

# Scottish Friendly Assurance Society Limited

## Principles and Practices of Financial Management for With-Profits Business Transferred from Scottish Legal Life

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## **1. Introduction**

- 1.1 The Conduct of Business sourcebook of the Financial Services Authority ('FSA') requires firms to establish and maintain 'Principles and Practices of Financial Management' ('PPFM') to govern their conduct of their with-profits business.
- 1.2 This document sets out the PPFM that Scottish Friendly Assurance Society Limited ("the Society", "we" or "us") apply in managing the with-profits business (the "SLL With-Profits Business") which was transferred to us with the rest of its business from The Scottish Legal Life Assurance Society Limited ('SLL') on 30 September 2007 under the terms of an agreement dated 20 April 2007 between SLL and the Society (the "Transfer Agreement"). The PPFM are not intended to alter the rights and obligations we have under the Transfer Agreement or any of the policy documents issued to policyholders. Should there be any conflict between the PPFM and what is said in the Transfer Agreement or any such policy document then the Transfer Agreement or policy document (as appropriate) will prevail.
- 1.3 The Society was established as a friendly society in 1862 and is incorporated under the Friendly Societies Act 1992. We are a mutual society and so have no shareholders. The Society has a Board of Directors, which is the ultimate governing body for the Society, and distribution of Surplus and bonuses is determined by the Board upon the advice of the With-Profits Actuary.
- 1.4 We have established procedures to ensure that the Directors can satisfy themselves at regular intervals that the with-profits business to which these PPFM relate is being managed in accordance with these PPFM; these procedures include formal reports from the With-Profits Actuary and an Independent Person appointed to review PPFM compliance to the Board.
- 1.5 This PPFM document covers the operation of the SLL With-Profits Business and any business which derives from it (the "SLL WP Business"). Separate PPFM documents cover the Society's other with-profits business (Conventional Ordinary Branch With-Profits Business, the Conventional Industrial Branch With-Profits Business, Unitised Ordinary Branch With-Profits Business and the former With-Profits Business of Rational Shelley).

### **Principles and Practices**

- 1.6 Principles are high-level statements that reflect the general approach adopted by the Society in managing the SLL WP Business and are expected to change infrequently. Essentially, the Principles are to act as a guide in judging whether the more detailed Practices adopted by the Society from time to time are appropriate.

- 1.7 Practices, on the other hand, describe the Society’s current approach to managing the SLL WP Business and responding to changes in the business and economic environment in the shorter-term. The Practices are intended to provide sufficient detail to enable a knowledgeable observer to understand the possible risks and rewards from effecting and maintaining an SLL WP Policy with the Society. They are also expected to change from time to time as the Society’s and the SLL Fund’s circumstances and the business environment change, with some alteration, for example, every few years.
- 1.8 This document considers each key area where discretion is applied and sets out firstly the relevant principles, followed by the practices.

### **Change and Governance of Compliance**

- 1.9 In the event that the Society determines that changes are required to any of the principles contained herein, robust procedures are in place to control such changes that include providing with-profits policyholders with at least three months prior notice. Changes to practices must be similarly communicated but do not require prior notice.

### **Overriding Principles**

- 1.10 The Society has three principles that can be regarded as overriding the principles and practices contained elsewhere herein if they come into conflict. These are:
- (a) We will manage our business in accordance with all legal and regulatory requirements.
  - (b) We will manage our business in a sound and prudent manner with due regard to the interests of our policyholders and with a view to treating all policyholders fairly.
  - (c) We will aim to manage our business in order to ensure that all guaranteed benefits can be paid as they fall due.
- 1.11 There are three additional overriding principles that apply for the SLL WP Business. These are:
- (d) We will manage the SLL Business in a separate fund (“the SLL Fund”) within the Society, to be held for the benefit of the policyholders of SLL and subject to the terms of the Transfer Agreement.
  - (e) Over the term of the SLLF WP Policies, to avoid holding back surplus in excess of that required to ensure the sound financial management of the SLL Fund and to distribute all of the surplus among SLLF WP Policyholders.
  - (f) Subject to (a), (b), (c), (d) and (e) above, to maximise the financial returns to SLLF WP Policyholders.

### **SLLF WP Policies (Conventional and Unitised With-Profits)**

- 1.12 There are two main classes of with-profits policies, “Conventional” and “Unitised With-profits”. The vast majority of SLLF WP Policies are conventional. These policies are whole life assurances, endowment assurances or pure endowments (or a combination of the three). Regular premiums are payable over the term of the policy, or for a fixed period of years. Conventional policies have a guaranteed sum assured payable on death, on maturity or the earlier of the two. Annual (reversionary) bonuses may be declared each year as an additional percentage of the guaranteed sum assured (or sum assured and bonuses declared to date) and a final (terminal) bonus may be paid when the claim is made.
- 1.13 Unitised with profits policies were sold by SLL in 2001 and 2002. These policies have a unit-linked structure whereby premiums paid are allocated units based on the appropriate notional unitised with-profits fund price at the time. Charges for expenses and mortality are made by cancelling units and, when a policy matures or is surrendered, the amount payable is based on the number and price of the units in force at the time. Premiums payable on SLLF WP Policies which are unitised with-profits policies are allocated to units in a notional unitised with-profits fund within the SLL Fund. The cash received is invested but there is no direct link between the price of this notional unitised with-profits fund and the value of the underlying investments. The prices of these unitised with-profits funds increase daily through the discretionary distribution of bonuses. When a claim is made, the price used to cancel units may be adjusted, either upwards in the form of a terminal bonus or downwards in the form of a Market Value Adjustment. Further details are given in Section 2.
- 1.14 A full table of the with-profits and non-profit policies comprised in the SLL Business is provided in the Appendix to this document to enable the identification of those policies that are SLLF WP Policies and hence are covered by these PPFM.

## **2. The amount payable under a with-profits policy, annual bonuses, Final Bonus and Smoothing**

### **Introduction**

- 2.1 This section describes the principles and practices governing the amounts payable under SLLF WP Policies, the determination of annual (reversionary) bonuses and final (terminal) bonus, and the application of Smoothing. It covers how the current methods and any relevant historical assumptions are documented, the procedures for changing either the current method or any assumptions or parameters relevant to a particular method, and the systems maintained to deliver the results of particular methods.

### **Principles – amounts payable under a SLLF WP Policy**

- 2.2 In assessing the amounts payable under a SLLF WP Policy, the aims of the methods used are to meet the objectives as set out in 1.10 and 1.11. Importantly, they aim to provide policyholders with a fair return on their policy that reasonably reflects the experience of SLL (prior to the transfer) and the SLL Fund (following the transfer) whilst the policy has been in-force, and subject to Smoothing. They also aim to distribute all Surplus in the SLL Fund in a fair manner to SLLF WP Policies over the remaining term of the existing policies.
- 2.3 Discretion is applied in the application of bonuses (both annual and final) to the guaranteed sum assured, Smoothing and the determination of cash Surrender Values when policies are discontinued. The Board aims to provide returns under policies that have regard to the contribution that each policy makes and allow for the shared (and smoothed) experience of the SLL Fund as a whole. This is reflected in the methods and assumptions used.
- 2.4 Extensive approximations are used in the application of the methods to determine the amounts payable. The Society's aim is to achieve a very broad form of equity over different product types, sizes and generations comprised in the SLL Fund in a way that does not require frequent reviews to bonus rates and Surrender Value bases.
- 2.5 Appropriate control mechanisms are in place should the Society wish to change in any way the methods it adopts in determining the amount payable under a SLLF WP Policy. Such changes can be modifications to current methods or the adoption of entirely new methods. The Board or the With-Profits Actuary can initiate changes. In either case the With-Profits Actuary will undertake a report for the Board setting out the implications of the change and the Board will then decide whether to implement the change. All methods used, including amendments, are appropriately documented.
- 2.6 In applying the methods to determine the amounts payable under SLLF WP Policies there is a need to consider historical experience and, where appropriate, make assumptions about the past. For example, consideration needs to be given to previously applied investment returns, charges or allocations of miscellaneous Surplus. In the light of new information, different methods or new techniques, the

Society may change any assumptions used regarding the historical experience. In making any changes the Society will have due regard to the fair treatment of SLLF WP Policyholders and the materiality of any change.

### **Principles – annual bonuses under a SLLF WP Policy**

- 2.7 The aim in setting annual bonus rates is to provide SLLF WP Policyholders with additional guaranteed increases in the value of their policies above the guaranteed basic benefits in a manner that is consistent with the key financial objectives as set out in 1.10. Specifically, it is important to consider:
- 2.7.1 **Solvency.** To ensure that the bonus declared is never so large as to pose a significant risk to the Society's or the SLL Fund's solvency, both short-term and long-term.
  - 2.7.2 **Guarantees.** To ensure that the build-up of guaranteed benefits does not lead to significant overpayment of benefits against the value of the underlying assets in the SLL Fund. This would be inequitable in that it would reduce the amount available to be paid under other SLLF WP Policies.
  - 2.7.3 **Stability.** To limit the change in bonus from one year to the next insofar as economic conditions and the Society's and the SLL Fund's financial position allow.
- 2.8 The Board will also consider the effect that annual bonus rates may have on the investment policy for the SLL Fund. In general, the higher the annual bonus rate, the greater the build-up of guaranteed liabilities and the more restrictive the investment policy needs to be. Lower annual (guaranteed) bonuses allow more freedom to invest in assets with a greater risk (such as equities and property), with the prospect of earning higher returns over the long-term.
- 2.9 Within the SLL Fund, the Society operates a number of bonus series, that is, groups of product types that historically have shared a single rate of annual and Final Bonus, and this bonus rate sharing is expected to continue in the future. These bonus series were determined many years ago and the products concerned have premium rates that were created on consistent bases.
- 2.10 Conventional products in the UK and the Republic of Ireland (RoI) share the same annual bonus rates but different Final Bonus rates apply. Annual bonus rates for the two countries will only differ if significant differences in the anticipated experience emerge which would threaten the SLL Fund's or the Society's financial stability if bonus rates were kept the same.
- 2.11 The SLL Fund is closed to new business and therefore there are no issues in relation to the maintaining of current bonus series or the creating of new bonus series for new with-profits business included in the SLL Fund.

### **Principles – Final Bonus under a SLLF WP Policy**

- 2.12 In determining the total payout on a SLLF WP Policy becoming a claim by death, maturity or surrender, the Society may add a final (terminal) bonus. This is aimed at increasing the benefits guaranteed under a policy closer to the underlying value of that policy as assessed by the experience throughout its lifetime within the SLL Fund. The principles covering amounts payable (as opposed to the Final Bonus element) are set out in 2.2 to 2.6 previously and the principles governing Smoothing are set out in 2.14 to 2.18.
- 2.13 Rates of Final Bonus are reviewed at regular intervals consistent with the smoothed nature of returns under SLLF WP Policies which are not subject directly to the effects of day to day fluctuation in asset values. Nevertheless, further reviews will take place if economic conditions or the Society's or the SLL Fund's position change rapidly and, without such a review, values would be unfair or threatening to the SLL Fund's or the Society's financial stability.

### **Principles – Smoothing under a SLLF WP Policy**

- 2.14 Smoothing is the process of limiting the immediate impact on the claim values of with-profits business of changes to the underlying experience, notably the effects of investment market movements. Such changes can be short-term or long-term. It is achieved through the setting of Final Bonus rates, MVAs and Surrender Value bases that do not change for a period of time, and through limiting the change of claim values from one bonus rate review to the next.
- 2.15 The process of Smoothing inevitably results in the payment of claim values that can be more or less than the value payable if Smoothing did not occur. To limit any unfair advantage that a policyholder could take, the degree of Smoothing varies according to the degree of freedom the policyholder has with regard to the timing of the claim and the type of with-profits policy.
- 2.16 In general, a greater degree of Smoothing applies to conventional as opposed to unitised with-profits business and to death and maturity claims as opposed to surrender claims. Consequently MVAs and final bonus rates on unitised with-profits business will be subject to review at more frequent intervals than for conventional business.
- 2.17 The exception to 2.16 is with respect to conventional surrender claims where greater Smoothing may apply. This is because most surrenders of regular premium conventional policies occur at early durations and the values payable are small regardless of the recent investment returns. Surrender Value bases are reviewed less frequently than Final Bonus rates but when reviews do take place the aim is to move Surrender Values closer into line with the underlying asset values. The Board does, however, reserve the right to take other economic and demographic factors into account in determining appropriate Surrender Value bases.
- 2.18 It is intended that Smoothing will have a neutral effect on the SLL Fund over time. The cost or benefit of Smoothing, that is the total under or overpayment of claim values in comparison to the values payable if Smoothing did not occur, falls to the SLL Fund's Inherited Estate. The Society does not consider it necessary to place an

explicit limit on the total cost of Smoothing but the total cost (and hence scale) is limited by the size of the SLL Fund's Inherited Estate and influenced by the key financial objectives set out in 1.10 and 1.11. Section 6 gives details regarding the management of the SLL Fund's Inherited Estate as the SLL Business runs off.

### **Practices – amounts payable under an SLLF WP Policy**

2.19 As referred to in 1.12 and 1.13, the amount payable under an SLLF WP Policy is determined by reference to a guaranteed basic benefit, the attaching annual bonuses and the Final Bonus applicable at the date of claim. The methods used to determine the amount payable will follow the methods used to determine annual and Final Bonus rates. The main method used to determine the amount payable is to consider individual and aggregate Asset Share values. The Asset Share at maturity is used to help determine the level of Final Bonus to be paid and, hence, the payout as described in 2.42 to 2.52.

#### ***Asset shares***

2.20 An Asset Share essentially represents the retrospective accumulated value of a particular policy based on the actual investment and other experience of the relevant fund. It is calculated by accumulating premiums year by year at the relevant fund's actual rate of investment return and allowing for all sales, administration and mortality costs associated with the business. The value from time to time also allows for actual investment gains or losses.

2.21 The concept of Asset Shares has only been in use over the last fifteen to twenty years and calculations require information on expenses and investment returns well before this time. Much of this information is not available in a form suitable for use within asset share calculations and approximations have to be applied.

2.22 The aggregate value of the individual Asset Shares can be compared with the total value of the actual assets backing the business to validate the results. In practice, there is an excess of assets which, after making provision for any policy guarantees, is termed the Inherited Estate. The Inherited Estate has been built up over the life of the relevant business included in the SLL Fund (including prior to its transfer to the Society) for many reasons, such as the payment of claims below Asset Shares, the impact of policyholders ceasing premium payment and profits caused by improving mortality. The Society aims to distribute the SLL Fund's Inherited Estate as the business runs off and this is covered in Section 6.

2.23 The size of the SLL Fund's Inherited Estate makes it unnecessary to make any allowance for the costs of guarantees or charges for the use of capital or other risks within the Asset Share accumulation. The SLL Fund's Inherited Estate is assumed to have met these costs.

2.24 Whilst the concept of Asset Shares is now well established within the Society, improvements to the detailed methodology are made from time to time. Such improvements are introduced on the recommendation of the With-Profits Actuary under the procedures outlined in 2.5.

### ***Main assumptions***

- 2.25 The main assumptions used in the determination of the amount payable under SLLF WP Policies concern investment return, management expenses, mortality and tax.
- 2.26 **Investment return.** Each year the SLL Fund's assets are hypothecated as between the main classes of business, with those backing UK and RoI business separately identified. The income and growth for the individual asset types are adjusted for tax (where appropriate) and amalgamated to produce the year's with-profits investment return assumptions for UK and RoI taxable and tax exempt business for the SLL Fund. Investment management costs are allowed for based on the actual costs to the SLL Fund expressed as a percentage of the funds under management in the SLL Fund and after allowing for tax relief where appropriate.
- 2.27 **Management expenses.** Prior to the date on which the Transfer Agreement took effect SLL's expenses were divided according to the practices applied by SLL which were reflected in the relevant PPFM. From the date on which the Transfer Agreement took effect the expenses attributed to the Asset Shares will be the actual charges made by the Society on policies within the SLL Fund.
- 2.28 **Mortality.** For most of the SLL Fund's with-profits business the cost of mortality is not a major factor in determining Asset Shares. The Asset Share calculations use the mortality rates underlying the majority of the premium rates for Industrial and Ordinary business. By so doing, any mortality profits or losses will accrue gradually to the SLL Fund's Inherited Estate (see Section 6).
- 2.29 **Tax.** For taxable business, allowance for tax is made when assessing the investment return and management expenses as described in 2.26 and 2.27, based on the rates applicable at the time the cashflows took place. The actual corporation tax charged to the SLL Fund in a given year is governed by the Transfer Agreement. It will depend on a number of factors that cannot all be allowed for within the Asset Share calculations. Any difference between the actual tax charged and that assumed within the Asset Share calculations is met from or contributes to the SLL Fund's Inherited Estate.

### ***Approximations, documentation and change procedures***

- 2.30 In line with the principle set out in 2.4, extensive approximations are used in the application of the methods. These approximations carry over to the parameters and assumptions used. Unless otherwise indicated, approximations are shared across generations of SLLF WP Policyholders and across different types of SLLF WP Policies.
- 2.31 The With-Profits Actuary documents the methods, parameters and assumptions used to determine the amount payable to SLLF WP Policyholders and key aspects are contained in reports presented to the Board. Bonus rates are decided upon at meetings of the Board and decisions are set out in the minutes.
- 2.32 As described in 2.5, the Board or the With-Profits Actuary can initiate changes subject to the control procedures set out therein.

### **Practices – annual bonuses under SLLF WP Policies**

- 2.33 Annual (reversionary) bonus rates for conventional with-profits business included in the SLL Fund are normally reviewed and declared annually in arrears, usually in the first quarter of the year and covering the previous calendar year. When policies become claims after the year-end but before that year's bonus declaration is made the previous year's interim bonus is payable.
- 2.34 Annual bonus rates for unitised with-profits business included in the SLL Fund manifest themselves as daily increases to the unit price as described in 1.13. The rate of unit price increase can be amended at any time but usually rates are reviewed once a year during the first quarter.
- 2.35 The starting point for the approach used in setting annual bonus rates is to consider the sustainability of bonus rates that do not depart significantly from those declared in recent years. This reflects the expectation on the SLLF Policyholder's part that, in normal circumstances, rates will change relatively infrequently.
- 2.36 Asset Shares (including the enhancement described in Section 6) are projected forward under different economic scenarios and using current rates of annual bonus, to determine the level of final bonus (if any) that would be payable to ensure maturity values equated to the Asset Shares. The aim is to establish if current rates of annual bonus (taking a long-term view) allow for an appropriate proportion of bonus and payout to be paid in final (non-guaranteed) form under reasonably foreseeable economic and demographic experience.
- 2.37 As a guide, the Society's aim in respect of the SLL Fund, over the long term, is to pay Final Bonus rates in the region of 1.5% to 2.5% of the guaranteed sum assured and declared reversionary bonuses for each year of term, consistent with maintaining an appropriate free asset position and appropriate investment freedom. Where projected Final Bonus rates on "best estimate" assumptions lie generally within these ranges, then current annual bonus rates would be regarded as supportable.
- 2.38 Where projections assuming current annual bonus rates do not produce acceptable results, alternative annual bonus rate assumptions are tested to determine the most appropriate rates to be declared. Should it be necessary to reduce annual bonus rates in the SLL Fund, the Society would seek to avoid large reductions (beyond 0.50% per annum) subject, however, to the Society's and the SLL Fund's free asset and solvency position being satisfactory.
- 2.39 Annual bonus rates are declared at the discretion of the Board. Current practice for conventional business (as described in 2.33) is to set rates annually in arrears. The practice for unitised with-profits business (as described in 2.34) is to set annual rates of price increase once a year which apply, in advance, until the next review.
- 2.40 As described in 2.35 and 2.38, the Society's aim in respect of the SLL Fund is to set annual bonus rates that will change relatively infrequently and avoid wild fluctuations. Nevertheless, the Society does not have any maximum amount by which annual bonus rates would alter. In a situation where the Society's or the SLL

Fund's solvency was under threat, or there is not expected to be sufficient Surplus in the SLL Fund, the Society may act to reduce annual bonus rates significantly. Indeed, in extremis, it may decide not to declare a bonus.

- 2.41 For conventional business included in the SLL Fund it is the practice of the Society to set interim annual bonus to make allowance for any entitlement to bonus that a policy may have in respect of the time between the last annual bonus declaration and the time of the claim. Normally in the context of the SLL Fund interim bonus rates are set equal to the last declared annual bonus rates but lower rates may apply if the annual bonus rate at the next declaration is expected to be lower.

#### **Practices – Final Bonus under SLLF WP Policies**

- 2.42 A final (terminal) bonus may be added to maturity, death and surrender claims under SLLF WP Policies. It is an upward adjustment to the policy value to make some allowance for any excess of the value of the Asset Share over the value of the guaranteed sum assured and annual bonuses added. This is further described in 2.19 to 2.24. Rates are smoothed as referred to in 2.53 to 2.57.
- 2.43 The aim in the long term, in determining payouts for surrendering and maturing SLLF WP Policies, is to return as a group, on average 100% of Asset Shares. The amounts payable in any year, or to any particular SLLF WP Policyholder, may be more or less than 100%, due to the effects of Smoothing, guarantees, and grouping of policies.
- 2.44 The aim in the short term is to ensure that, subject to meeting any guaranteed benefits, payouts for at least 90% of a group of SLLF WP Policies fall in the range 70% to 130% of Asset Shares. For maturity claims, and claims on unitised SLLF WP Policies, the values payable will normally be much closer to the Asset Share than indicated by the above target range.
- 2.45 The approach (subject to 2.42) is to set rates for maturity values on conventional with-profits business included in the SLL Fund by comparing the aggregated value of the Asset Shares of groups of individual policies with their guaranteed benefits. The policies that are considered are those that are to reach their maturity date during the period the bonus rates are expected to be in force.
- 2.46 Policies with similar attributes will normally be grouped together. At present the high level groupings will be territory and class of business (for example UK/RoI and IB/OB). Within each group the Asset Shares will then be aggregated by term at maturity. The Asset Shares are after enhancement to make allowance for the distribution of the SLL Fund's Inherited Estate as described in Section 6.
- 2.47 Scales of final bonus rates, across all terms are then derived with the aim of satisfying the practices detailed in 2.43 and 2.44 above.
- 2.48 The approach in respect of claims on unitised SLLF WP Policies is to set rates such that policy values payable broadly equate to the enhanced asset share. The Society may apply a final (terminal) bonus if the SLLF WP Policy's value using the current unit price is less than the Asset Share, enhanced as described in Section 6. The

Society may apply a Market Value Adjustment (MVA), which is an applied reduction where the SLLF WP Policy's value is in excess of the enhanced Asset Share. The MVA is, in effect, a negative Final Bonus and an MVA will only be applied if no terminal bonus is payable under a SLLF WP Policy. An MVA is not applicable on certain events (according to contract terms) such as automatic cash withdrawals, maturity or death. Final Bonus and MVA rates are subject to rounding (currently to exact multiples of 5%) and they apply regardless of the volume of claims occurring at the time concerned.

- 2.49 Final Bonus scales are designed with maturing policies in mind but the same scales apply for death claims, and for surrender claims under unitised SLLF WP Policies. Surrendering conventional policies may also receive Final Bonus based on the maturity claim scale; however, the bonus rate is discounted to allow for its early payment as part of a Surrender Value formula designed to produce a fair overall return to SLLF WP Policyholders.
- 2.50 For whole life SLLF WP Policies, where a full claim is only payable on death, the concept of Asset Shares has less meaning. The Society declares the same bonus rates for whole life SLLF WP Policies as for endowments. For durations where the number of whole life death claims is expected to exceed the number of endowment maturities, the anticipated whole life payouts are examined to ensure these SLLF WP Policyholders receive a reasonable return for their investment.
- 2.51 Final Bonus rates do not vary according to the tax status of policies. This reflects the fact that the benefits of receiving investment returns without taxation are largely cancelled out by the proportionately higher unit costs (because average premiums on tax exempt policies are smaller) and the fact that the Society does not receive tax relief on expenses for its exempt business.
- 2.52 Final Bonus rates (and MVAs) are declared at the discretion of the Board on the advice of the With-Profits Actuary. Final Bonus rates on conventional business included in the SLL Fund are reviewed yearly. Final Bonus rates and MVAs on unitised with-profits business included in the SLL Fund are reviewed at least quarterly although more frequent reviews will be undertaken in volatile market conditions. However, for both classes of business, the Society has the right to review Final Bonus rates (and MVAs) at any time, particularly where significant changes in investment market conditions dictate. (An example of a significant change is a market movement of +/- 20% in equity values or gilt yields)

### **Practices – Smoothing of SLLF WP Policies**

- 2.53 These practices follow the principles as set out in 2.14 to 2.18. The Society's Smoothing practice in normal circumstances for conventional business included in the SLL Fund is to limit the change in maturity value (upwards or downwards) to 10% from one review to the next. However, the Board can, on the advice of the With-Profits Actuary, depart from this limit (or make declarations more frequently than annually as described in 2.52) should the financial condition of the SLL Fund so dictate. The practice for unitised with-profits business included in the SLL Fund is simply to round Final Bonus rates or MVAs to the higher or lower 5%, whichever lessen the impact of any change.

- 2.54 There is no set period for which Smoothing is expected to become neutral, nor is there any overall limit to the accumulated cost of, or excess from, Smoothing which the Society is prepared to tolerate in the SLL Fund. This is because the Society regards the SLL Fund's Inherited Estate as sufficient to be able to provide for the cost of Smoothing. In the unlikely event that adverse economic or demographic circumstances arose to the extent that the stability of the SLL Fund or the overall solvency of the Society was put at risk the Board could adjust payments very rapidly.
- 2.55 The process of Smoothing on conventional surrender claims in the SLL Fund is more complex than for maturity claims. Surrender Values are based on a formula and the Final Bonus rate payable to maturing policies in the SLL Fund commencing in the same year is an element within this formula. Changes in Final Bonus on those maturing policies will, therefore, have an automatic effect on Surrender Values. However, the discounting within the Surrender Value formula means the volatility of Surrender Values will be less than for maturities, particularly for short duration claims where maturity, or death, is many years away. As the extent of Smoothing on surrender claims is greater than for other claims there is a risk that Surrender Values may differ significantly from the underlying enhanced Asset Shares. Surrender Value bases in the SLL Fund are reviewed at least once each year to ensure that the resulting values do not move too far away from the enhanced Asset Share values. This practice with regard to the setting of conventional with-profits Surrender Values in the SLL Fund results in a very broad form of equity. It is not the Society's aim for conventional Surrender Values in the SLL Fund to match Asset Shares closely.
- 2.56 Unitised SLLF WP Policies are subject to less Smoothing. This reflects the predominance of single premium business within the portfolio in the SLL Fund and the risk of financial selection against the SLL Fund. Without a more active approach to the setting of Final Bonus and MVA levels, SLLF WP Policyholders could select the timing of their surrenders to maximise their benefit at the expense of other SLLF WP Policyholders. Possible Final Bonus rates and MVAs are assessed across a range of SLLF WP Policies by date of inception, tax status and country. In practice a set of rates are determined, currently based on year of commencement, country and tax regime, so as to achieve broad equity consistent with the expectations for Smoothing and the pooling of risk within with-profits (as opposed to unit linked) business included in the SLL Fund. There is also a limited degree of Smoothing in the rounding of the Final Bonus and MVA rates. Changes that would otherwise result in a change of less than 5% to the terminal bonus or MVA are generally ignored in the SLL Fund.
- 2.57 The same Smoothing methodology is applied to all generations and types of conventional with-profits policies included in the SLL Fund regardless of term or bonus series. Likewise, the same Smoothing methodology used for the unitised with-profits business included in the SLL Fund is applied to all types of policy within this category.

### **3. Investment Strategy**

#### **Principles**

- 3.1 The Society's investment strategy for the SLL Fund supports the key financial objectives set out in 1.10 and 1.11. It has particular regard to the closed to new business status of the SLL Fund and the need for close and cost effective matching of assets to liabilities by currency and term. It also recognises that, over the longer term, investing in equities and property is expected to produce a better investment return than can be achieved by investing in cash and bonds. Within these principles, the Board (with advice from the With-Profits Actuary and other investment advisers) determines the detailed investment strategy of the SLL Fund.
- 3.2 The asset classes that the Society will consider for the SLL Fund are UK and overseas equities, fixed interest investments (such as gilts and other bonds), index linked investments, properties, cash and other investments including Derivatives. The SLL Fund has liabilities in both the UK and RoI and, as stated, has regard to currency matching (in pounds or euro) where appropriate. A broad spread of assets is held (by class and individual holding) to reduce risk and holdings are within those permitted by regulation and generally within the admissibility limits set by the FSA.
- 3.3 Non profit, linked and other non with-profits liabilities (for example reserves covering specific expenses or guarantees) included in the SLL Fund are matched using appropriate fixed interest stocks, Derivative instruments, linked assets and equity shares. The aim is to minimise the SLL Fund's market and credit risk.
- 3.4 Insofar as with-profits business included in the SLL Fund is concerned, the Society's primary aims are to match all guaranteed payments with appropriate assets and to maximise returns to SLLF WP Policyholders beyond the guaranteed amount. Government and corporate bonds form the core assets backing with-profits liabilities included in the SLL Fund and are used to match the guaranteed payments when they become due. The balance of the assets in the SLL Fund includes properties, and local and foreign equities to maximise returns for the reason set out in 3.1. Currency influences apart, UK and RoI with-profits business included in the SLL Fund is viewed as a homogeneous unit for investment purposes.
- 3.5 In determining the investment strategy for the SLL Fund the Society has regard to the support available from the SLL Fund's Inherited Estate to the extent that it is not otherwise encumbered. The distribution of the SLL Fund's Inherited Estate serves to increase the discretionary element of claims and this permits the Society to take a more flexible approach to investment of the SLL Fund than would otherwise be required.
- 3.6 Investment returns in the future are expected to be less favourable than in the past and as the with-profits portfolio in the SLL Fund matures, rates of terminal bonus are expected to decrease. The reduction in the discretionary element within claim values is likely to lead to a shift in investment sector weighting away from property and equity investments more towards fixed interest.

- 3.7 The SLL Fund does not currently hold Derivatives but these may be used in the future to reduce investment risk or to gain exposure to a market or sector that cannot be obtained effectively through direct investment.
- 3.8 In most circumstances the SLL Fund's exposure to a single counterparty is limited (currently to 2% of aggregate with-profits asset shares). However, this limit can be breached subject to the approval of the Board and having regard to the advice of the With-Profits Actuary. Such a circumstance might arise where particular Derivative options are written by a very limited number of counterparties and the Society is forced to assess the trade-off between counterparty and market risk.
- 3.9 The SLL Fund does not hold any assets that would not normally be traded.

### **Practices**

- 3.10 The Society's investment strategy in respect of the SLL Fund is formally reviewed at least once a year. Reviews may also take place more frequently at times where a change in investment conditions suggests that the current strategy might no longer be appropriate.
- 3.11 At the time of a review, suitable assets are earmarked to non with-profits liabilities (as referred to in 3.3) in the SLL Fund and the remaining assets are deemed to match the with-profits liabilities of the SLL Fund.
- 3.12 High level checks are completed on a regular basis to ensure that the assets held by the fund continue to remain suitable taking due account of the nature, term and currency of the policy liabilities calculated on a realistic basis. In particular, detailed consideration is given to the impact that any potential adverse market conditions may have on the solvency of the Society.
- 3.13 The amount of equity and property content (the equity backing ratio) is closely monitored as returns from such investments are generally more volatile than those from a fixed interest portfolio, and the equity backing ratio would be reduced if necessary to ensure the solvency position of the fund was not compromised by an unsuitable asset mix.
- 3.14 Cash flows are monitored at a high level and various cash flow projections (updated at least annually) are available to help ensure the fund maintains sufficient liquidity.
- 3.15 The current investment sector weighting for the SLL Fund is compared with that derived in 3.12. Only where significant differences emerge is any action required and then a switching plan for the SLL Fund is prepared aimed at achieving the weighting derived in 3.12 within a reasonable time period (not exceeding 2 years). Where the switching plan extends beyond 3 months, it would be carried out in a number of stages to smooth out the market timing risk. The switching plan may include trigger points based on relative market movements to allow advantage to be taken of any intervening favourable market opportunities.
- 3.16 Credit and liquidity risks in fixed interest investments are limited by investing between 40% and 60% of the UK fixed interest assets and 100% of European fixed interest assets in government-backed bonds. Bonds that are not government-backed

are generally restricted to investment grade securities (AAA – BBB, or equivalent). A maximum of 30% of the SLL Fund will be invested in bonds rated BBB and at least 15% will be invested in bonds rated AA or higher.

- 3.17 The asset allocation for the non-fixed interest investments chosen to match the with-profits liabilities in the SLL Fund is determined using the guidelines tabulated below:

| <b>Asset Class</b>        | <b>Non-fixed Interest Percentage for UK Liabilities</b> | <b>Non-fixed Interest Percentage for RoI Liabilities</b> |
|---------------------------|---|--|
| UK Equity                 | 65 - 90%  | 5 - 15%  |
| UK Property               | 0 - 25%   | -  |
| European (ex UK) Equity   | 5 - 15%   | 40 - 90%   |
| Overseas Equity (ex Euro) | 5 - 15%   | 5 - 15%  |
| RoI Equity                | -   | 0 - 15%  |
| RoI Property              | -   | 0 - 25%  |

The percentages in the two columns above will always add up to 100%.

The balance of investments is reviewed after any significant market movement and at least once every three months to ensure proportions do not move outside the above guidelines for any significant period.

- 3.18 Wherever possible, the Society invests in stock exchange investments using index-tracking collective investment schemes<sup>1</sup>. This minimises the investment costs and limits investment risk to the SLL Fund. The Society invests in actively managed collective investment schemes for the SLL Fund when suitable index tracking schemes are not available and in segregated funds for asset classes where no collective schemes are available.
- 3.19 As explained in 3.1, the detailed investment strategy for the SLL Fund is determined and controlled by the Board. Senior managers, including the With-Profits Actuary, assist the Board in these tasks. Any change to the detailed investment strategy of the SLL Fund, or investment in new or novel investment instruments, would need to be agreed by this body before it could be brought into effect for the SLL Fund.

<sup>1</sup> A pooled fund arrangement such as a unit trust or OEIC, operated by an independent manager.

## 4. Business Risk

### Principles

4.1 Under the terms of the Transfer Agreement, with the exception of the two items noted below, the policyholders within the SLL Fund shall bear all business risks arising from the business within the SLL Fund itself, but in the normal course shall not bear any business risks that do not arise from the business within this Fund.

4.2 The exceptional items of business risk are

#### (a) Tax

The Society is taxed as a whole and the amount payable may differ from the tax that would have been payable if the SLL Fund and the rest of the Society were taxed as independent units. The Transfer Agreement requires that the SLL Fund will be allocated 50% of any tax benefits (or be charged 50% of any additional tax) as a result of the amalgamation.

#### (b) SLL Staff Pension Scheme

Risks associated with the SLL Staff Pension Scheme (the Pension Scheme) are shared between the SLL Fund and the Society's other funds. Under the terms of the Transfer Agreement, when the transfer became effective SLL set aside assets as security for the Pension Scheme. The SLL Fund bears no further risk associated with the Pension Scheme; if the cost of the Pension Scheme's obligations exceed the Scheme's assets by more than the value of the assets SLL has set aside, then this additional cost will be borne by the Society's other funds.

It is anticipated that the assets set aside will be more than sufficient to secure the Society's obligations to the Pension Scheme. If the Pension Scheme is wound up then any remaining assets set aside will revert to the SLL Fund.

The agreement controlling the assets set aside also permits some of the assets to be released to the SLL Fund provided the value of the remaining assets, when added to the assets of the Pension Scheme, exceed the cost of securing all pension benefits with an insurance company by at least £3m. Assets released to the SLL Fund cannot be set aside as security for the Pension Scheme again.

4.3 The SLL Fund bears the risks associated with guarantees provided on SLLF WP Policies. The SLL Fund's Inherited Estate will normally bear the costs of meeting these guarantees but if the level of the SLL Fund's Inherited Estate falls below the level required to operate the Smoothing policy and provide working capital, the costs of meeting guarantees may lead to more than a gradual change in the regular and Final Bonus rates.

4.4 The SLLF WP Policyholders are exposed to the risk arising from maintaining the non-profit policies included in the SLL Fund. Any profits or losses arising from

these risks, including any costs of compensation, accrue in the first instance to the SLL Fund's Inherited Estate but if the level of the SLL Fund's Inherited Estate falls below the level required to operate the Smoothing policy and provide working capital, any losses may be funded by reducing the regular and Final Bonus rates in the SLL Fund.

### **Practices**

4.5 Profits and losses will arise from those parts of the business of the SLL Fund that do not directly relate to the management of the with-profits business included in the SLL Fund. These profits and losses are not directly credited or debited to SLLF WP Policyholders' Asset Shares, but instead are credited or debited to the SLL Fund's Inherited Estate and this will increase or decrease as a result. As the SLL Fund's Inherited Estate is attributable to SLLF WP Policies and is used to enhance the value of Asset Shares as described in Section 6, there will be an indirect impact on the amounts payable under SLLF WP Policies. Effectively, therefore, the profits or losses from all business risks (either directly or indirectly) are pooled across all SLLF WP Policies in force.

## 5. Charges and Expenses

### Principles

- 5.1 The overall aim of the Society's approach to applying charges and apportioning expenses to the SLL Fund's with-profits policies is that it should be fair and appropriate.
- 5.2 Under the Transfer Agreement the SLL Fund will be charged administration expenses and investment management charges. For the first ten years after the transfer the administration charge will be composed of
- (a) a percentage of the premium income received by the SLL Fund; and
  - (b) a fee per policy that is dependent on the type of each policy within the SLL Fund, and inflation over the period since the date of the transfer.
- 5.3 After the tenth anniversary of the date of the transfer the basis of charging of administration expenses will be reviewed and adjusted (if required) to reflect the level of administration costs actually incurred by the Society in its policy administration (including the administration of the SLL policies) with a view to ensuring that the SLL Fund bears no more than its proportionate share of such administration costs.
- 5.4 Investment management charges will be subject to a maximum of 0.2% of the value of the investments within the SLL Fund each year.
- 5.5 The Transfer Agreement also entitles the Society to recover certain exceptional costs from the SLL Fund. These relate to exceptional costs incurred by the Society arising from mis-selling issues related to policies issued by SLL and exceptional costs incurred by the Society arising from legal, tax or regulatory changes, directly affecting the policies issued by SLL or the SLL Fund that exceed £30,000. The Society considers it unfair to attribute such costs to the members who happen to have policies in force in the year in which they are paid. By charging these costs to the SLL Fund's Inherited Estate, they are effectively spread and charged evenly to all Asset Shares throughout the whole of the run-off period of the business.
- 5.6 Under unitised with-profits business included in the SLL Fund, the charges for risk cover and management expenses (including investment costs) are defined in the policy provisions. Any difference between the administration and investment management costs charged to policies and the charges paid by the SLL Fund will accrue to, or be paid out of, the SLL Fund's Inherited Estate (see Section 6). Some charges are fixed whilst others are linked to inflation and these latter charges will increase in line with the appropriate inflation index. Some policy provisions permit the Society to change some charges without limit. The principles to be applied here are that any increase would only be made should there be a significant increase in costs to which the charges relate and that this would not exceed that required to cover the actual increase in costs.

- 5.7 For conventional business included in the SLL Fund, the charges applied to individual policy Asset Shares will equate to the per-policy and per-premium and investment management charges set out in the Transfer Agreement.
- 5.8 Costs that are exceptional in nature and not directly related to the management of the business in force for the year in question are not brought into account for the purposes of the Asset Share calculation referred to above but are charged to the SLL Fund and serve to reduce the level of the SLL Fund's Inherited Estate (see Section 6).

### **Practices**

- 5.9 Unitised SLLF WP Policies have a 1% annual management charge. This is taken by deducting 1% from the yield earned on the underlying investments in the Asset Share assessment each year. Other charges on unitised SLLF WP Policies are taken through the cancellation of units as specified in the policy provisions.
- 5.10 For conventional with-profits business included in the SLL Fund the Society does not make explicit charges but management expenses and the cost of life cover are allowed for within the Asset Share calculations as described in 2.27 and 2.28.
- 5.11 There are no current circumstances under which the Society will charge expenses at an amount other than the charging structure set out in the Transfer Agreement.
- 5.12 As the Society is a mutual, there are also no issues associated with the existence of any shareholder interest.

## 6. Management of the SLL Fund's Inherited Estate

### Principles

- 6.1 The SLL Fund's Inherited Estate is the excess of the assets attributable to the with-profits business included in the SLL Fund, valued on a realistic basis, over the assessed value of the SLL Fund's assets that has been contributed by the with-profits policies currently in force included in that Fund (together with the value of any provisions made for guarantees on these policies).
- 6.2 Following the SLL Fund's closure to new business in May 2002, an overriding principle (referred to in 1.10 and 1.11) has been to distribute the SLL Fund's Inherited Estate to SLLF WP Policyholders in a manner that is fair having regard to different classes, generations and country of origin of the business.
- 6.3 The level of the SLL Fund's Inherited Estate will be managed down along with the with-profits liabilities included in the SLL Fund through the payment of higher claims than would otherwise be the case. Enhancement will be designed so that the projected values of the SLL Fund's total with-profits assets, the assets contributed by the SLLF WP Policies in force and the with-profits liabilities all reduce to zero by the time the last claim is made in the SLL Fund.
- 6.4 In the managing down process, the Society will have regard to the purposes for which the SLL Fund's Inherited Estate may be applied that include supporting solvency and supervisory requirements, investment and bonus policy (including Smoothing) and meeting certain expense or business risks. These purposes will also influence the size of the SLL Fund's Inherited Estate required from time to time. However, the Society's aim is to reduce the exposure of the portfolio to risk over time such that the fair distribution of the SLL Fund's Inherited Estate is not jeopardised.
- 6.5 As the Society is a mutual, and the SLL Fund exists as a notional sub-fund within the Society, there are no issues associated with the existence of any shareholder interest.
- 6.6 SLLF WP Policyholders will not benefit from any distribution of the Society's Inherited Estate existing in funds other than the SLL Fund. Similarly, policyholders in the Society's other funds will not benefit from any distribution of the SLL Fund's Inherited Estate.

### Practices

- 6.7 For business that has a maturity date (such as endowment policies) the practice is to define the assessed value of assets contributed by the with-profits policies currently in force as the aggregate Asset Shares. For certain classes of business, such as Industrial Branch Whole Life, where the Asset Share is not an appropriate measure of policy value, an appropriate alternative method, such as a bonus reserve valuation on a realistic basis, is used. An investigation was performed prior to the transfer of the SLL Fund, which calculated an assessed bonus reserve value for every SLL Fund with profit policy. This value will be updated for premiums

received, expenses incurred, investment return earned and yield enhancements awarded in future, updated in line with an updated bonus reserve valuation from time to time.

- 6.8 Aggregate asset shares are defined as the assessed value of assets contributed by the with-profits policies currently in force. The SLL Fund's Inherited Estate, therefore, is the difference between the value of the assets attributable to the SLL Fund's with-profits business and the sum of these amounts together with any provisions that are required for guarantees on the business.
- 6.9 The Society aims to manage down the level of the SLL Fund's Inherited Estate by declaring bonuses that are higher than would be justifiable from an assessment of the policy Asset Shares alone. To ensure equity between different classes and generations of policyholders, claims are based on enhanced Asset Shares that have the effect of attributing the SLL Fund's Inherited Estate amongst the SLLF WP Policyholders.
- 6.10 The enhancement to the Asset Shares is currently achieved by assuming that investment returns in each year prior to 1994 were 4.25% higher than they actually were, and that investment returns in each year after 1993 were 1.25% higher than they actually were. These yield enhancements may change from year to year following a re-assessment of the level of the SLL Fund's Inherited Estate and how it is projected to change in the future. Such an adjustment of the yield enhancement within the Asset Share calculation formula would have the effect of changing the value of the Inherited Estate.
- 6.11 Each year the With-Profits Actuary will review the enhancements to bonus rates to ensure they continue to meet the Society's objective. If the SLL Fund's Inherited Estate appears to be running down too quickly or too slowly then he will recommend to the Board that the enhancements should be decreased or increased as appropriate. Any change to enhancements requires the specific agreement of the Board.
- 6.12 The purposes for which the SLL Fund's Inherited Estate may be applied were set out in 6.4 and actual uses and the costs thereof will follow these as described elsewhere. Experience will inevitably differ from that assumed in any projection and may cause the size of the SLL Fund's Inherited Estate and / or the enhancement to asset shares referred to in 6.10 to increase or decrease. Reasons for a reduction to the enhancement might include (by way of example):
- 6.12.1 Additional expense charges, as described in 5.5;
  - 6.12.2 Higher than expected Smoothing or guarantee costs arising out of payments in excess of enhanced Asset Shares; or
  - 6.12.3 Losses from business within the SLL Fund but outside of the with-profits class.
- 6.13 The investment strategy followed in respect of the asset shares for with profits policies reflects the risk appetite of the policyholders. Subject to meeting the

minimum guaranteed benefits, the risks and rewards available will be reflected in the return on the asset shares. However, the inherited estate provides the capital support required to maintain the solvency of the sub-fund. It is therefore important that in adverse market conditions the value of the inherited estate is sufficiently robust to continue to maintain the solvency of the sub-fund. The investment strategy of the inherited estate will therefore tend to be more restricted than the rest of the fund and may invest a lower proportion into equity type investments.

- 6.14 Over time, as endowment policies mature, the SLL Fund will gradually become dominated by whole-life business; Asset Shares are not relevant for this business and so an approach using a form of ‘best estimate’ bonus reserve valuation to distributing the Inherited Estate is used.
- 6.15 As the number of policies in the SLL Fund runs down, there will become a point at which it becomes excessively expensive to maintain the SLL Fund as a separate notional fund, at which point the Society would cease to maintain it. This will involve the ‘conversion’ of the remaining policies to non-profit status, and distribution of all the remaining SLL Fund Inherited Estate appropriately.

## 7. Glossary

|  |   |
|--|---|
| <b><i>Asset Share</i></b>                    | The accumulation of premiums less charges for expenses, tax, guarantees and the cost of life assurance and other risk benefits plus the investment return on the underlying assets. |
| <b><i>Board</i></b>                          | The board of directors of the Society   |
| <b><i>Derivative</i></b>                     | A financial instrument usually including an option to trade in securities at a fixed price at some future date.   |
| <b><i>Final Bonus</i></b>                    | Bonus added when there is a claim   |
| <b><i>FSA</i></b>                            | the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS  |
| <b><i>FSA Rules</i></b>                      | means rules made and guidance issued by the FSA under the Financial Services and Markets Act 2000   |
| <b><i>Inherited Estate</i></b>               | The difference for the time being and from time to time between the market value of assets and the Asset Share and provision for guarantees.  |
| <b><i>Industrial Business</i></b>            | Business where home service agents originally collected the policy premiums in cash.  |
| <b><i>Market Value Adjustment or MVA</i></b> | A reduction in the unit value on any claim other than on maturities and deaths.   |
| <b><i>SLL Fund</i></b>                       | A notional sub-fund of the Society covering the SLL Business  |
| <b><i>SLLF WP Policyholders</i></b>          | with-profits policyholders of the Society whose policies are within the SLL Fund  |
| <b><i>SLLF WP Policies</i></b>               | with-profits policies of the Society which are within the SLL Fund  |
| <b><i>SLL Business</i></b>                   | the business of SLL transferred to the Society under the Transfer Agreement   |

***SLL WP Business***

the SLL With-Profits Business and any business which derives from it which is included in the SLL Fund

***Smoothing***

A means by which long term returns on with-profits policies are adjusted to even out the short term high and low investment returns.

***Surplus***

The excess of premiums and investment return over claims, expenses, taxation and the increase in liabilities calculated as required by the Regulations.

***Surrender Value***

The claim value paid when a policy is voluntarily discontinued by the policyholder before the maturity date.

***Transfer Agreement***

the agreement dated 20 April 2007 between SLL and the Society transferring the SLL Business to the Society

***With-Profits Actuary***

An actuary is a person with a professional qualification specialising in financial risk and particularly insurance risk. The term ‘With-Profits Actuary’ in the PPFM relates to the actuary with overall responsibility for advising the Board on how to apply the PPFM.

## Appendix

### Identifying With-Profits Business to which these PPFM relate

The table below is to help identify whether or not a policy is a former SLL with-profits policy or one issued by SFA and written in the SLL Fund, and therefore subject to these PPFM.

For many years SLL identified different product types using Table Numbers. If your policy commenced prior to June 1992 the best way to check whether it is with-profits is to look up the Table Number from the policy schedule. Table Numbers continued to be used after June 1992 but product brand names became more prominent. The table below identifies products by both the Table Number and the product type or brand name.

If the policy is a Republic of Ireland policy, the Table Number in the policy schedule may be prefixed with “R”. Please ignore that prefix when looking up the number in the table below.

#### 1. Industrial Products

Policies where, at commencement, premiums were payable in cash on a weekly or four-weekly basis to an authorised agent of SLL.

| <b>Table Number</b> | <b>Product Type / Brand Name</b>          | <b>With Profits?</b> |
|---------------------|---|----------------------|
| 1                   | Juvenile Whole of Life Assurance          | Yes*                 |
| 1A                  | Juvenile Whole of Life Assurance          | Yes*                 |
| 1b                  | Juvenile Whole of Life Assurance          | No                   |
| 2                   | Whole of Life Assurance                   | Yes*                 |
| 3                   | Whole of Life Assurance                   | Yes*                 |
| 3A                  | Whole of Life Assurance                   | Yes*                 |
| 3E                  | Whole of Life Assurance                   | Yes*                 |
| 3G                  | Triple Benefit Assurance                  | Yes* <sup>1</sup>    |
| 3K                  | Triple Benefit Assurance                  | Yes* <sup>1</sup>    |
| 4                   | Endowment Assurance                       | Yes*                 |
| 6                   | Joint Whole of Life Assurance             | Yes*                 |
| 12                  | Pure Endowment                            | Yes*                 |
| 12A                 | Pure Endowment                            | Yes*                 |
| 13                  | Whole of Life Assurance                   | Yes*                 |
| 14                  | Whole of Life Assurance                   | Yes*                 |
| 15                  | Increasing Whole of Life Assurance        | No                   |
| 16                  | Juvenile Deferred Endowment Assurance     | Yes*                 |
| 21                  | Juvenile Deferred Whole of Life Assurance | Yes*                 |
| <b>Table Number</b> | <b>Product Type / Brand Name</b>          | <b>With Profits?</b> |
| 22                  | Endowment Assurance                       | Yes*                 |
| 23                  | Whole of Life Assurance                   | Yes*                 |

<sup>1</sup> This product has an endowment and a whole life element. Only the whole life element is with-profits and there is no entitlement to annual (reversionary) bonus on either element.

|     |  |                   |
|-----|--|-------------------|
| 24  | Juvenile Triple Benefit Assurance      | Yes*              |
| 25  | Triple Benefit Assurance               | Yes* <sup>1</sup> |
| 26  | Triple Benefit Assurance               | Yes* <sup>1</sup> |
| 27  | Whole of Life Assurance                | Yes* <sup>1</sup> |
| 28  | Juvenile Whole of Life Assurance       | No                |
| 101 | Familycare (Whole of Life Assurance)   | Yes               |
| 111 | Easisave (Endowment Assurance)         | Yes               |
| 121 | Safetysave (Pure Endowment)            | Yes               |
| 131 | Supersave (Whole of Life Assurance)    | Yes               |
| 141 | Flexicare (Convertible Term Assurance) | No                |
| 142 | Termcare (Convertible Term Assurance)  | No                |
| 143 | Criticalcare (Critical Illness Plan)   | No                |

\* Policies cease to be with-profits if premiums cease before the end of the premium payment term and the Society issues a lower “paid-up” sum assured as a result.<sup>1</sup>

## 2. Ordinary Products

Single premium policies and regular premium policies which, from commencement, were payable via automated bank transfers.

| <b>Table Number</b> | <b>Product Type / Brand Name</b>               | <b>With Profits?</b> |
|---------------------|--|----------------------|
| 9                   | Whole of Life Assurance                        | Yes*                 |
| 10D                 | Endowment Assurance                            | Yes*                 |
| 11                  | Whole of Life Assurance                        | Yes*                 |
| 11B                 | Pure Endowment                                 | Yes*                 |
| 17                  | Endowment Assurance                            | No                   |
| 18                  | Endowment Assurance                            | Yes*                 |
| 19                  | Endowment Assurance                            | No                   |
| 60                  | Reducing Term Assurance with Residual Benefits | No                   |
| 60A                 | Property Protection Policy                     | No                   |
| 60B                 | Reducing Term Assurance with Residual Benefits | No                   |
| 61                  | Juvenile Deferred Assurance                    | Yes*                 |
| 61B                 | Juvenile Deferred Assurance                    | Yes*                 |
| 65                  | Convertible Term Assurance                     | No                   |

| <b>Table Number</b> | <b>Product Type / Brand Name</b>                              | <b>With Profits?</b> |
|---------------------|---|----------------------|
| 70                  | Investment Linked Endowment Assurance                         | No <sup>1</sup>      |
| 80                  | Low Cost Endowment  | Yes*                 |
| 81                  | Low Cost Endowment  | Yes*                 |
| 82                  | Endowment Assurance   | Yes*                 |
| 83                  | Endowment Assurance   | Yes*                 |
| 84                  | Whole of Life Assurance                                       | Yes*                 |
| 84A                 | Whole of Life Assurance                                       | Yes*                 |
| 85                  | Whole of Life Assurance                                       | Yes*                 |
| 85A                 | Whole of Life Assurance                                       | Yes*                 |
| 86                  | Endowment Assurance   | Yes*                 |
| 87                  | Endowment Assurance   | Yes*                 |
| 88                  | Whole of Life Assurance                                       | Yes*                 |
| 88A                 | Whole of Life Assurance                                       | Yes*                 |
| 89                  | Whole of Life Assurance                                       | Yes*                 |
| 89A                 | Whole of Life Assurance                                       | Yes*                 |
| 201                 | Lifespan (Whole of Life Assurance)                            | Yes                  |
| 202                 | Lifespan (Whole of Life Assurance)                            | Yes                  |
| 203                 | Lifespan (Whole of Life Assurance)                            | Yes                  |
| 211                 | Prosperity (Endowment Assurance)                              | Yes                  |
| 212                 | Prosperity (Endowment Assurance)                              | Yes                  |
| 221                 | Homebuyer (Suresave in RoI) (Low Cost Endowment)              | Yes                  |
| 222                 | Homebuyer (Suresave in RoI) (Low Cost Endowment)              | Yes                  |
| 231                 | Single Premium Prosperity (Endowment Assurance)               | Yes                  |
| 241                 | Index Linked Prosperity (Prosperity Plus in RoI)              | No                   |
| 243                 | Index Linked Prosperity (Prosperity Plus in RoI)              | No                   |
| 244                 | Index Linked Prosperity (Prosperity Plus in RoI)              | No                   |
| 251                 | Single Premium Index Linked Prosperity (SP Prsp. Plus in RoI) | No <sup>2</sup>      |
| 261                 | Flexicover (Convertible Term Assurance)                       | No                   |
| 262                 | Flexicover (Convertible Term Assurance)                       | No                   |
| 263                 | Flexicover (Convertible Term Assurance)                       | No                   |
| 264                 | Convertible Term Assurance                                    | No                   |
| 265                 | Convertible Term Assurance                                    | No                   |
| <b>Table Number</b> | <b>Product Type / Brand Name</b>                              | <b>With Profits?</b> |
| 271                 | Extracover (Term Assurance)                                   | No                   |
| 272                 | Extracover (Term Assurance)                                   | No                   |
| 273                 | Extracover (Term Assurance)                                   | No                   |
| 274                 | Lifeline (Term Assurance)                                     | No                   |
| 275                 | Lifeline (Term Assurance)                                     | No                   |
| 276                 | Lifeline (Term Assurance)                                     | No                   |

<sup>1</sup> These policies receive reversionary bonuses each year but they are not regarded as with-profits since the main determinants of policy value are the index values. Only a small part of each policy's value is therefore at the discretion of the Society's Board.

<sup>2</sup> These policies receive a terminal bonus on death and maturity claims but they are not regarded as with-profits since the main determinants of policy value are the index values. Only a small part of each policy's value is therefore at the discretion of the Society's Board.

|     |  |       |
|-----|--|-------|
| 277 | Level Term Assurance   | No    |
| 278 | Level Term Assurance   | No    |
| 281 | Junior Prosperity (Endowment Assurance)                      | Yes   |
| 282 | Family Prosperity (Endowment Assurance)                      | Yes   |
| 283 | Critical Illness Plan  | No    |
| 284 | Critical Illness Plan  | No    |
| 289 | Mortgage Protection Plan (Decreasing Term Assurance)         | No    |
| 290 | Mortgage Protection Plan (Decreasing Term Assurance)         | No    |
| 301 | Chapters [Sláinte in RoI] (Flexible Whole of Life Assurance) | No    |
| 302 | Chapters [Sláinte in RoI] (Flexible Whole of Life Assurance) | No    |
| 311 | Chapters Gold (Single Premium Whole of Life Assurance)       | No    |
| 311 | Mutual Investment Bond (Single Prem Whole Life Assurance)    | UWP** |
| 312 | Chapters Gold (Single Premium Whole of Life Assurance)       | No    |
| 312 | Mutual Investment Bond (Single Prem Whole Life Assurance)    | UWP** |
| 315 | Growth Bond (Single Premium Whole of Life Assurance)         | No    |
| 316 | Growth Bond (Single Premium Whole of Life Assurance)         | No    |
| 317 | Capital Guarantee Bond (Sgl Prem Whole of Life Assurance)    | No    |
| 318 | Capital Guarantee Bond (Sgl Prem Whole of Life Assurance)    | No    |
| 319 | Guaranteed Investment Bond (Sgl Prem Whole Life Assurance)   | No    |
| 320 | Guaranteed Investment Bond (Sgl Prem Whole Life Assurance)   | No    |
| 321 | Special Tax Exempt Plan                                      | UWP** |
| 322 | Special Tax Exempt Plan                                      | No    |
| 323 | Special Tax Exempt Plan                                      | No    |
| 324 | Special Tax Exempt Plan                                      | No    |
| 325 | Special Tax Exempt Plan                                      | No    |
| 326 | Special Tax Exempt Plan                                      | No    |
| 327 | Special Tax Exempt Plan                                      | No    |
| 328 | Special Tax Exempt Plan                                      | No    |
| 329 | Annuity-funded Special Tax Exempt Plan                       | UWP** |
| 331 | STEP Plus  | UWP** |
| 334 | STEP Pus   | UWP** |
| 343 | Ulster Bank ISEQ Tracker                                     | No    |
| 344 | Ulster Bank ISEQ Tracker                                     | No    |

| <b>Table Number</b> | <b>Product Type / Brand Name</b>         | <b>With Profits?</b> |
|---------------------|--|----------------------|
| 345                 | Capital Guarantee Bond                   | No <sup>1</sup>      |
| 346                 | Capital Guarantee Bond                   | No <sup>1</sup>      |
| 351                 | Ulster Bank ISEQ Tracker                 | No                   |
| 352                 | Ulster Bank ISEQ Tracker                 | No                   |
| 353                 | Ulster Bank ISEQ Tracker                 | No                   |
| 354                 | Ulster Bank ISEQ Tracker                 | No                   |
| 361                 | Index Investor (Endowment Assurance)     | No                   |
| 363                 | Five Year Special Savings Incentive Plan | No                   |
| 365                 | Flexible Savings Plan                    | UWP**                |
| 366                 | Flexible Savings Plan                    | UWP**                |
| 401                 | Personal Pension Plan                    | No                   |
| 402                 | Personal Pension Plan                    | No                   |
| 411                 | Personal Pension Plan                    | No                   |
| 421                 | Pension Term Assurance                   | No                   |

\* Although these policies continue to be with-profits they lose their entitlement to annual (reversionary) bonus if premiums cease before the end of the premium payment term and the Society issues a lower “paid-up” sum assured as a result.

\*\*Those products marked “UWP” are with-profits to the extent of their investment in the unitised with-profits fund within the SLL Fund.

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<sup>1</sup> A discretionary bonus may be added to claims after a policy’s fifth anniversary but they are not regarded as with-profits since the main determinants of policy value are the unit prices. Only a small part of each policy’s value is therefore at the discretion of the Society’s Board.