Transport Friendly Society Limited
How we manage our With-Profits Business

Introduction

This document, the Consumer Friendly Principles and Practices of Financial Management, sets out how Transport Friendly Society Limited ("the Society") manages its with-profits business. There is more detailed information contained within the Society's Principles and Practices of Financial Management ("PPFM"). Both documents are available on our website or on request.

What is a with-profits fund?

This is a fund where your money is combined with that of other with-profits policyholders and is managed by the Society on your behalf, by investing into a range of assets. As a with-profits policyholder, you are eligible to share in any profits and losses of the Society through the addition of policy bonuses.

Amount payable under a with-profits policy

The Society aims to provide with-profits policyholders with a fair return that reflects the profits or loss applicable to each generation and class of with-profits policy. The minimum the Society will pay upon an eligible maturity or death claim will be the guaranteed benefits under each contract.

Regular Bonuses

Regular bonuses are one way the Society can use to distribute profits. They may be regularly added throughout the life of a with-profits policy, increasing the guaranteed benefits payable to the policyholder. Regular bonus rates are currently declared annually for Endowment, Provident, New Death and Old Death policy types as an amount per unit of sum assured.

Regular bonus rates for sickness policies are also currently declared annually and are an amount per unit if a policyholder does not make a claim during the year.

Final Bonuses

A Final Bonus may be added upon the maturity of the policy or upon death. The amount of Final Bonuses will depend on the relative sizes of the **asset share (see below)** and the guaranteed benefits. Final Bonus rates are usually declared annually but this can be more frequent if there are significant changes in economic circumstances.

Final Bonuses may be paid for Endowment, Provident, New Death and Old Death policy types.

Interim Bonuses

Interim Bonuses are granted in respect of the period since the last declaration of regular bonus to the date of any claim and are normally set equal to the previously declared regular bonus rates, unless a significant change in regular bonus rates is anticipated at the next bonus declaration.

The Society's aim is that at least 90% of maturity payments fall within the range of 65% to 135% of the average Asset Share for the group of policies to which they belong subject to any guaranteed benefits being met.

If you decide to surrender your policy, the Society will aim to pay out, on average, the asset share of your plan. Where asset shares are not appropriate due to lack of historical/reliable data, the Board may consider other methods to calculate a fair surrender value. The PPFM sets out the approach used for each policy type.

What is Asset Share?

The asset share is a guide used by the Society to set the amounts payable to with-profits policyholders. An asset share is a measure of a fair payout on a with-profits policy and allows for the investment return earned, premiums paid, expenses, tax and risk benefits, in accordance with the Society's actual experience. Where asset shares are not appropriate due to lack of historical/reliable data, the Board may consider other methods to calculate a fair return for a policyholder.

For a group of with-profits policies, the long-term aim of the Society is to return, on average, 100% of asset shares wherever appropriate and possible. The amounts payable may be more or less than 100% of asset share which may be due to smoothing, guarantees, size of premium, term and grouping of policies.

What is Smoothing?

Smoothing is something the Society operates to try to minimise the effects of investment market fluctuations and to try to ensure that the Society can pay you a regular bonus. In doing this the regular bonus may not always directly reflect the fund's performance within that year. For example, when investment conditions are good, the Society may decide to hold onto some of the profit achieved in that period in order to compensate for any period when conditions are less favourable. This may mean that in poor investment conditions the Society may still be able to pay a bonus from the reserves acquired.

If the Society holds back some of the profit in favourable investment conditions and conditions remain good for the rest of the term of your investment, then a final bonus may be added to reflect this.

Investment Strategy

The Society's investment strategy is to maximise the overall return of the investments subject to meeting the guarantees, the Society's regulatory capital and risk appetite requirements. The investment returns achieved will be used for the benefit of the Society's with-profits policyholders.

The Society's investments may be in a number of different categories of asset class including properties, bonds, equities and deposits. Returns include income and increases in capital value.

Business risk and new business

All of the appropriate costs and benefits from business decisions, including whether to accept new business and on what terms, are ultimately shared amongst the with-profits policyholders.

No minimum value has been set on the level of profit or losses from business risks. Any decision to include profit or losses would be at the discretion of the Society and the impact would be smoothed in a manner consistent with the approach taken to smoothing asset shares.

Charges and Expenses

The expenses of running the Society are charged directly to the Society's long-term business fund, other than those deemed to be incurred by the non-profit business. Any difference between the charges and expenses for non-profit business will flow to the surplus or deficit of the Society.

Management of the inherited estate

The inherited estate is the term used by the Society to describe the excess of its assets over liabilities, or in other words, it is the amount over and above what is needed to cover all the Society's policies. It provides the Society with the money (working capital) to operate its business.

The Society targets an estate of 150% to 250% of the capital required by its Regulator. Should the estate fall outside these parameters the Society's aim is to restore the estate to within the range as soon as reasonably possible.

If the Society's estate is outside the upper bound of the estate target range, the Board would, in accordance with the Practices described in the PPFM, consider how these surplus assets can best be utilised in the interest of policyholders. The Board may decide to use the surplus assets to maintain or increase the reversionary bonus for the year or after receiving advice from the With-Profits Actuary could continue to use some of the Society's estate to subsidise asset shares and to support an increase in the proportion of assets invested in equities.

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