



UNTO THE RIGHT HONOURABLE THE LORDS OF COUNCIL AND SESSION

THE PETITION OF

STANDARD LIFE INVESTMENT FUNDS LIMITED, a company incorporated in Scotland with company number SC068442 and its registered office at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH

and

STANDARD LIFE ASSURANCE LIMITED, a company incorporated in Scotland with company number SC286833 and with its registered office at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH

for

Sanction of an insurance business transfer scheme, which is pursuant to Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000 and under which the long-term insurance business carried on by Standard Life Investment Funds Limited is to be transferred to Standard Life Assurance Limited

HUMBLY SHEWETH:

Introduction

- 1.1 That the first Petitioner, Standard Life Investment Funds Limited (“SLIF”), is a private company limited by shares and incorporated in Scotland under the registered number SC068442. It has its registered office at Standard Life House, 30 Lothian Road, Edinburgh.
- 1.2 SLIF is a “UK authorised person”, within the meaning of section 105(8) of the Financial Services and Markets Act 2000 (“FSMA”). It has been granted permission by the Financial Services Authority (“the FSA”), under Part IV of FSMA, to carry on in the United Kingdom (“the UK”) insurance business falling within classes I, II, III, IV, VI and VII of such business set out in Part II of Schedule I to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (“the Regulated Activities Order”).
- 1.3 The second Petitioner, Standard Life Assurance Limited (“SLAL”), is also a private company limited by shares and incorporated in Scotland under the registered number

SC286833. It also has its registered office at Standard Life House, 30 Lothian Road, Edinburgh.

- 1.4 SLAL is also a UK authorised person, within the meaning of section 105(8) of FSMA. It has been granted permission by the FSA, under Part IV of FSMA, to carry on in the UK long-term insurance business falling within classes I, III, IV, VI and VII of such business set out in Part II of Schedule I to the Regulated Activities Order.
- 1.5.1 SLIF and SLAL are both members of the same group of companies ("the SL Group"), the ultimate parent of which is Standard Life plc ("SL plc"), a public company incorporated in Scotland under registered number SC286832. Its registered office is also at Standard Life House, 30 Lothian Road, Edinburgh.
- 1.5.2 SLAL itself is the parent undertaking of SLIF.
- 1.5.3 The SL Group was established in 2006 as a result of the demutualisation of The Standard Life Assurance Company ("SLAC"), which was a mutual life insurance company incorporated by private Act of Parliament.
- 1.5.4 Substantially all of the long term insurance business which was carried on by SLAC in 2006 was transferred to SLAL by an insurance business transfer scheme ("the 2006 Scheme") under Part VII of, and Schedule 12 to, FSMA ("Schedule 12"). The 2006 Scheme was sanctioned by an order of this Court dated 9th June 2006 and became effective on 10th July 2006.
- 1.6.1 In this application, the Petitioners seek an order ("the Sanction Order") sanctioning an insurance business transfer scheme ("the Scheme") also under Part VII of, and Schedule 12 to, FSMA.
- 1.6.2 In outline, the Scheme provides for the transfer to SLAL of the long-term insurance business which is carried on by SLIF in a State of the European Economic Area, namely the UK.
- 1.6.3 The Scheme is set out in the Appendix to this application.
- 1.7 The Petitioners make this application jointly under Section 107 (2) (c) of FSMA, acting through their respective boards of directors (respectively "the SLIF Board" and "the SLAL Board").

- 1.8 This Court has jurisdiction over this application in terms of Sections 107 (3) (a) and (4) (b) of FSMA.
- 1.9.1 To a limited extent, the Scheme is reasonably believed to be inconsistent with, and so to vary, the detailed terms of the 2006 Scheme. As set out in Statements 8 and 9 below, those inconsistencies are technical, rather than commercial.
- 1.9.2 The 2006 Scheme provides for its variation with the consent of this Court. The 2006 Scheme also imposes certain requirements for an application for such consent. Those requirements are addressed in Statement 12 and 23 below.
- 1.9.3 The Scheme is, therefore, conditional on the Court making an order giving its consent to the proposed variations of the 2006 Scheme (together, "the Variation").
- 1.9.4 Accordingly, SLAL is to make an application to the Court ("the Variation Application") for an order giving the Court's consent to the Variation.
- 1.10 Schedule 2 to this application sets out, so far as is material to it, (i) the provisions of FSMA; (ii) those of the Regulated Activities Order; (iii) those of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 ("the Regulations"); and (iv) the Financial Services and Markets Act 2000 (meaning of "Policy" and "Policyholders") Order 2001 (the "Policyholder Order").

SLIF

Corporate

- 2.1.1 SLIF was incorporated on 7th June 1979 as a company limited by shares and under its present name.
- 2.1.2 The capital of SLIF is £52,500,000, divided into 51,000,000 Ordinary Shares of £1 each (fully paid), 1,000,000 Ordinary Shares of £1 each (partly paid to the extent of 60p each) and 5,000,000 Ordinary Shares of £1 each (partly paid to the extent of 18p each).
- 2.2 The whole issued share capital of SLIF is held, and beneficially owned, by SLAL.

- 2.3.1 SLIF is empowered under its memorandum of association to "sell, let, dispose of, transfer, turn to account or grant rights over the undertaking and all or any of the property, whether heritable or moveable of the Company for cash or for stock, shares or securities of any other company or partly in more than one of or all of such modes of payment or for other consideration and to cease carrying on or wind up any business or activity of the Company".
- 2.3.2 Accordingly, nothing in SLIF's memorandum of association and nothing in its articles of association restricts in any way its entering into the Scheme.
- 2.3.3 A print of each of SLIF's memorandum and articles of association is produced.

SLIF's Insurance Business

- 2.4.1 The business of SLIF is that of reinsurance. It is reasonably believed that SLIF has never written any policies of direct insurance. In particular, it is reasonably understood that SLIF has never in fact made use of its permission to write insurance business within class II of the Regulated Activities Order. The permission is purely historical.
- 2.4.2 Prior to the 2006 Scheme SLIF reinsured "linked policies", both life and pensions, which SLAC had written.
- 2.4.3 Linked policies (otherwise "unit linked policies") were, and remain, ones under which the benefits payable were, and are, determined by reference to the value of, or income from, property of any description or by reference to an index of the value of any property. "Property Linked Policies" are linked policies other than those under which the benefits are payable by reference to such an index. Those linked policies are known as "Index Linked Policies".

SLIF Business since 2006

- 2.5.1 Following the 2006 Scheme becoming effective, SLIF continued to reinsure (i) those linked policies which had been transferred from SLAC to SLAL and (ii) certain liabilities under "Self Investment Pension Policies" ("SIPPs"), which were also transferred by the 2006 Scheme and are referred to in Statement 2.7.4 below. The contracts for that reinsurance were transferred to SLAL by the 2006 Scheme.
- 2.5.2 SLIF continues to reinsure those policies which are still in force.

SLIF Reinsurance of SLAL's New Business

- 2.6.1 Following the 2006 Scheme, SLIF has, subject to certain excepted categories, reinsured all UK and "Irish branch" policies (whether or not linked policies), which SLAL has written. That reinsurance is on original terms. That reinsurance includes one contract which is not one of reinsurance in the legal sense of that term, although that has the same commercial effect.
- 2.6.2 SLAL's commercial purpose in reinsuring that new business with SLIF was, put very broadly, to ensure that the increased capital requirements and commercial risks resulting from the new business arose in SLIF and not in one of SLAL's five "funds" (or technically sub-funds). SLAL had, consistently with the 2006 Scheme, established those funds within its long term business fund ("the SLAL LTBF"). The fund in which those capital requirements and commercial risks would otherwise have arisen was referred to in the 2006 Scheme as "the Non Profit Fund". It is now known as "the Proprietary Business Fund" and is defined in the Scheme, and is referred to in this application, as the "SLAL PBF".
- 2.6.3 Had those increased regulatory capital requirements and those commercial risks arisen in the SLAL PBF, that would have restricted SLAL's surplus and so its ability to pay dividends to SL plc. The reinsurance structure also avoided a potential tax disadvantage.
- 2.6.4 Put broadly, SLAL has undertaken to SLIF to provide it with further funds which it requires as regulatory capital because of its insurance of SLAL's new business.

SLIF Reinsurance of Investment Element

- 2.7.1 Again in accordance with the 2006 Scheme, SLIF has also reinsured the "investment element" of certain Property Linked Policies which were allocated by the 2006 Scheme to another of the funds within the SLAL LTBF. That fund was referred to in the 2006 Scheme as "the With Profits Fund". It is now known as the "Heritage With Profits Fund" and is defined in the Scheme, and referred to in this application, as the "SLAL HWPF".
- 2.7.2 Broadly, the investment element of a policy is the amount of the premiums, under that policy, less the charges, which are available for investment.

- 2.7.3 The agreements for the reinsurance of their investment element are defined in the Scheme together as the "Linked Reinsurance Agreements". The Linked Reinsurance Agreements also cover death benefit.
- 2.7.4 The commercial rationale of that reinsurance of the investment element of those Property Linked Policies is related to SLIF's other reinsurance of certain of SLAL's liabilities. As already said, SLIF continued after the 2006 Scheme to reinsure (i) the Property Linked Policies which were transferred to SLAL by the 2006 Scheme, and also (ii) the Investment Element of certain SIPPs which were allocated by the 2006 Scheme to the SLAL PBF. SLIF also reinsured those Property Linked Policies which SLAL wrote after the 2006 Scheme became effective.
- 2.7.5 There were advantages, in terms of investment and administration, for all of SLAL's UK and Irish Property Linked Policies, in being invested in a single set of linked investment funds which are maintained by one member of the SL Group.

SLIF Reinsurance of Longevity Risk and Annuity Augmentations

- 2.8.1 Since the 2006 Scheme became effective, and in accordance with its terms, SLIF has also reinsured the longevity risk and "annuity augmentations" in respect of certain annuity policies in payment ("HWPF Annuity Policies"). The HWPF Annuity Policies were transferred to SLAL and were allocated by the 2006 Scheme to the SLAL HWPF. The agreement for that reinsurance by SLIF is defined in the Scheme as the "SLIF EB Annuities Reinsurance Agreement".
- 2.8.2 The commercial purpose of that reinsurance of that longevity risk and annuity augmentations was to remove that risk from the SLAL HWPF. That reinsurance is one of several detailed protections for the operation of the SLAL HWPF which the 2006 Scheme continues to provide.
- 2.8.3 SLIF has, in turn, reinsured a small part of that longevity risk ("the tail") to the SLAL PBF.
- 2.8.4 In 2008 SLIF and SLAL entered into a memorandum of understanding, which was non-binding and limited increases to the sums which were to be paid to SLIF under the SLIF EB Annuities Reinsurance Agreement.
- 2.8.5 Also in 2008, and again consistently with the 2006 Scheme, the SLIF EB Annuities Reinsurance Agreement was amended. The effect of that amendment was that all of the liabilities under certain HWPF Annuity Policies (and not merely the longevity

risks) were instead reinsured to another reinsurance company, Canada Life International Re Limited ("Canada Life").

SLIF-SLAL Reinsurance Agreements

2.9 In this application the reinsurance agreements to which SLIF and SLAL are the only parties are referred to as "the SLIF–SLAL Reinsurance Agreements".

SLIF's Reinsurance other than of SLAL

2.10.1 In addition to its reinsurance of SLAL's direct insurance liabilities by the SLIF - SLAL Reinsurance Agreements, SLIF also reinsures certain liabilities of Standard Life Pension Funds Limited ("SLPF"), another company within the SL Group, under certain pension investment policies which it has written. Those policies are also known within the SL Group as "Trustee Investment Plans" ("TIPs"). All of those TIPs are Property Linked Policies.

2.10.2 Finally, SLIF also reinsures certain liabilities under Property Linked Policies which have been written by a number of other insurance companies outside the SL Group (the "Third Party Insurance Companies"). The Third Party Insurance Companies are also known within the SL Group as "External Fund Managers" ("EFMs").

2.10.3 For completeness, the significant majority of SLIF's reinsurance policies, in terms of their liabilities, are written in favour of SLAL, rather than in favour of SLPF and the Third Party Insurance Companies.

SLIF Fund Structure

2.11.1 In terms of its structure, SLIF maintains two funds. The first is its long term business fund ("the SLIF LTBF"), which is a non profit fund. The second is its shareholder fund ("the SLIF SHF"), which comprises all of its property and liabilities which are not allocated to the SLIF LTBF.

2.11.2 Within the SLIF LTBF, SLIF maintains "linked funds" (technically "sub funds") (the "SLIF Linked Funds") in respect of its reinsurance of the Property Linked Policies of SLAL, SLPF and the Third Party Insurance Companies.

2.11.3 The SLIF Linked Funds enable those reinsurance liabilities to be calculated by reference to the value of the assets which are allocated to each of those funds. In

turn, the liabilities of the direct insurers for the benefits payable under those linked policies can be calculated by reference to those assets ("linked assets").

Floating Charges and Security Trust Agreement

- 2.12.1 SLIF has granted two floating charges (the "Floating Charges") to secure its liabilities under all of its reinsurance agreements.
- 2.12.2 The Floating Charges are granted in favour of a single security trustee for the beneficiaries of each charge. The respective priorities of the Floating Charges are regulated by a "Security Trust Agreement".
- 2.12.3 The first Floating Charge is defined in the Scheme as the "Property Linked Floating Charge". It is over all the assets which have been allocated to the SLIF Linked Funds, and secures, *pari passu*, all SLIF's reinsurance liabilities in respect of the Property Linked Policies of SLAL, SLPF and the Third Party Insurance Companies.
- 2.12.4 For completeness, one of the Third Party Insurance Companies is itself in the process of transferring its business to another member of its group, also by an insurance business transfer scheme under Part VII of FSMA. The rights of that Third Party Insurance Company as a reinsured of SLIF, and so under the Property Linked Floating Charge, will transfer to the transferee under its scheme. In addition, those rights will, in consequence of the Scheme, be enforceable by that transferee against SLAL.
- 2.12.5 The second of the Floating Charges is defined in the Scheme as the "Non-Linked Floating Charge". It is over all of SLIF's long term insurance business assets, except those which have been allocated to the SLIF Linked Funds, and secures, *pari passu*, all SLIF's reinsurance liabilities to SLAL and to SLPF, under policies which those two companies have written and which are not Property Linked Policies (otherwise "non-linked policies").
- 2.12.6 At the date of this application, SLIF does not reinsure any liabilities under non-linked policies which have been written by SLPF. Accordingly, the Non-Linked Floating Charge does not secure any such reinsurance liabilities.

SLIF Policyholders

- 2.13.1 As at the date of this application, SLAL, SLPF and the Third Party Insurance Companies are the only "Policyholders" of SLIF (the "SLIF Policyholders"), within the meaning of the Policyholder Order.
- 2.13.2 The total number of SLIF Policyholders as at the date of this application is only 7, including SLAL. The 7 SLIF Policyholders hold between them only 14 policies.

SLIF Reinsurers

- 2.14.1 Certain of SLIF's own liabilities are themselves reinsured. Accordingly, SLIF itself is a policyholder under a number of reinsurance agreements written by different insurance companies outside the SL Group (the "SLIF Reinsurers"). The SLIF Reinsurers are also known in the SL Group as "External Fund Links" (or "EFLs"). All of those reinsurance liabilities are secured by floating charges for the benefit of SLIF.
- 2.14.2 Such charges are commonly granted by reinsurers, which also write direct insurance business, in order to give their reinsurance liabilities the same priority over their other ordinary liabilities as direct policy liabilities have under the Insurers (Reorganisation and Winding Up) Regulations 2004. But for those floating charges, the reinsurance liabilities would rank behind the company's direct insurance liabilities.
- 2.14.3 There are 11 SLIF Reinsurers. They all have offices in the UK.
- 2.14.4 For completeness, the insurance company referred to in Statement 2.12.4 above is also one of the SLIF Reinsurers. Its obligations and the floating charge which secures those obligations will be transferred by its scheme to the transferee. In addition, those obligations and that charge will, in consequence of the Scheme, be owed by that transferee to SLAL.

SLIF's Other Material Contracts

- 2.15.1 In addition to the agreements with the SLIF Reinsurers, SLIF's business includes other material contracts. First of all, SLIF's assets include units and other investments in investment funds. SLIF has entered into several agreements in connection with the purchase and operation of those investments.

- 2.15.2 Those agreements are referred to in the Scheme as "investment agreements with managers of mutual funds". They are referred to in this application as "Investment Agreements".
- 2.16. In addition SLIF holds a number of charged residential properties in the United Kingdom and the Republic of Ireland (the "SIF Properties"). It does so under certain self-invested pension policies which SLAL has written and which SLIF reinsures.
- 2.17.1 In addition to the SIF Properties, SLIF has other broad categories of material contract, which concern properties in England, Wales and Scotland and construction and development contracts relating to some of those properties.
- 2.17.2 The first category comprises leases of properties in England and Wales, of which SLIF is the tenant. The second category comprises leases under which SLIF is the landlord.
- 2.17.3 The third category also comprises leases under which SLIF is the landlord. The agreements for those leases or other ancillary contracts provide that SLIF has certain personal obligations which are, as a matter of contract, personal to it.
- 2.17.4 The fourth category comprises tenancies at will and licences to occupy, in either case of property in England and Wales of which SLIF is the proprietor.
- 2.17.5 The fifth category comprises reports on properties, such as reports on title, valuation reports and environmental reports, which SLIF has instructed or on which it can rely.
- 2.17.6 The sixth and seventh categories both concern construction and development contracts. The sixth category comprises contracts relating to developments, under which SLIF has rights against the contractors and professional parties including those which have granted "collateral warranties". The seventh category comprises contracts which relate to developments and under which SLIF has continuing obligations, in particular to pay for work to be done or for professional services to be provided.
- 2.17.7 The eighth category of material contracts which concern properties comprises contracts relating to the management of properties of which SLIF is the proprietor, such as those appointing managing agents.
- 2.18 Finally, SLIF's material contracts include 19 derivative contracts which are made under what are known as "the Master ISDA Agreements". (ISDA is the International

Securities Dealers Association.) The ISDA Master Agreements govern derivative transactions into which SLIF enters.

SLIF's Financial Position

- 2.19 The most recent financial statements of SLIF are its annual audited accounts for the year ended 31st December 2010. Those accounts showed that at that date SLIF had: (i) total gross earned premiums of £775,000,000; (ii) gross liabilities of £64,926,000,000; and (iii) total assets of £65,431,000,000.

SLIF's Business Administration

- 2.20 For completeness, SLIF itself has no employees. Its business is administered with those of the SL Group's other insurance companies within the UK, using employees of a services company within the SL Group.

SLAL

Corporate

- 3.1 SLAL was incorporated on 30th June 2005 as a company limited by shares and under the name SLLC Limited. SLAL adopted its present name with effect from 10th July 2006.
- 3.2.1 The share capital of SLAL is £20,090,000, divided into 1,509,000,000 Ordinary Shares of £0.01 each and 5,000,000 Non-voting "B" Ordinary Shares of £1 each, all of which have been issued and are fully paid.
- 3.2.2 The whole issued share capital of SLAL is held, and beneficially owned, by Standard Life plc.
- 3.3.1 The memorandum of association of SLAL provides, inter alia:
- "III. The objects for which the Company is established are:-
- (1) To carry on business as a general commercial company".

That general power includes the power to acquire a business.

3.3.2 In addition, nothing in SLAL's articles of association restrict in any way its entering into the Scheme.

3.3.3 A print of each of SLAL's memorandum and articles of association is produced.

SLAL's Insurance Business

3.4.1 Since the 2006 Scheme, SLAL has been the main operating long-term insurance company of the SL Group. The principal business of SLAL involves the writing of life assurance and pension policies, which are mainly linked and non-profit business and a decreasing volume of with profits business. This business is carried on primarily in the United Kingdom.

3.4.2 In addition to its business in the UK, SLAL carries on long term insurance business through branches located in two other EEA States, namely The Republic of Ireland and Germany.

3.4.3 SLAL also has permission to carry on that business on what is known as a "services passport basis" under the Consolidated Life Insurance Directive in a number of other EEA States, namely Austria, Belgium, France, Greece, Hungary, Italy, Liechtenstein, Malta, Netherlands, Portugal and Spain.

3.4.4 SLAL also carries on a small amount of business through a branch in Canada.

3.4.5 SLAL also has certain permissions from the Jersey regulator.

SLAL Fund Structure

3.5.1 In accordance with the 2006 Scheme, SLAL maintains two funds. The first is the SLAL LTBF. The second fund comprises all the property and liabilities of SLAL, which are not allocated to the SLAL LTBF. That fund was referred to in the 2006 Scheme as the "Shareholder Fund" and is defined in the Scheme as the "SLAL SHF". The whole share capital of SLIF is an asset of the SLAL SHF.

3.5.2 As set out at Statement 2.6.2 above, the SLAL LTBF is, in turn, divided into five sub-funds, which are more often referred to simply as funds. The first two funds have already been referred to in Statements 2.6.2 and 2.7.1 above, namely the SLAL HWPF and the SLAL PBF.

3.5.3 For completeness, the third fund is the "UK Smoothed Managed Fund". It consists of the investment element of with profits policies which have been written in the

SLAL PBF since the 2006 Scheme. The fourth and fifth funds are the "German With Profits Fund" and the "German Smoothed Managed Fund". Both of those funds consist of policies which SLAL has written in Germany and Austria since the 2006 Scheme.

- 3.5.4 Within the SLAL HWPF and the SLAL PBF SLAL maintains linked funds ("the SLAL Linked Funds"). The SLAL Linked Funds enable SLAL's liabilities under linked policies, which are allocated to those funds, to be calculated by reference to the value of the assets attributable to each of those funds.

The SLAL HWPF

- 3.6.1 The SLAL HWPF consists of all the policies, (both with profits and non-profit), which were transferred from SLAC to SLAL by the 2006 Scheme, other than the policies in respect of the SIPPs and some other non-profit policies. The exceptions were allocated to the SLAL PBF.
- 3.6.2 In this application the policies in the SLAL HWPF are referred to as "HWPF Policies".
- 3.7.1 Subject to detailed constraints, the SLAL SHF has the right to the profit from "Defined Blocks" of policies (as defined and specified in the 2006 Scheme) in the SLAL HWPF. That profit is, in turn, applied by SL plc in paying dividends to its shareholders.
- 3.7.2 The detailed mechanisms in the 2006 Scheme for giving effect to the right to that profit are referred to as the "Recourse Cash Flows" from the SLAL HWPF to the SLAL SHF.
- 3.8.1 The 2006 Scheme contains very detailed provisions which are intended to protect the interests of the holders of the HWPF Policies as SLAL's business develops.
- 3.8.2 In particular, the 2006 Scheme sets out what are referred to as "the Core Principles" for the operation of the SLAL HWPF. First of all, the Core Principles set out certain limits on the investment policy and the bonus policy for the SLAL HWPF.
- 3.8.3 The Core Principles also refer to the use of "asset shares" for determining the benefits of the HWPF Policies and ensuring equity between groups of holders of those policies.

- 3.8.4 Finally, the Core Principles provide for the "residual estate" (which could also be described as "the inherited estate") in the SLAL HWPF to be applied exclusively for the HWPF Policies and, if expedient, to be distributed among the HWPF Policies. The residual estate is, very broadly, the value of its assets less its "realistic liabilities", which include the asset shares of the HWPF Policies.
- 3.8.5 The 2006 Scheme provides for the SLAL With Profits Actuary ("the SLAL WPA") to have specific duties in relation to protecting the interests of the holders of the HWPF Policies.
- 3.8.6 A With Profits Committee ("the WP Committee") was established by SLAL in 2006 after the effective time of the 2006 Scheme. The role of the WP Committee is, broadly, to consider the interests of with-profits policyholders and exercise independent judgement in advising the SLAL Board on the achievement of fair treatment of those policyholders.

SLAL Policyholders

- 3.9.1 As at the date of this application, SLAL has approximately 4,400,000 policies. SLAL reasonably estimates that it has at least the same number of policyholders (the "SLAL Policyholders"). It is reasonably believed that that number will not change to any material extent in the course of this process.
- 3.9.2 Those SLAL Policyholders whose policies were transferred to it from SLAC by the 2006 Scheme are referred to in this application as "the SLAL Transferred Policyholders".

SLAL's Financial Position

- 3.10 The most recent financial statements of SLAL are its audited annual accounts for the year ended 31 December 2010. Those accounts show that SLAL had at that date: (i) gross-earned premiums of £2,212,000,000; (ii) gross liabilities of £116,667,000,000; and total assets of £119,056,000,000.

SLAL's Business Administration

- 3.11 For completeness, SLAL has a small number of employees. However, the majority of staff who administer SLAL are employees of a services company within the SL Group.

Objectives of the Scheme

- 4.1 In broad terms, the Scheme is intended to reduce the total regulatory capital which the SL Group will require to hold for its insurance businesses after the implementation of the European Union Directive of 25th November 2005 on the taking up and pursuit of the business of Insurance and Reinsurance, which is commonly known as "Solvency II". Solvency II is intended to come into force in January 2013, although that may be postponed until 2014.
- 4.2.1 Solvency II is, in general terms, similar to the current regulatory capital regime under FSMA, in so far as the current regime requires an insurance company to assess and hold sufficient capital to ensure that its policyholders are paid in at least 99.5 per cent of eventualities which could arise over one year.
- 4.2.2 The detailed requirements of Solvency II have not yet been finalised. However, one difference from the present regime in the UK is that Solvency II may require long term insurance companies, when determining the capital which they must hold, to use a prescribed approach which includes to a greater extent "counterparty default risk" in respect of their reinsurance arrangements.
- 4.2.3 In particular, that difference would apply to companies which reinsure the liabilities of other companies within the same group. For example, SLAL, as a reinsured, would require to hold increased capital in case SLIF were to default on their reinsurance liabilities. That capital would be in addition to SLIF's own capital requirements as reinsurer.
- 4.2.4 In other words, it will be more efficient in terms of its overall regulatory capital, for a group of long term insurance companies to simplify its structure, especially where there is currently intra-group reinsurance.
- 4.2.5 In addition, simplification of the SL Group structure will reduce the administrative costs of complying with the new and complex requirements of Solvency II. Such simplification should also increase efficiency in operational terms and generally comply with the overall business strategy of the SL Group.
- 4.3.1 It is intended that SLIF will cease to be an authorised insurance company within FSMA during the first half of 2012. It is not envisaged that SLIF will carry on any business between the Effective Date and the date of its "de-authorisation".

- 4.3.2 As described in Statement 21.5.1 below, an order is sought under Section 112(8)(b) for the dissolution of SLIF.
- 4.4 Those commercial advantages are now reasonably believed to outweigh the commercial advantages which led to the continuing use in the 2006 Scheme of SLIF as a reinsurer.

The Scheme

General

- 5.1 The Scheme is set out in full in the Appendix to this application. This Statement contains a description and explanation of most of the main terms of the Scheme. Statements 6 to 9 contain descriptions and explanations of particular aspects of the Scheme, including those aspects which are reasonably believed to require the Variation.
- 5.1.2 The Scheme shall become effective at a time and date which is agreed in writing, in advance of the Sanction Order, by the SLIF Board and the SLAL Board. That time and date are defined in the Scheme as "the Effective Date". The Effective Date is expected to be 11.59 pm on 31st December 2011.
- 5.2.2 The Scheme becoming effective is subject to (i) SLIF and SLAL having received from HM Revenue and Customs a clearance in respect of the tax consequences of the Scheme and (ii) the consent of the Court to the Variation, in each case in terms satisfactory to SLIF and SLAL.
- 5.2.3 SLIF and SLAL may waive the first condition with the approval of "the Independent Expert", who is referred to in Statement 12 below.
- 5.2.4 If the Scheme does not become effective before 31 March 2012 or any later date which the Court allows, it shall lapse.

General Transfer by the Scheme

- 5.3.1 With effect from the Effective Date, the whole of SLIF's business and undertaking shall be transferred to SLAL ("the Transferred Business"). Subject to certain exceptions, all of SLIF's property and liabilities shall also be transferred to SLAL ("the

Transferred Assets" and the "Transferred Liabilities"). It is thought most unlikely that there will be any exceptions.

- 5.3.2 In particular, the Transferred Business shall include the rights and liabilities of SLIF under all the reinsurance contracts where SLIF is the reinsurer at the Effective Date. Those reinsurance contracts are together defined as "the Transferred Reinsurance Agreements". They comprise the SLIF – SLAL Reinsurance Agreements and the reinsurance contracts with SLPF and the Third Party Insurance Companies.
- 5.3.3 The only possible (and it is believed most unlikely) exceptions to the transfer of reinsurance contracts are those which are described in Statement 5.6 below.
- 5.3.4 In addition, the Transferred Business shall include the rights and liabilities of SLIF under the Property Linked Floating Charge and the Security Trust Agreement. The Property Linked Floating Charge and the Security Trust Agreement will also be amended in the terms set out in Statement 7.
- 5.4.1 The general effect of the Scheme will be that each SLIF Policyholder (other than SLAL itself) and each third party, who has a contractual, or other legal relationship, with SLIF, will have the same rights, and be subject to the same obligations, in respect of SLAL as that party had, or was subject to, in respect of SLIF.
- 5.4.2 In particular, any reference in any Transferred Reinsurance Agreement, or any other contract which is part of the Transferred Business, to SLIF or to its directors or its employees shall be a reference to SLAL or to its directors or employees.
- 5.5.1 For completeness, the effect of the Scheme on the SLAL – SLIF Reinsurance Agreements which are in force immediately before the Effective Date is addressed at Statement 6.
- 5.5.2 SLIF's material contracts which are described in Statement 2.14 to 2.18 shall also be transferred to SLAL.

Excluded Assets

- 5.6.1 One category of reinsurance policy shall not transfer at the Effective Date. Those policies are defined as "Excluded Reinsurance Agreements" and will be "Excluded Assets". They comprise policies which are governed by the law of any country outside the EEA and whose transfer by the Scheme is not recognised under that law.

- 5.6.2 As is implicit in the description in Statement 2 of SLIF's business, it is reasonably believed that no policy will actually fall within that definition. Such a provision is standard in a scheme of this kind and is included in the Scheme only out of caution.
- 5.6.3 Any Excluded Reinsurance Agreement would be reinsured by SLIF to SLAL. The property of SLIF which was attributable to any Excluded Reinsurance Agreement would also transfer to SLAL. The economic effect would, therefore, be the same as if the Excluded Reinsurance Agreement had been transferred by the Scheme.
- 5.6.4 In addition, the Non-Linked Floating Charge will also not transfer under the Scheme. It will also be an "Excluded Asset" and will be discharged. In respect of SLAL, the Non-Linked Floating Charge will terminate by operation of law.

Residual Assets and Residual Liabilities

- 5.7.1 In addition, certain categories of asset and liability of the Transferring Business shall not transfer with effect from the Effective Date. Those assets and liabilities are defined as "Residual Assets" and "Residual Liabilities".
- 5.7.2 The Residual Assets include (i) those assets whose transfer requires the consent of any third party, which requirement the Court has not overridden by an order under section 112 (2)(a) of FSMA; (ii) those assets in respect of which SLIF and SLAL agree in writing prior to the Effective Date (and in practice before the Sanction Order) are not to be transferred then; (iii) such assets as the SLIF Board determines are necessary to ensure that SLIF is able to satisfy the applicable minimum capital reserves requirements in relation to its long term business immediately after the Effective Date ("the Required Capital") ; the Required Capital is reasonably estimated at €3.5 million with an additional £0.5 million out of caution; and (iv) any substituted property and any proceeds of sale or income of any assets in the preceding categories.
- 5.7.3 The Residual Assets and Residual Liabilities shall transfer only at a later date, which is specified for each category as "the Subsequent Transfer Date".
- 5.7.4 Residual Assets, other than property representing the Required Capital, shall be held by SLIF in trust for SLAL until the relevant Subsequent Transfer Date. The trust shall also include any property which is governed by a foreign law and whose transfer is not recognised by that law, at least without the completion of further steps which that law requires.

- 5.7.5 SLAL shall indemnify SLIF in respect of any Residual Liabilities and any other liability of SLIF attributable to the Transferred Business.
- 5.7.6 It is reasonably believed that, other than the assets representing the Required Capital and liabilities attributable to those assets, there will be no asset or liability which is a Residual Asset or Residual Liability. In particular, that is because the Sanction Order is to provide for the transfer of property and liabilities under Section 112(2)(a) and 112(2A). That aspect of the Sanction Order is described in Statement 5.10 below.
- 5.7.7 When SLIF ceases to be an authorised insurance company, as is anticipated, the assets comprising the Required Capital shall transfer to SLAL.

Mandates and Proceedings

- 5.8 With effect from the Effective Date, any mandate or other instruction relating to the Transferred Business shall take effect as an instruction to, or in favour of, SLAL.
- 5.9.1 With effect from the Effective Date, any legal proceedings which are pending by, or against, SLIF in connection with the Transferring Business shall be continued by, or against, SLAL.

Third Party Rights

- 5.10.1 The Scheme also provides for the transfer of SLIF's rights and obligations, which arise under any contracts and which could not otherwise be transferred without the consent of the other contracting parties (other than another member of the SL Group) or without the Scheme infringing any other rights of those parties. The Sanction Order is to provide for the transfer of such rights and obligations under sections 112(2)(a) and 112(2A) of FSMA.
- 5.10.2 In the case of any contract with SLIF, which is transferred by the Scheme, no other party to that contract will have a right to terminate that contract, or to have different rights or obligations under it, in consequence of that transfer. That term of the Scheme reflects Section 112A of FSMA, which provides that a scheme of this kind will not give any right to terminate a contract or give rise to different rights or obligations under the contract unless, and to the extent that, the Court makes an order that it is to have such an effect.

- 5.10.3 It is reasonably believed that there are only limited kinds of contract (other than contracts with other members of the SL Group) to which Section 112(2)(a) and 112(2A) of FSMA and Section 112A of FSMA could apply. The first kind comprises the reinsurance agreements with the SLIF Reinsurers. The second kind comprises those Investment Agreements which do not permit their novation to another member of the SL Group. The third kind comprises those SIF Properties in the United Kingdom. The next kind comprises the eight categories of material contracts which are described in Statement 2.17 above. The final kind comprises the ISDA Master Agreements.
- 5.10.4 SLIF will in the letters referred to in Statements 15 and 16 below request consent to the transfer of all of those contracts referred to at Statement 5.10.3, other than those contracts in the second, fourth, fifth, sixth, and the eighth categories described in Statement 2.17 above. The counterparties of the contracts in the fourth category will be notified in advance of the transfer. The number of the contracts in each of the second, fifth and sixth categories does not make it reasonably practical to attempt to obtain consents. The contracts in the eighth category are reasonably believed to be transferable without consent, to another member of the SL Group.
- 5.10.5 The letters which are sent to counterparties will, however, refer to an order being sought from the Court under Section 112, if consent is not given.
- 5.10.6 In so far as the Scheme is to override the rights of the other parties to those contracts, it will not prejudice their interests. Their position will, in commercial terms, be the same after the Effective Date as it was before it.

Variation

- 5.11.1 The Petitioners may consent to any variation of, or addition to, the Scheme or to any condition which this Court may approve, or impose, prior to its sanction.
- 5.11.2 After the Sanction Order, SLAL may apply to this Court for consent to amend the Scheme.
- 5.11.3 The Scheme may also be varied in certain circumstances with the approval of the SLAL WPA and the FSA. Those circumstances are where the proposed amendment is reasonably considered by the SLAL Board to be necessary to ensure that the Scheme operates in the intended manner, when the provision to which the

amendment applies will be materially affected by an amendment (or proposed amendment) to the FSA Handbook or other applicable legislation.

5.11.4 The 2006 Scheme included a power of variation in broadly similar terms. One material difference is that the power in the Scheme does not require a certificate from an independent expert.

5.11.5 The arrangements which are set out in Schedule 2 to the Scheme and are explained at Statement 8 may, however, be varied by SLAL at any time. Schedule 2 specifies that any variation of those arrangements requires the written consent of the SLAL WPA, which is to be given on the basis that the proposed variation is expected to materially and adversely affect neither (i) the contractual rights of the holders of those SLAL HWPF Policies which are with profits policies nor (ii) the reasonable expectations of those holders.

5.11.6 The 2006 Scheme, together with the SLIF EB Annuities Reinsurance Agreement (which Schedule 2 is to replace), included similar provisions to the power to vary the SLIF EB Annuities Reinsurance Agreement.

Costs

5.12 The SLAL PBF shall bear all the costs incurred in preparing the Scheme and carrying it into effect.

Allocations to SLAL Funds

Allocations to the SLAL PBF

6.1 The general structure and effect of the Scheme is that SLIF's rights and liabilities under the Transferred Reinsurance Agreements, the Property Linked Floating Charge and the Security Trust Agreement will be transferred to the SLAL PBF.

Transferred Assets

6.2.1 In respect of the Transferred Assets, the general structure and effect of the Scheme is that they shall be allocated to the SLAL PBF, with effect from the Effective Date (or in respect of any Residual Assets, with effect from their Subsequent Transfer Date).

- 6.2.2 However, (and subject to the exception in Statement 6.2.4) those assets (or parts of them), which were immediately prior to the Effective Date attributable to SLIF's reinsurance of HWPF Policies shall be allocated to the SLAL HWPF.
- 6.2.3 In addition, the Transferred Assets (or parts of them) which were immediately prior to the Effective Date attributable to SLIF SHF shall be allocated to the SLAL SHF.
- 6.2.4 Those Transferred Assets representing what is defined in the Scheme as "the SLIF Surplus" will be allocated to the SLAL PBF. The SLIF Surplus is, broadly, the excess at the Effective Date of the value of the SLIF LTBF over its "mathematical reserves", namely the policy liabilities in that fund.
- 6.3.1 The Transferred Assets include tax losses which are defined in the Scheme as "Tax Assets".
- 6.3.2 In so far as those Tax Assets are attributable to the SLIF LTBF, they shall be allocated to the SLAL PBF. In so far as those Tax Assets are attributable to the SLIF SHF, they shall be allocated to the SLAL SHF.
- 6.3.3 Following the allocation of the Tax Assets, the Scheme provides, as a matter of confirmation, that the terms of the 2006 Scheme which relate to taxation shall continue to apply.
- 6.3.4 In respect of taxation, the 2006 Scheme provides inter alia that amounts in respect of tax will be debited from, or credited to, the SLAL HWPF, on the assumption that it constitutes the whole of the long term business fund of a mutual insurance company carrying on business in the UK.

Transferred Liabilities

- 6.4.1 Similarly, the general structure and effect of the Scheme is for the allocation to the SLAL PBF of all Transferred Liabilities.
- 6.4.2 However, those Transferred Liabilities which were immediately prior to the Effective Date attributable to SLIF's reinsurance of HWPF Policies shall be allocated to the SLAL HWPF.
- 6.4.3 In addition, those Transferred Liabilities which were immediately prior to the Effective Date attributable to the SLIF SHF shall be allocated to the SLAL SHF.

- 6.5 In so far as the Transferred Liabilities include tax liabilities, they shall be allocated in the same way as Tax Assets.

Linked Funds

- 6.6.1 With effect from the Effective Date, the assets and liabilities comprised in each of the SLIF Linked Funds shall be allocated to a corresponding SLAL Linked Fund which is to comprise the same number, and value, of units as the SLIF Linked Fund comprised.
- 6.6.2 Subject to FSMA and the requirements of the FSA Handbook to treat Policyholders fairly, SLAL may open, close, amalgamate or divide any SLAL Linked Fund, even if SLIF would have had no right to do so.

Transferred Reinsurance Agreements

- 6.7.1 In the case of the SLIF - SLAL Reinsurance Agreements, they will terminate by operation of law immediately after their transfer to SLAL. The Scheme expressly acknowledges their termination in that way.
- 6.7.2 On the termination of the SLIF - SLAL Reinsurance Agreements, the assets attributable to the liabilities in the SLAL PBF or the SLAL HWPF (as the case may be) will be attributed to that fund.
- 6.7.3 In the case of the SLIF EB Annuities Reinsurance Agreement and the Linked Reinsurance Agreements, the Scheme contains further provisions which it is more convenient to describe separately in Statements 8 and 9 below.

Uncertainty in Allocation

- 6.8.1 In addition, the Scheme provides that any doubt or difference as to any allocation under it shall be determined by the SLAL Board, having regard to the advice of the SLAL WPA. Any such determination cannot result in any increase in liability of or loss of benefit to SLIF.
- 6.8.2 The Scheme also provides for any error in allocation to be corrected by the SLAL Board, again having regard to the advice of the SLAL WPA.
- 6.8.3 A broadly similar term was included in the 2006 Scheme, although that did not provide expressly for the correction of errors in allocation.

Replacement Arrangements

- 6.9.1 As is explained at Statement 6.7, upon the transfer of the SLIF EB Annuities Reinsurance Agreement and the Linked Reinsurance Agreements, those agreements will cease to have effect by operation of law.
- 6.9.2 Accordingly, in order to provide equivalent protection to the SLAL HWPF, replacement arrangements are to be implemented, as explained more fully at Statements 8 and 9.

Floating Charges

- 7.1 The Scheme also affects the Floating Charges and the Security Trust Agreement.
- 7.2 As explained at Statement 5.6.4, the rights and liabilities under the Non-linked Floating Charge shall not transfer to SLAL but will be discharged. In respect of SLAL the floating charge will terminate by operation of law.
- 7.3.1 With effect from the Effective Date, the Property Linked Floating Charge will continue to secure only the liabilities under those Transferred Reinsurance Agreements which continue to be with SLPF and the Third Party Insurance Companies.
- 7.3.2 However, the Property Linked Floating Charge will not continue to secure any of SLIF's reinsurance liabilities of any Property Linked Policy written by SLAL since those liabilities will terminate after their transfer by the Scheme to SLAL.
- 7.3.3 The assets over which the Property Linked Floating Charge exists, will also be transferred from the SLIF Linked Funds to the SLAL Linked Funds. The Property Linked Floating Charge shall, therefore, be amended to reflect those effects of the Scheme.
- 7.3.4 The proposed amendments will also replicate SLIF's commercial purpose in granting the Property Linked Floating Charge. That purpose was, and remains, that of giving all SLIF's reinsurance linked liabilities the same priority *pari passu* (ahead of its ordinary creditors) over all of the assets in the SLIF Linked Funds, that is all of SLIF's property linked assets. That is so whether those reinsurance liabilities are owed to SLPF, the Third Party Insurance Companies or SLAL.

- 7.3.5 Accordingly, the proposed amendments to the Property Linked Floating Charge will limit the "Secured Amount" which the Property Linked Floating Charge will continue to secure over the assets which are subject to that charge. After the Effective Date the assets subject to the charge will be in the SLAL Linked Funds for Property Linked Policies written in the UK and the Republic of Ireland (subject to one immaterial exception). The Secured Amount will, in addition to the expenses of the Property Linked Floating Charge, be determined by a formula.
- 7.3.6 That formula involves the aggregate proceeds of the final realisation of the whole of those assets in those SLAL Linked Funds (after deduction of expenses and amounts payable to SLAL's ordinary unsecured creditors under Section 176A of the Insolvency Act 1986) being multiplied by a fraction. The numerator of that fraction will be the amount which is owed by SLAL under the Transferred Reinsurance Agreements at a date which is to be defined in the Property Linked Floating Charges as "the Valuation Date". The Valuation Date is, broadly, the day before inter alia an administrator is appointed to SLAL under the Property Linked Floating Charge. The denominator of the fraction will be the sum, again at the Valuation Date, of that amount and all of SLAL'S liabilities under its Property Linked Policies which (subject to one immaterial exception) have been written in the United Kingdom and Republic of Ireland.
- 7.3.7 In anticipation of the Scheme, SLAL has consulted (i) the Third Party Insurance Companies and (ii) the holders of the TIPs, which SLPF has written, on the proposed amendments to the Property Linked Floating Charge. Each of these parties has replied and none of them has objected to the amendments to the Floating Charge.
- 7.4.1 In addition, the Security Trust Agreement will be amended to reflect the discharge of the Non Property Linked Floating Charge and the proposed amendments to the Property Linked Floating Charge.
- 7.4.2 The Security Trust Agreement will also be amended to limit interim distributions which can be made under the Property Linked Floating Charge before the final realisation proceeds are known. Any such distributions can be made only if a payment from the realisation proceeds is also made to SLAL, or to any administrator or liquidator who has been appointed to it. Any interim distribution under the Property Linked Floating Charge is to be limited to the fraction which is described in Statement 7.3.6, of the total sum to be paid under that charge and to SLAL.

- 7.5 The commercial effect of the proposed amendments to the Property Linked Floating Charge and to the Security Trust Agreement will be that SLAL (and, therefore, the SLAL Policyholders), on the one hand, and SLPF (and, therefore, the holders of the TIPs) and the Third Party Insurance Companies, on the other, will, so far as is reasonably practicable, be in the same commercial position as they would have been had the Scheme not become effective. In particular SLAL and SLPF and the Third Party Insurance Companies will have the same priorities over the same assets.

Longevity Risk and Annuity Augmentation

- 8.1.1 Immediately on the termination of the SLIF EB Annuities Reinsurance Agreement under the Scheme, certain arrangements shall instead apply in respect of the longevity risk under the HWPF Annuity Policies, which have not been reinsured to Canada Life.
- 8.1.2 Those replacement arrangements will, in substance, provide for that longevity risk to be borne by the SLAL PBF. Those assets which were immediately prior to the Effective Date attributable to SLIF's reinsurance of the HWPF Annuity Policies under that agreement will be allocated directly to the SLAL PBF. With effect from the Effective Date, the SLAL PBF shall make monthly payments to the SLAL HWPF equal to the actual payments made by the latter under its annuities, less what those annuity payments were in 2006 projected to be.
- 8.1.3 The replacement of the SLIF EB Annuities Agreement by equivalent arrangements, such as those described, is expressly permitted in the 2006 Scheme.
- 8.1.4 However, the 2006 Scheme permits the replacement of the SLIF EB Annuities Reinsurance Agreement, only if the latter is terminated in accordance with its terms. The Scheme will cause the SLIF EB Annuities Reinsurance Agreement to terminate after it is transferred to SLAL, but as a matter of law in consequence of the Scheme. The Scheme will acknowledge that fact.
- 8.1.5 Similarly, the 2006 Scheme states the basis on which the SLIF EB Annuities Reinsurance Agreement is to terminate. The 2006 Scheme refers to the liability of SLIF to make payments ("Recapture Amounts") in accordance with the provisions of that agreement which are to apply on its termination. However, those provisions will

also cease to have their effect as the SLIF EB Annuities Reinsurance Agreement terminates as a matter of law.

- 8.1.6 Accordingly, the Variation varies the 2006 Scheme, so that its provisions for replacement reinsurance also apply on the termination of the SLIF EB Annuities Reinsurance Agreement in consequence of the Scheme.
- 8.1.7 As regards the longevity risk on the HWPF Annuity Policies, the Variation will not materially or adversely affect the reasonable expectations of SLAL Transferring Policyholders. Rather, the arrangements set out in the Variation will replicate the reinsurance by the SLIF EB Annuities Agreement.

Transfer of Investment Element

- 9.1 Again immediately on the termination of the Linked Reinsurance Agreements, the Investment Element of the policies which had been reinsured in those agreements shall be transferred from the SLAL HWPF to the SLAL PBF.
- 9.2 In order to provide replacement protection to the SLAL HWPF, it is intended to implement paragraph 24 of the 2006 Scheme. That paragraph applies when the Investment Element of Policies written in, allocated to or reinsured by the SLAL HWPF is "internally reinsured" by another SLAL fund. Paragraph 24 has yet to be operated by SLAL.
 - 9.3.1 Those transfers will, in commercial effect, replicate the reinsurance by the Linked Reinsurance Agreements of the Investment Element.
 - 9.3.2 The death benefit paid by the SLAL PBF to the SLAL HWPF will be slightly less than that paid under the Linked Reinsurance Agreements. The SLAL HPWF will, in effect, be compensated by receiving the reserves in SLIF which are equal to that reinsurance liability.
- 9.4 Those transfers are expressly permitted by the 2006 Scheme.
 - 9.5.1 The Scheme also addresses the effect of those transfers on the 2006 Scheme.
 - 9.5.2 The 2006 Scheme provides that any amounts payable or receivable by SLAL under the Linked Reinsurance Agreements are to be disregarded in calculating the Recourse Cash Flows. The 2006 Scheme does not expressly provide that any

amounts payable, or receivable, under any reinsurance agreements which replace those with SLIF (or arrangement with the same commercial effect) are to be similarly disregarded.

- 9.5.3 The Petitioners have been advised that it is not entirely clear whether the transfers under the replacement arrangements are to be disregarded in calculating the Recourse Cash Flows. Having said that, those transfers are not reinsurance, either accepted or ceded and so should not be taken into account in calculating the Recourse Cash Flows.
- 9.5.4 In any case, it is believed to be commercially advantageous to have the flexibility to replace those arrangements in the future by reinsurance from another company in the SL Group. The introduction of that flexibility is legally inconsistent with the 2006 Scheme, albeit it does not alter the commercial effect of that scheme.
- 9.5.5 Accordingly, the Variation includes an amendment to the 2006 Scheme to the effect that amounts payable, or receivable, under the replacement arrangements or any future reinsurance agreements with another SL Group company are also to be disregarded in calculating the Recourse Cash Flows.

Opinions of SLIF Board and SLAL Board

- 10.1 The SLIF Board (having taken the advice of the SLIF Actuarial Function Holder and having taken into account the conclusions of the Independent Expert (who are referred to in Statements 11 and 12 below respectively)) are of the opinion that the Scheme is fair to all SLIF Policyholders and does not prejudice their interests.
- 10.2 The SLAL Board (having taken the advice of (i) the With Profits Actuary and (ii) the SLAL Actuarial Function Holder and having taken into account the conclusions of the Independent Expert (who are each referred to in Statements 11 and 12 below respectively)) are of the opinion that the Scheme is fair to all SLAL Policyholders and does not prejudice their interests.

SLIF and SLAL Actuaries' Reports

11.1 In considering the Scheme, the SLIF Board have been advised by the SLIF Actuarial Function Holder, Dr. David Hare (the "SLIF AFH").

11.2.1 In considering the Scheme, the SLAL Board have been advised by (i) the SLAL Actuarial Function Holder, Dr. David Hare (the "SLAL AFH") and (ii) the With Profits Actuary, Douglas Morrison, FFA (the "SLAL WPA").

11.2.2 Dr. Hare as SLIF AFH and SLAL AFH, has prepared a composite report ("the SLIF/SLAL AFH Report").

11.2.3 For completeness, each of the SLIF/SLAL AFH Report and the SLAL WPA Report refer to the Scheme as the "2011 Scheme".

11.3.1 Paragraph 8 of the SLIF/SLAL AFH Report contains his analysis of the Scheme in terms of the regulatory requirement on SLAL to treat its customers fairly. That paragraph is in these terms:-

" 8.1 I am satisfied that the implementation of the 2011 Scheme is consistent with the requirements in respect of treating customers fairly and that the 2011 Scheme does not introduce any material concerns of detriment concerning the security or expectations of existing SLAL, SLPF or SLIF policyholders. This is because:

- a. There are no changes to the policy conditions, investment management or to the administration of the policies as a result of the scheme;
- b. There is no change in benefit expectations for any group of policyholders as a result of the scheme; and
- c. The financial security of the policyholders' benefits after the transfer is not materially weaker than the position before the transfer."

11.3.2 Paragraph 9 of the SLIF/SLAL AFH Report addresses the waiver which is sought from the requirement to send notices of the Scheme to the SLAL Policyholders. That waiver is described at Statement 19 below. Paragraph 9.1 refers to the considerations in support of that waiver, which are also set out in Statement 19. Paragraph 9.2 is in these terms:-

"Given the analysis of the 2011 Scheme that I have set out in the report and, in particular, the fact that any potential detriment to policyholder security would only

occur in very extreme circumstances and to what is expected to be a very limited extent, if any, I see no reason to disagree with the Board's proposal to seek a waiver from the requirement to communicate details of the 2011 Scheme to existing SLAL policyholders."

11.3.3 Section 10 of the SLIF/SLAL AFH Report contains the overall conclusion on the Scheme. That section is in these terms:-

"10.1 I conclude that no policyholders will have the security of their benefits or their reasonable benefit expectations materially adversely affected by the 2011 Scheme.

10.2 Indeed, in "normal circumstances", the Scheme will have little or no impact on all groups of policyholders.

10.3 In certain extreme, adverse and very unlikely circumstances, the 2011 Scheme could change the financial outcome for different groups of policyholders on liquidation (or administration). In particular, it is possible that, on liquidation (or administration) of SLAL that is not attributable to an operational risk event, a small proportion of policyholders may potentially receive enhanced benefits compared to what they would have received (on liquidation or administration of SLIF) had the 2011 Scheme not been implemented. However, any consequential detrimental impact on the other policyholders is expected to be minor as those potentially benefitting from such a small proportion of the overall portfolio."

11.3.4 Paragraph 4.5 of the SLIF/SLAL AFH Report confirms his understanding on the Variation. That paragraph is in these terms:-

"In order to enable the 2011 Scheme to take effect there are some changes being made to the 2006 Scheme. I understand that these changes still ensure that the relevant protections given to the SLAL HWPF in the 2006 Scheme are maintained and that they are of a technical nature and do not change the substance of the 2006 Scheme."

11.4.1 Paragraph 5.2 of the SLAL WPA Report contains the overall conclusions of the SLAL WPA on the Scheme. That paragraph is in these terms:-

"My overall opinion of the proposed 2011 Scheme as it relates to the with-profits policyholders of SLAL (including those with policies in the HWPF) and those of SLPF, is therefore as follows:-

- i. There will be no adverse effect on the reasonable expectations of any policyholder.
- ii. There will continue to be a high level of security for policyholder benefits."

11.4.2 Paragraph 5.3 of the SLAL WPA Report addresses the waiver which is sought from the requirement to send notices of the Scheme to the SLAL Policyholders. That paragraph is in these terms:-

"Subject to the agreement of the FSA, the SLAL Board does not intend communicating details of the 2011 Scheme to SLAL policyholders although it will publish notices in the press stating that policyholders can request such details together with a copy of the report of the Independent Expert at no charge. Given my opinion on the 2011 Scheme as expressed in section 5.2, I am satisfied that it is reasonable for the SLAL Board to reach that conclusion."

11.4.3 Paragraph 5.4 of the SLAL WPA Report contains the conclusions of the SLAL WPA on the Variation in the form of advice to the SLAL Board. That paragraph is in these terms:-

"In relation to the 2006 Scheme, I am required to provide advice to the SLAL Board on the following matters. The references are to paragraphs in that Scheme.

19.2 I am satisfied that the 2011 Scheme will appropriately apportion between the SLAL HWPF and the SLAL PBF the rights, benefits, powers arising under, and liabilities attributable to the various Reinsurance Agreements and other contracts and arrangements.

22.2 In my opinion the alternative arrangement proposed in the 2011 Scheme to replace the SLIF EB Annuities Reinsurance Agreement will be on terms which are not materially less beneficial to the SLAL HWPF than that agreement and that it is reasonable for the amount being transferred from SLIF to be

directly attributed to the SLAL PBF.

34 I am satisfied that the 2011 Scheme will allocate all costs and expenses incurred by SLAL and SLIF in relation to the preparation and carrying into effect of this Scheme to the SLAL PBF.

35.1 In the event that the 2011 Scheme constitutes a Related Transaction, and as evidenced by the summary of my opinion on the Scheme, I am satisfied that its terms are unlikely to have a material adverse effect on the interests of the HWPF policyholders."

11.5 A copy of each of the SLIF/SLAL AFH Report and the SLAL WPA Report is produced.

Independent Expert's Report

Appointment

12.1.1 In terms of Section 109 of FSMA, John McKenzie ("the Independent Expert"), a Fellow of the Institute and Faculty of Actuaries and a Principal of Milliman, Consultants and Actuaries, an independent firm of Consulting Actuaries, has prepared a report dated 24 October 2011 on the terms of the Scheme (the "Independent Expert Report").

12.1.2 The appointment of the Independent Expert and the form of the Independent Expert Report were approved by the FSA as required by section 109 (2) of FSMA. Confirmation of that approval will be included in the first of the FSA's reports which are referred to in Statement 22.

12.1.3 The Independent Expert's firm has undertaken assignments on behalf of members of the SL Group in the five years preceding this application. The scale and nature of those assignments were not material in the context of Milliman's business.

12.1.4 For completeness, a colleague of the Independent Expert also acts as an actuarial adviser to the WP Committee.

12.1.5 All of those matters were fully disclosed to the FSA in seeking its approval of the Independent Expert.

Review of Scheme

12.2 In the Independent Expert Report, the Independent Expert analyses in detail the likely effect of the Scheme on the SLIF Policyholders, as well as its effect on the SLAL Policyholders and the holders of any Excluded Reinsurance Policies. In doing so he refers at times to the Transferred Reinsurance Agreements as the Transferred Reinsurance Arrangements and to any Excluded Reinsurance Agreements as Excluded Reinsurance Arrangements.

Security of Benefits

12.3.1 First of all, the Independent Expert considers the effect of the Scheme on the security of the benefits of the Transferred Policies, those of the existing SLAL policies and, if only for completeness, those of any Excluded Policies.

12.3.2 In that context, the Independent Expert considers the likely implications of Solvency II. Paragraph 4.45 of the Independent Expert Report contains his conclusion on that matter:-

"In my opinion, the Scheme will remove some uncertainty from the determination of the amount of capital required by SLAL on the implementation of Solvency II and is likely to be beneficial to the management of SLAL."

12.3.3 Paragraph 4.47 contains the Independent Expert's overall conclusion on the security of policy benefits. That conclusion is in these terms:-

"In my opinion, the security of the benefits of Transferred Reinsurance Arrangements, Excluded Reinsurance Arrangements and existing SLAL policies will not be materially affected by the implementation of the Scheme."

Benefit Expectations

12.4.1 Thereafter, the Independent Expert considers the effect of the Scheme on the policyholders' reasonable benefit expectations.

12.4.2 Paragraph 4.58 contains the Independent Expert's overall conclusion on those benefit expectations. That conclusion is in these terms:-

"In my opinion, the implementation of the Scheme is unlikely to have material effect on the reasonable benefit expectations of SLAL's policyholders or in respect of the Transferred Reinsurance Arrangements and the Excluded Reinsurance Arrangements."

Overall Conclusions

12.5 The Independent Expert's overall conclusions on the Scheme are summarised in Section 5. Those conclusions are in these terms:-

- "• the security of the benefits of Transferred Reinsurance Arrangements, Excluded Reinsurance Arrangements and existing SLAL policies will not be materially affected; and
- there is unlikely to be a material effect on the reasonable benefit expectations of SLAL's policyholders or in respect of Transferred Reinsurance Arrangements and Excluded Reinsurance Arrangements."

12.6.1 The Independent Expert Report also addresses the waiver from the requirements of the Regulations, which is described in Statement 19 and is in respect of the SLAL Policyholders.

12.6.2 Paragraph 4.67 and 4.69 of the Independent Expert Report contains the Independent Expert's Conclusion on that waiver. It is in these terms:-

"SLAL intends to seek a waiver from the Court so that it will not be required to inform its policyholders individually of the terms of the Scheme. Since the proposed changes remove arrangements of which policyholders are probably unaware, and do not change materially the security of benefits (see 4.47), the risks to which policyholders are exposed (see 4.22) or the benefit expectations of SLAL's policyholders (see 4.58), I do not believe that SLAL's policyholders will be disadvantaged by not being informed individually of the nature of the changes proposed.

I believe that the alternative arrangements proposed by SLAL to advertise the transfer widely in the UK press and to display the documents relating to the Scheme (including this Scheme Report and its summary) on its website are reasonable and appropriate in the circumstances."

Supplementary Report

- 12.7 The Independent Expert intends, in accordance with recent practice in schemes of this kind, to produce a supplementary report. In that report the Independent Expert will comment on any material change in respect of the Scheme (or the absence of any such change) and will update his analysis with more recent financial and economic information.
- 12.7 A copy of the Independent Expert Report is produced and a copy of his supplementary report will be produced.

Variation Certificate

- 12.8.1 The Independent Expert has also prepared a certificate in accordance with the provisions of the 2006 Scheme which provide for its variation.
- 12.8.2 Those provisions state that an application for the variation to the 2006 Scheme must be accompanied by a certificate from an independent expert whose appointment has been approved by the FSA. The certificate must be to the effect that, in the opinion of the independent expert, the proposed variation will not materially and adversely effect the reasonable expectations of the SLAL Transferring Policyholders.
- 12.9.1 It is expedient for the Independent Expert also to give that certificate. The effect of the Variation can be reviewed only in the context of the Scheme.
- 12.9.2 The FSA has given its approval to the Independent Expert giving that certificate.
- 12.10.1 The certificate from the Independent Expert is included in Section 6 of the Independent Expert Report. Paragraph 6.2 is in these terms:-

"I have considered (in 4.59 - 4.61) the changes which are proposed to be made to the terms of the 2006 Scheme and consider that these are such as to clarify the application of the 2006 Scheme in the circumstances of the current Scheme. The changes are reflective of the intentions of the 2006 Scheme and in practice will result in the same outcome as would have occurred in the absence of the current Scheme".

- 12.10.2 The certificate concludes:

"I certify that in my opinion, the changes proposed to the 2006 Scheme will not materially or adversely affect the interests of SLAL's policyholders transferred from SLAC under the terms of the 2006 Scheme".

The Notice

- 13.1.1 As required by paragraph 3 (2) (a) of the Regulations, a notice ("the Notice") has been prepared, which states that this application has been made.
- 13.1.2 As required by paragraph 3 (3) (a) of the Regulations, the Notice has been approved by the FSA. Confirmation of that approval will be included in the first of the FSA's reports, which are referred to in Statement 22.
- 13.2 As required by paragraph 3 (2) (a)(i) and (ii) of the Regulations, the Notice will be published in the Official Gazettes and in three national newspapers in the UK, namely "The Scotsman", the "Financial Times", (UK edition) and "The Daily Telegraph".

Policyholder Communications

- 14.1.1 As required by paragraph 3 (2) (b) of the Regulations, the Notice must be sent to every SLIF Policyholder.
- 14.1.2 As set out in Statement 2.13.2 above, SLIF's records show that as at the date of this application it has only 7 Policyholders.
- 14.1.3 SLIF intends to send the Notice to each SLIF Policyholder, together with an explanatory covering letter (the "Policyholder Letter"), stating that an application has been made by SLIF for the order and a summary copy of the Independent Expert Report.
- 14.2 A copy of a pro forma Policyholders Letter is produced.
- 14.3 As set out at Statement 7.3.7, SLAL has already informally consulted those SLIF Policyholders which are beneficiaries of the Property Linked Floating Charge.
- 14.4 As set out in Statement 19 below, a waiver is sought of the requirement under paragraph 3 (2) (b) of the Regulations to send the Notice to the SLAL Policyholders.

Notification of Reinsurers

15.1.1 Paragraph 3 (2)(c)(i) of the Regulations also requires that the Notice is sent to each of the SLIF Reinsurers. As already stated, there are 11 SLIF Reinsurers.

15.1.2 It is intended that the Notice, together with a letter (the "Reinsurers Letter") stating that an application has been made by SLIF for the order, is sent to all of the Reinsurers.

15.2 A copy of a pro forma SLIF Reinsurers Letter is produced.

Notification of Relevant Third Parties

16.1.1 For completeness, it is also intended that a letter (the "Third Parties Letter") stating that this application has been made be sent to all relevant counterparties (other than other members of the SL Group and the SLIF Reinsurers) to all material contracts which are part of the Transferring Business. That intention is subject to the practical limitation that, in the short time available, it may not be reasonably practicable for SLIF to obtain current names and addresses for all of the counterparties or even to identify all of the contracts.

16.1.2 As set out at Statement 5.10.3 above, (i) the only counterparties of that kind are reasonably believed to be those under the Investment Agreements which do not permit their novation to another member of the SL Group and (ii) the categories of material contract set out at Statements 2.16 to 2.18 above, other than those in the second, fourth, fifth, sixth and eighth categories in Statement 2.17.6.

16.2 A copy of a pro forma Third Parties Letter is produced.

Documents

17.1 As required by paragraph 3 (4) of the Regulations, any person who requests them, will be given, free of charge, a copy of the Independent Expert's Report and a statement, setting out the full terms of the Scheme and containing a summary of the Independent Expert's Report.

17.2 Such a person will similarly receive a copy of this application.

Record Date and Computer Records

- 18.1 Paragraph 3 (2) of the Regulations does not specify a particular date by reference to which policyholders are to be identified for the purpose of sending the Notice to them.
- 18.2.1 It is proposed to identify SLIF Policyholders, to whom the Notice (along with the Policyholders Letter) is to be sent, by reference to SLIF's computer and manual records as at 25 October 2011 ("the Record Date").
- 18.2.2 SLIF will be able to obtain from its records the names and addresses of all the SLIF Policyholders as at the Record Date.
- 18.3 Similarly, the Record Date is to be used to identify the SLIF Reinsurers to whom the Notice and the SLIF Reinsurers Letter are to be sent.
- 18.4 Accordingly, a direction approving the Record Date is sought in terms of paragraph (iv) of the prayer of this application (the "Prayer").

Waiver - SLAL Policyholders

- 19.1 A waiver is sought, under paragraph 4 (2) of the Regulations, from the requirement of their paragraph 3 (2) (b) in respect of the sending of the Notice to the SLAL Policyholders.
- 19.2.1 As already stated, there are approximately 4.4 million SLAL Policyholders. It would involve very substantial expense (which might be reasonably estimated at approximately £4.4 million), were SLAL to be required to send the Notice to SLAL Policyholders for whom they have a name and current address.
- 19.2.2 That sum does not include the "indirect costs" which SLAL would incur in terms of staff time. Those costs would, for example, include the costs in obtaining from SLAL's current computer records a name and current address for those SLAL Policyholders who are within the statutory definition of the Policyholder Order. Those indirect costs are reasonably believed also to be very significant.
- 19.3.1 For the reasons set out above in describing its terms, the Scheme has no adverse effect on the security or reasonable policyholder expectations of the SLAL

Policyholders, including in particular those holding HWPF Policies. As already said, they enjoy protections under the 2006 Scheme. Nothing in the Scheme reduces the effect of those protections.

19.3.2 The absence of any adverse effect is confirmed in the Independent Expert Report and in the SLIF/SLAL AFH Report. The SLAL WPA expresses a similar view.

19.3.3 As already noted at Statement 12.6.2, it is also stated in the Independent Expert Report that the Independent Expert considers this waiver to be reasonable in all the circumstances of the Scheme.

19.3.4 A waiver from the requirement to send a notice to the Policyholders of a transferee company is well precedented in this Court and in the Company Court, where it appears that a scheme can have no adverse effect on the interests of those Policyholders.

19.4 The Notice which is referred to in Statement 13 will state the address from which the documents referred to in Statement 17 can be obtained free of charge. They will also state that copies of those documents may be obtained by calling the helpline which SLAL will establish in connection with the Scheme.

19.5 In the circumstances, no SLAL Policyholder is likely to be prejudiced, far less materially prejudiced, by the waiver sought in paragraph (v) of the Prayer.

19.6.1 The FSA is aware of the waiver sought and, as set out in Statement 22, will confirm that it does not object to it.

19.6.2 The waiver is consistent with the application to the circumstances of this application of the FSA's guidance in Chapter 18 of the Supervision section of the FSA Handbook, which provides guidance in connection with insurance business transfer Schemes.

SLAL Authorisation and Margin of Solvency

20.1 In accordance with section 111 (2) (b) of FSMA, SLAL has the authorisation from FSA, which is required to enable the Transferring Business to be carried on in the place to which it is to be transferred, namely the UK.

- 20.2.1 In addition, a certificate will, in the course of this application, be obtained from the FSA, certifying that, taking the proposed transfer under the Scheme into account, SLAL possesses (or will possess, before the Effective Date) the necessary margin of solvency.
- 20.2.2 That certificate will be given in terms of (i) section 111 (2) (a) of FSMA and (ii) paragraphs 1 (a), 2 (1) (a), 2 (2) (a), 2 (4), 2 (5) and 2 (6) (c) of Schedule 12.

Sanction of the Scheme

- 21.1.1 The Scheme satisfies the conditions set out in Section 105 (2) (a) of FSMA, namely that it is one for the transfer of the business carried on in at least one member state by a UK authorised person, which has permission to effect contracts of insurance, is to be transferred to (another body).
- 21.1.2 In addition, the Scheme is not an “excluded Scheme”, as defined in the five “Cases” in Section 105 (3) of FSMA.
- 21.1.3 The Scheme is, therefore, an “insurance business transfer Scheme”, within the meaning of Section 105 (1) of FSMA.
- 21.2. The Scheme will not adversely affect the interests of any of the SLIF Policyholders, the SLAL Policyholders and any other person.
- 21.3 In all the circumstances, it is appropriate for this Court to sanction the Scheme, in accordance with Section 111 (3) of FSMA.
- 21.4.1 As already set out in Statement 5.10 above, it is sought that the Sanction Order will also provide, under sections 112(2)(a) and 112(2A) of FSMA, for the transfer by the Scheme of the property and liabilities of SLIF, notwithstanding that that property and those liabilities would not otherwise be capable of being transferred.
- 21.4.2 It is reasonably anticipated that no third party, including any of the SLIF Reinsurers, will be prejudiced by the Sanction Order including such a provision. In this context, and as confirmed in the Expert Report, the financial position of SLAL will, after the Scheme becomes effective, be no less strong than that of SLIF.
- 21.5.1 The Sanction Order is also to provide, under Section 112(8)(b) for the dissolution of SLIF without its winding up under the Insolvency Act 1986.

21.5.2 The dissolution is to take effect only on a copy of a resolution of the SLIF Board being delivered to the Registrar of Companies in Scotland. That resolution will state that, to the best of the SLIF Board's knowledge and belief, having taken all reasonable steps to ensure that that is the case, all Residual Assets and all Residual Liabilities have been transferred to SLAL and otherwise SLIF has no longer any assets or any liabilities of any kind.

21.5.3 The timing for the passing of that resolution has not yet been determined.

21.5.4 An order in similar terms for the dissolution of SLAC under Section 112(8)(b) was included in the order which sanctioned the 2006 Scheme.

21.6.1 For completeness, the Petitioners considered whether the proposed transfer of SLIF's transfer to SLAL could be an "excluded scheme" within Case 5 of section 105 (3) of FSMA. It was concluded that SLIF's business did not satisfy the requirements of that Case.

21.6.2 Put broadly, Case 5 requires that all the business to be transferred is "reinsurance". The Petitioners have been advised that reinsurance there means reinsurance in its legal sense and not in some wider commercial sense.

21.6.3 That being so, SLIF did not satisfy that requirement. As said at Statement 2.6.1, one of the contracts with SLAL by which it has assumed the risk of the SIPPs which SLAL has written was not a contract of reinsurance in the legal sense.

FSA Reports

22.1 For completeness, it is reasonably believed that the FSA will, in accordance with its recent practice, submit to this Court two reports on the Scheme.

22.2.1 It is reasonably anticipated that the first report will confirm the approval of the Notice and the appointment of the Independent Expert and the form of his Report. The first report will also address the waiver sought from the requirements of the Regulations and will include the FSA's confirmation that it does not object to that waiver.

22.2.2 The first report is expected to be available shortly before the hearing at which the first order in this application is sought.

22.3 It is reasonably anticipated that the second report from the FSA will address the merits of the Scheme and will be available only shortly before the hearing for the Sanction Order.

2006 Scheme

23.1 As stated above, the 2006 Scheme provides that any applications for its variation must comply with certain requirements.

23.2.1 The requirement for a certificate from an independent expert has already been referred to at Statement 12 above.

23.2.2 That certificate which the Independent Expert has given confirms that the Variation does not materially and adversely affect the reasonable expectations of the SLAL Transferring Policyholders.

23.3 A further requirement is that the FSA must be notified of the hearing at which the application is to be heard and must have a right to participate at that hearing. It is implicit that the FSA also has a right to be notified that the application has been made.

23.4 For the reasons set out in Statements 8, 9 and 12 above, and in the Variation Application, all the requirements for the Variation have been satisfied. It is also appropriate for the Court to give its consent to the Variation.

23.5 For completeness, the WP Committee has considered the Variation, along with the Scheme as a whole. The WP Committee did not wish to draw the attention of the SLAL Board to any objection to the Scheme and, by necessary implication, the Variation.

Period of Notice

- 24.1 Chapter 18 of the Supervision section of the FSA Handbook states at paragraph 18.2.46 that “the FSA would not normally consider adequate a period of less than six weeks between sending notices to policyholders and the date of the Court hearing”.
- 24.2 The Petitioners require technically to seek to extend the period of notice for Answers to this application from 21 days to 42 days in accordance with Rules of Court 14.4 (6) (b) and 14.6 (2).

Reporter

- 25.1 The Petitioners seek the appointment of, Paul W Hally, Edinburgh, as Reporter for the Process, in terms of paragraph (vii) of the Prayer.
- 25.2.1 Mr Hally was the Reporter in the previous application by SLAC for sanction of the 2006 Scheme. He also acted as Reporter in subsequent applications by SL plc and SLAL for the reduction of their share premium accounts and, in the case of SLAL, for the variation in 2010 of an undertaking given in connection with the reduction of its share premium account.
- 25.2.2 Mr Hally is accordingly familiar with the Petitioners and, in particular, the 2006 Scheme. His appointment would, therefore, assist the Court in its consideration of this application.
- 25.3 Mr Hally has confirmed that he is able and willing to act, on terms acceptable to the Petitioners.
- 25.4 For completeness, his appointment is also sought as reporter in the Variation Application.
- 25.5 This Court has helpfully indicated that it is minded to appoint Mr Hally.

General

26. This application is made under (i) Part VII of, and Schedule 12 to, FSMA; (ii) the Regulations; (iii) the Policyholder Order; and (iv) the Rules of Court, and, in particular, Rules 14.4 (6)(b) and 14.6 (2).

MAY IT THEREFORE please your Lordships:

(i) to order this Petition by Standard Life Investment Funds Limited ("the Company") for the sanction of an insurance business transfer ("the Scheme"), under Part VII of the Financial Services and Markets Act 2000 ("the Act"), a copy of which is set out in the Appendix and under which the long term business carried on by the Company is to be transferred to Standard Life Assurance Limited ("SLAL"), to be intimated on the Walls in common form;

(ii) to order a notice ("the Notice"), in terms of paragraph 3(2)(a) of The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 ("the Regulations"), to be published once in each of: (a) The London Gazette; (b) The Edinburgh Gazette; (c) The Belfast Gazette; (d) the United Kingdom edition of The Financial Times; (e) The Scotsman and (f) The Daily Telegraph;

(iii) to order service in common form on the

Financial Services Authority (designed in Schedule 1 to this Petition) of a copy of each of this Petition, the Independent Expert's Report (as described in Statement 12), the Notice (as described in Statement 13) and the Statement (as described in Statement 17);

(iv) to direct that 25 October 2011 ("the Record Date") be the date at which the name and address of each policyholder and reinsurer of the Company, be determined for the purposes of paragraphs 3(2)(b) and 3(2)(c) of the Regulations;

(v) to waive, under paragraph 4(2) of the Regulations, the requirements of Paragraph 3(2)(b) of the Regulations, insofar as they relate to the sending of the Notice to the policyholders of SLAL;

(vi) to order all parties claiming an interest to lodge Answers to this Petition within 42 days after that intimation, service and advertisement;

(vii) to appoint Paul W Hally, solicitor, of 1 Exchange Crescent, Conference Square, Edinburgh (or any other person whom your Lordship considers appropriate) as Reporter for the Process and to remit the Process to the Reporter to report on the facts and circumstances set out in the Petition and the regularity of the proceedings;

and upon resuming consideration of this

Petition, with or without Answers;

(viii) to make an Order under Section 111(1) of the Act sanctioning the Scheme;

(ix) to make an Order under Sections 112(1)(a), 112(2)(a) and 112(2A) of the Act transferring to SLAL the undertaking, property and liabilities of the Company, with effect from the Effective Time, as provided for in the Scheme, which Order shall not become effective in respect of any Residual Assets and Residual Liabilities of the Company (as defined in the Scheme) until the relevant Subsequent Transfer Date (as defined in the Scheme);

(x) to make an Order under Section 112(1)(c) of the Act for the continuation by (or against) SLAL of any pending legal proceedings by (or against) the Company at the Effective Time, as provided for in the Scheme, which Order shall not become effective in respect of any such legal proceedings relating to any Residual Assets or Residual Liabilities until the relevant Subsequent Transfer Date;

(xi) to make an Order under Section 112(8)(b) of FSMA for the dissolution, without winding up, of the Company on the date upon which there is delivered to the Registrar of Companies in Edinburgh a copy of a resolution of the Directors of the Company resolving that, to the best of their knowledge and belief after having taken all reasonably practicable steps to ensure that that is the case, all Residual

Assets and Residual Liabilities, if any, have been transferred to SLAL and otherwise the Company no longer has any asset or any liability of any kind;

(xii) to allow the Company and SLAL to apply to your Lordship under Section 112(1)(d) of the Act for any Orders with respect to such incidental, consequential and supplementary matters as are necessary to secure that the Scheme shall be fully and effectively carried out;

(xiii) to order SLAL under Section 112(10) of the Act to deposit two certified copies of the Order to be made with The Financial Services Authority within 10 days of the making of that Order;

(xiv) to order the Company to advertise the Order pronounced once (a) in each of The London Gazette, The Edinburgh Gazette, The Belfast Gazette and (b) in each of the following newspapers, namely, the United Kingdom edition of The Financial Times, The Scotsman and The Daily Telegraph;

and

(xv) to decern (whether ad interim or otherwise), or to do further or otherwise in the premises as your Lordship considers appropriate.

ACCORDING TO JUSTICE ETC

SCHEDULE 1

Schedule for Service

Service in Common Form is sought upon:

The Financial Services Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

SCHEDULE 2

Financial Services and Markets Act 2000 and Related Regulations

1. Part VII of the Act provides *inter alia*:

“104. Control of business transfers

No insurance business transfer scheme... is to have effect unless an order has been made in relation to it under section 111(1).

105. Insurance business transfer schemes

- (1) *A scheme is an insurance business transfer scheme if it –*
- (a) *satisfies one of the conditions set out in subsection (2);*
 - (b) *results in the business transferred being carried on from an establishment of the transferee in an EEA State; and*
 - (c) *is not an excluded scheme.*
- (2) *The conditions are that –*
- (a) *the whole or part of the business carried on in one or more member States by a UK authorised person who has permission to effect or carry out contracts of insurance (“the authorised person concerned”) is to be transferred to another body (“the transferee”);*
- (3) *A scheme is an excluded scheme for the purposes of this section if it falls within any of the following cases-*

CASE 1

Where the authorised person concerned is a friendly society.

CASE 2

Where–

- (a) *the authorised person concerned is a UK authorised person;*
- (aa) *the authorised person concerned is not a reinsurance undertaking (within the meaning of Article 2.1(c) of the reinsurance directive);*
- (b) *the business to be transferred under the scheme is business which consists of the effecting or carrying out of contracts of reinsurance in one or more EEA States other than the United Kingdom; and*
- (c) *the scheme has been approved by a court in an EEA State other than the United Kingdom or by the host state regulator.*

CASE 3

Where—

- (a) *the authorised person concerned is a UK authorised person;*
- (b) *the business to be transferred under the scheme is carried on in one or more countries or territories (none of which is an EEA State) and does not include policies of insurance against risks arising in an EEA State; and*
- (c) *the scheme has been approved by a court in a country or territory other than an EEA State or by the authority responsible for the supervision of that business in a country or territory in which it is carried on.*

CASE 4

Where—

- (a) *the business to be transferred under the scheme is the whole of the business of the authorised person concerned;*
- (b) *all the policyholders are controllers of the firm or of firms within the same group as the firm which is the transferee, and*
- (c) *all of the policyholders who will be affected by the transfer have consented to it.*

CASE 5

Where—

- (a) *the business of the authorised person concerned consists solely of the effecting or carrying out of contracts of reinsurance;*
- (b) *the business to be transferred is the whole or part of that business;*
- (c) *the scheme does not fall within Case 4;*
- (d) *all of the policyholders who will be affected by the transfer have consented to it; and*
- (e) *a certificate has been obtained under paragraph 2 of Schedule 12 in relation to the proposed transfer.*
- (4) *The parties to a scheme which falls within Case 2, 3, 4 or 5 may apply to the court for an order sanctioning the scheme as if it were an insurance business transfer scheme.*
- (8) *“UK authorised person” means a body which is an authorised person and which—*
 - (a) *is incorporated in the United Kingdom; or*
 - (b) *is an unincorporated association formed under the law of any part of the United Kingdom.*

- (9) *“Establishment” means, in relation to a person, his head office or a branch of his.*

“107. Application for order sanctioning transfer scheme

- (1) *An application may be made to the court for an order sanctioning an insurance business transfer scheme....*
- (2) *An application may be made by –*
- (a) *the authorised person concerned;*
 - (b) *the transferee; or*
 - (c) *both.*
- (3) *The application must be made –*
-(a) *if the authorised person concerned and the transferee are registered or have their head offices in the same jurisdiction, to the court in that jurisdiction;....*
- (4) *“Court” means –*
-(b) *in Scotland, the Court of Session.*

108. Requirements on applicants

- (1) *The Treasury may by regulations impose requirements on applicants under section 107.*
- (2) *The court may not determine an application under that section if the applicant has failed to comply with a prescribed requirement.*

109. Scheme reports

- (1) *An application under section 107 in respect of an insurance business transfer scheme must be accompanied by a report on the terms of the scheme (“a scheme report”).*
- (2) *A scheme report may be made only by a person –*
- (a) *appearing to the [FSA] to have the skills necessary to enable him to make a proper report; and*
 - (b) *nominated or approved for the purpose by the [FSA].*
- (3) *A scheme report must be made in a form approved by the [FSA].*

110. *Right to participate in proceedings*

On an application under section 107, the following are also entitled to be heard –

- (a) *the [FSA], and*
- (b) *any person (including an employee of the authorised person concerned or of the transferee) who alleges that he would be adversely affected by the carrying out of the scheme.*

111. *Sanction of the court for business transfer schemes*

- (1) *This section sets out the conditions which must be satisfied before the court may make an order under this section sanctioning an insurance business transfer scheme. ...*
- (2) *The court must be satisfied that –*
 - (a) *the appropriate certificates have been obtained (as to which see Parts I and II of Schedule 12);*
 - (b) *the transferee has the authorisation required (if any) to enable the business, or part, which is to be transferred to be carried on in the place to which it is to be transferred (or will have it before the scheme takes effect).*
- (3) *The court must consider that, in all the circumstances of the case, it is appropriate to sanction the scheme.*

112. *Effect of order sanctioning business transfer scheme*

- (1) *If the court makes an order under section 111(1), it may by that or any subsequent order make such provision (if any) as it thinks fit –*
 - (a) *for the transfer to the transferee of the whole or any part of the undertaking concerned and of any property or liabilities of the authorised person concerned; ...*
 - (c) *for the continuation by (or against) the transferee of any pending legal proceedings by (or against) the authorised person concerned;*
 - (d) *with respect to such incidental, consequential and supplementary matters as are, in its opinion, necessary to secure that the scheme is fully and effectively carried out. ...*
- (2) *An order under subsection (1)(a) may -*
 - (a) *transfer property or liabilities whether or not the authorised person concerned otherwise has the capacity to effect the transfer in question;*

- (b) *make provision in relation to property which was held by the authorised person concerned as trustee;*
 - (c) *make provision as to future or contingent rights or liabilities of the authorised person concerned, including provision as to the construction of liabilities (including wills) under which such liabilities or rights may arise;*
 - (d) *make provision as to the consequences of the transfer in relation to any retirement benefits scheme (within the meaning of section 611 of the Income and Corporation Taxes Act 1988) operated by or on behalf of the authorised person concerned.*
- (2A) *Subsection (2)(a) is to be taken to include power to make provision in an order—*
- (a) *for the transfer of property or liabilities which would not otherwise be capable of being transferred or assigned;*
 - (b) *for a transfer of property or liabilities to take effect as if there were—*
 - (i) *no such requirement to obtain a person's consent or concurrence, and*
 - (ii) *no such contravention, liability or interference with any interest or right,*
- as there would otherwise be (in the case of a transfer apart from this section) by reason of any provision falling within subsection (2B).*
- (2B) *A provision falls within this subsection to the extent that it has effect (whether under an enactment or agreement or otherwise) in relation to the terms on which the authorised person concerned is entitled to the property or subject to the liabilities in question.*
- (2C) *Nothing in subsection (2A) or (2B) is to be read as limiting the scope of subsection (1)*
- (3) *If an order under subsection (1) makes provision for the transfer of property or liabilities –*
- (a) *the property is transferred to and vests in, and*
 - (b) *the liabilities are transferred to and become liabilities of,*
- the transferee as a result of the order.*
- (4) *But if any property or liability included in the order is governed by the law of any country or territory outside the United Kingdom, the order may require the authorised person concerned, if the transferee so requires, to take all necessary steps for securing that the transfer to the transferee of the property or liability is fully effective under the law of that country or territory.*

- (5) *Property transferred as a result of an order under subsection (1) may, if the court so directs, vest in the transferee free from any charge which is (as a result of the scheme) to cease to have effect.*
- (6) *An order under subsection (1) which makes provision for the transfer of property is to be treated as an instrument of transfer for the purposes of [section 770(1) of the Companies Act 2006] and any other enactment requiring the delivery of an instrument of transfer for the registration of property.*
- (7) *.....*
- (8) *If the court makes an order under section 111(1) in relation to an insurance business transfer scheme, it may by that or any subsequent order make such provision (if any) as it thinks fit-*
- (a) *for dealing with the interests of any person who, within such time and in such manner as the court may direct, objects to the scheme;*
- (b) *for the dissolution, without winding up, of the authorised person concerned;...*
- (10) *The transferee must, if an insurance business transfer scheme is sanctioned by the court, deposit two office copies of the order made under subsection (1) with the [FSA] within 10 days of the making of the order.*
- (12) *“Property” includes property, rights and powers of any description.*
- (13) *“Liabilities” includes duties.”*
- 112A *Rights to terminate etc.*
- (1) *Subsection (2) applies where (apart from that subsection) a person would be entitled, in consequence of anything done or likely to be done by or under this Part in connection with an insurance business transfer scheme or a banking business transfer scheme—*
- (a) *to terminate, modify, acquire or claim an interest or right; or*
- (b) *to treat an interest or right as terminated or modified.*
- (2) *The entitlement—*
- (a) *is not enforceable in relation to that interest or right until after an order has been made under section 112(1) in relation to the scheme; and*
- (b) *is then enforceable in relation to that interest or right only insofar as the order contains provision to that effect.*
- (3) *Nothing in subsection (1) or (2) is to be read as limiting the scope of section 112(1).*

2. Part I of Schedule 12 to the Act provides *inter alia*:

- “1(1) For the purposes of section 111(2) the appropriate certificates, in relation to an insurance business transfer scheme, are –
- (a) a certificate under paragraph 2;
- 2(1) A certificate under this paragraph is to be given –
- (a) by the relevant authority;
- (2) A certificate given under sub-paragraph (1)(a) is one certifying that, taking the proposed transfer into account –
- (a) the transferee possesses, or will possess before the scheme takes effect, the necessary margin of solvency; or
- (b) there is no necessary margin of solvency applicable to the transferee.
....
- (4) “Necessary margin of solvency” means the margin of solvency required in relation to the transferee, taking the proposed transfer into account, under the law which it is responsibility of the relevant authority to apply.
- (5) “Margin of solvency” means the excess of the value of the assets of the transferee over the amount of its liabilities.
- (6) “Relevant authority” means –
- ...(c) if the transferee is an authorised person not falling within paragraph (a) or (b), the [FSA]....”

3. The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 provide *inter alia*:

"PART II

CONTRACTS OF LONG-TERM INSURANCE

I. Life and annuity

Contracts of insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within paragraph III.

II. Marriage and birth

Contract of insurance to provide a sum on marriage or on the birth of a child, being contracts expressed to be in effect for a period of more than one year.

III. Linked long term

Contracts of insurance on human life or contracts to pay annuities on human life where the benefits are wholly or partly to be determined by references to the value of, or the income from, property of any description (whether or not specified in the contracts) or by reference

to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

IV. Permanent health

Contracts of insurance providing specified benefits against risks of persons becoming incapacitated in consequence of sustaining injury as a result of an accident or of an accident of a specified class or of sickness or infirmity, being contracts that—

(a) are expressed to be in effect for a period of not less than five years, or until the normal retirement age for the persons concerned, or without limit of time; and

(b) either are not expressed to be terminable by the insurer, or are expressed to be so terminable only in special circumstances mentioned in the contract.

....

VI. Capital redemption contracts

Capital redemption contracts, where effected or carried out by a person who does not carry on a banking business, and otherwise carries on a regulated activity of the kind specified by article 10(1) or (2).

VII. Pension fund management

(a) Pension fund management contracts, and

(b) pension fund management contracts which are combined with contracts of insurance covering either conservation of capital or payment of a minimum interest,

where effected or carried out by a person who does not carry on a banking business, and otherwise carries on a regulated activity of the kind specified by article 10(1) or (2)...."

4. The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 provide *inter alia*:

"3(1) An applicant under section 107 of the Act for an order sanctioning an insurance business transfer scheme ("the scheme") must comply with the following requirements.

(2) A notice stating that the application has been made must be –

(a) published -

(i) in the London, Edinburgh and Belfast Gazettes;

(ii) in two national newspapers in the United Kingdom; and.....

(b) sent to every policyholder of the parties; and

(c) sent -

(i) to every reinsurer of the authorised person concerned (within the meaning of section 105(2) of the Act) any of whose

contracts of reinsurance (in whole or part) are to be transferred by the scheme; or

- (ii) in a case where such a contract has been placed with or through a person authorised to act on behalf of the reinsurer, then to that person; or*
- (iii) in a case where such a contract has been placed with more than one reinsurer, then to the person or persons authorised to act on behalf of those reinsurers or groups of reinsurers.*

- (3) The notices mentioned in paragraph (2) must –*
 - (a) be approved by the [FSA] prior to publication (or, as the case may be, being sent); and*
 - (b) contain the address from which the documents mentioned in paragraph (4) may be obtained.*
- (4) A copy of the report and a statement setting out the terms of the scheme and containing a summary of the report must be given free of charge to any person who requests them.*
- (5) A copy of the application, the report and the statement mentioned in paragraph (4) must be given free of charge to the [FSA].*

- 4(1) Subject to paragraph (2), the court may not determine an application under section 107 for an order sanctioning an insurance business transfer scheme –*
 - (a) where the applicant has failed to comply with the requirements in regulation 3(2), (3) or (6); and*
 - (b) until a period of not less than twenty-one days has elapsed since the [FSA] was given the documents mentioned in regulation 3(5).*
- (2) The requirements in regulation 3(2)(a)(ii), (iii) and (iv), (b) and (c) may be waived by the court in such circumstances and subject to such conditions as the court considers appropriate. ...”*

- 5. The Financial Services and Markets Act 2000 (Meaning of “Policy” and “Policyholder”) Order 2001 provides *inter alia*:-

“2. Meaning of “policy”

For the purposes of [the Act], “policy” means, as the context requires,

- (a) a contract of insurance, including one under which an existing liability has accrued, or*
- (b) any instrument evidencing such a contract.*

3. *Meaning of “policyholder”*

For the purposes of [the Act], “policyholder” means the person who for the time being is the legal holder of the policy, and includes any person to whom, under the policy, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided.”

APPENDIX

The Scheme

DRAFT

No. [●] of 2011

IN THE COURT OF SESSION, SCOTLAND

STANDARD LIFE INVESTMENT FUNDS LIMITED

and

STANDARD LIFE ASSURANCE LIMITED

SCHEME

**for the transfer to Standard Life Assurance Limited of all of the
business of Standard Life Investment Funds Limited
(pursuant to Part VII of the Financial Services and Markets
Act 2000)**

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PART A - DEFINITIONS AND INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 In this Scheme, the following expressions bear the meanings respectively set opposite them:

“Actuarial Function Holder”	the person appointed by a company from time to time to perform the actuarial function and duties as set out in SUP 4.3.13R in respect of that company;
“Board”	in respect of a company, the board of directors from time to time of that company;
“Charge Documents”	the Property-Linked Floating Charge and the Security Trust Agreement, in each case as amended at, and with effect from, the Effective Date in accordance with <u>paragraph 5.6</u> ;
“Court”	the Court of Session in Scotland;
“CTA 2010”	the Corporation Tax Act 2010;
“Effective Date”	the time and date on which this Scheme shall become effective in accordance with <u>paragraph 18</u> ;
“Encumbrance”	any mortgage, charge, pledge, assignation in security, lien, option, restriction, right of first refusal, right of pre-emption, third party right or interest, any other encumbrance or security interest of any kind and any other type of preferential arrangement (including title transfer and retention arrangements) having a similar effect;
“Equivalent Attribution”	has the meaning given to it in <u>paragraph 14.1(A)</u> ;
“Excluded Assets”	all rights, benefits or powers of SLIF under or by virtue of: (A) each Excluded Reinsurance Agreement; and (B) the Non-Linked Floating Charge;
“Excluded Liabilities”	all liabilities under, in respect of, or attributable to: (A) each Excluded Reinsurance Agreement; and (B) the Non-Linked Floating Charge;
“Excluded Reinsurance”	each reinsurance agreement to which SLIF is party;

Agreement	<p>(A) which is in respect of reinsurance which SLIF has accepted or agreed to accept;</p> <p>(B) under which any liability remains unsatisfied or outstanding on the Effective Date;</p> <p>(C) which is comprised in the Transferred Business; and</p> <p>(D) the rights, benefits, powers and liabilities under which are not capable on the Effective Date of being transferred by this Scheme;</p>
“FA 2004”	the Finance Act 2004;
“FSA Handbook”	the FSA Handbook of rules and guidance issued by the Insurance Regulator;
“FSMA”	the Financial Services and Markets Act 2000;
“GENPRU”	the General Prudential sourcebook issued by the Insurance Regulator;
“Group”	in respect of a person, that person, its subsidiaries and subsidiary undertakings, any holding company of that person and all other subsidiaries and subsidiary undertakings of any such holding company from time to time, and “SLAL Group” and “SLIF Group” shall be construed accordingly;
“HMRC”	Her Majesty’s Revenue & Customs;
“HWPF Policy”	a Policy written in or allocated to the SLAL HWPF in each case immediately prior to the Effective Date;
“ICTA”	the Income and Corporation Taxes Act 1988;
“Independent Expert”	Mr. John McKenzie, the expert nominated and approved pursuant to section 109(2) of FSMA and appointed in connection with this Scheme, or any person so nominated, approved and appointed in substitution of Mr. John McKenzie in the event of a vacancy occurring by reason of his death, incapacity or resignation;
“Index-Linked Policy”	any Policy which falls within paragraph III of Part II of Schedule 1 to the Regulated Activities Order in respect of which the benefits payable are determined by reference to an index of the value of property of any description

(whether specified in the Policy or not);

“INSPRU”	the Prudential sourcebook for Insurers issued by the Insurance Regulator;
“Insurance Regulator”	the Financial Services Authority, or such other governmental, statutory or other authority as shall from time to time carry out such functions in relation to Long-Term Business carried on in the United Kingdom as were at the date of this Scheme allocated to the Financial Services Authority under FSMA;
“Investment Element”	has the meaning given to it in <u>paragraph 14.4</u> ;
“Linked Fund”	an internal linked fund established and maintained for accounting purposes by SLIF (before the Effective Date) or SLAL (before, on or after the Effective Date) to enable benefits payable under Linked Policies to be calculated, other than benefits determined by reference to the value of With Profits Units, and “SLIF Linked Fund” and “SLAL Linked Fund” shall be construed accordingly;
“Linked Policy”	(A) any Index-Linked Policy; and (B) any Property-Linked Policy;
“Linked Reinsurance Agreements”	the SLIF EB ULL Reinsurance Agreement and the SLIF EB ULP Reinsurance Agreement;
“Listed Reinsurance Agreements”	the agreements set out in Schedule 1 to this Scheme, in each case as varied;
“Long-Term Business”	the business of effecting or carrying out Long-Term Insurance Contracts;
“Long-Term Insurance Contracts”	contracts falling within classes of long term insurance business as set out in Part II of Schedule 1 to the Regulated Activities Order;
“Long-Term Insurance Fund”	has the meaning given to it in INSPRU 1.5.22R;
“Mathematical Reserves”	has the meaning given to it in the Glossary to the FSA Handbook;
“Non-Linked Floating Charge”	the non-linked floating charge securing the non-linked liabilities of SLIF under certain Non-Linked Reinsurance Contracts (as that term is defined in that charge), dated 12

October 2006 and entered into by SLIF, as chargor, and the Law Debenture Trust Corporation p.l.c., as chargee in its capacity as security trustee for SLAL and SLPF as beneficiaries;

“Order” an order to be made by the Court pursuant to section 111 of FSMA sanctioning this Scheme and any order (including any subsequent order) in relation to this Scheme made by the Court pursuant to section 112 of FSMA;

“Paragraph 24” has the meaning given to it in paragraph 14.2(A);

“Paragraph 39” has the meaning given to it in paragraph 12.4(C);

“Personnel” in respect of a person:

- (A) the Actuarial Function Holder in respect of that person;
- (B) the officers and employees of that person; and
- (C) the agents of that person, including those agents to whom the administration or investment management of the business, or part of the business, of that person is delegated,

in each case from time to time;

“Policy”

- (A) any “policy” within the meaning of the Financial Services and Markets Act (Meaning of “Policy” and “Policyholder”) Order 2001 (SI 2001/2361); and
- (B) any constituent part of such a policy which, in the opinion of the SLAL Board (having regard to the advice of the SLAL With-Profits Actuary) gives rise to any separately identifiable benefit and which the SLAL Board (having regard to the advice of the SLAL With-Profits Actuary) determines is a Policy;

“Principle 6” Principle 6 in the Principles for Businesses set out in the FSA Handbook;

“Property-Linked Floating Charge” the property-linked floating charge securing the property-linked liabilities of SLIF under certain Property-Linked Reinsurance Contracts (as that term is defined in that charge), dated 12 October 2006 between SLIF, as chargor, and The Law Debenture Trust Corporation p.l.c. as chargee in its capacity as security trustee for the

Property-Linked Beneficiaries (as such term is defined in the charge);

- “Property-Linked Policy”** any Policy which falls within paragraph III of Part II of Schedule 1 to the Regulated Activities Order in respect of which the benefits payable are determined by reference to the value of, or the income from, property of any description (whether or not specified in the Policy) but excluding any Index-Linked Policy;
- “Records”** all books and records containing, or relating to, information in respect of the Transferred Business, or on which such information is recorded (including without limitation all documents and other material (whether human or computer or machine readable)), in each case which are in the possession of, or under the control of, SLIF;
- “Regulated Activities Order”** the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544);
- “Relevant Policy”** each Property-Linked Policy that is:
- (A) written in the United Kingdom or the Republic of Ireland; and
 - (B) written in, allocated to or reinsured by the SLAL HWPF in accordance with the 2006 Scheme,
- save for the Policy known as the “Unit Endowment Policy”;
- “Required Capital”** such property (if any) as the SLIF Board determines as being necessary to ensure that SLIF is able to satisfy applicable capital resources requirements (including as set out in GENPRU 2.1.17R to GENPRU 2.1.23R, both inclusive) in relation to its Long-Term Business immediately after the Effective Date;
- “Residual Assets”**
- (A) any property of SLIF to be transferred pursuant to this Scheme:
 - (i) which is not capable of being transferred to SLAL at the Effective Date pursuant to this Scheme by virtue of the fact that such transfer would (as at the Effective Date):
 - (a) require the consent of any person (other than SLIF, SLAL, any other member of the SLAL Group or the Court); or

- (b) require the waiver by any person of any right to acquire, or be offered the right to, or to offer to, acquire or procure the acquisition by some other person of, all or any part of such property, being a right which directly or indirectly arises or is exercisable as a consequence of such transfer being proposed or taking effect; or
- (c) result in a third party having a right to terminate an agreement with SLIF or claim compensation in damages or otherwise; and
- (ii) which the Court determines, notwithstanding section 112(2)(a) of FSMA, not so to transfer to SLAL at the Effective Date or in respect of which the Court makes an order under section 112A(1) of FSMA containing any provision under section 112A(2)(b) of FSMA;
- (B) any property of SLIF whose transfer pursuant to this Scheme SLIF and SLAL agree in writing prior to the Effective Date should be delayed;
- (C) any Required Capital; and
- (D) any substituting property, proceeds of sale or income, distribution or other accrual or return whatsoever, whether or not in any case in the form of cash, in each case which is earned, received or obtained in respect of (or in substitution of) any property referred to in paragraphs (A), (B), or (C) of this definition by SLIF from time to time after the Effective Date but prior to any relevant Subsequent Transfer Date;

“Residual Liabilities”

any liability whatsoever of SLIF to be transferred under this Scheme:

- (A) which is attributable to, or connected with, a Residual Asset and arises at any time before the Subsequent Transfer Date applicable to that Residual Asset; or

- (B) which:
- (i) is not capable of being transferred to SLAL at the Effective Date pursuant to this Scheme by virtue of the fact that such transfer would (as at the Effective Date) require the consent or waiver of any person (other than SLIF, SLAL, any other member of the SLAL Group or the Court); and
 - (ii) which the Court determines, notwithstanding section 112(2)(a) of FSMA, not so to transfer to SLAL at the Effective Date;

“this Scheme”	this Scheme in its original form or with or subject to any variation or condition which may be approved, or imposed, in accordance with <u>paragraph 19</u> ;
“Security Trust Agreement”	the security trust agreement entered into in connection with the Non-Linked Floating Charge and the Property-Linked Floating Charge between The Law Debenture Trust Corporation p.l.c. (as security trustee), SLIF, SLAL and others dated 12 October 2006 and as amended and restated on 27 November 2007;
“SLAC”	The Standard Life Assurance Company 2006, previously known as The Standard Life Assurance Company (being a company incorporated in Scotland by Act of Parliament and with registered number SZ4);
“SLAL”	Standard Life Assurance Limited, a company incorporated in Scotland with registered number SC286833, whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH;
“SLAL AFH”	the Actuarial Function Holder of SLAL;
“SLAL Board”	the Board of SLAL;
“SLAL Fund”	any of the SLAL SHF and the Long-Term Insurance Funds of SLAL;
“SLAL HWPF”	the Long-Term Insurance Fund of SLAL known at the Effective Date as the “Heritage With Profits Fund”, being the fund referred to in the 2006 Scheme as the “With

	Profits Fund”;
“SLAL PBF”	the Long-Term Insurance Fund of SLAL known at the Effective Date as the “Proprietary Business Fund”, being the fund referred to in the 2006 Scheme as the “Non Profit Fund”;
“SLAL SHF”	the property and liabilities of SLAL excluding those allocated or attributable to, or represented by, a Long-Term Insurance Fund, being the fund referred to in the 2006 Scheme as the “Shareholder Fund”;
“SLAL With-Profits Actuary”	the person appointed by SLAL from time to time to perform the with-profits actuary function as set out in SUP 4.3.16A R;
“SLIF”	Standard Life Investment Funds Limited, a company incorporated in Scotland with registered number SC068442, whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH;
“SLIF AFH”	the Actuarial Function Holder of SLIF;
“SLIF Board”	the Board of SLIF;
“SLIF EB Annuities Reinsurance Agreement”	the agreement entitled “Reinsurance Agreement: Existing Business (Annuities)” entered into between SLAL (as Reinsured) and SLIF (as Reinsurer) and dated 7 July 2006 (as varied);
“SLIF EB ULL Reinsurance Agreement”	the agreement entitled “Reinsurance Agreement: UK and Republic of Ireland Unit-Linked Life” entered into between SLAC (as Reinsured) and SLIF (as Reinsurer) dated 7 July 2006 (as varied), which agreement was transferred from SLAC to SLAL under and subject to the terms of the 2006 Scheme;
“SLIF EB ULP Reinsurance Agreement”	the agreement entitled “Reinsurance Agreement: UK and Republic of Ireland Unit-Linked Pensions” entered into between SLAC (as Reinsured) and SLIF (as Reinsurer) dated 28 April 2006 (as varied), which agreement was transferred from SLAC to SLAL under and subject to the terms of the 2006 Scheme;
“SLIF SHF”	the property and liabilities of SLIF excluding those allocated or attributable to, or represented by, a Long-Term Insurance Fund;

“SLIF Surplus”	the excess of the value of the Long-Term Insurance Fund of SLIF over its Mathematical Reserves, in each case as calculated as at the Effective Date;
“SLPF”	Standard Life Pension Funds Limited, a company incorporated in Scotland with limited liability, with registered number SC046447 and whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH;
“Stop-Loss Agreement”	the agreement entitled “Stop-Loss Retrocession Agreement” between SLAL (as retrocessionaire) and SLIF (as retrocedant) dated 7 July 2006;
“Subsequent Transfer Date”	<p>in relation to any Residual Asset or Residual Liability, the date after the Effective Date on which such Residual Asset or Residual Liability (as the case may be) is to be transferred to SLAL, namely:</p> <p>(A) in respect of any Residual Asset falling within <u>paragraphs A(i)(a) and (A)(ii)</u>, or <u>A(i)(b) and A(ii)</u>, of the definition thereof, and (to the extent applicable) in respect of any Residual Liability which is attributable to or connected with that Residual Asset or which falls within <u>paragraphs (B)(i) and (B)(ii)</u> of the definition of Residual Liability, the date on which the requisite consent or, where applicable, the requisite waiver to enable the same to be transferred to SLAL is (i) obtained; (ii) no longer required; or (iii) dispensed with by order of the Court;</p> <p>(B) in respect of any Residual Asset falling within <u>paragraphs (A)(i)(c) and A(ii)</u> of the definition thereof and (to the extent applicable) in respect of any Residual Liability which is attributable to or connected with that Residual Asset, the date on which the right to terminate or claim compensation in damages or otherwise (i) lapses; or (ii) is waived;</p> <p>(C) in respect of any Residual Asset falling within <u>paragraph (B)</u> of the definition thereof, and (to the extent applicable) in respect of any Residual Liability which is attributable to or connected with that Residual Asset, the date agreed in writing by SLIF and SLAL;</p>

- (D) in respect of any Required Capital (and in respect of any Residual Liability attributable thereto or connected therewith) the date on which the SLIF Board determines that such property is no longer required to be retained by SLIF in order for SLIF to satisfy applicable capital resources requirements (including as set out in GENPRU 2.1.17R to GENPRU 2.1.23R inclusive) in relation to its Long-Term Business; and
- (E) in respect of any Residual Asset falling within paragraph (D) of the definition thereof (and in respect of any Residual Liability attributable thereto or connected therewith), the Subsequent Transfer Date specified in paragraph (A), (B), (C) or (D) of this definition (as the case may be);

“SUP”

the Supervision Manual issued by the Insurance Regulator;

“Tax” or “Taxation”

all forms of tax, duty, rate, levy, charge or other imposition or withholding in the nature of tax whenever or by whatever authority imposed and whether of the United Kingdom or elsewhere, including any tax on gross or net income, profit or gains, income tax required to be deducted or withheld from or accounted for in respect of any payment, corporation tax, capital gains tax, inheritance tax, wealth taxes, value added tax, customs duties, excise duties, insurance premium tax, rates (including the uniform business rate), stamp duty, capital duty, stamp duty reserve tax, stamp duty land tax, PAYE, national insurance and other similar contributions, any payments in respect of policyholder taxation, any liability arising under Section 455 of CTA 2010, Part 4 of FA 2004, Section 746 of CTA 2010 or Section 747 of ICTA and any other taxes, duties, rates, levies charges, imposts or withholdings corresponding to, similar to, in the nature of, replaced by or replacing any of them together with any interest, penalty or fine in connection with any taxation and regardless of whether any such taxes, duties, rates, levies, charges, imposts, withholdings, interest, penalties or fines are chargeable directly on SLIF or any other person and of whether any amount in respect of them is recoverable from any other person;

“Tax Asset”

any Transferred Asset or Residual Asset (or in each case part thereof) in each case which is in respect of or

attributable to Taxation;

“Tax Liability”

- (A) any Transferred Liability or Residual Liability (or in each case part thereof); and
- (B) any liability to discharge on SLIF's behalf or, failing that, to indemnify SLIF pursuant to paragraph 9.1,

in each case which is in respect of or attributable to Taxation;

“Transferred Assets”

all property of SLIF immediately prior to the Effective Date (wherever situated) in respect of, or attributable, to the Transferred Business, including without limitation all of the following whatsoever and wheresoever situated immediately prior to the Effective Date:

- (A) the rights, benefits and powers of SLIF under or by virtue of the Transferred Reinsurance Agreements;
- (B) the Records and all rights, title and interest of SLIF in the Records;
- (C) all assets held by SLIF in respect of its liabilities under any Excluded Reinsurance Agreement;
- (D) all rights and claims (whether present, future, actual or contingent) against any third party in relation to the Transferred Business or arising as a result of SLIF having carried on the Transferred Business;
- (E) the rights, benefits and powers of SLIF under or by virtue of any contracts or arrangements (other than the Transferred Reinsurance Agreements) in respect of the Transferred Business, including without limitation the Stop-Loss Agreement, any other agreements in respect of reinsurance ceded or retrocession ceded and any investment agreements with managers of mutual funds; and
- (F) the rights, benefits and powers of SLIF under or by virtue of any charges or security in respect of the Transferred Business (including without limitation the Charge Documents),

but excluding in each case: (i) the Residual Assets; and (ii)

the Excluded Assets;

“Transferred Business” the whole of the business and undertaking of SLIF (including its Long-Term Business) immediately prior to the Effective Date, including all activities carried on in connection with, or for the purposes of, that business;

“Transferred Liabilities” all liabilities of SLIF immediately prior to the Effective Date in respect of, or attributable to, the Transferred Business, including, without limitation:

(A) all liabilities under, in respect of or attributable to the Transferred Reinsurance Agreements;

(B) all liabilities under, in respect of or attributable to any contracts or arrangements (other than the Transferred Reinsurance Agreements) in respect of the Transferred Business, including without limitation the Stop-Loss Agreement, any other agreements in respect of reinsurance ceded or retrocession ceded and any investment agreements with managers of mutual funds; and

(C) all liabilities under, in respect of or attributable to any charges or security in respect of the Transferred Business (including without limitation the Charge Documents),

but excluding: (i) the Residual Liabilities; and (ii) the Excluded Liabilities;

“Transferred Reinsurance Agreements”

any reinsurance agreement to which SLIF is party:

(A) which is in respect of reinsurance which SLIF has accepted or agreed to accept;

(B) under which any liability remains unsatisfied or outstanding on the Effective Date; and

(C) which is comprised in the Transferred Business,

including without limitation the Listed Reinsurance Agreements, but excluding the Excluded Reinsurance Agreements;

“Trust Property”

has the meaning given to it in paragraph 8.1;

- “UL Investment Element”** has the meaning given to it in paragraph 14.4;
- “With Profits Units”** notional units whose value or number vary by reference to premiums paid, bonuses declared or surpluses distributed in each case as determined by SLAL for the purposes of calculating benefits under Policies; and
- “2006 Scheme”** the scheme pursuant to Part VII of, and Schedule 12 to, FSMA, under which substantially all of the Long-Term Business of SLAC was transferred to SLAL and which became effective on 10 July 2006.

1.2 In this Scheme:

- (A) **“costs”** includes costs, charges and expenses;
- (B) **“property”** includes (without limitation) property, assets, rights, benefits and powers of every description (in each case whether present or future, actual or contingent), including property held on trust and securities, and any interest whatsoever in any of the foregoing;
- (C) **“liabilities”** includes (without limitation) liabilities, duties and obligations of every description (in each case whether present or future, actual or contingent);
- (D) **“transfer”** includes (as the context may require) “vest”, “assign”, “dispose” or “convey” and grammatical variations of such terms shall be construed accordingly;
- (E) any reference to the singular shall include a reference to the plural and vice versa and any reference to the masculine shall include a reference to the feminine and neuter and vice versa;
- (F) any reference to an enactment, a statutory provision or any subordinate legislation shall be deemed to include a reference to that enactment, statutory provision or subordinate legislation as amended, replaced or re-enacted from time to time and to any instrument or order made from time to time under such enactment, statutory provision or subordinate legislation;
- (G) any reference to any rules, regulations or guidance issued by the Insurance Regulator shall be deemed to include a reference to such rules, regulations or guidance as amended, modified, supplemented or replaced from time to time;
- (H) the expressions **“holding company”**, **“subsidiary”** and **“subsidiary undertaking”** shall have the same meanings as in the Companies Act 2006;
- (I) except where the context specifically provides otherwise, references to paragraphs and Parts are to paragraphs and Parts of this Scheme;

- (J) headings are inserted for convenience only and shall not affect the construction of this Scheme;
- (K) any reference to a person shall include a reference to a body corporate, a partnership (whether or not having separate legal personality), an unincorporated association or to a person's executors or administrators, and for the avoidance of doubt, shall include a trustee;
- (L) if a period of time is specified from a given day or date or from the day or date of an actual event, it shall be calculated exclusive of that day or date;
- (M) any reference to writing shall include any modes of reproducing words in a legible and non-transitory form;
- (N) the expression "**variation**" shall include any amendment, modification, variation, supplement, deletion, restatement, replacement or termination (as the context requires), however effected, and grammatical variations of that term shall be construed accordingly; and
- (O) any reference to an amount shall be exclusive of any applicable value added taxation.

PART B – INTRODUCTION

2. INTRODUCTION

- 2.1 SLIF is a company incorporated in Scotland with registered number SC068442. The registered office of SLIF is Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.
- 2.2 SLAL is a company incorporated in Scotland with registered number SC286833. The registered office of SLAL is Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.
- 2.3 Each of SLIF and SLAL is an authorised person for the purposes of FSMA. Each of SLIF and SLAL has a permission under Part IV of FSMA to carry on Long-Term Business of the same classes as the Transferred Business.
- 2.4 It is proposed that the whole of the Transferred Business, the Transferred Assets, the Transferred Liabilities, the Residual Assets and the Residual Liabilities shall, on the terms of and in accordance with this Scheme, be transferred to SLAL, and that an Order be made accordingly for the sanction of this Scheme under section 111(1) of FSMA and that, by the Order, provision be made, as hereinafter appearing, for, among other matters, the transfers from SLIF to SLAL, pursuant to section 112(1) of FSMA.
- 2.5 SLIF and SLAL have each agreed to appear by Counsel at the hearing of the application to sanction this Scheme, to undertake to be bound thereby and to execute all such documents and to do all such acts and things as may be necessary or expedient to be executed or done by it for the purposes of giving effect to this Scheme.

PART C – TRANSFER**3. TRANSFER OF BUSINESS, ASSETS AND LIABILITIES**

- 3.1 On and with effect from the Effective Date, the Transferred Business shall be transferred to SLAL subject to and in accordance with this Part C (Transfer).
- 3.2 On and with effect from the Effective Date each Transferred Asset and, in each case, all the title and interest of SLIF in it shall, by the Order and without any further act or instrument, be transferred to, and be vested in, SLAL, subject to all Encumbrances (if any) affecting it.
- 3.3 Without prejudice to the transfer to SLAL of all rights, title and interest of SLIF in the Records on the Effective Date in accordance with paragraph 3.2, delivery of the Records by SLIF to SLAL shall occur as soon as reasonably practicable after the Effective Date as SLIF and SLAL shall agree.
- 3.4 On and with effect from the Effective Date, each Transferred Liability shall, by the Order and without any further act or instrument, be transferred to and become a liability of SLAL and shall cease to be a liability of SLIF.
- 3.5 The transfer under this Scheme of the Transferred Business, each Transferred Asset and each Transferred Liability shall, by the Order and without any further act or instrument, prevail over and take effect notwithstanding:
- (A) any requirement that would otherwise exist for the consent or waiver of any person (other than the Court) to the transfer; and
 - (B) any right that any third party would otherwise have to terminate an agreement with SLIF or claim compensation in damages or otherwise in each case as a result of the transfer.
- 3.6 On and with effect from each Subsequent Transfer Date, each Residual Asset to which such Subsequent Transfer Date applies and all the interest of SLIF in it shall, by the Order and without any further act or instrument, be transferred to, and be vested in, SLAL subject to all Encumbrances (if any) affecting it.
- 3.7 On and with effect from each Subsequent Transfer Date, each Residual Liability to which such Subsequent Transfer Date applies shall, by the Order and without any further act or instrument, be transferred to, and become a liability of, SLAL and shall cease to be a liability of SLIF.
- 3.8 SLAL shall accept without investigation or requisition such title as SLIF shall have at the Effective Date to the Transferred Assets and, at any Subsequent Transfer Date, to the Residual Assets then transferred.
- 3.9 Without prejudice to any other provision of this Scheme, SLIF and SLAL shall each take all such steps and do all such things (including the execution and delivery of any

documents) as may be required to effect or perfect the transfer to, and vesting in, SLAL of the Transferred Business, any Transferred Asset, any Transferred Liability, any Residual Asset and any Residual Liability (together with any rights, benefits, powers and liabilities under, in respect of or attributable to any Excluded Reinsurance Agreement that is subsequently novated to SLAL pursuant to paragraph 6.5) in accordance with the terms of this Scheme.

- 3.10 Without prejudice to paragraph 6.5, none of the Excluded Assets or Excluded Liabilities shall be transferred to or vested in SLAL under the terms of this Scheme.
- 3.11 The Transferred Assets, Residual Assets, Transferred Liabilities and Residual Liabilities (together with all other property and liabilities to be allocated under this Scheme) shall be allocated in accordance with Part D (Allocations and Costs).

4. CONTINUITY OF PROCEEDINGS

- 4.1 On and with effect from the Effective Date, any proceedings which are pending by, or against, SLIF under, or in connection with, the Transferred Business, the Transferred Assets or the Transferred Liabilities shall be continued by, or against, SLAL and SLAL shall be entitled to all defences, claims, counterclaims and rights of set-off and all other remedies that were or would have been available to SLIF in relation to those proceedings.
- 4.2 On and with effect from the Subsequent Transfer Date applicable thereto, any proceedings which are pending by, or against, SLIF in connection with the Residual Assets or the Residual Liabilities which are to be transferred on such Subsequent Transfer Date shall be continued by, or against, SLAL and SLAL shall be entitled to all defences, claims, counterclaims and rights of set-off and all other remedies that were, or would have been, available to SLIF in relation to those proceedings. Until such Subsequent Transfer Date, the relevant proceedings shall be continued by, or against, SLIF.

5. TRANSFERRED REINSURANCE AGREEMENTS AND CHARGE DOCUMENTS

- 5.1 Without prejudice to the generality of paragraph 3.2 and subject to paragraph 5.4, on and with effect from the Effective Date, SLAL shall become entitled to all the rights, benefits and powers (whether present or future, actual or contingent) of SLIF whatsoever subsisting on the Effective Date under or by virtue of the Transferred Reinsurance Agreements.
- 5.2 Subject to the terms of this Scheme (including without limitation paragraph 5.4), every person (other than SLIF) who as at the time immediately prior to the Effective Date is a party to a Transferred Reinsurance Agreement shall, on and with effect from the Effective Date:
- (A) become entitled, in succession to, and to the exclusion of, any rights which it may have had against SLIF under any of the Transferred Reinsurance Agreements, to the same rights, benefits and powers against SLAL as were

available to it against SLIF under such Transferred Reinsurance Agreements;
and

- (B) (as regards Transferred Reinsurance Agreements under which premiums or other sums attributable or referable thereto continue to be payable by it) account to SLAL for any further or additional premiums or other sums attributable or referable thereto as and when the same become due and payable,

and, on and with effect from the Effective Date, SLAL shall become entitled to any and all defences, claims, counterclaims and rights of set-off that were or would have been available to SLIF under the Transferred Reinsurance Agreements.

5.3 Any reference in any Transferred Reinsurance Agreement to:

- (A) SLIF, the SLIF Group, the SLIF Board, any Personnel of SLIF or any other person relating to SLIF; or
- (B) to the extent that such reference relates to rights or obligations subsequently assigned or transferred to SLIF, any person who originally entered into that Transferred Reinsurance Agreement, such person's Group, Board, any Personnel of such person or any other person relating to such person,

shall, with effect from the Effective Date, be read as reference to SLAL, the SLAL Group, the SLAL Board, the relevant Personnel of SLAL (as appropriate), the equivalent person relating to SLAL as the context requires, or in each case such other person as the SLAL Board considers (in its sole and absolute discretion) appropriate. In particular, but without limitation, this paragraph 5.3 shall apply to all rights, benefits, powers, duties, responsibilities and obligations under any Transferred Reinsurance Agreement which are exercisable, expressed to be exercisable, or required to be fulfilled or performed by any person, Group or Board referred to in (A) or (B) above.

5.4 Each of SLIF and SLAL acknowledges that each Transferred Reinsurance Agreement and every other contract or arrangement to which SLIF and SLAL are the sole parties (including without limitation the Listed Reinsurance Agreements and the Stop-Loss Agreement) and which in each case is in force immediately prior to the date on which the rights, benefits, powers and liabilities thereunder are transferred under this Scheme shall, with effect from the date of (and as a result of) such transfer under this Scheme, cease to have further effect in all respects by operation of law.

5.5 Each of SLIF and SLAL shall take all such steps and do all such things (including procuring any release, waiver or consent required from a third party) in each case that are necessary to procure that on or prior to the Effective Date the Non-Linked Floating Charge is discharged on and with effect from the Effective Date.

5.6 On and with effect from the Effective Date, the Charge Documents shall be amended and restated in the manner set out in Schedule 3, and thereafter every person's rights, powers, benefits, obligations and liabilities thereunder or with respect thereto shall be

determined solely by reference to the relevant provisions of the Charge Documents as so amended and restated. Each of SLIF and SLAL shall take all such steps and do all such things (including the filing, execution and delivery of any document) in each case which may be necessary or desirable to effect or perfect such amended and restated Charge Documents.

6. EXCLUDED REINSURANCE AGREEMENTS

6.1 Without prejudice to the generality of paragraph 3.10 and subject to paragraph 6.4 and paragraph 6.5:

(A) the liabilities under every Excluded Reinsurance Agreement shall remain liabilities of SLIF; and

(B) save to the extent that the reinsured under the Excluded Reinsurance Agreement is SLAL, the liabilities under each Excluded Reinsurance Agreement shall, in accordance with this paragraph 6, at all times after the Effective Date be retroceded or otherwise reinsured in their entirety into SLAL, such that SLAL shall discharge on SLIF's behalf or, failing that, indemnify SLIF fully against any such liabilities.

6.2 The liability of SLAL in respect of the retrocession or other reinsurance arrangements described in paragraph 6.1(B) shall be calculated so as to ensure that the rights, benefits and powers of the third party reinsureds under the Excluded Reinsurance Agreements shall be no less favourable than the rights, benefits and powers that such third party reinsureds would have had under the Excluded Reinsurance Agreements had such Excluded Reinsurance Agreements been Transferred Reinsurance Agreements.

6.3 The premiums payable by SLIF to SLAL in connection with the provision of the retrocession or reinsurance described in paragraph 6.1(B) shall be payable on the Effective Date and shall comprise an amount equal to the aggregate amount of the Mathematical Reserves (net of any reinsurance or retrocession ceded to any person other than SLAL) relating to those Excluded Reinsurance Agreements immediately prior to the Effective Date. Such amounts shall be deemed to have been satisfied by the transfer to SLAL of the appropriate proportion of the Transferred Assets and such assets or property shall be allocated in the manner and to the SLAL Fund in and to which they would have been allocated in accordance with this Scheme had the Excluded Reinsurance Agreements been Transferred Reinsurance Agreements. All subsequent premiums received by SLIF in respect of such Excluded Reinsurance Agreements at any time after the Effective Date shall be paid to SLAL as soon as practicable after they are received and credited to the SLAL Fund to which they would have been allocated had the Excluded Reinsurance Agreements been Transferred Reinsurance Agreements.

6.4 The provisions of paragraphs 6.1(B), 6.2 and 6.3 shall not apply to an Excluded Reinsurance Agreement to the extent that SLAL is the reinsured party under that Excluded Reinsurance Agreement.

- 6.5 If at any time following the Effective Date any Excluded Reinsurance Agreement is novated to SLAL:
- (A) the rights, benefits, powers and liabilities under such Excluded Reinsurance Agreement shall, to the extent not previously transferred, be transferred to SLAL;
 - (B) thereafter:
 - (i) such Excluded Reinsurance Agreement shall be dealt with by SLAL under the provisions of this Scheme in all respects as if such Excluded Reinsurance Agreement were a Transferred Reinsurance Agreement; and
 - (ii) the rights, benefits powers and liabilities under such Excluded Reinsurance Agreement shall be dealt with by SLAL under the provisions of this Scheme in all respects as if they were Transferred Assets or Transferred Liabilities, as appropriate (and without limitation shall be allocated in accordance with the principles set forth in Part D (Allocations and Costs)); and
 - (C) in the case of an Excluded Reinsurance Agreement under which SLAL is not the reinsured, the retrocession and reinsurance arrangements set out in this paragraph 6 shall, on and with effect from that novation, cease to apply to that Excluded Reinsurance Agreement (provided however that, to the extent that any liability of SLIF under such Excluded Reinsurance Agreement is not novated, SLAL shall continue to reinsure SLIF against any such liability of SLIF in accordance with this paragraph 6).

7. PAYMENTS

Any mandate or other instruction in force on the Effective Date as to the manner of payment of any sum payable by SLIF in connection with any property or liability which is attributable to or in connection with the Transferred Business shall, with effect from the date on which the property or liability is transferred to SLAL under this Scheme, continue in force as an effective authority to SLAL. On and with effect from the date on which such property or liability is so transferred under this Scheme, any reference to SLIF in any such mandate or instruction shall be read as a reference to SLAL.

8. DECLARATION OF TRUST BY SLIF

8.1 Subject to paragraph 8.3, if:

- (A) any property proposed to be transferred to SLAL by this Scheme is not, or is not capable of being, transferred to and vested in SLAL by the Order on the Effective Date by reason of:
 - (i) such property being a Residual Asset; or

- (ii) such property being outside the jurisdiction of the Court; or
 - (iii) any other reason;
- (B) the transfer of any property proposed to be transferred by this Scheme is outside the jurisdiction of the Court or is not recognised by the laws of the jurisdiction in which such property is situated;
- (C) any Residual Asset is not transferred to SLAL on the relevant Subsequent Transfer Date; or
- (D) in any circumstances SLIF and SLAL shall agree in writing before the Effective Date (or, in the case of any Residual Asset, before the Subsequent Transfer Date applicable thereto) that it is expedient not to effect a transfer to SLAL of a Transferred Asset or a Residual Asset (as the case may be),

then SLIF shall, from the Effective Date: (i) hold any such property, Transferred Asset or Residual Asset that is referred to in paragraphs (A) to (D) and that is not referred to in paragraph 8.3 ("**Trust Property**") on irrevocable trust for SLAL; and (ii) comply with any and all directions given by SLAL in respect of such Trust Property, in each case until it is either transferred to, or otherwise vested in, SLAL or disposed of (whereupon SLIF shall account to SLAL for the proceeds of disposal thereof).

8.2 Subject to paragraph 8.3, SLAL shall have irrevocable authority to act as attorney for SLIF in respect of Trust Property for the purposes of paragraph 8.1.

8.3 The provisions of paragraph 8.1 and paragraph 8.2 shall not apply to, and Trust Property shall not include, any of:

- (A) any Required Capital;
- (B) any substituting property, proceeds of sale or income, distribution or other accrual or return whatsoever, whether or not in any case in the form of cash, in each case which is earned, received or obtained in respect of (or in substitution of) any Required Capital by SLIF from time to time after the Effective Date but in each case prior to its Subsequent Transfer Date; and
- (C) any Excluded Asset.

8.4 If (i) any payment is made to; (ii) any property is received by; or (iii) any right, benefit or power is conferred upon SLIF on or after the Effective Date in respect of any part of the Transferred Business, any Transferred Asset, any Residual Asset or any Trust Property (save in each case for any payment, property, right, benefit or power referred to in paragraph 8.3 until (in the case of property under paragraph 8.3(A) or paragraph 8.3(B)) the relevant Subsequent Transfer Date has occurred), such payment, property, right, benefit or power (as the case may be) shall also constitute Trust Property and SLIF shall:

- (A) pay to SLAL the full amount of such payment as soon as reasonably practicable after its receipt;
- (B) transfer such property, right, benefit or power to SLAL as soon as reasonably practicable after it is received by or conferred upon SLIF if and to the extent it is able to do so; and
- (C) otherwise comply with the instructions of SLAL in respect of such payment, property, right, benefit or power if and to the extent it is able to do so.

8.5 Any costs (including without limitation any liabilities in respect of Tax) incurred in making any payment or transfer referred to in paragraph 8.4 or otherwise complying with any of the obligations under this paragraph 8 shall be borne by SLAL (and SLAL shall reimburse SLIF accordingly), and such costs shall be allocated to the SLAL PBF.

9. INDEMNITIES

9.1 Subject to paragraph 9.2 and paragraph 9.4, and save as otherwise provided in this Scheme, with effect from the Effective Date, SLAL shall discharge on SLIF's behalf or, failing that, shall indemnify SLIF against all Transferred Liabilities and Residual Liabilities (which, for the avoidance of doubt, shall include any fines, penalties, costs, losses and damages) and any other liability of SLIF in respect of the Transferred Business.

9.2 Where any liability referred to in paragraph 9.1 is, whether wholly or partly, the subject of a policy of indemnity insurance or a claim or right of recovery against a third party, the indemnity given by SLAL under paragraph 9.1 shall only apply to the extent that SLIF, having made a claim under such a policy or against such third party, shall have failed to recover any such amount pursuant to rights it may have under such policy, claim or right of recovery (having used all reasonable endeavours to do so), provided always that SLAL shall indemnify SLIF in respect of any costs, claims, charges and other liabilities incurred by SLIF in recovering the same.

9.3 The provisions of paragraph 9.1 and paragraph 9.2 shall not prejudice any indemnity granted by SLIF to SLAL prior to the Effective Date in respect of Transferred Liabilities or Residual Liabilities.

9.4 Where SLIF is entitled to receive an amount from SLAL under this paragraph 9, it shall be entitled to receive such amount as, after any withholding or deduction required by law and after payment of any liability to Tax in respect of the amount receivable, will result in the receipt, after any such withholding or deduction and after payment of any such liability to Tax referred to above, of an amount equal to the liability indemnified against.

9.5 SLAL shall not be required under paragraph 9.1, above to discharge or indemnify SLIF against or in respect of any Excluded Liabilities or any charges, costs, claims or other liabilities in respect of any Excluded Liabilities.

PART D – ALLOCATIONS AND COSTS

10. PURPOSE OF ALLOCATIONS

Any allocation of property or attribution of liabilities, and any reallocation or reattribution of the same, which is made under this Scheme, is for the purpose of establishing or recognising respective policyholder and shareholder entitlements from time to time and shall not be taken to limit the availability of all the property from time to time of SLAL to meet the liabilities which it is obliged by law to meet.

11. SUBSEQUENT ALLOCATIONS AND ATTRIBUTIONS

Subject to compliance with all applicable laws and regulations (including without limitation FSMA and the rules and regulations made thereunder) and, to the extent applicable, with the 2006 Scheme, nothing in this Scheme shall prevent the subsequent allocation or attribution of any Transferred Asset, Transferred Liability, Residual Asset or Residual Liability, or any other property or liability, to a SLAL Fund.

12. ALLOCATION OF ASSETS

12.1 Save to the extent otherwise specified in this paragraph 12 and subject to paragraph 12.4, on and with effect from the Effective Date, each of the following shall be allocated to the SLAL PBF:

- (A) all Transferred Assets; and
- (B) all rights, benefits and powers arising under the retrocession or reinsurance arrangements set out in paragraph 6,

provided that, for the avoidance of doubt, this paragraph 12.1 shall apply to (and there shall be allocated to the SLAL PBF):

- (A) all assets which, as at the time immediately prior to the Effective Date, are held by SLIF in respect of liabilities reinsured under a Listed Reinsurance Agreement specified in part 1 of Schedule 1;
- (B) the SLIF Surplus; and
- (C) any Transferred Asset which, as at the time immediately prior to the Effective Date, is attributable to the Stop-Loss Agreement.

12.2 Subject to (B) and (C) of the proviso to paragraph 12.1, paragraph 12.4 and paragraph 14, on and with effect from the Effective Date every Transferred Asset (or part thereof) which, as at the time immediately prior to the Effective Date, is attributable to the reinsurance of HWPF Policies shall (to the extent so attributable) be allocated to the SLAL HWPF.

- 12.3 Subject to (B) of the proviso to paragraph 12.1 and paragraph 12.4, on and with effect from the Effective Date every Transferred Asset (or part thereof) which, as at the time immediately prior to the Effective Date, is comprised in or attributed to the SLIF SHF shall (to the extent so comprised or attributed) be allocated to the SLAL SHF.
- 12.4 Upon the transfer of any Tax Asset in accordance with this Scheme:
- (A) to the extent that, as at the time immediately prior to the time of such transfer, that Tax Asset (or part thereof) is comprised in or attributed to the Long-Term Insurance Fund of SLIF, that Tax Asset (or that part thereof) shall be allocated to the SLAL PBF;
 - (B) to the extent that, as at the time immediately prior to the time of such transfer, that Tax Asset (or part thereof) is comprised in or attributed to the SLIF SHF, that Tax Asset (or that part thereof) shall be allocated to the SLAL SHF; and
 - (C) without prejudice to the generality of paragraph 20.1, the provisions of paragraph 39 of the 2006 Scheme ("**Paragraph 39**") shall continue in force in all respects, including (as applicable) in respect of that Tax Asset.
- 12.5 Subject to paragraph 12.6, on and with effect from its Subsequent Transfer Date, each Residual Asset shall be allocated to the SLAL Fund to which it would have been allocated pursuant to the preceding provisions of this paragraph 12 (and, where applicable, the provisions of paragraph 14) had it been a Transferred Asset.
- 12.6 On and with effect from its Subsequent Transfer Date, the Required Capital and all property referred to in paragraph 8.3(B) shall be allocated to the SLAL SHF.
- 12.7 All Trust Property, the beneficial interest of SLAL therein, and all rights of SLAL in respect thereof shall be allocated to the SLAL Fund to which such Trust Property would have been allocated had it been a Transferred Asset.

13. ALLOCATION OF LIABILITIES

- 13.1 Save to the extent otherwise specified in this paragraph 13 and subject to paragraph 13.4, on and with effect from the Effective Date, each of the following shall be allocated to the SLAL PBF:
- (A) all Transferred Liabilities;
 - (B) all liabilities attributable to the reinsurance or retrocession arrangements set out in paragraph 6; and
 - (C) the liability to discharge on SLIF's behalf or, failing that, to indemnify SLIF pursuant to paragraph 9.1,

and for the avoidance of doubt this paragraph 13.1 shall apply to (and there shall be allocated to the SLAL PBF) any liability which is attributable to the Stop-Loss Agreement.

13.2 Subject to paragraph 13.4 and paragraph 14, and save for any liability attributable to the Stop-Loss Agreement, on and with effect from the Effective Date:

- (A) every Transferred Liability (or part thereof) which, as at the time immediately prior to the Effective Date, is attributable to the reinsurance of HWPF Policies; and
- (B) every liability (or part thereof) pursuant to paragraph 9.1 to discharge on SLIF's behalf or, failing that, to indemnify SLIF in respect of, any liability of SLIF attributable to the reinsurance of HWPF Policies,

shall (to the extent so attributable) be allocated to the SLAL HWPF.

13.3 Subject to paragraph 13.4, on and with effect from the Effective Date:

- (A) every Transferred Liability (or part thereof) which, as at the time immediately prior to the Effective Date, is comprised in or attributed to the SLIF SHF; and
- (B) every liability (or part thereof) pursuant to paragraph 9.1 to discharge on SLIF's behalf or, failing that, to indemnify SLIF in respect of, any liability of SLIF which is comprised in or attributed to the SLIF SHF,

shall (to the extent so comprised or attributed) be allocated to the SLAL SHF.

13.4 Upon the transfer of any Tax Liability in accordance with this Scheme:

- (A) to the extent that, as at the time immediately prior to the time of such transfer, that Tax Liability (or part thereof) is comprised in or attributed to the Long-Term Insurance Fund of SLIF, that Tax Liability (or that part thereof) shall be allocated to the SLAL PBF;
- (B) to the extent that, as at the time immediately prior to the time of such transfer, that Tax Liability (or part thereof) is comprised in or attributed to the SLIF SHF, that Tax Liability (or that part thereof) shall be allocated to the SLAL SHF; and
- (C) without prejudice to the generality of paragraph 20.1, the provisions of Paragraph 39 shall continue in force in all respects, including (as applicable) in respect of that Tax Liability.

13.5 Subject to paragraph 13.6, on and with effect from its Subsequent Transfer Date, each Residual Liability shall be allocated to the SLAL Fund to which it would have been allocated pursuant to the preceding provisions of this paragraph 13 (and, where applicable, the provisions of paragraph 14) had it been a Transferred Liability.

13.7 On and with effect from its Subsequent Transfer Date, every Residual Liability which is attributable to, or connected with the Required Capital or any property referred to in paragraph 8.3(B) shall be allocated to the SLAL SHF.

14. SPECIFIC ARRANGEMENTS IN RESPECT OF SLIF EB ANNUITIES REINSURANCE AGREEMENT AND LINKED REINSURANCE AGREEMENTS

14.1 Subject to paragraph 20.2, immediately after the time at which the rights, benefits, powers and liabilities under, and in respect of, the SLIF EB Annuities Reinsurance Agreement are transferred from SLIF to SLAL in accordance with this Scheme:

(A) there shall be attributed to the SLAL PBF such assets (and/or rights to such assets) as are agreed between SLIF and SLAL to be of an aggregate value that is equal to the amount that would have been payable by SLIF to SLAL under the terms of the SLIF EB Annuities Reinsurance Agreement had it terminated in accordance with its terms (the “**Equivalent Attribution**”); and

(B) the arrangements set out in Schedule 2 shall apply and shall be implemented by SLAL.

14.2 Subject to paragraph 14.3, with effect from the time immediately following the transfer of the rights, benefits, powers and liabilities under and in respect of the Linked Reinsurance Agreements in accordance with this Scheme, and at all times thereafter:

(A) the UL Investment Element of any Policy that is or becomes a Relevant Policy (which shall include without limitation those Relevant Policies that were subject to the reinsurance provided under a Linked Reinsurance Agreement) shall be transferred from the SLAL HWPF to the SLAL PBF in accordance with Paragraph 24 of the 2006 Scheme (“**Paragraph 24**”);

(B) the provisions of Paragraph 24 shall apply in all respects in respect of that Relevant Policy; and

(C) for the purposes of Paragraph 24:

(i) the SLAL PBF shall be a “New Investment Fund”; and

(ii) all Relevant Policies shall be “New Investment Policies”.

14.3 Paragraph 14.2 shall not operate in any way to limit, and shall be without prejudice to, the right of the SLAL Board (acting in accordance with the 2006 Scheme) to make subsequent or alternative determinations under, or in connection with, Paragraph 24, including without limitation in respect of any allocation, transfer or reinsurance of the Investment Element of any Policy (whether or not a Relevant Policy).

14.4 For the purposes of this paragraph 14, each of “**UL Investment Element**” and “**Investment Element**” has the meaning given to it in Paragraph 24.

15. LINKED FUNDS

15.1 On and with effect from the Effective Date, all Transferred Assets and Transferred Liabilities in each case which, as at the time immediately prior to the Effective Date, were comprised in a SLIF Linked Fund shall be allocated to, and become comprised in, an existing and corresponding SLAL Linked Fund (or, where there is no such existing and corresponding SLAL Linked Fund at the Effective Date, a new corresponding SLAL Linked Fund), in each case within the relevant SLAL Fund, comprising the same number and value of units as were comprised within the relevant SLIF Linked Fund immediately prior to the Effective Date.

15.2 Subject to FSMA and the requirements of Principle 6, the SLAL Board may (having regard to the advice of the SLAL AFH):

- (A) open new Linked Funds;
- (B) close existing Linked Funds;
- (C) amalgamate, reinsure or transfer any Linked Fund or any part thereof with or to (as the context requires) any other Linked Fund or any part thereof;
- (D) divide any Linked Fund into one or more Linked Funds; or
- (E) effect any combination of the aforesaid,

in each case whether or not SLIF would, prior to the Effective Time, have been so entitled.

16. UNCERTAINTY, DISPUTES AND ADJUSTMENTS IN RELATION TO ALLOCATIONS

16.1 If:

- (A) in the opinion of the SLAL Board (having regard to the advice of the SLAL With-Profits Actuary), the allocation or attribution of any property or liability to be allocated or attributed under this Scheme is uncertain; or
- (B) any doubt or difference shall arise as to the allocation or attribution of any property or liability to be allocated or attributed under this Scheme (including any right, benefit, power or liability under, in respect of or attributable to any Excluded Reinsurance Agreement which is subsequently novated to SLAL),

the property or liability shall be allocated or attributed (as the case may be) in such manner as the SLAL Board, having regard to the advice of the SLAL With-Profits Actuary (and, to the extent applicable, to the 2006 Scheme), shall determine, in each case in accordance with the principles underlying this Scheme.

16.2 If, for any reason, there is any error in the allocation or attribution of (or any omission or failure to allocate or attribute in accordance with this Scheme) any property or liability

(including without limitation the SLIF Surplus, any Required Capital and any right, benefit, power or liability under, in respect of or attributable to an Excluded Reinsurance Agreement which is subsequently novated to SLAL), the SLAL Board (having regard to the advice of the SLAL With-Profits Actuary and, to the extent applicable, to the 2006 Scheme) may make such re-allocations, re-attributions and adjustments between the SLAL Funds as it considers necessary or appropriate to remedy such error, omission or failure, in each case in accordance with the principles underlying this Scheme.

17. COSTS AND EXPENSES

SLAL shall bear the costs and expenses incurred by each of it and SLIF in relation to the preparation and carrying into effect of this Scheme, whether before or after the Effective Date, including without limitation the following costs and expenses and any value added tax payable thereon (and SLAL shall reimburse SLIF accordingly):

- (A) the costs and expenses of jointly appointed Counsel (including disbursements in connection therewith) in relation to this Scheme; and
- (B) the cost and expenses of the Independent Expert,

and such costs shall be allocated to the SLAL PBF.

PART E - MISCELLANEOUS PROVISIONS

18. EFFECTIVE DATE

- 18.1 Subject to paragraph 18.3, this Scheme shall become effective at a time and date (being a time and date falling after the making of the Order sanctioning this Scheme) as is agreed in writing in advance of the Order by SLAL and SLIF.
- 18.2 Unless this Scheme shall become effective in its entirety on or before 11:59 p.m. on 31 March 2012 or such later date and/or time, if any, as the Court may allow upon the application of SLIF and SLAL, it shall lapse.
- 18.3 This Scheme shall not become effective or unconditional until the Effective Date and unless:
- (A) on or prior to the Effective Date, the Order shall have been made;
 - (B) SLIF and SLAL shall have received (in terms satisfactory in all respects to each) clearance from HMRC in respect of this Scheme under Section 444AED of ICTA or the requirement for such clearance has been waived in whole or in part by SLAL and SLIF with the approval of the Independent Expert; and
 - (C) the Court shall have granted its consent, in terms satisfactory in all respects to each of SLIF and SLAL, to the variations to the 2006 Scheme contemplated by paragraph 20.2 and Schedule 4.

19. MODIFICATIONS OR ADDITIONS

- 19.1 SLIF and SLAL may consent for and on behalf of themselves and all other persons concerned to any variation of this Scheme or to any further condition or provision affecting the same which, in each case prior to its sanction of this Scheme, the Court may approve or impose.
- 19.2 Subject to paragraph 19.3, SLAL may, after the grant of the Order:
- (A) vary this Scheme if, and to the extent that, the provision to which the proposed variation applies expressly permits such variation;
 - (B) vary this Scheme with the approval of the SLAL With-Profits Actuary where the proposed variation is necessary to correct a manifest error;
 - (C) vary this Scheme with the approval of the SLAL With-Profits Actuary and the Insurance Regulator where the proposed variation is reasonably considered by the SLAL Board to be necessary to ensure that the provisions of this Scheme operate in the intended manner (where the provision to which the proposed variation applies will (or is likely to be) materially affected by a variation or proposed variation to the FSA Handbook or other applicable legislation or regulations); and

(D) apply to the Court for consent to vary the terms of this Scheme, provided that in any such case the Insurance Regulator shall be notified of, and have the right to be heard at, any hearing of the Court at which the application is considered.

19.3 The arrangements set out in Schedule 2 may be varied by SLAL (without any requirement for the consent of the Court) on the condition that such variation:

(A) accords with the terms of, and meets all applicable conditions set out in, clause 8 (or any equivalent successor provision) of Schedule 2; and

(B) complies with all applicable law and regulation.

20. 2006 SCHEME

20.1 Save as specified at paragraph 20.2, the provisions of the 2006 Scheme shall continue in force in all respects and shall not be varied in any respect as a result of this Scheme.

20.2 With effect from the Effective Date, the 2006 Scheme shall be varied in the manner set out in Schedule 4.

21. THIRD PARTY RIGHTS

A person who is not a party to this Scheme may not enforce any term of this Scheme.

22. GOVERNING LAW

This Scheme is governed by, and shall be construed in accordance with, Scots law.

Dated: [●] 2011

SCHEDULE 1

Listed Reinsurance Agreements

Part 1

1. Reinsurance Agreement: UK SIPPs – Unit-Linked Funds between SLAC (as Reinsured) and SLIF (as Reinsurer) dated 28 April 2006.
2. Reinsurance Agreement: New SIPP Business between SLAL (as Reinsured) and SLIF (as Reinsurer) dated 20 December 2006.
3. Reinsurance Agreement: New Business between SLAL (as Reinsured) and SLIF (as Reinsurer) dated 7 July 2006.

Part 2

4. SLIF EB ULL Reinsurance Agreement.
5. SLIF EB ULP Reinsurance Agreement.
6. SLIF EB Annuities Reinsurance Agreement.

SCHEDULE 2

Replacement Arrangements in respect of the SLIF EB Annuities Reinsurance Agreement

1. INTERPRETATION

1.1 In this Schedule 2:

“Actual Annuity Payments”	means all payments made or due and payable (and, for the purposes of this Schedule 2, amounts which are not permitted to be paid to annuitants by SLAL pursuant to rules of pension schemes are neither payments made nor payments due and payable) by SLAL in respect of Covered Policies during each Calculation Period, but excluding: (i) payments made (or due and payable) by SLAL in respect of Annuity Augmentations; and (ii) any such payments made by SLAL after the death of the annuitant which are not recovered;
“Adjustment Amount”	has the meaning given to it in <u>clause 7.4</u> ;
“Annuity Augmentation”	means any augmentation or increase to an annuity which was paid, due and payable or secured after the 2006 Scheme Effective Time in respect of a Covered Policy which was written in, or allocated to, the SLAL HWPF pursuant to the 2006 Scheme, but excluding any contractual or automatic increase to an annuity (other than a contractual increase which is an Increased Annuity Payment);
“Annuity Augmentation Costs”	has the meaning given in <u>clause 4.2</u> ;
“Annuity Augmentation Coverage Payments”	means annuity augmentation premiums, being all premiums received or applied by the SLAL HWPF to secure New Annuity Augmentations including the single premium cost to the SLAL HWPF (calculated using SLAL HWPF’s nil commission immediate annuity premium basis then in force) in respect of Increased Annuity Payments;
“Business Day”	means any day (other than a Saturday or Sunday) on which banks are open for the transaction of general banking business in Edinburgh and London;
“Calculation Date”	means, in respect of each Calculation Period, the last Business Day of that Calculation Period;

- “Calculation Period”** means each calendar month during the term of the arrangements set out in this Schedule 2 or, in respect of the Coverage Effective Month, the period from and including the Effective Date to and including the last day in the Coverage Effective Month;
- “Coverage Effective Month”** means the calendar month in which the Effective Date falls;
- “Covered Liabilities”** means:
- (A) the longevity risk in respect of all of the Covered Policies; and
 - (B) all Annuity Augmentations,
- except to the extent that such liabilities are reinsured pursuant to third party reinsurance arrangements;
- “Covered Policies”** means:
- (A) all Transferred Policies in respect of which a non profit annuity was in payment or had vested (including where such vesting has arisen on retirement or death) prior to the 2006 Scheme Effective Time, excluding all EEA Policies, but including: (i) Jersey Policies from and with effect from the Jersey Effective Time; and (ii) Guernsey Policies from and with effect from the Guernsey Effective Time; and
 - (B) all reinsurances ceded to SLAL in respect of which a non profit annuity was in payment or had vested (including where such vesting has arisen on retirement or death) prior to the 2006 Scheme Effective Time, including: (i) Jersey Policies prior to the Jersey Effective Time; (ii) Guernsey Policies prior to the Guernsey Effective Time; and (iii) any such Policies which are comprised within the SLPF Annuity Business,
- other than Policies, and reinsurances ceded, where the liability in respect of the Policy, or reinsurance, has been reinsured by SLAL pursuant to a third party reinsurance arrangement;
- “EEA Policies”** means all Policies written in the course of carrying on insurance business in any EEA State other than the United

	Kingdom and the Republic of Ireland;
“EEA State”	has the meaning set out in paragraph 8, Part I of Schedule 3 to FSMA;
“Existing Annuity Augmentations”	means Annuity Augmentations that are not New Annuity Augmentations;
“Guernsey Effective Time”	has the meaning given to it in the 2006 Scheme;
“Guernsey Policies”	has the meaning given to it in the 2006 Scheme;
“Increased Annuity Payment”	means any payment in respect of an annuity to the extent that such payment arises as a result of the trustees of the relevant pension scheme varying the rules of the pension scheme to remove restrictions on the amount which can be paid to annuitants in respect of the annuity;
“Initial Expenses”	means distribution and issue expenses allocated to the SLAL HWPF in respect of the Covered Policies in accordance with paragraph 34 of the 2006 Scheme;
“Interim Refund Amount”	has the meaning given in <u>clause 7.2</u> ;
“Jersey Effective Time”	has the meaning given to it in the 2006 Scheme;
“Jersey Policies”	has the meaning given to it in the 2006 Scheme;
“Monthly Amount”	has the meaning given to it in <u>clause 5</u> ;
“Monthly Coverage Payment”	means, in respect of a Calculation Period, such amount as is specified in (and determined in accordance with the provisions of) schedule 3 to the SLIF EB Annuities Reinsurance Agreement, the provisions of and data contained in that schedule applying <i>mutatis mutandis</i> to the determination of such amount and any reference in that schedule to a “Monthly Reinsurance Premium” being, for the purposes of this Schedule 2, a reference to a Monthly Coverage Payment;
“Monthly Coverage Payment Deduction”	means, in respect of a Calculation Period, such amount as is specified in (and determined in accordance with the provisions of) schedule 7 to the SLIF EB Annuities Reinsurance Agreement, the provisions of and data contained in that schedule applying <i>mutatis mutandis</i> to the determination of such amount and any reference in that schedule to a “Monthly Reinsurance Premium” being, for the purposes of this Schedule 2, a reference to a Monthly Coverage Payment;

	Deduction” being, for the purpose of this Schedule 2, a reference to a Monthly Coverage Payment Deduction;
“Monthly Settlement Date”	means the Business Day immediately following each Calculation Date;
“Net Monthly Coverage Payment”	means, in respect of a Calculation Period, the Monthly Coverage Payment less the Monthly Coverage Payment Deduction in respect of that Calculation Period;
“New Annuity Augmentation”	means any Annuity Augmentation which was paid, due and payable or secured after the Effective Date;
“Policyholder”	means any “policyholder” within the meaning of the Financial Services and Markets Act (Meaning of “Policy” and “Policyholder”) Order 2001 (SI 2001/2361);
“Restricted Annuity Adjustment”	means, in respect of a Calculation Period, an amount equal to the Unrestricted Annuity Payments in respect of that Calculation Period less the Actual Annuity Payments in respect of that Calculation Period;
“Scheme”	means the Scheme of Transfer to which this document forms Schedule 2 and in accordance with which it is intended that all of SLIF’s business, and its property and liabilities, are to be transferred to SLAL;
“SLAL HWPF With Profits Policies”	means “WPF With Profits Policies” as such term is defined in the 2006 Scheme;
“SLPF Annuity Business”	means the business and undertaking of SLPF which comprises the writing of life or annuity contracts of insurance under paragraph I of Part II of Schedule I to the Regulated Activities Order and which is, from time to time, reinsured into the SLAL HWPF;
“Transferred Policies”	has the meaning given to it in the 2006 Scheme;
“Unrestricted Annuity Payments”	means, in respect of a Calculation Period, the Actual Annuity Payments that otherwise would be made or due and payable in respect of that Calculation Period had the rules of pension schemes not restricted the application of fixed rate escalation to the amount of such Actual Annuity Payments; and
“2006 Scheme Effective Time”	means the “Effective Time” as defined in the 2006 Scheme.

1.2 Unless otherwise defined in this Schedule 2, capitalised expressions shall have the meaning ascribed to them in the Scheme.

2. COVERED LIABILITIES: COVERED POLICIES AND ANNUITY AUGMENTATIONS

2.1 The coverage by the SLAL PBF of the Covered Liabilities on the basis set out in this Schedule 2 shall constitute the provision of reinsurance for the purposes of paragraph 22.1 of the 2006 Scheme (as varied on the terms set out in Schedule 4 to the Scheme).

2.2 The coverage by the SLAL PBF of:

- (A) the longevity risk in respect of the Covered Policies; and
- (B) the liabilities in respect of Existing Annuity Augmentations,

shall be borne by the SLAL PBF on the basis set out in this Schedule 2.

2.3 The coverage by the SLAL PBF of the liabilities in respect of any New Annuity Augmentation shall:

- (A) be effected immediately and automatically on, and with effect from, the acceptance of liability in respect of such New Annuity Augmentation by the SLAL HWPF; and
- (B) otherwise be implemented on the basis set out in this Schedule 2.

3. ACKNOWLEDGEMENT OF EQUIVALENT ATTRIBUTION

The Equivalent Attribution to the SLAL PBF pursuant to paragraph 14.1(A) of the Scheme, in consideration for the SLAL PBF bearing the coverage of the Covered Liabilities on the terms set out in this Schedule 2, is hereby acknowledged.

4. COMMISSIONS AND BROKERAGE; EXPENSES

4.1 Subject to clause 4.2, the SLAL HWPF shall be responsible for and bear:

- (A) all administration and management costs and expenses in respect of the Covered Policies; and
- (B) all amounts which become due and payable as commission and/or brokerage in respect of the Covered Policies.

4.2 **The SLAL PBF shall be responsible for and bear:**

- (A) the Initial Expenses incurred by SLAL in accepting liability in respect of a New Annuity Augmentation; and

- (B) all amounts which become due and payable by SLAL as commission and/or brokerage in respect of New Annuity Augmentations,

(together, the “**Annuity Augmentation Costs**”) and the SLAL PBF shall reimburse such amounts to the SLAL HWPF in accordance with clause 5.

- 4.3 Without prejudice to clauses 4.1 and 4.2, each of the SLAL HWPF and the SLAL PBF shall bear the costs of investment management in respect of the assets held by it in respect of the Covered Liabilities.

5. SETTLEMENT AND RECONCILIATION

On each Monthly Settlement Date, the SLAL PBF shall reimburse the SLAL HWPF with an amount equal to:

- 5.1 all Actual Annuity Payments;
- 5.2 all Annuity Augmentation Costs;
- 5.3 all payments made (or due and payable) by SLAL to Policyholders or other beneficiaries in respect of Annuity Augmentations (excluding any payments made by SLAL after the death of an annuitant which are not recovered by SLAL); and
- 5.4 the Restricted Annuity Adjustment,
- less:
- 5.5 the Net Monthly Coverage Payment;
- 5.6 the Annuity Augmentation Coverage Payments; and
- 5.7 all amounts recovered by SLAL in respect of (i) Actual Annuity Payments made by SLAL; and (ii) all payments made by SLAL in respect of Annuity Augmentations, in each case where such amounts are recovered as a result of the death of the annuitant,

in each case in respect of the immediately preceding Calculation Period (such amount being the “**Monthly Amount**”).

6. TERMINATION

- 6.1 Subject to clause 6.2 and clause 6.3, the arrangements set out in this Schedule may be terminated by the SLAL Board at any time.

- 6.2 The arrangements set out in this Schedule may not be terminated under clause 6.1 without the prior written consent of the SLAL With-Profits Actuary, given on the basis that the proposed termination is expected to materially and adversely affect neither:

- (A) the contractual rights of the holders of SLAL HWPF With Profits Policies; nor

- (B) the reasonable expectations of the holders of SLAL HWPF With Profits Policies regarding non-contractual rights under such Policies.

6.3 If it is proposed, intended or envisaged that the arrangements set out in this Schedule 2 will be terminated, the SLAL Board shall procure that, no later than the date on which the arrangements are so terminated, an alternative arrangement is implemented to provide reinsurance of or otherwise to transfer the longevity risk in respect of the Covered Liabilities, on terms determined by the SLAL Board to be not materially less beneficial to the SLAL HWPF than the arrangements set out in this Schedule 2 (any such determination to be made having regard to the advice of the SLAL With-Profits Actuary). Such alternative arrangement may, at the discretion of the SLAL Board, be provided by a SLAL Fund (other than the HWPF), any member of the SLAL Group and/or any other person.

7. CONSEQUENCES OF TERMINATION

7.1 If the arrangements set out in this Schedule 2 are terminated pursuant to clause 6, the provisions of this clause 7 shall apply.

7.2 The SLAL PBF shall, within 3 Business Days of the termination becoming effective, refund an amount to the SLAL HWPF that is equal to the SLAL Board's good faith estimate of 100% of the Mathematical Reserves (gross of external reinsurance) held by the SLAL PBF in relation to the Covered Liabilities as at the end of the Calculation Period immediately preceding the date on which the termination took effect (the "**Interim Refund Amount**"), such Interim Refund Amount to be calculated in accordance with all applicable law and regulation.

7.3 The liability of the SLAL PBF to cover the Covered Liabilities on the terms of this Schedule 2 shall cease.

7.4 Within three months of the termination taking effect, the SLAL Board shall determine the appropriate adjustment to be made to the Interim Refund Amount (by making a transfer from the SLAL HWPF to the SLAL PBF or from the SLAL PBF to the SLAL HWPF (as the context requires)) in order to ensure that 100% of the Mathematical Reserves (gross of external reinsurance) required to be held by the SLAL PBF in relation to the Covered Liabilities as at the date of termination (the "**Adjustment Amount**") has been transferred to the SLAL HWPF.

7.5 Any determination by the SLAL Board under clause 7.4 shall be made having regard to the advice of the SLAL With-Profits Actuary.

8. WAIVERS AND VARIATIONS

The arrangements set out in this Schedule 2 and any part thereof may be varied or waived without the consent of the Court if such variation or waiver (as the case may be) has been consented to in writing by the SLAL With-Profits Actuary, such consent given on the basis that the proposed waiver or variation is expected to materially and adversely affect neither:

- (A) the contractual rights of the holders of SLAL HWPF With Profits Policies; nor
- (B) the reasonable expectations of the holders of SLAL HWPF With Profits Policies regarding non-contractual rights under such Policies.

SCHEDULE 3

Amended Charge Documents

Part 1

Property-Linked Floating Charge

DRAFT

**PROPERTY-LINKED FLOATING CHARGE
IN RELATION TO UNIT-LINKED LIABILITIES**

between

**STANDARD LIFE ASSURANCE LIMITED
(as Chargor)**

and

**THE LAW DEBENTURE TRUST CORPORATION P.L.C
(as Chargee)**

**Dated 12 October 2006 and as amended and restated by order of the Court of Session in
Scotland on [] 2011 and taking effect on [] 2011 pursuant to the insurance business
scheme under Part VII of the Financial Services and Markets Act 2000**

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This PROPERTY-LINKED Floating charge is made by:

- (1) **STANDARD LIFE ASSURANCE LIMITED** (company number SC286833) whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH (the **Chargor**); and
- (2) **THE LAW DEBENTURE TRUST CORPORATION P.L.C.** (company number 1675231) whose registered office is at Fifth Floor, 100 Wood Street, London, EC2V 7EX, acting as security trustee for the Beneficiaries (as defined in the Security Trust Agreement) in terms of the Security Trust Agreement (as defined below) (the **Chargee**).

WITNESSES as follows:

1. INTERPRETATION

- 1.1 In this Property-Linked Floating Charge, except insofar as the context otherwise requires, the following words and expressions shall have the meanings set out below:

Beneficiaries is as defined in the Security Trust Agreement and **Beneficiary** shall mean each of them;

Business Day means a day on which clearing banks are ordinarily open for business in London;

Chargee Sums means any sums due to the Chargee under the Security Trust Agreement and this Property-Linked Floating Charge;

Permitted Security Interest means any Security Interest created by the Chargor in the ordinary course of business of the Chargor in relation to that part of its business which relates to the Property-Linked Policies but excluding any Security Interest securing or otherwise referable to money and liabilities now or in the future due, owing or incurred by the Chargor under or in connection with a contract of insurance or contract of reinsurance;

Policy means any "policy" within the meaning of the Financial Services and Markets Act (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361);

Property-Linked Charged Property means the assets and rights of the Chargor which are held from time to time by the Chargor in order to calculate the monetary value of its Property-Linked Liabilities;

Property-Linked Liabilities means all liabilities of the Chargor in respect of the Property-Linked Policies including the Property-Linked Reinsurance Contracts;

Property-Linked Policy means any Policy (or part of any Policy) issued by (or transferred to) the Chargor in the United Kingdom or the Republic of Ireland, which falls within paragraph III of Part II of Schedule 1 to the Regulated Activities Order, to the extent to which the benefits payable are determined by reference to the value of, or the income from, property of any

description (whether or not specified in the Policy) and including each of the Property-Linked Reinsurance Contracts, but not, for the avoidance of doubt, any Policy (or part of such Policy):

- a) in respect of which any policyholder is entitled to participate in any established surplus or in relation to which the value of benefits is measured by reference to with profits units allocated to that Policy; or
- b) where the benefits payable are determined by reference to an index of the value of property of any description (whether or not specified in the Policy; for the avoidance of doubt, a policy or part of a policy does not fall within paragraph (b) if the benefits payable are linked to any underlying fund of assets (whether or not those assets include derivatives) which is managed with a view to replicating an index; or
- c) where the benefits payable are determined by reference to a unit endowment fund;

Property-Linked Reinsurance Contracts means (1) the reinsurance contracts specified in the Schedule and (2) any subsequent reinsurance contracts written by the Chargor in favour of any Beneficiary, which are contracts of long-term insurance, as that term is defined in Article 3 of the Regulated Activities Order and which the Chargor and Chargee specify from time to time as being "Property-Linked Reinsurance Contracts" for the purpose of this Property-Linked Floating Charge,

as each is amended, supplemented or replaced from time to time and only to the extent that such contracts continue to relate to Property-Linked Liabilities;

Property-Linked Reinsured Liabilities means all money and liabilities now or in the future due, owing or incurred in any manner to the Beneficiaries by the Chargor under or in connection with Property-Linked Reinsurance Contracts, whether actually, prospectively or contingently but only to the extent that such liabilities are in respect of Property-Linked Policies;

Property-Linked Secured Amount means the amount resulting from the following calculation:

(the Total Proceeds - the Chargee Sums - S176A Sums) x the Reinsured Proportion;

Regulated Activities Order means the Financial Services and Markets Act (Regulated Activities) Order 2001 (SI 2001/544);

Reinsured Proportion means:

$$\frac{\text{the Property-Linked Reinsurance Liabilities at the Valuation Time}}{\text{the Property-Linked Liabilities at the Valuation Time}}$$

S176A Sums means any sum payable to unsecured creditors of the Company under Section 176A of the Insolvency Act 1986;

Secured Obligations means the Property-Linked Secured Amounts and the Chargee Sums;

Secured Parties is as defined in the Security Trust Agreement;

Security Interest means any right or interest arising out of:

- a) any mortgage, charge, pledge, assignment (whether or not expressed to be by way of security), hypothecation, lien, encumbrance or other priority or security interest of any kind, howsoever created or arising;
- b) any deferred purchase, title retention, trust, sale-and-repurchase, sale-and-leaseback, hold back or "flawed asset" arrangement or right of set-off;
- c) any other agreement or arrangement of any kind having the same or a similar commercial or economic effect as security; and
- d) any agreement for any of the foregoing;

Security Trust Agreement means the security trust agreement between the Chargee, the Chargor and the Beneficiaries (as defined in that agreement) dated 12 October 2006, as amended and restated on 27 November 2007 and as amended and restated by order of the Court of Session in Scotland on [] 2011 and taking effect on [] pursuant to the insurance business scheme under Part VII of the Financial Services and Markets Act 2000;

Total Proceeds means the aggregate of all moneys, or other assets, received or recovered by the Chargee (or on its behalf) in connection with the realisation of the whole of the Property-Linked Charged Property;

Valuation Time means 23.59 on the date before a liquidator is appointed to the Chargor or the Chargee exercises its right under Clause 3.2 below to appoint an administrator to the Chargor or a receiver of the Property-Linked Charged Property;

VAT means valued added tax as provided for in the Value Added Tax Act 1994 and any other tax of a similar nature.

1.2 Interpretation

1.2.1 Unless the context otherwise requires, in this Property-Linked Floating Charge:

- (a) references to any party shall be construed so as to include that party's respective successors in title, permitted assigns and permitted transferees;
- (b) **"including"** and **"in particular"** shall not be construed restrictively but shall mean respectively "including, without prejudice to the generality of the

foregoing" and "in particular, but without prejudice to the generality of the foregoing";

- (c) a **"person"** includes any individual, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;
- (d) **"variation"** includes any variation, amendment, accession, novation, restatement, modification, assignment, transfer, supplement, extension, deletion or replacement however effected and **"vary"** and **"varied"** shall be construed accordingly;
- (e) **"writing"** includes facsimile transmission legibly received except in relation to any certificate, notice or other document which is expressly required by this Property-Linked Floating Charge to be signed and **"written"** has a corresponding meaning;
- (f) subject to Clause 10 (*Variations*), references to this Property-Linked Floating Charge or to any other document include references to this Property-Linked Floating Charge or such other document as varied in any manner from time to time;
- (g) the singular shall include the plural and vice versa; any gender shall include the other genders; clauses shall be construed as references to clauses of this Property-Linked Floating Charge.

1.3 **Statutes**

Any reference to any statute or statutory instrument or any section of it shall be deemed to include a reference to any statutory modification or re-enactment of it for the time being in force.

1.4 **Headings**

Headings in this Property-Linked Floating Charge are inserted for convenience and shall not affect its interpretation.

2. **COVENANT TO PAY SECURED AMOUNT**

The Chargor hereby covenants that it will pay or discharge when due to the Secured Parties the Secured Obligations owing by it to the Secured Parties from time to time.

3. CREATION OF FLOATING CHARGE AND ATTACHMENT

- 3.1 As continuing security for the payment or discharge of the Secured Obligations, the Chargor hereby charges to the Chargee by way of floating charge all its right to and title in the Property-Linked Charged Property.
- 3.2 At any time after (a) appointment of a liquidator or receiver over all or any of the Property-Linked Charged Property; or (b) any request from the board of directors of the Chargor that a liquidator or administrator be appointed, the Chargee may then by instrument in writing appoint any person or persons (if more than one with power to act both jointly and severally) to be an administrator of the Chargor or receiver of the Property-Linked Charged Property.
- 3.3 Any administrator appointed under the terms of Clause 3.2 shall have and be entitled to exercise all the powers conferred upon such administrator by the Insolvency Act 1986.
- 3.4 The proceeds of the enforcement of this Property-Linked Floating Charge shall be applied only in accordance with the Security Trust Agreement.

4. REPRESENTATIONS AND WARRANTIES

- 4.1 The Chargor represents and warrants to the Chargee that:
- 4.1.1 it has the capacity and power to execute and deliver this Property-Linked Floating Charge and to perform its obligations under it and has taken all necessary action to authorise such execution, delivery and performance;
- 4.1.2 the persons signing this Property-Linked Floating Charge on its behalf are duly authorised to do so on its behalf;
- 4.1.3 it has obtained all authorisations of any governmental or regulatory body required in connection with execution, delivery and performance of this Property-Linked Floating Charge and such authorisations are in full force and effect;
- 4.1.4 the execution, delivery and performance of this Property-Linked Floating Charge has not, and will not, violate any law or rule applicable to it;
- 4.1.5 it is acting as a principal in entering into this Property-Linked Floating Charge and performing its obligations hereunder;
- 4.1.6 it has the right to charge the Property-Linked Charged Property in favour of the Chargee under this Property-Linked Floating Charge; and
- 4.1.7 there are no prior ranking fixed or floating charges over the Property-Linked Charged Property other than any Permitted Security Interest.

5. **NEGATIVE PLEDGE**

Until the floating charge hereby created shall have been discharged in full the Chargor shall not create or permit to subsist any Security Interest on or over the Property-Linked Charged Property or any part of it, except for this Property-Linked Floating Charge and any transaction permitted hereunder and any Permitted Security Interest whether or not it constitutes a fixed security or a floating charge in terms of Section 462 of the Companies Act 1985. The floating charge hereby created shall, subject to Section 462(2) of the Companies Act 1985, rank in priority to any fixed security (other than a Permitted Security Interest constituting a security right) which shall be created by the Chargor after its execution.

6. **STOCK LENDING AND BORROWING AND REPURCHASE TRANSACTIONS**

It is hereby agreed that, prior to crystallisation, the Chargor shall be free to deal, trade, exchange or otherwise dispose of the Property-Linked Charged Property in any manner it deems fit and, for the avoidance of doubt, the Chargor may enter into any agreement for the transfer of securities, financial instruments, money and/or other assets by way of a stock lending or borrowing, repurchase arrangement or sale and buy-back, or any securitisation arrangements where it assigns (or creates a trust over, all or part of the Property-Linked Charged Property (or any economically equivalent transaction)) or may make any dividend payment, repay capital or reduce its capital.

7. **CONTINUANCE OF SECURITY; REDEMPTION**

7.1 Without prejudice to the generality of Clause 2 (*Covenant to pay Secured Amounts*), the charge, covenants and provisions contained in this Property-Linked Floating Charge shall remain in force as a continuing security to the Chargee, notwithstanding any settlement of account or any other act, event or matter whatsoever, except only the execution by the Chargee of an absolute and unconditional release under Scots law.

7.2 Once the Property-Linked Secured Amount is repaid and discharged in full and the Chargor has no further obligation (whether actual, prospective or contingent) in relation to any Property-Linked Reinsurance Contract with the Beneficiaries or in respect of the Chargee Sums, the Chargor shall be entitled to redeem the security constituted by this Property-Linked Floating Charge and to require the Chargee to effect a full release and discharge of it, including performing all such deeds, acts and things as are necessary to release the Property-Linked Charged Property from the security created by this Property-Linked Floating Charge.

8. **ADDITIONAL SECURITY**

The charge contained in this Property-Linked Floating Charge is in addition to, and shall neither be merged in, nor in any way exclude or prejudice, any other Security Interest, right of recourse or other right whatsoever which the Secured Parties may now or in the future hold or

have (or would apart from this Property-Linked Floating Charge hold or have) as regards the Chargor or any other person in respect of the Secured Obligations, whether by virtue of contract, statute or otherwise.

9. **FORBEARANCE AND ILLEGALITY**

9.1 **Delay etc**

All rights, powers and privileges under this Property-Linked Floating Charge shall continue in full force and effect, regardless of the Chargee exercising, delaying in exercising or omitting to exercise any of them.

9.2 **Illegality, invalidity, unenforceability**

Any provision of this Property-Linked Floating Charge which is or becomes illegal, invalid or unenforceable shall be ineffective only to the extent of such illegality, invalidity and unenforceability, without invalidating the remaining provisions of this Property-Linked Floating Charge.

10. **VARIATIONS**

No variation of this Property-Linked Floating Charge shall be valid and constitute part of this Property-Linked Floating Charge, unless such variation shall have been made in writing and signed by the Chargor and the Chargee.

11. **DEMANDS, NOTICES ETC**

11.1 **Demands**

A demand for payment or other demand or notice to the Chargor under this Property-Linked Floating Charge shall be made or given by any director or officer of the Chargee in accordance with Clause 11.2.

11.2 **Addresses for notice and deemed service**

Each party shall notify to the other party an authorised address and facsimile number in the United Kingdom for the purpose of this Clause and the first such authorised address for each party shall be the address and facsimile number stated in Clause 11.3. Any demand, notice, consent or approval or other communication to be given under this Property-Linked Floating Charge shall be in writing and shall either be delivered personally or sent by pre-paid first class post or facsimile transmission to the relevant party's address or facsimile number stated in Clause 11.3 (or such other address or facsimile number (in each case in the United Kingdom) as is notified in writing from time to time by such party to the other party in accordance with the requirements of this Clause). Any such notice shall be effective upon receipt and shall be deemed to have been received:

- 11.2.1 if delivered personally, at the time of delivery;
- 11.2.2 if sent by pre-paid first class post, at 17.00 hours on the day following the day of posting and shall be effective even if it is misdelivered or returned undelivered; and
- 11.2.3 if communicated by facsimile transmission, upon receipt by the sender of a facsimile transmission report (or other appropriate evidence) that the facsimile has been transmitted to the address,

PROVIDED that where, in the case of delivery by hand or facsimile transmission, delivery or transmission occurs after 6.00pm on a Business Day or on a day which is not a Business Day, receipt shall be deemed to occur at 9.00am on the next following Business Day.

11.3 **Addresses for service**

For the purposes of this Clause the authorised address of each party shall be the address set out below:

- 11.3.1 **Chargor: Standard Life Assurance Limited**
 Address: Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH
 Fax No: 0131 245 7955
 Attention: Simon Burns or his successor as Company Secretary
- 11.3.2 **Chargee: The Law Debenture Trust Corporation p.l.c.**
 Address: 5th Floor, 100 Wood Street, London, EC2V 7EX
 Fax No: 020 7606 0643
 Attention: Manager, Commercial Trusts

12. **GOVERNING LAW AND JURISDICTION**

12.1 **Governing law**

This Property-Linked Floating Charge is governed by and shall be construed in accordance with Scots law.

12.2 **Jurisdiction of Scottish courts**

12.3 The Scottish courts have exclusive jurisdiction to settle any dispute arising out of or in connection with this Property-Linked Floating Charge, including a dispute regarding the existence, validity or discharge of this Property-Linked Floating Charge or the security comprised in it (a **Dispute**).

12.4 The parties agree that the Scottish courts are the most appropriate and convenient courts to settle Disputes and accordingly no party will argue to the contrary.

12.5 Nothing in this Clause limits the rights of the Chargee to bring proceedings against the Chargor in connection with this Property-Linked Floating Charge in any other court of competent jurisdiction or concurrently in more than one jurisdiction.

THE SCHEDULE
PROPERTY-LINKED REINSURANCE CONTRACTS

1. The agreement entitled 'Reinsurance Agreement (Trustee Investment Plan)' entered into between Standard Life Pension Funds Limited and Standard Life Investment Funds Limited dated 10 October 2006 to the extent that it relates to liabilities in respect of Property-Linked Policies.
2. The agreement entitled 'Reassurance Policy' entered into between The Standard Life Assurance Company^{*} and Fidelity Investments Life Insurance Limited dated 21 April 2005 as amended by an agreement dated 22 November 2007 and 4 December 2007 by which the obligations of Standard Life Assurance Limited under that agreement were assumed by Standard Life Investment Funds Limited.
3. The agreement entitled 'Reassurance Policy' entered into between The Standard Life Assurance Company^{*} and Threadneedle Pensions Limited dated 3 January 2006 and numbered GBRT 101790 as amended by an agreement dated 7 and 17 October 2008 by which the obligations of Standard Life Assurance Limited under that agreement were assumed by Standard Life Investment Funds Limited.
4. The agreement entitled 'Reassurance Policy' entered into between The Standard Life Assurance Company^{*} and Prudential Assurance Company Limited dated 6 April 2001 and numbered GR 79000 as amended by an agreement dated 25 July and 17 October 2008 by which the obligations of Standard Life Assurance Limited under that agreement were assumed by Standard Life Investment Funds Limited.
5. The agreement entitled 'Reassurance Policy' entered into between The Standard Life Assurance Company^{*} and Invesco Pensions Limited dated 22 July 2003 and numbered GBRT 100861 as amended by an agreement dated 31 October and 3 November 2008 by which the obligations of Standard Life Assurance Limited under that agreement were assumed by Standard Life Investment Funds Limited. By virtue of an order of the High Court of Justice, the rights and obligations of Invesco Pensions Limited were transferred to Threadneedle Pensions Limited on 31 October 2008 pursuant to an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000.
6. The agreement entitled 'Reassurance Policy' entered into between The Standard Life Assurance Company^{*} and Merrill Lynch Pensions Limited (now BlackRock Pensions Limited) dated 19 January 2006 and numbered GBRT 101819 as amended by an agreement dated 6

^{*} The Standard Life Assurance Company transferred substantially all of its long-term business, including all of its rights and obligations under the agreements referred to above, to Standard Life Assurance Limited pursuant to an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

and 17 May 2010 by which the obligations of Standard Life Assurance Limited under that agreement were assumed by Standard Life Investment Funds Limited.

7. The agreement entitled 'Reassurance Policy' entered into between Standard Life Investments Limited and Zurich Assurance Limited dated 26 October 2010 and numbered GBR T 103738.

In each case, as amended, supplemented or replaced from time to time.

* The Standard Life Assurance Company transferred substantially all of its long-term business, including all of its rights and obligations under the agreements referred to above, to Standard Life Assurance Limited pursuant to an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

Part 2

Security Trust Agreement

AMENDED AND RESTATED SECURITY TRUST AGREEMENT

between

THE LAW DEBENTURE TRUST CORPORATION p.l.c.
as Security Trustee

STANDARD LIFE ASSURANCE LIMITED
as Company

STANDARD LIFE PENSION FUNDS LIMITED
as Instructing Parties' Agent

and

OTHERS
as Beneficiaries

Dated: 12 October 2006 and amended and restated on 27 November 2007 and as further amended and restated by an order of the Court of Session on [] 2011 and taking effect on [] 2011 pursuant to the insurance business scheme under Part VII of the Financial Services and Markets Act 2000

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THIS AGREEMENT was made on 12 October 2006 and amended and restated on 27 November 2007 and as further amended and restated by an order of the Court of Session in Scotland on [] 2011 and taking effect on [] 2011 pursuant to the insurance business scheme under Part VII of the Financial Services and Markets Act 2000

BETWEEN:

- (1) **THE LAW DEBENTURE TRUST CORPORATION P.L.C.** (Registered Number 01675231) in its capacity as security trustee for the Secured Parties under the Floating Charge (as defined below) (the **Security Trustee**);
- (2) **STANDARD LIFE ASSURANCE LIMITED** (Registered Number SC286833) a company incorporated in Scotland with limited liability and whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH (the **Company**);
- (3) **THE BENEFICIARIES** (the **Beneficiaries**) with the initial such persons' details being more particularly set out at Schedule 1; and
- (4) **STANDARD LIFE PENSION FUNDS LIMITED** (Registered Number SC046447) a company incorporated in Scotland with limited liability and whose registered office is at Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH in its capacity as agent of the Instructing Parties (as defined below) (the **Instructing Parties' Agent**).

AND WITNESS as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

Terms defined in the Floating Charge shall, unless otherwise defined in this Agreement, have the same meaning when used in this Agreement and in addition:

Accession Undertaking means a Beneficiary Accession Undertaking or an Instructing Parties' Agent Accession Undertaking (as the case may be);

Beneficiaries means the persons being named as Beneficiaries in Schedule 1 and any person who becomes a beneficiary as a result of executing and delivering to the Instructing Parties' Agent a Beneficiary Accession Undertaking but excluding any such person who has ceased to be a party to a Property-Linked Reinsurance Contract;

Beneficiary Accession Undertaking means an undertaking in substantially the form set out in Schedule 2 (*Form of Beneficiary Accession Undertaking*) or any other form agreed between the Instructing Parties' Agent and the Security Trustee;

Beneficiaries' Share means, in relation to a Beneficiary, the proportion of the Property-Linked Secured Amount or Interim Beneficiaries Proceeds that the Property-Linked Reinsured Liabilities at the Valuation Time under the Property-Linked Reinsured Contract(s) issued to that Beneficiary bear to the total Property-Linked Reinsured Liabilities at the Valuation Time;

Chargee Sums means Chargee Sums as such term is defined in the Floating Charge;

Default means any event causing or giving rise to the crystallisation of the floating charge under Clause 3.2 of the Floating Charge;

Delegate means any delegate, agent, attorney or co-trustee appointed by the Security Trustee;

Finance Documents means, together:

- a) this Agreement; and
- b) the Floating Charge.

Floating Charge means the property-linked floating charge granted by the Company to the Security Trustee as security trustee for the Beneficiaries in relation to the Property-Linked Reinsurance Liabilities, on or around the date of this Agreement;

Instructing Parties means a Beneficiary or Beneficiaries holding not less than 66²/₃% of the Reinsured Liabilities from time to time;

Instructing Parties' Agent means Standard Life Pension Funds Limited (or any successor thereof);

Instructing Parties' Agent Accession Undertaking means an undertaking in substantially the form set out in Schedule 3 (*Form of Instructing Parties' Agent Accession Undertaking*) or any other form agreed between the Instructing Parties' Agent and the Security Trustee;

Interim Beneficiaries Proceeds means the Interim Proceeds multiplied by the Reinsured Proportion;

Interim Proceeds means, at any time, the aggregate at any time of all monies and/or other assets received or recovered by the Security Trustee (or on its behalf) in connection with the realisation of (only) part of the Property-Linked Charged Property, less:

- a) the aggregate of any Reinsured Interim Distribution and any Non-Reinsured Interim Distribution which have been made up to that date; and
- b) the aggregate of any amounts paid or payable to the Security Trustee (in its capacity as Security Trustee) or to any Receiver or Delegate or administrator or liquidator of the Company up to that date; and
- c) such provision as any administrator or liquidator of the Company thinks fit for a sum which is, or may be, owed to the unsecured creditors of the Company under Section 176A of the Insolvency Act 1986.

Non-Reinsured Interim Distribution means an amount equal to;
 Reinsured Interim Distribution x
$$\frac{(\text{the Property-Linked Liabilities at the Valuation Time} - \text{the Property-Linked Reinsured Liabilities at the Valuation Time})}{\text{the Property-Linked Reinsured Liabilities at the Valuation Time}}$$

Property-Linked Charged Property means the Property-Linked Charged Property as that term is defined in the Floating Charge;

Property-Linked Liabilities means the Property-Linked Liabilities as that term is defined in the Floating Charge;

Property-Linked Reinsurance Contracts means the Property-Linked Reinsurance Contracts as that term is defined in the Floating Charge;

Property-Linked Reinsured Liabilities means the Property-Linked Reinsured Liabilities as that term is defined in the Floating Charge;

Property-Linked Secured Amount means the Property-Linked Secured Amount as that term is defined in the Floating Charge;

Reinsured Interim Distribution means a distribution made to the Beneficiaries pursuant to Clause 3.1.(A);

Reinsured Proportion means the Reinsured Proportion as that term is defined in the Floating Charge;

Receiver means any one or more receivers and/or managers or administrative receivers (whether appointed pursuant to this Agreement or pursuant to any statute, by a court or otherwise) of all or any of the Property-Linked Charged Property;

Secured Parties means each of the Beneficiaries and the Security Trustee (acting in that capacity);

Security means any and all Security Interests (as defined in the Floating Charge) created under the Floating Charge by the Company in favour of the Security Trustee;

Total Proceeds means the Total Proceeds as such term is defined in the Floating Charge;

Valuation Time means the Valuation Time as that term is defined in the Floating Charge.

1.2 Interpretation

In this Agreement:

1.2.1 references to any party shall be construed so as to include that party's respective successors in title, permitted assigns and permitted transferees;

- 1.2.2 "including" and "in particular" shall not be construed restrictively but shall mean respectively "including, without prejudice to the generality of the foregoing" and "in particular, but without prejudice to the generality of the foregoing";
- 1.2.3 a "person" includes any individual, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;
- 1.2.4 "variation" includes any variation, amendment, accession, novation, restatement, modification, assignment, transfer, supplement, extension, deletion or replacement however effected and "vary" and "varied" shall be construed accordingly;
- 1.2.5 "writing" includes facsimile transmission legibly received except in relation to any certificate, notice or other document which is expressly required by this Agreement to be signed and "written" has a corresponding meaning;
- 1.2.6 subject to Clause 11.1, references to this Agreement or to any other document include references to this Agreement or such other document as varied in any manner from time to time;
- 1.2.7 the singular shall include the plural and vice versa; any gender shall include the other genders; clauses shall be construed as references to clauses of this Agreement;
- 1.2.8 any reference to any statute or statutory instrument or any section of it shall be deemed to include a reference to any statutory modification or re-enactment of it for the time being in force;
- 1.2.9 headings in this Agreement are inserted for convenience and shall not affect its interpretation; and
- 1.2.10 references in this Agreement to any Clause or any Schedule or part thereof shall be to a clause or schedule or part thereof contained in this Agreement.

2. TRUST FOR THE SECURED PARTIES

2.1 Trust

The Security Trustee declares that it shall hold the Floating Charge on trust for the Secured Parties on the terms contained in this Agreement. Each of the parties to this Agreement agrees that the Security Trustee shall have only those duties, obligations and responsibilities expressly specified in the Floating Charge and in this Agreement (and no others shall be implied).

2.2 **No Independent Power**

The Beneficiaries shall not have any independent power to enforce, or have recourse to, any of the Security or to exercise any rights or powers pursuant to the Floating Charge except through the Security Trustee.

3. **APPLICATION OF TOTAL PROCEEDS**

3.1 **Order of Application**

The Total Proceeds shall be held by the Security Trustee on trust to apply them at such times as the Security Trustee sees fit, to the extent permitted by applicable law, in the following order of priority:

- 3.1.1 to the Security Trustee in discharging any Chargee Sums owing to the Security Trustee (in its capacity as trustee), any Receiver or to any Delegate or to any administrator or to any liquidator;
- 3.1.2 in distributing to each Beneficiary, its Beneficiary Share of the Property-Linked Secured Amount, that distribution being in the discharge of the Property-Linked Secured Amount in respect of its Property-Linked Reinsurance Contract;
- 3.1.3 any distribution under Clause 3.1.3 shall be under deduction of any Reinsured Interim Distribution made under Clause 3.1.(A).1;
- 3.1.4 the balance in payment to the Company (or the liquidator or administrator of the Company).

3.1(A). **Interim Distributions**

- 3.1(A).1 The Security Trustee or administrator or liquidator of the Company may at such time as it sees fit make one or more distributions to the Beneficiaries only out of the Interim Beneficiaries Proceeds.
- 3.1(A).2 Each Beneficiary shall receive from such a distribution its Beneficiaries Share of the Interim Beneficiaries Proceeds being distributed, that distribution being in partial discharge of the Property-Linked Secured Amount in respect of its Property-Linked Reinsurance Contract.
- 3.1(A).3 The Security Trustee shall make a distribution to the Beneficiaries pursuant to Clause 3.1(A).1 and 3.1(A).2 only if at the same time it makes to the Company (or the liquidator or administrator of the Company) a Non-Reinsured Interim Distribution.

3.2 **Investment of Proceeds**

Prior to the application of the Total Proceeds in accordance with Clause 3.1 (*Order of Application*) the Security Trustee may, at its discretion, hold all or part of those proceeds in an interest bearing suspense or impersonal account(s) in the name of the Security Trustee with such financial institution for so long as the Security Trustee shall think fit (the interest being credited to the relevant account) pending the application from time to time of those monies at the Security Trustee's discretion in accordance with the provisions of this Clause 3.

3.3 **Currency Conversion**

For the purpose of or pending the discharge of any of the Property-Linked Secured Amounts the Security Trustee may convert any Interim Proceeds or the Total Proceeds from one currency to another, at the spot rate at which the Security Trustee is able to purchase the currency in which the Property-Linked Secured Amounts are due with the amount received.

3.4 **Permitted Deductions**

The Security Trustee shall be entitled:

3.4.1 to set aside by way of reserve amounts; and

3.4.2 to make and pay, any deductions and withholdings (on account of taxes (including VAT) or otherwise) which it is or may be required by any applicable law to make from any distribution or payment made by it under this Agreement

and to pay all taxes (including VAT) which may be assessed against it in respect of any of the Property-Linked Charged Property, or as a consequence of performing its duties, or by virtue of its capacity as Security Trustee under any of the Finance Documents or otherwise (other than in connection with its remuneration for performing its duties under this Agreement).

3.5 **Clawback**

3.5.1 If any Beneficiary has received an amount as a result of the enforcement of the Security and the Security Trustee on its behalf is subsequently required to pay that amount to a liquidator (or any other party) pursuant to a court order (a **Clawback Amount**), that Beneficiary will immediately pay an amount equal to such Clawback Amount to the Security Trustee for payment to the liquidator (or other relevant party).

3.5.2 Each Beneficiary that has received a Clawback Amount shall indemnify the Security Trustee against any and all costs, claims, losses, expenses (including legal fees) and liabilities together with any VAT thereon which the Security Trustee may incur with respect to that Clawback Amount otherwise than by reason of the Security Trustee's own gross negligence or wilful misconduct.

3.6 Sums received by Obligors

If the Company receives any sum which, pursuant to the Floating Charge, should have been paid to the Security Trustee, that sum shall be held by the Company on trust for the Beneficiaries and shall as soon as practicably possible be paid to the Security Trustee for application in accordance with this Clause 3.

4. SECURITY TRUSTEE'S ACTIONS

4.1 Security Trustee's Instructions

4.1.1 The Security Trustee shall except as otherwise provided, act in accordance with any written instructions given to it by the Instructing Parties' Agent and shall be entitled to assume that:

- (a) any written instructions received from the Instructing Parties' Agent are duly given by or on behalf of the relevant Instructing Parties;
- (b) unless it has received actual notice of revocation, that any written instructions or directions given by the Instructing Parties' Agent have not been revoked;
- (c) any written instructions received from the Beneficiaries are duly given by or on behalf of the Beneficiaries; and

4.1.2 The Security Trustee shall be entitled to request written instructions, or clarification of any direction, from the Instructing Parties' Agent as to whether, and in what manner, it should exercise or refrain from exercising any rights, powers and discretions and the Security Trustee may refrain from acting unless and until those written instructions or clarification are received by it.

4.2 Security Trustee's Actions

Subject to the provisions of this Clause 4:

4.2.1 the Security Trustee may, in the absence of any instructions to the contrary, take such action in the exercise of any of its duties under the Finance Documents which in its absolute discretion it considers to be for the protection and benefit of all the Beneficiaries, including, for the avoidance of doubt, taking enforcement action under the Floating Charge;

4.2.2 at any time after a Default the Security Trustee may exercise all or any of its rights, remedies, powers or discretions under the Floating Charge, and the Security Trustee may, and shall if so directed by the Instructing Parties' Agent, take such action as in its sole discretion it thinks fit to enforce the Security; and

- 4.2.3 on the occurrence of a Default, the Instructing Parties' Agent shall take whatever action it considers expedient to authorise the Security Trustee to take any action under this Clause 4.2.

4.3 **Security Trustee's Discretions**

The Security Trustee may:

- 4.3.1 assume unless it has, in its capacity as trustee for the Secured Parties, received actual notice to the contrary that in:
- 4.3.2 no Default has occurred and the Company is not in breach of or default under its obligations under the Floating Charge; and;
- 4.3.3 any right, power, authority or discretion vested by the Floating Charge in any person has not been exercised;
- 4.3.4 if it receives any instructions or directions from the Instructing Parties' Agent to take any action in relation to the Security, assume that all applicable conditions under the Finance Documents for taking that action have been satisfied and that, unless otherwise specified by the Instructing Parties' Agent, are given in its capacity as the Instructing Parties' Agent;
- 4.3.5 engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts (whether obtained by the Security Trustee, the Company, the Instructing Parties' Agent or by any other Beneficiary) whose advice or services may at any time seem necessary, expedient or desirable;
- 4.3.6 rely upon any communication or document believed by it to be genuine and, as to any matters of fact which might reasonably be expected to be within the knowledge of the Instructing Parties' Agent or a Beneficiary or the Company, upon a certificate signed by or on behalf of that person; and
- 4.3.7 refrain from acting in accordance with the instructions of any person (including bringing any legal action or proceeding arising out of or in connection with the Finance Documents) until it has received such indemnification and/or security as it may in its absolute discretion require (whether by way of payment in advance or otherwise) for all costs, losses and liabilities which it may incur in acting in accordance with such instructions or in bringing such action or proceedings.

4.4 **Security Trustee's Obligations**

The Security Trustee shall promptly inform the Beneficiaries of:

- 4.4.1 the contents of any written notice or document received by it in its capacity as Security Trustee from the Company under the Finance Documents; and

4.4.2 the occurrence of any Default or any default by the Company in the due performance of or compliance with its obligations under the Finance Documents of which the Security Trustee has received written notice from any other party.

4.5 **Excluded Obligations**

Notwithstanding anything to the contrary expressed or implied in any Finance Document, the Security Trustee shall not:

4.5.1 be obliged to make any enquiry as to any default by the Company in the performance or observance of any provision of any Finance Document or as to whether any event or circumstance has occurred as a result of which the Security shall have or may become enforceable;

4.5.2 be bound to account to any Beneficiary for any sum or the profit element of any sum received by it for its own account;

4.5.3 be bound to disclose to any other person (including any Beneficiary);

4.5.4 any confidential information; or

4.5.5 any other information if disclosure would or might in its reasonable opinion constitute a breach of any law or be a breach of fiduciary duty;

4.5.6 be liable to any of the Beneficiaries for any action taken or omitted under or in connection with any of the Finance Documents unless caused by its fraud, gross negligence or wilful misconduct;

4.5.7 have or be deemed to have any duty, obligation or responsibility to, or relationship of trust or agency with, the Company; or

4.5.8 be obliged to take any action in relation to enforcing or perfecting any charge over any shares in a company registered or incorporated with unlimited liability.

4.6 **Exclusion of Security Trustee's Liability**

Unless caused directly by its gross negligence or wilful misconduct the Security Trustee shall not accept responsibility or be liable for:

4.6.1 the adequacy, accuracy and/or completeness of any information supplied by the Security Trustee or any other person in connection with the Finance Documents or the transactions contemplated therein, or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection therewith;

4.6.2 the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or the Security or any other agreement, arrangement or document

entered into, made or executed in anticipation of, pursuant to or in connection therewith;

4.6.3 any losses to any person or any liability arising as a result of taking or refraining from taking any action in relation to any of the Finance Documents or the Security or otherwise, whether in accordance with an instruction from the Instructing Parties' Agent or otherwise;

4.6.4 the exercise of, or the failure to exercise, any judgment, discretion or power given to it by or in connection with any of the Finance Documents, the Security or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection therewith; or

4.6.5 any shortfall which arises on the enforcement of the Security,

and each of the Beneficiaries agrees that it will not assert or seek to assert against any officer, employee or agent of the Security Trustee any claim it might have against any of them in respect of the matters referred to in this Clause 4.

4.7 **Own Responsibility**

It is understood and agreed by each Beneficiary that at all times that Beneficiary has itself been, and will continue to be, solely responsible for making its own independent appraisal of and investigation into all risks arising under or in connection with the Finance Documents including but not limited to:

4.7.1 the financial condition, creditworthiness, condition, affairs, status and nature of the Company;

4.7.2 the legality, validity, effectiveness, adequacy and enforceability of each of the Finance Documents and the Security and any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with the Finance Documents;

4.7.3 whether that Beneficiary has recourse, and the nature and extent of that recourse, against the Company or any other person or any of their respective assets under or in connection with the Finance Documents or the transactions contemplated therein or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with the Finance Documents;

4.7.4 the adequacy, accuracy and/or completeness of any information provided by any person in connection with the Finance Documents or the transactions contemplated therein or any other agreement, arrangement or document entered into, made or executed in anticipation of, pursuant to or in connection with the Finance Documents; and

4.7.5 the right or title of any person in or to, or the value or sufficiency of any part of the Property-Linked Charged Property, the priority of any of the Security or the existence of any Security Interest affecting the Property-Linked Charged Property,

and each Beneficiary warrants to the Security Trustee that it has not relied on and will not at any time rely on the Security Trustee in respect of any of these matters.

4.8 **No responsibility to perfect Security**

The Security Trustee shall not be liable for any failure to:

4.8.1 require the deposit with it of any deed or document certifying, representing or constituting the title of the Company to any of the Property-Linked Charged Property;

4.8.2 obtain any licence, consent or other authority for the execution, delivery, legality, validity, enforceability or admissibility in evidence of any of the Finance Documents or the Security;

4.8.3 register, file or record or otherwise protect any of the Security (or the priority of any of the Security) under any applicable laws in any jurisdiction or to give notice to any person of the execution of any of the Finance Documents or of the Security;

4.8.4 take, or to require the Company to take, any steps to perfect its title to any of the Property-Linked Charged Property or to render the Security effective or to secure the creation of any ancillary Security Interest under the laws of any jurisdiction; or

4.8.5 require any further assurances in relation to any of the Finance Documents.

4.9 **Insurance by Security Trustee**

The Security Trustee shall not be under any obligation to insure any of the Property-Linked Charged Property, to require any other person to maintain any insurance or to verify any obligation to arrange or maintain insurance contained in the Floating Charge. The Security Trustee shall not be responsible for any loss which may be suffered by any person as a result of the lack of or inadequacy of any such insurance. Where the Security Trustee is named on any insurance policy as an insured party, it shall not be responsible for any loss which may be suffered by reason of, directly or indirectly, its failure to notify the insurers of any material fact relating to the risk assumed by such insurers or any other information of any kind, unless the Instructing Parties' Agent shall have requested it to do so in writing and the Security Trustee shall have failed to do so within fourteen days after receipt of that request.

4.10 **Safekeeping**

The Security Trustee shall, acting reasonably, be at liberty to place (at the cost of the Company) any of the Finance Documents and any other documents or deeds relating to the

Security in any safe custody selected by the Security Trustee (acting reasonably) or with any financial institution, any company whose business includes the safe custody of documents or any firm of lawyers of good repute and the Security Trustee shall not be responsible for, or required to insure against, any loss incurred in connection with that deposit.

4.11 **Acceptance of Title**

The Security Trustee shall be entitled to accept without enquiry, and shall not be obliged to investigate, such right and title as the Company may have to any of the Property-Linked Charged Property and shall not be liable for or bound to require the Company to remedy any defect in its right or title.

4.12 **Refrain from Illegality**

The Security Trustee may refrain from doing anything which in its opinion will or may be contrary to any relevant law of any jurisdiction which would or might otherwise render it liable to any person, and the Security Trustee may do anything which is, in its opinion, necessary to comply with any such law.

4.13 **Powers Supplemental**

The rights, powers and discretions conferred upon the Security Trustee by this Agreement shall be supplemental to the Trustee Act 1925 and in addition to any which may be vested in the Security Trustee by general law or otherwise.

5. **RESIGNATION OF SECURITY TRUSTEE**

5.1 **Resignation of Security Trustee**

The Security Trustee may resign as trustee at any time without assigning any reason by giving not less than ninety days' prior notice to that effect to each of the other parties to this Agreement (save that the other parties waive the requirement for prior notice if it is necessary for the Security Trustee to resign to comply with law or in the event of any illegality) provided that no such resignation shall be effective until:

5.1.1 a successor to the Security Trustee is appointed in accordance with the terms of this Agreement; and

5.1.2 all of the Security has been transferred to its successor.

5.2 **Removal of Security Trustee**

The Instructing Parties' Agent may remove the Security Trustee from its role as trustee under this Agreement by giving notice to that effect to each of the other parties to this Agreement. That removal shall take effect only when a successor to the Security Trustee is appointed in accordance with the terms of this Agreement.

5.3 **Successor Security Trustee**

If the Security Trustee gives notice of its resignation as trustee pursuant to Clause 5.1 (*Resignation of Security Trustee*) or it is removed as trustee then any reputable and experienced bank or other financial institution may be appointed as a successor to the Security Trustee by the Instructing Parties' Agent during the period of that notice but, if no successor is so appointed, the Security Trustee may appoint a successor itself.

5.4 **Rights and Obligations**

If a successor to the Security Trustee is appointed under the provisions of Clause 5.3 (*Successor Security Trustee*), then:

5.4.1 the resigning or departing Security Trustee shall be discharged from any further obligation under this Agreement but shall remain entitled to the benefit of Clause 4 (*Security Trustee's Actions*) and this Clause 5; and

5.4.2 its successor and each of the other parties to this Agreement shall have the same rights and obligations amongst themselves as they would have had if that successor had been a party to this Agreement.

6. **CHANGE OF PARTY**

6.1 **Beneficiary Accession Undertaking**

Any person which enters into a Property-Linked Reinsurance Contract shall be entitled to become a Beneficiary and to participate in the Floating Charge as a Secured Party by executing and delivering to the Instructing Parties' Agent a Beneficiary Accession Undertaking and with effect from the "Accession Date" (being the later of the date of countersigning by the Company and the Security Trustee and the date specified in that Beneficiary Accession Undertaking) the additional or replacement Beneficiary shall assume the same obligations, and become entitled to the same rights, as a Beneficiary under this Agreement as if it had been an original party to this Agreement as such a Beneficiary.

6.2 **Instructing Parties' Agent Accession Undertaking**

The Beneficiaries shall ensure that any person which accepts its appointment as an Instructing Parties' Agent shall execute and deliver an Instructing Parties' Agent Accession Undertaking and with effect from the "Accession Date" (being the later of the date of countersigning by the Company and the Security Trustee and the date specified in that Instructing Parties' Agent Accession Undertaking) such new Instructing Parties' Agent shall assume the same obligations, and become entitled to the same rights as the Instructing Parties' Agent under this Agreement as if it had been an original party to this Agreement as such an Instructing Parties' Agent and the existing Instructing Parties' Agent shall cease to act in that capacity with effect from the Accession Date.

6.3 **Security Trustee countersign**

The Security Trustee will execute as soon as reasonably practicable an Accession Undertaking delivered to it and which appears on its face to be in order provided always that the Security Trustee's execution of such an undertaking will not be implied to be a vetting or approval of such acceding party on behalf of any party to this Agreement.

6.4 **Authority to Security Trustee to countersign**

Each party hereto (other than the Company) irrevocably authorises the Security Trustee to execute any duly completed Accession Undertaking on its behalf.

6.5 **Security Trustee to notify the Instructing Parties' Agent**

The Security Trustee will, as soon as reasonably practicable after it has executed an Accession Undertaking, send to the Instructing Parties' Agent a copy of that Accession Undertaking.

6.6 **Company and Instructing Parties' Agent notification obligation**

The Company and each Beneficiary will, as soon as reasonably practicable after it becomes aware that no further Secured Amounts will become due and payable to such Beneficiary from the Company, notify the Instructing Parties' Agent in writing of that fact. The Instructing Parties' Agent will promptly on receipt of such notice notify the Security Trustee in writing that it has received such notice and from the date of actual receipt by the Security Trustee of such notice the relevant Beneficiary will cease to be a Beneficiary.

7. **DELEGATION AND ADDITIONAL SECURITY TRUSTEES**

7.1 **Delegation**

The Security Trustee may, at any time, delegate by power of attorney or otherwise to any person for any period, all or any of the rights, powers and discretions vested in it by any of the Finance Documents and such delegation may be made upon such terms and conditions (including the power to sub-delegate) and subject to such restrictions as the Security Trustee may think fit in the interest of the Beneficiaries and it shall not be bound to supervise, or be in any way responsible for any loss incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate.

7.2 **Additional Security Trustees**

The Security Trustee may at any time appoint (and subsequently remove) any person to act as a separate trustee or as a co-trustee jointly with it:

7.2.1 if it considers such appointment to be in the interests of the Beneficiaries; or

7.2.2 for the purposes of conforming to any legal requirements, restrictions or conditions which the Security Trustee deems to be relevant; or

7.2.3 for obtaining or enforcing any judgment in any jurisdiction, and the Security Trustee shall give prior notice to the Company and the Beneficiaries of any such appointment.

Any person so appointed (subject to the terms of this Agreement) shall have such rights, powers and discretions (not exceeding those conferred on the Security Trustee by this Agreement) and such duties and obligations as are conferred or imposed by the instrument of appointment. The remuneration the Security Trustee may pay to any such person, and any costs and expenses incurred by such person in performing its functions pursuant to that appointment shall, for the purposes of this Agreement, be treated as costs and expenses incurred by the Security Trustee.

8. FEES AND EXPENSES

8.1 Security Trustee's Ongoing Fees

In the event of:

8.1.1 the occurrence of a Default; or

8.1.2 the Security Trustee considering it necessary or expedient; or

8.1.3 the Security Trustee being requested by the Company to undertake duties which the Security Trustee and the Company agree to be of an exceptional nature and/or outside the scope of the normal duties of the Security Trustee under the Finance Documents,

the Company shall pay to the Security Trustee such additional remuneration (together with any applicable VAT) as may be agreed between them. If the Security Trustee and the Company fail to agree upon the nature of such duties or upon such additional remuneration, that dispute shall be determined by a Queen's Counsel (acting as an expert and not as an arbitrator) selected by the Security Trustee and approved by the Company or, failing such approval, nominated (on the application of the Security Trustee) by the President for the time being of the Law Society of Scotland (the costs of such nomination and of the Queen's Counsel being payable by the Company) and the determination of any such Queen's Counsel shall, in the absence of manifest error, be final and binding upon the parties to this Agreement.

8.2 **Transaction and Enforcement Expenses**

The Company shall, from time to time on demand of the Security Trustee, reimburse the Security Trustee:

8.2.1 for all reasonable costs and expenses (including legal fees) properly incurred by the Security Trustee, a Receiver or any Delegate in connection with the negotiation, preparation and execution of this Agreement and the Floating Charge and the completion of the transactions and perfection of the security contemplated in the Floating Charge; and

8.2.2 on a full indemnity basis, for all costs and expenses (including legal fees) incurred by the Security Trustee, a Receiver or any Delegate in connection with the exercise, preservation and/or enforcement of any of the rights, powers and remedies of the Security Trustee, of the Security and any proceedings instituted by or against the Security Trustee as a consequence of taking or holding the Security or of enforcing those rights, powers and remedies,

in each case, together with any applicable VAT incurred.

8.3 **Stamp Taxes**

The Company shall pay all stamp, registration, notarial and other taxes or fees to which this Agreement, the Security or any judgment given in connection with them, is or at any time may be, subject and shall, from time to time, indemnify the Security Trustee on demand against any liabilities, costs, claims and expenses resulting from any failure to pay or any delay in paying any such tax or fee.

8.4 **Interest on Demands**

If the Company fails to pay any sum on the due date for payment of that sum the Company shall pay interest on any such sum (before and after any judgment and to the extent interest at a default rate is not otherwise being paid on such sum) from the date of demand until the date of payment calculated on a daily basis at the rate of 1% above the base rate of Bank of Scotland plc as that rate varies from time to time.

9. **INDEMNITIES**

The Company shall indemnify the Security Trustee and every Receiver and Delegate against all costs, claims, losses, expenses (including legal fees) and liabilities (together with any applicable VAT), incurred by any of them in relation to or arising out of:

9.1.1 any failure by the Company to comply with obligations under Clause 8 (*Fees and Expenses*);

9.1.2 the protection or enforcement of the Security;

- 9.1.3 the exercise of any of the rights, powers, discretions and remedies vested in any of them by the Finance Documents or by law;
- 9.1.4 any default by the Company in the performance of any of the obligations expressed to be assumed by it in the Finance Documents; or
- 9.1.5 otherwise in relation to any of the Security or the performance of the terms of this Agreement,

in each case other than as a result of the Security Trustee's gross negligence or wilful misconduct. The Security Trustee may, in priority to any payment to the Beneficiaries, indemnify itself out of the Property-Linked Charged Property in respect of, and pay and retain, all sums necessary to give effect to this indemnity from the Company and shall have a lien on the Security and the proceeds of the enforcement of the Security for all moneys payable to it under this Clause.

10. **CALCULATION OF SECURED AMOUNT**

Without limitation to Clause 4.7 (*Own Responsibility*), each of the Parties (other than the Security Trustee) agrees and acknowledges for the benefit of the Security Trustee that:

- 10.1 the determination at any time of the Property-Linked Secured Amount and the Beneficiaries' Share of each of the Beneficiaries relies upon:
 - 10.1.1 the records kept by the Company (or its liquidator, administrator or receiver); and
 - 10.1.2 certain calculations being made by the Company with respect to the value of the underlying Property-Linked Reinsurance Contracts (which form part of such records),

and such determination and calculations are matters covered by Clause 4.7.4; and

- 10.2 as the Security Trustee has no independent means to determine or calculate those amounts, any enquiry by a Beneficiary on its proportion of the Property-Linked Secured Amount or its Beneficiaries Share (as appropriate) should be directed to the Company (or its liquidator, administrator or receiver) or each Beneficiary may, at its own cost, appoint a suitably qualified person to make all relevant determinations and calculations to determine or calculate each Beneficiary's respective proportion of the Property-Linked Secured Amount or its Beneficiaries Share and the Security Trustee shall be entitled to request the same at any time and from time to time in order to give full effect to this Agreement.

11. **AMENDMENTS AND RELEASES**

11.1 **Amendments**

Unless the provisions of any Finance Document expressly provide otherwise, the Company and the Security Trustee, may amend the terms of, waive any of the requirements of, or grant consents under, this Agreement or the Floating Charge, any such amendment, waiver or consent being binding on all the parties to this Agreement and the Security Trustee shall be under no liability whatsoever in respect thereof **provided that**:

- 11.1.1 the prior consent of all the Beneficiaries is required to authorise any amendment of the Floating Charge which would affect the nature or the scope of the Charged Property or the crystallisation events under the Floating Charge; and
- 11.1.2 the prior consent of all of the Beneficiaries is required to authorise any amendment of the Floating Charge which would affect the manner in which the proceeds of enforcement are distributed or any amendments of this Clause 11.1; and
- 11.1.3 no new or additional obligations may be imposed upon any person without the consent of that person and any amendment or waiver which relates to the rights or obligations of the Security Trustee shall not be effective without the consent of the Security Trustee.

11.2 **Releases**

Upon:

- 11.2.1 a disposal of any of the Property-Linked Charged Property pursuant to the enforcement of the Security by a Receiver or the Security Trustee; or
- 11.2.2 a disposal of any of the Property-Linked Charged Property, if such disposal is otherwise permitted under the Finance Documents,

the Security Trustee shall (at the cost of the Company) release that property from the Security and is authorised to execute, without the need for any further authority from the Beneficiaries, any release of the Security or other claim over that asset and to issue any certificates of non-crystallisation of floating charges that may be required or desirable.

12. **MISCELLANEOUS**

12.1 **Beneficiaries' Information**

The Instructing Parties' Agent shall furnish to the Security Trustee and each of the Beneficiaries shall furnish to the Instructing Parties' Agent, such information as the Security Trustee and/or the Instructing Parties' Agent may reasonably specify as being necessary or desirable to enable the Security Trustee to perform its functions as trustee and the Instructing Parties' Agent to perform its functions.

12.2 **Company's Waiver**

The Company hereby waives, to the extent permitted under applicable law, all rights it may otherwise have to require that the Security be enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Security or any other Security Interest, which is capable of being applied in or towards discharge of any of the Property-Linked Secured Amount is so applied.

12.3 **Instructing Parties' instructions**

12.3.1 Unless a contrary indication appears in a Finance Document, the Instructing Parties' Agent shall (i) exercise any right, power, authority or discretion vested in it as the Instructing Parties' Agent in accordance with any instructions given to it by the Instructing Parties (or, if so instructed by the Instructing Parties, refrain from exercising any right, power, authority or discretion vested in it as the Instructing Parties' Agent) and (ii) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Instructing Parties.

12.3.2 Any instructions given by the Instructing Parties will be binding on all the Beneficiaries.

12.3.3 The Instructing Parties' Agent may refrain from acting in accordance with the instructions of the Instructing Parties (or, if appropriate, the Beneficiaries) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.

12.3.4 In the absence of instructions from the Instructing Parties (or, if appropriate, the Instructing Parties) the Instructing Parties' Agent may act (or refrain from taking action) as it considers to be in the best interest of the Beneficiaries.

12.4 **Replacement of Instructing Parties' Agent**

Beneficiaries representing not less than $66\frac{2}{3}\%$ of the Property-Linked Secured Amount may, by notice, instruct the relevant Instructing Parties' Agent to resign and appoint a successor Instructing Parties' Agent acting through an office in the United Kingdom. Upon the appointment of a successor and that successor's accession to this Agreement, the retiring Instructing Parties' Agent shall be discharged from any further obligation in respect of the Finance Documents. Its successor and each of the other parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original party.

12.5 **Details of an Instructing Parties' Agent**

If the address or contact details for an Instructing Parties' Agent shall change or be varied from those previously notified by the Instructing Parties' Agent to the Security Trustee, the

Instructing Parties' Agent shall promptly notify the Security Trustee and the Beneficiaries in writing of such change or variation.

12.6 **Relationship with the Beneficiaries**

Unless the provisions of any Finance Document expressly provide otherwise, each Beneficiary will deal and communicate with the Security Trustee exclusively through the Instructing Parties' Agent and will not deal or communicate directly with the Security Trustee.

13. **REMEDIES AND WAIVERS, PARTIAL INVALIDITY**

13.1 **Remedies and Waivers**

No failure to exercise, or any delay in exercising, on the part of any Beneficiary, any right or remedy under this Agreement shall operate as a waiver of that right or remedy, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

13.2 **Partial Invalidity**

If, at any time, any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Agreement nor of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby.

14. **NOTICES**

14.1 **Notices**

A notice to any party under this Agreement shall be made or given by any director or officer of a party in accordance with Clause 14.2.

14.2 **Addresses for notice and deemed service**

Each party shall notify to the other party an authorised address and facsimile number in the United Kingdom for the purpose of this Clause and the first such authorised address for each party shall be the address and facsimile number stated in Clause 14.3. Any demand, notice, consent or approval or other communication to be given under this Agreement shall be in writing and shall either be delivered personally or sent by pre-paid first class post or facsimile transmission to the relevant party's address or facsimile number stated in Clause 14.3 (or such other address or facsimile number (in each case in the United Kingdom) as is notified in writing from time to time by such party to the other party in accordance with the requirements of this Clause). Any such notice shall be effective upon receipt and shall be deemed to have been received:

- 14.2.1 if delivered personally, at the time of delivery;
- 14.2.2 if sent by pre-paid first class post, at 17.00 hours on the day following the day of posting and shall be effective even if it is misdelivered or returned undelivered; and
- 14.2.3 if communicated by facsimile transmission, upon receipt by the sender of a facsimile transmission report (or other appropriate evidence) that the facsimile has been transmitted to the address,

PROVIDED that where, in the case of delivery by hand or facsimile transmission, delivery or transmission occurs after 6.00 p.m. on a Business Day or on a day which is not a Business Day, receipt shall be deemed to occur at 9.00 a.m. on the next following Business Day.

14.3 **Addresses for service**

For the purposes of this Clause the authorised address of each party shall be the address set out below:

- 14.3.1 Company: Standard Life Assurance Limited
 Address: Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH
 Fax No: 0131 245 7955
 Attention: Simon Burns or his successor as Company Secretary
- 14.3.2 Security Trustee The Law Debenture Trust Corporation p.l.c.
 Address: 5th Floor, 100 Wood Street, London EC2V 7EX
 Fax No: 020 7606 0643
 Attention: Attn Manager, Commercial Trusts
- 14.3.3 Standard Life Pension Funds Limited as a Beneficiary and the Instructing Parties' Agent
 Address: Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH
 Fax No: 0131 245 7955
 Attention: Gillian McGovern or her successor as Company Secretary

15. **WINDING-UP OF TRUST AND PERPETUITY PERIOD**

15.1 **Winding up of Trust**

If the Security Trustee, determines that:

- 15.1.1 all of the Property-Linked Secured Amount and all other obligations secured by the Floating Charge have been fully and finally discharged; and

15.1.2 none of the Beneficiaries is under any commitment, obligation or liability (whether actual or contingent) to make advances or provide other financial accommodation to the Company pursuant to the Floating Charge the trusts set out in this Agreement shall be wound up. At that time the Security Trustee shall release, without recourse or warranty, all of the Security then held by it and the rights of the Security Trustee under the Floating Charge, at which time each of the Security Trustee, the Beneficiaries and the Company shall be released from its obligations under this Agreement (save for those which arose prior to such winding up).

15.2 **Perpetuity Period**

The perpetuity period under the rule against perpetuities, if applicable to this Agreement, shall be the period of eighty years from the date of this Agreement.

16. **FLOATING CHARGE TO PREVAIL**

Notwithstanding anything contained in this Agreement to the contrary:

16.1.1 in the event of any inconsistency between the terms of this Agreement and the terms of the Floating Charge, the terms of the Floating Charge shall prevail; and

16.1.2 any act or step which is permitted under the Floating Charge shall be permitted under the terms of this Agreement and no such act or step shall constitute a breach of any provision of this Agreement.

17. **GOVERNING LAW**

This Agreement is governed by Scots law.

18. **JURISDICTION**

18.1 **Courts**

The parties hereto agree that the courts of Scotland have exclusive jurisdiction to settle any disputes (a **Dispute**) arising out of, or connected with, this Agreement (including a dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

18.2 **Waiver**

Each of the Company and the Beneficiaries irrevocably waives any objection which it might now or hereafter have to proceedings being brought or Disputes settled in the courts of Scotland and agrees not to claim that any such court is an inconvenient or inappropriate forum.

18.3 Exclusive Jurisdiction

This Clause 18 is for the benefit of the Secured Parties only. As a result and notwithstanding Clause 18.1 (*Courts*), it does not prevent any Secured Party from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law the Secured Parties may take concurrent proceedings in any number of jurisdictions.

SCHEDULE 1
THE BENEFICIARIES

1. Standard Life Pension Funds Limited.
2. Fidelity Investments Life Insurance Limited.
3. Threadneedle Pensions Limited.
4. Prudential Assurance Company Limited.
5. BlackRock Pensions Limited.
6. Zurich Assurance Limited.

SCHEDULE 2
FORM OF BENEFICIARY ACCESSION UNDERTAKING

To: The Law Debenture Trust Corporation p.l.c., for itself and each of the other parties to the Security Trust Agreement referred to below; and

To: Standard Life Assurance Limited

THIS UNDERTAKING is made on [date] by [new Beneficiary] (the **Acceding Beneficiary**) in relation to the Security Trust Agreement (the **Security Trust Agreement**) dated [12 October 2006] between The Law Debenture Trust Corporation p.l.c. as security trustee and the Company as amended and restated on 27 November 2007 and as further amended and restated by order of the Court of Session in Scotland on [] 2011 and taking effect on [] 2011 pursuant to an insurance business scheme under Part VII of the Financial Services and Markets Act 2000. Terms defined in the Security Trust Agreement shall bear the same meanings when used in this Undertaking.

In consideration of the Acceding Beneficiary becoming a Beneficiary for the purposes of the Security Trust Agreement, the Acceding Beneficiary hereby confirms that, as from [date], it intends to be party to the Security Trust Agreement as a Beneficiary, undertakes to perform all the obligations expressed in the Security Trust Agreement to be assumed by a Beneficiary and agrees that it shall be bound by all the provisions of the Security Trust Agreement, as if it had been an original party to the Security Trust Agreement.

This Undertaking shall be governed by and construed in accordance with Scots law.

THIS UNDERTAKING has been entered into on the date stated above.

Acceding Beneficiary

By:

Address for Notices:

Fax:

For attention of:

Acknowledged by the Security Trustee: for and on behalf of The Law Debenture Trust Corporation p.l.c. Date:	Acknowledged by the Company: for and on behalf of Standard Life Assurance Limited Date:
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Note: This Undertaking is to be sent by the Security Trustee to the Instructing Parties' Agent following due execution by all parties.

SCHEDULE 3

FORM OF INSTRUCTING PARTIES' AGENT ACCESSION UNDERTAKING

To: The Law Debenture Trust Corporation p.l.c., for itself and each of the other parties to the Security Trust Agreement referred to below; and

To: Standard Life Assurance Limited

THIS UNDERTAKING is made on [date] by [new Instructing Parties' Agent] (the **Acceding Instructing Parties' Agent**) in relation to the Security Trust Agreement (the **Security Trust Agreement**) dated [12 October 2006] between The Law Debenture Trust Corporation p.l.c. as security trustee, the Beneficiaries named therein and the Company as amended and restated on .27 November 2007 and as further amended and restated by order of the Court of Session in Scotland on [] 2011 and taking effect on [] 2011 pursuant to an insurance business scheme under Part VII of the Financial Services and Markets Act 2000. Terms defined in the Security Trust Agreement shall bear the same meanings when used in this Undertaking.

In consideration of the Acceding Instructing Parties' Agent becoming the Instructing Parties' Agent for the purposes of the Security Trust Agreement, the Acceding Instructing Parties' Agent hereby confirms that, as from [date], it intends to be party to the Security Trust Agreement as the Instructing Parties' Agent, undertakes to perform all the obligations expressed in the Security Trust Agreement to be assumed by the Instructing Parties' Agent and agrees that it shall be bound by all the provisions of the Security Trust Agreement, as if it had been an original party to the Security Trust Agreement.

This Undertaking shall be governed by and construed in accordance with Scots law.

THIS UNDERTAKING has been entered into on the date stated above.

Acceding Instructing Parties' Agent

By:

Address for Notices:

Fax:

For attention of:

<p>Acknowledged by the Security Trustee: for and on behalf of The Law Debenture Trust Corporation p.l.c. Date:</p>	<p>Acknowledged by the Company: for and on behalf of Standard Life Assurance Limited Date:</p>
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Note: This Undertaking is to be sent by the Security Trustee to the Instructing Parties' Agent following due execution by all parties.

SCHEDULE 4

Variations to 2006 Scheme

1. General

- 1.1 A capitalised expression used in this paragraph 1 of this Schedule 4, and in the introductory words in paragraph 2.1 and paragraph 2.2 of this Schedule 4, shall have the meaning ascribed to it in the Scheme of Transfer to which this document forms Schedule 4, and in accordance with which it is intended that all of SLIF's business, and its property and liabilities, are to be transferred to SLAL.
- 1.2 With effect from the Effective Date, each of paragraph 22.1 of the 2006 Scheme and paragraph 4(A) of Schedule 3 to the 2006 Scheme shall be varied and shall otherwise continue in full force and effect on the terms set out in this Schedule 4.

2. Specific variations

- 2.1 Paragraph 22.1 of the 2006 Scheme shall be varied so as to take the following form:

"22 Reinsurance arrangements: SLIF EB Annuities Reinsurance Agreement

22.1 *If the SLIF EB Annuities Reinsurance Agreement: (i) is terminated in accordance with its terms; or (ii) otherwise ceases to have effect as a result of a scheme of transfer pursuant to Part VII of the Act under which all or substantially all of the business of SLIF is transferred to SLAL:*

(A) *the SLAL Board shall procure that, no later than the date on which the SLIF EB Annuities Reinsurance Agreement is terminated or otherwise ceases to have effect (as the case may be), an alternative arrangement is implemented to provide reinsurance of the Reinsured Liabilities (as defined in the SLIF EB Annuities Reinsurance Agreement). Such alternative arrangement shall be on terms determined by the SLAL Board which are not materially less beneficial to the With Profits Fund than the SLIF EB Annuities Reinsurance Agreement and may, at the discretion of the SLAL Board, be provided either by a SLAL Fund (other than the With Profits Fund), a New SL Group Member and/or any other person; and*

(B) *notwithstanding paragraph 16.2(B)(iii), at the discretion of the SLAL Board:*

(i) *where the SLIF EB Annuities Reinsurance Agreement is terminated in accordance with its terms, any entitlement of SLAL to an Interim Recapture Amount, a Final Recapture Amount (in each case as defined in the SLIF EB Annuities Reinsurance Agreement) or any other amount payable because of the*

*termination of the SLIF EB Annuities Reinsurance Agreement;
or*

- (ii) where the SLIF EB Annuities Reinsurance Agreement ceases to have effect as a result of a scheme of transfer pursuant to Part VII of the Act under which all or substantially all of the business of SLIF is transferred to SLAL, such assets (and/or rights to such assets) as are agreed between SLIF and SLAL to be of an aggregate value that is equal to the amount that would have been payable by SLIF to SLAL had the SLIF EB Annuities Reinsurance Agreement terminated in accordance with its terms,*

shall be: (i) attributed to a SLAL Fund other than the With Profits Fund which is assuming the reinsurance obligations of SLIF in the manner contemplated by paragraph 22.1(A); or (ii) transferred to another New SL Group Member or other person who is assuming such reinsurance obligations.”

- 2.2 Paragraph 4(A) of Schedule 3 to the 2006 Scheme shall be varied so as to take the following form:

“4. Interpretation

- (A) For the purposes of this Schedule 3 (Reference Period Transfer Amount), all Recourse Cashflow calculations shall be made on the basis that any amounts payable or receivable by the With Profits Fund pursuant to reassurances accepted or ceded shall be added to or deducted from (as appropriate) the relevant RCF component, save that:*

- (i) any amounts payable or receivable pursuant to reinsurance agreements with any New SL Group Member (including the SLIF EB ULP Reinsurance Agreement and the SLIF EB ULL Reinsurance Agreement); and*
- (ii) for the avoidance of doubt, any amounts payable or receivable or otherwise to be credited or debited pursuant to paragraph 24 where the Investment Element in respect of a Policy written in, allocated to or reinsured by the With Profits Fund is allocated or transferred to, or reinsured by, a SLAL Fund other than the With Profits Fund,*

shall be disregarded.”