Standard Life Savings Limited

Capital Requirements Directive - Pillar 3 disclosure

Background

The Capital Requirements Directive (‘the Directive’) of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the United Kingdom, this is being implemented by our regulator, the Financial Services Authority (‘FSA’) which has created new rules and guidance specifically through the creation of the General Prudential Sourcebook (‘GENPRU’) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (‘BIPRU’).

The new FSA framework consists of three ‘Pillars’:

• Pillar 1 sets out the minimum capital requirements that we need to retain to meet our credit, market and operational risk;

• Pillar 2 requires us, and the FSA, to take a view on whether we need to hold additional capital against firm-specific risks not covered by Pillar 1; and

• Pillar 3 requires us to develop a set of disclosures which will allow market participants to assess key information about our underlying risks, risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets our obligation with respect to Pillar 3.

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where we have considered a disclosure to be immaterial, we have stated this in the document.

In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. Where we have omitted information for either of these two reasons we have stated this in the relevant section and the reasons for this.

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Scope and application of the requirements

The disclosures in this document are made in respect of Standard Life Savings Limited (SLSL), a wholly owned subsidiary of Standard Life Assurance Ltd, and authorised and regulated by the FSA. SLSL is a financial services Platform service provider that offers clients and intermediaries access to a diverse range of investment products through technology platforms.

Risk management objectives and policies

The Board of SLSL comprises directors, who have the necessary skills and experience to lead and control the company. The Board is responsible for setting the company's strategy and risk appetite and for ensuring that management establishes business plans to execute the strategy within acceptable parameters. The Board meets on a quarterly basis.

To protect the interests of our clients, SLSL operates a strong control environment throughout the company. This is achieved through our Internal Risk and Control Framework ("IRCF"), which provides integrated, robust corporate governance processes to allow the company's risks to be identified, assessed, monitored and controlled. The IRCF provides three lines of defence against the mismanagement of risk. A brief description of the three lines of defence is given below.

First Line of Defence
The individuals directly involved in business operations who are responsible for day to day risk management. They carry out the processes and procedures needed to maintain risk within acceptable levels, and are also responsible for identifying, assessing, managing/controlling, reporting on and giving assurance over risk. Management confirm the operation of their controls on a quarterly basis through a control self assessment process.

Second Line of Defence
Those individuals, including Group Risk and Compliance, responsible for risk oversight. They develop and maintain the risk framework, challenge the operation of the risk framework in the business, provide support and advice to the first line of defence, and produce aggregated information on risk

Third Line of Defence
Those individuals, including Group Internal Audit and External Audit, responsible for providing independent assurance over the 1st & 2nd lines of defence. They carry out independent assurance testing and support the 2nd line of defence by inputting to the development of the risk framework. Control weaknesses identified by Internal and External audit are tracked to completion through the Executive Committee

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
- Sum of the market and credit risk requirements; or
- Fixed Overhead Requirement.

It is Standard Life Savings' experience that the Fixed Overhead Requirement establishes its Pillar 1 capital requirements and hence market and credit risks are considered not to be material.

Stress tests are undertaken to determine the impact of severe events such as significant market downturns on the firm's financial position.

There is no current or unforeseen material, or practical impediments, to the prompt transfer of capital resources or repayment of liabilities within SLSL

The capital resources of SLSL at the 31 December 2007 are shown in the table below.

	2007 **£m**
Share Capital	85.0
Audited reserves	(49.7)
Core Tier 1 Capital	35.3
Intangible Asset	(11.9)
Total Tier 1 Capital	23.4
Subordinated Loan	0.1
Total Tier 2 Capital	0.1
Total capital resource	23.5