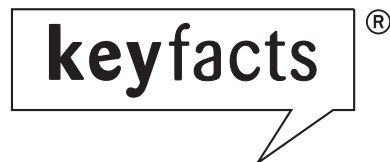


This is an important document.
Please read it and keep for future reference.



Key features of the **With Profits Bond**

from Standard Life



keyfacts®

The Financial Services Authority is the independent financial services regulator. It requires us, Standard Life, to give you this important information to help you to decide whether our With Profits Bond is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference. Please also read the enclosed 'Understanding With Profits' booklet for further information about how your with profits investment works.

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Helping you decide

This Key Features Document will give you information on the main features, benefits and risks of the With Profits Bond. This Key Features Document is for a UK bond and is for use by UK residents only. If you are making an additional payment to an existing bond that was taken out before 13 September 2004, please note that some of the Terms and Conditions have changed.

A personal illustration is also enclosed. It will show you the benefits you may get in the future.

Your Key Features Document and personal illustration should be read together.

The 'Understanding With Profits' booklet provides more information about:

- regular bonus
- final bonus
- guarantees
- unit price reductions
- how we set payouts
- smoothing and other discretionary adjustments that can affect payouts
- our expenses
- how we invest the money backing with profits plans.

If you want further information about the With Profits Bond, please speak to your financial adviser in the first instance. You can also phone our customer help-line. If you don't have a financial adviser, but would like financial advice, your call can be transferred to Standard Life Client Management. Our contact details can be found on page 17.

The information in this Key Features Document relating to taxation is based on our understanding of law and HM Revenue and Customs practice when we produced this document. The future tax position of the With Profits Bond or your own tax position may alter. Please see the 'What about Tax?' section on page 13 for further details.

1. Its aims

The bond aims to offer you the potential for capital growth, with a return backed by a wide range of assets.

The bond also offers you the option of taking regular or one-off withdrawals.

We may provide some smoothing of investment returns when you take withdrawals or cash in your bond, or if those covered die.

2. Your commitment

To invest a minimum payment of £10,000.

Your With Profits Bond is a medium to long-term investment. While the bond has no fixed term, this means it should usually be held for at least five years.

3. Risks

This section is designed to tell you about the product risks that you need to be aware of at different stages of the With Profits Bond.

At the start of the bond

If you change your mind and want to cancel during the 30 day cancellation period, you may get back less than you paid in. Please see the 'Can I change my mind?' section on page 15 for further information.

During Investment

What you get back depends on the fund performance and our deductions. The value of your investment can go down as well as up and you may get back less than you invested. There is no guaranteed cash-in value.

Taking withdrawals or cashing in

If you take a withdrawal or cash in your bond, we may reduce the price of units in certain circumstances. This means that we may sell more units to pay any fixed amount you withdraw or you may get less money for any units that you cash in.

When cashing in your bond

You may get back less than the amount shown in your personal illustration because:

- investment returns are lower than those illustrated
- your withdrawals are greater than those illustrated (if any)
- our charges and deductions for costs go up in the future
- of any exit penalties that may apply. Please see 'What are the charges?' on page 10.
- discretionary adjustments, including any smoothing, could reduce the cash-in value of your bond.

4. Questions & answers

This section will help answer questions you may have before covering subjects such as

- Payments
- Withdrawals
- Charges, and
- Tax

in greater detail.

What is a With Profits Bond?

A Standard Life With Profits Bond is a lump sum investment which is made up of individual policies, or 'segments', that are invested in with profits.

The bond can be divided into up to 20 individual policies or segments, provided that each has a minimum investment of £500.

Can I invest in a With Profits Bond?

The minimum age of a bondholder is 18.

The minimum age for a life assured is three months.

The maximum age for a life assured is 75.

The life assured is the individual upon whose life payment of the benefits under the policy depends.

The maximum age for life cover is 75, or 85 for a joint life case if at least one of the lives is 75 or younger.

You have to be habitually resident in the UK to invest in a With Profits Bond. You should speak to your financial adviser if you are not sure whether you qualify as being habitually resident.

Up to six people can jointly own the bond, and up to six lives assured can be named under the bond.

How might I get back?

Your personal illustration shows what you might get back.

A guaranteed minimum amount is payable when units are cancelled in the circumstances described below. Please see 'What is the Guaranteed Regular Withdrawal Amount?' on page 9 and the 'What happens to my With Profits Bond if I die?' section on page 15 for further information. The amount payable when units are cancelled in other circumstances is not guaranteed.

The amount you get back will depend on several factors, such as:

- how much you invested
- the amount of any regular or one-off withdrawals you have made
- any guarantees that apply
- the length of time you invested for
- the performance of the investments backing the with profits fund you are invested in. Please see 'Where is my payment invested?' on page 7 for further information.
- the charges and deductions for our costs that we make. Please see 'What are the charges?' on page 10 for further information.
- any discretionary adjustments, including any smoothing. Any such adjustments will not reduce your guaranteed benefits.

These factors will be reflected in any final bonus that we pay, or any reduction to unit prices.

4.1 What payments can be made?

Minimum payment

The minimum initial payment is £10,000.

Maximum payment

The maximum initial payment is £500,000.

Additional payments

You may be able to make additional payments subject to a minimum payment of £1,000 per additional payment and any maximum age limit, or any other Terms and Conditions we may set.

Payment methods

Payments are by cheque only.

Cheques must be made payable to 'Standard Life Assurance Limited'.

4.2 Where is my payment invested?

Your payment is automatically invested in with profits units.

The With Profits Bond has a mix of investments such as equities (company shares), property, bonds (which are loans to governments or companies) and cash deposits. Quarterly information on the asset mixes for different classes of with profits investment is published on our website, www.standardlife.co.uk/withprofits

With profits unit prices do not directly reflect the value of the underlying investments. Instead, the unit price may benefit from a regular bonus in the form of a daily increase which is a percentage of the unit price.

The unit price is guaranteed not to fall unless a unit price reduction is applied. The unit value is equal to the number of units multiplied by the unit price. When units are cancelled (for example, to take a withdrawal) we may add a final bonus to the unit value for those units.

The bond information that we send you with your policy schedule will include the name of your with profits fund and the number of units allocated.

You cannot switch your investment out of with profits.

4.3 Can I take money out?

You can take money out of your With Profits Bond, but this will reduce its value. You can take regular withdrawals, one-off withdrawals or fully cash in your bond.

You can take regular withdrawals every:

- month
- three months
- four months
- six months
- year.

Although regular withdrawals can be taken either from the start of your investment, or at any point later, they must be taken between the 1st and the 28th of the month.

Payment will be made direct to your bank account.

Your regular withdrawals can be:

- a fixed cash amount,
- a percentage of the amount you invested, or
- the Bonus Withdrawal Amount. Please see 'What is the Bonus Withdrawal Amount?' on page 9 for further details.

If you choose a percentage of the amount you invested or a fixed cash amount, you can change your withdrawal amount, subject to any limits that apply at the time.

Minimum and maximum withdrawal amounts

The minimum regular withdrawal amount is £50.

The minimum one-off withdrawal amount is £125.

If you choose the Level Option, you can only take regular withdrawals of up to 10% a year from your bond.

If you choose the Stepped Option, you can only take regular withdrawals of up to 7.5% a year from your bond.

These maximum allowances are based on the investments you have paid in less any one-off withdrawals.

This maximum does not apply if you take regular withdrawals at the Bonus Withdrawal Amount.

Charges and conditions

If the fund value of your bond falls below £300, your bond will automatically be cancelled.

If you take a withdrawal or cash in your bond, we may reduce the price of units in certain circumstances.

Under the Stepped Option, if you cash in your bond or make a one-off withdrawal from it within the first five years of any investment, we will apply an exit penalty. Please see 'What are the charges?' on page 10 for further information.

4.4 What is the Bonus Withdrawal Amount?

We calculate the Bonus Withdrawal Amount as follows:

The unit value multiplied by the regular bonus rate for your bond

number of withdrawals a year

The unit value is equal to the number of units multiplied by the unit price at the calculation date.

The initial Bonus Withdrawal Amount is based on the unit value when your original payment was invested. We recalculate the Bonus Withdrawal Amount if you add money to or make a one-off withdrawal from your bond, or if we change the regular bonus rate for your bond. We will recalculate the Bonus Withdrawal Amount at least once a year.

4.5 What is the Guaranteed Regular Withdrawal Amount?

If you choose to take regular withdrawals at the start of your bond, we guarantee not to reduce the unit prices on any regular withdrawal amount up to the Guaranteed Regular Withdrawal Amount (GRWA).

The initial GRWA is the lower of the regular withdrawal amount selected at the outset of the bond and the initial Bonus Withdrawal Amount. The GRWA may change whenever the Bonus Withdrawal Amount changes, or if you change the amount of regular withdrawals.

For any regular withdrawal amount in excess of the GRWA we reserve the right to apply a unit price reduction. For a GRWA to apply to your bond, you must tell us at the start of your bond that you wish to take regular withdrawals, but you can wait for up to 13 months before you start to take them.

In certain financial conditions, we reserve the right not to increase your GRWA. This is to protect the interests of all with profits policyholders. Please refer to document UWP1NB for further details on With Profits.

4.6 What are the charges?

We make charges to meet the cost of setting up and managing your With Profits Bond. These charges will affect the value of your bond.

There are two charging options – 'Level' and 'Stepped'.

Please note that if you are investing more money into an existing bond where units were allocated before 13 September 2004, the 'Level' charging option will automatically apply to your additional investment.

You cannot switch between charging options once you have taken out your bond.

The explicit charges are determined by the allocation rate and any applicable exit penalty. Please see the 'Allocation Rate' section on page 11 and the 'Exit Penalty' section on page 12 respectively for further information.

In addition to the explicit charges, we make deductions for our costs, including tax and the cost of guarantees provided by with profits business. These deductions, which may vary, will not reduce your guaranteed benefits but any final bonus we pay or any reduction to unit prices will reflect them.

Currently we take deductions for costs (excluding for guarantees and for tax) at the rate of:

- Level Option – 0.75% a year
- Stepped Option – 1.50% a year.

Information about the deductions for guarantees is included in your personal illustration. The rates of investment return assumed allow for the effect of tax.

The information that follows applies to all charges:

The charges are regularly reviewed and may be altered to take account of changes in our costs.

The charges and their effect on the value of your With Profits Bond are shown in your personal illustration.

We can increase the charges we make. We may do so in the future if our costs are higher than originally expected and/or there have been changes in the assumptions made.

This might happen if, for example:

- tax rules change
- our staff or overhead costs are more than we expected
- our income from charges is less than we expected.

With Profits Bond

4.6.1 Allocation Rate

The allocation rate refers to the proportion of your payment that is used to buy with profits units.

The allocation rate depends on the age of the youngest life assured when you make the investment, and the amount of the investment. We calculate an individual allocation rate for each additional investment. This is determined by the age of the youngest life assured on the date you make that additional investment, and the sum of that investment plus all previous investments to the bond.

The following tables give further information on the allocation rates for 'Level' and 'Stepped' charging options together with details on any exit penalties that may apply.

The table below shows the allocation rates for the 'Level' charging option.

Amount of your investment	Age	
	69 and under	70 to 75
£100,000 or more	97%	95%
Less than £100,000	96.75%	94.75%
Less than £50,000	96.75%	94.75%
Less than £25,000	96.75%	94.75%
Less than £15,000	95.75%	93.75%

The table below shows the allocation rates for the 'Stepped' charging option.

Amount of your investment	Age		
	69 and under	70 to 74	75
£100,000 or more	102.5%	101.5%	100.5%
Less than £100,000	102%	101%	100%
Less than £50,000	101.75%	100.75%	99.75%
Less than £25,000	101.5%	100.5%	99.5%
Less than £15,000	100%	99%	98%

Under the 'Stepped' charging option, if any part of your initial or later investment remains in your bond for five years, we will increase its unit value by 0.5% each year. We do this by adding extra units to your bond every month, starting from the first month after the fifth anniversary. This applies to each individual investment made.

4.6.2 Exit Penalty

An exit penalty is a charge for cashing in your bond.

‘Level’ charging option

There is no exit penalty on the ‘Level’ charging option.

‘Stepped’ charging option

An exit penalty is applied to the ‘Stepped’ charging option if you cash in your bond within the first five years. The following tables give further information on the exit penalty.

Fully cashing in your bond under the ‘Stepped’ charging option

If you cash in all of your bond in the early years, we will apply an exit penalty. The table below shows the percentage amount we will take for a full cash-in.

Example: If your bond is worth £10,000 and you fully cash it in in the first year, we deduct an exit penalty of 10% before paying you the balance of £9,000.

If you cash in before the end of year	Charge as a % of your cash-in amount
1	10
2	8
3	6
4	4
5	2
6 and after	0

Partially cashing in your bond under the ‘Stepped’ charging option

If you cash in part of your bond in the early years, we will apply an exit penalty which is taken from your bond. This is in addition to the investment amount cashed in.

The total amount that will be taken from the bond can be calculated by dividing the amount you wish to cash in by the following factor shown in the table below.

If you cash in before the end of year	Factor for calculation
1	0.9
2	0.92
3	0.94
4	0.96
5	0.98
6 and after	1

The part cash-in calculation is as follows:

$$\frac{\text{Amount wanted through part cash-in}}{\text{Factor from table above}} = \text{total amount taken from bond}$$

For example, if you want a part cash-in of £1,000 in the first year, the total amount taken from your bond is £1,000/0.90 = £1,111.11. The exit penalty is £111.11, and the payout amount is £1,000.

We do not apply the exit penalty to your regular withdrawals. However, you cannot take more than 7.5% a year of your investment paid as fixed withdrawal amounts or a fixed percentage.

This allowance is based on the investments you have paid in less any one-off withdrawals. One-off withdrawals reduce the maximum regular withdrawal amount. If you choose to receive regular withdrawals at the Bonus Withdrawal Amount, we will pay these withdrawals without an exit penalty, even if they are greater than 7.5% a year. We may apply a reduction to unit prices on any regular withdrawals in excess of the Guaranteed Regular Withdrawal Amount.

4.7 What about tax?

If your bond is set up under trust, or owned by a company this section does not apply and you should contact your tax adviser for further advice.

Standard Life pay tax on the income and gains of the funds' investments. This means that if you are a basic-rate taxpayer you will normally have no additional tax to pay on the proceeds of the bond.

Withdrawals

Each year you can withdraw up to 5% of the total payments made into your bond without any immediate tax liability. Once you have taken withdrawals equal to the total amount paid into your bond, this allowance stops.

Any part of this allowance that you don't use can be carried forward into future policy years until you have used up your allowance.

If you cash in all or part of the bond, or take withdrawals amounting in any policy year to more than 5% of the total amounts paid into your bond, part of your benefit may be treated as a 'chargeable gain'.

Chargeable Gains

You will have to pay tax on a chargeable gain if you are a higher-rate taxpayer. The rate of tax payable on a gain arising in the tax year is the difference between the basic-rate of tax on savings and the higher-rate. In the tax year commencing 6 April 2008 this is 20%.

The chargeable gain is calculated by HM Revenue & Customs as follows:

- When you cash in your bond, the chargeable gain is generally the amount you receive plus any amounts you have previously taken, less the total amounts paid into the bond, less any chargeable gains which have arisen on previous withdrawals.
- If you die, the chargeable gain if a cash sum is paid on death is generally the cash-in value of the bond immediately before death plus any amounts previously taken from the bond, less the total amounts paid into the bond, less any chargeable gains which have arisen on previous withdrawals.
- If you take a withdrawal, a chargeable gain is calculated for the current policy year by adding all the withdrawals made during the year and deducting the amount of the 5% allowance available, as described above.

The following section contains information that is more technical in nature, you may wish to discuss this with your financial adviser or contact the HM Revenue and Customs Helpline on 0845 300 3900 for guidance.

If you would not otherwise be a higher-rate taxpayer, but the chargeable gain, when added to your income, takes your income into the higher-rate tax bracket, the tax payable may be reduced by 'top slicing relief', which is a relief available for individual policyholders who are not already higher rate tax payers on the basis of other income.

Chargeable gains are normally assessed on the bond owner. Therefore, if you are a couple paying different rates of tax, it may be more tax efficient for the partner with lower tax rate to own the bond.

Your bond may be split into individual 'policies', or 'segments', depending upon the amount you have invested. When you take a withdrawal, you may choose to take an equal amount from each policy or to cash in individual policies, whichever method gives you the lower tax liability.

When you incur a chargeable gain, the addition of the gain to your income may adversely affect any age allowance to which you are entitled. Your allowance cannot be reduced below the level of the ordinary tax allowance.

Similarly, a chargeable gain may affect your entitlement to working tax credit and child tax credit.

Inheritance Tax (IHT) Liability

If your bond was not set up under trust, it will form part of your estate on death, and may therefore increase your IHT liability. Please seek financial advice if you want to set your bond up under trust.

Tax and legislation are likely to change. The information in this Key Features Document relating to taxation is based on our understanding of law and HM Revenue & Customs practice when we produced this document. The future tax position of the With Profits Bond or your own tax position may alter.

4.8 Other important questions

What happens to my With Profits Bond if I die?

If more than one person is covered by the life assurance included with the bond, the bond can continue until the death of the last person covered. Up to six people can be included in the life cover.

If you are the last person covered, the amount paid on your death will be at least 100.1% of the unit value. The cost for providing this is allowed for in our charging structure.

If the bond is written under trust the lump sum will be paid to the trustees after the death of the last person covered.

Can I change my mind?

You have a legal right to cancel your contract if you change your mind. You have a 30 day period to consider if you want to change your mind. This 30 day period starts from the date you receive the Policy Schedule and Policy Provisions (Terms and Conditions of the With Profits Bond).

During this period, if you decide you want to cancel, you should write to us at the address shown in the 'How to contact us' section on page 17, instructing us to cancel the contract. Please make sure that you include your bond number in any correspondence with us.

If you cancel during the 30 day period, you may get back less than you paid in. This is because we may make a deduction to reflect any market loss we have experienced between the date we received your payment and the date we received your instruction to cancel.

If you decide to cancel, and we have already received a payment, we will refund the payment to the person who made it.

At the end of the 30 day period you will be bound by the Terms and Conditions of the bond and any money received by Standard Life will not be refundable under the cancellation rule.

How will I know how my With Profits Bond is doing?

We will register you for our online service and send you a user id and password so that you can check your plan details on our website – www.standardlife.co.uk

We will send you a statement each year giving the value of your bond.

You can also call our customer help-line for an update. Please see the 'Call' section under 'How to contact us' on page 17 for further information.

5. Other information

If you need to complain

We can send you a leaflet summarising our complaint handling procedure, on request.

If you need to complain, you should first write to us at the address shown in the 'How to contact us' section on page 17. If you are not satisfied with our response, you can complain to:

The Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London
E14 9SR

Telephone: 0845 080 1800

Switchboard: (020) 7964 1000

Fax: (020) 7964 1001

Website: www.financial-ombudsman.org.uk

E-mail: complaint.info@financial-ombudsman.org.uk

Complaining to the Ombudsman will not affect your legal rights.

Terms and Conditions

This Key Features Document only gives a summary of the Terms and Conditions of your bond. For the full Terms and Conditions that apply to your bond, you should read the With Profits Bond Policy Provisions (WPB62Bsi).

We may change some of the Terms and Conditions of your bond. We will notify you if this happens.

Law

In legal disputes, the law that applies is usually the law of the country in which you are resident when you take out the bond.

Language

The English language will be used in all documents and future correspondence.

Compensation

The Financial Services Compensation Scheme (FSCS) has been set up to deal with compensation if firms are unable, or likely to be unable, to meet claims against them.

For further information contact us on 0845 60 60 002 between 9am – 8pm Monday-Thursday, 9am – 6pm on Friday and 9am – 1pm on Saturday. Call charges may vary.

The amount of compensation available from the FSCS depends on the type of business and the circumstances of the claim. Further information is available from the FSCS website at www.fscs.org.uk

6. How to contact us

Although your financial adviser should normally be your first point of contact, you can contact us if you have any questions or would like to make any changes to your With Profits Bond.

Call

You can telephone our customer help-line on 0845 60 60 002 between 9am – 8pm Monday-Thursday, 9am – 6pm on Friday and 9am – 1pm on Saturday.

Please have your policy number ready when calling. Calls may be recorded/monitored to help improve customer service. Call charges may vary.

Write

If you prefer, you can write to us at:

Standard Life Assurance Limited
Standard Life House
30 Lothian Road
Edinburgh
EH1 2DH

7. About Standard Life

Standard Life Assurance Limited's product range includes pensions and investments.

Standard Life Assurance Limited is on the Financial Services Authority Register. The registration number is 439567.

With Profits Bond

With Profits Bond

Pensions
Mortgages
Savings
Investments
Healthcare
Insurance

Speak soon.

If you'd like further information on this or any of our other products, or if there's anything more about Standard Life we can help you with, just call us on this number, or visit our website. Call charges may vary and your call may be recorded or monitored to improve our service.

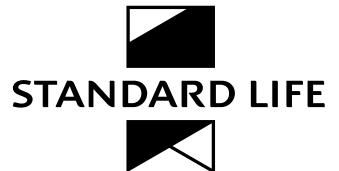
0845 60 60 002

www.standardlife.co.uk

Products provided by subsidiaries of Standard Life plc or other specified providers.

October 2007

Understanding with profits



Summary: how your with profits investment works

We aim to treat all planholders fairly. Your with profits payout takes account of the premiums you pay us, the returns on the assets we invest in, our deductions, and any discretionary adjustments (up or down) that we make. The amount of your with profits payout also depends on whether you stay in with profits to the maturity date or retirement date, if any, set at the start of your plan.

Some with profits plans guarantee a minimum payout, for example when you die or when your plan reaches the maturity date or retirement date. In such cases, we will pay at least this minimum amount regardless of the performance of the assets we hold over the period that your plan is invested in with profits.

We invest in a wide range of assets, including equities (company shares), property and bonds (loans to governments or companies). These types of assets can rise or fall in value. When we set fair payouts we may smooth out some of the effects of short-term changes in asset values. We may hold different mixes of assets to back different classes of with profits plan. This mix of assets may change over time.

We may use bonuses in delivering fair payouts. We may add regular bonuses to gradually build up any guaranteed benefits; and, if necessary, we will pay a final bonus to top up your benefits to your fair payout plus any enhancement.

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



How your Standard Life with profits Investment works

1. **Introduction** page 4
2. **What is a with profits investment?** page 4
 - What is a unitised plan? page 5
 - What are the bonuses for unitised plans?
 - How we decide the bonuses for unitised plans
 - What are your guarantees?
 - What happens if you stop paying premiums to a unitised plan?
 - What happens if guarantees do not apply when your with profits investment ends?
3. **How do we set payouts?** page 7
 - What is an asset share?
 - How we use asset shares to set fair payouts
 - How do we set fair payouts for unitised plans?
4. **What is smoothing?** page 11
5. **What expenses do we incur?** page 12
6. **How we invest the money backing with profits plans** page 12
 - How we decide the asset mix**
 - How we manage the risks associated with investment
7. **How we manage risk** page 13
8. **What is the inherited estate and how do we use it?** page 14
9. **How we manage new business** page 14
10. **How we balance the interests of with profits planholders and shareholders** page 15

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 business for most types of unitised with profits plans that Standard Life operates in the UK. We also have separate Understanding With Profits booklets for Stakeholder plans and other types of with profits plans.

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 0845 60 60 100. (Call charges may vary.)

If we make any changes to the Heritage PPFM that materially change this booklet, we will send you a new booklet at or before the time we send you your next yearly statement. 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 investment?

Your with profits investment provides a share in the performance of a relevant with profits fund. The relevant with profits fund (the fund) is the mix of assets that we hold to back your class of with profits investment. Other features that a with profits investment may have include certain guaranteed benefits, some smoothing of investment returns, and other discretionary adjustments. We explain these features, and which assets we invest in, later in this booklet.

Understanding with profits

Unitised plans

What is a unitised plan?

With a unitised plan we allocate a number of units to your plan for each premium you pay. The with profits units allocated represent your with profits investment. We may cancel units to meet charges under your plan.

The unit price normally increases daily. This daily increase reflects any regular bonus rate we declare. Guaranteed payouts may apply at the maturity date or retirement date originally selected at the start of your plan. This date is specified in your plan documents. Guaranteed payouts may apply when those covered die, for example for whole-of-life plans such as With Profits Bonds.

See page 6
"What are your guarantees?"

For pension plans, we may sometimes allocate units using a specially increased price, and so allocate fewer units to your plan. The circumstances where we may do this are set out in your plan documents.

See page 7
"What happens if guarantees do not apply when your with profits investment ends?"

We provide the returns on unitised with profits plans through the unit price and any final bonus. In certain circumstances we may reduce the unit price when your with profits investment ends.

What are the bonuses for unitised plans?

There are two types of bonus: regular and final. We may use these bonuses to provide some of the return on with profits plans.

Regular bonus

We may increase the amount guaranteed under your plan, over time, by adding regular bonuses. We usually declare regular bonus rates once a year.

We add any regular bonus by increasing the with profits unit price each day. The regular bonus is a percentage of the unit price. This percentage may be 0%.

Final bonus

We may pay a final bonus when your with profits investment ends. The level of final bonus may change over time, and may be zero.

We may apply different levels of final bonus depending on when you invested in with profits, the type of plan you have, why your with profits investment is ending and whether you have paid all the agreed premiums when due.

Understanding with profits

See section 6
“How we invest
the money backing
with profits plans”
for details of how
guarantees affect
investment
freedom.

How we decide the bonuses for unitised plans

How we decide regular bonus

The aim of regular bonus is to build up guaranteed benefits. We try not to let guaranteed benefits become so high that they limit investment freedom too much, because this might reduce the benefits that we could eventually pay out through final bonus.

The factors affecting the regular bonuses we declare include:

- how we expect our assets to perform in the future – if our long-term view changes so that we expect lower investment returns, we may declare lower regular bonuses;
- actual returns in past years – if they have been poor we may have to declare lower regular bonuses;
- the level of regular bonus in recent years – we aim to make any changes gradually over time;
- the financial position of the Heritage With Profits fund; and
- whether the regular bonus is for pension plans or other plans, because different tax rules apply.

See section 3
“How do we set
payouts?”

How we decide final bonus

When your with profits investment ends, we assess what would be a fair payout.

If your fair payout plus any enhancement is higher than your unit value, we will pay a final bonus to make up the difference.

What are your guarantees?

Pension plans

Your guaranteed benefits apply at the retirement date originally selected at the start of your plan, provided you use them to buy an annuity at that date. In this case we generally guarantee not to reduce the unit price. The guaranteed benefits are the number of units cancelled times the unit price. This unit price guarantee may not apply to some units allocated in the previous 5 years.

If you die before retirement, the value of the units cancelled at that date is normally payable as a minimum. We guarantee not to reduce the unit price in this event.

Other plans

For most plans, your guaranteed benefits apply at the maturity date you selected at the start of your plan. Provided you have not stopped paying premiums early, we guarantee not to reduce the unit price. The guaranteed benefits are the number of units cancelled times the unit price.

For some pension plans the same guarantee, less any outstanding initial unit charges, may apply at other retirement dates not more than 5 years before the originally selected date – please see your plan documents for details.

Understanding with profits

These guaranteed benefits also apply if those covered die before the maturity date, but a higher amount may be guaranteed under the terms of your plan, which are set out in your plan documents.

With Profits Bonds have no maturity date. For these plans we guarantee not to reduce the unit price if those covered die. The guaranteed benefits are the number of units cancelled times the unit price, but a higher amount may be guaranteed under the terms of your plan. We may also guarantee not to reduce the unit price on some regular withdrawals from With Profits Bonds. Please see your plan documents for details.

What happens if you stop paying premiums to a unitised plan?

If you stop paying premiums early, fewer units will be allocated to your plan than if you had continued paying premiums throughout the term of your plan.

For pension plans, if you stop paying premiums early your guarantees in respect of units allocated to your plan are unchanged.

For other plans, if you stop paying premiums early, we may reduce the unit price at the maturity date if your fair payout plus any enhancement is less than the unit value.

See section 3
“How do we set
payouts?”

What happens if guarantees do not apply when your unitised with profits investment ends?

If your fair payout plus any enhancement is higher than your unit value, we will pay a final bonus to make up the difference.

If your fair payout plus any enhancement is lower than your unit value, we may reduce the unit price. Your payout, after any reduction, will be at least your fair payout plus any enhancement.

We are most likely to reduce the unit price if in the period since you invested in with profits:

- there has been a large fall in the value of the assets of the fund; or
- investment returns have been poor for a sustained period.

We recommend that you seek advice from your financial adviser if you are thinking about ending your with profits investment.

3. How do we set payouts?

We explained earlier that you will receive at least a fair payout when your with profits investment ends. We use asset shares as a tool to help set fair payouts. The asset share represents the underlying value of a plan; the fair payout may be more or less than this. We describe below what an asset share is and how we use asset shares, with any further adjustments, to set fair payouts. Your fair payout depends on the type of plan you have and why your with profits investment is ending. In some circumstances you could get back less than you invested.

Understanding with profits

What is an asset share?

Briefly, the asset share of a with profits policy is the accumulation at the relevant returns of the premiums paid, less any amounts withdrawn, less the deductions we make.

The relevant returns are the investment returns on the assets that back that class of with profits policies. Asset values, and so asset shares, may go down as well as up.

We publish information on the asset mix for different classes of with profits policies on our website at www.standardlife.co.uk/withprofits. You can also get a copy of this information by contacting us on 0845 60 60 100. (Call charges may vary.)

The deductions we make are normally for such things as our expenses; tax; costs of life cover, critical illness cover and guarantees; and a contribution to the capital of the Heritage With Profits Fund. For most unitised plans, these deductions (except for the cost of guarantees) correspond to charges under similar plans not invested in with profits.

When we calculate asset shares, we may need to make assumptions about the amounts to deduct for the cost of life cover and tax. If the actual cost of life cover and tax is different from these assumptions, then we may adjust the asset share (up or down) to reflect the difference.

How we use asset shares to set fair payouts

After calculating the asset share but before we set fair payouts, we may make further discretionary adjustments:

- up or down for any smoothing; and
- if you are leaving with profits early, down to the extent necessary to protect the interests of remaining planholders. For example, in certain circumstances, we may need to make additional deductions for the cost of guarantees on their plans.

Any adjustments we may make, whether up or down, may depend on why the with profits investment is ending. For example we may sometimes make smoothing adjustments for maturities and retirements where guarantees apply, but not for other types of payouts.

In addition to the fair payout, we may pay an enhancement in respect of any distribution of inherited estate.

See section 4
“What is
smoothing?”

Understanding with profits

We tell you more about the assets we hold to back with profits plans in section 6, and about the inherited estate in section 8.

As explained earlier, we will pay the higher of:

- your fair payout plus any enhancement; and
- any applicable guaranteed amount.

How do we set fair payouts for unitised plans?

If you have a With Profits Bond, your fair payout is the asset share, plus any further discretionary adjustments (up or down), for your plan.

A bonus year is from 16 November in one year to 15 November in the next.

For most other unitised plans, we use the asset share, plus any further discretionary adjustments (up or down), for typical policies for a group of plans to set payout calculation factors, which we then use for all plans in that group. We may, for example, group together plans that started in the same bonus year. We set payout calculation factors at least once a year.

We apply these payout calculation factors to your unit value to determine your fair payout. The payout calculation factor(s) may differ according to why the with profits investment is ending.

For unitised pension plans we currently apply separate payout factors to the units allocated to your plan in each bonus year and then add the resulting values together to produce your fair payout. The factors we use are based on typical single premium policies.

The following two diagrams show how the with profits payout for a unitised plan is calculated and delivered.

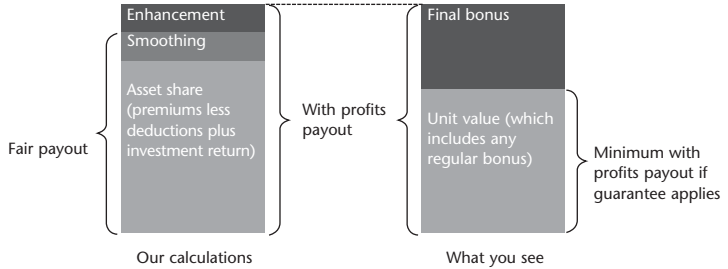
- The left-hand side of both diagrams shows a breakdown of the fair payout value of the plan at a time when we are smoothing payouts up and paying an enhancement in respect of a distribution of the inherited estate but making no other discretionary adjustments (see above).
- The right-hand side shows how the with profits payout is delivered (see section 2).

Plan values and payouts may differ in other circumstances as described above, and could result in different diagrams. The height of the boxes does not indicate the relative size of each element of the with profits payout.

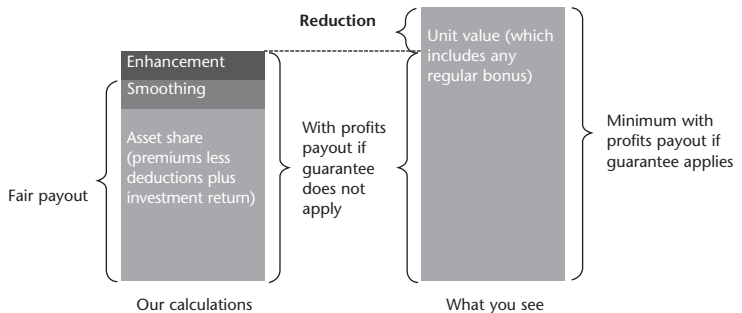
Understanding with profits

See section 8
 “What is the inherited estate and how do we use it?”

Payout diagram 1 – Fair payout plus inherited estate enhancement is higher than the unit value



Payout diagram 2 - Fair payout plus inherited estate enhancement is lower than the unit value



In the circumstances illustrated in payout diagram 2, if the guarantee does not apply we normally pay the fair payout plus any inherited estate enhancement. We do this by reducing the unit price. The **reduction**, the difference between the amount we pay and the unreduced unit value that includes regular bonus, is sometimes called a Market Value Reduction (MVR) or Market Value Adjustment (MVA).

4. What is smoothing?

We hold a wide range of assets to back with profits plans. The return on these assets will vary over time. One year the assets could go up in value, but the next they could go down. We may even out some of the fluctuations in investment returns to reduce the immediate impact of short-term changes in asset values on payouts under our with profits plans.

Smoothing is the name we give this process. We aim to smooth for payouts on maturity and retirement where guarantees apply, and we may smooth for other types of payout.

Smoothing evens out some of the effects of short-term changes in asset values. In the longer term:

- smoothing will not protect planholders from long-term falls in the value of the backing assets;
- smoothing will not stop planholders benefiting from the effects of long-term improvements in the value of the backing assets.

See section 3 “How do we set payouts?”

Sometimes we smooth up, so the fair payout of a with profits policy is higher than its asset share; and sometimes we smooth down, so the fair payout of a with profits policy is lower than its asset share. However, we aim to operate smoothing so that, over time, the total amount of the fair payouts for all with profits policies in the Heritage With Profits Fund is equal to the total value of the asset shares for those policies. When we set fair payouts using typical policies our aim is that fair payouts for the typical policies are between 80% and 125% of their asset share. We also aim to make fair payouts between 80% and 125% of asset share for With Profits Bonds.

We may sometimes reduce the amount of smoothing or apply no smoothing of investment returns at all. We may do this, for example, if there has been a rapid fall in the value of assets and we expect a significant amount of money to be leaving with profits.

If a fair payout is more than the asset share, the Heritage With Profits Fund makes a smoothing loss. If a fair payout is less than the asset share, the Heritage With Profits Fund makes a smoothing gain. When we make adjustments for any smoothing, we take account of the losses and gains that the Fund has made as a result of smoothing on past payouts. The smoothing losses and gains we will allow for are those from fair payouts made while the plan has been invested in with profits.

5. 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 asset shares and fair payouts, we make deductions for a fair share of these expenses incurred in the operation of the Heritage With Profits Fund.

6. How we invest the money backing with profits plans

We invest in a mix of assets, including:

- 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 extent of guarantees for each class of with profits plan, and the appropriate balance between risk and expected return. When we invest in assets with more variable values, there is a higher risk that the assets will have low values when we need to make payouts to planholders. In particular, the assets backing a class of with profits plan could be worth less than the guaranteed benefits. In this case the shortfall has to be met. The higher the level of guarantees for a class of plan, then the more we may have to invest in lower-risk assets with more stable values, to back that class of plan. However, we generally expect lower-risk assets to give lower returns over the longer term.

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.

Understanding with profits

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).

Sometimes we may need to reduce significantly the proportion invested in higher-risk assets such as equities and property, for example where the financial strength of the Heritage With Profits Fund reduces following a sudden or sustained fall in asset values. Any change in the asset mix is likely to result in a change in future investment returns and with profits payouts. However, this will not affect any existing guarantees.

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

7. How we manage risk

Running our business inevitably involves some risks. The largest risk is that the investment return on the with profits assets is not enough to meet plan guarantees and to maintain the financial strength of the Heritage With Profits Fund. We manage this risk by varying the mix of assets that backs with profits plans.

We also manage this risk through the deductions we make from asset shares for the cost of guarantees. We normally review these deductions once a year, but we may do so more often. We may increase these deductions if we make a loss in respect of guarantees, for example because we assess that the cost of guarantees has increased or will increase. This assessment will vary because of, for example, changes in:

- asset values;
- asset mixes; and
- regular bonus.

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.

See section 6
“How we invest
the money backing
with profits plans”

Understanding with profits

We carefully consider the significant risks associated with any particular business activity before we undertake it. 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.

Capital is needed to support any business activity. Before undertaking a business activity in the Heritage With Profits Fund we compare:

- the expected profitability of the activity; with
- the expected benefits to our with profits planholders of other uses of that capital.

8. 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 payouts.

We aim to restrict any distribution of the inherited estate to payouts for former Standard Life Assurance Company policies that have remained continuously in with profits since 9 July 2006.

9. 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. If we do ever stop selling them, we will notify you and will write to explain how we will manage our with profits business in the future.

A with profits payout will only include an inherited estate enhancement if we are making distributions from the inherited estate at the time when we make that payout.

10. 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 we set fair payouts using asset shares as a tool, and the deductions we may make from asset shares. For unitised plans, provided we meet our obligations to planholders, the shareholders are entitled to the deductions from asset shares (except deductions for tax or costs of guarantees). In return they meet the expenses and costs of life cover and of critical illness cover on these plans. For conventional plans the deductions made from asset shares remain in the Heritage With Profits Fund, and this Fund meets the expenses and cost of life cover 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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