

**2008 Annual report from the Board of
Liverpool Victoria Friendly Society Limited (“LVFS”)
to its with-profits members**

Summary

We describe the way in which we manage LVFS with-profits business within a formal document entitled “Principles and Practices of Financial Management” (PPFM). Each year we review our compliance with the PPFM and report the results of that review to you.

In the opinion of the Board of Directors, the company has complied with the obligations relating to the PPFM during 2008 except in relation to two matters which have been noted and addressed accordingly. The reasons for this opinion are outlined in this report.

A With Profits Actuary authorised by the FSA advised on the operation of with-profits business throughout the period while the With Profits Committee provided independent judgement to the exercise of discretion. A report from the With Profits Actuary is annexed.

This report covers governance arrangements, the exercise of discretion in conduct of the with profits business and any competing interests between different classes of policyholders

Governance Arrangements

The With Profits Committee provide independent judgement on the exercise of discretion as well as compliance with the PPFM. They are a sub-committee of the Board. At the beginning of 2008, the Committee consisted of 3 non-Executive Directors (one acting as Chairman) who sat on the Board and an Executive Director. In June, the Chairman resigned and the role was taken up by an existing non-Executive member of the Committee. Since September it has been made up of an independent Chariman, an Executive Director and a non-Executive Director who sits on the Board.

The Liverpool Victoria group also has a With Profits Actuary who is authorised by the FSA and who reports to the Board regarding the PPFM. For the majority of the period of this report the With Profits Actuary was Ian Blanchard. He was replaced by Dr Angela Smith from 1 October. Dr Smith’s report covers the whole period under review.

Throughout the period covered the governance arrangements have ensured the company’s compliance with the PPFM other than the 2 exceptions noted below.

Practice 1.5(3) was not complied with. The asset mix supporting current liabilities was not invested in accordance with the Practice. This has been addressed to ensure future compliance.

Practice 1.8(2) was not complied with. The investment strategy for the estate was amended in response to the financial markets turmoil to better meet the interests of with profits policyholders. The PPFM will be amended to reflect updated business practice.

Exercise of Discretion

There are a numbers of areas where discretion was applied to with profits business during the year under review.

A bonus declaration was made with effect from 1 March 2008, which changed payouts on claims from that date. Discretion was used with regards to smoothing, and assumed future fund performance.

The investment strategy was regularly reviewed during the year to ensure it remained consistent with prevailing economic conditions. Discretion was exercised with respect to the types of investment held and the proportions of the assets invested in each asset type.

In October, LVFS acquired the Highway Insurance Group – funded by the sale of equities from the estate. This purchase will enable us to compete even more effectively in the General Insurance broker market.

The above decisions were fully reviewed by the With Profits Committee and With Profits Actuary. The Board can confirm that the discretion exercised complied with the PPFM during 2008.

We aim to make payouts on maturing, surrendering and transferring policies that are between 75% and 135% of Asset Share, with at least 90% of payouts being between these levels. We can confirm that the payouts made during 2008 satisfied these requirements.

Competing or Conflicting Rights, Interests or Expectations

Potentially competing or conflicting rights, interest or expectations of with-profits policyholders may come about, for example between holders of:

- Different products held by different persons
- Policies with different terms or of different sizes
- Policies with different entry or maturity dates
- Different types of claim on a policy (e.g. maturity or surrender)

Discretion between these groups of policyholders will mainly occur through the smoothing of policy benefits and the method of grouping policies when attributing investment returns and charges to Asset Shares.

The advice of the With Profits Actuary was given with regard to these issues and they were reviewed by the With Profits Committee.

It is the opinion of the Board that these potential competing or conflicting rights, interests or expectations of policyholders were managed in accordance with the PPFM.

Changes to the PPFM

There were no changes to the PPFM in 2008.

Details of the PPFM can be found on our website, by visiting: http://www.lv.com/savingsandinvestments/with_profits/wp_info/ppfm

Annex

Respective Responsibilities of the With Profits Actuary and Directors

The directors are responsible for ensuring that the Company complies with the PPFM and are responsible for the exercise of discretion in the management of with-profits business. Each year, the directors must prepare a report on compliance with the PPFM to each class of with-profits policyholder. The report must set out the directors' reasons for their conclusions.

As With Profits Actuary my responsibilities are to advise the Company on key aspects of the discretion to be exercised in respect of each class of the Company's with- profits policyholders. I am required by statute to consider fairness and the appropriateness of information sent to policyholders.

I am required to report to the Company's governing body once a year on key aspects of the discretion exercised by the Directors during the year. I am further required to make a written report to the Company's with-profits policyholders, to accompany the Company's annual report. My responsibilities as With Profits Actuary are set out in statute and in Actuarial Professional Guidance.

Report from the With Profits Actuary

I was appointed as With Profits Actuary to LVFS from 1 October 2008. My appointment covers all classes of with-profits business .

Since taking office, I have carried out reviews with the full cooperation and assistance of the directors, taking into account where relevant the rules and guidance in section 20.3 of the FSA Conduct of Business Sourcebook, into:

- key aspects of the exercise of discretion during 2008
- compliance with the PPFM
- the 2008 annual report to LVFS With Profits policyholders
- communications to with-profits policyholders

In carrying out my reviews I have sought such information and explanations as I considered necessary in order to provide me with sufficient evidence to give the opinion below.

Opinion of the With Profits Actuary

In my opinion the 2008 annual report and the discretion exercised by the directors during the year takes, or has taken, the interests of the LVFS with-profits policyholders into account in a reasonable and proportionate manner.

Dr Angela Smith
With Profits Actuary
Liverpool Victoria Friendly Society Limited
March 2009