

October 2007

Understanding with profits



Summary: how your with profits investment works

We aim to treat all planholders fairly. Your with profits plan provides group risk benefits in accordance with the terms and conditions described in your plan documents. In addition you may share in any favourable experience (such as paying claims of lower value than expected) of the relevant business.

We use triennial bonuses to provide your share of any favourable experience of the relevant business. We have discretion over how much of any favourable experience we distribute.

The remainder of this booklet provides further information on how your with profits investment works.



How your Standard Life with profits investment works

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Your plan documents define the terms and conditions that apply to your plan.

1. Introduction

This booklet tells you how we manage our with profits Group Death in Service (GDIS) and Group Permanent Health Insurance (GPHI) business only. Other types of with profits plans that Standard Life operates in the UK are covered in separate Understanding With Profits booklets.

This Understanding With Profits booklet is intended only to give a simplified description of how we manage this with profits business. It does not in any way:

- vary the existing terms and conditions of your plan;
- create any new or additional obligations; or
- restrict the way we manage our with profits business.

We set out a fuller, more technical description of how we manage our UK with profits business in a separate document called **Principles and Practices of Financial Management for the Heritage With Profits Fund (the Heritage PPFM)**. Please see the Heritage PPFM if you want more information on the topics covered in this booklet.

Our website www.standardlife.co.uk/withprofits will always have the most up-to-date version of all Understanding With Profits booklets and of the Heritage PPFM. You can also get copies by contacting us on 0131 245 9279.

If we make any changes to the Heritage PPFM that materially change this booklet, we will send you a new booklet. We will also send you a booklet if we propose to change any of the principles we apply in managing this with profits business.

2. What is a with profits Group Risk Plan?

Under a Group Risk Plan (GDIS or GPHI) we guarantee to pay the risk benefits described in your plan documents when claims arise, provided you have paid all the agreed premiums when due. We may also pay bonuses from time to time.

What are the bonuses for with profits Group Risk Plans?

We use bonuses to provide your share of any surplus we distribute in connection with our with profits Group Risk business. We call these bonuses triennial bonuses since each bonus declaration relates to the experience

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See section 5
“What is the
inherited estate
and how do we
use it?”

over a period of three years. In addition to your share of any surplus arising from Group Risk business, we may also pay an enhancement in respect of any distribution of inherited estate.

We calculate and declare triennial bonuses separately for GDIS and GPHI business.

Triennial bonus may be paid directly to the planholder or offset against future premiums.

Triennial bonus is made up of:

- a percentage of the premiums paid in the three-year period; and
- a percentage of the excess of premiums over claims for each plan.

These percentages may be 0%.

How we decide triennial bonus

We carry out investigations of our Group Risk business after the end of each relevant three-year period. We do this separately for GDIS and for GPHI business. We compare the premiums paid over the three years with the value of the claims made over the same period. When we do this we allow for any investment return earned on the assets backing these classes of business, our charges for expenses and a contribution to the capital of the Heritage With Profits Fund. We then work out how much of the surplus (if any) we can distribute, after making any discretionary adjustments that may apply.

3. What expenses do we incur?

Like any other business Standard Life incurs expenses. These include the salaries of our staff, the cost of maintaining our head office and branches, our investment costs, any commission paid to intermediaries and any other ongoing costs. When determining triennial bonuses, we make deductions for a fair share of these expenses incurred in the operation of the Heritage With Profits Fund.

4. How we invest the money backing with profits plans

We invest in a mix of assets that may include:

- equities (company shares);
- property;
- bonds (loans to governments or companies); and
- cash deposits.

Equity and property assets generally have more variable values than bonds or cash deposits, but over the longer term we expect them to provide higher returns. Bonds and cash deposits generally have more stable values,

but over the longer term we expect them to provide lower returns. We may also invest in derivatives – such as investments that provide rights or obligations to buy or sell assets at a particular price and time – as an efficient way of managing our with profits business.

How we decide the asset mix

We regularly review the asset mix that backs each class of with profits business. We seek to optimise investment returns. The asset mix may not be the same for all classes of with profits plan and may change over time.

We decide what asset mix to hold by considering the level of guarantees for each class of with profits plan, and the appropriate balance between risk and expected return. Any change in the asset mix is likely to result in a change in future investment returns and with profits payouts.

Our main restriction on investment strategy is maintaining the financial strength of the Heritage With Profits Fund at an appropriate level whilst meeting our obligations to planholders. The investment return credited to a particular class of with profits plan will reflect the investment return on the mix of assets that backs that class of business.

How we manage the risks associated with investment

Risks associated with investment include companies performing poorly and reducing dividends, or borrowers not making promised interest and capital repayments, or our having to sell assets to meet payouts when prices are depressed. We aim to control our exposure to investment risks by investing in assets of sufficient quality and variety. For example, we set limits on the amount we invest in any one asset, in assets issued by any one company, and in assets that are not traded on a recognised stock or bond market (and so may be difficult to sell).

Subject to the above considerations the assets backing with profits plans are held solely for investment reasons.

5. What is the inherited estate and how do we use it?

On 10 July 2006 The Standard Life Assurance Company transferred all its UK with profits business into the Heritage With Profits Fund of Standard Life Assurance Limited. This Fund was set up with an inherited estate – a pool of assets that provides working capital for our with profits business. The main role of the inherited estate is to ensure that a prudent amount is retained in the Heritage With Profits Fund for liabilities that may arise in the Fund. To the extent that we are satisfied that the inherited estate exceeds the amount needed for this we will distribute any excess, over time, as an enhancement to with profits bonuses and payouts.

We aim to restrict any distribution of the inherited estate to payouts for plans that have remained continuously in with profits since 9 July 2006.

Triennial bonus will only include an inherited estate enhancement if we are making distributions from the inherited estate at any time during the three-year period concerned.

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There is other business in the Heritage With Profits Fund as well as the with profits Group Risk business covered by this booklet. Some of this is with profits business that will share in any distribution of the inherited estate.

The operation of other business in the Heritage With Profits Fund may affect the size of our inherited estate, and hence any amount available for distribution as an enhancement to with profits payouts.

The largest risk is that the investment return on with profits assets is not enough to meet guaranteed minimum payouts for plans that have investment performance guarantees. We manage this risk in two main ways:

- by varying the mix of assets that backs with profits plans including investing in assets of sufficient quality and variety; and
- by making reviewable deductions from asset shares (for plans which have investment performance guarantees) for the cost of guarantees.

Other risks include higher-than-expected costs of providing life cover and higher-than-expected expenses. We may manage these risks through underwriting (for example asking health questions on proposal forms) and reinsurance (passing part of the risk to another insurance company), and through budgetary controls (monitoring expenses and taking action where appropriate).

We take on additional risks in the Heritage With Profits Fund, for example by writing new business, only if these risks are not expected to have a materially adverse effect on existing planholders.

6. How we manage new business

We aim to offer competitive terms for new business and increases to premiums on existing business. We set limits on the new business that can be written in the Heritage With Profits Fund.

We have no plans to stop selling new with profits plans. However, at present we are not actively marketing new with profits Group Risk Plans. If we do ever stop selling new with profits plans, we will notify you and will write to explain how we will manage our with profits business in the future.

7. How we balance the interests of with profits planholders and shareholders

Standard Life Assurance Limited is a wholly owned subsidiary of Standard Life plc, which is owned by its shareholders. Shareholders are entitled to certain payments from the Heritage With Profits Fund and meet certain costs, as described below.

We explained earlier how when we set triennial bonuses we allow for our charges for expenses and a contribution to the capital of the Heritage With Profits Fund. For conventional plans (including Group Risk Plans) the deductions made when setting bonuses and payouts remain in the Heritage With Profits Fund, and this Fund meets the expenses and costs of risk benefits on these plans. For unitised plans, provided we meet our obligations to planholders, the shareholders are entitled to the deductions made when setting bonuses and payouts (except deductions for tax or costs of guarantees). In return they meet the expenses and costs of risk benefits on these plans.

We will not take any action to increase the amount shareholders may receive if this would conflict with our duty to treat customers fairly.

The Standard Life Assurance Limited Board makes all the decisions about with profits business. The With Profits Committee independently assesses the fairness to with profits planholders of any significant proposed action or exercise of discretion.

We publish a report to UK with profits planholders each year on our website www.standardlife.co.uk/withprofits. This report sets out the Board's opinion on the fairness to planholders of its exercise of discretion during the previous calendar year. The With Profits Committee may append a report of its own to this report.

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