Scottish Friendly Assurance Society Limited

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

September 2018

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1. Introduction

1.1. The Conduct of Business sourcebook of the Financial Conduct Authority ('FCA') 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 ("Scottish Friendly", "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 Scottish Friendly (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. Scottish Friendly 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. Scottish Friendly has a Board of Directors, which is the ultimate governing body for Scottish Friendly, 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 Scottish Friendly's other with-profits business (Conventional With-Profits Business, Unitised With-Profits Business and the former With-Profits Business of Marine & General Mutual, Rational Shelley and of Lanmas).

Principles and Practices

1.6. Principles are high-level statements that reflect the general approach adopted by Scottish Friendly 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 Scottish Friendly from time to time are appropriate.

1.7. Practices, on the other hand, describe Scottish Friendly'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 SLLF WP Policy with Scottish Friendly. They are also expected to change from time to time as Scottish Friendly'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 Scottish Friendly 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. Scottish Friendly 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 Scottish Friendly, 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 Appendix A 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. Scottish Friendly'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 Scottish Friendly 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, Scottish Friendly may change any assumptions used regarding the historical experience. In making any changes Scottish Friendly 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 Scottish Friendly'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 Scottish Friendly's, as well as, the SLL Fund's financial position allow.

2.7.4. Regulatory requirements. To take into consideration regulatory requirements to protect with-profits policyholders.

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, Scottish Friendly 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 Scottish Friendly'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, Scottish Friendly 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 Scottish Friendly'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 Scottish Friendly'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. 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 Estate. Scottish Friendly 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 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 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. For Endowment policies, 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 2.43 to 2.53. For Whole Life policies, the Asset Share approach works less well and a different approach has to be adopted, as described in Sections 2.25 to 2.28.

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 therefore 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 Estate. The Estate has been built up over the life of the relevant business included in the SLL Fund (including prior to its transfer to Scottish Friendly) 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. Scottish Friendly aims to distribute the SLL Fund's Estate as the business runs off and this is covered in Section 6.

2.23. The size of the SLL Fund's 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 Estate is assumed to have met these costs.

2.24. Whilst the concept of Asset Shares is now well established within Scottish Friendly, 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.

Notional Asset Shares for Whole Life policies

2.25. As explained above the asset share concept does not work well for Whole Life policies, particularly at high ages. This is because the negative effect of expense charges (if levied on a per policy basis) and the mortality charges can outweigh the positive effect of the investment return.

2.26. The Board agreed in December 2010 that the asset shares for Whole Life policies should be 'reset' to a level based on the sum assured and vested bonus for each individual policy. This is described in Appendix B.

2.27. At 31 May 2012, the notional asset shares for Whole Life policies were recalculated to better reflect the value of the expected pay-outs, which resulted in an enhancement in the asset shares.

2.28. These notional asset shares will be increased each year by the investment return earned on the assets backing the SLL Fund and reduced by the expense charges applied. The present intention is that no deduction will be made for the cost of mortality.

Main Assumptions

2.28. The main assumptions used in the determination of the amount payable under SLLF WP Policies concern investment return, management expenses, mortality and tax.

2.29. **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.

2.30. **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 Scottish Friendly on policies within the SLL Fund.

2.31. While the total charges deducted from the SLL fund are those stated in the Transfer Agreement, the allocation to individual policies has been varied. This is because the original charging approach bore too heavily on the smaller policies. From 1 January 2010 charges to individual policies will be based on a percentage of the accumulated fund and a percentage of the premiums payable rather than a fixed amount per policy.

2.32. **Mortality.** For the SLL Fund's with-profits endowment 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 Estate (see Section 6). For the Whole Life policies, mortality charges at high ages can represent a significant charge to the asset share and this is one reason why a revised approach has become necessary. No mortality charge is made to the notional asset shares which will be used for Whole Life policies from 31 December 2010.

2.33. **Tax**. For taxable business, allowance for tax is made when assessing the investment return and management expenses as described in 2.30 to 2.32, 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 Estate.

Approximations, documentation and change procedures

2.34. 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.

2.35. 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.

2.36. 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

2.37. 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.

2.38. 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.

2.39. 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.

2.40. 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.

2.41. As a guide, Scottish Friendly'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 annual 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.

2.42. 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, Scottish Friendly would seek to avoid large reductions (beyond 0.50% per annum) subject, however, to Scottish Friendly's and the SLL Fund's free asset and solvency position being satisfactory.

2.43. Annual bonus rates are declared at the discretion of the Board. Current practice for conventional business (as described in 2.37) is to set rates annually in arrears. The practice for unitised with-profits business (as described in 2.38) is to set annual rates of price increase once a year which apply, in advance, until the next review.

2.44. As described in 2.39 and 2.43, Scottish Friendly's aim in respect of the SLL Fund is to set annual bonus rates that will change relatively infrequently and avoid large fluctuations. Nevertheless, Scottish Friendly does not have any maximum amount by which annual bonus rates would alter. In a situation where Scottish Friendly's or the SLL Fund's solvency was under threat, or there is not expected to be sufficient Surplus in the SLL Fund, Scottish Friendly may act to reduce annual bonus rates significantly. Indeed, in extremis, it may decide not to declare a bonus.

2.45. For conventional business included in the SLL Fund it is the practice of Scottish Friendly 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

2.46. 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 2.57 to 2.61.

2.47. 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.

2.48. 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.

2.49. The approach (subject to 2.46) is to set rates for Endowment 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.

2.50. 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 Estate as described in Section 6.

2.51. Scales of final bonus rates, across all terms are then derived with the aim of satisfying the practices detailed in 2.47 and 2.48 above.

2.52. 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. Scottish Friendly 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. Scottish Friendly 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.

2.53. 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.

2.54. For whole life SLLF WP Policies, where a full claim is only payable on death, the concept of Asset Shares has less meaning. Scottish Friendly 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.

2.55. 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 Scottish Friendly does not receive tax relief on expenses for its exempt business.

2.56. 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 generally reviewed yearly. Final Bonus rates and MVAs on unitised with-profits business included in the SLL Fund are reviewed at least twice a year although more frequent reviews will be undertaken in volatile market conditions. However, for both classes of business, Scottish Friendly 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

2.57. These practices follow the principles as set out in 2.14 to 2.18. Scottish Friendly'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 2.56) 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.

2.58. 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

Scottish Friendly is prepared to tolerate in the SLL Fund. This is because Scottish Friendly regards the SLL Fund's 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 Scottish Friendly was put at risk the Board could adjust payments very rapidly.

2.59. 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. 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 Scottish Friendly's aim for conventional Surrender Values in the SLL Fund to match Asset Shares closely.

2.60. 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 Final Bonus or MVA are generally ignored in the SLL Fund.

2.61. 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. Scottish Friendly'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 Scottish Friendly 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 FCA.

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, Scottish Friendly'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 Scottish Friendly has regard to the support available from the SLL Fund's Estate to the extent that it is not otherwise encumbered. The distribution of the SLL Fund's Estate serves to increase the discretionary element of claims and this permits Scottish Friendly 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 Final 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 Scottish Friendly 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. Scottish Friendly'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 Scottish Friendly.

3.13. 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.

3.14. 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.

3.15. We would expect the future equity backing ratio of the SLL Fund to normally be in the range of 10% to 50%.

3.16. At present the SLL Fund invests in corporate bonds via a unit trust which takes due account of their credit quality, with a minimum Standard & Poor's rating of CCC;

total corporate bond exposure will comprise no more than 50% of the fixed interest portfolio.

3.17. Wherever possible, Scottish Friendly invests in stock exchange investments using index-tracking collective investment schemes[1.] This minimises the investment costs and limits investment risk to the SLL Fund. Scottish Friendly 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.

3.18. As explained in 3.1, the detailed investment strategy for the SLL Fund is determined and controlled by the Investment Committee. Senior managers, including the With-Profits Actuary, assist the Committee 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.

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[1] 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 Risk Committee of the Board is responsible for the effective risk management of Scottish Friendly and the notional funds, including consideration of the business risks being borne.

4.3. The exceptional items of business risk are

a) Tax

Scottish Friendly 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 Scottish Friendly 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 Scottish Friendly'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 Scottish Friendly's other funds.

It is anticipated that the assets set aside will be more than sufficient to secure Scottish Friendly's obligations to the Pension Scheme. These obligations have now been secured with external insurance companies (by 'buying-in' annuities) to reduce the risks of the scheme. The Pension Scheme is now in the process of being wound up.

4.4. The SLL Fund bears the risks associated with guarantees provided on SLLF WP Policies. The SLL Fund's Estate will normally bear the costs of meeting these guarantees but if the level of the SLL Fund's 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 annual and Final Bonus rates.

4.5. 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 Estate but if the level of the SLL Fund's Estate falls below the level required to operate the Smoothing policy and provide working capital, any losses may be funded by reducing the Annual and Final Bonus rates in the SLL Fund.

Practices

4.6. 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 Estate and this will increase or decrease as a result. As the SLL Fund's 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 Scottish Friendly'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 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 Scottish Friendly 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 Scottish Friendly to recover certain exceptional costs from the SLL Fund. These relate to exceptional costs incurred by Scottish Friendly arising from mis-selling issues related to policies issued by SLL and exceptional costs incurred by Scottish Friendly arising from legal, tax or regulatory changes, directly affecting the policies issued by SLL or the SLL Fund that exceed £30,000. Scottish Friendly 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 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. For 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 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 Scottish Friendly 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 aggregate charges applied to Asset Shares will equate to the per-policy and per-premium and investment management charges set out in the Transfer Agreement. The allocation of these aggregate charges to individual asset shares will be carried out in a manner which is designed to be fair to policyholders.

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 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 Scottish Friendly does not make explicit charges but management expenses and where appropriate the cost of life cover are allowed for within the Asset Share calculations as described in 2.28 and 2.29.

5.11. There are no current circumstances under which Scottish Friendly will charge expenses at an amount other than the charging structure set out in the Transfer Agreement.

5.12. As Scottish Friendly is a mutual, there are also no issues associated with the existence of any shareholder interest.

6. Management of the SLL Fund's Estate

Principles

6.1. The estate of the SLL Fund will be managed in accordance with its own PPFM. However, in circumstances where solvency is threatened other parts of Scottish Friendly's business may be supported by the SLL Fund. Similarly, should the SLL Fund be unable to support the relevant transferred business the Main Fund of Scottish Friendly would be required to support the benefits.

6.2. The SLL Fund's 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) and the reserves for non-profit business.

6.3. 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 Estate to SLLF WP Policyholders in a manner that is fair having regard to different classes, generations and country of origin of the business.

6.4. The level of the SLL Fund's 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.

6.5. In the managing down process, Scottish Friendly will have regard to the purposes for which the SLL Fund's Estate may be applied that include promoting the ongoing corporate purposes of Scottish Friendly including current and future generations of members, 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 Estate required from time to time. However, Scottish Friendly's aim is to reduce the exposure of the portfolio to risk over time such that the fair distribution of the SLL Fund's Estate is not jeopardised.

6.6. As Scottish Friendly is a mutual, and the SLL Fund exists as a notional sub-fund within Scottish Friendly, there are no issues associated with the existence of any shareholder interest.

6.7. SLLF WP Policyholders will not benefit from any distribution of Scottish Friendly's Estate existing in funds other than the SLL Fund. Similarly, policyholders in Scottish Friendly's other funds will not benefit from any distribution of the SLL Fund's Estate.

Practices

6.8. 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 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. The most recent such exercise took place in 2016 and the notional asset shares were reset in line with the declared final bonus scale.

6.9. Aggregate asset shares are defined as the assessed value of assets contributed by the with-profits policies currently in force. The SLL Fund's 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 and the reserves for non-profit business.

6.10. Scottish Friendly aims to manage down the level of the SLL Fund's 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 Estate amongst the SLLF WP Policyholders.

6.11. 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 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 Estate.

6.12. Each year the With-Profits Actuary will review the enhancements to bonus rates to ensure they continue to meet Scottish Friendly's objective. If the SLL Fund's 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.

6.13. The purposes for which the SLL Fund's 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 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):

6.13.1. Additional expense charges, as described in 5.5;

6.13.2. Higher than expected Smoothing or guarantee costs arising out of payments in excess of enhanced Asset Shares; or

6.13.3. Losses from business within the SLL Fund but outside of the with-profits class.

6.14. 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 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 Estate is sufficiently robust to continue to maintain the solvency of the sub-fund. The investment strategy of the Estate will therefore tend to be more restricted than the rest of the fund and may invest a lower proportion into equity type investments.

6.15. 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 Estate is likely to be used.

6.16. 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 Scottish Friendly 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 Estate appropriately.

7. Glossary

Asset Share	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 and any miscellaneous surpluses or charges.
Board	The Board of Directors of Scottish Friendly
Derivative	A financial instrument usually including an option to trade in securities at a fixed price at some future date.
Estate	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 and the reserves for non-profit business.
Final Bonus	Bonus added when there is a claim
FCA	The Financial Conduct Authority.
FCA Rules	Rules made and guidance issued by the FCA under the Financial Services and Markets Act 2000
Industrial Business	Business where home service agents originally collected the policy premiums in cash.
Market Value Adjustment or MVA	A reduction in the unit value on any claim other than on maturities and deaths.
SLL Fund	A notional sub-fund of Scottish Friendly covering the SLL Business
SLLF WP Policyholders	with-profits policyholders of Scottish Friendly whose policies are within the SLL Fund
SLLF WP Policies	with-profits policies of Scottish Friendly which are within the SLL Fund
SLL Business	the business of SLL transferred to Scottish Friendly 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 Scottish Friendly transferring the SLL Business to Scottish Friendly
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 A
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.

Table Number	Product Type / Brand Name	With Profits?
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[*#]
3K	Triple Benefit Assurance	Yes[*#]
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[*]
Table Number	**Product Type / Brand Name**	**With Profits?**
22	Endowment Assurance	Yes[*]
23	Whole of Life Assurance	Yes[*]
24	Juvenile Triple Benefit Assurance	Yes[*]
25	Triple Benefit Assurance	Yes[*#]

26	Triple Benefit Assurance	Yes*#
27	Whole of Life Assurance	Yes*#
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 Scottish Friendly issues a lower "paid-up" sum assured as a result.

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 bonus on either element.

2. Ordinary Products

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

Table Number	Product Type / Brand Name	With Profits?
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

Table Number	Product Type / Brand Name	With Profits?
70	Investment Linked Endowment Assurance	No[~##]
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###
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
Table Number	**Product Type / Brand Name**	**With Profits?**
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
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

These policies receive annual 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 Scottish Friendly's Board.

These policies receive a final 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 Scottish Friendly's Board.

Table Number	Product Type / Brand Name	With Profits?
345	Capital Guarantee Bond	No####
346	Capital Guarantee Bond	No####
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 bonus if premiums cease before the end of the premium payment term and Scottish Friendly 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.

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 Scottish Friendly's Board.

Appendix B Notional Asset Shares for Whole Life Policies

At the end of 2010 the asset shares that had been inherited from SLL were reset to revised values because the application of fixed expenses charges and high mortality charges had led to distortion in the numbers. This Appendix describes how the figures were derived.

A total asset share figure was calculated for the Whole of Life Business

The reserves for each Whole Life policy were calculated on a Bonus Reserve basis. This allowed for the current sum assured and vested bonus and for the continuation of the current rate of annual bonus. It allowed for future premiums (where payable) and also for future expenses expressed as a percentage of the fund and a percentage of future premiums. The reserve as calculated was compared with the total asset share figure and a final bonus rate was determined which, when added to the BRV liability meant that the BRV liability equalled the total asset shares.

The BRV calculation did not include future charges for mortality.

A further recalculation of the asset shares was carried out at 31 May 2012. Updated BRVs were calculated for Whole Life policies and used to determine an appropriate enhancement, which was then applied to the relevant asset shares.

These new notional asset shares will be rolled forward in future allowing for the investment return earned and the expenses to be charged, but without a charge for mortality.