

HELPING YOU DECIDE

What is the purpose of this document?

The Financial Services Authority is the independent financial services regulator. It requires us, Scottish Friendly, to give you this important information to help you decide whether our Child Bond is right for you. You should read this document carefully so that you understand what you are buying. Please keep this document with the policy document, which we will send you.

What questions should I ask before I invest?

- In this document we have given you the answers to some important questions. You'll find these on pages 3 to 7.

What should I do now?

- Please read:
 - this Key Features document
 - the separate guide 'How we invest your money'.
- Please keep this document with your policy document which we will send you.



KEY FEATURES OF THE CHILD BOND

Its aims

- To enable you to invest tax efficiently for a child, using their friendly society tax-free savings allowance.
- To provide a child, who is under 16 when you take out the bond, with a tax-free lump sum. When you take out the bond, you choose if you want us to pay the lump sum to the child:
 - after 10 years (the minimum term), or
 - when they are 18, or
 - when they are 21.
- A tax-free lump sum means that any growth will be free of income and capital gains tax and when we pay the lump sum to the child, they don't have to pay any tax on it.

Your commitment

- You agree to pay your chosen premium for the duration of the bond (minimum ten years).

Risks

- Your circumstances, or the child's, may change forcing you to cash in the Child Bond early, in which case the child may not get back as much as you have paid in. This is particularly true in the early years where the child will get nothing back if you cash in within the first 23 months.
- Your initial guaranteed minimum cash sum will protect some but not all of your total payments into the bond. This means, depending on future bonus rates, the child could get back less than you have paid in.
- Future bonus rates will depend on investment performance and actual expenses and are not guaranteed.
- The levels and basis of taxation may change in the future.

QUESTIONS & ANSWERS

Who should consider this bond?

- You should consider this bond if you want to save for a child who is under 16 when you take out the bond and you can pay regular premiums over at least 10 years.

What is the Child Bond?

- The Child Bond is designed to provide the child with a lump sum at the end of the savings period you've chosen for the bond.
- It is a tax-free with-profits savings plan, which means that any growth will be free of income and capital gains tax and when we pay the lump sum to the child, they don't have to pay any tax on it.
- You can take out a Child Bond for a child who:
 - is under 16 when you take out the bond and
 - resides in the UK.
- The bond is the property of the child.

How does it work?

- You decide how much to pay regularly throughout the savings period you've chosen for the bond. In return for these agreed premiums, we guarantee to pay the child an amount, called the 'guaranteed minimum cash sum', at the end of the bond's life.
- Each year we add a regular bonus to the guaranteed minimum cash sum. Once added, a regular bonus cannot be taken away, provided you continue to pay the premiums. We may also add a final bonus at the end of the bond's life. Future bonus rates depend on investment performance and cannot be guaranteed.
- We will only pay the guaranteed minimum cash sum and bonuses if:
 - you keep the bond until the end of the bond's life, and
 - pay all the premiums when they are due.
- The bond starts when we issue the policy document after collecting the first premium.

How much can I save?

- You can pay monthly or yearly premiums. The minimum monthly premium is £10 and the maximum is £25. The minimum yearly premium is £120 and the maximum is £270. You pay monthly or yearly premiums by Direct Debit. These are the total premiums that anybody can pay for a child in any friendly society plan that the child has.

How is my money invested?

- Your savings are invested in the Scottish Friendly With-Profits fund. You can find out more about this in the 'How we invest your money' guide on page 14. Please read this carefully.

What are the charges?

- As a traditional with-profits bond, the guaranteed minimum cash sum and all bonus rates are calculated after the deduction of all charges. This means that the bond does not have any fixed or explicit charges. An example of the expected deductions over the life of the bond is given in the table in the illustration on page 7. These are best estimates, based on recent experience. They could be higher or lower than this in the future which will have an effect on the child's final payout.

Payment of commission

- Scottish Friendly will pay Stuart Harvey Insurance Brokers Limited t/as Forces Financial a commission for introducing a Child Bond. The amount of commission will be 85% of the first year's premiums. For example, on a £25 per month investment, the total commission payable will be £255. Commission is paid out of policy charges. The payments do not affect the money paid into a given Child Bond.

Can I cash in the Child Bond?

- You may cash in the Child Bond at any time. However, if you cash in within the first 23 months, the child will get nothing back. If you cash in after the first 2 years, any return the child gets back may be less than the amount you put in. To cash in the Child Bond, you should write to Scottish Friendly at the address on page 8.
- You can see examples of cash in values under 'How could the charges affect my investment' on page 7.

Can I stop paying the premiums?

- If you stop paying the monthly premiums, we will tell you that we will stop insuring the child's life. This means that we won't pay anything if the child dies before the end of the bond's life.
- You can start paying again providing you:
 - have paid premiums for at least two years
 - start again within 12 months of the date you stopped paying
 - pay all the outstanding premiums
- We may also ask for evidence that the child's health has not deteriorated since you started the bond.
- If you don't pay premiums for more than 12 months, you cannot start paying again and if you stop paying in the first 23 months, the bond will end and the child won't get anything back.
- This is what can happen if you stop paying after the first two years and don't start paying again within 12 months:
 - you can cash in the bond and we'll send any cash in value to the child, or
 - you can make the bond 'paid-up', which means that we will:
 - reduce the lump sum we pay the child at the end of the term, and
 - not add any more bonuses.

What if I die during the life of the bond?

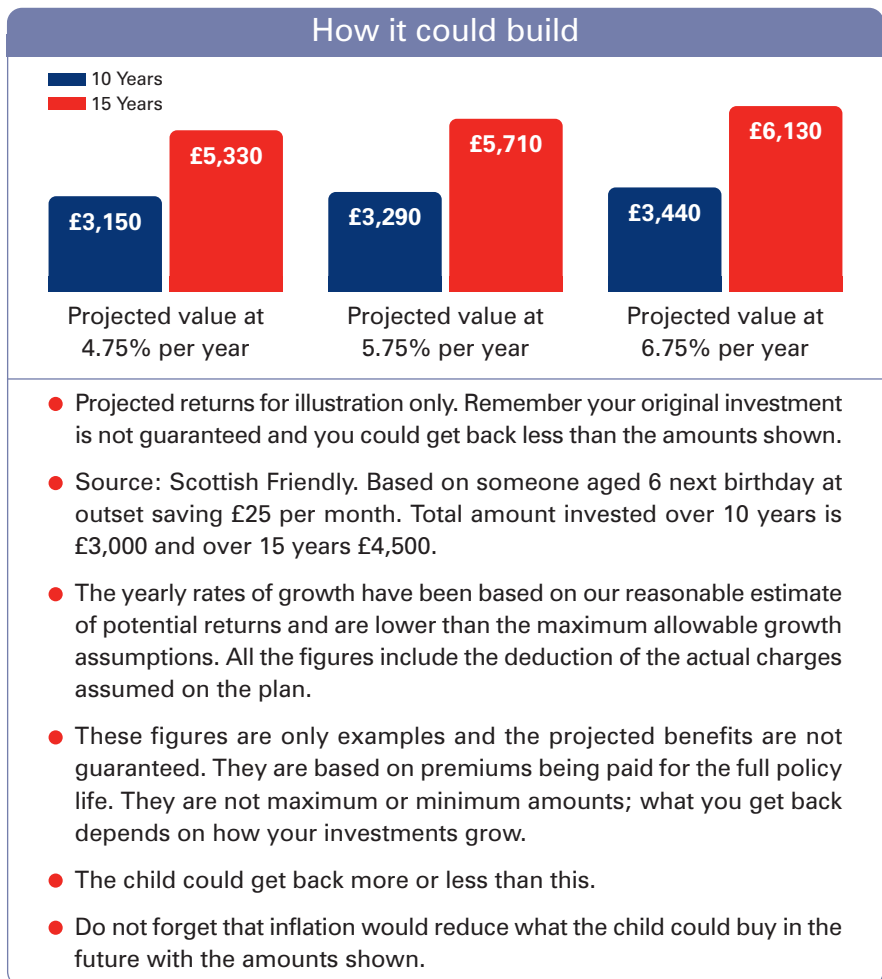
- If you die during the life of the bond, someone else can take responsibility for the Child Bond.
- If payments are not continued in the event of your death, the plan can be made 'paid-up', or a surrender value may be paid to the child – see section 'Can I stop paying the premiums?'.

What if the child dies during the life of the bond?

- If the child dies during the life of the bond, we will pay a tax-free lump sum to the child's estate. This will be the guaranteed minimum cash sum plus any regular bonuses we've added.

What about tax?

- Your payments are invested in the Scottish Friendly With-Profits fund which does not pay income or corporation tax on any gains (other than tax on dividends from UK shares). When your bond comes to an end, your payout is normally free of income and capital gains tax. However, you may have to pay tax if you stop paying premiums (see page 5) and/or you subsequently cash in your bond before the end of your bond's life.
- All references to taxation are to UK taxation and are issued on the basis of Scottish Friendly's understanding of current tax law and practice. The levels and basis of taxation may change.



How could the charges affect my investment?

- The illustration below is based on a £25 monthly investment in the Child Bond for a child aged 6 next birthday at outset. The last two columns assume that investments will grow at 5.75% a year.
- **WARNING:** If you cash in during the early years of your plan, the child could get back less than you have paid in.

At end of year	Total paid in to date	Total actual deductions to date	Effect of deductions to date	What you might get back
	£	£	£	£
1	300	300	309	0
2	600	364	391	244
3	900	375	425	556
4	1,200	386	460	887
5	1,500	398	498	1,230
10	3,000	463	731	3,290

What are the deductions for?

- The deductions include the cost of setting up the bond, expenses, life cover, any cash in charges and any other adjustments.
- The last line in the table shows that over the full duration of the bond the effect of the total deductions could amount to £731.
- Putting it another way, leaving out the cost of life cover, this would have the same effect as bringing the investment growth used down from 5.75% to 1.95%.

Can I change my mind?

- Within your welcome pack, you'll receive notice of your right to change your mind and how to cancel. You'll then have 30 days to cancel your investment and we'll provide instructions letting you know how to do this. If you decide to cancel within the period, we'll give you your money back.

What happens if Scottish Friendly becomes insolvent?

- If you buy a Scottish Friendly Child Bond and we cannot pay the full amount due, you may be entitled to compensation under the Financial Services Compensation Scheme. The first £2,000 of a claim in relation to the plan value is protected in full. Above this, the scheme covers up to 90% of the remaining plan value. You can get further information from the Financial Services Compensation Scheme at: Financial Services Compensation Scheme, 7th Floor, Lloyds Chambers, Portsoken Street, London E1 8BN. Tel 020 7892 7300. www.fscs.org.uk

HOW TO CONTACT US

- Here are our contact details if you need to ask us anything: Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. Tel: 08456 00 54 33

OTHER INFORMATION

Your client category

- We are required to categorise our clients and this determines the level of detail and information that you will receive. We will treat you as a 'Retail Client' in respect of the services we will provide you, which means that you will benefit from the highest level of consumer protection.

How to complain?

- If you wish to complain about any aspect of the service you have received, please contact us. Details can be found in the 'How to contact us' section.
- If you are not satisfied with our response to your complaint, you can contact the Financial Ombudsman Service at: Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR. Tel: 0845 080 1800.
- Making a complaint won't affect your legal rights.

Language and law

- The terms and conditions of this bond and all other communications about it will be in English.
- In legal disputes, the law of Scotland will apply.
- This booklet is a brief guide to the key features of this product. Full details are contained in the policy document, which is evidence of the legally binding contract between you and Scottish Friendly Assurance Society Limited.

The society

- Scottish Friendly was founded in 1862 (formerly The City of Glasgow Friendly Society) and is an incorporated friendly society under the Friendly Societies Act 1992, registered in the United Kingdom at the address below. Scottish Friendly's total funds under management are over £704 million (as at 31/12/08).

Rules of the society

- You can ask Scottish Friendly for a copy of the rules of the society.

The Direct Debit Guarantee



- This Guarantee is offered by all banks and building societies that accept instructions to pay Direct Debits.
- If there are any changes to the amount, date or frequency of your Direct Debit Scottish Friendly will notify you 5 working days in advance of your account being debited or as otherwise agreed. If you request Scottish Friendly to collect a payment, confirmation of the amount and date will be given to you at the time of the request.
- If an error is made in the payment of your Direct Debit, by Scottish Friendly or your bank or building society, you are entitled to a full and immediate refund of the amount paid from your bank or building society.
- If you receive a refund you are not entitled to, you must pay it back when Scottish Friendly asks you to.
- You can cancel a Direct Debit at any time by simply contacting your bank or building society. Written confirmation may be required. Please also notify us.

No advice has been provided by Scottish Friendly in relation to this bond. If you are in any doubt as to whether this bond is suitable for you, you should contact a financial adviser for advice. If you do not have a financial adviser, you can get details of local financial advisers by visiting www.unbiased.co.uk. Advisers may charge for providing such advice and should confirm any cost beforehand.