

**2009 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 (The Society) 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 Society has complied with the obligations relating to the PPFM during 2009 except in relation to one matter which has 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 the conduct of the with profits business and any competing interests between different classes of policyholders

Governance Arrangements

The With Profits Committee provides independent judgement on the exercise of discretion as well as compliance with the PPFM. They are a sub-committee of the Board. Throughout 2009, the Committee consisted of an independent Chairman, 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 compliance with the PPFM. For about half of the period of this report the With Profits Actuary was Dr Angela Smith. Miss Tamsin Abbey took on the role from 22 July. Miss Abbey’s report covers the whole period under review and she has relied upon the work performed by Dr Angela Smith for the period before she took over.

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

Practice 1.8(4) was not complied with. Annual discussions around excess surplus did not take place in 2009. The issue was discussed at the Board in early 2010 and a process set up to ensure annual discussions take place in future.

Exercise of Discretion

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

A bonus declaration was made with effect from 1 March 2009, 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.

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 2009.

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 2009 satisfied these requirements.

Competing or Conflicting Rights, Interests or Expectations

Potentially competing or conflicting rights, interests 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 among 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

A small number of amendments were made to clarify certain minor points in the PPFM in 2009. Details of the PPFM can be found on our website, by visiting: http://www.lv.com/savingsandinvestments/with_profits/wp_info/ppfm

Annex

Report from the With Profits Actuary to the With-Profits Policyholders of Liverpool Victoria Friendly Society (“LVFS”)

I was appointed as With Profits Actuary to the LVFS fund from 22 July 2009. My appointment covers all classes of with-profits business.

Liverpool Victoria Friendly Society Limited (“the Company”) has prepared a report (“the Annual Report”, which is set out above) addressed to the with-profits policyholders of LVFS (“the with-profits policyholders”), stating whether or not the Company believes it has complied with the obligations relating to its Principles and Practices of Financial Management (“PPFM”) during 2009. The Annual Report, the PPFM and the management of the with-profits business so as to comply with the PPFM are each the sole responsibility of the Company. This report from the With-Profits Actuary should be considered in conjunction with the Annual Report.

The Financial Services Authority (the “FSA”) requires the With-Profits Actuary to confirm to the with-profits policyholders whether, in her opinion and based on the information and explanations provided to her by the Company, and taking into account where relevant the rules and guidance in the FSA’s Conduct of Business Sourcebook 20.2, the Company’s Annual Report and the discretion exercised by the Company may be regarded as having taken their interests into account in a reasonable and proportionate manner.

I have considered the Annual Report prepared by the Company together with those acts of discretion in respect of 2009 of which the Company has made me aware. The With-Profits Actuary advises the Board on the key aspects of discretion that they exercise in managing the with-profits business. I have relied on the completeness and accuracy of information supplied to me by the Company and on Dr Angela Smith who held the role of With-Profits Actuary until 21 July 2009. Although I have considered this information for reasonableness, I have not audited, verified or otherwise substantiated that information.

In my opinion, based on the information and explanations provided to me by the Company and taking into account where relevant the rules and guidance in Conduct of Business Sourcebook 20.2, the Annual Report and the discretion exercised by the Company in 2009, the Company has taken the interests of the with-profits policyholders into account in a manner which is reasonable and proportionate.

This opinion is formed taking into consideration the interests of the with-profits policyholders as a body and not the interests of individual policyholders. My report is made solely to the with-profits policyholders as a body. Consequently, this report does not constitute advice to any individual and no person should rely on it in making any decision with regard to an individual policy. To the fullest extent permissible by law I do not accept responsibility to anyone other than the with-profits policyholders as a body for my work in respect of this report and its conclusions.

Miss Tamsin Abbey
With Profits Actuary, March 2010