

YOUR GUIDE TO HOW WE MANAGE OUR WITH PROFITS FUND

**UNITISED WITH
PROFITS PLANS**



LIVERPOOL VICTORIA

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1 INTRODUCTION

This guide explains to you how we manage our With Profits fund. It contains important information about how our life assurance, savings and investment plans work and how you can expect us to manage them. You may wish to read it alongside:

- your Key Features document, which gives essential information about your policy
- the Policy Conditions (where appropriate)
- your personal illustration (where appropriate), which shows what you might get back in the future.

After you have read this guide, please keep it in a safe place with your other policy documents.

2 WHAT IS THE WITH PROFITS FUND?

Our With Profits fund is an investment fund. We combine your money with that of other investors to form the fund, and we manage it on your behalf.

The fund invests in a range of carefully selected investments including:

- the shares of UK and overseas companies;
- fixed interest securities including Government stocks and bonds;
- property;
- cash;
- our own business activities (this is explained further in Section 10, 'How do we decide what business risks to take?').

The mix of investments held takes account of the current and projected financial strength of the fund and the expected returns available from different types of investment.

We review our investment strategy at least annually although the investment outlook and performance are monitored at least monthly.

Details of the investment mix are available on our website, www.liverpoolvictoria.co.uk or by contacting our Head Office.

If you invest in the fund through one of our With Profits products, you are known as a 'member' of Liverpool Victoria. As a mutual organisation we have no shareholders and use all distributed profits from the With Profits fund for the benefit of our members.

It is possible to invest in the fund in many different ways; for example, by taking out a regular savings plan, a lump sum investment, a pension, an Individual Savings Account or a Child Trust Fund.

3 WHAT IS THE AIM OF THE FUND?

Our principle aim is to provide a fair return on your investment. We make sure that the way we invest is compatible with the risks we tell people about when they invest in the fund and allows for any commitments that we have to our members.

The different ways of investing means there are different groups of members, with different types of policies, taken out at different times and with different terms.

We aim to treat all groups of our members fairly, taking into account any conflicting interests between them.

4 WHAT IS A UNITISED WITH PROFITS PLAN?

Please note that there is a separate version of this document which should be referred to if you have an All-In-1 Investment Bond or Guaranteed Capital Bond.

With Unitised With Profits plans the return on your investment will depend on the value of the units allocated to your plan.

Units are used to measure what you have invested into your plan and your plan's value as time goes on.

When you pay premiums into your Unitised With Profits plan, we allocate a certain number of units to your plan.

The number of units allocated are based on the amount you invest into your plan and the price of units at that time. We might also cancel some units to pay for charges with some plans.

We aim to increase the value of your plan over time by increasing the price of the units. In certain circumstances we may reduce the amount we pay out – the conditions are set out in the Policy Conditions.

5 HOW DO WE DECIDE THE RETURN ON YOUR PLAN?

Our aim is to make sure that every investor receives a fair return.

Our aim is to increase the value of your plan over time by adding bonuses. We add bonuses to your plan by increasing the price of the units. These are explained further in Section 6, 'What bonuses do we pay?'.

The overall return that you receive will be calculated allowing for the premiums you have paid into your plan, deductions made to cover our expenses, plus investment returns from the fund. We may also add profits from other business activities that we take part in. Investment returns have the most significant impact on the return from your plan.

We aim to cushion you by smoothing the effects of the ups and downs of the stockmarket. This affects the return you receive from your plan. This is explained in detail in Section 8, 'How do we cushion you from the ups and downs of the stockmarket?'

For policies that are paid out when they have reached the end of their term, we aim to pay amounts that are between 75% and 135% of the value of the investments supporting the policy, before allowing for smoothing. Based on the smoothed value of the investments, we aim to pay between 95% and 105% of the value.

6 WHAT BONUSES DO WE PAY?

There are two types of bonuses that we may add; regular bonuses, which might be added through the life of your plan and final bonuses, which might be added at the end of your plan.

Regular bonuses

We aim to add regular bonuses to your plan to provide steady growth during the life of your plan. The amount of regular bonus is set at a prudent level taking account of the underlying investments within the fund and its current and projected financial strength, including any commitments to members.

The amount of bonus added may vary depending upon the type of plan you hold. For most Unitised With Profits policies the annual bonus rate is set at 50% of expected future investment returns, before allowance for taxation and charges.

By setting the bonus rate at this level our fund managers are able to have more flexibility to invest in areas that can produce the best potential returns (for example to invest in shares).

We will review the level of bonuses we pay at least annually. We may pay different bonuses for different groups of plans to reflect the nature of the plan.

With Unitised With Profits plans, we aim to add regular bonuses by increasing the price of your units on at least a monthly basis. Once we have increased the price of your units, they cannot normally go down in value. The only exception would be if a Market Value Reduction were in force at the time your plan was ended (explained in Section 7, 'How do we decide how much you get if you leave your plan early?').

Final bonuses

A final bonus may be paid when your plan comes to an end. A final bonus is a way of ensuring that, overall, you receive a fair return on your investment over the lifetime of your plan.

So, if the regular bonuses added during the life of your plan do not represent what we believe is a fair return, we aim to add a final bonus to increase the value of payouts.

With some products, a high proportion of the final value of a plan can be from the final bonus, as paying a lower guaranteed regular bonus can allow our fund managers more flexibility to invest in areas that can provide potentially better returns.

7 HOW DO WE DECIDE HOW MUCH YOU GET IF YOU LEAVE YOUR PLAN EARLY?

Some plans have a fixed term, which will be set out in your Policy Document. If you leave your plan early (surrender your plan), we work out how much to pay you with the aim of being fair to planholders leaving the fund and those staying.

For policies that are surrendered, we aim to pay amounts that are between 75% and 135% of the value of the investments supporting the policy, before allowing for smoothing. Based on the smoothed value of the investment we aim to pay between 95% and 105% of the value.

What is a Market Value Reduction (MVR)?

In the same way that we might add a Final Bonus if the investments underpinning your plan have performed well, if the investments have not done so well, we might apply a Market Value Reduction. For example, this has happened to some With Profit bonds affected by the large stockmarket falls from 2000 to 2002.

We will only apply a Market Value Reduction to ensure that:

- when you cash in your plan, the amount you receive is not unfairly higher than the value of the underlying investments
- to make sure that a fair share is left for the members remaining in the fund

On some plans, we have guaranteed not to apply a Market Value Reduction on certain dates or events. Your Policy documentation will explain this to you.

Except for the Flexible Savings Plan, we would not apply a Market Value Reduction in the event of death, and most savings plans are guaranteed to be free of a Market Value Reduction if they end on a set date (called the maturity date). Please see your Key Features document for further details.

8 HOW DO WE CUSHION YOU FROM THE UPS AND DOWNS OF THE STOCKMARKET?

As explained earlier, our fund invests in a number of different ways, including in the shares of UK and overseas companies, commercial property and fixed-interest investments. Shares are often called equities and are bought and sold on stockmarkets throughout the world.

We believe it is important for us to invest in shares. This is because historically, over the long term, the return from shares has been higher than other safer investments, like government bonds and cash. This helps us to provide you with the potential for better returns from the fund over the long term.

However, the downside of shares is that they can be volatile – with values changing quickly (up and down) over short periods of time. In particular, in the past we have seen how some specific world events can cause values to fall sharply.

We aim to cushion you as far as possible from the day to day volatility of investment returns, by ‘smoothing’ out the effects of some of the ups and downs. We do this in two ways.

First, we invest in a wide range of types of investments and within these limit the amount we invest in any one specific investment.

Secondly, instead of just adding large bonuses in good years and no bonuses in bad years, we aim to hold back some of the investment profit made in good years and release it in the bad years. This means you receive a more ‘smoothed’ return on your plan.

So if, for example, your plan happened to end on a day when the stockmarket drastically fell, the smoothing of returns might help protect you from a sudden drop in value. This smoothing effect allows the investment performance to be cushioned from the daily fluctuations, either upwards or downwards, of the stock market. Investors in funds that don’t smooth returns could see the value of their investments rise or fall faster than those in a smoothed fund.

For Unitised With Profits plans we smooth investment returns over a 2 year period.

The aim of smoothing is to protect you from the temporary ups and downs of the stockmarket, and we do not use it as a source of profit or loss.

Because returns are smoothed, it’s possible that when you cash in your policy, or when it comes to the end of its term, the amount paid out may be higher or lower than the value of the investments supporting the policy.

We aim to smooth payouts on policies of the same type and the same term so that they do not change by more than 20% from one year to the next.

9 WHAT EXPENSES ARE CHARGED TO THE FUND?

As with any investment, there are expenses involved in setting up and administering a With Profits plan, for example, commission payments, administration costs and other expenses. The charges applied to your Unitised With Profits policy, which are set out in your Key Features document and Policy Conditions, are taken to cover these expenses.

10 HOW DO WE DECIDE WHAT BUSINESS RISKS TO TAKE?

As with any With Profits fund, there are potential business risks arising from being a With Profits provider (including product design features, selling and marketing practices, interest rates and investment returns).

We may also take other business risks with the aim of increasing the returns on your plans. We will therefore consider business opportunities that can provide a source of profit to the fund. For example, the With Profits fund owns our general insurance company and bank. We might also consider undertaking other business risks from time to time.

Any business opportunities involve an element of risk, and it is important that we are careful about the amount of risk we take. To achieve this, our Board of Directors has to approve anything that represents a significant business risk.

Our Board will only approve business risks if the expected benefits from the opportunity, are at least as good as the benefits we think we could get from alternative investment opportunities.

Good business decisions can increase the bonuses we are able to provide. However, if we did take on a business risk that ended up being loss making, this could reduce the bonuses we are able to add to plans.

11 WHAT IS 'THE INHERITED ESTATE' AND HOW DO WE USE IT?

The inherited estate is the amount of money, built up from profits from the fund, that is in excess of a realistic assessment of the liabilities of the fund. The inherited estate provides capital for the fund and supports its operation.

We don't aim to actively increase the size of the inherited estate further, it is something that has built up since the Society came into existence in 1843.

The inherited estate is used for the benefit of our members in a variety of ways.

For example, it can:

- help us to provide you with smoothed returns
- allow us more freedom to invest in ways that we think may offer better returns
- help fund new business opportunities or other business risks

A low level of inherited estate would generally restrict us in the way we invest, which could have a negative effect on the returns we could provide to our members.

Maintaining a reasonable level of inherited estate gives us the financial strength to invest more in shares, which we believe can provide the potential for better returns to our members over the longer term.

We decide how to use the inherited estate by making sure we realistically assess its size, and then considering the best way of using it to maximise returns for our members.

We manage the inherited estate in the best way we see fit, for the benefit of the people who invest with us.

The inherited estate has been built up over many previous generations of policyholders and therefore there is no obligation to distribute it to the current generation of members.

12 COULD WE EVER CLOSE THE FUND TO NEW BUSINESS?

We will allow people to invest in the With Profits fund as long as we believe it is in the interests of both our existing and new members.

13 WHAT WOULD HAPPEN IF WE STOPPED ACCEPTING NEW BUSINESS?

In the event of us permanently ceasing to accept new investments into the fund and not carrying out any business activity, we would aim to share out the inherited estate over the lifetime of the remaining With Profits plans held in the fund.

We would aim to do this in a way that was fair to the remaining members, we might consider changing the way the fund is invested and our approach to smoothing of returns in order to achieve this.

14 HOW TO FIND OUT MORE

This guide is intended to provide you with what we believe is the key information that most people would like to know about the way we manage our fund.

More detailed information is available in our Principles and Practices of Financial Management (PPFM), a copy of which can be obtained from our Head Office or from our website, www.liverpoolvictoria.co.uk/manage. Please note the PPFM is a longer, more technical document. In the event that we change our PPFM we will notify you.

If you have any questions or concerns, please do not hesitate to contact your Financial Intermediary, or us.

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