

Terms of reference of the WITH-PROFITS ADVISORY ARRANGEMENT (the "Advisory Arrangement")

General

Scottish Friendly Assurance Society Limited ("SFA") has contracted with OAC to provide SFA with a with-profits advisory arrangement. The Advisory Arrangement has responsibility for with-profits governance in accordance with COBS 20.5.

The ultimate responsibility for managing the with-profits fund rests with the Board of SFA. The role of the Advisory Arrangement is, in part, to act in an advisory capacity to inform the decision-making of the Board. The Advisory Arrangement also acts as a means by which the interests of with-profits policyholders are appropriately considered within the SFA's governance structures

SFA has chosen to use an independent person as its with-profits advisory arrangement and Christopher Critchlow of OAC is the person chosen to fill the role.

SFA has a single Main Fund but within that fund there are separate designated funds for business transferred from Scottish Legal Life, LANMAS and Rational Shelley. The same advisory arrangement will apply to the Main Fund and the transferred business.

Terms of Reference

1. To assess the way in which the fund is managed by SFA and whether this is properly reflected in the Principles & Practices of Financial Management ("PPFM")
2. To assess whether the Society is complying with the principles and practices set out in the PPFM
3. To assess whether the Society is addressing the rights and interests of with-profits policyholders compared with other stakeholders in a way that is consistent with treating customers fairly
4. To provide advice and guidance on any other issues that with-profits policyholders might reasonably expect the advisory arrangement to be involved in
5. To identify surplus and excess surplus and the merits of distribution / retention
6. To consider how bonus rates, smoothing and, if relevant, market value reductions have been calculated and applied
7. To consider the relative interests of policyholders with and without valuable guarantees
8. To consider with-profits customer communications, such as bonus statements, product literature and reports to with-profits policyholders
9. To consider and assess any significant changes to the risk / investment profile of the fund
10. To assess future sales targets and its impact on the assets and surplus of the fund
11. To assess the impact of any planned and implemented management actions

12. To assess management information, including any policyholder complaints
13. To assess the drafting, review and updating of and compliance with run-off plans in respect of the transferred business, and any similar matters
14. To assess and consider the appropriateness of the costs and expenses incurred in running the fund
15. The identification and extent of the firm's with-profits funds, with particular regard to the consideration as to whether a part of the with-profits fund constitutes a separate with-profits fund
16. The use and purpose of, and terms under which, support assets are available to the with-profits fund
17. To advise the Board on the suitability of candidates for the proposed appointment of the with-profits actuary
18. To assess the performance of the with-profits actuary at least annually and report to the Board
19. To bring to the attention of the Board any other matter which the Independent Person considers is appropriate and relevant to the Board's responsibilities in respect of its with-profits business, including but, not limited to, COBs 20.5.

Reporting

The Independent Person is required to report formally to the Board once a year on SFA's compliance with the PPFM documents.

When Bonus Proposals are presented to the Board the Independent Person will be expected to confirm that he has reviewed the proposals and is satisfied with them, so that this can be recorded in the Board minutes.

The Independent Person will also be asked to consider and comment on other documents produced by SFA's Actuarial Function or the With-Profits Actuary to ensure that the interests of SFA's with-profits policyholders are taken into account in a fair and reasonable manner.

Other Matters

The Independent Person will have access to the Society's With-Profits Actuary as required and any reasonable requests for additional support from the SFA's internal actuarial or other resources and / or external resource in order to perform his role effectively will be considered by the Board.

The Independent Person will manage any conflicts of interests arising from his role in accordance with the standards of the Actuarial Profession.