

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

**Summary**

We describe the way in which we manage the with-profit business within the RNPFN Fund ("the Fund") 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 with-profit business within the RNPFN Fund during 2010. It covers the governance arrangements, the exercise of discretion and how any competing interests between different classes of policyholders were addressed.

**In the opinion of its Board of Directors ("the Board"), Liverpool Victoria Friendly Society ("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.**

Principle 1.5(7) requires the appropriate level of the contingent loan facility provided to the RNPFN Fund to be reviewed at least annually. This review did not take place in 2010, but in February 2011. No change was made to the level of the contingent loan as a result of the review.

A With-Profits Actuary, authorised by the FSA, advised the Board on the operation of the with-profit business within the RNPFN Fund throughout the period covered by this report, while the RNPFN Supervisory Board ("the Supervisory Board"), acting as 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 Supervisory Board acts as the With-Profits Committee for the RNPFN Fund. The Supervisory Board was set up at the time of the acquisition of the business in the RNPFN Fund by the Liverpool Victoria Group ("the Group"). The majority of its members, including the Chairman (who is also the Chairman of the Society's With-Profits Committee), are independent of the Group. One of the functions of the Supervisory Board 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 numbers of areas where discretion was exercised in relation to the with-profit business within the RNPFN Fund during the year under review.

A bonus declaration was made with effect from 1 April 2010, which changed claim payments from that date. Discretion was exercised with regards to smoothing, the investment return used to project asset shares to the period covered by the review and the enhancement made to reflect the distribution of the surplus assets of the RNPFN Fund over the remaining term of the eligible with-profit policies in the Fund.

Discretion was exercised in the choice of methods and assumptions used to calculate surrender and transfer values under the with-profit policies in the Fund (including the application of any Market Value Reduction Factors). No changes were made to these methods and assumptions during 2010.

The investment strategy was reviewed during the year to ensure that it remained consistent with prevailing economic conditions. Discretion was exercised with respect to the types of investment held and the proportion of the Fund invested in each different type.

Discretion was exercised in the level of costs allocated to the Fund during 2010 in addition to the regular fees for administration and investment services set out in the scheme of transfer entered into at the time of the acquisition of the RNPFN business.

The above decisions were reviewed by the Supervisory Board 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 policies that are between 80% and 130% of asset share and payouts on surrendering or transferring policies that are 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 2010 satisfied these requirements.

### **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 Supervisory Board. 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.

17 February 2011

Annex

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

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

I have considered the Society's report ("the Report") on compliance with the Principles and Practices of Financial Management for the Fund ("the PPFM"), to which this report is annexed. I have also reviewed the discretion exercised by the Society during 2010.

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 with-profit policyholders in the RNPFN Fund 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

17 February 2011