurance that Standard Life Investments has sufficient capital to ensure that in the event of ceasing its business, all client assets and investment contracts could be safely transferred to another investment management firm.

Standard Life Investments has identified and assessed the following key risks within the ICAAP:

Operational Risk

Operational risk is defined as 'the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, or from external events'. Standard Life Investments utilises a scenario based approach to capitalising operational risk.

Market Risk

Market risk is the risk that a decline in the value of assets adversely impacts the profitability of the Company. Standard Life Investments is exposed to market risk through seeding and co-investing activities. Market risk exposures are monitored through the ERMF and through profit and loss scenarios carried out in the ICAAP.

Foreign exchange risk is a principal part of market risk. Standard Life Investments manages foreign exchange risk by restricting holdings to permitted currencies and hedging those exposures where it considers this necessary.

Credit Risk

Credit risk is the risk of a counterparty of the Company defaulting on deposited funds or on trade debt. Standard Life Investments actively monitors its credit exposures and only transacts with counterparties that are able to meet satisfactory rating requirements.

As Standard Life Investments' Fixed Overhead Requirement determines its Pillar 1 requirement, its credit risk exposure is deemed immaterial and will therefore not be disclosed.

Interest Rate Risk

Interest rate risk is the risk that the Company will sustain losses from interest bearing assets and liabilities. Due to current cash levels and the prevailing base rate, Standard Life Investments currently has minimal exposure to this risk.

Insurance Risk

Insurance risk is the risk of financial loss arising due to insurance claims exceeding budgeted levels. Exposure to this risk is limited through reinsurance arrangements.

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its cash-flow obligations. Standard Life Investments closely monitors its liquidity position ensuring that sufficient capital, over and above its regulatory capital requirements, is reserved.

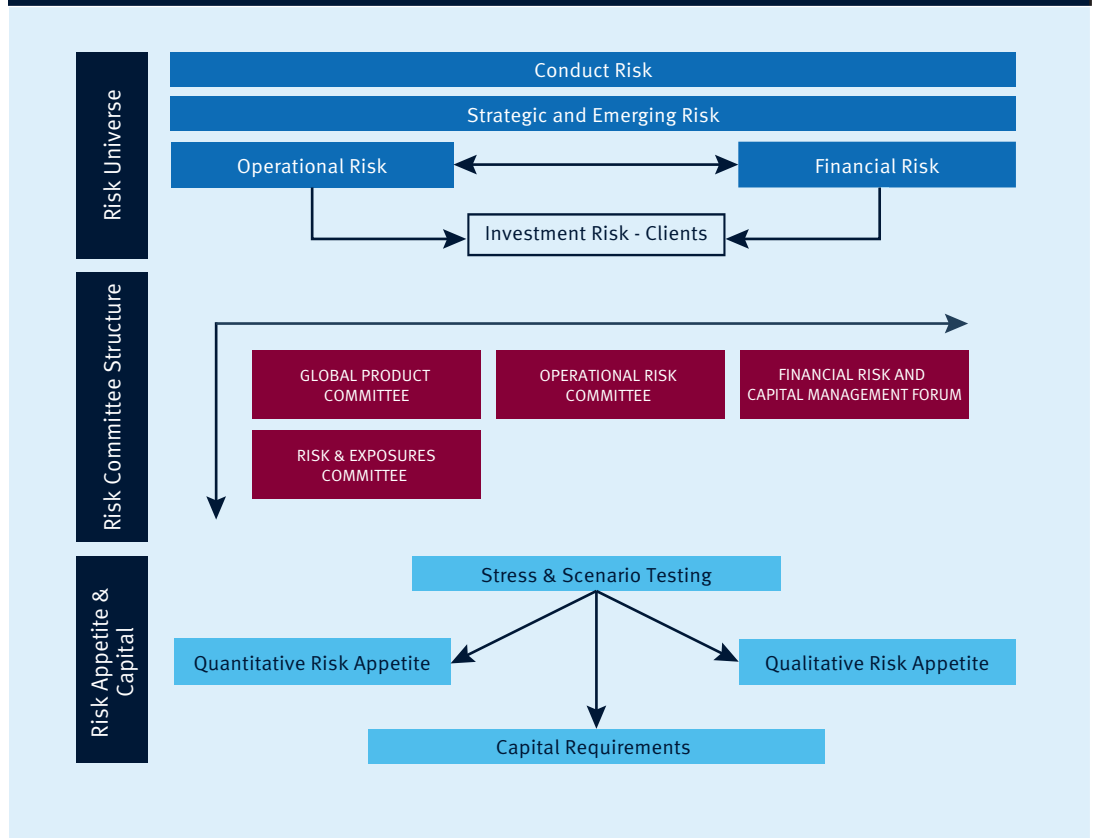
Concentration Risk

Concentration risk is the risk that the Company will suffer from lack of diversification, investing too heavily in one geographical region, asset class or product type. Standard Life Investments' strategy is to diversify its earnings by continually growing its capability in selected product areas and increasing its global reach which manages this risk.

Risk Universe

Standard Life Investments has developed a risk universe consisting of operational, financial, emerging and strategic risks (conduct risk is considered and reported on as part of the Operational Risk processes). The universe is defined in terms of high-level risk categories and more detailed underlying risk descriptions. It provides a consistent definition of risk which is used throughout the framework for assessing, monitoring and reporting. For example, the risks that form the scenarios assessed in the ICAAP also form the basis of the management information presented to the Enterprise Risk Management Committee ('ERMC'), Operational Risk Committee ('ORC') and Financial Risk & Capital Management Forum ('FRCMF').

Internal Risk Framework



Risk Governance

The ERM Framework

The Board of Directors have overall responsibility for the ERM Framework, internal control processes and the ongoing review of their effectiveness. The ERM Framework is designed to manage, rather than eliminate, risk and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Day-to-day risk management is delegated from the Board of Standard Life Investments ('the Board') to the Chief Executive Officer ('CEO') and, through a system of delegated authorities and limits, to business managers.

The CEO is responsible for the management of the internal control and risk framework, including approving management and control policies.

Risk oversight is provided by the Chief Risk Officer ('CRO') and established risk management committees. These management committees are supported by the specialist risk management and compliance functions, who undertake specific activities to provide assurance over Standard Life Investments' risk management, control and governance processes.

Regular reporting is produced by the Risk and Compliance Department and the CRO for the Risk Committees and Boards of Standard Life Investments and Standard Life plc with appropriate, timely and quality information so that they can discharge their responsibilities effectively.

Independent verification of the adequacy and effectiveness of the internal risk and control management systems is provided by the Standard Life Investments Audit, Risk and Compliance Committee. This Board Committee is supported by the work of Standard Life Group Internal Audit, who provide verification of the adequacy and effectiveness of the internal risk and control management systems. Group Internal Audit review controls against an assessment of business, technical and technology risks. This looks to confirm that key controls are adequately designed, are reliable and are operating effectively.

Risk Committee Structure



Risk Appetite and Capital

Standard Life Investments articulates its risk appetite in both quantitative and qualitative terms. The amount of capital held is determined by assessing risk exposures via the ICAAP.

Qualitative Risk Appetite

Standard Life plc has defined qualitative risk appetite principles and statements to provide guidance to the business and to help drive its strategy in line with appetite for risk. The general principles, adopted by Standard Life Investments, are:

- ▶ The Group only has appetite for rewarded risk
- ▶ The Group only has appetite for risks that are consistent with the delivery of our business plan objectives
- ▶ The fair treatment of customers is paramount when assessing risks to be accepted

- ▶ Prices charged for products should fully reflect all risks
- ▶ The Group's appetite for accepting risk is dependent on the expected return and should exceed the cost of capital
- ▶ Risks accepted should help maintain risk diversification and avoid excessive concentrations of risk.

Quantitative Risk Appetite

Standard Life Investments articulates its quantitative risk appetites in terms of limits, or thresholds, which ensure that the business is managed in line with qualitative appetite statements. They provide parameters within which executive management must operate and are designed to protect the Company's capital. Quantitative risk appetites are set for a range of operational and financial risks.

Risk Control Processes

Operational Risk and Control Processes

Standard Life Investments operates operational risk and control processes to assist in making risk management a core part of everyday activities.

This is central to the 'drive for operational excellence'.

The procedural and system aspects encompass:

- ▶ Policy Framework (including policy compliance certification);
- ▶ Control Self-Assessment;
- ▶ Risk Assessment;
- ▶ Key Risk Indicators; and
- ▶ Risk Events (i.e. significant control issues/risk incidents).

Policy Framework

The Policy Framework provides a consistent, high level approach to managing the key risks, and assists in ensuring the business operates effectively, efficiently and in compliance with all applicable laws and regulations.

The Framework articulates the approach to managing key risks at the highest level, and communicates how the framework supports the strategy. It contains clear standards of business requirements and provides procedures, controls and communications to assist in meeting the standards.

Control Self-Assessment

Control Self-Assessment ('CSA') is a key component of the overall ERMF and involves regular self-assessment of specific controls by relevant business managers. CSA is a means by which to evaluate and ensure that appropriate controls are in place to manage and mitigate the key risks arising from the day-to-day business operations.

The main objective for CSA is to provide senior management with assurance over the effectiveness of the operational control environment across key business processes. Whilst the process involves a regular self-certification aspect by each business area, good practice requires the effectiveness of business processes and controls to be subject to continuous challenge and monitoring by the business and Risk and Compliance.

Risk Assessment

This is a forward-looking risk assessment exercise, carried out by Risk and Compliance in conjunction with management. It assesses the impact and likelihood of key risk events happening at Standard Life Investments.

The aim of the risk assessment process is to identify and manage the operational risks which could threaten or stop the delivery of strategic, financial and operational objectives and plans.

Key Risk Indicators

Managers, committees and the Board monitor risk indicators on a monthly basis to identify trends and issues. Standard Life Investments includes performance indicators, control breakdowns, compensation and breaches in the risk indicator population and will devise action plans to ensure that emerging risks are mitigated, monitoring plans to completion.

Risk Events

Standard Life Investments recognises that the materialisation of a risk as a result of a deficiency in the system of internal control or an external event may have a significant impact on the Company's reputation and performance. It is critical that these events are identified quickly, understood and an appropriate response taken.

Monitoring and reporting of such events is important for a number of reasons including:

- ▶ It enables timely action to be taken to minimise the impact of the event;
- ▶ Provides reassurance to customers that we are responsive to concerns they will have;
- ▶ It provides clarity on the level of risk the Company is exposed to, at both an individual (singular risk) and aggregate (across all risk events) level, helping management to understand if the business is operating within limits, thresholds and risk appetites; and
- ▶ It supports management of capital, helping to inform what capital requirements are (both regulatory and economic) and how that capital is utilised.

Capital Resources

Capital is held to ensure a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk based approach that explicitly takes into account management's view of specific risk exposures.

Pillar 1 capital requirements are the greater of:

- ▶ Base capital requirement of €125,000; or
- ▶ The sum of the Market and Credit Risk requirements; or
- ▶ The Fixed Overhead Requirement.

It is Standard Life Investments' experience that the Fixed Overhead Requirement at 31 December 2014 establishes its Pillar 1 capital requirement.

There are no current or unforeseen material, or practical impediments, to the prompt transfer of capital resources or repayment of liabilities by Standard Life Investments.

Capital Resources	
2014	£m
Share Capital	567.5
Audited reserves	187.5
Core Tier 1 Capital	755.0
Total tier 1 Capital before deductions	755.0
Material holdings	(73.0)
Intangible assets	(343.6)
Total Tier 1 Capital	338.4
Total capital resource	338.4

Remuneration

Details of Remuneration Policies and Procedures can be found at the following link:

<http://www.standardlife.com/about/governance-remuneration-code.html>

standardlifeinvestments.com

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorised and regulated by the Financial Conduct Authority.

Standard Life Investments (Hong Kong) Limited is licensed with and regulated by the Securities and Futures Commission in Hong Kong and is a wholly-owned subsidiary of Standard Life Investments Limited.

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Standard Life Investments Limited is registered in Ireland (904256) at 90 St Stephen's Green, Dublin 2 and Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorised and regulated in the UK by the Financial Conduct Authority.

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Calls may be monitored and/or recorded to protect both you and us and help with our training.

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