Standard Life International

With-Profits Operating Principles for the Heritage With-Profits Fund

With explanations designed for holders of policies bought in the Republic of Ireland

Standard Life

1. Introduction

What is the purpose of this document

This document sets out our With-Profits Operating Principles (WPOPs). These are the principles by which we manage our Heritage With-Profits Fund and the business in it. It is relevant to you if you have one of the following types of policies:

Approved Retirement Funds
Synergy Approved Retirement Funds
Approved Portfolio Retirement Funds
Buy out Bond
Corporate Pension Series
Executive Pension Plus
Personal Pension Plan
Personal Pension Plus
PRSA
Tower Pension Series
Synergy Investment Bond
Synergy Portfolio Bond
Capital Savings Plan
Flexible Life Plan
Mortgage Plan
MoneyWorks Plan (Net)
MoneyWorks Plan (Gross)
MoneyWorks SSIA
With-Profits Bond
Endowment Assurance Plan
Whole of Life Plan
Early Maturity Plan
Flexible Savings Plan
MC Plan
PenPlan
Pure Endowment Personal Pension
Deferred Annuity
With-Profits Retirement Annuity

For each of the principles in the document, we have provided some further explanation to help you understand how we manage our with-profits business. The explanations are not themselves With-Profits Operating Principles (WPOPs) or part of the WPOP document as defined in Irish regulation.

This document **does not in any way change the terms and conditions of your policy**. It is designed to provide you with information to explain how we manage our with-profits business.

What is with-profits?

With-Profits is an insurance concept that allows for the pooling of risk and reward between participating policyholders.

A with-profits investment is a medium to long-term investment. It may form all or part of certain pension, or life insurance contracts. We invest the money you pay us in a mix of assets, including equities, bonds and money market instruments (including cash). The return on these assets is one of the things we use to set the payout for your policy, subject to any guarantees on your policy.

Guarantees

Guarantees are an important and valuable feature of with-profits investments. Most types of with-profits investments have them.

If a guarantee applies to your with-profits investment when it comes to an end, we will pay you at least the guaranteed amount. If your with-profits investment's payout is worth more, we'll pay a final bonus on top of the guaranteed amount.

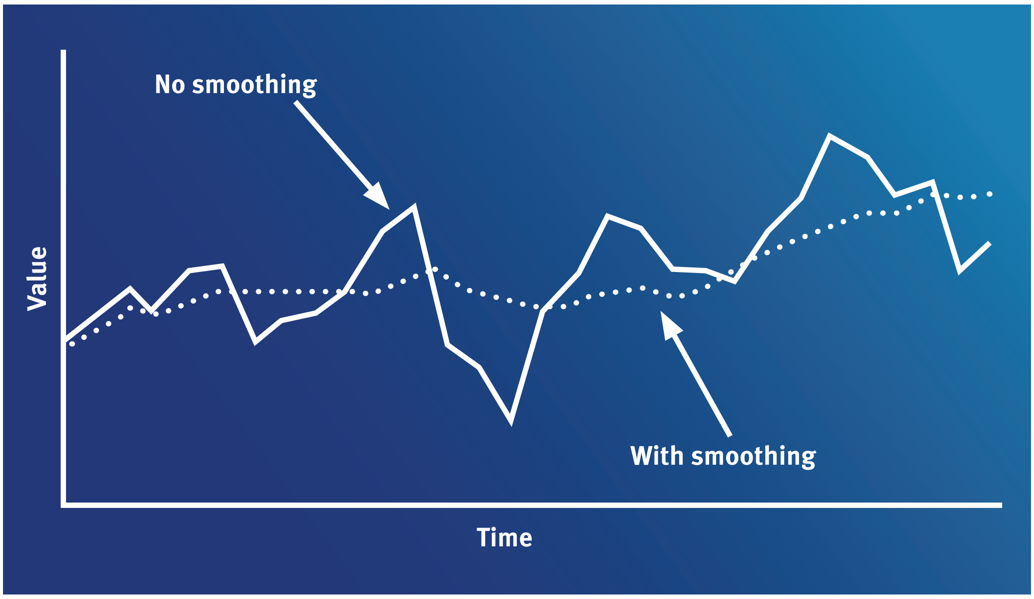
For detail of the guarantees that apply to your policy, please see your policy provisions.

Smoothing

Investment markets can be volatile and experience big highs and lows. To help protect you from short-term market movements, your with-profits investment has a feature called 'smoothing'. Smoothing evens out the ups and downs of the market and provides some protection and stability to policy values.

Smoothing generally means that when there are highs, you can benefit over time and when there are lows, your policy value doesn't immediately suffer the full effects.

In the diagram below, the solid line shows how the value of a with-profits investment could fluctuate over time without smoothing. The dashed line shows how smoothing could affect the payout value of this with-profits investment. The payout will be smoothed down at times and smoothed up at others.



This diagram is for illustrative purposes and doesn't represent actual policy performance. It is only to give you an idea of how smoothing can work.

Types of policy

There are various types of with-profits contracts, and there are principles that only apply to some types of contract. So that you can see what type of contract you have and understand which parts of this document apply to your policy, the product names and types are given in the table below.

Type	Irish products
Conventional with-profits	Endowment Assurance Plan Whole of Life Plan Early Maturity Plan Flexible Savings Plan MC Plan PenPlan Pure Endowment Personal Pension Deferred Annuity
Unitised sub-type I	Personal Pension Plan Personal Pension Plus Tower Pension Series
Unitised sub-type II	MoneyWorks Plan (Net) MoneyWorks Plan (Gross) MoneyWorks SSIA Capital Savings Plan Flexible Life Plan Mortgage Plan MoneyWorks SSIA Corporate Pension Series With-Profits Bond Personal Pension Plan Personal Pension Plus PRSA Executive Pension Plus
With-Profits Annuity	With-Profits Retirement Annuity

Important background

Your policy participates in the Standard Life International designated activity company ("SL International", an Irish regulated entity) Heritage With-Profits Fund ("SL International HWPF"). The following events were key to the creation of this fund:

- **10 July 2006** The Standard Life Assurance Company demutualised and transferred substantially all of its existing business into the Heritage With-Profits Fund of the UK company Standard Life Assurance Limited ("SLAL").
- **29 March 2019** In order to protect customers from the risk that their policies cannot be serviced following an exit of the United Kingdom from the European Union, the Irish, German and Austrian business in the SLAL Heritage With-Profits Fund was transferred from SLAL to SL International and simultaneously reinsured back to the Heritage With-Profits Fund of SLAL. The terms of the reinsurance arrangement ensure that this euro denominated with-profits business continues to participate in the SLAL Heritage With-Profits Fund ("SLAL HWPF").

These transfers were sanctioned by the Court of Session in Scotland and the terms of the transfer were set out in a Scheme of Transfer document. They set out rules for the management of the transferred business after transfer. These rules are a key protection for customers whose policies were transferred as well as other customers of the companies involved. The Scheme that transferred business to SLAL on demutualisation (the "Demutualisation Scheme") and the one that transferred the business to SL International (the "Brexit Scheme") are key elements of the context in which the SL International HWPF operates.

In addition to the Terms and Conditions of your policy, there are other requirements that Standard Life must follow when managing your policy. These other requirements come from:

- Irish regulatory requirements (as SL International is an Irish company); and
- The requirements of the Court sanctioned Demutualisation and Brexit Schemes

The With-Profits Operating Principles are the principles used by Standard Life to manage the business within this framework. As the business is fully reinsured from SL International to SLAL, much of the activity covered by these principles is performed by SLAL on behalf of SL International. Your policy is with SL International who as insurer is responsible for the management of your policy.

Standard Life aims to optimise investment returns and provide growth over the long term, while continuing to maintain an appropriate level of financial strength to support our promises.

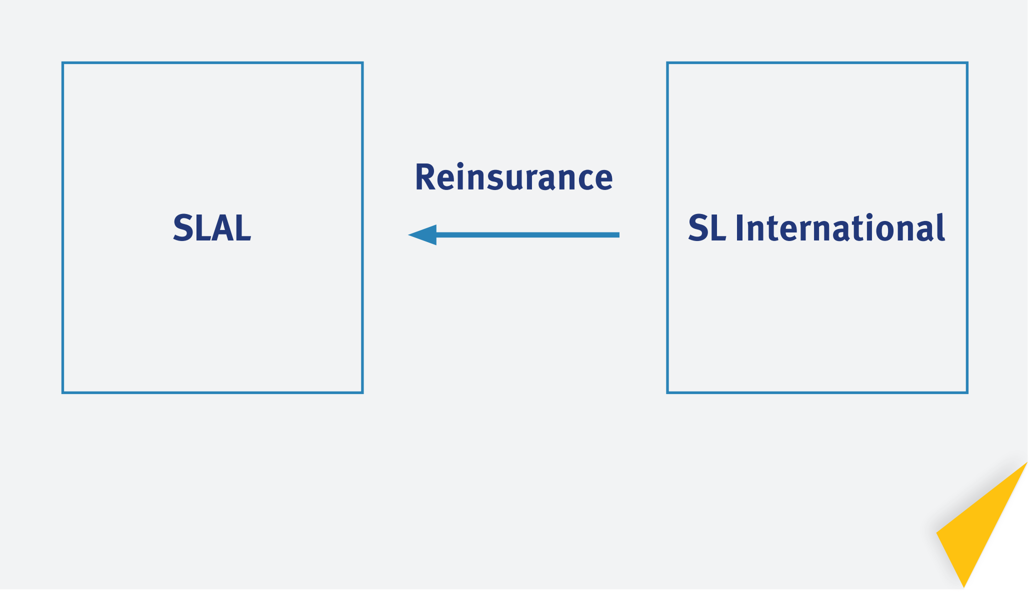
Reinsurance

All of the business in the SL International HWPF is reinsured to Standard Life Assurance Limited (SLAL) HWPF fund. The SLAL HWPF is the fund the business participated in before the transfer to SL International.

The reinsurance of the SL International Policies to the SLAL HWPF means that the Irish, German and Austrian policyholders continue to share in the experience of the SLAL HWPF.

SL International monitors and can take action under the reinsurance to protect the interests of its customers, including being able to end the arrangements under certain circumstances.

As the business is reinsured to SLAL, much of what is described in this document is performed by SLAL through the application of principles to the management of the SLAL HWPF. References to the Heritage With-Profits Fund in the principles should be read to include both the SLAL HWPF and the SL International HWPF unless otherwise stated. Due to the reinsurance, such references will generally be of primary practical relevance to activity carried out by SLAL in respect of the SLAL HWPF.



The SLAL Heritage With-Profits Fund, HWPF

When The Standard Life Assurance Company demutualised in 2006, substantially all of the business was transferred to the SLAL HWPF. The fund therefore contains with-profits and non with-profits policies.

Detailed rules that SLAL must follow when managing the SLAL HWPF are set out in the Demutualisation Scheme. These rules provide important protections for customers, including in relation to the way the fund is managed and how much profit generated by the fund is allocated to shareholders and how much to the fund itself. These rules apply to the SL International contracts reinsured into the fund and to the UK customers and must be applied taking into account all other legal requirements.

The fund was set up under the terms of the Demutualisation Scheme. The profits from the HWPF that shareholders are entitled to are also defined in the Demutualisation Scheme. All other profits form what is called the “Inherited Estate” in the HWPF. Detailed information on the Demutualisation Scheme was provided in the material sent to you at demutualisation.

The Inherited Estate is the assets in the HWPF that are on top of those needed to meet policyholder liabilities. These assets are an important part of the fund as they provide security and the potential for enhancements to payouts for eligible policyholders of the fund.

The With-Profits Actuary and the With-Profits Committee

The rules that apply to us mean that we need to have a With-Profits Committee (WPC) and a With-Profits Actuary (WPA). Our With-Profits Committee, with majority independent[1] membership, helps us make sure your interests are protected. The WPA and WPC provide an additional layer of protection to the customer.

The **With-Profits Committee** provides advice to Standard Life on fair treatment for its with-profits policyholders and raises any issues that it feels Standard Life needs to consider.

The WPC’s duties cover:

- **Treating you fairly** - The Committee reviews the decisions that Standard Life proposes to take that could impact with-profits policies to make sure they’re fair for all with-profits policyholders. If it feels they’re not, it will challenge Standard Life to justify them
- **Speaking up for you** - The Committee doesn’t deal with individual customer complaints or queries, but it regularly reviews information about with-profits complaints to make sure Standard Life is treating customers fairly. If the Committee thinks there are any issues that Standard Life should be doing more about, it will raise them

Standard Life’s **With-Profits Actuary** also has a responsibility to advise on the fair management of with-profits business. The Committee discusses all relevant issues with the With-Profits Actuary. The Committee meets at least quarterly and more frequently if required.

The reinsurance arrangements mean that the WPC and WPA are within SLAL. These legal arrangements mean that the SLAL WPA and WPC must consider the interests of customers of SL International in the same way as they do customers of SLAL.

Further information on the WPC and WPA is available on request.

[1] The majority of members are independent of Standard Life and the Phoenix Group.

2. With-Profits Operating Principles (WPOPs)

The WPOPs are set out in bold and numbered in this section. All other text is to help explain the principles and is not part of the principles themselves. The principles are relevant to all contracts except where stated otherwise.

General Principles

This section sets out general principles that are applied in managing the business:

1. **The business in the SL International HWPF may be reinsured to the SLAL HWPF for as long as this remains in the interests of customers.**

Through the reinsurance the returns of your policy are linked to the returns achieved in the SLAL HWPF. This means that despite the transfer of your policy to SL International, you continue to participate in the performance of the SLAL HWPF.

The interests of the SL International policyholders are protected by security arrangements in favour of SL International. Under these arrangements SL International has a fixed and a floating charge over certain assets of SLAL.

The reinsurance will only remain in place so long as it is in the interest of customers.

For business written in the UK, companies set out their principles in a document known as the Principles and Practices of Financial Management ("PPFM"). The remaining principles, with the exception of numbers 1, 8, 39 and 45, in this WPOP correspond to those in the SLAL PPFM and at times refer to the SLAL PPFM. This document gives explanation of these principles[2].

2. **All references in these principles to the "financial position of the Heritage With-Profits Fund" shall mean the financial position of a Notional Company, in accordance with the terms of the Demutualisation Scheme, determined at that point in time.**

   For the avoidance of doubt, any projection of the financial position of the Heritage With-Profits Fund to a future date will reflect events that are expected, in the projection scenario in accordance with the PPFM, to have happened before that future date. That is, we take account of the transfer of any shareholder cashflows out of the Fund and any distribution of any Inherited Estate that are expected to have happened before the relevant future date.

The Demutualisation Scheme requires Standard Life to make certain decisions, which are at its discretion such as decisions on investment risk taken, on a basis of a notional standalone mutual company (called the Notional Company).

3. **We aim to treat our with-profits policyholders fairly. Standard Life will operate the with-profits business in the Heritage With-Profits Fund in accordance with the principles set out in the WPOP and in accordance with the terms of the Demutualisation and Brexit Schemes.**

The legal arrangements between SLAL and SL International require SLAL to treat the interests of SL International customers participating in the SLAL HWPF fund in the same way as they would were they SLAL customers.

Treating customers fairly is central to how we manage our business.

4. **Any changes to the principles in this WPOP must be approved in advance by the SL International Board. SL International with-profits policyholders will be notified of material changes normally at least four weeks in advance of these becoming effective.**

This means that you will hear about any material changes to this WPOP before they become effective. Such changes would always allow for all applicable law and regulation and the terms and conditions of your policy.

[2] The SLAL PPFM is available here: https://www.standardlife.ie/my-standard-life/useful-guides

5. **In managing the with-profits business in accordance with this WPOP the SL International Board may delegate to appropriate committees or persons such of its authorities as the SL International Board may determine from time to time, including the exercise of any discretion vested in Standard Life. Any such delegation will be appropriately documented. SLAL Board may do similarly in respect of the management of its with-profits business in accordance with its PPFM.**

Such delegations are part of normal management within an insurance company.

6. **Standard Life may enter into material transactions relating to the Heritage With-Profits Fund provided that, in the reasonable opinion of Standard Life, the transaction is unlikely to have a material adverse effect on the interests of the Heritage With-Profits Fund's existing with-profits policyholders.**

This principle as well as those in the Demutualisation Scheme are designed to protect the customers against transactions that are not in their interests.

7. **Standard Life may make a loan to a connected person, or give a guarantee to, or for the benefit of a connected person, using assets in the Heritage With-Profits Fund provided that it is on commercial terms, and, in the reasonable opinion of Standard Life, will be beneficial to the with-profits policyholders in the Heritage With-Profits Fund, and will not expose them to undue credit or group risk.**

This principle as well as those in the Demutualisation Scheme are designed to protect the customers against transactions that are not in their interests.

A connected person is a party connected with Standard Life in the way defined by UK Financial Conduct Authority (FCA) regulation.

How the policy benefits are determined

If your policy terms include a guaranteed payout, when the guarantee applies your payout will always be at least the guaranteed amount set out at policy inception. The amount you may get on top of this will be set by the level of what are known as regular and final bonuses.

8. **So long as the SL International contracts remain reinsured to SLAL, SL International will declare bonuses that correspond to the ones declared by SLAL.**

The declaration of the same bonus level means that the SL International customers get all the bonus that is declared by SLAL in respect of their policies and none is retained by the SL International shareholder. This is in line with the arrangements set up with the Brexit Scheme in order to protect the policyholders transferring to SL International.

Principles in relation to Setting Regular Bonuses

9. **Regular bonuses are declared at the discretion of Standard Life. Regular bonuses are set at levels which aim to achieve a gradual build-up in guaranteed with-profits policy benefits whilst not unduly constraining the investment freedom and the prospects for final bonuses. In setting regular bonus rates, Standard Life also takes into account the current and projected financial position of the Heritage With-Profits Fund and, were it necessary, would set regular bonus rates to zero.**

10. **Regular bonus rates are set for each relevant class of with-profits policy and/or sub-fund and reflect its characteristics, including any guarantees. Standard Life will declare separate regular bonus rates where we believe significant differences between with-profits policy classes and/or generations of a with-profits policy class and/or sub-funds make this appropriate in the interests of fairness, both to the with-profits policyholders affected and to the with-profits policyholders as a whole.**

Regular bonuses are usually declared once a year. The regular bonus rates may be zero. We aim to avoid changes to regular bonus rates that are too great from declaration to declaration

Principles in relation to Setting Payouts

This section covers general principles that are applied by Standard Life when setting payouts for your policy.

Asset shares are used as a tool to help calculate fair payouts. The asset share of a policy is made up of the premiums paid in, less any withdrawals plus investment returns on the assets less charges; costs; contribution to the cost of guarantees; and taxes. It is a tool that allows for the appropriate allocation of the returns generated by the fund between different groups of policies.

For Conventional policies, asset shares are calculated for relevant representative policies, each with characteristics that reflect a group of Conventional policies. These asset shares (after any smoothing and any other discretionary adjustments are applied) are used in the determination of payout calculation factors, which may take the form of final bonus rates, that are used to determine final bonuses and payouts. We set payout calculation factors for each group of Conventional policies at least once a year and may set them more frequently to meet our aims set out in this PPFM, for example to maintain fairness between generations of policyholders.

For Unitised Sub-type I policies, asset shares are calculated for relevant representative policies, each with characteristics that reflect a group of Unitised Sub-Type I policies. These asset shares (after any smoothing and any other discretionary adjustments are applied) are used in the determination of payout calculation factors, which may take the form of final bonus rates, that are used to determine final bonuses (or Unit Price Adjustments) for payouts. We set payout calculation factors for each group of Unitised Sub-type I policies at least once a year and may set them more frequently to meet our aims set out in this PPFM, for example to maintain fairness between generations of policyholders.

For Unitised Sub-type II policies, payouts are determined directly from individually calculated asset shares (after any smoothing and any other discretionary adjustments are applied). This calculation will determine the final bonus (or Unit Price Adjustment) for each payout. The payouts for some Irish business are calculated in a consistent way as above but do not have investment guarantees, regular bonuses or final bonuses.

The payout for any claim will be no lower than any guaranteed benefit payable in accordance with the terms and conditions of the policy for that type of claim.

11. **Our aim is that, subject to meeting all contractual obligations and maintaining an adequate financial position for the Heritage With-Profits Fund, payouts on a with-profits policy (including any final bonus applying) should fairly reflect the experience of the Heritage With-Profits Fund applicable to such a policy, after any adjustments for smoothing, and any distribution of the Inherited Estate deemed appropriate by Standard Life.**

This principle sets out the key rules for applying discretion.

Firstly, all payouts will be set to meet contractual obligation and to maintain the HWPF financial position.

Payouts will also be set to allow fairly for the experience of the fund and smoothing. Experience means what happens to the fund, for example the returns achieved on investments.

12. **In order to determine payout levels Standard Life uses a variety of methods reflecting the different classes of with-profits policy and/or types of unit sub-fund.**

This principle simply allows us to use different approaches for different classes of policies, one example being that for unitised sub-type II policies final bonuses are usually set on an individual policy level while for conventional policies final bonuses are usually declared for classes of policies. Our approach ensures that a differentiation between individual policyholders or groups of policyholders is based on due consideration and justified.

13. **When setting payout levels, Standard Life seeks to ensure fair treatment between those with-profits policyholders who choose to withdraw and those who remain.**

When applying the discretion we have in setting payouts we seek to strike an appropriate balance between policyholders leaving and policyholders staying.

14. **Other than for minor classes of with-profits policies (constituting less than 10% of total SLAL HWPF with-profits liabilities) where alternative methods may be used, in order to ensure equity between different groups of with-profits policies, Standard Life determines payouts by reference to asset shares.**

As its standard approach, Standard Life determines payouts by reference to asset shares. This principle grants the possibility to deviate from this standard approach for smaller blocks of business. All unitised business follows the standard approach.

15. **In calculating with-profits asset shares, Standard Life will make fair deductions where appropriate to reflect its assessment of the cost of guarantees.**

Your policy may have guarantees as set out in your policy documents. To finance these guarantees assets will be set aside in the form of guarantee deductions. These assets remain in the fund. If it is foreseeable that part of the guarantee deductions isn't needed any more to pay for guarantees, this part will be fed back into asset shares. Taking guarantee deductions is part of the discretion applied in arriving at the final bonus or transfer/surrender value (as applicable) that you receive in line with your policy provisions.

16. **Other than those described in this document, no deductions will be made from the asset shares of with-profits policies unless and to the extent that the Inherited Estate has been exhausted and the expected value of future shareholder cashflows has been applied to meet liabilities of the Heritage With-Profits Fund (other than the liability to make a transfer to shareholders).**

The asset shares are used as a tool to help determine payouts. In extraordinary circumstances where the SLAL HWPF's financial position is very weak, this principle allows SLAL to make deductions from assets shares on top of the other deductions described in this document. These deductions will not change any guaranteed values. Taking these deductions is part of the discretion applied in arriving at the final bonus or transfer / surrender value (as applicable) that you receive in line with your policy provisions.

17. **In normal circumstances, Standard Life seeks to smooth payouts to with-profits policyholders at the time of claims due to maturity.**
18. **Standard Life may, at its discretion, also provide some smoothing of payouts for death claims, and some or all types of withdrawal, at the time of payment.**
19. **Standard Life aims to operate smoothing of payouts in such a way as to be neutral for with-profits policyholders as a whole over time, but the payout applicable for any individual policyholder may be impacted positively or negatively by the application of smoothing. Smoothing formulae will be set from time to time to take into account current and expected economic conditions.**

Smoothing is a mechanism for the collectivisation of risk within with-profits business. The application of smoothing includes the use of parameters that are influenced by current and expected economic conditions.

Smoothing can have a positive or a negative impact on an individual policy, but we aim for the impact on policyholders overall to be neutral. This means that Standard Life will not have any gain or loss from smoothing applied in the operation of the with-profits funds. All effects from smoothing are only shared within the community of policyholders.

20. **Standard Life regularly monitors the expected and actual smoothing profits and losses. These profits and losses will normally be reflected in payouts of the remaining with-profits policyholders.**
21. **The methodology and parameters used in payout calculations may, of necessity, involve some measure of approximation. Standard Life reviews regularly the methodology and parameters used and sets parameters on bases appropriate for the with-profits class and/or unit sub-fund concerned.**

The methodology and parameters used will always be applied in a way that it is consistent with:

- The fair treatment of With-Profits Policyholders; and
- The terms and conditions of the relevant policies

In treating customers fairly we consider the different interests of the policyholders and the insurance collective in an appropriate way.

22. Standard Life may change historical parameters applied in asset share calculations in the light of subsequent information about actual experience, subject to the requirement to treat policyholders fairly.

23. Variations between the historical parameters and the actual experience of with-profits policies may be directly attributed to, or met by, the asset shares of with-profits policies through experience adjustments.

Any such adjustments will always be applied in a way that it is consistent with:

- The fair treatment of with-profits policyholders; and
- The terms and conditions of the relevant policies

Principles in relation to charges and expenses

24. Standard Life will make deductions from asset shares for expenses and charges. We aim to apply to each class of with-profits policies, over time and so far as is practical, no more than the appropriate charge or the appropriate share of the expenses incurred by The Standard Life Assurance Company prior to its demutualisation or charged to the Heritage With-Profits Fund post demutualisation in accordance with the Demutualisation Scheme.

The expenses and charges deducted from an asset share are those that are appropriate to the class of business to which the asset share applies.

Up until demutualisation that was the appropriate charge or the appropriate share of expenses incurred by the mutual Standard Life Assurance Company.

After demutualisation it is the appropriate charge or the appropriate share of expenses charged to the HWPF in accordance with the Demutualisation Scheme.

Neither expenses nor charges impact any guaranteed maturity or guaranteed surrender value quoted.

25. In accordance with the Demutualisation Scheme the only expenses which may be charged to the Heritage With-Profits Fund in respect of with-profits business are those which in the reasonable opinion of Standard Life have been incurred or will be incurred in the operation of the Heritage With-Profits Fund.

This principle means that the HWPF does not pay for things that are not related to the HWPF business.

The financing of guarantees

26. Standard Life will, in calculating with-profits asset shares and determining Declared Rates of Return, make fair deductions to reflect its assessment of the cost of guarantees.

In order to help ensure that the HWPF is able to pay the guarantees that it provides, assets are set aside within the fund. This setting aside of assets is done in a systematic manner that is fair to the different groups of policyholders. Taking guarantee deductions is part of the discretion applied in arriving at the transfer/surrender value that you receive in line with your policy provisions.

Principles in relation to how the With-Profits Assets are invested

Standard Life aims to optimise investment returns and provide growth over the long term, while continuing to maintain an appropriate level of financial strength to support our promises.

27. Within certain constraints determined and reviewed from time to time by Standard Life, Standard Life may invest in assets where the future return is uncertain (i.e. that are subject to market risk and other risks), where it believes this is appropriate in terms of the returns likely to be achieved. Standard Life usually invests its with-profits assets in a wide range of asset classes, usually including equities, property, bonds and cash. This may be achieved through holding appropriate derivative contracts as well as the underlying assets themselves.

The return on investment assets is uncertain and the level of uncertainty varies between investments. The fund can be invested in a wide range of assets, subject to the fulfillment of the other principles; legal and regulatory constraints; and subject to the risk taken being regarded as appropriate given the returns likely to be achieved.

28. The investment policy for the Heritage With-Profits Fund shall be determined subject to such constraints as may be necessary to ensure that the financial position of the Heritage With-Profits Fund is adequate in the opinion of Standard Life.

In deciding which assets to invest in, Standard Life will give due consideration to the financial security of the HWPF. This will be done giving due regard to the rules set out in the Demutualisation Scheme, the Brexit Scheme and applicable law and regulation.

29. The investment policy for the Heritage With-Profits Fund shall have regard to the nature of the liabilities of the Heritage With-Profits Fund including guarantees on with-profits policies and, in particular, (i) seek to match the liabilities in respect of non with-profits policies allocated to the Heritage With-Profits Fund with assets of an appropriate nature and term and (ii) have regard to the reasonable expectations of the holders of with-profits policies in the Heritage With-Profits Fund and the duty to treat them fairly.

This principle sets out what has to be taken into account when setting the investment policy of the HWPF. This will be done giving due regard to the rules set out in the Demutualisation Scheme, the Brexit Scheme and applicable law and regulation.

30. The investment policy is reviewed regularly by Standard Life to ensure its continued suitability in terms of liquidity, risk (including counterparty risk) and likely return, given the obligations and financial position of the Heritage With-Profits Fund.

Liquidity is the ability to make payments when they fall due. It is important that the fund invests in assets that don't create any difficulty here. Different assets have different levels of risk and different levels of return. Standard Life considers risk and return when choosing assets for the HWPF. Different groups of policies are backed by different asset mixes in order to allow for appropriately for the differences between groups of policies.

31. We will not back asset shares of policies in the Heritage With-Profits Fund with assets that are, because of their importance to the Phoenix group, not normally traded.

This principle provides policyholders protection from potentially inappropriate investments and conflicts of interest. An example of assets not normally traded is subsidiary companies.

32. The investment return attributed to the asset shares of a particular group of with-profits policies will reflect the net investment returns on the mix of the assets notionally backing that group of business.

Different groups of assets are notionally assigned to the asset shares of different types of policies. The return for each group will reflect the assets that are assigned to it in this way. The fund invests in different assets, as is typical these investments are subject to charges and other costs for investment management and these are allowed for before the calculation of the asset shares.

33. In determining from time to time how the assets of the Heritage With-Profits Fund shall be invested, Standard Life shall use all reasonable endeavours to ensure that the Heritage With-Profits Fund is treated fairly compared with its other funds.

Standard Life manages several funds in addition to the HWPF. This principle means that they will always aim to manage the fund in a way that is fair to policyholders.

34. Subject to the above principles, we will seek to optimise the investment return on assets backing with-profits policies.

Standard Life will endeavour to select investments that, once all other investment management principles have been allowed for, give customers the best return.

Principles in relation to how Business Risk is managed

There is risk associated with all insurance business and the following principles are those Standard Life works to when managing this risk, within the legal and regulatory framework described in section one. An example of business risk is the risk associated with writing new business in the HWPF.

SL International considers the approach to business risk when assessing the continued appropriateness of reinsurance to SLAL.

35. Standard Life will undertake business risk on behalf of with-profits policyholders in the Heritage With-Profits Fund only if Standard Life considers that such business risk will, over time, provide benefits to the with-profits policyholders in the Heritage With-Profits Fund and is within the limitations set out in the Demutualisation Scheme.

This means that Standard Life will not take on risk for the HWPF that is not expected to be in the interests of policyholders of the HWPF or that is not consistent with the rules in the Demutualisation Scheme. This principle therefore serves to protect policyholders.

36. Standard Life will undertake business risk in the Heritage With-Profits Fund (including, but not limited to, the writing of new business) only if it is not expected to (i) materially and adversely affect the reasonable expectations of existing with-profits policyholders; (ii) materially and adversely affect the quantum of any Inherited Estate; and (iii) impose any material constraint on the manner and timing of any distribution of any Inherited Estate to eligible with-profits policies.

This principle is a further control on level of the risk taken and means that policyholders can be sure that Standard Life will only take on risk if:

- There is no material adverse impact for HWPF policyholders
- There is no material adverse impact on the size of the Inherited Estate; and
- It does not materially limit how and when the Inherited Estate is distributed

37. The significant risks associated with particular business activities are carefully considered by Standard Life before being undertaken by the Heritage With-Profits Fund and are reviewed regularly thereafter.

The regular review of such activity means that if the risks associated with it change, the approach used for the HWPF can change too.

38. Any profits or losses resulting from business risks allocated to the Heritage With-Profits Fund in accordance with the Demutualisation Scheme will fall to the Inherited Estate. Any such losses will be met by the asset shares of with-profits policies only if and to the extent that the Inherited Estate has been exhausted and the expected value of future shareholder cashflows have been applied to meet liabilities of the Heritage With-Profits Fund (other than the liability to transfer these cashflows to shareholders).

Profits and losses that belong to the SLAL HWPF following the rules of the Demutualisation Scheme are allocated to the Inherited Estate. If there are losses, then these are paid for by the estate. In the extreme scenario that the losses are very large and there is not enough estate and monies that would normally be transferred to shareholders have all been used up, the asset shares allocated to policies would be reduced. This does not impact the guarantees under your policy.

39. The SL International Heritage With-Profits Fund will not bear the counterparty risk or operational risk associated with the reinsurance to SLAL; these risks are borne by the SL International shareholder.

The business in the SL International HWPF is reinsured to SLAL. There is a risk associated with any reinsurance contract that the reinsurer cannot honour its obligations. Here it is the risk that SLAL cannot honour its obligations to SL International under the reinsurance. This risk is not allocated to the SL International HWPF but to the SL International shareholder. This means that in line with the rules of the Brexit Scheme the SL International HWPF does not bear business risks in addition to those that are reinsured to SLAL under the reinsurance arrangements. This principle therefore serves to protect policyholders.

Principles in relation to the Role of the Inherited Estate

40. Subject to the constraints elsewhere in this WPOP, Standard Life will seek to retain an Inherited Estate of a size it considers appropriate to prudently cover amounts that may be charged to the Heritage With-Profits Fund in accordance with the Demutualisation Scheme. Any Inherited Estate considered by Standard Life to be in excess of the amount needed for this purpose shall be distributed over time as enhancements to payouts.

This principle is designed to mean that the management of the fund is such that the estate is kept at such a level as to cover the liabilities of the HWPF when considered prudently and that any estate in excess of this level is distributed over time as part of payouts on policies. A distribution of the Inherited Estate could be included in the final bonus you receive on maturity or death and could be part of the transfer/surrender value you receive on surrender.

41. Should the Heritage With-Profits Fund ever close to new with-profits business it is not expected that there would be any material impact upon the quantum, or manner and timing of the distribution, of any Inherited Estate.

Whilst new business is limited by the application of principles 42 and 43, the SLAL HPWF is not formally closed.

The fund is managed so that no material impact is expected on how, when, and at what level the Inherited Estate is paid to policyholders if it closes to all types of new business.

Principles in relation to management of New Business

42. The Heritage With-Profits Fund may write new business if it arises from increments to existing policies in the Fund, an option under an existing policy in the Fund, or in other limited circumstances set out in the Demutualisation and Brexit Schemes, subject in each case to any relevant contractual obligations and the reasonable expectations of with-profits policyholders.

This principle and the next one aim to protect you against new business being written that would have a negative impact on how much you are paid under your policy.

43. The SLAL Heritage With-Profits Fund may also accept other new business provided that such new business is not expected to (i) materially and adversely affect the reasonable expectations of existing with-profits policyholders; (ii) materially and adversely affect the quantum of any Inherited Estate; and (iii) impose any material constraint on the manner and timing of any distribution of any Inherited Estate to eligible with-profits policyholders.

This principle and the previous one aim to protect you against new business being written that would have a negative impact on how much you are paid under your policy.

Principles in relation to equity between policyholders and shareholders

The following principles are ones that are designed to appropriately balance the interests of HWPF policyholders and shareholders. So long as the business is reinsured from SL International to SLAL, these principles are primarily of practical application in SLAL.

44. Shareholders are only entitled to the shareholder cashflows arising on specific blocks of business in the Heritage With-Profits Fund. Both the cashflows and the blocks of business are defined in the Demutualisation Scheme. All profits and losses and experience adjustments, excluding shareholder cashflows, arising in the Heritage With-Profits Fund remain within the Heritage With-Profits Fund and will be utilised in accordance with the principles elsewhere in this WPOP.

Please see the explanation that follows principle 45 and gives explanation of both 44 and 45.

45. Whilst the SL International HWPF With-Profits business is reinsured to SLAL, SL International pay its HWPF with-profits customers payouts that are as much as those they would receive were they SLAL customers. The SL International shareholders are not entitled to cashflows from the SL International HWPF whilst the business is reinsured to SLAL.

The Demutualisation Scheme sets out rules for how SLAL must manage the SLAL HWPF. These rules are an important protection for customers whose policies are linked to the SLAL HWPF. The rules include those that define the cashflows that can be allocated to the SLAL shareholder from this fund.

The only cashflows that will be allocated to shareholders are those that they are entitled to get under the rules of the Demutualisation Scheme, the rest will stay in the HWPF and be managed in line with the rest of the Principles. These cashflows only affect the size of the Inherited Estate Distribution.

The arrangements put in place at Brexit mean that SL International is not entitled to cashflows from the SL International HWPF, whilst the reinsurance is in place. Payouts made by SLAL to SL International for the policies covered by the reinsurance arrangements will go to the beneficiaries of these policies and not to SL International shareholders.

46. The shareholder cashflows can, other than in specific circumstances defined in the Demutualisation Scheme, be varied only with the consent of the Court. Any application to the Court must be accompanied by a certificate from an independent expert to the effect that, in his opinion, the proposed variation will not materially and adversely affect the reasonable expectations of policyholders. The Financial Conduct Authority also has the right to be heard by the Court. In certain limited circumstances set out in the Demutualisation Scheme, different conditions apply to the variation of these shareholder entitlements.

This principle is a protection for policyholders against arbitrary changes in shareholder cashflows.

The rules for how much, when, and how shareholders cashflows are paid can only be amended with approval of the Scottish Court. Any such change would also require a certificate from an Independent Expert certifying that the change would not materially adversely impact policyholders' reasonable expectations. The UK regulator, the FCA, has a right to be heard by the Court as part of the process, something which is a further protection for policyholders. The UK regulators and Scottish Court is relevant because SLAL is a Scottish company.

47. The shareholder entitlement to the shareholder cashflows is subject to the Heritage With-Profits Fund being able to continue to meet its liabilities following the transfer of the cashflows out of the Heritage With-Profits Fund. Standard Life will not take any action to increase the likelihood of making the transfer of the shareholder cashflows if such action would be contrary to policyholders' reasonable expectations or the obligation to treat customers fairly. Subject to this Standard Life is under no obligation to take any action in managing the business in the Heritage With-Profits Fund that would be expected to reduce the availability of the shareholder cashflows to shareholders.

Shareholders are only entitled to the shareholder cashflows when taking them does not stop the with-profits fund meeting its liabilities. Standard Life will not do things that increase the likelihood of the shareholder cashflows being made if these actions go against the reasonable expectation of with-profits fund policyholders or the need to treat them fairly. There is no obligation however for Standard Life to take actions that would be expected to reduce shareholder cashflows when managing the fund for any other reason.

For more information on with-profits, please visit www.standardlife.ie/withprofits

Find out more

Talk to your financial adviser. They'll give you the information you need. Further information can be found in your policy provisions. Also, you can call us or visit our website

(01) 639 7000

Mon-Fri, 9am to 5pm. Calls may be monitored and/or recorded to protect both you and us and help with our training. Call charges will vary.

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