Private and confidential
[Name]
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31 January 2017

Our ref: JANPHM5
Your ref: 123456789

Dear Policyholder

I am pleased to say that we enter the New Year confident that we can maintain capital distribution at 35%.

Given last year's market turbulence, we considered very carefully what we could do to bring rather more stability to capital distribution. Our most significant step was to seek approval from our regulators for a more gradual transition to new solvency regulations introduced in January 2016. This application has been successful.

When we wrote to you last September when interest rates were falling sharply, the risk of a reduction to the 35% was very real. We thought it particularly important to share this with you at the time.

The next annual review of the capital distribution will take place at the end of March and, extraordinary events apart, we do not expect any reduction in the 35% level.

We thought you would wish to know about our latest thinking to assist with your financial planning.

Yours sincerely

C M Wiscarson
Chief Executive

Helpful Questions and Answers overleaf

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Registered Office: 20-22 Bedford Row, London, WC1R 4JS, United Kingdom.

Questions & Answers

1. **How does the capital distribution work?**
   For each with profits policy, we look at its value as at 31 December 2014. For every $1,000, we allocate an extra capital distribution of $350 to that value. At the point a policyholder leaves the Society, we take the policy value plus the capital distribution, compare it with the policy's guaranteed value, where applicable, and pay out the larger amount. Most policies have a guaranteed value and this is clearly shown on your Annual Statement.

2. **Is the 35% capital distribution guaranteed?**
   No. It can go up or down in the future depending on, among other things, regulatory requirements and the Society's capital needs from time to time.

3. **What is capital?**
   It is the money a company needs to hold to protect itself against things going badly wrong that would otherwise lead to insolvency.

4. **How do the new solvency regulations work?**
   These new regulations, known as Solvency II, stipulate how much capital a company has to hold back in case something goes wrong. Solvency II requires a great deal more capital to be held back than the old regulations so potentially limiting the amount of capital we are able to distribute. That is why we sought permission from the regulators for a more gradual transition.

5. **Why do low interest rates affect the level of capital distribution?**
   Many of our with-profits policies have a built in guarantee of 3.5% pa. We have invested our assets to be sure that we can pay these guarantees, based on when we think policyholders will retire. The Society is exposed to the risk that policyholders stay longer than we expect when we are not able to earn that 3.5% pa return. Consequently, we are required to hold back capital to cover that risk.

6. **What extraordinary events might cause capital distribution to change?**
   Good examples would be a new financial crisis, a change in financial regulation, or a sizeable move in interest rates.

7. **Where can I get financial advice?**
   We recommend you speak to an Independent Financial Adviser or visit www.unbiased.co.uk