

Changes to the Floating Charge

1. CURRENT STRUCTURE

- 1.1 SLIF granted two floating charges in favour of a Security Trustee. An independent third party, Law Debenture, performs the role of Security Trustee under a Security Trust Agreement.
- 1.2 The first floating charge covers the assets, from time to time, in the property-linked funds of SLIF backing the property-linked liabilities of SLIF to Standard Life Assurance Limited (**SLAL**), Standard Life Pension Funds Limited (**SLPF**) and a number of external reinsureds who are using Standard Life insured funds as external fund links.
- 1.3 The second floating charge covers the balance of SLIF's long-term insurance business assets and provides security for SLIF's remaining liabilities to SLAL; the security would also cover SLPF in the event that SLPF reinsured non-linked liabilities with SLIF.
- 1.4 The floating charges crystallise on the appointment of a liquidator, receiver or administrator in respect of SLIF and, at that date, it attaches to the property covered by the charges. If a crystallisation event occurs, the Security Trustee will enforce the charges and pay the monies that it recovers (after the deduction of expenses and any monies that have to be made available to ordinary creditors) under:
 - 1.4.1 the property-linked floating charge to the property linked beneficiaries (SLAL, SLPF and the external reinsureds) pro rata by reference to the property-linked liabilities owed to them by SLIF; and
 - 1.4.2 the non-linked floating charge to non-linked beneficiaries (SLAL and, to a much lesser extent, SLPF) pro rata by reference to the non-linked liabilities owed to them by SLIF.
- 1.5 The ranking of creditors of insurance companies is governed by the Directive of the European Parliament and the Council of 19 March 2001 on the Reorganisation and Winding Up of Insurance Undertakings (2001/17/EC) and the Insurers (Reorganisation and Winding Up) Regulations 2004 (SI 2004/353). Under these provisions, direct insurance debts rank above ordinary debts but SLIF's debts to SLAL, SLPF and the external reinsureds are reinsurance debts and they have no such preference. The ranking can be changed by the use of the floating charges.

2. BACKGROUND TO THE PROPOSED AMENDED STRUCTURE

- 2.1 If no amended security structure is set up and SLAL assumes SLIF's role as reinsurer, SLPF and the external reinsureds rank behind SLAL's direct policyholders. This means that SLAL's direct policyholders would be paid out in full before any monies are paid to SLPF and the external reinsureds. This position will be unacceptable to the external reinsureds.
- 2.2 It is proposed that the property-linked floating charge and the Security Trust Agreement are transferred under Scheme and that SLAL replaces SLIF as chargor under the property-linked floating charge, with SLPF and the external reinsureds as beneficiaries. The key points of the proposed amended structure are explained below.

3. KEY POINTS ON THE PROPOSED AMENDED STRUCTURE

3.1 Scope of the charged property

Within SLIF, the charged property is the property-linked assets reinsured by SLAL, SLPF and a number of external insurers. SLAL did not reinsure its German property-linked funds nor a unit endowment policy to SLIF so, once the charge is transferred to SLAL, it is necessary to

amend the property-linked floating charge in order to limit the scope of the charged property to the UK and ROI funds (and to exclude the unit endowment policy). This ensures that the scope of the charged property is unaltered.

3.2 **Section 176A of the Insolvency Act 1986**

The documents have been updated to make specific reference to the statutory requirement to set aside a share of the realisations to satisfy unsecured creditors (defined as S176A Sums).

3.3 **SLAL cannot remain a beneficiary of the charges**

As a consequence of the Part VII scheme, the non-linked floating charge is intended to be discharged as SLAL is the sole beneficiary under that charge. (Although SLPF is named as a beneficiary of the non-linked floating charge, it has not reinsured any such liabilities to SLIF.) SLAL cannot remain a beneficiary under the property-linked floating charge and be the chargor at the same time and this has required a number of amendments to both the property-linked floating charge and the Security Trust Agreement.

3.3.1 **Amount secured**

In order to maintain the position that each beneficiary receives their share of the property-linked proceeds on a crystallisation event, it has been necessary to introduce a number of formulae into the charge documents and a number of new defined terms. Under the current structure, this is achieved as SLAL is a beneficiary under the property-linked floating charge and effectively its share of any realisation proceeds would flow through to the SLAL property-linked direct policy holders. As SLAL is no longer a beneficiary, the secured amounts must be amended to ensure that the reinsured parties are not given a greater or lesser share of the proceeds than they would do under the current arrangements.

The amount secured under the charge becomes:

$(\text{the Total Proceeds} - \text{the Chargee Sums} - \text{S176A Sums}) \times \text{the Reinsured Proportion}$

with the Chargee Sums being the expenses of the trustee, the Reinsured Proportion being -

$(\text{Property-Linked Reinsurance Liabilities}) / (\text{Property-Linked Liabilities})$

and "Total Proceeds" being all assets recovered in connection with the realisation of property-linked property.

For these purposes, Property-Linked Liabilities are the total of the liabilities of SLAL under the reinsurance contracts and under the direct policies.

To ensure that the Property-Linked Liabilities and the Property-Linked Reinsurance Liabilities are valued on a common basis, the floating charge and the Security Trust Agreement have been updated to state explicitly that the liabilities used in the formulae are calculated at a valuation time. The valuation time is immediately before the appointment of a liquidator, administrator or receiver to SLAL to ensure that such an appointment does not affect the calculation of those liabilities.

Each beneficiary's share is still a pro-rated amount by reference to the total amounts due to all of the beneficiaries but it has been made clearer as follows:

$(\text{their Property-Linked Reinsurance Liabilities}) / (\text{total Property-Linked Reinsurance Liabilities})$

Taken together, these alterations maintain the position that each beneficiary and SLAL, as the residual beneficiary, will receive their pro rata share of the proceeds.

3.3.2 Interim distributions

If the charge had crystallised under the current property-linked charge, the Security Trustee could have made a pro rata interim distribution to each beneficiary. As SLAL will no longer be a beneficiary, the charge is being amended to expressly allow interim distributions to the beneficiaries but it is conditional on a distribution being paid to SLAL. This is to protect the position of SLAL's policyholders as the ultimate residual beneficiaries of the charge.

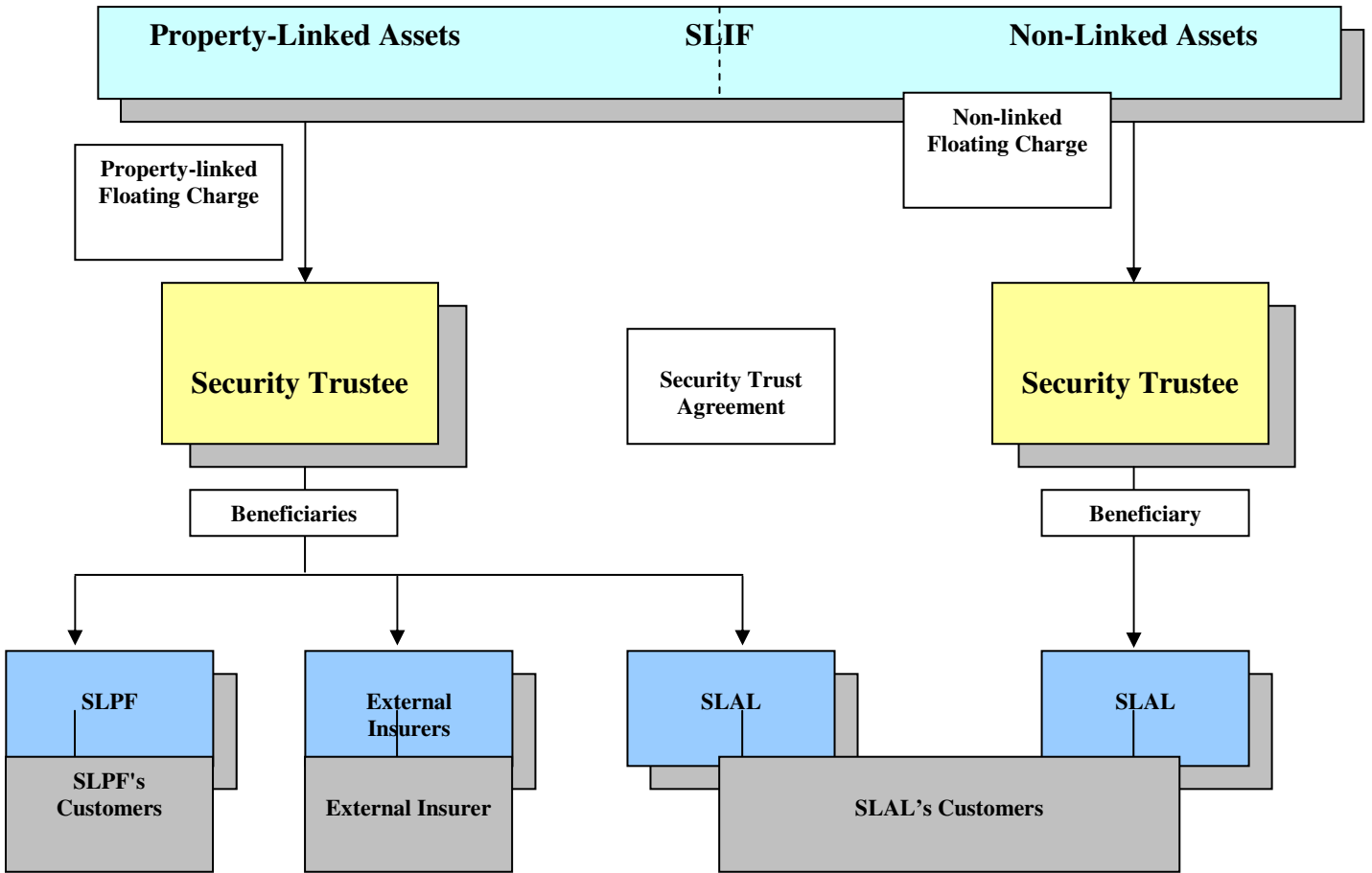
SLAL's distribution would be -

Reinsured Interim distribution x $\frac{\text{(Property-Linked Liabilities)}}{\text{- the Property-Linked Reinsured Liabilities}}$
 the Property-Linked Reinsurance Liabilities

4. SUMMARY

- 4.1 The position under the current security structure is set out in Diagram A and the proposed new amended structure is set out in Diagram B.

DIAGRAM A PRESENT STRUCTURE



**DIAGRAM B
PROPOSED AMENDED STRUCTURE**

