abrdn Life and Pensions Limited

(formerly Aberdeen Standard Investments Life and Pensions Limited)

Annual Report and Financial Statements

Registered number 03526143

For the year ended 31 December 2021

Strategic Report

The Directors present their Strategic Report for abrdn Life and Pensions Limited (“the Company”) for the year ended 31 December 2021, in accordance with section 414A of the Companies Act 2006.

On the 13 December 2021 the Company changed its name from Aberdeen Standard Investments Life and Pensions Limited to abrdn Life and Pensions Limited.

Business review and future developments

The Company serves as an efficient delivery mechanism of investment services to UK institutional pension schemes and other UK insurance entities. The Company issues unit-linked investment policies, trustee investment plans (“TIPs”), to trustees of UK pension schemes and reinsurance policies to insurance companies covering unit-linked pension liabilities. The Company also has a number of segregated investment mandates (“SIMs”) where the Company provides investment management services to pension schemes in respect of their assets.

All investment management activities are delegated to fellow regulated subsidiaries within the abrdn Group ("abrdn plc" or, together with its subsidiaries, "the abrdn Group"). This Company is part of the abrdn Group (abrdn plc was formerly named Standard Life Aberdeen plc).

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 Class I (Life & Annuity), Class III (Linked Long Term) and Class VII (Pension Fund Management) 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.

On 23 February 2021, the abrdn Group announced the purchase of certain products in the Phoenix Group’s savings business and subsequently on 14 September 2021 the Company, abrdn plc and Standard Life Assurance Limited (“SLAL”), part of the Phoenix Group, together with other abrdn Group and Phoenix Group entities, entered into an implementation agreement in relation to the purchase and transfer of these products. Subject to certain conditions including regulatory and court approvals, it is expected that the transaction will result in the Company acquiring by way of an insurance business transfer under Part VII of the Financial Services and Market Act 2000, the SLAL TIP and onshore bond portfolios and an investment plan policy in respect of the self-invested pension plan (“SIPP”) business that will give SIPP customers access to the Company’s range of unit-linked funds. The business transfer is not expected to complete before September 2023 (previously September 2022). The total assets of these businesses at 31 December 2021 was £12bn (31 December 2020: £12bn). The abrdn Group will provide capital to the Company at the appropriate time to fund the completion of the relevant elements of the acquisition and ensure the Company has appropriate resources for the enlarged business. Post completion, the transaction would result in a significant increase in the scale of the Company’s business and would result in the Company earning profits in relation to the acquired business.

The abrdn Group is monitoring the impact on its operations and funds resulting from the escalating situation in Eastern Europe. To date there has been no impact on service levels for policyholders or any material impact on the financial position of the Company.

Provision of services

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

- Investment management and management services by Aberdeen Asset Managers Limited (“AAML”);
- Custody & administration by Citibank;
- Transfer agency by SS&C Technologies Inc.; and
- Actuarial function by Barnett Waddingham LLP.

Strategic Report (continued)

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:

	2021	2020
	£'000	£'000
Assets under management ("AuM") for TIPs and reinsurance contracts	**1,087,872**	1,041,665
AuM for SIMs	**1,120,474**	1,498,647
Total AuM	**2,208,346**	2,540,312
Fee income for TIPs and reinsurance contracts	**2,701**	2,488
Fee income for SIMs	**2,461**	3,730
Total fee income	**5,162**	6,218
Profit for the financial year	**138**	321
Regulatory capital surplus	**10,750**	10,375

AuM
AuM has decreased by £332 million largely relating to a segregated investment mandate that disinvested a portion of its assets during the year. The rise in AuM for the TIPs and reinsurance contracts is due to market gains on investments and investment income partially offset by net policyholder outflows.

Fee income
Fee income has decreased by £1.1 million as a result of segregated investment mandates primarily due to a large client disinvestment at the end of 2020, and the partial disinvestment in early 2021 noted above.

Profit for the financial year
Profit for the financial year has reduced by £0.2 million primarily as a result of the aforementioned decrease in fee income partially offset by a decrease in revenue sharing allocations to other abrdn Group companies.

Regulatory capital surplus
The regulatory capital surplus has increased by £0.4 million largely as a result of profit made in the year and a reduction in the Minimum Capital Requirement ("MCR") of £0.2m.

Strategic Report (continued)

Risks

The management of the business and execution of the Company's strategy are subject to a number of risks.

The abrdn Group, of which the Company is a part, has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business across abrdn plc that includes a clearly stated corporate organisational structure, appropriately delegated authorities and independent internal audit and risk management functions. Risk management for the Company operates within this governance framework.

Accordingly, the principal risks and uncertainties of the abrdn Group, which include those of the Company, are discussed fully in the abrdn plc Annual Report and Accounts which does not form part of this report. Further details on each of the risks, together with how they link to the abrdn Group's strategy, how they have evolved over the period and how they are managed can be found in the abrdn Group's Annual Report and Accounts.

The list below does however provide a summary of the key risks facing the Company:

Conduct risk: this is the risk that fair client outcomes are not delivered through strategic goals, decisions and actions. This could lead to customer and client harm, reputational damage and loss of income. In response to COVID-19 a key priority was running the business with minimal client impact while maintaining an effective control environment for remote working. We have no appetite for conduct risk. The risks are mitigated by having conduct risk embedded within our risk management framework and conduct risk being formally considered and assessed at the Risk Committee and Client and Fund Governance Committee.

Fraud and financial crime: as a business that handles TIPs and reinsurance contracts there is an exposure to the risk of fraudulent and dishonest activity. Engagement with external parties means there has to be vigilance to the risk that these parties are connected with criminal behaviour, or subject to sanctions by national or global authorities. During 2021 there was work performed to define and implement consistent anti-money laundering standards. Sound processes are in place to identify client activity linked with financial crime, globally. These include controls for anti-money laundering, anti-bribery, fraud and other areas of financial crime. There is a business-wide programme to invest in controls and processes to improve monitoring of these risks. There continues to be work with the financial authorities and industry peers to assist those targeted by scams.

Strategic risks: these are risks that could prevent the achievement of strategic aims and successfully delivering business plans; and ensuring we meet the evolving needs of our clients and customers and adapt to preference changes. Climate change is an important consideration. Geopolitical unrest and associated risks continue to be a key strategic risk and can impact the market in which we operate, impact our reputation and increase our capital exposure. There are also risks to the Company's strategy if the planned transfer of policies from SLAL does not complete as expected. Risks are mitigated by ongoing Board consideration of strategic risks.

Business resilience and continuity: Incidents that can impact business resilience and continuity include environmental issues, terrorism, economic instabilities, cyber attacks and operational incidents. The risk of disruption from inside the organisation remains broadly stable, but tools for exploiting IT vulnerabilities are becoming more widely available externally. As COVID-19 has continued to test business resilience, the business has adapted effectively to blended working. We continue to enhance our operational resilience framework and strengthen our response to disruption. Business continuity and contingency planning processes are regularly reviewed and tested, and have resulted in minimal disruption for our people as the balance between home and hybrid working has shifted over the course of the year.

Operational risk: notably third party oversight including both outsourcing and supplier relationships; process execution failure; and the impact of inaccurate or incomplete information for financial management and decision making. The risks are mitigated by the Company and the abrdn Group maintaining a strong and well established risk management framework as a foundation for the effective management of process risk across the business.

Regulatory and legal risk: we operate in a highly regulated industry which has the potential to expose the Company to risks. The risks are mitigated by having specialist compliance and legal teams in place to support our senior management and by maintaining open and transparent relationships with our regulators.

Strategic Report (continued)

Financial management process: sound financial reporting influences the Company's performance, planning and disclosures to external stakeholders. Failures in these processes would expose the business and shareholders to the risk of making poorly informed decisions. Financial reporting activities align to external reporting standards and industry best practice. The Audit Committee reviews, and where necessary challenges, reporting conclusions.

Financial Risk: the Company has no appetite to fail to maintain sufficient resources to meet its capital requirements and liabilities as they fall due. It will ensure it can do so under both normal conditions and an appropriate range of stressed scenarios. The Company has an appetite for market and credit risk exposures where these are required in pursuit of its business objectives. Risks are mitigated by regular monitoring and reporting of capital and liquidity requirements.

Further information regarding the Company's financial risk management is given in note 19.

Section 172 (1) Statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between different members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172.

The Board recognises that the long-term success of the business is dependent on the way it works with a large number of important stakeholders. The Directors have had regard to the interests of stakeholders (including clients and customers, our people, society and our shareholders) while complying with their obligations to promote the success of the Company in line with section 172 of the Companies Act. The Board's discussions throughout the year have reflected Directors' consideration of these obligations, including how stakeholder engagement is incorporated into our long-term decision-making and how the Company operates as a subsidiary within the wider abrdn plc group of companies.

The Directors have taken into account the requirements of section 172 (1) of the Companies Act 2006 as summarised in the following table:

Strategic Report (continued)

The likely consequence of any decision in the long term	The Board of Directors of the Company operate the Company in accordance with the Board Charter and the overall abrdn plc business plan, which considers the long term success of the Company and the group as a whole, and the likely long term consequences of any decisions by the Company are taken into account.
The interests of the company's employees	The Company does not have any direct employees. Within the abrdn plc Group of companies, engagement with employees is considered at group level and employee engagement matters have been disclosed in the abrdn plc Annual Report and Accounts, which does not form part of this report. The Directors have determined that there are no Company specific matters appropriate to disclose in relation to engagement with employees.
The need to foster the company's business relationships with suppliers, customers and others	Supplier relationships within the abrdn plc group of companies are managed under the Procurement, Outsourcing and Third Party Management Policy, which applies to all subsidiary companies. Engagement with suppliers, customers and others is considered at group level and engagement matters have been disclosed in the abrdn plc Annual Report and Accounts, which does not form part of this report. The Board of Directors receives reports from the client function as part of its regular meetings. The Company has one key supplier of services, Aberdeen Asset Managers Limited, which supplies a full suite of services to the Company under a Master Services Agreement and an Investment Management Agreement. The Board receives regular reports from each relevant business function which provides services to the Company under these contracts and representatives attend the Board meetings.
The impact of the company's operations on the community and the environment	Engagement on environmental and community matters is considered at abrdn plc level and such matters have been disclosed in the abrdn plc Annual Report and Accounts, which does not form part of this report. Additionally, this Company has a climate change policy which is available on our website.
The desirability of the company maintaining a reputation for high standards of business conduct	Maintaining a reputation for, and upholding, high standards of business conduct is vital to the ongoing success of the abrdn plc group of companies, including the Company.
The need to act fairly as between members of the company.	The Company has a single member, and is a wholly owned subsidiary of abrdn plc.

Environmental matters

The Company follows the environmental strategy of the abrdn Group which is disclosed within the abrdn plc Annual Report and Accounts which does not form part of this report.

Approved by the Board and signed on its behalf by:

P Bartlett
Director
17 March 2022

Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2021.

Dividends
The Directors do not recommend a dividend payment to be made in respect of the year ended 31 December 2021 (2020: nil).

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

O Thoresen	(Non-executive Chairman)
D J P Hare	(Non-executive Director)
A Mitchell	(Chief Executive)
G Marshall	(Executive Director) (resigned 31 May 2021)
P Bartlett	(Executive Director)
E Mackenzie	(Executive Director) (date of appointment 15 March 2022)

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.

Company Secretary
The Company secretaries during the year, were as follows:

abrdn Corporate Secretary Limited which was formerly called SLA Corporate Secretary Limited.

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 three 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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor
The Independent Auditor, KPMG LLP, has indicated their willingness to continue in office.

During 2021 the abrdn plc Audit Committee and the Company Audit Committee discussed the proposed appointment of KPMG as Reporting Accountants in relation to an abrdn plc Class 1 Circular. It was noted that the proposed appointment required KPMG to seek a waiver from the Financial Reporting Council for exemption from the 70% cap on non-audit fees in relation to the Company, albeit that the Reporting Accountant services were not provided to the Company. KPMG applied for the waiver and it was granted.

Going concern
The Company has made a profit for the financial year and is forecast to make profits for at least 12 months, has sufficient financial resources and a strong cash position. After making enquiries, the Board is satisfied that the Company 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. Accordingly, the financial statements have been prepared on a going concern basis. Please refer to note 2 for further detail.

Directors' Report (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework and Schedule 3 in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006.

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 its profit or loss for that period. In preparing the 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 applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate 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 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 Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Approved by the Board and signed on its behalf by:

P Bartlett
Director
17 March 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABRDN LIFE AND PENSIONS LIMITED

1 Our opinion is unmodified

We have audited the financial statements of abrdn Life and Pensions Limited ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 audit committee.

We were first appointed as auditor by the directors on 14 August 2017. The period of total uninterrupted engagement is for the five financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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 matter (unchanged from 2020), in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was 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 this matter.

Valuation of financial assets held to cover linked liabilities (2021: £1,087.9m, 2020: £1,041.7m)

Refer to page 18 (accounting policy) and page 24 (financial disclosures)

<u>The risk</u>

Low risk, high value
The company's portfolio of investments makes up 98.3% (2020: 98.2%) of the company's total assets (by value) and is considered to be the key driver of results. We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they largely comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

<u>Our response</u>

We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF ABRDN LIFE AND PENSIONS LIMITED

- Agreed the valuation of 100 per cent of quoted investments in the portfolio to externally quoted prices.
- Agreed 100 per cent of quoted investment holdings in the portfolio to independently received third party confirmations from investment custodians.

Our results

We found the valuation of financial assets held to cover linked liabilities to be acceptable (2020: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £9.5m (2020: £9.2m), determined with reference to a benchmark of total assets (of which it represents 0.9% (2020: 0.9%)).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £7.1m (2020: £6.9m).

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

In addition, we applied materiality of £400k (2020: £188k) and performance materiality of £300k (2020: £141k) to all non-unit linked related balances for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £470k (2020: £458k) and £20k (2020: £9k) for the non-unit linked balances, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed by a single audit team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company’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 its 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”).

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company’s financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company’s available financial resources over this period was the indirect implications of a fall in value of assets under management.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors’ sensitivities over the level of available financial resources indicated by the Company’s financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

We assessed the completeness of the going concern disclosure in note 2 to the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABRDN LIFE AND PENSIONS LIMITED

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2 to be acceptable.

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 above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and the Company's legal team and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgement involved in the determination of all material revenue streams, the audit evidence supporting these balances is straightforward to obtain and there is separation of duties between management and third-party service providers.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management as well as those which comprised unexpected posting combinations.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements, how they analyse identified breaches and assessing whether there were any implications of identified breaches on our audit.

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 Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABRDN LIFE AND PENSIONS LIMITED

we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company 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 or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital requirements, conduct, anti-money laundering, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form.

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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 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, 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABRDN LIFE AND PENSIONS LIMITED

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 8, 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 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 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 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 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.

9 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.

James Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG
17 March 2022

Profit and Loss Account

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Technical account – Long-term business			
Investment income	3	**94,929**	54,988
Unrealised gains on investments	3	**29,476**	3,309
Other technical income	4	**5,162**	6,218
		129,567	64,515
Change in other technical provisions for linked liabilities	15	**(124,189)**	(58,378)
Investment expenses	3	**(4,433)**	(5,334)
Realised foreign exchange losses	3	**(21)**	(4)
Tax attributable to the long-term business	9	**(347)**	2
		(4,801)	(5,336)
Balance on the long-term account		**577**	801
Non-Technical account			
Balance on the long-term account		**577**	801
Tax attributable to the balance on the long-term business technical account	9	**135**	186
Shareholders pre-tax profit from long-term business		**712**	987
Investment income	3	**11**	51
Other expenses	5	**(553)**	(642)
Profit on ordinary activities before tax		**170**	396
Tax on profit on ordinary activities	9	**(32)**	(75)
Profit for the financial year		**138**	321

Revenue and profit for the financial year derive wholly from continuing operations in the UK.

There are no recognised gains or losses other than the profit for the current financial year and prior financial year. Accordingly, no statement of comprehensive income has been presented.

The notes on pages 17 to 32 form part of these financial statements.

Balance Sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Investments			
Financial investments	10	**12,721**	13,211
Assets held to cover linked liabilities	11	**1,087,872**	1,041,665
Debtors			
Debtors arising out of direct insurance operations	12	**2,149**	1,912
Other debtors	12	**747**	473
Other assets			
Cash at bank and in hand		**990**	1,449
Prepayments and accrued income	13	**1,283**	1,540
Total assets		**1,105,762**	1,060,250
EQUITY AND LIABILITIES			
Capital and reserves:			
Called up share capital	14	**1,500**	1,500
Profit and loss account		**12,455**	12,317
Total equity		**13,955**	13,817
Technical provisions for linked liabilities	15	**1,087,872**	1,041,665
Provisions for other risks and charges			
Provision for Tax	9	**23**	46
Creditors			
Creditors arising out of direct insurance operations	16	**2,149**	1,912
Other creditors	16	**1,763**	2,810
Total liabilities		**1,091,807**	1,046,433
Total equity and liabilities		**1,105,762**	1,060,250

The notes on pages 17 to 32 form part of these financial statements.

The financial statements were approved by the Board of Directors and were signed on its behalf by:

P. Bartlett

P Bartlett
Director
17 March 2022

Statement of Changes in Equity

As at 31 December 2021

	Share capital	Profit and loss account	Total
	£'000	**£'000**	**£'000**
Balance at 31 December 2019	1,500	11,996	13,496
Profit for the year	-	321	321
Balance at 31 December 2020	1,500	12,317	13,817
Profit for the year	-	138	138
Balance at 31 December 2021	**1,500**	**12,455**	**13,955**

The notes on pages 17 to 32 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:

Bow Bells House
1 Bread Street
London
EC4M 9HH

On 13 December 2021 the Company changed its name from Aberdeen Standard Investments Life and Pensions Limited to abrdn Life and Pensions Limited.

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

2. 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.

Change in accounting policy

No new accounting standards, interpretations or amendments effective for the first time from 1 January 2021 have had an impact on the Company.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council ("FRC"), and has adopted Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") issued by the FRC. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS Standards'), but makes amendments to IFRS Standards where necessary in order to comply with the Companies Act 2006 or the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulation 2008.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- International Accounting Standard ("IAS") 7 Statement of Cash Flows and related notes;
- IAS 8 Accounting Policies requirement to disclose the effects of new but not yet effective IFRS Standards;
- IFRS 15 Revenue from Contracts with Customers;
- IAS 24 Related Party disclosures in respect of transactions with wholly owned subsidiaries;
- IAS 24 Related Party disclosures in respect of the compensation of Key Management Personnel.

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 or 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 a profit for the financial year and is forecast to make profits for at least 12 months from the date of approval of the financial statements, has sufficient financial resources and a strong cash position.

In making this going concern assessment, the Board have considered the following matters and have taken into account uncertainty created by COVID-19:

Notes to the financial statements (continued)

- the current level of regulatory capital, which was £10.8m in excess of capital requirements at 31 December 2021.
- the level of liquid resources, including cash and money market funds, which far exceed the level of creditors.
- the potential impact of a significant fall in the value of assets under management and related fee income. As described in Note 19 the Company does not hold any non-linked assets which are exposed to material 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. The Company pays a proportion of its fee income to a fellow abrdn Group Company in respect of asset management services. The risk of market price movements is managed through contractual terms which reduce this expense payable, potentially to zero, in circumstances where the level of fee income reduces.
- the effectiveness of the Company's operational resilience processes. The Company's processes have operated effectively during the period including the provision of services by key outsource providers.

The assessment was completed with reference to the stress testing undertaken as part of the Own Risk and Solvency Assessment which demonstrated that the Company has sufficient capital and liquidity to withstand the current market conditions and the impact of reasonably possible downside scenarios, including a significant fall in assets held to cover linked liabilities.

Based on the above, the Board is satisfied that the Company has and will maintain sufficient resources to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Financial assets

(i) Fair value through profit or loss

These instruments comprise investments which are classified as fair value through profit or loss. Fair value changes are recognised through profit or loss. The fair value of financial instruments that are actively traded on organised financial markets is determined by reference to market bid prices at the close of business on the balance sheet date.

(ii) Amortised cost

These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These instruments are included in current assets and consist of debtors arising out of insurance operations, amounts due to abrdn Group undertakings, prepayments and accrued income and cash at bank and in hand. These instruments are initially recognised at fair value, net of any transaction costs, and subsequently at amortised cost using the effective interest rate method.

The Company has adopted trade date accounting. Accordingly, a financial asset is recognised on the date the Company commits to its purchase and derecognised on the date on which the Company commits to its sale.

Other debtors are short-term and repayable on demand, therefore their carrying value reflects its fair value.

Assets held to cover linked liabilities

This category comprises investments made pursuant to unit-linked policies under which the benefits payable to the policyholder are wholly or partly determined by reference to the value of the associated investments. Purchases and sales are recognised on the trade date, and transaction costs are recognised immediately in the Profit and Loss Account. Assets are originally recognised at cost, being the fair value of the consideration given, and are subsequently re-measured at fair value through profit or loss. 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. These assets include cash and cash equivalents held to cover linked liabilities.

This does not include assets under management for the segregated investment mandates which are not held on the balance sheet of this Company.

Notes to the financial statements (continued)

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).

Financial Liabilities

Amortised cost

These instruments include creditors arising out of direct insurance operations, amounts owed to abrdn Group undertakings, other creditors and accruals. These instruments are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. In practice the carrying value equate to the fair value due to the short nature of the amounts.

Technical provisions for linked liabilities

The Company issues unit-linked long term 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.

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.

Investment income

Investment income in the Technical account includes dividends from shares and collective investments, interest income and net realised fair value gains and losses from investments. Dividend income is recorded on the date on which the underlying stock is quoted ex dividend. Interest income is earned from deposits with credit institutions and is accounted for on an accruals basis.

Investment income in the Non-Technical account includes interest income similar in nature to the Technical account.

Unrealised gains on investments

Unrealised gain on investments are net gains and losses on investments recognised at fair value.

Other technical income

Other technical income comprises of management fee income which is stated net of rebates for the TIP, reinsurance and segregated investment mandated clients, and is recognised as services are provided; and Performance fee income in relation to the segregated investment mandated clients which is recognised when it is probable a significant reversal will not occur in future periods.

Notes to the financial statements (continued)

Investment expenses

Expenses are accounted for on an accruals basis and include fees for investment management payable to fellow abrdn Group undertakings.

Taxation

Taxation expense for the year comprises current and deferred tax recognised in the profit and loss account in the reporting year. Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years.

Tax attributable to the long-term business is included in the Technical account for long-term business. Other tax is included in the non-technical account. Within the Non-Technical account the balance transferred from the long-term business technical account is grossed up for attributable tax using the appropriate enacted or substantively enacted tax rate. The tax on profit on ordinary activities, which appears in the non-technical account, comprises the tax attributable to the balance on the long-term business technical account and tax relating to the Investment income, Other Expenses and Other income which appear in the Non-Technical account.

Foreign currency translation

(i) Functional currency
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 pounds sterling, which is the Company's presentational and functional currency.

(ii) Transactions and balances
Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and any exchange differences arising are taken to the profit and loss account. Revenue transactions are translated at rates of exchange ruling at the time of the respective transactions.

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)

3. Investment return

	2021	2020
	£'000	£'000
Interest income and dividends from shares and collective investments	20,500	21,644
Realised gains on investments	74,429	33,344
Investment income	94,929	54,988
Unrealised gains on investments	29,476	3,309
Investment management expenses	(4,433)	(5,334)
Realised foreign exchange losses	(21)	(4)
Total investment return – Technical account	119,951	52,959
Investment income – Non-Technical account	11	51
Total investment return	119,962	53,010

4. Other technical income

	2021	2020
	£'000	£'000
Fee income from assets held to cover linked liabilities	2,701	2,488
Fund management fee income	2,162	3,409
Fund performance fee income	299	321
Fee income	5,162	6,218

5. Other expenses

	2021	2020
	£'000	£'000
Amount paid to abrdn Group undertakings	198	167
Other	355	475
	553	642

Other largely relates to professional and regulatory fees paid by the Company.

6. Staff costs

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

Notes to the financial statements (continued)

7. Auditor's remuneration

	2021 **£'000**	2020 £'000
Statutory audit	98	79

Amounts receivable by 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 abrdn plc.

8. Directors' emoluments

	2021 **£'000**	2020 £'000
Directors' emoluments	90	90

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 abrdn 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 31 December 2021 had any interest in the shares of the Company (2020: none).

9. Taxation

Analysis of the tax charge / (credit)

	Technical Account 2021 £'000	Technical Account 2020 £'000	**Non-technical Account 2021 £'000**	Non-technical Account 2020 £'000
Overseas withholding tax	216	(81)	-	-
Deferred tax	(23)	(16)	-	-
Adjustments in respect of prior periods	(3)	(95)	-	-
	190	(192)	-	-
Current tax charge/ (credit) on result for the year	157	190	(103)	(111)
Tax charge attributable to balance on long term business technical account	-	-	135	186
Tax charge on the profit on ordinary activities	347	(2)	32	75

Notes to the financial statements (continued)

Reconciliation of tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below:

	Technical Account 2021 £'000	Technical Account 2020 £'000	**Non-technical Account 2021 £'000**	Non-technical Account 2020 £'000
Profit before taxation	924	799	170	396
Current tax (2021: 19.0%, 2020: 19.0%)	176	152	32	75
Effects of:				
Overseas withholding tax	215	(81)	-	-
Foreign tax deducted as an expense	(41)	15	-	-
Adjustments in respect of prior year	(3)	(95)	-	-
Impact of tax rate change	-	7	-	-
Tax charge on the profit on ordinary activities	347	(2)	32	75

The standard UK Corporation Tax rate for the accounting period is 19%. On 3 March 2021, the UK Government announced its intention to increase the rate of UK Corporation Tax rate from 19% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021. This will impact the current tax in the UK going forward. There is no change in the value of the deferred tax as it is expected to fully unwind before 1 April 2023.

Provision for deferred tax

	2021 £'000	2020 £'000
Deferred tax liability		
Balance brought forward	46	62
Origination and reversal of timing differences	(23)	(23)
Impact of change in UK tax rate	-	7
Balance carried forward	23	46

10. Financial investments

	2021 £'000	2020 £'000
Short term money market funds	12,721	13,211

Notes to the financial statements (continued)

11. Assets held to cover linked liabilities

	2021	2020
	£'000	£'000
Listed investments	535,010	517,423
Unit trust and OEICs	539,546	505,503
Cash and cash equivalents	9,000	13,303
Other debtor / creditor positions	4,316	5,436
	1,087,872	1,041,665

12. Debtors

	2021	2020
	£'000	£'000
Direct insurance debtors	2,149	1,912
Amounts owed by abrdn Group undertakings	201	385
Other	546	88
Other debtors	747	473
	2,896	2,385

Amounts owed by abrdn Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. The amount of debtors expected to be recovered after more than 12 months is £nil (2020: £nil).

13. Prepayments and accrued income

	2021	2020
	£'000	£'000
Accrued income	1,279	1,536
Prepayments	4	4
	1,283	1,540

14. Share capital

	2021	2020
	£'000	£'000
Authorised:		
50,000,000 (2020: 50,000,000) ordinary shares of £1 each	50,000	50,000
Allotted, called up and fully paid:		
1,500,002 (2020: 1,500,002) ordinary shares of £1 each	1,500	1,500

Notes to the financial statements (continued)

15. Technical provisions for linked liabilities

	2021 **£'000**	2020 £'000
Balance at 1 January	1,041,665	1,152,093
Change in technical provisions for the year - Gross amount	124,189	58,378
Deposits received from policyholders under investment contracts	119,379	82,415
Payments made to policyholder under investment contracts	(195,129)	(249,021)
Management and operating expenses from the fund	(2,232)	(2,200)
Balance at 31 December	1,087,872	1,041,665

16. Creditors

	2021 **£'000**	2020 £'000
Creditors arising out of direct insurance operations	2,149	1,912
Amounts owed to abrdn Group undertakings	1,257	1,804
Accruals	234	695
Other	272	311
Other creditors	1,763	2,810
	3,912	4,722

Amounts owed by abrdn Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand . The amount of creditors expected to be settled after more than 12 months is £nil (2020: £nil).

17. Capital management

The Company manages its capital to ensure that sufficient available capital resources are held to cover its capital resources requirements. The capital management policy is designed to ensure that all capital requirements relating to the existing business 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.

The following Solvency II information in the remainder of this note is not audited by KPMG LLP.

Notes to the financial statements (continued)

Since 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.

As at 31 December 2021 the Company MCR was £3.1 million (2020: £3.3 million) and the SCR was £1.5 million (2020: £1.7 million). As the MCR is higher than the SCR, this MCR position is adopted as the capital requirement for the Company.

All of the Company's own funds are classified as Tier 1 basic own funds comprised of equity and retained earnings and are available to provide cover for both the SCR and the MCR without restriction.

This Company's own fund position was £13.9 million at 31 December 2021 (2020: £13.7 million).

18. Financial instruments

The table below sets out financial assets and liabilities held at fair value categorised using the fair value hierarchy detailed in Note 2.

Equity instruments listed on a recognised exchange valued using prices sourced from their primary exchange are categorised as level 1. Pooled investment funds where daily unit prices are available and reference is made to observable market data are categorised as level 2. Interests in real estate funds which are valued at net asset value are categorised as level 3, with the underlying real estate investments generally valued in accordance with independent professional valuation reports.

For technical provisions for linked liabilities, the underlying assets are predominately categorised as level 1 or 2 and, as such, the inputs into the valuation of liabilities are observable and these liabilities are predominately categorised within level 2 of the fair value hierarchy. Where the underlying assets are categorised as level 3, the liabilities are also categorised as level 3.

2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Investments	-	12,721	-	12,721
Assets held to cover linked liabilities	537,044	550,091	737	1,087,872
Total financial assets	**537,044**	**562,812**	**737**	**1,100,593**
Technical provisions for linked liabilities	-	1,087,135	737	1,087,872
Total financial liabilities	**-**	**1,087,135**	**737**	**1,087,872**

Notes to the financial statements (continued)

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Investments	-	13,211	-	13,211
Assets held to cover linked liabilities	519,548	504,315	17,802	1,041,665
Total financial assets	**519,548**	**517,526**	**17,802**	**1,054,876**
Technical provisions for linked liabilities	-	1,023,863	17,802	1,041,665
Total financial liabilities	**-**	**1,023,863**	**17,802**	**1,041,665**

The fair value of financial assets and liabilities not held at fair value approximates to their carrying value at 31 December 2021 and 31 December 2020.

Transfers of assets from level 1 to level 2 and from level 2 to level 1 during 2021 were nil (2020: £501m) and £nil (2020: £nil) respectively. Transfers from level 1 to level 2 in the previous year related to interests in pooled investment vehicles which are priced daily but where the daily price is offered only by the fund manager. The Company now considers these investments to be level 2 (or level 3 for real estate pooled investment vehicles), while as previously the Company considered them to be level 1. All other transfers relate to assets where changes in the frequency of observable market transactions resulted in a change in whether the market was considered active. The movements during the year of level 3 assets and liabilities held at fair value are analysed below.

	Assets held to cover linked liabilities		**Technical provisions for linked liabilities**	
	2021	2020	**2021**	2020
	£’000	£’000	**£’000**	£’000
At start of year	**17,802**	-	**17,802**	-
Total gains/(losses) recognised in the Profit and Loss Account	**(138)**	(1,579)	**(138)**	(1,579)
Sales	**(16,927)**	(1,340)	**(16,927)**	(1,340)
Transfers in to level 3[1]	**-**	20,721	**-**	20,721
At end of period	**737**	17,802	**737**	17,802

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

Unit linked level 3 assets relate to holdings in real estate funds. No individual unobservable input is considered significant. Changing unobservable inputs to reasonably possible alternative assumptions would have no impact on profit for the financial year and would not have a significant impact on total assets.

19. 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.

Notes to the financial statements (continued)

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 Company has no direct exposure to fluctuations in the value of assets which are held on behalf of policyholders, including 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 the comprehensive risk management framework established by the abrdn Group with specific arrangements where necessary to address the requirements of the Company as a UK insurance undertaking.

Day to day governance and risk control is delegated by the Company to AAML via a formal management services agreement. Investment management is delegated to AAML via a separate Investment Management Agreement ("IMA"). The Board considers the current system of governance appropriate for its business model, which is limited to offering unit-linked pension policies and investment management contracts to trustees of approved UK pension schemes and unit-linked pension reinsurance policies to UK insurance companies. Oversight of those services is carried out by a combination of committees within the risk control framework, and the dedicated committees established by the Company Board noted below. Board committees receive input from functional committees established by abrdn Group as part of its group-wide risk management framework.

Risk Committee

The Risk Committee of the Company is responsible for reviewing risk management information relating to the Company. The Committee keeps under review in particular:

- The alignment of the risk appetite and policy, approved by the Company's Board, with the Group's strategy for the Company.
- Quality of the abrdn Group's enterprise risk management framework and operating structure as a mitigation and key control to the Company's risks.
- The extent to which the risk assessment framework is in line with industry best practice and regulatory requirements.

Audit Committee

The Audit Committee of the Company monitors the integrity of the financial statements of the Company, reviewing significant financial reporting issues and judgements. The Committee reviews and challenges as appropriate:

- The consistency of, and any changes to, accounting policies.
- Whether the Company has followed appropriate accounting standards and made appropriate estimates, assumptions and judgements, taking into account the view of the external auditor and the Chief Actuary.
- The clarity of disclosure in the Company's financial reports.
- Annual internal audit plan, as informed by the Company's Board.

Notes to the financial statements (continued)

Client and Fund Governance Committee (Executive Committee)

The Client and Fund Governance Committee of the Company assists the Chief Executive Officer in his or her responsibilities for oversight of any activity which has a direct impact on customer outcomes. This includes, but is not limited to:

- Investment performance;
- Client facing documents and communications;
- Product changes; and
- Complaints.

The Committee is also responsible for reviewing decisions around unit dealing and pricing.

The CEO is responsible for keeping the Board informed of any relevant matters. There were no material changes to the governance arrangements of the Company during the reporting period.

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 material 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.

The Company pays a proportion of its net fees to a fellow abrdn 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.

In relation to financial instruments the sensitivity of profit after tax and equity of the Company to a 10% market price movement is not material. This sensitivity relates only to the direct impact on financial instruments and excludes indirect impacts on fee income and related costs.

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 Company aims to maintain 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.

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.

The Company is exposed to amounts recognised in fee income which have not yet been settled by clients. The credit quality of outstanding balances is monitored and there has been no significant level of default. As such, there are no concerns over the credit quality of these assets.

An expected credit loss ("ECL") 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 or they relate to trade receivables or contract assets in which case lifetime expected credit losses are recognised.

Notes to the financial statements (continued)

The Company applies the simplified approach, as allowed under IFRS 9, to calculate the ECL allowance for trade receivables and contract assets. Under the simplified approach, the ECL allowance is calculated over the remaining life of the asset.

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

2021	**Cash at bank and in hand**	**Debtors**	**Total**
	£'000	**£'000**	**£'000**
Neither past due nor impaired	990	2,891	**3,881**
Past due but not impaired	-	5	**5**
Impaired	-	-	**-**
Total	**990**	**2,896**	**3,886**

2020	Cash at bank and in hand	Debtors	**Total**
	£'000	£'000	**£'000**
Neither past due nor impaired	1,449	2,385	**3,834**
Past due but not impaired	-	-	**-**
Impaired	-	-	**-**
Total	**1,449**	**2,385**	**3,834**

Past due is any financial assets which are aged one month from the date of receipt due.

An analysis of cash at bank and in hand by credit rating is given below:

	2021	2020
	£'000	£'000
AA-	990	1,449

The balance of debtors primarily consists of short term amounts due in respect of unit cancellations.

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 Company's policies require 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 TIP and reinsurance scheme liabilities, these are managed to provide appropriate liquidity, in normal circumstances, to allow policyholder redemptions to be met as they fall due. In addition, the Company has the contractual ability to suspend transactions where this is considered to be in the interests of policyholders. As unit-linked policyholders can choose to surrender, in part or in full, their unit linked contracts at any time, no analysis by maturity date of unit linked liabilities is provided.

In respect of segregated investment mandates, liquidity requirements depend upon client-specific requirements, noting that the assets managed under these contracts remain the legal property of the client.

Notes to the financial statements (continued)

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. The Company is exposed to a very small element of direct foreign currency risk from non-linked assets. The vast majority of foreign currency transactions are within the unit-linked funds where the direct currency risk is borne by the policyholders.

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

The Company pays a proportion of its net fees to a fellow abrdn 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.

In relation to financial instruments the sensitivity of profit after tax and equity of the Company to a 10% foreign exchange rate movement is not material. This sensitivity relates only to the direct impact on financial instruments and excludes indirect impacts on fee income and related costs.

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.

<u>Direct interest rate risk</u>

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 £69k per annum (2020: £73k).

An increase of 0.5 percentage points in interest rates would increase profit before tax by approximately £69k per annum (2020: £73k).

<u>Indirect interest rate risk</u>

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 to 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.

In relation to linked-funds' financial instruments the sensitivity of profit after tax and equity of the Company to interest rate movements is not material. This sensitivity relates only to the direct impact on financial instruments and excludes indirect impacts on fee income and related costs.

20. Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The Company's interests in structured entities are holdings in Open ended investments companies (including short term money market funds) and unit trusts. The Company does not sponsor these structured entities.

The structured entities are generally financed by the purchase of units or shares by investors, although some funds are able to obtain external debt financing, and allow clients to invest in a portfolio of assets in order to provide a return through capital appreciation and/or investment income. Accordingly, they are susceptible to market price risk arising from uncertainties about future values of the assets they hold.

Notes to the financial statements (continued)

The carrying value of the Company's investments in structured entities are disclosed in Notes 10 and 11.

The Company's maximum exposure to loss in respect of its investments in unconsolidated structured entities is the balance sheet carrying value and loss of future fee income. As noted in Note 19, the shareholder is not directly exposed to market or credit risk in respect of investments held in unit linked funds.

The Company has not provided financial support to any unconsolidated structured entity through guarantees over the repayment of borrowings, or otherwise, and has no contractual obligations or current intention of providing financial support in the future.

21. 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.

Particulars of the Company's related undertakings at 31 December 2021 are listed below. Related undertakings are subsidiaries, joint ventures 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 Company's assets.

Name of related undertaking	Share class	% interest held
Aberdeen Standard Unit Trust 1		
ASI Diversified Growth Fund	Unit Trust	47%
Aberdeen Standard SICAV I		
Europe ex UK Sustainable and Responsible Investment Equity Fund	SICAV	24%
Aberdeen Standard OEIC I		
ASI Sterling Bond Fund	OEIC	22%
Aberdeen Standard OEIC I		
ASI Sterling Long Dated Government Bond Fund	OEIC	49%

OEIC = Open-ended investment company

SICAV = Société d'investissement à capital variable

All related undertakings are incorporated in the UK with registered office Bow Bells House, 1 Bread Street, London EC4M 9MH; other than Aberdeen Standard SICAV I which is incorporated in Luxembourg with registered office 35a Avenue John F. Kennedy, L-1855 Luxembourg.

22. Ultimate parent company and parent company of larger group

The Company's immediate parent company is Aberdeen Asset Management plc ("AAM plc") and its ultimate parent company is abrdn plc, which are both incorporated in the United Kingdom and registered in Scotland.

The results of the Company are consolidated in the Group accounts of abrdn plc, the smallest group that the results are consolidated within, which are available to the public and may be obtained from 1 George Street, Edinburgh, EH2 2LL, or available to download from the website www.abrdn.com.