

THE FRIENDLY BONUS ISA

Key Features

Its aims

- To help your savings grow tax-efficiently and provide a tax-free return.
- To provide steady, but potentially good growth on your savings over the medium to long term (5 years or more) via investment in our With Profits Fund.

Your investment

- You can invest up to £7,000 each tax year in this life insurance fund as part of a Maxi ISA or up to £4,000 as a Mini ISA. It is important that you understand the difference between a Maxi and a Mini ISA and a full explanation is given later under 'What's the difference between a Maxi and a Mini ISA?'
- You can invest monthly by Direct Debit or you can make a lump sum payment by cheque. The minimum monthly payment is £30 and the minimum lump sum cheque is £500.
- Your money buys units in Scottish Friendly's ISA With Profits Fund, which aims to combine security with capital growth over the long term. The Fund invests in a wide range of stocks and shares, property and fixed interest securities in order to achieve this aim. Your money is pooled together with other With Profits Fund investors giving a combined purchasing power that means your risk is spread across a wide portfolio of investments.
- You have access to your money at all times, although you should expect to leave your money invested for at least 5 years.

Risk factors

- The actual proceeds of your Friendly Bonus ISA will depend on the bonuses on the With Profits Fund to which your investment is linked.
- As the Friendly Bonus ISA is linked to a With Profits Fund, there may be occasions when Scottish Friendly needs to apply a deduction when you cash in some or all of your plan. This is called a Market Value Reduction (MVR). The MVR will not apply to any money withdrawn on the 10th anniversary from when you first started your Friendly Bonus ISA. MVRs are explained in more detail in the section headed
- 'What is a Market Value Reduction?'
- If you decide to exercise your right to cancel, you may not get back the full amount of your investment.
- If you're saving regularly for a particular purpose, you may not achieve your target if you do not keep up your payments.
- The tax treatment of ISAs may change in future.

No advice has been given by Scottish Friendly in respect of this plan. If you are in any doubt about the suitability of this product for yourself, you should contact your financial adviser.

YOUR QUESTIONS ANSWERED

What is an ISA?

ISA stands for Individual Savings Account. An ISA allows your savings to grow tax-efficiently. Within the tax-free ISA umbrella you can currently invest in one or both of the following two forms of savings:

- Stocks and Shares either directly or via a collective investment scheme (such as an Open-Ended Investment Company (OEIC), a unit trust or an investment trust), or via a life insurance fund.
- A Cash Deposit Account.

What are the tax advantages?

You pay no Income Tax or Capital Gains Tax on your ISA. However, the fund in which you invest receives UK dividend income net of Corporation Tax.

What's the difference between a Maxi and a Mini ISA?

Mini ISAs allow you to buy each of the two types of ISA – Cash and Stocks and Shares Components (including life insurance funds) – from different ISA companies. A Maxi ISA is where you take out your full ISA allowance with one company. This lets you invest all your ISA savings in stocks and shares if you want to. If you take out a Maxi ISA, you will not be able to take out an ISA (Maxi or Mini) with another provider in the same tax year.

What types of ISA does Scottish Friendly offer?

Scottish Friendly offers a *Maxi ISA* with both types of investment available: stocks and shares (including a life insurance fund) and cash. We offer a Mini Stocks and Shares ISA which allows you to invest in our with profits life fund or our OEIC funds. We do not presently offer a *Mini Cash ISA*. These Key Features refer specifically to investment in the stocks and shares component. The Bonus ISA invests in the stocks and shares component via a with profits life insurance fund. If you want to use some or all of your ISA allowance to invest tax-free in cash or in stocks and shares via our Managed Growth or UK Growth OEIC funds, please call us on 08456 00 54 33 (local rate applies) and we will send you the relevant simplified prospectus and application form.

Who can invest in an ISA?

Stocks and Shares ISAs are available to anyone who can afford to save and wishes to do so tax-free, so long as they are resident in the UK and over age 18. Anyone resident in the UK and over 16 can take out a Mini Cash ISA. If you satisfy these conditions and are interested in taking out an ISA, you should think carefully about what type of ISA you require. In particular, you should be aware of the risks associated with stockmarket-based ISA investments. If in any doubt, refer to the appropriate Key Features and consult your financial adviser.

How can I pay?

You can make single payments by cheque or monthly savings by Direct Debit. If you are investing a single payment, your application should be returned directly with your cheque. If you wish to invest monthly, complete and return the Direct Debit on the application form. Top-up contributions during the tax year should be made in writing by cheque.

Where will you invest my money and how does the plan work?

If you choose to invest in our Friendly Bonus ISA, your money buys units in the Scottish Friendly ISA With Profits Fund.

- The unit price of the ISA With Profits Fund will increase in line with the current rate of regular bonus. This rate may change at any time but is normally reviewed at the end of each calendar year. The amount you get back from your plan is determined by the number of units you cash in and the unit price at that time.
- A final bonus may also be paid when you cash in some or all of your plan (or in the event of your death).
- Future bonuses depend on the profits Scottish Friendly makes and on the decisions it takes as to their distribution and therefore cannot be guaranteed.

What are bonuses and how do they work?

The amount you invest buys units in the Scottish Friendly ISA With Profits Fund and the calculation and payment of any bonus on an investment in the ISA With Profits Fund will be decided by Scottish Friendly. The Fund invests in a wide variety of investments which aim to combine security with long-term growth. Our bonus policy is one of fairness to all policyholders and of paying bonuses which reflect our investment experience. The effects of short-term fluctuations in stockmarket levels are partially smoothed out. The bonuses are made up of:

- *Regular bonus* – the rate of regular bonus can change at any time but will normally be reviewed at the end of the calendar year. A proportion of this regular bonus will be added to your plan on a daily basis.
- *Final bonus* – a final bonus may be added (although this is not guaranteed) if you make a withdrawal, cash in your plan or in the event of death. The final bonus is designed to reflect any difference between the regular bonuses that have been added to your plan and your share of the smoothed returns achieved in the ISA With Profits Fund over the period that you have invested.

What is a Market Value Reduction?

The Market Value Reduction (MVR) is a potential reduction to the encashment value of your plan. It is designed to ensure that you receive your fair share of the ISA With Profits Fund and that the value of your continuing investment is not adversely affected by other investors cashing in their units. We may apply an MVR in certain circumstances, for example, where market values are low, however, we guarantee not to apply it in the following circumstances: when you cash in part or all of your plan on the 10th anniversary from the date the plan started;

- on payment of the death benefit.

Can I change my monthly savings?

Yes. You can increase, decrease or stop your payments at any time without penalty. Just let us know in writing if you wish to alter your monthly payment and we will do the rest.

What happens to my Friendly Bonus ISA if I die?

The death benefit under your Friendly Bonus ISA will be paid to your estate. The amount payable on death is 101% of the value of units held plus the value of any final bonus. We guarantee not to reduce the payment on death by an MVR. The tax advantages end from the day you die.

What could my Friendly Bonus ISA savings be worth in the future?

The amount you will get back from your Friendly Bonus ISA will depend on how much you have paid in, the length of time it has been invested, investment performance in the ISA With Profits Fund over this time and the amount of money, if any, you have taken out of your plan.

The performance of your plan will ultimately depend on the level of regular bonuses added over the investment term and on any final bonus payable on encashment.

Examples

a) Regular Monthly Savings

If you invest a monthly payment of £50 for 10 years, the table below shows how much your investment would be worth, after charges, if it grows each year by:

	5%	7%	9%
End of year 1	£560	£569	£575
End of year 3	£1,750	£1,810	£1,860
End of year 5	£3,040	£3,190	£3,350
End of year 10	£6,740	£7,440	£8,230

b) Lump Sum Investment

If you invest a single payment of £1,000 for 10 years, the table below shows how much your investment would be worth, after charges, if it grows each year by:

	5%	7%	9%
End of year 1	£997	£1,010	£1,030
End of year 3	£1,070	£1,140	£1,200
End of year 5	£1,160	£1,280	£1,400
End of year 10	£1,410	£1,700	£2,050

For both the regular monthly savings and lump sum investment examples shown above, please note:

- These figures are only examples and are not guaranteed – they are not minimum or maximum amounts. What you will get back depends on how your investment grows and the tax treatment of your investment.
- You could get back more or less than this.
- All ISA Managers use the same rates of growth for illustrations but their charges vary. Scottish Friendly's actual charges have been deducted in calculating the figures shown.
- Do not forget that inflation will reduce what you can buy with the value of your ISA in the future.

How will charges and expenses affect my investment?

- There is an initial charge of 4.0% on each investment.
- A plan fee is charged on regular monthly savings by reducing the number of units held. This fee is currently £2.00 per month and will be reviewed each year to take account of inflation. The plan fee does not apply to lump sum investments.
- Any expenses not covered by other charges will be charged for by a reduction in the bonuses declared in the With Profits Fund and this reduction is assumed to be 1.0% a year of the fund value in the above tables.
- We have taken account of all these charges in the figures shown in these examples. They could increase in the future if our costs increase more than expected.

a) Regular Monthly Savings

The effect of these charges on your monthly payment of £50, assuming an average rate of growth of 7% a year, is set out below.

The Early Years

The following example shows what you might receive if you cash in your Friendly Bonus ISA savings. WARNING – if you cash in during the early years, you could get back less than you have paid in. The last two columns assume that investments will grow at 7% per year.

At end year	Investment to date £	Total actual deductions to date £	Effect of deductions to date £	What you might get back £
1	600	52	52	569
2	1,200	112	116	1,170
3	1,800	178	191	1,810
4	2,400	252	278	2,480
5	3,000	334	379	3,190
10	6,000	878	1,150	7,440

At end Investment Total actual Effect of What you of year to date deductions might get to date to date back

What are the deductions for?

- The deductions include expenses, charges and any other reductions.
- The last line in the table shows that if you withdraw your investment after 10 years, the effect of the total deductions could amount to £1,150.
- Putting it another way, this would have the same effect as bringing the investment growth from 7% a year down to 4.2% a year.

b) Lump Sum Investment

The effect of these charges on your single payment of £1,000, assuming an average rate of growth of 7% a year, is set out below.

The Early Years

The following example shows what you might receive if you cash in your Friendly Bonus ISA savings. WARNING – if you cash in during the early years, you could get back less than you have paid in. The last two columns assume that investments will grow at 7% per year.

At end year	Investment to date £	Total actual deductions to date £	Effect of deductions to date £	What you might get back £
1	1,000	50	53	1,010
2	1,000	61	67	1,070
3	1,000	72	83	1,140
4	1,000	84	101	1,200
5	1,000	97	121	1,280
10	1,000	174	258	1,700

What are the deductions for?

- The deductions include expenses, charges and any other reductions.
- The last line in the table shows that if you withdraw your investment after 10 years, the effect of the total deductions could amount to £258.
- Putting it another way, this would have the same effect as bringing the investment growth from 7% a year down to 5.5% a year.

FURTHER INFORMATION

Unit Prices

The unit price of the Scottish Friendly ISA With Profits Fund is increased daily in line with the current rate of regular bonus. You can check the current unit price by telephoning our Customer Services Team on 08456 00 54 33 or on our website www.scottishfriendly.co.uk.

Documentation

We will send you a statement confirming your investment. We will also send you a valuation of your ISA twice a year. Your ISA statement will show the activity that has taken place since your previous statement and include the number of units you own.

Cancellation Rights

We will notify you of the right to cancel your investment within 7 days of your investment and by law you will have 30 days to cancel from the day you receive the cancellation notice. If you cancel within this time, you will receive back any money paid, less a reduction for any drop in value when your request to cancel is received by Scottish Friendly. Investors should be aware of the possibility that the value of their investments could fall, and that they may not receive a full refund of their investment.

Withdrawals

You may make a withdrawal by completing a withdrawal form, which can be obtained from our ISA Administration department. The minimum withdrawal is £50. If the value remaining after a withdrawal is less than £300 then you will be considered to have terminated your Friendly Bonus ISA and the remaining value will be paid out to you. Withdrawals will be met by cancelling units in the ISA With Profits Fund at the next valuation point following receipt of your instructions. Payments will be made within 4 working days of your units being sold. Investors should be aware that an MVR may apply to any withdrawal unless money is withdrawn on the 10th anniversary from the start date.

Transfer In

If you hold one or more ISAs with another account manager, you can transfer these to Scottish Friendly by asking for our ISA Transfer Application Form. Once you have filled in the details and returned the form to us, we will take care of the rest. To find out more contact us on 08456 00 54 33.

Transfer Out

At your written request, we will transfer your investment to another ISA Manager without the loss of tax relief in line with current ISA rules. Transfer payments will be met by selling units in the Fund at the next valuation point following receipt of completed written instructions from your new ISA Manager. We will then pay the proceeds to the new Manager within 4 working days. Your investment in a Friendly Bonus ISA can only be transferred to another manager's Stocks and Shares ISA.

Taxation

All income and capital gains generated within the Scottish Friendly ISA With Profits Fund are free of UK Income Tax and Capital Gains Tax. Income allocations will be in the form of interest or dividend distributions. Interest distributions are received net of a 10% Income Tax credit. The fund in which you invest receives UK dividend income net of Corporation Tax.

Money Laundering Regulations 2003

Under these regulations, there is a requirement to prove the identity of people who wish to take out a life, pension or investment contract. You may therefore be asked to supply documents as evidence of your identity and/or your address.

Complaints

For further information, or if you wish to complain about any aspect of the service you have received, please contact Scottish Friendly Asset Managers Ltd, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. If your complaint is not dealt with to your satisfaction, you can write to the Financial Ombudsman Service; please contact us for this address. This will not affect your right to take legal action.

Compensation Rights

If Scottish Friendly is unable to meet its liabilities, compensation may be payable by The Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the value of the plan is protected in full.

Above this, the Scheme covers up to 90% of the remaining plan value. Further information on the Scheme can be obtained from the Financial Services Compensation Scheme. Tel: 020 7892 7300. www.fscs.org.uk.

Language

The contractual terms and conditions and all communications in relation to this plan will be supplied in English.

Law

In legal disputes, the law of Scotland will apply.

Further Information

If you have any queries, or require any further information, please contact Scottish Friendly Asset Managers Ltd, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ.

A GUIDE TO HOW WE MANAGE OUR WITH PROFITS FUND

The premiums you pay into the Friendly Bonus ISA are invested in Scottish Friendly's with profits fund. This guide tells you how we manage the fund and explains what you can expect to get back from the Friendly Bonus ISA. **Please read this guide – it gives important information about how with profits policies work.**

Introduction

We manage our with profits fund by following a set of principles. These principles and how we follow them in practice are explained in a document called the 'Principles and Practices of Financial Management' (PPFM). PPFM is a long and detailed document. This guide is a summary of the contents of the PPFM.

What is a 'unitised with profits' policy?

Premiums paid into a unitised with profits policy buy units in the with profits fund. The number of units bought depends on the amount of the premium, the unit price on the day the premium is paid and any deductions we make to pay for our expenses. Regular bonuses are added throughout the policy term through daily increases in the unit price. A final bonus called a 'terminal bonus' may be added at the maturity date. What you get back at the end of the policy term will depend on the total number of units you have bought, the unit price on the maturity date (which includes regular bonuses) and any terminal bonus we add. The bonuses added to with profits policies depend on the way we manage the with profits fund and on how the investments in the with profits fund have performed while you have been paying premiums into it.

What are the main principles we follow?

- We manage the With Profits Fund and determine bonus payments in a lawful, sound and prudent manner.
- We aim to treat all policyholders fairly.
- We aim to ensure that we can pay all guaranteed benefits as and when they become due.

How do we decide regular bonuses?

- Regular bonuses are set by taking into account what the fund can afford now and in the future.
- We normally set regular bonus rates once a year.
- We aim not to vary too much the amount of regular bonuses from year to year.
- We take into account the interest rate payable on risk free government bonds when setting the regular bonus rate.

When regular bonuses are added by increasing the unit price they cannot be taken away. The unit price is guaranteed not to fall. However, if you leave the fund early a Market Value Reduction may apply. See 'What happens if you leave the fund early?'

How do we decide terminal bonuses?

Terminal bonuses are paid to make sure that you get back an amount that fairly reflects performance of the with profits fund investments, if the regular bonuses we have added have not already done this. We call this amount your 'asset share' or 'fair share'.

When we calculate your fair share we take into account the premiums you have paid, the investment performance of the with profits fund while the premiums have been invested and the charges we make to cover our expenses.

We aim to pay out on average the full fair share to policyholders but we ignore day to day movements in the value of the fund.

Terminal bonuses may not be added at all if the value of the with profits fund falls to a level where other policyholders' guaranteed benefits may become at risk of not being paid.

What are the charges?

The charges cover the expense of selling and setting up the policy, the expense of investing the premiums, the cost of ongoing administration and the cost of providing life insurance.

We deduct some charges from premiums before you buy units in the With Profits Fund. Other charges are made by reducing the number of units held on a monthly basis or are taken into account before regular bonuses are added.

You will receive a personalised illustration showing the amount of the charges once your policy is set up. The Key Features show the charges for a typical investor.

What happens if you leave the fund early?

We also use a 'fair share' approach when we work out how much to pay if you decide not to pay premiums until the maturity date. If the value of the units you hold is greater than the fair share because of movements in the value of the assets held by the with profits fund a Market Value Reduction (MVR) may be applied. This maintains fairness between policyholders leaving the fund and those staying in it. We use a method called 'smoothing' when deciding what MVR should be applied, if any.

To reflect the cost of setting up your policy, there will be no payment if you stop paying premiums within the first two years.

What is 'smoothing'?

We group policies by the month in which the policy started. We calculate a fair share value for each group of policies depending on the amount of premiums paid etc. If we decide that an MVR should apply, we aim to ensure that every policyholder who leaves receives an amount which is within 5% of their full fair share. The target range for payments where no MVR applies is 75% to 150% of the full fair share.

What happens if you die before the end of the policy term?

The full value of the units held at the time of death is paid out. Terminal bonus may also be paid but this will depend on the number of years the policy was in force before the time of death.

What does the with profits fund invest in?

The With Profits Fund invests in a range of assets including stocks and shares, government bonds, property and cash. We aim to maximise the investment returns while ensuring the fund can meet its commitments to policyholders.

We formally review the assets in the fund every year and more frequently when market values are volatile. We closely monitor the amount of shares and property invested in the fund as returns from these investments are generally more volatile than those from government bonds and cash. We would expect this to generally be in the range 40%-70%.

Why does the fund have more assets than it needs?

At all times the With Profits Fund needs to hold enough assets to pay policyholders the benefits promised to them i.e. their fair share. In addition, the fund needs to hold extra assets to pay for any guarantees it has promised e.g. that the unit price will not fall if a policy is held for the full term. We hold reserves to cover these amounts.

Over the history of the Society, the With Profits Fund has built up more assets than the reserves needed. The extra assets are called the 'inherited estate'. The inherited estate gives the fund working capital and supports the way the With Profits Fund works e.g. the inherited estate supports the cost of smoothing payouts to those who leave the fund early.

What risks are the with profits fund exposed to?

The Society does not have any shareholders so the with profits policyholders ultimately receive the benefits but bear the risks of all business activity carried out.

There is a risk associated with selling new policies. There are currently no limits on the amount of new business that may be accepted into the With Profits Fund. However, we review our business plans each year to ensure that the costs of selling and maintaining the policies can be supported by the fund without damaging the interests of existing policyholders.

There is a risk that the cost of maintaining existing policies rises. Increases in expenses cannot be passed on to policyholders who hold policies which are not 'with profits' policies. The With Profits Fund currently meets the cost of any expense overruns for these 'non profit' policies. The non profit policies make up around 10 – 15% of the society's liabilities.

Any other business ventures undertaken by the Society must be approved by the Board of Directors. These ventures might include launching new products or wider strategic developments such as changing the way products are distributed and sold. The Board will act on the advice of the with profits actuary who looks after the interests of the with profits policyholders. To be approved a venture must be expected to achieve appropriate returns given the risks involved and the returns should be comparable with other available investments.

Any profits or losses arising from business risks are met by the inherited estate and are not taken into account when determining the fair share payable for maturing policies. However, if the level of the inherited estate falls below the level needed to support the fund losses may be deducted from fair shares.

Where can I find out more?

The full PPFM is available on our website www.scottishfriendly.co.uk or you can request a copy by calling **08456 00 54 33**.

THE FRIENDLY BONUS ISA TERMS & CONDITIONS

These Terms, together with the Application Form, form a legal agreement between you and Scottish Friendly Asset Managers Limited (the Account Manager) which sets out how your Individual Savings Account will be operated.

1. Definitions

The following words and expressions, when used in these Terms, have the meanings set out opposite them:

Account or ISA – a Scottish Friendly Individual Savings Account governed by these Terms and which is a Maxi ISA or a Mini ISA;

Account Investments – Shares, Units and any other investments held in an Account;

Account Manager or Scottish Friendly – Scottish Friendly Asset Managers Limited;

Application Form – a Scottish Friendly ISA application form or transfer application form;

Assets – investments, income, interest, cash deposits and any other rights and entitlement from time to time held within your Account;

Associate – any holding company of the Account Manager or a subsidiary of any such holding company (as defined in the Companies Act 1985);

Bank – The Governor and Company of the Bank of Scotland, having its Head Office at The Mound, Edinburgh EH1 1YZ, an authorised institution under the Banking Act 1987;

Business Day – any day except a Saturday, Sunday, a Bank Holiday in England and other days at the ACD's discretion;

Cash Component – a Cash Component making up part of a Maxi ISA;

Client Account – a bank account held by us with the Bank under the Financial Services (Client Money) Regulations 1991;

Component – a Cash Component, or a Stocks and Shares (including life insurance) Component;

FSA – the Financial Services Authority;

ISA – an Individual Savings Account managed under the Regulations;

Maxi ISA – an Account which is designated as a Maxi account under the Regulations and which is made up of a Stocks and Shares Component, including life insurance fund (with or without a Cash Component);

Mini ISA – an Account which is designated as a Mini account under the Regulations and which is made up of a Stocks and Shares (including life insurance Fund) or a Cash Component. We do not offer a Mini Cash ISA;

Policyholder – the Investor in a With Profits Fund as part of a Stocks and Shares Component;

Regulations – the Individual Savings Account Regulations 1998, as from time to time amended and in force;

Society – Scottish Friendly Assurance Society Limited, the parent company of the Account Manager;

Stocks and Shares Component – a Stocks and Shares (including life insurance fund) Component, making up the whole or part of a Maxi ISA or making up a Mini ISA;

Subscription – a payment, in sterling, to be applied to your Account from your own resources;

Terms – these Terms (as amended from time to time), together with the Application Form;

We, us and our – the Account Manager, Scottish Friendly Asset Managers Ltd;

Year – a tax year beginning on 6 April in any calendar year and ending on 5 April in the following year;

You and your – an individual who has opened an Account under these Terms. These Terms will be governed by and construed in accordance with Scottish law. Reference to any statutory provision or regulation includes any modification or re-enactment. Any headings and subheadings are not a legally binding part of these Terms. Where appropriate, the words in the singular will include the plural, and the masculine will include the feminine.

2. Account Manager

a) Scottish Friendly Asset Managers Ltd agrees to act as Account Manager for your Account. We do not review your portfolio and we do not give advice about your Account. We are regulated by FSA in the conduct of our investment business;

- b) Our address is Scottish Friendly Asset Managers Ltd, Scottish Friendly House, 16 Blythwood Square, Glasgow, G2 4HJ;
- c) We may assign to any appropriate Associate all of its benefits and obligations under these Terms. You will be notified of any such assignment.
- d) We may appoint any person (whether or not an Associate) to advise on or perform any of its functions or responsibilities under these Terms and may provide information about you and your Account to any such person. We will satisfy ourselves that any person to whom we delegate any of our functions or responsibilities under these Terms is competent to carry out those functions or responsibilities;
- e) We may amend these Terms by writing to you. Any amendments will comply with the Regulations and the rules of FSA.

3. Application to Open an Account

- a) An application to open an Account must be made in writing on an Application Form. Subject to the Regulations, your Account will be managed in accordance with your directions set out in your Application Form.
- b) These Terms will come into force when the policy document is issued and your first premium is successfully collected. On acceptance, each new Account will be designated by us as either a Maxi ISA or a Mini ISA. You can only subscribe to one Maxi ISA in any one year, and if you have a Maxi ISA, you are not allowed to subscribe to a Mini ISA in the same year. We reserve the right to reject any application.
- c) All payments into your ISA must be from your own funds, and we reserve the right to satisfy ourselves of this.
- d) You may invest one or more lump sums in your Account during the Year. In addition, or alternatively, when provided in the Application Form you may make regular contributions by Direct Debit under a monthly savings plan. You must submit with your Application Form a cheque for the full amount of your initial subscription (in the case of a lump sum investment) and/or a Direct Debit Instruction to a bank or building society in your own name (in the case of regular contributions).
- e) You will be sent an acknowledgement when you make a lump sum contribution or set up a monthly savings plan. This will be sent to you on the day following your application being accepted by us.
- f) Your Application covers the current Year and each subsequent Year until we receive no subscription for one full Year.

4. Minimum Subscription

a) Lump Sums

The minimum initial investment is as specified in the Application Form. Additional lump sum contributions are subject to the minimum specified in the Application Form.

b) Monthly Savings Plans

The minimum monthly contribution is as specified in the Application Form, and we may terminate your savings plan by giving you one month's notice if the total amount invested during a Year is less than £300. Monthly Direct Debits will normally be collected on the 24th of each month and invested by us on the next dealing day for contributions under savings plans. If your application and Direct Debit Instructions are received on or before the 24th of the month, your first monthly payment will be collected by Direct Debit on the 6th of the following month, otherwise it will be collected on the 6th of the month after next.

Direct Debit Guarantee: This guarantee is offered by all Banks and Building Societies that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own Bank or Building Society. If the amounts to be paid or the payment dates change, Scottish Friendly will notify you 5 working days in advance of your account being debited or as otherwise agreed. If an error is made by Scottish Friendly or your Bank or Building Society, you are guaranteed a full and immediate refund from your branch of the amount paid. You can cancel a Direct Debit at any time by writing to your Bank or Building Society. Please also send a copy of your letter to Scottish Friendly.

You should inform us in writing if you wish to increase or decrease your monthly contribution, or to stop saving (either temporarily or completely). If your instructions are received at least 10 working days before the next collection date, we will normally give effect to them from that date.
c) We reserve the right to reduce or waive the minimum subscription.

5. Maximum Subscription

The maximum you can currently subscribe in each tax year to a Maxi ISA is £7,000 (of which a maximum of £3,000 can be invested in the cash component).

6. Cancellation

In certain circumstances, you will have the right to cancel your Account within 30 days after receiving notice of your cancellation rights from us. If you exercise your right to cancel, any money paid to us will be repaid (subject to deduction of the amount, if any, by which the value of your Account Investments has fallen).

7. Investment Objective

The investment objective of your Account will correspond to the qualifying investments specified in your Application Form.

8. Account Investments

- a) Your Account includes your Account Investments and any cash balances, all income and other rights, and the benefit of any tax relief in respect of such investments.
- b) Your cash contributions and any other cash held under your Account will be deposited, pending investment. We segregate all Client Account money from our funds and hold it with the Bank. No interest will be paid on cash held pending investment. We do not accept liability for default by any bank which holds cash for your Account;
- c) We will automatically reinvest all income in respect of Account Investments net of any tax liability.

9. Title

- a) The Account Investments will be beneficially owned by you at all times.
- b) We will not lend Account Investments or the title documents to a third party and will not borrow against the security of Account Investments or such documents.

10. Taxation

We will make all necessary claims for tax relief relating to your Account. The fund in which you pay interest receives UK dividend income net of Corporation Tax.

11. Statements

We will send you a statement every 6 months, showing the value of your ISA and details of all transactions in your Account since the previous statement. The statements will not include a measure of performance. We may produce a consolidated statement if you have more than one Account.

12. Withdrawals

- a) You may withdraw some or all of your money by writing to us.
- b) Unless otherwise permitted by us from time to time, the minimum withdrawal is £50, and the Account Investments remaining after a withdrawal must have a minimum value of £300 (failing which we may treat your request as an instruction to terminate your Account).
- c) Withdrawals will be met by selling Account Investments at the next valuation point following receipt of your instructions. Unless you give us instructions with your withdrawal request, we will have discretion to choose which Account Investments to sell.
- d) The amount to be withdrawn will be paid to you within 4 business days following receipt of cleared funds resulting from the sales of Account Investments.
- e) We may deduct from the withdrawal amount any sums due to it.

13. Charges

- a) Initial Charge. An initial charge of 4% of your contribution applies to each investment in the Bonus ISA.
- b) Management Fees. Charges for the Bonus ISA investment are made by a reduction in the bonuses added, as described in Sections L.2 and L.3 below. In addition, there is a policy fee of £2.00 per month for regular savings.
- c) We reserve the right to discount or waive any charges.
- d) We may increase charges but only after giving you three months' written notice.
- e) We shall be entitled to deduct and retain all charges payable under these Terms and may apply any cash or sell any Account Investments to pay such charges or to pay any tax liabilities under your Account.

14. Termination

- a) You may terminate your Account by writing to us, which will be effective on receipt but will not affect transactions already initiated.
- b) We may terminate your Account by giving you one month's notice in writing. If it becomes impractical or impossible to comply with the Regulations, we may terminate your Account immediately, in which case you will be notified in writing.
- c) When an Account is terminated, we will sell the Account Investments and pay you the proceeds together with any cash balance held in the Account. Interest will not be paid on any cash balance if you have given notice of termination since the last monthly interest payment date. We may deduct any charges or other amounts due to it, any tax liabilities under the Account, and any additional expenses incurred in terminating the Account.
- d) Your Account ceases to be exempt from tax on your death and will terminate. On notification of death, we will sell the Account Investments and hold the proceeds on deposit in sterling (earning interest). We may make deductions as provided in paragraph c) above. Upon receipt of the grant of probate or appropriate legal confirmation and a copy of the death certificate, we will transfer the cash balance of your Account to your personal representatives. These Terms are binding on your personal representatives. We may at our discretion accept or reject instructions received from your personal representatives.

15. Void Accounts

Your Account will be managed in accordance with the Regulations, which take precedence over these Terms. We will notify you if, as a result of any failure to comply with the Regulations, your Account is or becomes void. When an Account is voided, we will sell the Account Investments and pay you the proceeds together with any cash balance held in the Account. We may deduct any charges or other amounts due to us, any tax liabilities under the Account, and any additional expenses incurred in terminating the Account.

16. Transfer to New Account Manager

- a) You may instruct us to transfer to another approved account manager, within such time as shall be agreed, either (i) the whole of your Account, or (ii) part of your Account ('a partial transfer'), subject to and in accordance with the Regulations. Only cash may be transferred, and we will convert Account Investments into cash after receiving your instructions. We may deduct from the transfer any sums due to it.
- b) In the case of a partial transfer, that is a transfer of part of the realised Account Investments and cash held under a Component or, where there is more than one Component, all of the realised Account Investments and cash held under a particular Component, the transfer shall not include any subscriptions to the Account during the Year of transfer nor the value of any gains or other proceeds relating to the investment of such subscriptions.
- c) A partial transfer involving the transfer of part of the realised Account Investments and cash held under a Component must represent all subscriptions to the Component and any gains or other proceeds relating to the investment of such subscriptions for one or more complete Years.
- d) Also in the case of a partial transfer, the Account Investments remaining after the transfer must, unless otherwise permitted by the Manager, have a minimum value of £300 (failing which we may treat your instruction as an instruction to transfer the whole Account).

17. Information for the Account Manager

You must provide us with all information which we reasonably request for the purposes of the Account and, in particular, you must immediately inform us in writing of any change of tax status or other material change in circumstance.

18. Notices and Instructions

- a) Notices and instructions to us should be in writing and signed by you. Notices and instructions sent by facsimile will be accepted.
- b) Notices and other documents to be given to you will be posted to your last registered address for your Account and will be considered received by you two days after posting.
- c) We are entitled to treat as valid instructions given by you or on your behalf even if that is not the case because of the wrongdoing of another person, unless that other person is an employee or agent of the Account Manager.

19. Liability

- a) You indemnify us against all liabilities incurred by us in connection with your Account, other than liabilities caused as a direct result of our negligence, knowing default, or breach of the rules of FSA or of these Terms.
- b) We are liable for our negligence, knowing default, and for any breach of the rules of FSA or of these Terms. We are not liable for any loss caused through a fall in value of Account Investments.
- c) We accept no responsibility for your Account until cleared funds are received, nor for any loss or delay caused in the payment of funds to us.
- d) For the purposes of this paragraph 19, references to you include your personal representatives, and references to the Account Manager includes its nominees.

20. Complaints

We have established procedures in accordance with FSA's requirements for the consideration of complaints. Details of those procedures and of your rights to compensation if we are unable to meet our liabilities to you are available from us on request. In addition, if your complaint is not dealt with to your satisfaction, you can write to the Financial Ombudsman Service; please contact us for this address. This will not affect your right to take legal action.

21. Compensation Rights

If Scottish Friendly is unable to meet its liabilities, compensation may be payable by the Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the value of the plan is protected in full. Above this, the Scheme covers up to 90% of the remaining plan value. Further information on the Scheme can be obtained from the Financial Services Compensation Scheme. Tel: 020 7892 7300 www.fscs.org.uk.

ADDITIONAL CONDITIONS FOR THE STOCKS AND SHARES (INSURANCE FUND) COMPONENT

The following additional policy conditions apply to any investment in the With Profits Fund as part of your ISA.

L.1 THE POLICY

- a) The Policy is a recurrent single premium unitised with profits whole of life assurance contract issued by Scottish Friendly Assurance Society Limited ('The Society') subject to these Policy Conditions.
- b) Whilst the Policy remains in force and subject to such conditions as the Society may from time to time determine, additional premiums of not less than such minimum amount as the Society shall from time to time determine may be paid by the Policyholder.
- c) The investment content of each additional premium will be specified by the Society and units will be allocated as in Condition L.5.

L.2 ISA WITH PROFITS FUND

- a) The Society will maintain an ISA With Profits Fund for the purpose of determining the benefits payable under this and certain other policies. The ISA With Profits Fund will represent part of the Ordinary Assurance Fund of the Society and will be divided into Accumulation Units and such other units as the Society may from time to time determine. Within the ISA With Profits Fund, units of any particular type will be of equal value. The benefit under this policy will be specified in terms of Accumulation Units, which will be allocated to the Policy as described in Policy Condition 5. Such allocation will be made purely for the purposes of calculating the benefit and does not affect the ownership of the assets of the Fund, which remain the absolute property of the Society.
- b) The investment of the Fund will be at the discretion of the Society, which may reinsure the Fund in whole or in part and may at its discretion introduce alternative funds from time to time to which benefits may be linked.
- c) No units will be created in the ISA With Profits Fund unless assets equivalent to such units are added at the same time to the Fund. No assets will be withdrawn from the ISA With Profits Fund except for the purpose of meeting the charges described in Condition 3 or for the purpose of reinvestment, unless at the same time units equivalent to the assets withdrawn are cancelled.
- d) The income from the assets of the ISA With Profits Fund will be credited to that Fund.
- e) For the purposes of the Policy, the ISA With Profits Fund shall be eligible for regular and final bonus additions as declared by the Society for this particular Fund.
- f) The assets of the ISA With Profits Fund shall not be separately identifiable from the remainder of the assets of the long-term business of the Society.
- g) The policy is eligible only as regards units of the ISA With Profits Fund allocated to it, to participate in the profits of the Ordinary Branch of the Society in accordance with the Rules from time to time of the Society.

L.3 CHARGES AGAINST ISA WITH PROFITS FUND

The Society will be entitled to deduct from the ISA With Profits Fund at each valuation such amounts as shall be determined by the Society's Appointed Actuary in respect of:

- a) expenses, taxes, duties and other charges incurred in acquiring, managing, valuing and disposing of assets;
- b) any tax due on the income from the assets of the Fund and on capital gains in respect of the assets of the Fund;
- c) interest on any money borrowed for the account of the Fund;
- d) any expenses, taxes, duties and other charges incurred in connection with the Fund and not previously taken into account;
- e) an appropriate part of any tax, levy or other charge on the Society.

L.4 UNIT PRICES OF ISA WITH PROFITS FUND

- a) The Unit Price of the ISA With Profits Fund was 147.8 pence at 31 December 2006 and is increased by way of regular bonus addition at such daily rate of interest (if any) as the Society shall determine in its absolute discretion and then rounded by not more than one tenth of a penny.
- b) The Unit Price of the ISA With Profits Fund shall be the price at which the Society allocates units to the ISA Life Component policy and at which units shall be cancelled by the Society.
- c) All rounding reductions to unit prices and any other reductions will accrue to the Society.
- d) Units of the ISA With Profits Fund may be consolidated or subdivided at any time at the discretion of the Society.
- e) Where units of the ISA With Profits Fund are cancelled, the value of the units so cancelled may be subject to increase by way of further bonus additions (i.e. Final Bonus) at the discretion of the Society of such amount as the Society shall determine.

L.5 ALLOCATION AND CANCELLATION OF UNITS

- a) The number of units initially attributed to this Policy has been calculated by reference to the Unit Price calculated on the day the initial investment was deemed to have been received by the Society. The Units attributed to this Policy on payment of an additional premium shall be increased by the number of units calculated by dividing the percentage of the investment allocated to Units (as determined by the Society) by the Unit Price calculated on the day the additional premium is deemed to have been received by the Society.
- b) In the event of the subdivision of all units in the Fund, there shall be allocated to the Policy a number of units which shall represent as a proportion of the total units in the Fund following such subdivision the number of units in the Fund attributed to the policy prior to such subdivision.
- c) Units shall be cancelled at the Unit Price calculated at the next valuation point following receipt of the appropriate form at the Society's Head Office.

L.6 MARKET VALUE REDUCTION (MVR)

- a) If the Policyholder instructs the Society to cancel some or all of the Units of the ISA With Profits Fund allocated to the Policy, the Society may make a deduction, known as the Market Value Reduction (MVR), from the value of the Units cancelled. The amount of any deduction to be made shall be determined by the Society's Appointed Actuary with reference to the Society's overall bonus philosophy and in particular, taking account of the reasonable expectations of all its Policyholders.
- b) The deduction referred to in this paragraph will not be made where units are cancelled to meet a death claim under Policy Condition L.7 or where units are cancelled on the 10th anniversary from commencement of the Policy.

L.7 DEATH BENEFIT

The death benefit under the policy shall be 101% of the value of the Units attributed to the Policy at the date of written notification of the death subject to any special factor specified in the Policy Schedule or any authorised endorsement thereto. Units allocated to the Policy shall be cancelled at the next Unit Price calculated following receipt of written notification of death by the Society.

L.8 GENERAL

- a) By payment of the first premium and issue of the Policy, the Policyholder, as detailed in the Policy Schedule, becomes a member of the Society under Rule 2 of the Society.
- b) If at any time during the term of the Policy, as a result of legislation or otherwise, it becomes impracticable or impossible to give full effect to the Policy Conditions or if the basis of taxation applicable to the Society or the Policy is altered, the Society will make such alterations in the Policy Conditions as the Society's Appointed Actuary deems appropriate in the circumstances.
- c) If the Society is required by statute to pay any sum to any Government agency on behalf of the Policyholder, the Society will cancel Units equal in value to such amounts as may be required.



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