

SCOTTISH FRIENDLY ASSURANCE

KEY FEATURES GROWTH AND SECURITY BOND

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Its Aims

- To make your capital grow over the medium to long-term (five years or more).
- To allow you access to your capital at any time, through a regular income, occasional withdrawals or cashing in.

Your Commitment

- You invest a lump sum of £3,000 or more to start your bond.

Risk Factors

- The actual proceeds of your Growth & Security Bond will depend on the bonuses declared on the With Profits Fund to which your investment is linked.
- As the Bond 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 Bond. This is called the 'Market Value Adjustment' (MVA). The MVA will not apply to any cash-ins made exactly 10 years after investing your money. MVAs are explained in more detail later under 'What is a Market Value Adjustment?'
- You may get back less than you invested, especially if you cash in your bond soon after it has started.
- If you use your right to cancel your application, you will get back the amount you invested, although there may be a deduction which reflects any fall in the value of your investment at the time we receive your cancellation.

What is the Growth & Security Bond?

- The Growth & Security Bond is a with profits bond which is an investment plan with steady capital growth potential.
- Its aim is to make your investment grow over the longer term.
- You can withdraw some or all of your Bond at any time.

How does the Bond work?

- The amount you invest buys units in the With Profits Fund.
- The unit price of the 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.
- A final bonus may also be paid when you cash in some or all of your Bond, take regular withdrawals or in the event of 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.
- You can take the value of your units at any time.
- A Market Value Adjustment (MVA) may apply if you cash in some or all of your bond. See 'What is a Market Value Adjustment?' for details.

How much can I invest?

- You can start your Growth & Security Bond with an investment of £3,000 or more, up to a maximum of £500,000.
- The percentage of the investment which is allocated to units in the fund depends on the size of each investment.

Investment	Percentage invested in the fund
£3,000-£9,999	100%
£10,000 or more*	101%

*in a single investment

How much will I get back?

- The amount you receive on cashing in will depend on how much you have paid in, the length of time it has been invested, investment performance in the With Profits Fund over this time and the amount of money, if any, you have taken out of your bond.
- The value of your investment on cashing in will be at the 'bid' price. The price at which you buy is the 'offer' price and the difference between the two is the bid-offer spread which is currently 5%.
- The performance of your bond will depend on the level of regular bonuses added over the investment term and on any final bonus payable on encashment.

AN EXAMPLE:

The following table shows returns after 10 years on an investment of £5,000 and assumes no withdrawals have been made.

Cash Sum at the end of 10 years			
Investment Amount	4% pa	6% pa	8% pa
£5,000	£6,520	£7,880	£9,510

- The above 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, the tax treatment of the investment and on the amount of any withdrawals you make.
- You could get back more or less than this.
- All insurance companies and friendly societies use the same rates of growth for illustrations but their charges vary.
- Do not forget that inflation would reduce what you could buy in the future with the amounts shown.

Who can invest in Scottish Friendly's Growth & Security Bond?

- You must be aged 18 or more to apply for the Bond but it can be taken out on the lives of anyone aged under 80 years.

What happens if I want to take money out?

- You can decide to make regular withdrawals to provide an 'income' under the Regular Withdrawal Scheme, provided that each payment is for at least £50. Regular income can be paid monthly, quarterly, half yearly or once a year. This regular income can be up to 7.5% each year of the total amount that you have paid into your Bond.

- If the rate of withdrawals exceeds the growth of the Bond, your investment will be depleted.
- You can also decide to make partial withdrawals from your Bond, provided that you withdraw at least £50 and at least £500 remains invested.
- You can cash in your Bond at any time, but remember that it is designed to be invested for a term of five years or more.
- Applications to cash in should be made in writing to Scottish Friendly.
- For additional flexibility your Bond will be set up as a 'cluster' of ten identical policies. This allows you to cash in just one cluster policy or several depending on the amount required.

What are bonuses and how do they work?

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

The bonuses are made up of:

Regular bonus

- The current rate of regular bonus can change at any time but will normally be reviewed at the end of each calendar year. A proportion of this regular bonus will be added to your Bond 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 Bond 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 Bond and your smoothed share of the actual returns achieved in the With Profits Fund over the period that you have invested.

Loyalty bonus

- Provided you leave your money invested for 10 years, a loyalty bonus of 2.5% of the units will be allocated on the 10th anniversary of investment.

What if I were to die before I cash in my Bond?

- The amount payable on death is 101% of the bid value of units held plus the value of any final bonus. We guarantee not to reduce the payment on death by an MVA.
- The Bond can be set up jointly with someone else on a Second Death basis so that the Bond continues if one of you dies. The death benefit will then be payable on the death of the survivor and the Bond will end.

What are the charges?

- Some of the money used to purchase units in your With Profits Bond goes to meet our charges. These include the costs of marketing, administration, investment management and any commission that we pay to your financial adviser.

- There is an initial charge of 5%. This charge is included as the difference, or 'spread' between the offer price (at which you buy units) and the bid price (at which units are cashed in).
- Expenses for the administration of the With Profits Fund are allowed for before we declare the rates of bonus added to the Fund.
- The amount of your investment allocated to purchase units is increased to 101% if you invest £10,000 or more.
- If you withdraw all or part of your investment, an MVA may be deducted. Details of the MVA are given below.

What is a Market Value Adjustment?

The Market Value Adjustment (MVA) is a potential reduction to the encashment value of your Bond and is designed to ensure that you receive your fair share of the With Profits Fund and that the value of your continuing investment in the With Profits Fund is not adversely affected by other investors cashing in their units.

Whilst we expect the MVA to apply only occasionally, and in extreme cases, for example when market values are very low, we guarantee not to apply it in the following circumstances:

- when you cash in part or all of your Bond on the 10th anniversary from date of investment
- in the event of a death claim
- where withdrawals of up to 7.5% p.a. of your original investment are taken.

Will you tell me how my bond is getting on?

You will receive a statement from us every year showing how your bond is progressing. You can also check the progress of our unitised With Profits Fund by contacting us on 0845 600 5433 (local rate applies). Alternatively, you can check the fund price page of our website: www.scottishfriendly.co.uk

What tax will I pay?

- Under current legislation, you will have no personal liability to basic rate tax or to capital gains tax at any time under your Bond. There are taxes on the Fund as it grows and on the income it receives which are paid for by Scottish Friendly and reflected in the unit prices.
- When you encash some or all of your Bond, or in the event of your death, you may be liable to higher rate income tax, or the amount of age related personal allowance to which you may be entitled could change.
- If you are a higher rate taxpayer you can defer any liability on 'income' withdrawals until final encashment of the Bond, as long as the total value of the withdrawals does not exceed 5% of your original investment for each year the Bond has been in force (maximum of 20 years).
- This booklet is based on Scottish Friendly's knowledge and understanding of current law and Inland Revenue practice which may be subject to future change.

The early years

WARNING – if you cash in during the early years, you could get back less than you have paid in. An example of a £5,000 investment assuming growth of 6% a year:

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	5,000	300	315	4,980
2	5,000	352	386	5,230
3	5,000	407	465	5,490
4	5,000	465	550	5,760
5	5,000	526	644	6,040
10	5,000	686	1,060	7,880

What are the deductions for?

- The deductions include the expenses, charges, and any other adjustments.
- The last line in the table shows that, over the 10 year period shown, the effect of the total deductions could amount to £1,060.
- Putting it another way, this would have the same effect as bringing the investment growth used from 6% a year down to 3.8% a year over 5 years and 4.6% a year over 10 years.

FURTHER INFORMATION

Cancellation Rights

Once your application is accepted, you're legally entitled to 14 days in which to change your mind. If you cancel within this time, you will receive back any money paid, less an adjustment for any drop in value when your request to cancel is received by the Society.

Law

In legal disputes, the law of Scotland will apply.

The Society

Scottish Friendly Assurance Society Limited 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 Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. The total funds under management are £290 million (as at 31/12/00).

Queries and Complaints

For further information or if you wish to complain about any aspect of the service you have received, please contact Scottish Friendly Assurance Society Limited, Scottish Friendly House, 16 Blythswood Square, Glasgow G2 4HJ. If your complaint is not dealt with to your satisfaction you can complain to the Financial Ombudsman Service (South Quay Plaza, 183 Marsh Wall, London E14 9SR, tel no 0845 080 1800). Making a complaint will not prejudice your right to take legal proceedings.

If you are in any doubt about the suitability of this product for yourself, you should contact your financial adviser.

Compensation

Information on the Friendly Society Protection Scheme and compensation arrangements generally can be obtained from Scottish Friendly Assurance, the Financial Services Authority and the Financial Services Compensation Scheme.

With Profits Guide

Further information relating to the Society's management of its with profits business is given in its With Profits guide, a copy of which is available on the website or on request from the Society.

Rules of the Society

A copy of the Rules of the Society is available on request.

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Regulated by the Financial Services Authority. Member of ABI and AFS.

A Guide to How We Manage Our With Profits Fund

The premiums you pay into the *Growth and Security Bond* 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 *Growth and Security Bond*.

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 Adjustment 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 Adjustment (MVA) 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 MVA 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 MVA 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 MVA 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. As at 31 December 2004, 56% of the with profits fund assets were invested in shares and property. We would expect this to generally be in the range 40% to 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.