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## Standard Life reinsures £6.7bn of annuity liabilities

14 February 2008

- **Standard Life has reinsured £6.7bn of UK immediate annuity liabilities, more than half of its total £12bn<sup>1</sup>, to Canada Life International Re, a wholly-owned subsidiary of Great-West Lifeco.**
- **Longevity risk exposure for shareholders significantly reduced.**
- **An expected one-off positive impact on embedded value operating profit of at least £100m<sup>2</sup> and release of cash from reserves in 2008 along with a reduction in capital requirements.**
- **Benefits the Heritage With Profits Fund (HWPF) through an enhancement of the residual estate.**
- **Standard Life retains the relationship and servicing for all our annuitant customers.**

Group Chief Executive Sandy Crombie said:

“I am delighted to announce this transaction with Great-West which delivers benefits to our shareholders and the policyholders in our Heritage With Profits Fund. It is consistent with our strategy of improving risk adjusted returns for the group, while crystallising value in the Heritage With Profits Fund estate for the benefit of with-profits policyholders. Importantly, Standard Life retains the relationship and servicing for all our annuitant customers.

“This transaction is believed to be the largest of its kind in the UK, and follows a full analysis of the strategic options for our annuity book and a competitive tender process.

“It substantially reduces pure longevity risk while providing a significant increase to embedded value, a release of cash and a reduction in capital requirements. It creates capacity to broaden our innovative product range and take advantage of the profitable opportunities available to us.”

[www.standardlife.com](http://www.standardlife.com)

Standard Life plc, registered in Scotland (SC286832), Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH. 0131 225 2552.

*Calls may be recorded/monitored.*

Standard Life group includes Standard Life plc and its subsidiaries.

Standard Life has a large back book of annuity business in the UK predating demutualisation in July 2006. The book primarily consists of existing Standard Life pensions customers who, on retirement, took out an annuity product with us. Following demutualisation, shareholders bear the longevity risk on pre-demutualisation business while investment risk is borne by the Heritage With Profits Fund.

Standard Life conducted a comprehensive review of the options to manage longevity exposure within our annuity book in the context of our overall risk profile. This review concluded that the best return to shareholders and with-profits policyholders would be achieved by reinsuring a major block of the business that predated our demutualisation.

The transaction has taken the form of a 'single premium' reinsurance structure and has resulted in the transfer of £6.7 billion of Standard Life's total £12bn<sup>1</sup> UK immediate annuity liability. The effective date of the transaction is 14<sup>th</sup> February 2008. The tranche of business that has been reinsured relates to individual life immediate annuities written prior to demutualisation, which reside within the Heritage With Profits Fund. The remaining blocks of Standard Life's UK immediate annuity portfolio that have not been affected by this transaction comprise group annuity policies, with profits annuities, Irish annuities, and the reversionary element of joint life annuities.

The transaction is expected to deliver a number of financial benefits, including:

- An expected one-off increase in pre-tax embedded value operating profit of at least £100m<sup>2</sup> in 2008.

This reflects the reduction in the risk discount rate used to discount future shareholder cashflows. This amount is after sharing the underlying benefit from the transaction with with-profits policyholders and is after allowing for the loss of lookthrough margin to Standard Life Investments.

- A release of cash from reserves in 2008.
- A significant reduction in the sensitivity of our EEV and IFRS profits to longevity risk.

In the case of EEV, the sensitivity of the UK's year-end 2006 embedded value to a 5% strengthening of mortality assumptions has been reduced by approximately £40m, from £94m pre-transaction to £55m post-transaction.

- A reduction in Pillar 2 capital requirements<sup>3</sup>.
- An enhancement to the Heritage With Profits Fund estate and a reduction in its exposure to risk.

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Reducing our longevity exposure provides greater capacity to broaden our innovative product range and take advantage of the profitable opportunities available to us.

For new annuity business written by Standard Life since demutualisation, shareholders bear longevity risk but also benefit from investment margins. Conversions from Standard Life pension policyholders currently account for over 90% of our annuity sales.

Standard Life will continue to administer all the business being reinsured and as a result the transaction will have no impact on the service provided to annuity customers.

### **Impact on With Profits Policyholders in the Heritage With Profits Fund**

Under the scheme of Demutualisation that came into effect at IPO, with-profits policyholders are protected from exposure to longevity risk via a reinsurance arrangement, through which this exposure has been transferred to shareholders of Standard Life plc.

The terms of the reinsurance transaction were arrived at with due consideration for our ongoing obligations to our with-profits policyholders under the Treating Customers Fairly initiative and our Principles and Policies of Financial Management. The longevity risk protections currently afforded to our with-profits policyholders will not be affected by this transaction. Furthermore, this transaction benefits the Heritage With Profits Fund by enhancing its estate.

### **Great-West Lifeco Inc.**

Canada Life International Re Limited was established in Ireland in 2001. It is a wholly owned subsidiary of The Great-West Life Assurance Company and is fully regulated by the Irish Financial Regulator. The Great-West Life Assurance Company is the largest operating company of Great-West Lifeco Inc., which has a current market capitalisation of around £14bn (C\$28bn) and had assets under administration of over £200bn (C\$400bn) at 30 September 2007. The Great-West Life Assurance Company is rated 'AA' by Standard and Poor's Corporation and 'A+' by A.M Best Company.

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**Notes to Editors:**

1. The total UK immediate annuity liability of £12bn includes £0.3bn in respect of Irish immediate annuities and excludes total deferred annuity liabilities of approximately £1.5bn.
2. The expected one-off benefit to pre-tax embedded value operating profit has been calculated on the basis of the European Embedded Value (EEV) methodology used by Standard Life as at the end of 2007.
3. Pillar 2 refers to the level of capital that a company calculates it should hold under regulatory Internal Capital Assessments (ICA).
4. There will be a conference call today for investors and analysts at 9.00am (UK time) hosted by David Nish, Group Finance Director, and Evelyn Bourke, Managing Director of Finance for UK Financial Services. Dial in telephone number +44 (0)20 7162 0125. Callers should quote Standard Life call. A recording of this call will be available for replay for one week by dialing +44 (0)20 7031 4064 (access code 785016).

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