Aberdeen Asset Management Life and Pensions Limited

Annual Report and Financial Statements

Registered number 3526143

For the year ended 30 September 2016

Contents

Strategic Report

The Directors present their Strategic Report for Aberdeen Asset Management Life and Pensions Limited ("the Company") for the year ended 30 September 2016, in accordance with section 414A of the Companies Act 2006.

Business review and future developments

The Company is a subsidiary of Aberdeen Asset Management PLC ("AAM PLC" or, together with its subsidiaries, "the Aberdeen Group"). The Company serves as an efficient delivery mechanism of investment services to the Aberdeen Group's institutional pension scheme clients (both defined benefit and defined contribution) and other insurance entities through reassurance of their unit-linked liabilities. There are no plans to change the activities of the Company.

The Company is regulated by both the Financial Conduct Authority (FCA) for conduct of business matters and the Prudential Regulation Authority (PRA) for prudential matters. The Company is authorised to conduct Classes I (Life & Annuity) and III (Linked Long Term) of long term insurance business.

There are no conventional non-profit or with-profit contracts and no retail type insurance policies. The Company does not bear any insurance risk as all benefits of the policies are tied to assets in the underlying internal linked funds by unit linking.

Provision of services

The Company has no employees. Services to the Company are as follows:

- Management Services by Aberdeen Asset Management PLC;
- Investment Management by Aberdeen Asset Managers Limited;
- Custody & Administration by State Street Bank and Trust Company;
- Transfer Agency by International Financial Data Services Limited; and
- Actuarial Function by Barnett Waddingham LLP.

Key performance indicators

The Company uses a number of financial performance measures to monitor the performance of the business against budget and prior year. Key financial metrics are measured and reported to management on a regular basis including those shown below:

	2016	2015
	£000	£000
Assets under management ("AuM")	**1,670,894**	1,926,409
Fee income	**6,954**	10,248
Profit for the financial year	**387**	764
Regulatory capital surplus	**7,735**	8,618

Assets under management ("AuM") of £1,671 million at 30 September 2016 have decreased by £255m from £1,926 million at the start of the year. This decrease reflects net outflows of £628m offset by the net effect of market gains of £339m million, investment return (net of tax) of £38m and other net expenses of £4 million.

Fee income of £6.9 million in 2016 has decreased by £3.3m compared to the prior year, primarily driven by lower AuM.

Profit for the financial year of £0.4m in 2016 has decreased by £0.4m from the prior year. The impact of lower fee income has been significantly offset by a reduction in investment management fees payable, as those fees are based on a percentage of fee income.

The Company has maintained capital resources in excess of the capital resources requirement over the year. The capital resources at the end of the year are £10,392k which exceeds the Solvency II capital resources requirement by £7,735k. The regulatory capital surplus shown above in respect of 2015 is in respect of the Solvency I capital regime.

Strategic Report (continued)

In addition, a number of non-financial performance indicators are used by the Board to monitor the activities of the Company. These include:

- the level of dealing activity;
- fund management performance;
- compliance and regulatory matters.

Principle risks and uncertainties

Movements in AuM due to markets and investment decisions.
Investment decisions regarding policyholder funds are based on the long-term, which may occasionally lead to periods of underperformance. We mitigate this by ensuring clients and investment consultants fully understand our investment philosophy and by openly discussing performance drivers, supported by relevant analysis of the performance components. There is a market risk team, independent of the fund managers, which monitors the investment profile across all asset classes.

Risk of breach of an investment mandate terms leading to action for compensation.
There is a risk of mismanagement of an investment mandate. There are over-arching controls in various committees, as well as an independent review of portfolio data by the market risk team, to ensure portfolios are in line with mandates.

Third party provider risk
The Company relies on a number of third party relationships and services to carry out business functions. We use a small number of strategic suppliers. This ensures a degree of competition, whilst ensuring that we have significant influence and leverage. However, it also exposes us to concentration risk and dependence on strategic providers. Our operations team oversees these third party administrators. We have contingency plans reviewed by the Board on how we would best manage a withdrawal of failure of a strategic supplier.

Regulatory and legal compliance risk
The Company operates in a complex and dynamic regulatory environment. Risks arise from legal and regulatory obligations and the failure to correctly interpret law or changes in the law which may materially and adversely impact the Company. The Company may also be subject to regulatory sanctions or loss of reputation from failure to comply with regulations. The management of legal and regulatory risk is the responsibility of senior management of all functions, supported by the group legal and compliance teams. The legal and compliance teams are responsible for tracking legal and regulatory developments to ensure that the Company is well prepared for changes. As well as developing policies, delivering training and performing monitoring checks, they also provide advice to other divisions to enable compliance with legal and regulatory requirements.

By order of the Board

For Aberdeen Asset Management PLC
Secretaries
Bow Bells House
1 Bread Street
London, EC4M 9HH

29 November 2016

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 30 September 2016.

Dividends
The Company has paid a dividend of £3.0m during the year (2015: £nil) and the Directors recommend a final dividend payment of £nil be made in respect of the year ended 30 September 2016 (2015: £nil).

Directors
The Directors who held office during the year and to the date of this report were as follows:

C G Little	(Non-executive Chairman)
H M Webster	(Chief Executive)
P E Skerrett	(Non-executive Director)
J M Brett	(Executive Director) – resigned on 1st January 2016
G A White	(Executive Director) - resigned on 10th February 2016
A Mitchell	(Executive Director) - appointed on 10th February 2016

The Directors benefited from qualifying third party indemnity provisions which were in place during the financial year and at the date of signing the financial statements.

Chief Actuary
J A Hoskin of Barnett Waddingham LLP.

Policy on payment of creditors
As required by the policy terms, all life fund claims and settlements are normally paid within four working days of such transactions being initiated.

Disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors
Following a tender process for the audit of Aberdeen Asset Management PLC and its subsidiaries which took place in 2015, PricewaterhouseCoopers LLP were appointed as auditor for the Company for periods ending on or after 1 October 2015. PricewaterhouseCoopers LLP have expressed their willingness to continue in office. Elective resolutions are in place to dispense with the laying of the accounts and reports before the Company in general meeting, to dispense with the holding of the annual general meeting and to dispense with the obligation to appoint auditors annually. Whilst these resolutions remain effective, PricewaterhouseCoopers LLP will continue to remain in office.

Directors' Report

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 Company and of the profit or loss for that year.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

For Aberdeen Asset Management PLC
Secretaries
Bow Bells House
1 Bread Street
London, EC4M 9HH

29 November 2016

Independent auditors' report to the members of Aberdeen Asset Management Life and Pensions Limited

Report on the financial statements

Our opinion

In our opinion, Aberdeen Asset Management Life and Pensions Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' Report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 30 September 2016;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Allan McGrath (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 November 2016

Income Statement

For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Fee income		**6,954**	10,248
Investment return	5	**378,739**	(153,627)
Interest income		**66**	62
Revenue		**385,759**	(143,317)
Change in liabilities arising from investment contracts		**(377,178)**	156,725
Expenses	6	**(6,686)**	(9,538)
Profit before taxation		**1,895**	3,870
Taxation	9	**(1,509)**	(3,106)
Profit for the financial year		**387**	764

Revenue and profit before taxation derive wholly from continuing operations in the UK.

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year.

The notes on pages 11 to 21 form part of these financial statements.

Balance Sheet
As at 30 September 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Current assets			
Trade and other receivables	10	**3,882**	3,973
Financial assets at fair value through profit and loss			
Held in respect of liabilities to customers under investment contracts	11	**1,623,882**	1,891,538
Cash and cash equivalents		**59,040**	47,832
Total assets		**1,686,804**	1,943,343
EQUITY AND LIABILITIES			
Capital and reserves:			
Called up share capital	12	**1,500**	1,500
Profit and loss account		**8,907**	11,520
Total equity		**10,407**	13,020
Liabilities:			
Non-current liabilities			
Deferred tax		**136**	174
Current liabilities			
Trade and other payables	13	**5,367**	3,740
Financial liabilities at fair value through profit and loss			
Liabilities to customers under investment contracts		**1,670,894**	1,926,409
Total liabilities		**1,676,397**	1,930,323
Total equity and liabilities		**1,686,804**	1,943,343

The notes on pages 11 to 21 form part of these financial statements.

The financial statements were approved by the board of directors on 29 November 2016 and were signed on its behalf by:

Helen Webster

H M Webster
Chief Executive

Statement of Changes in Equity

As at 30 September 2016

	Share capital	Profit and loss account	Total
	£'000	£'000	£'000
Balance at 30 September 2014	1,500	10,756	12,256
Profit for the period	-	764	764
Balance at 30 September 2015	1,500	11,520	13,020
Profit for the year	-	387	387
Dividends	-	(3,000)	(3,000)
Balance at 30 September 2016	**1,500**	**8,907**	**10,407**

The notes on pages 11 to 21 form part of these financial statements.

Notes to the financial statements

1. General Information

The Company is a private company limited by share capital incorporated and domiciled in the UK. The address of its registered office is:

10 Queen's Terrace
Aberdeen
AB10 1YG

The Company's business activities, together with expected future developments and key risks facing the Company, are detailed in the Strategic Report.

These financial statements were authorised for issue by the Board of Directors on 29 November 2016.

2. Transition to FRS 101

These financial statements, for the year ended 30 September 2016, are the first the Company has prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). The date of transition to FRS 101 for the Company is 1 October 2014 and the comparative financial statements as at and for the year ended 30 September 2015 have been prepared in accordance with FRS 101. The Company historically prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

The most significant impact of the change in accounting basis is that policyholder premiums and claims, and the corresponding change in policyholder liabilities, were all previously reflected through the income statement. Following the adoption of FRS 101 those amounts are now excluded from the income statement, and the change in policyholder assets and liabilities as a result of premiums and claims is reflected solely in the balance sheet.

No recognition and measurement differences have arisen following the transition from UK GAAP to FRS 101, nor has there been any change to key management judgements and sources of estimation uncertainty.

3. Accounting policies

The following accounting policies have been applied consistently to all years presented when dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The Company meets the definition of a qualifying entity under Application of Financial Reporting Requirements 100 ("FRS 100") as issued by the Financial Reporting Council. Accordingly, the financial statements for year ended 30 September 2016 have been prepared in accordance with FRS 101 as issued by the Financial Reporting Council.

Application of FRS 101, in conjunction with the equivalent disclosures being available in the group accounts of Aberdeen Asset Management PLC, has allowed the Company to take advantage of various disclosure exemptions. These include presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions with group companies.

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006, as modified by the valuation of certain financial assets and liabilities at fair value through profit and loss as described below.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position, are set out in the Strategic Report.

The Company has made profits in the financial year and is forecast to make profits for the foreseeable future, has sufficient financial resources and a strong cash position. The Board believes that the Company holds adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the financial statements (continued)

Product classification

Long term contracts can either be classified as insurance or investment contracts. Contracts which transfer significant insurance risk are categorised as insurance contracts, and any long term contracts not considered to be insurance contracts are classified as investment contracts. The Company's long term contracts do not transfer significant insurance risk and hence are classified as investment contracts.

Financial instruments

The majority of the Company's financial assets and financial liabilities are designated at fair value through profit and loss, with the exception of certain receivables and payables held outside the Company's unit-linked funds which are stated at amortised cost.

Certain financial assets and financial liabilities held within the unit-linked funds, which under default accounting treatment would be recorded at amortised cost, are instead designated at fair value through profit and loss. Those assets and liabilities are held to match investment contract liabilities which reflect the fair value of the underlying assets and liabilities within the funds. This approach reduces measurement and recognition inconsistencies, and is consistent with the management and performance evaluation of the funds and their underlying assets and liabilities.

Financial assets at fair value through profit and loss

A financial asset is classified in this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets that the company manages together and has a recent pattern of short-term profit taking, or if it is designated as such. Purchases and sales are recognised on the trade date, and transaction costs are recognised immediately in the Income Statement. Assets are originally recognised at cost, being the fair value of the consideration given, and are subsequently re-measured at fair value. The fair values of investments are based on current bid prices. If the market for a financial asset is not active, or in respect of unlisted securities, fair value is established using valuation techniques.

Fair value methodology

The fair values of financial assets and financial liabilities at fair value through profit and loss are determined as follows:

Level 1 – fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair value is derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices); and

Level 3 – fair value is derived from valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

Trade and other receivables

Receivable balances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Balances are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment. In practice the carrying values equate to the fair values due to the short term nature of the amounts.

Balances are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment losses are recognised immediately in the Income Statement upon identification.

Cash and cash equivalents

Cash and cash equivalents comprise cash deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements (continued)

Financial liabilities at fair value through profit and loss

The Company issues unit-linked investment contracts without fixed terms. The fair value of the liabilities is calculated by multiplying the number of units attributed to the policyholders by the bid price of the units. The liabilities under the contracts are accounted for as financial liabilities at fair value through profit and loss. This matches the accounting treatment of the underlying assets within the funds as referred to above. The value of the liabilities is impacted by, inter alia, policyholder premiums and claims.

Trade and other payables

Balances are initially measured at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. In practice the carrying values equate to the fair values due to the short term nature of the amounts.

Fee income

Fee income is stated net of rebates, and is accounted for on an accruals basis.

Investment return

Investment return includes dividends from shares and collective investments, interest income and net fair value gains and losses from investments. Dividend income is recorded on the date on which the underlying stock is quoted ex dividend, and interest income is accounted for on an accruals basis. Net fair value gains and losses on investments include both realised and unrealised amounts.

Operating and investment expenses

Expenses are accounted for on an accruals basis.

Taxation

Taxation on the profit or loss for the period is recognised in the Income Statement. Current taxation is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in thousands of pounds sterling, which is the Company's presentational and functional currency.

Assets and liabilities in foreign currencies are translated into pounds sterling at the exchange rates ruling at the year end. Revenue transactions are translated at rates of exchange ruling at the time of the respective transactions. Any exchange differences are dealt with in that part of the Income Statement in which the underlying transaction is reported.

4. Critical accounting estimates

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates.

There are no critical accounting estimates which are material to the financial statements.

Notes to the financial statements (continued)

5. Investment return

	2016 **£'000**	2015 £'000
Investment income	39,861	71,614
Net gains / (losses) on financial assets at fair value through profit and loss	338,878	(225,241)
	378,739	(153,627)

6. Expenses

	2016 **£'000**	2015 £'000
Investment management expenses	4,862	7,172
Other expenses	1,824	2,366
	6,686	9,538

Fees for investment management are payable to a fellow Group undertaking.

The Company has no employees and therefore has incurred no direct staff costs.

7. Auditor's remuneration

	2016 **£'000**	2015 £'000
Statutory audit	84	60

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, AAM PLC.

8. Directors' emoluments

	2016 **£'000**	2015 £'000
Directors' emoluments	94	65

Directors' emoluments consist of fees payable to Non-Executive Directors. Those directors have not received any other form of remuneration for their services.

For those directors who are employees of the Aberdeen Group and whose services cover several companies within the Group, no apportionment of emoluments has been made to the Company.

None of the directors who held office during the year ending 30 September 2016 had any interest in the shares of the Company (2015: none).

Notes to the financial statements (continued)

9. Taxation

Analysis of the tax charge in year

	2016	2015
	£'000	£'000
Current tax on profits for the year	90	183
Overseas with-holding tax	1,560	3,097
Deferred tax	(37)	(25)
Adjustments in respect of prior year	(104)	(149)
Tax on profit on ordinary activities	1,509	3,106

Reconciliation of tax charge

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 20.0% (2015: composite rate of 20.5%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit before taxation	1,895	3,870
Current tax (2016: 20.0%, 2015: 20.5%)	379	793
Effects of:		
Overseas with-holding tax	1,248	2,462
Adjustments in respect of prior year	(104)	(149)
Impact of rate change on deferred tax	(14)	-
Total tax charge for the year	1,509	3,106

Further reductions to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. This will reduce the Company's future current tax charge accordingly.

Provision for Deferred Tax

	2016	2015
	£'000	£'000
Deferred tax liability		
Balance brought forward	174	199
Origination and reversal of timing differences	(23)	(25)
Impact of change in UK tax rate	(14)	-
Balance carried forward	137	174

10. Trade and other receivables

	2016	2015
	£'000	£'000
Direct insurance debtors	2,959	2,597
Prepayments and accrued income	626	993
Other debtors	297	383
	3,882	3,973

Notes to the financial statements (continued)

11. Financial assets at fair value through profit and loss

	2016 **£'000**	2015 £'000
Listed investments	1,258,377	1,662,121
Unit trust and OEICs	358,767	220,200
Other net assets	6,738	9,217
	1,623,882	1,891,538

The total assets held in respect of unit-linked liabilities to customers under investment contracts comprise the above amounts, plus £47,012k (2015: £34,871k) included within the cash and cash equivalents balance. That element of the cash and cash equivalents balance is not available for use by the Company..

12. Share capital

	2016 **£'000**	2015 £'000
Authorised:		
50,000,000 (2015: 50,000,000) ordinary shares of £1 each	50,000	50,000
Allotted, called up and fully paid:		
1,500,002 (2015: 1,500,002) ordinary shares of £1 each	1,500	1,500

13. Trade and other payables

	2016 **£'000**	2015 £'000
Direct insurance creditors	2,375	2,239
Amounts owed to Group undertakings	1,160	447
Accruals	1,832	1,054
	5,367	3,740

14. Capital management

The Company manages its capital to ensure that sufficient available capital resources are held to cover its capital resources requirements. The Company has no intention to seek additional forms of capital, therefore the capital management policy is designed to ensure that all capital requirements are met out of retained profits. Dividends will only be paid provided that, following any payment, the Company will continue to hold a level of cover above the appropriate regulatory requirement as deemed appropriate by the Board.

The key risk to regulatory capital relates to the inability of the business to earn enough revenue to cover the costs of administration in the event of closure to new business or adverse economic conditions. The Company manages this risk by ensuring that the form of all policy contracts allows termination by the Company on a period of notice of three months and by having an expense structure that is sensitive to the ability of the business to generate revenue from policy charges.

Notes to the financial statements (continued)

14. Capital management (continued)

From 1 January 2016 the Company has been subject to the capital requirements of the Solvency II directive. The balance of available capital resources is monitored against the Company's Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). The SCR is calculated in accordance with the Solvency II Directive Standard Formula, and the MCR is based on the €3.7m monetary minimum set out in the regulations.

15. Financial instruments

The fair values of financial assets and financial liabilities at fair value through profit and loss are determined as follows:

Level 1 – fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair value is derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices); and

Level 3 – fair value is derived from valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

All financial assets and liabilities are valued using Level 1, with the exception of one (2015: one) fixed income stock with a value of £0.3m (2015: £0.3m) which is valued using Level 2 techniques.

The fair values of the above financial assets and liabilities equates to their carrying values.

16. Financial risk management

The Company is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market price risk;
- foreign exchange risk; and
- *interest rate risk*

In general, the vast majority of the Company's assets are held in unit-linked funds. The risks and rewards of those assets fall to the benefit of, or are borne by, the underlying policyholders and the value of the investment contract liabilities shown in the Company's balance sheet varies in line with the value of the assets held. The Group has no direct exposure to fluctuations in the value of assets which are held on behalf of policyholders, nor to fluctuations in the value of the assets arising from changes in market prices or credit default. The Company's exposure to these assets is limited to the revenue earned, which varies according to movements in the value of the assets.

Governance framework

The Board is responsible for the management and oversight of all risks affecting the Company. To achieve this the Company uses a comprehensive risk management framework which has been established by the Aberdeen Group. and which the Board considers to be appropriate to the Company's business model.

Notes to the financial statements (continued)

The overall risk management structure within the Aberdeen Group operates under a 'three lines of defence' model:

- First line: risk identification, risk management and self-assurance
  Aberdeen Group's business lines are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. The first line provides management assurance, and informs oversight committees and the audit committee by identifying risks and business improvement actions, implementing controls and reporting on progress.

- Second line: establishment of risk management framework and policies and oversight
  Aberdeen Group's assurance functions sit mainly within the Group's Risk Division and comprise the Risk Strategy, Compliance, Legal, Business Risk and Market Risk departments. The teams establish the appropriate governance framework, draft and implement policies and procedures and provide oversight of and report on business processes, controls and risks.

- Third line: Independent audit and assurance
  Independent and objective assurance is provided by the Internal Audit function to the Board on the effective operation of the risk management, control and governance processes.

The governance framework for the Company is based on the group framework, with specific arrangements where necessary to address the requirements as a UK insurance undertaking. Day to day governance and risk control is delegated by the company to Aberdeen Group via a formal Management Services Agreement. Oversight of the services provided by Aberdeen Group is carried out by a combination of committees within the Group risk control framework, and the following dedicated committees established by the Company Board.

Additionally the Board has appointed the following committees, specific to the Company, to assist in the execution of its duties. All committees operate on written terms of reference which are reviewed at least annually. The chairman of each committee reports to each meeting of the Board. Each of the committees is authorised to obtain, at the Company's expense, external legal or other professional advice to assist in the performance of its duties. Only the members of each committee or other Board members are entitled to attend its meetings but others, such as senior management and external advisers, may be invited to attend as appropriate.

Risk Committee

This Committee meets at least four times a year and has oversight of the Board's overall risk governance process to give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure and management. The Committee advises the Board on risk appetite and tolerance in setting future strategy, taking into account the Board's overall degree of risk aversion and the Company's current financial situation.

Audit Committee

This Committee meets at least twice a year to, inter alia, monitor the integrity of the financial statements of the company, review and challenge accounting policies, review internal controls and compliance and approve the terms of the auditor's engagement.

Unit Linked Governance Committee

This Committee meets at least twice a year to review the output from activity delegated under the Management Services Agreement which has an impact on customer outcomes. This includes decisions around arrangement for unit dealing and pricing as well as product changes.

Nominations Committee

This Committee will regularly review the structure, size and composition (including the skills, knowledge and experience) required by the Board and make recommendations relating to succession planning for directors and other senior executives, identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Notes to the financial statements (continued)

Implementation of the Solvency II directive, including the Senior Insurance Managers Regime, has required significant changes to the way that governance arrangements are documented. Other than these changes, there has been no material change to the governance arrangements of the Company during the reporting period.

The Aberdeen Life Board considers that the current system of governance adequate for its business model which is limited to offering unit-linked pension policies to trustees of approved UK pension schemes and UK insurance companies.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk in respect of its assets held outside the unit-linked funds, and in its exposure to clients.

The investment guidelines set an un-collateralised counterparty limit of £2.0 million for non-linked assets except for holdings in UCITS qualifying liquidity funds. This balances the need for diversification with the need for a practical level of bank balances to be operated.

An analysis of relevant financial assets by ageing is given below:

2016	**Cash and cash equivalents £'000**	**Trade and other receivables £'000**	**Total £'000**
Neither past due nor impaired	59,040	3,882	**62,922**
Past due but not impaired	-	-	-
Impaired	-	-	-
Total	**59,040**	**3,882**	**62,922**

2015	**Cash and cash equivalents £'000**	**Trade and other receivables £'000**	**Total £'000**
Neither past due nor impaired	47,832	3,973	**51,805**
Past due but not impaired	-	-	-
Impaired	-	-	-
Total	**47,832**	**3,973**	**51,805**

An analysis of relevant financial assets by credit rating is given below:

	2016 £'000	2015 £'000
AAA	51,209	40,741
AA-	7,831	7,091
Not rated	-	-
	59,040	47,832

The Company is exposed to a degree of counter-party risk with clients as its business model operates with a delay between dealing and settlement. This risk is managed by making an individual assessment during each client take-on. For large initial premiums, or where the investment represents a significant part of the client's total assets, the Company may require investments to be prefunded to limit credit risk.

Notes to the financial statements (continued)

The Company may also be temporarily exposed to bank counterparty default risk on monies received early from policyholders. This risk is managed by ensuring policyholders are aware of dealing cycle timings and by actively reviewing the credit standing of the bank counterparty.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from a counterparty defaulting on repayment of a contractual obligation; or from the inability to generate cash inflows as anticipated.

In respect of non-linked assets, the investment guidelines requires those assets to be held substantially in cash or short term deposits with approved credit institutions or holdings in UCITS liquidity funds.

In respect of unit-linked assets held to match policyholder liabilities, the vast majority are invested in marketable securities. Policy contracts and unit dealing cycles are designed to minimise liquidity risks from mismatches in timing between transactions with customers and transactions in the underlying securities.

As unit-linked liabilities are repayable on demand, no analysis by maturity date is provided.

Market price risk

Market price risk is the risk that the fair value or future cash flows of financial instruments will change due to movements in market prices, other than foreign exchange rates or interest rates.

The Company does not hold any non-linked assets which are exposed to market price risk, nor does it directly bear the risk of market price movements in respect of assets within the unit-linked funds. However the Company is exposed to price risk indirectly, as its management fees earned are calculated as a percentage of assets under management which will be impacted by changes in the value of assets in the underlying funds.

A 10% fall in the value of stocks subject to market price risk would reduce profit before tax by approximately £650k per annum (2015: £1,000k).

A 10% increase in the value of stocks subject to market price risk would increase profit before tax by approximately £650k per annum (2015: £1,000k).

The Company pays a proportion of its net fees to a fellow Group company in respect of asset management services. The risk of market price movements is managed through an arrangement which reduces this amount, potentially to zero, in circumstances where the level of net fees falls to an unsupportable level. The sensitivity quoted above does not allow for this mitigating effect.

Foreign exchange risk

The Company undertakes transactions in a number of currencies and foreign currency risk arises through fluctuations in foreign currency rates changing the fair value or future cash flows of financial instruments. All foreign currency transactions are within the unit linked funds and therefore any direct currency risk is borne by the policyholders.

However the Company is exposed to foreign exchange risk indirectly, as its management fees earned are calculated as a percentage of assets under management, some of which will be impacted by foreign exchange movements.

A 10% fall in the value of stocks subject to foreign exchange risk would reduce profit before tax by approximately £500k per annum (2015:£800k).

A 10% increase in the value of stocks subject to foreign exchange risk would increase profit before tax by approximately £500k per annum (2015: £800k).

Notes to the financial statements (continued)

The Company pays a proportion of its net fees to a fellow Group company in respect of asset management services. The risk of foreign exchange movements is managed through an arrangement which reduces this amount, potentially to zero, in circumstances where the level of net fees falls to an unsupportable level. The sensitivity quoted above does not allow for this mitigating effect.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will change due to movements in market interest rates.

Direct interest rate risk

The Company's direct exposure to interest rate risk is in respect of non-linked interest earning assets, where the Company's policy is to hold investable assets in cash or UCITS liquidity funds. The Company does not hold interest bearing liabilities.

A decrease of 0.5 percentage points in interest rates would reduce profit before tax by approximately £60k per annum (2015: £60k).

An increase of 0.5 percentage points in interest rates would increase profit before tax by £60k per annum (2015: £60k).

Indirect interest rate risk

The Company is exposed to interest rate risk indirectly, as its management fees earned are calculated as a percentage of assets under management, some of which will be impacted by changes interest rates. The level of fees earned which are linked to the value of such investments is a small proportion of the Company's revenue, therefore no sensitivity has been provided on the grounds of materiality.

17. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

18. Ultimate parent company and parent company of larger group

The Company's parent company is Aberdeen Asset Management PLC, which is incorporated in the United Kingdom and registered in Scotland.

The results of the Company are consolidated in the Group accounts of Aberdeen Asset Management PLC, which is the largest and smallest group that the results are consolidated within, which are available to the public and may be obtained from 10 Queen's Terrace, Aberdeen, AB10 1YG.