Scottish Friendly Assurance Society Ltd.

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

Effective: January 2024

Contents

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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 the 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. The Board is required by FCA Rules to establish arrangements to ensure that there is appropriate independent oversight and challenge of the way it manages Scottish Friendly's With-Profits business. Scottish Friendly has established a With-Profits Committee to advise the Board. The Board continues to be advised by the With-Profits Actuary.

1.5. 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 a formal report to the Board from the With-Profits Actuary reviewing PPFM compliance, subject to oversight from the With-Profits Committee.

1.6. Scottish Friendly operates a single fund (referred to as our "Main Fund") which contains all of the firm's assets and liabilities. Within the Main Fund, we have constituted and operate a number of separate, notional internal sub-funds in respect of certain blocks of business which have transferred to us. Separate sub-funds have been constituted in respect of the business transferred from each of the following:

- SLL;
- Marine & General Mutual Assurance Society;
- Rational Shelley Friendly Society;
- London, Aberdeen and Northern Mutual Assurance Society; and
- the Manulife with-profits fund of Canada Life Limited.

1.7. Scottish Friendly maintains separate PPFM documents in respect of the operation of the with-profits business in each notional sub-fund, as well as two PPFM documents in respect of the operation of the with-profits business managed outside of the notional sub-funds - one covering conventional with-profits business and the other covering unitised with-profits business. This PPFM document covers the operation of the with-profits business transferred from SLL.

Principles and Practices

1.8. 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.

1.9. 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 with-profits 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.

1.10. 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

1.11. 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

1.12. 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.

1.13. 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 policyholders.

f) Subject to (a), (b), (c), (d) and (e) above, to maximise the financial returns to policyholders.

SLLF WP Policies (Conventional and Unitised With-Profits)

1.14. 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 benefit that is 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.

1.15. 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 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.

1.16. 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 1.12and 1.13. 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 policyholders 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. Discretion is applied 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 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 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 1.12. 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 the financial position of Scottish Friendly and the SLL Fund 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 Annual Bonus rates and/or Final Bonus. These bonus series were determined many years ago and the products concerned have premium rates that were created on consistent bases, and this bonus rate sharing is expected to continue in the future.

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 pay-out 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 2.14to 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 1.12 and 1.13. 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 1.14 and 1.15, 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 pay-out as described in 2.43 to 2.53. For Whole of 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.

2.21. An Asset Share methodology has been in use in managing the SLL Fund only from around 2000 onwards 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 of Life policies

2.25. The Asset Share methodology is generally considered to be inappropriate for Whole of 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 of 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. The notional Asset Shares for Whole of Life policies were recalculated in 2012, 2016 and 2022 to better reflect the value of the expected pay-outs. Further recalculations may be carried out in the future should the Board deem this to be appropriate, having considered the advice of the With-Profits Actuary.

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

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

2.30. Investment return. The SLL Fund's assets are hypothecated to the main classes of business, with those backing UK and RoI business being identified separately. The income and growth for the individual asset types are adjusted for tax (where appropriate) and amalgamated to produce the 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.

2.31. 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.

2.32. 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 have been based on a percentage of the accumulated fund and a percentage of the premiums payable rather than a fixed amount per policy.

2.33. 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 allow for mortality charges using best estimate mortality assumptions 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 of 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 used for Whole of Life policies from 31 December 2010.

2.34. Tax. For taxable business, allowance for tax is made when assessing the investment return and management expenses as described in 2.30, 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

2.35. 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 policyholders and across different types of SLLF WP Policies.

2.36. The With-Profits Actuary documents the methods, parameters and assumptions used to determine the amount payable to 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.

2.37. 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

2.38. 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.

2.39. 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 1.15. The rate of unit price increase can be amended at any time but usually rates are reviewed once a year.

2.40. 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 policyholder's part that, in normal circumstances, rates will change relatively infrequently.

2.41. 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 pay-out to be paid in Final (non-guaranteed) form under reasonably foreseeable economic and demographic experience.

2.42. 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.

2.43. 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. To support the fair distribution of the Estate, the Board, after taking into account the advice of the With-Profits Actuary, may consider allowing final bonus rates to exceed the levels set out in 2.42. 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 solvency position being satisfactory.

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 different rates may apply if the Annual Bonus rate at the next declaration is expected to change.

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 2.60.

2.47. The aim in the long term, in determining pay-outs 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 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:

- pay-outs for at least 90% of maturity and surrender pay-outs made to the holders of conventional with-profits policies should fall within the range 70% to 130% of Asset Shares.
- pay-outs for at least 90% of exiting unitised with-profits policies fall in the range 70% to 130% of Asset Shares.

2.49. The approach (subject to 2.45) 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 are normally grouped together. At present the high level groupings are territory and class of business (i.e. UK/RoI and IB/OB). Within each group the Asset Shares are aggregated by term at maturity. Asset Shares include enhancements made to allow 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 (i.e. enhanced as described in Section 6). 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 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 policies. Surrendering conventional policies may also receive Final Bonus based on the maturity claim scale, but surrender values for endowment policies will not typically exceed Asset Shares at the point of claim.

2.54. For whole of life SLLF WP Policies, where a full claim is only payable on death, the concept of Asset Shares has less meaning. Final bonus rates for these policies are based on the aggregate notional asset shares for the whole of life SLLF WP Policies, split into the groupings described in 2.50. These amounts are compared against the expected cost of meeting the existing final bonus scale, with the final bonus scale then adjusted to ensure the proposed final bonus rates are affordable.

2.55. Final Bonus rates do not currently vary according to the tax status of policies, reflecting that the benefits of receiving investment returns without taxation have historically largely been cancelled out by the proportionately higher unit costs (because average premiums on tax exempt policies are smaller) and that Scottish Friendly does not receive tax relief on expenses for its exempt business. Scottish Friendly may in the future vary Final Bonus rates according to the tax status of the policies should it become appropriate to do so.

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 currently reviewed four times a year although more frequent reviews may 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. For example, they may be reviewed when there are significant changes in investment market conditions. An example of a significant change is a movement of +/- 10% in asset market values.

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 pay-out (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. Furthermore, the Board will, after taking into account the advice of the With-Profits Actuary, seek to ensure that the application of Smoothing is not expected to inhibit the fair application of any distributions being made from the Estate.

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. Surrender Value bases in the SLL Fund are reviewed regularly to ensure that the resulting values do not move too far away from the enhanced Asset Share values.

2.60. 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 1.12 and 1.13. 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 Investment sub-committee of 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.

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 maximise the returns to with-profits policyholders while preserving the ability of the SLL Fund to meet guaranteed payments. In determining the mix of assets between different asset classes, the investment strategy will take account of the financial strength of the SLL Fund, its ability to meet its regulatory capital requirements, and the long term expected returns available in each asset category and their volatility. Currency influences apart, UK and RoI with-profits business included in the SLL Fund is viewed as a homogeneous unit for investment purposes, and in that regard will tend to have broadly similar investment strategies.

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. 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. The SLL Fund may use derivatives to reduce investment risk or to gain exposure to a market or sector that cannot be obtained effectively through direct investment.

3.7. 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 Finance Director. 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.

3.8. The SLL Fund does not hold any assets that would not normally be traded.

Practices

3.9. 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.

3.10. 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.

3.11. 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.

3.12. 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.

3.13. 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. We would expect the future equity backing ratio of the SLL Fund to normally be in the range of 10% to 50%. Where appropriate, the equity backing ratio may deviate from this range to reflect short-term tactical positions taken by the investment manager. Such tactical positions are subject to regular monitoring by management and are required to be within defined limits approved by the Board.

3.15. No move away from these provisions can be made without the sanction of the Board having taken into account advice from both the Investment Committee and the With-Profits Actuary.

3.16. Due regard is also given to security and diversification within each asset class, taking into account Scottish Friendly's approved risk appetite framework.

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.

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 item noted below in 4.3 the policyholders within the SLL Fund shall bear all business risks arising from the business within the SLL Fund itself, and in normal circumstances shall only bear business risks arising from the business within the SLL 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. Scottish Friendly is taxed as a whole and the amount payable may differ from the amount 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.

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 outside of the target range referenced in Section 6, Scottish Friendly may take various actions to bring the Estate back to within its target range. These actions are described in Section 6. In extreme circumstances these actions could include deducting from Asset Shares the cost of meeting guarantees in excess of charges already deducted.

4.5. 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 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 is charged administration expenses and investment management charges. For the first ten years after the transfer the administration charge was composed of:

a) a percentage of the premium income received by the SLL Fund; and

b) a fee per policy that was dependent on the type of each policy within the SLL Fund, and inflation over the period from the date of the transfer.

5.3. Since 30 September 2017, the tenth anniversary of the date of the transfer, the SLL sub-fund has paid charges 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

Introduction
The amount payable under a with-profits policy, Annual Bonuses, Final Bonus and Smoothing
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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. Whilst some policy provisions permit Scottish Friendly to change some charges without limit, increases would only be made should there be a significant increase in costs to which the charges relate and 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 2.33.

5.11. The maximum charge in respect of investment costs referred to in 5.4 above shall take due account of any fees already levied within the relevant investment vehicles.

5.12. The charges applied to the policies in the SLL Fund are in line with the Transfer Agreement as described in 5.2 and 5.3 above.

6. Management of the SLL Fund's Estate

Principles

6.1. The Estate of the SLL Fund will be managed in accordance with this 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 1.12 and 1.13) 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 supporting 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 of 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 2022 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. The exception to this is that an enhancement of 10% was made in 2017 instead of the usual 1.25% enhancement. 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 6.5 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 of 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.

6.17. If the Estate falls, or is reasonably expected to fall, below the minimum level in accordance with Scottish Friendly's risk appetite, then Scottish Friendly will consider taking a range of actions depending on the current level of the Estate and whether it is expected to increase or decrease over the foreseeable future. Scottish Friendly may initially consider taking actions such as reviewing bonus rates, suspending the application of the smoothing policy, and reduction of the equity backing ratio within normal ranges as set out in section 3.14. In the event that more extensive actions are required to restore the Estate, Scottish Friendly may consider reducing equity backing ratios outside of the normal range, restricting new business sales, using Derivatives to hedge risk, and removing part or all of any previous enhancements to Asset Shares reflecting previous distributions of the Estate. In extreme circumstances, Scottish Friendly may consider making further deductions from Asset Shares.

6.18. At least once every five years, the With-Profits Actuary will review whether it remains appropriate to continue to operate the sub-fund as a separate sub-fund. This assessment will have regard to the objective to distribute any available residual estate to those with-profits policies still in force, in a manner which is fair with regard to the different classes, generations and countries of origin of such policies and the cost to Scottish Friendly of continuing to maintain the sub-fund.

7. Glossary

Annual Bonus
Bonus that is added yearly.

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

Bonus Reserve Valuation
A method of determining the value of future liabilities under a life insurance contract. Future benefits, including guaranteed benefits, Annual Bonuses, Final Bonuses, where appropriate, plus future expenses and less future premiums are discounted at a rate of interest usually based on current market conditions.

Derivative
A financial instrument with a value that is reliant upon or derived from, an underlying asset or group of assets.

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.

Main Fund
The main fund of Scottish Friendly comprising its Industrial Branch and Ordinary Branch with-profits business, related non-profit business and Estate (which includes various notional sub-funds in respect of Transferred Business).

Market Value Adjustment or MVA
A reduction in the unit value on any claim other than on maturities and deaths.

Ordinary Branch Business
Business which is not Industrial Branch Business.

SLL Business
the business of SLL transferred to Scottish Friendly under the Transfer Agreement

SLL Fund
A notional sub-fund of Scottish Friendly covering the SLL Business

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

SLLF WP Policies
With-profits policies of Scottish Friendly which are within the SLL Fund

SLLF WP Policyholders
With-profits policyholders of Scottish Friendly whose policies are within 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*
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 of life element; only the whole of 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

* 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.

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

Table Number	Product Type / Brand Name	With Profits?
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
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

Table Number	Product Type / Brand Name	With Profits?
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

* 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.

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

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 of 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 of 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, with additional recalculations in 2016 and 2022. Updated BRVs were calculated for Whole of 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.