

**2009 Annual report from the Board of
Liverpool Victoria Friendly Society Limited (“LVFS”)
to its with-profits policyholders in the RNPFN Fund**

Summary

We describe the way in which we manage RNPFN 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, LVFS (“the company”) complied with the obligations relating to the PPFM during 2009. 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 RNPFN Supervisory Board acts as the With Profits Committee. The Supervisory Board was set up at the time of acquisition of RNPFN, and the majority of members, including the Chairman, are independent of the Liverpool Victoria group. One of its functions is to provide independent judgement on compliance with the PPFM.

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 Dr Angela Smith for the period before she took over.

Throughout the period covered the governance arrangements have ensured that the company has complied with the PPFM.

Exercise of Discretion

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

Bonus declarations were made with effect from 1 January, 1 April, 2 June and 1 November 2009. Each of these declarations changed payouts on claims from that date. Discretion was used with regards to smoothing, assumed future fund

performance and any enhancement to reflect the distribution of the entire surplus assets of the RNPFN Fund over the remaining life of the With Profits policies.

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 RNPFN Supervisory Board 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 policies that are between 80% and 130% of Asset Share and payouts on surrendering/transferring policies between 70% and 130% of Asset Share, with at least 90% of payments being between these levels. We can confirm that the payments made during 2009 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 RNPFN Supervisory Board.

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

Minor amendments were made to clarify certain points in the PPFM in 2009.

Details of the PPFM can be found at www.lv.com/rnpfn/ppfm

Annex

Report from the With Profits Actuary to the With-Profits Policyholders of the Royal National Pension Fund for Nurses Fund (“RNPFN”)

I was appointed as With Profits Actuary to the RNPFN 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 the Royal National Pension Fund for Nurses Fund (“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