

Key Features of the Flexible Guarantee Bond

The Financial Services Authority is the independent financial services regulator. It requires us, LV=, to give you this **important information** to help you to decide whether our Flexible Guarantee Bond is right for you. You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.



Key Features of the Flexible Guarantee Bond

With this Key Features you'll find enclosed a booklet called 'Your guide to how we manage our with-profits fund'. In this you'll find useful information to help you understand how we manage your investment in our with-profits fund. We strongly recommend you take a few minutes to read it.

Its Aims

Our Bond aims:

- To give you a better return than cash over the longer term by investing in stocks & shares, commercial property and other investments.
- To help you match your investment to the amount of risk you want to take.
- To give you the option to limit the risk, by adding a five year guarantee. We explain the guarantee option in more detail in 'What is the guarantee?' later on.

Your Investment

- You invest a lump sum for at least five years and ideally ten years or more.
- Of course, we don't want to lose you, so you can stay invested for as long as you wish. In general, the longer you stay invested, the better the chance of your Bond performing well. Naturally, this means your Bond may not perform as well if you take your money out in the early years.



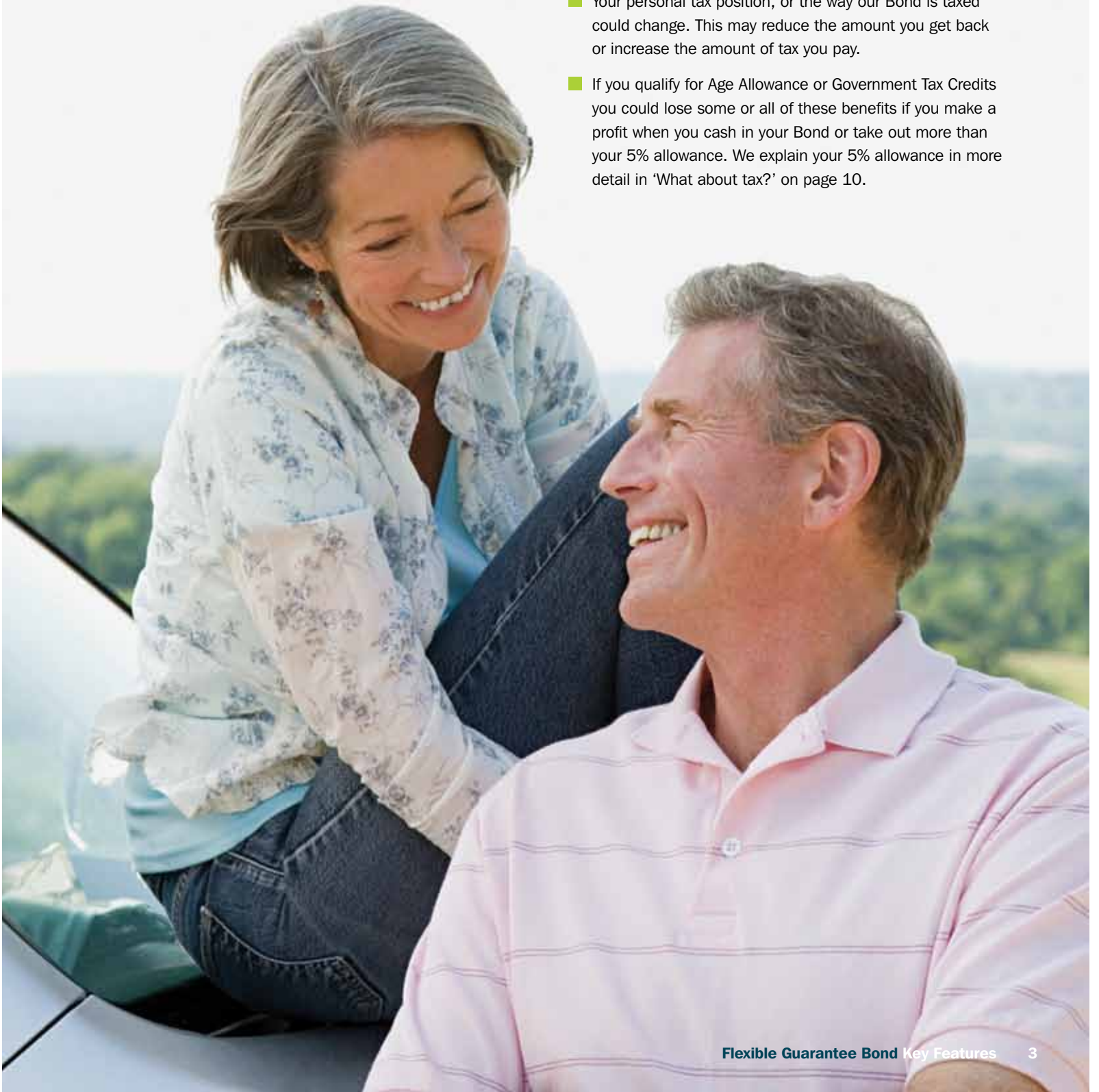
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Risks

Clearly, if we're going to try to give you a better return than cash, there are some risks involved that you wouldn't experience if you left your money in a bank or building society account:

- Our Bond invests in stocks & shares and other investments which can rise and fall in value. This means you're not certain to make a profit and you could get back less than you invested.

- If you take out more money than the growth on your Bond, this will eat into your original investment.
- If you cash in your Bond in the first five years we will apply an Exit Charge. An Exit Charge may also apply if you cash in part of your Bond.
- The cost of goods and services goes up over time, which could reduce the real value of the lump sum you get back when you cash in your Bond, even if you've added a guarantee.
- Your personal tax position, or the way our Bond is taxed could change. This may reduce the amount you get back or increase the amount of tax you pay.
- If you qualify for Age Allowance or Government Tax Credits you could lose some or all of these benefits if you make a profit when you cash in your Bond or take out more than your 5% allowance. We explain your 5% allowance in more detail in 'What about tax?' on page 10.



Questions & Answers

We've set out the answers to some very important questions about our Bond below. These will help you decide whether to invest in it. To invest in this Bond you must speak to your financial adviser.

Is this Bond right for me?



Our Bond is designed for people who wish to invest for at least five years and ideally ten years or more.

You can invest in our Bond if you're aged 17 to 89 and a UK resident. Unfortunately, you can't apply if you live in the Channel Islands or the Isle of Man.

You may wish to invest in our Bond if you're able to invest a lump sum for at least five years and ideally ten years or more. You need to understand and accept the risks associated with stock market investments, as these risks come hand in hand with the potential reward of your investment doing better than cash would over the longer term.

Our Bond offers three fund options, with different levels of investment risk. So whether you're investing in stocks & shares for the first time and want to take a cautious approach, or you're an experienced investor looking for higher risks and potential rewards, one of our fund options could be right for you. We've explained each of our fund options in 'Where's my money invested?' on page 5.



You might not want to invest in our Bond if you expect to be a higher rate taxpayer or near the higher rate tax band when you cash in your Bond. Please refer to 'What about tax?' for more details.

Don't invest in our Bond if you can't invest for at least five years or don't feel you understand the risks associated with stocks & shares. Remember that the level of risk you take depends on the fund option you choose.

How much can I invest?

The minimum and maximum investment into a new Bond is:

- Minimum £5,000
- Maximum £500,000 (less any amount already invested with LV= in a Flexible Guarantee Bond, All-in-1 Investment Bond, Flexi Guarantee Plan, or Guaranteed Capital Bond).

If you already have a Flexible Guarantee Bond and want to invest more, the minimum additional investment is £5,000. If you do this, your money will be invested in a new, separate Bond.

Your investment must be made by cheque.

Where's my money invested?

Your money is invested in our with-profits fund. You can choose one of three fund options. Each of these invests in a mix of assets including stocks & shares, commercial property, fixed interest investments and some cash.

It's then the job of our expert asset management team to achieve the best possible returns for you. You'll also share in the performance of the Friendly Society's other businesses (we've explained this in more detail in "Your guide to how we manage our with-profits fund").

To help you understand the difference between the three options, and to decide which is right for you, we've explained them in more detail below.

Please remember that, no matter which fund option you choose, your investment can go down as well as up. The higher the amount invested in stocks & shares, the more frequently this will happen and the more significant the changes in value will be. These are stock market investments, which means that you aren't certain to make a profit.

■ STOCKS & SHARES ■ PROPERTY ■ FIXED INTEREST



Cautious Series 2 – this fund is designed to provide the potential for steady growth. The fund is mainly invested in fixed interest securities with the balance in equities and property. This is the lowest risk fund option under our Bond and therefore offers the lowest growth potential.



Balanced Series 2 – this fund is designed to provide the potential for moderate growth. Around half of this fund is invested in fixed interest securities with the balance in equities and property. We believe this fund is higher risk than the Cautious Series 2 fund, but lower risk than the Managed Growth fund.



Managed Growth – this fund is designed to provide the potential for higher growth than the other two fund options. But of course, this means that it's also the most risky. Around two thirds of the fund is invested in equity and property with the balance in fixed interest securities.

How much of my money will be invested?

The table below shows the allocation rates applicable to your investment, which depend on the amount you invest and your age. If you're not sure which allocation rate applies to you, speak to your financial adviser.

Age/ Investment Amount	Under age 70	Age 70-74	Age 75-79	Age 80-84	Age 85-89
Up to-£24,999.99	100.00%	99.50%	98.50%	97.75%	97.00%
£25,000-£49,999.99	100.50%	100.00%	99.00%	98.25%	97.50%
£50,000-£99,999.99	101.00%	100.50%	99.50%	98.75%	98.00%
£100,000+	101.25%	100.75%	99.75%	99.00%	98.25%

This investment should ideally be held for at least five years and ideally ten or more. Unfortunately, it is a fact of life that older investors are more likely to die within this period. As we have set up costs and we pay out 101% of your Bond value if you die, we have lower allocation rates for older customers. We do this to protect remaining with-profits investors against early payouts. You can find out more about the life cover included in your Bond in section B of the Bond Conditions.

The allocation rate that will apply to your investment will be shown on your personal example. For joint life first death bonds, the allocation rate will be the rate that applies to the oldest life. For joint life second death bonds, the allocation rate will be the rate that applies to the youngest life.

What is averaged pricing?

If you have been invested in your fund option for 26 weeks or more, we protect your investment from short term ups and downs by averaging the value of the assets over the previous 26 weeks. Sometimes we won't use this averaging, which can lead to a sudden drop in the value of your investment (this is explained in Condition A4 of the Bond Conditions, along with an example).

One effect of averaging means that if the markets are rising when you cash in all or part of your investment, you may get back less than if you were invested directly in the assets. But if markets are falling, you may get back more.

Can I change my fund option?

Yes. You can change your fund option at any time. We'll normally do this for free. But if you change your fund option regularly, we will apply a charge for this. We explain this in more detail in 'What are your charges?' on page 9.

You can only invest in one fund option at a time. So if you do change your fund option, you have to move the total amount in your Bond.

When you change your fund option, any guarantee you added will be cancelled. So you might want to add a new guarantee when you do this. If you do this, you should note that the cost of the guarantee is different for each fund choice.

We've explained the charges for changing fund options, and adding a new guarantee in 'What are your charges?' on page 9.

What is the guarantee?

The guarantee is exactly that – a guarantee that your Bond will be worth at least a minimum amount at the end of the guarantee period.

Of course, we can't offer this guarantee for free – you have to buy one. We've explained our charges for this in more detail in 'What are your charges?' on page 9.

How does the guarantee work?

By choosing the guarantee option, we guarantee that the value of your Bond on the 5th anniversary of adding the guarantee, will be at least the same as the value of your Bond on the date you added it. So, if the value has increased, you will get this higher value, but if the value would have decreased, you are protected. Of course, any money you have taken out of your Bond in this five year period will be taken into account and deducted from this guaranteed amount.



For example:

Adrian invested £25,000 on 1 August 2009. At the same time, he decided to add a guarantee. This means that if he doesn't take any money out, the value of his Bond on 1 August 2014 is guaranteed to be at least £25,000. If Adrian cashes in his Bond at this time, he'll get at least £25,000 back plus any increase in his investment.

If Adrian hadn't added a guarantee, and the value of his Bond on 1 August 2014 is less than £25,000, he'll make a loss, if he cashes in then.

On the 5th anniversary of adding the guarantee, if the value of your Bond is less than the guaranteed amount we will add units to your Bond, to increase the value to the guaranteed amount (less any withdrawals you have made since the guarantee was added). So you do not need to cash in your Bond to benefit from this guarantee, unlike some other Bonds.

When any guarantee ends, we will automatically add a new one, unless you tell us not to, to protect the current value of your Bond at that time. This is explained later on in this section.

You can add a guarantee to your Bond when you first invest, or at any time afterwards.

You can also replace a guarantee with a new one at any time. You may want to do this to 'lock in' any growth. You can replace your guarantee with a new one but if you do this more than once each year we'll apply an administration charge. This charge is explained in more detail in 'What are your charges?' on page 9.

You can only have one guarantee at any time, so if you add a new one, the other one will be cancelled. You benefit from locking in the growth to date, but the guarantee is now five years from the date of the guarantee replacement.



For example:

Rachel invested £20,000 on 1 September 2009, and added a guarantee at the same time. On 1 September 2010 her Bond is worth £21,500. She replaces her existing guarantee with a new one, so the new guaranteed amount is now £21,500.

This amount is guaranteed on the 5th anniversary from the date the new guarantee was added, on 1 September 2015. This means that the growth of £1,500 is effectively 'locked in'.

Any guarantee will only apply on the 5th anniversary of it being added or replaced. So, if you cash in your Bond before or after this, you may get back less than the guaranteed amount. This may be less than you invested.

When any five year guarantee period ends, we will automatically add a new one. We will write to you at least 30 days before doing this to give you the chance to ask us not to add a new guarantee, if you no longer want one.

To find out more about how our guarantee works and how to replace a guarantee, please refer to Conditions A5 and A6 of the Bond Conditions.

Can I take money out?

Yes, you can. Our Bond is designed for people who can leave their money invested for at least five years. If you do need to take money out you can. But please understand that there may be an Exit Charge if you take

out more than a certain allowance within the first five years. You can find out more information about this in Condition A11 of the Bond Conditions.

If you want to take money out of your Bond in the first five years, either on a regular basis, or on an 'as and when' basis, you can take up to 5% of your original amount invested every year, without penalty. Also, if you do not take the full 5% in any year, any unused amount can be rolled forward to later years.

After five years there are no Exit Charges for taking money out of your Bond, no matter how much you take out. Please also read the 'What about tax?' section on page 10, as if you're a higher rate taxpayer, or become one because you take money out of your Bond, there may be additional tax to pay.

The 5% calculation is always based on the amount you invested, not the current Bond value.



For example:

Tim invested £10,000 on 1 April 2010. He takes no money out of his Bond until September 2013, when he wants to know how much he can take out, without having to pay an Exit Charge. As Tim's bond is in its 4th year, he can carry forward his unused 5% allowance from previous years.

His 5% allowance is £10,000 x 5% = £500 a year.

$4 \times £500 = £2,000.$

Tim can take out up to £2,000 without paying an Exit Charge.

What are your charges?



This will help you understand what charges you pay when you invest in our Bond. We've also used examples to help you, which are shown in the Bond Conditions.

We take our charges by taking units away from your Bond.

Monthly Management Charge

If you invest £10,000 or more, this charge is currently 0.108% each month of the fund value – this is the same as 1.3% a year.

If you invest less than £10,000, this charge is currently 0.125% each month of the fund value – this is the same as 1.5% a year.

Guarantee Charge

If you add a guarantee, we will make an additional monthly charge for the term of the guarantee. This is added to the Monthly Management Charge. The current charge for each fund option is:

Fund Option	Monthly Percentage	Equivalent per year
Managed Growth	0.108%	1.30%
Balanced Series 2	0.066%	0.80%
Cautious Series 2	0.025%	0.30%

Once you've added a guarantee, we promise not to change the amount we charge for it. Our charge for each new guarantee you add may be higher or lower than this. If you cancel your guarantee the guarantee charge will stop.

Administration Charges

- Changing your fund option

You can change your fund option up to three times every 12 months, for free. If you make more than three changes in any 12 month period, we'll charge £25 for each extra change.

- Adding a new guarantee

If you replace your guarantee more than once in any 12 month period, we'll charge £25 each time. This is in addition to the guarantee charge. If you are adding a new guarantee because you are changing your fund option, we won't charge you £25 twice.

Exit Charge

If you cash in your Bond in full in the first five years, you'll pay this charge on the whole amount.

However, if you only want to take out some of your money, you'll only pay this charge if, during the year, you take out more than 5% of what you invested. If you do not take the full 5% in any year, any unused amount can be rolled forward to later years. After you've had your Bond for five years, you won't pay this charge at all - no matter how much you take out.

Year	1	2	3	4	5	6 onwards
Exit Charge	8.5%	6%	4%	2%	1%	0%

What might I get back?

The value of your Bond when you cash it in will depend on:

- how much you invested and your age
- how well our investments have performed
- our charges
- any money you've taken out of the Bond
- any guarantee you added
- tax

Your Personal Example gives you an idea of what you might get back.

What about tax?

You won't have to pay any Capital Gains Tax or Basic Rate Income Tax on money you take out of your Bond as we've already paid tax on income and gains. This tax cannot be reclaimed.

Each year you can take out up to 5% of what you invested and won't have to pay any additional Income Tax at that time. We call this your 5% allowance and if you don't use it in any year it can be carried forward.

If you're a higher rate tax payer, or you become a higher rate tax payer because of the gain on your Bond, you will have to pay more tax:

- on any gain when you finally cash in your Bond, or
- if you take out more than your 5% allowance in any year. If you do not take the full 5% in any year, any unused amount can be rolled forward to later years

We'll tell you if there is a gain on which you might need to pay tax.



If you qualify for Age Allowance or Government Tax Credits you could lose some or all of these benefits if you make a profit when you cash in your Bond or take out more than your 5% allowance. If you do not take the full 5% in any year, any unused amount can be rolled forward to later years

If your Bond is set up under a Trust you might have to pay income tax on any gain.

Your Bond will be issued as a series of 50 identical policies which gives you flexibility to cash in individual Bonds and can also have tax planning advantages.

This is only a summary. Please speak to your Financial Adviser if you need more information as this will depend on your personal tax position, which might change in the future.

Any references to taxation are based on our understanding of current legislation and HM Revenue & Customs practice, which can change.

Can I change my mind?

When you receive your Bond documents you will also receive a notice reminding you of your legal right to change your mind. You have the right to cancel your Bond within 30 days of receiving the notice. If you wish to cancel, just complete and return the form to us at LV=, Life New Business Department, County Gates, Bournemouth, BH1 2NF.

If you send us your cancellation form within 30 days of receiving it we will refund any money you've paid into your Bond. You can cancel your Bond anytime after this, however, you may get back less than you invested and we will normally apply an Exit Charge during the first five years of your Bond.

How much will the advice cost?

If you need advice about whether this Bond is suitable for your needs, please contact your Financial Adviser who will give you details about the cost of providing advice. The amount will depend on the size of your investment and will be paid for out of the charges.

How will I know how my Bond is performing?

Every year we'll send you a statement showing how your Bond is performing. You can check the Unit Price by calling your Financial Adviser or looking on our website at www.lv.com/mybond.

Further Information

Retail Customers

We're required by our regulator, the Financial Services Authority, to categorise our customers to determine the level of protection they'll receive. If you invest in our Bond described in this Key Features document we'll treat you as a retail client. This gives you the highest level of protection available under the Financial Services Authority rules.

Terms and Conditions

This Key Features document gives you a summary of our Bond. You should also see 'Your guide to how we manage our with-profits fund' and the Bond Conditions for further details.

Law

The Bond is governed by the law of England and the courts for that part of the UK where you live. We will always communicate in English.

Complaints

If you have a complaint about any part of the service you receive from us, it's important that we know about it, so we can help put things right. You can let us know by calling us on 01202 292333 (for textphone, dial 18001 first). Or, you can write to us at: Box 2, LV=, County Gates, Bournemouth. BH1 2NF. Your complaint will be dealt with promptly and fairly and in line with the Financial Services Authority's requirements, and if you want more information on how we handle complaints, please contact us.

We hope that we will be able to resolve any complaint that you have, but if you aren't happy with the outcome you can refer your complaint to the Financial Ombudsman Service. If you make a complaint it won't affect your right to take legal action.

Compensation

We've been in business since 1843, and take great care to manage our affairs sensibly. If we ever did get into financial trouble and couldn't honour our commitments, you would be entitled to compensation from the Financial Services Compensation Scheme.

The compensation you get depends on the type of product you have. For this type of plan, the scheme covers the first £2,000, and at least 90% of the rest. From 1 January 2010 this will change to 90% of the claim. For more information go to www.fscs.org.uk or call 020 7892 7300.

You can get more information about compensation from:

The Financial Services Compensation Scheme
7th Floor
Lloyds Chambers
1 Portsoken Street
London E1 8BN

Tel: 020 7892 7300
Fax: 020 7892 7301
enquiries@fscs.org.uk

Anything else?

Please call us on

0800 085 8811

For textphone please dial 18001 first.

Lines are open:

8am - 8pm Monday to Friday

8am - 4pm Saturday

Calls may be recorded for training and monitoring purposes.

Or visit our website

www.LV.com

If you would prefer to write to us, our address is:

**LV=
County Gates
Bournemouth
BH1 2NF**



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