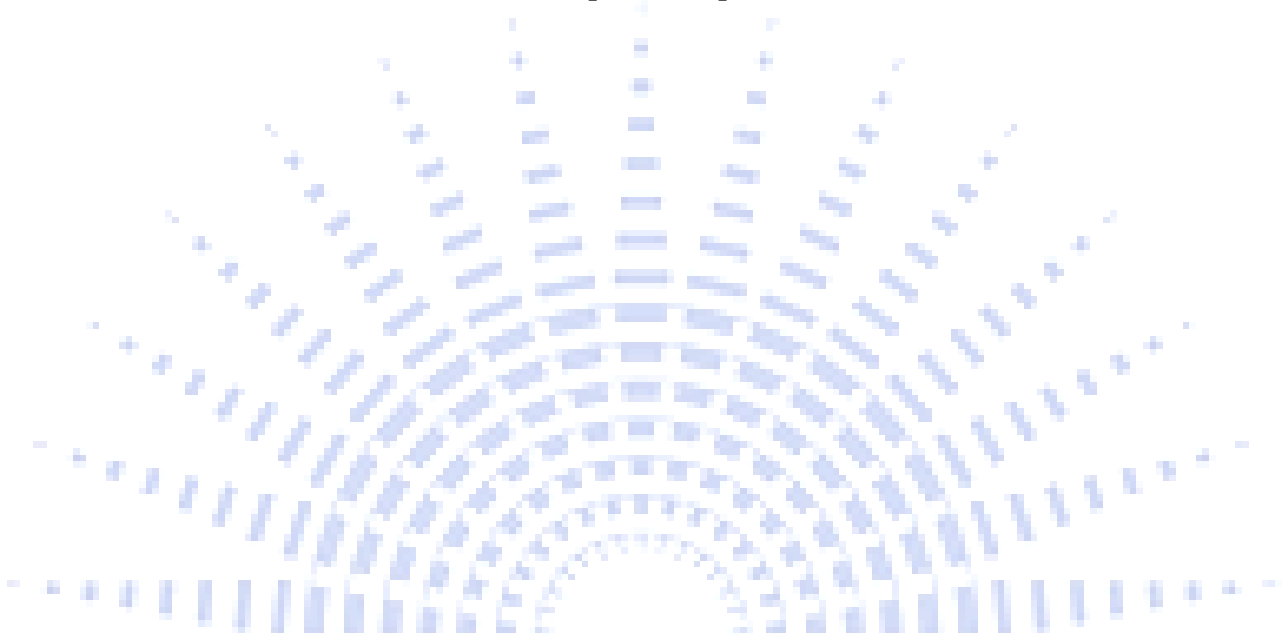


LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

Principles and Practices of Financial Management (PPFM)



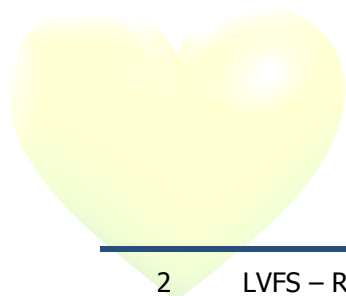
RNPFN
ROYAL NATIONAL PENSION FUND for NURSES



01 November 2011

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1. INTRODUCTION

1.1. Company Information

Liverpool Victoria Life Company Limited ("LVLC") acquired the business of The Royal National Pension Fund for Nurses ("RNPFN") on 31st December 2001 by way of a Scheme (the "Scheme") sanctioned by the High Court. As a consequence, a closed sub-fund, the RNPFN Fund, containing all the business transferred from RNPFN was created within the long-term fund of LVLC. On 31 December 2008 the RNPFN Fund was transferred from LVLC to Liverpool Victoria Friendly Society Limited ("LVFS" or "the Society") by way of a further Scheme (the "Second Scheme") sanctioned by the High Court.

LVFS was founded in 1843 as a burial society. It is the UK's largest friendly society and, as a mutual organisation, has no shareholders, being owned by its members.

The Society is incorporated under the provisions of the Friendly Societies Act 1992 and is regulated by the Financial Services Authority (the "FSA").

1.2. The Schemes

This document relates to the RNPFN Fund. The Scheme and the Second Scheme ("the Schemes") are the legal documents that govern the operation of the RNPFN Fund. The Principles and Practices set out below are all subject to compliance with the requirements of the Schemes.

1.3. Purpose of a PPFM

The Principles and Practices of Financial Management ("PPFM"), required by the FSA, govern how a company conducts its with-profits business. The Society's Board of Directors, after considering advice from the With-Profits Actuary, will certify each year to the FSA that the with-profits business within the RNPFN Fund has been managed in accordance with the PPFM.

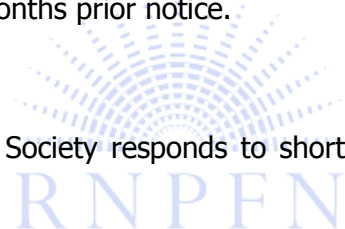
1.4. The Principles

The Principles are enduring statements of the standards the Society follows when managing the with-profits business within the RNPFN Fund. These Principles cover duties to the with-profits policyholders in the Fund in both current and future business and economic environments, compliance with relevant regulation and legislation, and the need to be fair to all policyholders.

The Principles are not expected to change often. However, there are no restrictions on the Society's ability to change them, where appropriate, subject to satisfying the relevant regulatory requirements, including giving three months prior notice.

1.5. The Practices

The Practices are more detailed descriptions of how the Society responds to short-term changes to the business and economic environment.



1.6. Monitoring Compliance and Governance

The Board of Directors of the Society ("the Board") produces an annual report to policyholders (available on the website or on request) on the Society's compliance with the PPFM. It is the responsibility of the Board to ensure that the Society manages the with-profits business within the RNPFN Fund in accordance with the Principles and Practices set out in this document.

A With-Profits Actuary has been appointed to advise the Board on its exercise of discretion in managing the with-profits business within the RNPFN Fund. A report from the With-Profits Actuary to the with-profits policyholders in the Fund is included within the Board's annual report.

A Supervisory Board has been established by the Society in accordance with the terms of the Schemes to monitor compliance with the Schemes (including the investment and bonus policies being pursued in relation to the RNPFN Fund). The Supervisory Board also acts as the With-Profits Committee for the RNPFN Fund. In this capacity, it provides some independent judgment on material issues in assessing compliance with the PPFM. It may also include a report to the with-profits policyholders in the Fund within the Board's annual report, if it deems it appropriate.

1.7. Changes to the PPFM

The PPFM is reviewed at least annually to ensure that it continues correctly to reflect the Principles and Practices that are applied to the with-profits business within the RNPFN Fund.

Any proposed changes are reviewed by the Supervisory Board and approved by the Board, after considering advice from the With-Profits Actuary, before the changes are implemented.

Holders of with-profits policies affected by this PPFM will be notified of proposed changes to any Principles in this document at least three months in advance. The FSA will also be notified of the proposed change.

Holders of with-profits policies affected by this PPFM will be notified of changes made to any Practices in this document as soon as is reasonable.

1.8. Consumer-Friendly PPFM

A consumer-friendly version of the PPFM ("CFPPFM") is available on the website or on request. This document contains key information from the PPFM. For the avoidance of doubt, in the event of a conflict, the PPFM will take precedence over the CFPPFM.

1.9. Glossary

The key words and phrases used within this PPFM are defined at the end of the document.

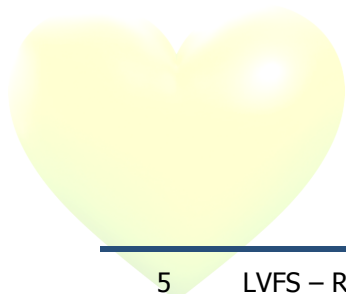


2. PRINCIPLES

As a minimum the Society will pay the guaranteed benefits under each contract. The Board aims to treat all groups of members fairly taking into account any conflicting interests between them. All of the other principles below are subject to these requirements. A Schedule of disclaimers is attached at the end of this document.

2.1 The methods used to guide the determination of the amount that it is appropriate to pay individual with-profits members

- 2.1.1 The amount payable under a with-profits policy is determined by the Board (having taken account of the advice of the With-Profits Actuary and Actuarial Function Holder and after consultation with, and having regard to the views of, the RNPFN Supervisory Board).
- 2.1.2 The aim of the methods used to guide the determination of the amount payable to with-profits policyholders on claim is to pay them a fair return on their investments, subject to a minimum of the guaranteed benefits and subject to the smoothing policy described in section 2.4 below. In addition an enhancement may be made to reflect the distribution described in section 2.8 below of the entire surplus assets in the RNPFN Fund.
- 2.1.3 The methods used will be applied to the extent appropriate to enable the Board to make reasonable decisions. This may mean the methods are applied by carrying out sample calculations and may not be applied rigorously for all classes of business.
- 2.1.4 The current methods are set down in various documents; any material changes to the methods used will be approved by the Board.
- 2.1.5 In accordance with the Scheme, the Board will not change the historical assumptions or parameters relevant to methods used prior to the Scheme Effective Date. The Board might change the historical assumptions or parameters relevant to methods used after the Scheme Effective Date if it can be clearly demonstrated to the Board by the Society that incorrect assumptions and parameters have been used.



2.2 The approach to setting annual bonus rates applicable to with-profits policies

- 2.2.1 The rates of annual bonus will be reviewed at least annually. The general aim in setting annual bonus rates is to add bonuses at a prudent level having regard to market conditions and the rates of return expected from the underlying investments, from time to time. However account will also be taken of the current and projected financial strength of the RNPFN Fund and the performance and experience of the RNPFN Fund, and for this purpose no account will be taken of the capital support available pursuant to the Scheme.
- 2.2.2 Different annual bonus rates may be used to the extent deemed appropriate by the Board for ranges or generations of policies where significant differences in the premium rates, underlying investments, expenses, costs of guarantees, policy terms and conditions or taxation are not reflected in the charges on these policies.

2.3 The approach to setting final bonus rates applicable to with-profits policies

- 2.3.1 The rates of final bonus will be reviewed at least annually. The rate of final bonus will be set such that total payouts (i.e. guaranteed amounts plus final bonus, if any) on policies will, whenever possible, have regard to the amounts calculated under the methods referred to in section 2.1 above, subject to smoothing referred to in section 2.4 below and, where relevant, to the size of the inherited estate referred to in section 2.8 below. Account will also be taken of the current and projected financial strength of the RNPFN Fund, and for this purpose account will be taken of the capital support available pursuant to the Scheme, although the capital support is not intended to be distributed to policyholders.

2.4 The approach to smoothing the value of with-profits policies

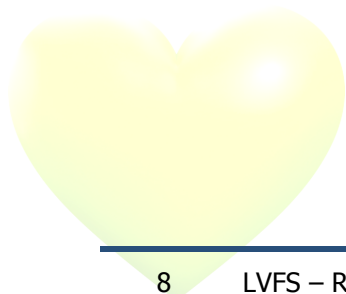
- 2.4.1 The Society adopts a similar approach to smoothing irrespective of the type of claim arising under a with-profits policy.
- 2.4.2 The aim of the smoothing policy is to avoid excessive differences in payouts on similar policies over short periods of time. It is not intended, over the longer term, to be a source of profit or loss.
- 2.4.3 The Society does not limit the total scale or cost of smoothing over the shorter-term except as is necessary to preserve the ability of the RNPFN Fund to meet its commitments to its policyholders.

- 2.4.4 Subject to the RNPFFN Fund meeting the statutory solvency requirements set out in the Scheme, Market Value Reductions will only be applied to reflect movements in the value of assets held by the RNPFFN Fund. The decision whether or not to apply Market Value Reductions will take into account the level of surrenders, the expected cost of not applying a Market Value Reduction and the statutory solvency position of the RNPFFN Fund as defined by the Scheme. The surrender bases for with-profits policies will only be changed to reflect movements in the value of assets held by the fund, to reflect the level of transfers and surrenders, or in order to pay with-profits members a fair return on their investment.

2.5 The significant aspects of the investment strategy.

- 2.5.1 The investment policy for the RNPFFN Fund is determined by the Board (having taken account of the advice of the Actuarial Function Holder and after consultation with, and having regard to the views of, the RNPFFN Supervisory Board) and:
- 2.5.1.1 has regard to the interests and expectations (as modified by the Scheme) of the holders of policies allocated to the RNPFFN Fund;
 - 2.5.1.2 is determined as if the RNPFFN Fund comprised a separate notional life assurance company, subject to such constraints as may be necessary to ensure that such notional life assurance company would remain solvent in all reasonably foreseeable circumstances. For this purpose remaining solvent means maintaining a prudent level of the free assets in the RNPFFN Fund (in excess of the Minimum Solvency Margin for the RNPFFN Fund) as defined by the Scheme;
 - 2.5.1.3 is not constrained in any way other than by the financial position of the RNPFFN Fund and in accordance with these Principles;
 - 2.5.1.4 has regard to the nature of the liabilities of the RNPFFN Fund;
 - 2.5.1.5 aims to maximise the investment return earned on the assets in the RNPFFN Fund whilst recognising the need to safeguard the financial security of the RNPFFN Fund;
 - 2.5.1.6 has regard to the capital support available pursuant to the Scheme. Investment policy is set as if the Maximum Aggregate Capital Support, as defined by the Scheme, at any time was included in the RNPFFN Fund.

- 2.5.2 The Board does not rely on any assets outside the RNPFN Fund in setting investment strategy other than a contingent loan facility provided by Liverpool Victoria Friendly Society Limited pursuant to the Scheme.
- 2.5.3 The Fund uses derivatives and other instruments for the purpose of efficient portfolio management or to hedge specific liabilities and not for speculation.
- 2.5.4 Some constraints on the investment strategy may be applied to match guarantees under certain policy types.
- 2.5.5 The exposure to single counterparties is limited in each asset class to manage the degree to which a counterparty default would affect the investment return on the RNPFN Fund.
- 2.5.6 The RNPFN Fund does not hold assets that would not normally be traded other than the contingent loan facility, referred to in paragraph 2.5.2 above, and a portfolio of swaptions used to match the annuity guarantees under the pension policies in the Fund. The contingent loan facility is of use to the RNPFN Fund, as investment policy can be set as if the maximum contingent loan was included in the RNPFN Fund. The facility can be drawn down to reduce a deficit (as defined in the Scheme) within the RNPFN Fund, up to the maximum amount of the contingent loan then available.
- 2.5.7 The Actuarial Function Holder reviews the appropriate level of the contingent loan facility referred to above at least annually and consults thereon with the RNPFN Supervisory Board. The RNPFN Supervisory Board may reduce the maximum level of the contingent loan available under this facility below that set out in the Scheme.
- 2.5.8 The out-turn from the investment return on any contingent loan amount in the RNPFN Fund will not impact on the amount payable under with-profits policies. However, the availability of the contingent loan is taken into account in setting investment strategy, which will impact on the amount payable under with-profits policies.
- 2.5.9 No credit or liquidity limits are set on the contingent loan facility.



2.6 The exposure of the with-profits business to business risk

- 2.6.1 The RNPFN Fund is not permitted to undertake any new business risks.

The control over existing business risk is monitored at least annually by the Board which takes account of the current and projected financial strength of the RNPFN Fund.

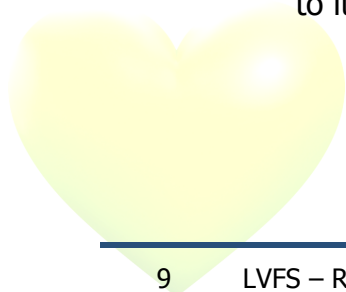
Compensation costs arising from a business risk would be borne by the RNPFN Fund and may, if appropriate, affect with-profits payouts.

2.7 The application of charges and expenses to with-profits policies.

- 2.7.1 Most of the charges applied to unitised with-profits policies are the charges set out in the policy conditions. Any difference between those charges and the actual costs and expenses deemed incurred in administering the business will be charged to the inherited estate. For conventional with-profits policies and the maintenance expenses under unitised with-profits bonds, the charges applied are equal to the expenses as determined by the Scheme. In applying such charges and expenses different groups of business and generations of policyholders will be considered together and therefore cross-subsidies between individual policyholders will occur.
- 2.7.2 Changes to the charges will be managed in a manner consistent with the reasonable expectations of the holders of such policies, having regard, inter alia, to RNPFN's practice prior to the Scheme Effective Date and the constraints of the Scheme, and taking account of new information and changes in economic conditions.

2.8 The management of the inherited estate.

- 2.8.1 The inherited estate means the excess of the value of the assets of the RNPFN Fund over a realistic assessment of the liabilities of the RNPFN Fund and provides the working capital for the RNPFN Fund. The Board manages the RNPFN Fund's inherited estate through regular monitoring of its size and its ability to undertake the uses as referred to below whilst preserving the ability of the RNPFN Fund to meet its commitments to its policyholders.



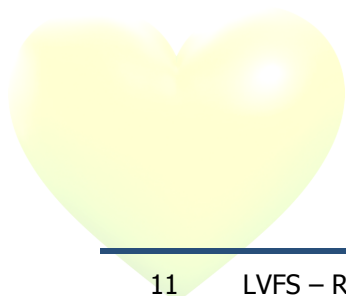
- 2.8.2 The inherited estate is primarily used for :
- 2.8.2.1 Providing working capital to meet reserving requirements, including:
 - supporting the smoothing of benefits paid to with-profits policyholders,
 - meeting reserving requirements in excess of a realistic assessment of the liabilities,
 - providing capital support to cover the costs of meeting guarantees.
 - 2.8.2.2 Allowing investment freedom.
 - 2.8.2.3 Providing working capital to cover any mismatch in timing between the receipt of charges applied to policies in the RNPFN Fund and the actual expenses incurred in the maintenance of those policies.
 - 2.8.2.4 Meeting any exceptional costs in managing the with-profits business arising as a result of legislation, taxation or other circumstances which in the reasonable opinion of the Board should not be charged directly to policyholder benefits because it would be unfair to do so.
 - 2.8.2.5 Distributing all the surplus assets of the RNPFN Fund as equitably as possible during the remaining term of the eligible with-profits policies within the RNPFN Fund.
- 2.8.3 The Board does not set a target range for the inherited estate.
- 2.8.4 The relative size of the inherited estate will influence the investment policy. At a low level of the estate, the Board may restrict the investment policy of the RNPFN Fund and the smoothing of benefits to existing policyholders. At a high level of the estate, the Board may pursue a less restrictive investment policy.
- 2.8.5 Not all policyholders are eligible to share in the distribution of the inherited estate. Other than that, there is no division of the inherited estate between any classes of with-profits business within the RNPFN Fund.
- 2.8.6 There are no constraints on the Board's freedom to deal with the inherited estate other than an obligation to distribute all the surplus assets of the RNPFN Fund as equitably as possible during the remaining term of the eligible with-profits policies within the RNPFN Fund, and the methods set out in the Scheme for achieving this.

2.9 Volumes of new business and arrangements on stopping taking new business.

2.9.1 The RNPFFN Fund is closed to new business other than in respect of new, additional or replacement policies being issued as the result of a policyholder exercising a right or option where LVFS decides, in accordance with the Schemes, to satisfy that right or option through issuance of a policy by the RNPFFN Fund.

2.10 Equity between the with-profits fund and any shareholders

2.10.1 The RNPFFN Fund is operated as a mutual fund with no shareholders and therefore all distributed profit is available for its with-profits policyholders.



3. PRACTICES

The Practices may be changed from time to time and the information below only reflects current practice. Other than the constraints under the Schemes, there are no restrictions on the Society's ability to change the Practices.

3.1 The methods used to guide the determination of the amount that it is appropriate to pay individual with-profits policyholders

- 3.1.1 For most major classes of business the Board considers Asset Shares to guide the determination of the amount payable to with-profits policyholders. "Asset Share" means broadly, in relation to with-profits policies, the accumulation at investment rates of return of premiums paid less an allowance for expenses incurred, taxation and the cost of benefits provided. For eligible policies, the Asset Share is enhanced to reflect the distribution described in section 3.8 below of the entire surplus assets in the RNPFN Fund. The surplus assets described in section 3.8 are affected by the rewards and losses from business risks described in section 3.6 below. The Society does not pay the precise Asset Share to each policyholder on claim, instead it calculates specimen current and projected Asset Shares for sample policies, as often as required according to paragraph 3.1.6 below, and uses these as a guide to payouts across the range of policies, taking into account past and likely future trends. In general, each sample policy represents only those policies that have the same material characteristics as the with-profits policies they represent e.g. policies of a particular type issued in a particular year with the same maturity year.
- 3.1.2 The main assumptions or parameters in the Asset Share calculations for conventional with-profits policies are determined using actual experience or a reasonable assessment of actual experience. For unitised with-profits policies, apart from the maintenance expenses for bonds, the expense deductions are the charges set out in the policy conditions. Otherwise, actual experience is used.
- 3.1.3 The Society applies different assumptions or parameters across generations of with-profits policies as indicated in paragraph 3.1.2 above. The assumptions or parameters are adjusted to reflect the taxation position of the class of business. These differences are intended to reflect a reasonable estimate of actual experience for each group of policies.

- 3.1.4 The Society's actuarial department documents the methods, parameters and assumptions that it uses to determine the amount payable to with-profits policyholders in a report to the Board.
- 3.1.5 Any proposed material changes in the current methods or the current parameters or assumptions relevant to a particular method will be identified in the report, referred to above, submitted to the Board for approval.
- 3.1.6 The Society aims to make payouts on maturing policies that are between 80% and 130% of Asset Share, except for policies where a higher guaranteed payment is due. The Society manages the RNPFN Fund with the longer-term aim of making total aggregate maturity payouts of 100% of Asset Share. Asset Share for this purpose means an estimate of the Asset Share derived from the Asset Share of one or more of the sample policies described in paragraph 3.1.1. However, the Society may make a maturity payment that falls outside the target range if it believes it might be fair, or fairer, to a particular policyholder and the other with-profits policyholders to do so.

The Society aims to make payouts on surrendering and transferring policies that are between 70% and 130% of Asset Share. Asset Share for this purpose means an estimate of the Asset Share derived from the Asset Share of one or more of the sample policies described in paragraph 3.1.1. However, the Society may make a surrender or transfer payment that falls outside the target range if it believes it might be fair, or fairer, to a particular policyholder and the other with-profits policyholders to do so.

The investment return allocated to Asset Shares is the investment return on the RNPFN Fund, adjusted to allow for the return on assets matching unit-linked and non-profit business and any swaptions matching guaranteed annuity options.

- 3.1.7 The Society apportions maintenance expenses equal to the charges set out in the policy conditions for ONE ISA policies and equal to the fees determined by the Scheme for conventional with-profits policies and unitised with-profits bonds. The balance of the RNPFN Fund's total maintenance expenses is met by the inherited estate (other than any amounts covered by the non-profit business in the Fund). Any excess of the actual acquisition expenses of the RNPFN Fund over the amounts charged to policies is met by the inherited estate. Any expense under or overrun charged to the inherited estate will be treated in accordance with paragraph 3.8.1 below.



- 3.1.8 The Society determines the tax payable under a with-profits policy as if it were written in isolation. Any difference between the total actual liability to tax of the RNPFN Fund and the sum of the amounts within the individual Asset Share calculations is met by or credited to the inherited estate.
- 3.1.9 The RNPFN Fund is operated as a mutual fund with no shareholders, so there is no additional liability to tax on with-profits policies arising because of transfers to shareholders.
- 3.1.10 The Society does not make a charge for the cost of guarantees or for the use of capital in its Asset Share calculations other than any costs implicit in the charges on unitised with-profits policies. Charges for mortality risks are made by deduction of appropriate amounts from Asset Shares.

3.2 The approach to setting annual bonus rates applicable to with-profits policies

- 3.2.1 In setting annual bonus rates on conventional with-profits policies, the Board has regard to current and prospective gilt yields for the average outstanding term of the liabilities. For unitised with-profits policies, the annual bonus rate is targeted at broadly 50% of expected future investment returns from time to time, reduced to allow for taxation and charges. However, the Board also has regard to the current and prospective relative position of Asset Shares against guaranteed benefits and the current and projected financial strength of the RNPFN Fund. This may result in a lower rate being set. Given the current level of financial strength the Board has set annual bonus rates to zero for conventional with-profits policies and it is expected that they will remain at zero until the financial strength significantly improves.
- 3.2.2 The Society re-sets or expects to re-set annual bonus rates once a year. The Society may change annual bonus rates more frequently than annually if the results of calculations performed in accordance with paragraph 3.2.1 above indicate a change by a factor of 10% or more in the bonus rate from the previous level is appropriate.
- 3.2.3 The Society has not set a maximum amount by which annual bonuses would alter if a change is made.
- 3.2.4 The Society sets its interim bonus rate for conventional with-profits policies at the same time it sets its annual bonus rates for these policies using the same practices. The Society reserves the right to change its interim bonus rate before the next declaration of annual bonus rates if the results of calculations performed in accordance with paragraph 3.2.1

above indicates a change by a factor of 10% or more from the previous level is appropriate.

3.3 The approach to setting final bonus rates applicable to with-profits policies

- 3.3.1 The Society's current approach to setting final bonus rates on maturities, deaths, transfers and surrenders is such that total payouts (i.e. guaranteed benefits plus final bonus, if any) on policies will broadly reflect the amounts calculated under the methods referred to in section 3.1 above, subject to smoothing referred to in section 3.4 below.
- 3.3.2 For individual policies, the Society does not apply a market value reduction at the same time a final bonus applies and vice-versa.
- 3.3.3 For with-profits policies that have formulaic surrender or transfer bases (for example, conventional policies rather than unitised policies), a proportion of the level of final bonus applicable to a maturity or death claim for the same policy type is included in the policy value on claim. The amount included is determined using the methods referred to in section 3.1 above, subject to smoothing referred to in section 3.4 below.
- 3.3.4 The Society expects to set its final bonus rates for conventional with-profits policies at least annually, with the enhancement made to distribute the surplus assets in the RNPFN Fund normally reviewed twice each year. The Society may change final bonus rates more frequently than annually (the current practice permits up to four changes a year) if the results of calculations performed in accordance with section 3.1 above, subject to smoothing referred to in section 3.4 below, indicate a change by a factor of more than 5% in the amount that it is appropriate to pay compared to the previous level.

3.4 The approach to smoothing the value of with-profits policies

- 3.4.1 The Society does not set a period over which it expects smoothing to be neutral.
- 3.4.2 The Society does not set an overall limit to the accumulated cost of, or excess from, smoothing. Any costs or excesses from smoothing are charged to the inherited estate.
- 3.4.3 The Society applies the same smoothing strategies to its conventional and unitised with-profits policies. In determining the amount that it is appropriate to pay, the Society smoothes the investment returns used over two years, taking the geometric average of the actual investment returns. Other aspects of experience are not smoothed.

- 3.4.4 The Society's current approach is that for similar policies of the same original term maturing in successive years, payouts do not change by more than 20% from one year to the next.
- 3.4.5 The Society applies the same approach to smoothing, for all policy types on claims of all sizes and terms, irrespective of the date at which they joined the RNPFN Fund.
- 3.4.6 The Society applies Market Value Reductions and surrender and transfer bases, where appropriate, on a reasonably broad basis so as to avoid continual adjustments being necessary.
- 3.4.7 Partial payments under unitised with-profits policies are met by cancellation of a proportion of the policy value such that the value of the proportion cancelled is equal to the amount of the partial payment. For this purpose, the value of the proportion cancelled will take into account any Market Value Reduction that is applicable to the partial payment. At the time of any partial payment, the value of that partial payment plus the residual policy value will be equal to the total surrender value immediately prior to the partial payment.

3.5 The significant aspects of the investment strategy

- 3.5.1 The Society does not rely on any assets outside the RNPFN Fund in setting investment strategy, other than the contingent loan facility referred to in paragraph 2.5.2. The contingent loan is drawn down into the RNPFN Fund when a deficit (as defined in the Scheme) exists in the Fund, up to a predetermined maximum amount. The contingent loan is due for repayment as soon as practicable after it is drawn down, subject to no deficit arising on repayment.
- 3.5.2 The Society currently formally reviews the long-term investment strategy for the RNPFN Fund annually. The investment outlook and performance are monitored periodically between formal reviews when tactical decisions may be made. Board approval is required before tactical investment decisions outside the previously agreed long-term investment strategy can be implemented.
- 3.5.3 The Society seeks to optimise the return to its with-profits policyholders while preserving its ability to meet its commitments to its policyholders and its ability to meet its regulatory capital requirements. A hedge has been established specifically for the interest rate risk inherent in Guaranteed Annuity Options on pension deferred annuity business. The Society seeks to maintain a reasonable degree of matching of creditors

through short term liquid assets where the creditors are short term and of largely known amounts.

- 3.5.4 In determining the mix of assets between different asset classes, the investment strategy takes account of the current and projected financial strength of the RNPfN Fund, allowing for the contingent loan facility referred to in paragraph 2.5.2. Account is also taken of the long-term expected returns available in the asset classes, including their volatility and the benefits to be obtained from diversification. Details of the current investment mix of the RNPfN Fund are available at www.lv.com/rnpfn or can be obtained directly from the Society.

Cashflow projections are carried out to ensure sufficient liquidity is maintained to cover expected cash outflow.

- 3.5.5 Before investing in new or novel investment instruments, the Society seeks the formal approval of the Board as to their suitability. The Board will consider any proposals, and the associated risks, in the context of the overall investment strategy which has been adopted.
- 3.5.6 The RNPfN Fund does not hold assets that would not normally be traded, other than the contingent loan facility, referred to in paragraph 2.5.2, and a portfolio of swaptions used to match the annuity guarantees under the pension policies in the Fund. The contingent loan facility is of use to the RNPfN Fund, as investment policy can be set as if the maximum contingent loan was included in the RNPfN Fund. The facility can be drawn down to reduce a deficit (as defined in the Scheme) within the RNPfN Fund, up to the maximum amount of the contingent loan then available.

The out-turn from the investment return on any contingent loan amount in the RNPfN Fund will not impact on the amount payable under with-profits policies. However, the availability of the contingent loan is taken into account in setting investment strategy, which will impact on the amount payable under with-profits policies.

3.6 The exposure of the with-profits business to business risk

- 3.6.1 The RNPfN Fund is not permitted to undertake any new business risks other than in respect of new, additional or replacement policies being issued as the result of a policyholder exercising a right or option where LVFS decides, in accordance with the Schemes, to satisfy that right or option through issuance of a policy by the RNPfN Fund.
- 3.6.2 The size of the inherited estate of the RNPfN Fund is affected by the rewards and losses from business risks. The RNPfN Fund is exposed to

business risks in the normal course of events that arise from a range of factors, including past selling and marketing practices, interest rate and asset value fluctuations, operational risks and demographic changes such as longevity risks. As described in section 3.8 below, the entire surplus assets of the RNPFN Fund are to be distributed over the remaining term of the eligible with-profits policies within the RNPFN Fund. Because of this, business risks can influence the amount payable under a with-profits policy.

- 3.6.3 The Society does not smooth profits or losses from business risks before applying them to determine the amount payable under a with-profits policy.
- 3.6.4 The Society does not set a minimum value of profits or losses from a business risk in any one year before it will treat them as a determinant of the amount payable under a with-profits policy.
- 3.6.5 The out-turn from all business risk is pooled across all with-profits policies and the inherited estate.

3.7 The application of charges and expenses to with-profits policies

- 3.7.1 The charges applied to ONE ISA policies are the charges set out in the policy conditions. These charges include:
- an initial charge as a percentage of each premium
 - a monthly policy charge of a fixed amount

The level of these charges is not guaranteed and may be varied by the Society, subject to the requirement to treat customers fairly.

The initial charge applied to unitised with-profits bonds is the charge set out in the policy conditions. The maintenance charges are the fees determined by the Scheme.

The expenses applied to conventional with-profits policies are the fees determined by the Scheme.

- 3.7.2 Any difference between the charges applied to unitised with-profits policies in determining the amount payable under such policies and the actual expenses charged to the RNPFN Fund in respect of such policies is allocated to the inherited estate.

- 3.7.3 The expenses charged to the RNPfN Fund are as determined by the Scheme. A copy of the Scheme can be found on the RNPfN web-site at www.lv.com/rnpfn or can be obtained directly from the Society.
- 3.7.4 The Society obtains a range of out-sourced services from independent suppliers. These contracts are either for fixed terms and contain provisions enabling the Society to terminate the contract and implement an agreed exit plan where there has been a breach of specified conditions in the contracts or are for no fixed term where the services can be ceased with immediate effect. These arrangements are monitored for performance against agreed Service Levels. The fixed term contracts also contain clauses enabling the Society to terminate the contracts at certain fixed points during the term of the contract with the payment of compensation.
- 3.7.5 The Society currently out-sources the investment management of its assets to Threadneedle Asset Management under an arrangement scheduled to run until 2018. The performance of the asset manager is reviewed on a regular basis against agreed performance targets. The Society is able to terminate all or parts of the arrangement without compensation with immediate effect if the manager fails to meet agreed criteria.

3.8 The management of the inherited estate

- 3.8.1 The inherited estate within the RNPfN Fund is primarily used for:
- 3.8.1.1 Providing working capital to meet reserving requirements, including:
 - supporting the smoothing of benefits paid to with-profits policyholders,
 - meeting reserving requirements in excess of a realistic assessment of the liabilities,
 - providing capital support to cover the costs of meeting guarantees.
 - 3.8.1.2 Allowing investment freedom.
 - 3.8.1.3 Providing working capital to cover any mismatch in timing between the receipt of charges applied to policies in the RNPfN Fund and the actual expenses incurred in the acquisition and maintenance of those policies.
 - 3.8.1.4 Meeting any exceptional costs in managing the with-profits business arising as a result of legislation, taxation or other circumstances which in the reasonable opinion of the Board should

not be directly charged to policyholder benefits because it would be unfair to do so.

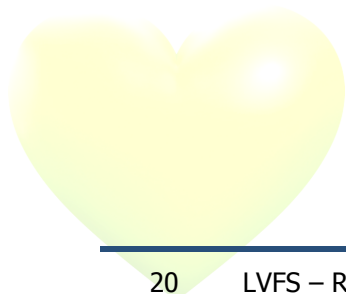
- 3.8.1.5 Distributing all the surplus assets of the RNPFN Fund as equitably as possible during the remaining term of the eligible with-profits policies within the RNPFN Fund.
- 3.8.2 Only with-profits policies that were in-force on 10 July 2001 (or which became in-force as a result of an application made on or before 10 July 2001 and received by 19 July 2001) are eligible to share in the distribution of the inherited estate.
- 3.8.3 The investment strategy for the inherited estate may differ from that for the rest of the RNPFN Fund.
- 3.8.4 The Society does not currently have any guidelines in place as to the size of the inherited estate or as to how it would manage the inherited estate if it became too large or too small, other than the obligation in paragraph 3.8.1.5 above.

3.9 Volumes of new business and arrangements on stopping taking new business

- 3.9.1 The RNPFN Fund is closed to new business other than in respect of new, additional or replacement policies being issued as the result of a policyholder exercising a right or option where LVFS decides, in accordance with the Schemes, to satisfy that right or option through issuance of a policy by the RNPFN Fund.

3.10 Equity between the with-profits fund and any shareholders

- 3.10.1 The RNPFN Fund is operated as a mutual fund with no shareholders and therefore all distributed profit is available for its with-profits policyholders.



4. SCHEDULE

General

None of the contents of this document forms part of, or varies, the terms or conditions of any policy under which Liverpool Victoria Friendly Society Limited is the insurer. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

This document is intended to assist knowledgeable observers to understand the way in which the with-profits business of the RNPFN Fund is conducted and the material risks and rewards involved in effecting or maintaining a with-profits policy with the Society. It is not a comprehensive explanation either of the management of the with-profits business of the Society or of every matter which may affect that business. In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to the effecting or maintaining of a with-profits policy.

Statements in this document in relation to the risks and rewards involved in effecting and maintaining a with-profits policy with the Society are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.

The contents of this document may change as the circumstances of the Society and the business environment changes. The document may also change to reflect changes made by the Society to the management of the with-profits business. The Society intends to give 3 months notice of any change to the Principles in this document. Changes to the Practices may be made without notice, in which case the Society will inform you within a reasonable timescale after the change is made.

Readers of this document should read the whole document. Reading only selected sections or paragraphs in isolation may result in a misleading impression of the way in which the with-profits business of the Society is conducted and the material risks and rewards involved in effecting and maintaining a with-profits policy with the Society. The Principles and their associated Practices set out in this document should in particular be read together.

Business Risks

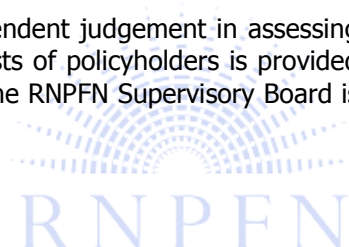
UK life insurance businesses are subject to a number of inherent risks that arise from a range of factors, including product design (for example the provision of guarantees to policyholders), selling and marketing practices, interest rate and market fluctuations, operational risks and demographic changes. The Society makes provisions that it considers to be appropriate for the risks that it identifies in relation to its with-profits businesses. There can be no assurance that all risks that might emerge have been identified nor that the provisions for identified risks will prove to be adequate. In addition, the risks to which the with-profits businesses are exposed will inevitably change over time.

Asset Shares

Although asset shares are used as a broad guide for payouts on policies, policyholders have no entitlement to receive the asset shares on their policies. Asset shares can also decrease as well as increase and, at any time, an asset share may be greater or less than the contractual guaranteed benefits due under the policy. Asset shares are defined in detail in section 3.1 of the Practices.

Governance Arrangements

Changes to the PPFM are subject to the approval of the Board. Independent judgement in assessing compliance with the PPFM and addressing conflicting rights and interests of policyholders is provided by the RNPFN Supervisory Board acting as a With-Profits Committee. The RNPFN Supervisory Board is a sub-committee of the LVFS Board.



5. GLOSSARY

The "Board"

The Board of Directors of Liverpool Victoria Friendly Society Limited.

The "Scheme"

The Scheme of Transfer between RNPfN and LVLC, dated 19 October 2001, and available on our website at <http://www.lv.com/rnpfn/ppfm>.

The "Scheme Effective Date"

11.59 pm on 31 December 2001.

The "Society"

Liverpool Victoria Friendly Society Limited.

Actuarial Function Holder

The Actuarial Function Holder is a regulatory role with responsibility for advising the Board in relation to the Society's ability to meet the liabilities to policyholders.

Annual Bonus

An annual distribution of surplus which is guaranteed at the maturity date of the policy provided certain conditions are met. It is also known as **regular bonus**, **reversionary bonus** or **declared bonus**.

Asset Share

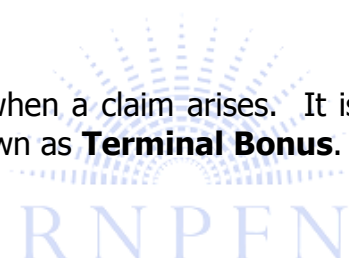
The accumulation, at investment rates of return, of premiums paid less an allowance for expenses incurred, taxation, the cost of benefits provided and any charges for the cost of guarantees or the use of capital.

Conventional With-Profits Policy

An older-style with-profits policy that is not a unitised with-profits policy.

Final Bonus

An addition made to investments in the with-profits fund when a claim arises. It is not guaranteed and may change at any time. It is also known as **Terminal Bonus**.



LVLC

Liverpool Victoria Life Company Limited.

LVFS

Liverpool Victoria Friendly Society Limited.

Market Value Reduction (MVR)

A reduction to the unit value of a policy that may be made if the policyholder takes money out of the fund. It applies to unitised with-profits policies only and is used to achieve a fair level of payouts and to be fair to the remaining with-profits policyholders in the fund. There may be MVR-free events for the policy such as specific points during its term, when an MVR is guaranteed not to be applied. The policy conditions will specify when these arise.

Miscellaneous Surplus

Profits of a non-investment nature.

Unitised With-Profits Policy

A policy where the value of the benefits is measured by reference to a number of units allocated to the policy at the date of calculation.

With-Profits Actuary

The With-Profits Actuary is a regulatory role with responsibility for advising the Board in relation to its exercise of discretion as it affects with-profits policyholders.

With-Profits Committee

A committee that provides some independent judgment in assessing compliance with the PPFM and addressing conflicting rights and interests of policyholders. The RNPFN Supervisory Board acts as the With-Profits Committee for the RNPFN fund.

