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22 September 2016

Our ref: WPPHM6
Your ref: <Reference>

Dear Policyholder

When we wrote to you in April, we drew your attention to the very volatile investment markets. We considered it important that you were aware of the risks associated in particular with low interest rates and, since the European Referendum, there has been a further very significant decrease.

There is little sign that interest rates are going to increase any time soon. Consequently, it remains a very real possibility that the 35% capital distribution, payable at the time policyholders take benefits, may have to be suspended.

Whether or not there is any suspension, a return to economic stability will be the Society's platform from which it can once again aim to increase the capital distribution.

If you have been thinking about taking your policy benefits, we do strongly recommend that you seek independent advice as soon as possible.

Yours sincerely

C M Wiscarson
Chief Executive

Helpful questions and answers overleaf

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Capital Distribution Questions & Answers

Why do low interest rates have such a significant impact on 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. In the current low interest rate environment, we are then not able to earn the 3.5% pa return that we would then need. Consequently, we are required to hold back capital to cover that risk. As interest rates get lower, the more capital we have to hold. In these circumstances, there is less capital to distribute back to policyholders.
How does the capital distribution work?	For each with-profits policy, we look at its value as at 31 December 2014 and, for every £1000, 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.
What do you mean by the policy's "guaranteed value"?	Most policies have a guaranteed value and this is clearly shown on your Annual Statement.
Why is the capital distribution only being paid to policyholders when they leave?	Because that's when we know for sure that the Society no longer needs to hold capital for that particular policyholder.
What is capital?	It's the money a company needs to hold to protect itself against things going badly wrong that would otherwise lead to insolvency.
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.
Where can I get financial advice?	We recommend you speak to an Independent Financial Advisor.