

# Liverpool Victoria Financial Services Limited (LVFS)

## With Profits Committee

### Terms of Reference

<p>Status and Source of Authority</p>	<p>Sub-committee of the board of directors of LVFS (the "Board").</p> <p>Authority is derived from the Board's establishment of the With Profits Committee (WPC) and the approval by the Board of these Terms of Reference on 28 January 2021 as well as the Instrument of Transfer of Engagements entered into by the Teacher's Provident Society Limited and LVFS.</p> <p>The WPC fulfils the with-profits governance role required by COBS 20.5.1R for the LVFS Fund and the Teachers Assurance Fund ("TA Fund") maintained by LVFS (the "with-profits funds"), but excluding the RNPFN Fund.</p>
<p>Main purpose</p>	<p>To consider the rights, interests and reasonable expectations of with-profits policyholders in the with-profits funds, in their capacity as policyholders, members and customers of LVFS, and exercise independent judgement in advising appropriate Committees and the Board on the achievement of fair treatment of those with-profits policyholders. The WPC does not itself exercise management responsibility for the with-profits business.</p> <p>To fulfil the requirements of the WPC in accordance with the Transfer Document.</p> <p>The WPC has the right to be consulted on specific matters concerning with-profits related business and has the right of response, in terms of its recommendations, prior to decisions being taken by any appropriate Committee, or by the Board.</p>
<p>Membership</p>	<ul style="list-style-type: none"><li>• Members:<ul style="list-style-type: none"><li>• At least one person wholly independent of the LVFS (as defined in COBS 20.5.7R) with appropriate industry knowledge, who will act as Chair of the WPC.</li><li>• At least one non-executive director (NED) of the LVFS.</li><li>• The Teachers Nominee, appointed in accordance with the Instrument of Transfer of Engagements dated 01/06/2016 (the "Transfer Document"), under which the business of Teachers Provident Society Limited ("TPS") was transferred to the LVFS.</li></ul></li><li>• The Board will determine the members of the Committee and will</li></ul>

	consult both the With Profits Actuary and chair of the WPC on the appointment of any new member of the Committee. (COBS 20.5.5R (4))
In attendance	<ul style="list-style-type: none"> <li>• Regular attendees: <ul style="list-style-type: none"> <li>• With Profits Actuary</li> <li>• Life Chief Actuary</li> <li>• Head Actuarial Strategy Lead</li> <li>• Head of Heritage Products</li> <li>• Heritage Director and Customer Champion</li> </ul> </li> <li>• The Committee may also invite such other persons to its meetings to observe, report, answer questions or make presentations, as it deems necessary including but not limited to the CEO/CFO.</li> </ul>
Secretary	Group Company Secretary (or his / her delegate).
Quorum	<p>Three members, including at least two wholly independent members.</p> <p>In the event of a tied quorum vote, the Chair will have the deciding vote.</p> <p>Should the Chair be unable to attend the meeting, the position should be filled by an independent member; not a Director of LVFS.</p> <p>Note: The Transfer Document requires that the Teachers Nominee is an independent member but does not require a quorum to include the Teachers Nominee.</p>
Meeting frequency	<ul style="list-style-type: none"> <li>• Meetings shall be held not less than four times a year. (COBS 20.5.4G (1))</li> <li>• Interim “specific issue(s)” meetings may be convened, by the Secretary, at the request of either the Chair or the With Profits Actuary. In circumstances where consultation/recommendation is required to be made in a timely fashion, the interim meeting may take place by e-mail and shall be valid if the e-mail has been circulated to all members of the WPC and the decision is approved by a quorum.</li> </ul>
Minutes	<ul style="list-style-type: none"> <li>• The Secretary shall circulate the agenda and supporting documentation to the WPC members within a reasonable period in advance of each meeting.</li> <li>• The Draft of the Minutes, as approved for issue by the Chair, shall be</li> </ul>

	<p>presented to the next meeting of the WPC for formal adoption.</p> <ul style="list-style-type: none"> <li>• Where meetings take place by exchange of e-mail, copies of the e-mails shall be included in the minute book as the minutes of the e-mail meeting.</li> <li>• A report should be written and provided to the LVFS Board as necessary following the meeting.</li> </ul>
Conflicts of Interest	The Secretary shall ascertain any conflicts of interest of members of the WPC at the start of each meeting in relation to the matters to be discussed and record accordingly in the minutes.
Decide	<ol style="list-style-type: none"> <li>1. If the WPC wishes to make a statement or report to with-profits policyholders in addition to the annual report made by LVFS, the Board must facilitate such an issue. (COBS 20.5.6G (2) and COBS 20.5.5R (2))</li> <li>2. In exceptional circumstances, the WPC may insist that the Board notify the Regulator if a confirmed departure from the WPC's recommendation is considered by the WPC to be sufficiently significant. (COBS 20.5.5R (3) and COBS 20.5.6G (4))</li> </ol> <p>Items 3 – 4 reflect the requirements of the Transfer Document in respect of the TA Fund (that the decision of the WPC shall be final and binding).</p> <ol style="list-style-type: none"> <li>3. With effect from the effective date, whether a person qualifies for payment in consideration of loss of membership rights in TPS.</li> <li>4. With effect from the effective date, whether a policy qualifies for the special bonus allocated by the TA Fund.</li> </ol>
Recommend	<p>Recommendation items 1-13 reflect the requirement in COBS 20.5.3R Sections 1 and 2 for the WPC to have appropriate consideration of at least these matters.</p> <ol style="list-style-type: none"> <li>1. Whether the way in which each with-profits fund is managed is properly reflected in the Principles and Practices of Financial Management (PPFM); whether changes are needed to the PPFM to ensure the PPFM is fit for purpose; actions necessary for LVFS to ensure compliance with the PPFM; and the outcome of any PPFM compliance review. (COBS 20.5.3R (1)(a) and (1)(b))</li> <li>2. Whether the firm has addressed effectively the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders in a way that is consistent with Treating Customers Fairly (TCF) principles. (COBS 20.5.3R (1)(c))</li> <li>3. The identification of surplus and excess surplus and the merits of its distribution or retention and the proposed distribution policy. (COBS 20.5.3R (2)(b)(i))</li> </ol>

	<ol style="list-style-type: none"> <li data-bbox="424 230 1406 297">4. How bonus rates, smoothing and if relevant, market value reductions have been calculated and applied. (COBS 20.5.3R (2)(b)(ii))</li> <li data-bbox="424 338 1406 405">5. The relative interests of policyholders with and without valuable guarantees. (COBS 20.5.3R (2)(b)(iii))</li> <li data-bbox="424 445 1406 568">6. With-profits customer communications, e.g. communication of matters the Committee believe policyholders should be aware of, annual bonus notices and periodic reviews of stock literature. (COBS 20.5.3R (2)(b)(iv))</li> <li data-bbox="424 609 1406 770">7. Any significant changes to the risk or investment profile of each with-profits fund including the management of material illiquid investments and the firm's obligations in relation to strategic investments, including changes to LV='s risk appetite which impacts investments. (COBS 20.5.3R (2)(b)(v))</li> <li data-bbox="424 810 1406 911">8. LVFS's strategy for future with-profits and non-profit new business in the LVFS Fund supported by the assets of a with-profits fund and its impact on surplus. (COBS 20.5.3R (2)(b)(vi))</li> <li data-bbox="424 952 1406 1019">9. Review of with-profits and non-profit new business volume triggers (COBS 20.2.41/ COBS 20.2.54)</li> <li data-bbox="424 1059 1406 1182">10. Review any management actions planned or implemented on each with-profits fund and their impact, and review of management options catalogue. (COBS 20.5.3R (2)(b)(vii))</li> <li data-bbox="424 1223 1406 1290">11. Relevant management information pertaining to each with-profits fund, such as customer complaints data. (COBS 20.5.3R (2)(b)(viii))</li> <li data-bbox="424 1330 1406 1397">12. Drafting, review, updating of and compliance with run-off plans, court schemes and similar matters. (COBS 20.5.3R (2)(b)(ix))</li> <li data-bbox="424 1438 1406 1538">13. Costs/expenses (including tax) incurred in operating each with-profits fund, including any relevant benchmarking (COBS 20.5.3R (2)(b)(x))</li> <li data-bbox="424 1579 1406 1657">14. Any other issues with which the Board or WPC considers with-profits policyholders might reasonably expect the WPC to be involved. (COBS 20.5.3R (1)(d))</li> <li data-bbox="424 1697 1406 1776">15. Appointment and removal of With Profits Actuary and, at least on an annual basis, the effectiveness of his/her performance. (COBS 20.5.3R (5)(a) (5)(b))</li> <li data-bbox="424 1816 1406 1883">16. Changes to modus operandi of the WPC resulting from the annual effectiveness review and any changes to its Terms of Reference.</li> <li data-bbox="424 1924 1406 1957">17. Annual review of with-profits management resources and skills.</li> </ol>
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	<p>Note: The Committees referred to below are required to consult with the WPC on matters that impact a with-profits fund. The WPC has the right of response in terms of recommendations back to these committees:</p> <ul style="list-style-type: none"> <li>• Board</li> <li>• Investment Committee</li> <li>• Risk Committee</li> <li>• Group ALCO</li> <li>• Customer Committee</li> </ul>
Oversight	<p>The Committees referred to below are required to notify the WPC on matters that impact the estate of the relevant with-profits fund, so that they can oversee such matters and consider its impact on with-profits policyholders:</p> <ul style="list-style-type: none"> <li>• Board</li> <li>• Investment Committee</li> <li>• Risk Committee</li> <li>• Group ALCO</li> </ul>
Consult (With Profits Committees)	<p>Items 1 to 17 below reflect the requirements of the Transfer Document in respect of decisions relating to the TA Fund. Note: Requirements are summarised here. Exact requirements are set out in the Transfer Document.</p> <p>The Board <b>may</b> seek the advice of the WPC before taking decisions under items 1 - 2:</p> <ol style="list-style-type: none"> <li>1. Whether it is appropriate to issue a new policy to a person exercising a right or option under a transferred policy.</li> <li>2. Whether the issue of an alternative (the nearest equivalent) policy to a person exercising a right or option under a transferred policy would satisfy the reasonable expectations of that person.</li> </ol> <p>The Board <b>shall</b> consult or seek the advice of the WPC before taking decisions under items 3 - 14:</p> <ol style="list-style-type: none"> <li>3. Whether the terms of any transaction (where the Board consider such transaction to be material) with or for the benefit of the TA Fund, relating to contracts for material services provided or transactions</li> </ol>

	<p>with other funds within LVFS, can reasonably be considered to be arm's length terms.</p> <ol style="list-style-type: none"> <li>4. Measures to mitigate any liability which may arise for the TA Fund as a result of a claim, or related series of claims, likely to exceed £250,000.</li> <li>5. Whether it is appropriate to make changes to the actuarial assumptions (excluding economic assumptions) practices or methodologies used for the TA Fund where this is likely to result in a reduction in the surplus available for distribution of £500,000 or more.</li> <li>6. Where the cost of external advice is likely to exceed £25,000, an equitable proportion to be charged to the TA Fund, reflecting the costs incurred in respect of that Fund.</li> <li>7. Whether any proposed debit or charge (or series of charges) in excess of £250,000 should be allocated to the TA Fund. Note: The WPC <b>may</b> consult the Board on any debit or charge to the TA Fund following such debit or charge being incurred. In order to assist the WPC in discharging this responsibility, in practice all such debits or charges will be reviewed by the WPA or Chief Actuary – Life and presented to the WPC.</li> <li>8. Whether amounts other than those specified in the Transfer Document should be credited to the TA Fund.</li> <li>9. Whether the terms of any reinsurance arrangement between the TA Fund and any other LVFS fund can reasonably be considered arm's length commercial terms.</li> <li>10. After the end of each financial year, whether the provisions of the Transfer Document have been complied with since the date of the last Board certificate of compliance.</li> <li>11. Whether any proposed adjustment (where the Board consider such adjustment to be material) due to a delay in a payment to or from the TA Fund is appropriate.</li> <li>12. Any change to the basis on which tax is attributable to the TA Fund, to accommodate any material change to the basis on which tax is charged to mutual insurers.</li> <li>13. The administration fees to be charged to TA Fund following the 11<sup>th</sup> anniversary of the effective date.</li> <li>14. Any new business that the Board considers should be written in the TA Fund in order to avoid a failure to satisfy any right or reasonable expectations of any holder of a transferred policy.</li> </ol> <p>Decisions under items 15 - 17 require the prior approval of the WPC:</p>
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	<p>15. In respect of any proposal to transfer the policies, assets, and liabilities of the TA Fund to the LVFS with-profits fund, in accordance with the Transfer Document, that the proposal will not have a material adverse effect on the reasonable expectations of the holders of transferred with-profits policies.</p> <p>16. Any application to the PRA, following confirmation of the transfer by the PRA, to amend the terms of the transfer.</p> <p>17. Any proposed amendments to the provisions of the Transfer Document due to regulatory change.</p>
<p>Notify (With Profits Committees)</p>	<p>Items 1 to 5 below reflect the requirements of the Transfer Document in respect of the TA Fund.</p> <ol style="list-style-type: none"> <li>1. The Board shall notify the WPC as soon as reasonably possible of any claim it considers likely to result in a liability for the TA Fund in excess of £250,000.</li> <li>2. The Board shall provide the WPC with the Board Certificate (as soon as possible after the end of the financial year but prior to the submission of the regulatory returns) setting out the extent to which the provisions of the Transfer Document have been complied with.</li> <li>3. The WPA shall provide the WPC with the WPA Certificate (as soon as possible after the end of the financial year but prior to the submission of the regulatory returns) setting out the extent to which the provisions of the Transfer Document relating to actuarial matters have been complied with.</li> <li>4. The WPA shall inform the WPC if at any time he is of the opinion that the TA Fund is being operated in such a manner that he will be unable to confirm compliance with the provisions of the Transfer Document.</li> <li>5. Where amendments to the provisions of the Transfer Document are proposed due to regulatory change, the WPC will be provided with a copy of the independent actuary's report.</li> </ol>
<p>Delegated Authorities</p>	<p><u>Delegation onwards (for a recommendation back)</u></p> <p>Not applicable.</p> <p><u>Delegation onwards (unconditional)</u></p> <p>Not applicable.</p>

Escalation	<p><u>To:</u></p> <p>The Board</p> <p><u>From:</u></p> <p>Not applicable.</p>
Guidance Notes	<p><b>References:</b> For the purpose of these Terms of Reference:</p> <ul style="list-style-type: none"> <li>• any reference to with-profits fund(s) includes the LVFS Fund and the TA Fund but excludes the RNPFN Fund (the RNPFN Supervisory Board performs the role of the with-profits committee for the RNPFN Fund);</li> <li>• any reference to with-profits policyholders includes all such policyholders of LVFS other than RNPFN policyholders;</li> <li>• any reference to PPFM includes the PPFMs for all with-profits funds maintained by LVFS other than the RNPFN PPFM;</li> <li>• any reference to the effective date means the effective date of transfer of the business of TPS to LVFS 01/06/2016;</li> <li>• “TA Fund” means the “Teachers Assurance Fund” established by LVFS within its insurance business with effect from the effective date, in order to meet the requirements of the transfer of TPS business to LVFS.</li> <li>• Whilst these Terms of Reference have been designed to read ‘standalone’, where there is a conflict between them and the Transfer Document, the wording in the Transfer Document shall prevail.</li> </ul> <ol style="list-style-type: none"> <li>1. The Board must provide the WPC with sufficient resources as it may reasonably require to enable it to perform its role effectively and authorises the WPC, within the scope of its responsibilities, to have access to relevant members of management, relevant employees and relevant information. <span style="float: right;">(COBS 20.5.5R (2) and COBS 20.5.6G (1))</span></li> <li>2. The WPC shall be entitled to rely on expert advice and, to the extent that the WPC considers it necessary, the WPC is authorised to obtain, at the expense of LVFS, outside legal, actuarial or other independent professional advice and to secure the attendance at its meetings of outsiders with relevant experience and expertise (costs to be appropriately apportioned between the with-profits funds). <span style="float: right;">(COBS 20.5.5R (2) and COBS 20.5.6G (1))</span></li> </ol>

3. In the context of consideration of the issues referred to in COBS 20.5.3R (1) and (2)(b), the Board must ensure it obtains, as relevant, assessments, reports, advice, recommendations of the WPC, if the Board or the WPC considers that significant issues concerning the interests of with-profits policyholders need to be considered by LVFS. (COBS 20.5.5R (1)(a))
4. The WPC must review the matters which it must be consulted on or oversee and be satisfied that it has access to the relevant MI to discharge their responsibilities.
5. The Committee / Board must allow the WPC sufficient time to enable it to provide fully considered input on the issues to be considered and must consider fully and give due regard to the input of the WPC when determining issues concerning the management of a with- profits fund and the interests of with-profits policyholders. (COBS 20.5.5R (1)(b) & (1)(c))
6. Should a Committee or Board depart from the recommendation of the WPC, it must set out why and feedback to the WPC to allow the WPC time to reflect and respond. The Committee or Board must consider any further feedback from the WPC and respond with any additional reasons, should it continue to depart from the WPC recommendation; where this is with a Committee, the said Committee must bring the matter to the attention of the Board. (COBS 20.5.5R (1)(d) & (1)(e))
7. In any exceptional instance where the Board continues to depart from a recommendation from the WPC, for which the WPC considers it to be sufficiently material, the WPC has the right to insist that the Board notify the appropriate Regulator. (COBS 20.5.5R (3) and COBS 20.5.6G (4))
8. The Chair of the WPC shall have the right at any time at their discretion to notify the Board that the WPC wishes to make a report to policyholders, in which event the Board shall facilitate the making of such a report. (COBS 20.5.6G (2) and COBS 20.5.5R (2))
9. The Chair of the WPC may raise any particular issue with the Board and will, on request, provide the Board with the view of the WPC on any particular matter requested of the WPC by the Board in relation to that matter.
10. The Chair of the WPC has right of attendance at the Risk Committee once a year to discuss risk and capital matters relating to with-profits policyholders.
11. In respect of strategic investments, it is necessary to consider whether the With Profits Actuary would regard the investment as having no adverse effect on the with-profits policyholders as a class and made in the best interests of LVFS's current with-profits policyholders. (COBS 20.2.36BG (1)(e) and COBS 20.2.35BG (2))
12. LVFS must not effect new contracts of insurance in an existing with-profits fund unless:

- a) The Board is satisfied as far as is reasonably possible, and can demonstrate with regard to the analysis in b) that the terms on which each contract is to be effected are likely to have no adverse effect on the interests of the with-profits policyholders whose policies are written into that fund; and
- b) There has been appropriate analysis shared with both the WPC and the Board, based on relevant evidence and proportionate to the risks involved, as to the likely impact on with-profits policyholders, having regard to relevant factors, including the volumes of each type of contract that are expected to be effected and the periods over which the contracts are expected to remain in force.

(COBS 20.2.28R)

13. In respect of the reference for certain committees to have to consult with the With Profits Committee on matters that impact a with-profits fund, the term “impact” is interpreted as:

- Directly impacts the benefits or asset shares of LVFS's with-profits policies e.g. a bonus declaration; or
- Impacts the estate and relates to LVFS's with-profits business e.g. purchasing a hedge in respect of the equities backing policy asset shares and holding the hedge in the estate; or
- Materially impacts the estate e.g. a debt raise or an acquisition.

#### Effectiveness

- 14. To perform his or her role effectively, each WPC member will need to develop and maintain his or her skills and knowledge, including an understanding of the WPC's responsibilities and of LVFS's business, operations and risks. (COBS 20.5.3R (3))
- 15. At the end of each meeting the WPC will briefly consider the effectiveness of the meeting, taking into account the quality of the papers and debate, the sufficiency of time and its appropriate allocation across matters relative to their respective importance.
- 16. On an annual basis the WPC will set out a programme of priorities, including training requirements, for the following year which will inform the agenda for its meetings.
- 17. On an annual basis the WPC will conduct a review of its effectiveness (having regard both to the discharge of its requirements under the terms of reference and the areas of priority set), including the adequacy of the Chair, the Independent Director(s) and LVFS's Non-Executive Director(s), time commitment and the effectiveness of working relationships with other committees (notably, the Board, Remuneration Committee, Investment Committee, Risk Committee and Group ALCO). The WPC will report accordingly to the Board with any recommendations. At least every three years, and more frequently if

	<p>the Chair deems appropriate, external assistance with the review will be taken.</p> <p>18. The WPC will keep its Terms of Reference under review and will propose to the Board amendments to the Terms of Reference as necessary to ensure that they continue to be appropriate and reflect any issues which arise from the effectiveness review.</p>
Version No	2021-01-28 With Profits Committee
Effective From	28 January 2021
Supersedes Version	2019-12-06 With Profits Committee
Effective From	In force 12 December 2019-28 January 2021