



TERMS OF REFERENCE

The Royal London Mutual Insurance Society
Limited – With Profits Committee
(the 'Committee')

The Royal London Mutual Insurance Society Limited

With Profits Committee terms of reference

1 Role

- 1.1 The role of the Committee is to support and advise the Board of The Royal London Mutual Insurance Society Limited (the "Company") in managing with-profits funds and to consider the interests of all policyholders with an entitlement to share in the profits of the Group (with-profits and unit-linked with-profits policyholders), together referred to as ('with-profits policyholders'); to exercise judgement in advising the Board on the achievement of fair treatment of those with-profits policyholders; and to fulfil its obligations under Court Schemes.

2 Membership

- 2.1 The Committee comprises at least five and no more than seven members, the majority of whom will be independent members. The independent members will be determined by the Nominations and Governance Committee, prior to appointment, to be independent of the Group's activities. At least one independent member will be a Fellow of the Institute and Faculty of Actuaries. For this purpose a Director of the Company will not be deemed independent. At least two members of the Committee shall have recent, relevant experience in the conduct of with-profits business and the fair treatment of with-profits policyholders.
- 2.2 Only members of the Committee have the right to attend Committee meetings. Other individuals may be invited by the Committee Chair to attend all or part of meetings.
- 2.3 Appointments to the Committee are made by the Board and, for independent members, will be for a period of up to three years, which, subject to satisfactory performance, may be extended for further periods of up to three years (subject to a maximum tenure of nine years), provided the individual still meets the criteria for membership of the Committee.
- 2.4 The Board will appoint the Committee Chair. If the Committee Chair is absent from a meeting, the remaining members present will elect a Committee member to chair the meeting.
- 2.5 Membership of the Committee will be reviewed annually by the Company Chairman in consultation with the Committee Chair.

3 Secretary

- 3.1 The Company Secretary or his or her nominee is the Secretary of the Committee.
- 3.2 The Secretary will be responsible for ensuring that the Committee complies with its terms of reference.

4 Quorum

- 4.1 A quorum is three members of the Committee, two of whom will be independent together with one member who is not independent. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all of the authorities, powers and discretions vested in the Committee.
- 4.2 Circulated written resolutions constitute a resolution of the Committee.

5 Frequency of meetings

- 5.1 The Committee will meet at least four times a year.

6 Notice of meetings

- 6.1 Committee meetings will be convened by the Secretary at the request of the Committee Chair or the With Profits Actuary ("WPA") or the Company Chairman.
- 6.2 Unless otherwise agreed with the Committee Chair, notices of meetings confirming the venue (or medium), time and date together with the agenda and supporting papers will be forwarded to each member of the Committee no later than five working days before the

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date of the meeting. Relevant papers may be made available to other individuals required to attend.

7 Minutes of meetings

7.1 The Secretary will minute the proceedings and resolutions of meetings, record declarations of interests and those present and in attendance.

7.2 Draft minutes will be circulated promptly to the Committee Chair and subsequently be circulated to Committee members for approval and to the Company Chairman. Approved minutes will be signed by the Committee Chair and be made available to the Board.

8 Duties

8.1 Advice to the Board

8.1.1 Produce an annual report giving the Committee's opinion and reasoning on whether or not the Company has complied with its obligations relating to the Principles and Practices of Financial Management ("PPFM")

8.1.2 Provide an opinion on any material discretionary actions with regards to with-profits funds (having taken into account the opinion of the WPA). This will include providing advice on with-profits bonus and ProfitShare recommendations and providing an opinion on mergers of, or transfers into/out of, with-profits funds.

8.1.3 Annually, assess the effectiveness of the WPA making recommendations for suspensions, training or dismissal

8.2 Advice to the Nominations and Governance Committee

8.2.1 Recommend appropriate changes to the terms of reference of the Committee having conducted annual reviews of the effectiveness of the Committee's performance and, at least annually, a review of the terms of reference to ensure it is fully discharging its responsibilities

8.2.2 Make recommendations on the appointment, removal and suspension of the WPA.

8.3 Advice to the Investment Committee

8.3.1 Consider and comment on significant investment matters which the Committee Chair (having taken advice from the WPA) determines might constitute a significant change to the risk or investment profile of a life fund (e.g. affecting more than 5% of assets under management; expected to change the capital cover ratio by more than 5%; hedging strategies), those that are not in line with the PPFM or those where a new or significant potential conflict of interest has been identified.

8.4 Other duties

8.4.1 Carry out the regulatory role as specified in FCA/PRA rules and provide independent opinion and oversight on material matters that affect with-profits policyholders. In particular, emphasis should be given to the Conduct of Business Sourcebook ("COBS") section 20.5 and to the FCA's Principles for Business i.e. 'treating customers fairly', 'effective management and control', 'communicating with customers' and 'managing conflicts of interest'

8.4.2 Assess and provide clear advice on the following matters outlined in COBS 20.5.3R:

8.4.2.1 The way each with-profits fund is managed

8.4.2.2 Compliance with the PPFM for each with-profits fund

8.4.2.3 Whether the interests of with-profits policyholders, and the respective interest of groups of with-profits policyholders, are fairly reflected in the management of the funds and PPFM; this will include considering the treatment of any conflicts of interest that may arise

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- between different groups of with-profits policyholders, between with-profits policyholders and the Company and between with-profits policyholders and the members of the Company
- 8.4.2.4 Any other matter in which it might reasonably be expected that the Committee should have involvement
 - 8.4.3 Maintenance of a specific list of matters for consideration to ensure the Committee's role is discharged. At a minimum, this will include those matters outlined in COBS 20.5.3R (2)b (see Appendix)
 - 8.4.4 Comment to management on all material communications and literature to be provided by the Company to with-profits policyholders to ensure that they meet the 'clear, fair and not misleading' requirement
 - 8.4.5 Monitor and provide comments to management on whether new and existing with-profits products will meet or meet respectively the expectations of customers, drawing at least semi-annually on a review of complaints
 - 8.4.6 Annually review any changes to the PPFM to ensure that the PPFM accurately reflects how the Long Term Business Fund is managed
 - 8.4.7 Having regard to the respective rights and interests of conventional, unitised and unit-linked with-profits policyholders, ensure each class is treated fairly, including in respect of the balance of profit distribution
 - 8.4.8 Advise management on all material matters affecting the interests of with-profits policyholders such as setting bonus rates, apportioning charges, determining asset shares and any run-off plan or major transactions. For this purpose, a 'major transaction' means a transaction of a scale which the Company would reasonably expect to require a formal opinion from the WPA.

9 Reporting responsibilities

- 9.1 The Committee Chair will update the Board on the Committee's proceedings (noting any approvals and recommendations for approvals) after each meeting.
- 9.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit.
- 9.3 The Committee will produce a report to be included in the Company's Annual Report and Accounts on the Committee's activities. The report will be fair, balanced and understandable and apply best practice reporting.
- 9.4 The Committee Chair should attend the Annual General Meeting to answer members' questions on the Committee's activities.

10 Other matters

- 10.1 The Committee will have regard to the existence and role of the Supervisory Committees established in relation to certain with-profits sub-funds. The Committee will assume similar duties of supervision in respect of the Royal London (CIS) Sub-Fund, as set out in the Scheme of Transfer approved on 9 December 2014.
- 10.2 The Committee will have access to sufficient resources to carry out its duties.
- 10.3 The Committee will be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 10.4 The Committee is authorised to obtain, at the Company's expense, outside actuarial and other professional advice on any matter within its terms of reference.

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- 10.5 The Company will provide the Committee with information in a timely manner to allow the Committee to carry out its responsibilities and for the Committee to have sufficient time to provide fully considered advice.
- 10.6 The Committee:
 - 10.6.1 May seek any information it requires from any employee of the Company and its subsidiaries ("Group") in order to perform its duties
 - 10.6.2 May call any Group employee to be questioned at a meeting of the Committee as and when required in respect of the performance of its duties
- 10.7 All investment (and hedging) decisions that impact the life funds will be notified to the Committee as part of a quarterly update from the Investment Office.

List of matters for consideration (from COBS 20.5.3R (2)(b))

- i. the identification of surplus and excess surplus, the merits of its distribution or retention and the proposed distribution policy;
- ii. how bonus rates, smoothing and, if relevant, market value reductions have been calculated and applied;
- iii. if relevant, the relative interests of policyholders with and without valuable guarantees;
- iv. the firm's with-profits customer communications such as annual policyholder statements and product literature and whether the with-profits committee wishes to make a statement or report to with-profits policyholders in addition to the annual report made by a firm;
- v. any significant changes to the risk or investment profile of the with-profits fund including the management of material illiquid investments and the firm's obligations in relation to strategic investments;
- vi. the firm's strategy for future sales supported by the assets of the with-profits fund and its impact on surplus;
- vii. the impact of any management actions planned or implemented;
- viii. relevant management information such as customer complaints data (but not necessarily information relating to individual customer complaints);
- ix. the drafting, review, updating of and compliance with run-off plans, court schemes and similar matters; and
- x. the costs incurred in operating the with-profits fund.