

**2010 Annual Report from the Board of
Liverpool Victoria Friendly Society Limited
to its With-Profit Policyholders**

Summary

We describe the way in which we manage the with-profit business written by Liverpool Victoria Friendly Society Limited ("the Society") in a formal document known as the "Principles and Practices of Financial Management" (or "PPFM"). Each year we review our compliance with the PPFM and report the results of that review to you.

This report to policyholders examines the management of the Society's with-profit business during 2010. It covers the governance arrangements, the exercise of discretion and how any competing interests between different classes of policyholders were addressed. It does not apply to policies in the RNPFN Fund (a sub-fund within the Society's long-term insurance business fund). These have their own Principles and Practices of Financial Management document and a separate report on compliance with it.

In the opinion of its Board of Directors ("the Board"), the Society complied with the obligations set out in the PPFM during 2010, except in relation to one item, noted below. The reasons for this opinion are outlined in this report.

Practice 3.4.3 says that the Society smoothes investment returns over a five-year period when determining the amount that it is appropriate to pay for accumulating with-profit policies. However, from December 2006 to October 2010, target asset shares for the Appropriate Personal Pension Plan (an accumulating with-profit product) were based on investment returns smoothed over a two-year period. The Board has confirmed the use of a two-year smoothing period in the future, with the PPFM being amended accordingly.

A With-Profits Actuary, authorised by the FSA, advised the Board on the operation of the Society's with-profit business throughout the period covered by this report, while a With-Profits Committee provided independent judgement relating to the exercise of discretion. A report from the With-Profits Actuary is annexed to this report.

Governance Arrangements

The With-Profits Committee is a sub-committee of the Board, set up to provide independent judgement relating to the exercise of discretion under the Society's with-profit business. It comprises a Chairman who is independent of the Liverpool Victoria Group (and is also the Chairman of the Supervisory Board for the RNPFN Fund), along with a non-Executive member of the Board and an Executive Director. One of the functions of the With-Profits Committee is to monitor compliance with the PPFM.

The Society also has a With-Profits Actuary who is authorised by the FSA and who provides advice to the Board on the exercise of discretion relating to matters affecting with-profit business. Up to 28 March 2010, the With-Profits Actuary was Miss Tamsin Abbey. Mr Paul Downey took on the role from 29 March 2010. Mr Downey's report covers the whole period under review. He has relied upon Miss Tamsin Abbey for the period before he took over.

Exercise of Discretion

There are a number of areas where discretion was exercised in relation to the Society's with-profit business during the year under review.

Two bonus declarations were made during 2010. The first took effect from 1 March 2010 (or 1 February 2010 for with-profit annuities) and reviewed both regular and final bonus rates. The second took effect from 1 November 2010 and considered only final bonus rates. Both declarations changed claim payments. Discretion was exercised with regards to smoothing, the level of expenses and other charges allocated to asset shares, the level of any miscellaneous surplus allocations made to asset shares for different types of policy and the investment return used to project the asset shares to the beginning of the period covered by the review.

Discretion was exercised in the choice of methods and assumptions used to calculate surrender and transfer values under the Society's conventional with-profit policies and to set the level of the Market Value Reduction Factors applying to the Society's unitised with-profit policies. No changes were made during 2010 to the methods and assumptions used for conventional policies, nor to the approach used to determine the level of the Market Value Reduction Factors for unitised policies.

The investment strategy for the Society's with-profit fund was reviewed during the year to ensure that it remained appropriate to the prevailing economic conditions. Discretion was exercised with respect to the types of investment held and the proportion of the assets invested in each different type.

The above decisions were reviewed by the With-Profits Committee and by the With-Profits Actuary. The Board can confirm that in its opinion the discretion exercised complied with the PPFM during 2010.

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 payments being between these levels. We can confirm that the payments made during 2010 satisfied these requirements. Payouts under paid-up and whole-of-life policies are not included within the scope of this review.

Competing or Conflicting Rights, Interests or Expectations

Potentially competing or conflicting rights, interests or expectations of with-profit policyholders may come about, for example, between:

- different types of policy;
- policies with different terms or of different sizes;
- policies with different entry or maturity dates; and
- different types of claim on a policy (for example, a maturity or surrender).

Discretion between these groups of policyholders occurs largely through the choice as to how policy benefits are smoothed and through the method used to group policies when allocating investment returns and charges to asset shares.

The advice of the With-Profits Actuary was given with regard to these issues. They were also reviewed by the With-Profits Committee. The Board can confirm that in its opinion these potentially competing or conflicting rights, interests or expectations of policyholders were managed in accordance with the PPFM.

1 March 2011

Annex

**Report from the With-Profits Actuary to the With-Profit Policyholders of
Liverpool Victoria Friendly Society Limited**

I was appointed With-Profits Actuary to Liverpool Victoria Friendly Society Limited ("the Society") with effect from 29 March 2010. In that capacity, I advised the Society's Board on key aspects of the discretion exercised by it in respect of the Society's with-profit business.

I have considered the Society's report ("the Report") on compliance with the Principles and Practices of Financial Management ("the PPFM"), to which this report is annexed. I have also reviewed the discretion exercised by the Society during 2010. My report does not apply to policies in the RNPFN Fund. These have their own Principles and Practices of Financial Management document and a separate report on compliance with it.

Based on the information and explanations provided to me by the Society, I am satisfied that the Report and the discretion exercised by the Society during 2010 have taken the interests of the Society's with-profit policyholders into account in a reasonable and proportionate manner.

In arriving at my opinion, I have relied on Miss Tamsin Abbey who held the role of With-Profits Actuary until 28 March 2010. I have also taken into account where relevant the rules and guidance contained in the Financial Services Authority's COBS 20 (With-profits).

Paul Downey
With-Profits Actuary

1 March 2011