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YOUR GUIDE TO HOW WE MANAGE OUR WITH-PROFITS FUND

Unitised with-profits plans

How we manage our with-profits fund

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Your guide

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1 Introduction

This guide explains how we look after our with-profits fund. You'll find important information about how our life insurance, savings, investment and pension plans work – and how we manage them.



There are many ways to invest in this fund, for example by taking out a with-profits regular savings plan, a lump-sum investment, a pension or an individual savings account (ISA).

To put this guide into context, it might help to read it with your:

- Key Features
- Plan or Policy Conditions
- Personal Illustration showing what you might get back in the future.

Please keep this guide safe along with your other plan documents.



If you have an All-in-1 Investment Bond, Guaranteed Capital Bond, Flexi Guarantee Plan or Flexible Guarantee Bond, there's a separate version of this document for you. You can download a copy from our website www.lv.com, or we'll be pleased to send you one.

2 What's our with-profits fund?

This is an investment fund where we combine your money with other investors' money, and manage it on your behalf.

We set the overall investment strategy of the with-profits fund, taking into account the current and projected financial strength of the fund and the expected returns available from different types of investment.

The asset management of the with-profits fund is currently undertaken on our behalf by Threadneedle Asset Management ("Threadneedle"). Threadneedle is responsible for the day-to-day management of the assets in the with-profits fund, operating within the limits set as part of our investment strategy.

The investment performance of the with-profits fund and the outlook for different types of asset are regularly monitored. We also review our investment strategy carefully each year.

Typical investments made by the with-profits fund include:

- the shares of UK and overseas companies
- fixed-interest securities such as government stocks and corporate bonds
- property
- cash

You can see the mix of investments in our with-profits fund on our website at www.LV.com or by contacting our Head Office at:

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County Gates

Bournemouth

BH1 2NF

3 What's the aim of our with-profits fund?

First and foremost, we want to give you a fair return on your investment. We'll tell you about the risks before we invest your money, and keep our commitment to you throughout. As we offer many different ways of investing, we have different groups of members – with different plans started at different times, and with different terms. We always try to treat our members fairly when there are any conflicting interests.

4 What's a unitised with-profits plan?

A unitised with-profits plan simply means that we use units and unit prices to measure your investments and your plan's value. Every time you pay into your plan we'll add a number of units, the amount will depend on the value of the units at the time. Your return will depend on the number and value of your plan's units. Depending on the type of plan you have, we might also cancel units to pay charges.



Example

Fred invests a one off lump sum of £10,000. The current unit price is £1.25. We divide the £10,000 by £1.25, giving Fred 8,000 units.

We aim to increase your plan's value over time by increasing the price of the units. There's always a chance that we might need to reduce the amount we pay out though – please read your plan or policy conditions carefully to find out when this could happen.

5 How do we cushion you from the ups and downs of the stock market?

As explained earlier, our fund invests in a number of different ways, including in the shares of UK and overseas companies, commercial property and fixed-interest investments. Shares are often called equities and are bought and sold on stock markets throughout the world.

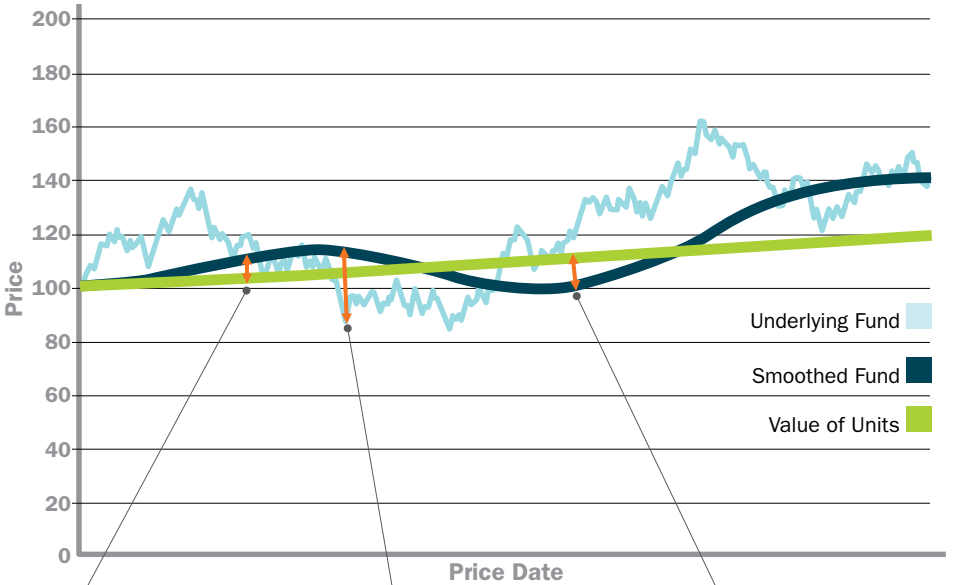
We believe it's important for us to invest in shares, as over the long term they tend to give a higher return than other safer investments, like government bonds and cash. We want to give you the potential for better returns in the long run, so we invest in the shares (also called equities) of UK and overseas companies, commercial property and fixed-interest investments.

The downside to shares is that they can be more volatile than other investments. Their values can rise and drop sharply, sometimes quickly and in line with world events. We aim to smooth out the effects of some of the rises and drops in two ways.

- We invest in many different types of investment and limit the amount in any one type.
- Instead of just awarding large bonuses in good years and none at all in bad years, we hold back some of the good years' profit to award our members when times are tough. This is what we mean by a 'smoothed' return.

As an example, if your plan ends on a day when the market fell drastically, the smoothing would help protect you from the sudden drop in value. If the opposite happens and the market rises sharply, the smoothing effect would mean that you wouldn't get the full amount of the rise. So investors in a fund that doesn't smooth returns might see their investments rise and fall more quickly than that of a fund with smoothed returns.

Example



If you surrender at this point, a final bonus will be applied to the value of units to bring your policy in line with the smoothed value of its underlying assets.

We may have to move closer to the underlying fund at this point if you surrender to protect remaining investors

If you surrender at this point, an MVR will be applied to the value of units to bring your policy in line with the smoothed value of its underlying assets.

Please note: this graph is for illustrative purposes only. We've ignored any early surrender penalties.

For unitised with-profits plans, we smooth investment returns over a two year period. It's possible that the amount we pay you at the end of your plan will be higher or lower than the value of the investments in it.

6 How do we decide the return on your plan?

We want to make sure that every investor receives a fair return. To increase the value of your plan, we add regular bonuses by increasing the price of the units over time. You can find out more about these bonuses in the next section.

To calculate your overall return, we take the payments you've made, deduct our expenses and add the investment returns from the fund.

As we've said in section 5 we try to smooth out the ups and downs of the stock market, and this also affects your return.

Once your plan reaches the end of its term, we aim to pay out between 75% and 135% of the underlying value of the investments, before smoothing. After smoothing, we aim to pay out between 95% and 105% of the underlying value of the investments.

7 What bonuses do we pay?

We might add regular bonuses to your plan at any time during your plan's life, and a final bonus at the end.

Regular bonuses

Our aim is to add these so that your plan grows steadily throughout its term. To set the amount, we take into account the underlying investments in the fund, its current value, and its predicted strength in the future. The amount might vary depending on the type of plan you have.

For most unitised with-profits policies we set the bonus rate at roughly 50% of expected future investment returns, before tax and any charges. This means that our investment managers have more flexibility to invest in areas that offer the best potential returns – shares, for example.

We review the size of the bonuses we pay at least once a year. We add regular bonuses by increasing the price of units at least monthly. Once they've gone up in value, there are only two ways that they can lose value:

- If you take money out of your plan when a market value reduction applies, this is covered later in this section
- If the charges on your plan are more than the value of the bonuses being added

Final bonuses

We want to make sure that you receive a fair return on your plan. If the annual bonuses you've had during your plan are less than a fair return, we'll add a final bonus to increase your payout.

Sometimes the final bonus can be a high proportion of the final value of your plan. This is because paying lower regular bonuses gives our fund managers more freedom to invest in areas that are likely to offer better returns in the long term.

What is a market value reduction?

In the same way that we might add a final bonus if our investments are doing well, if they're not doing so well we might need to apply what's called a market value reduction (or MVR). This means that we will reduce the amount we pay to you. In the past, this happened to with-profits bonds affected by the stock market falls from 2000 to 2002 and more recently to some bonds in 2009.

We'll only apply an MVR to make sure that:

- when you cash in your plan, your payout isn't unfairly higher than the underlying value of the investments within the fund
- the remaining fund members will also get a fair share, in other words, if we didn't do this we wouldn't have enough money to ensure the remaining plans get their fair share

On some plans, we've guaranteed not to reduce the value on certain dates or events such as on death or when your plan reaches its end date. You can check your plan or policy documents to find out more about this.

8 How do we decide how much you get if you leave your plan early?

If you leave your plan early, this is called ‘surrendering’ your plan. We’ll work out how much to pay you, being fair to both you and the policyholders staying in the fund. That means we may add a final bonus or apply a market value reduction, as explained in section 7.

For some plans we may also need to charge a surrender penalty if you surrender your plan within the first five years of starting it, to cover our expenses. You can find out if this applies to your plan by reading the key features for your plan.

We aim to pay out between 75% and 135% of the underlying value of the investments, before smoothing.

9 What expenses are charged to the with-profits fund?

As with any investment, there are certain costs involved in setting up and looking after a with-profits plan – including commission payments, administration costs and other expenses. The charges taken from your plan are taken to cover these expenses. You can find out more about them in your key features document and plan or policy conditions.

10 How do we decide what business risks to take?

In offering a with-profits fund, we face potential risks such as whether we have the right product design, the right selling and marketing practices, and ever-changing interest rates and investment returns.

We’ll sometimes take other business risks to help increase the returns on your plan, and consider business opportunities that can provide a source of profit. For example, our with-profits fund owns our general insurance company. From time to time, we also consider taking other business risks.

We’re always careful about our investments, and our board of directors has to approve anything that poses a significant business risk. They’ll only approve these if the expected benefits are at least as good as we could get from other opportunities.

By making good business decisions, we can increase the bonuses for our members. But there’s always a chance that a decision might turn out to make a loss, in which case this could reduce future bonuses.

11 What's 'the inherited estate' and how do we use it?

The inherited estate is the amount of money we've built up from profits from the fund, that's in excess of the fund's liabilities. This money has been building up since we began in 1843, from generations of plans where we've made more profit than we anticipated. For example, if a protection planholder lived longer than we'd expected and priced the plan for, we'd make more profit. The money is used to support the fund and its day to day operations.

We don't currently try to increase the size of the inherited estate on purpose. We aren't obliged to distribute the inherited estate to the current generation of members. We use the estate to benefit our members in a number of ways, including:

- to help us give you smoothed returns
- to give us more freedom to invest in ways we believe will offer better returns
- to help fund new business opportunities or risks

Keeping a reasonable level of inherited estate gives us the financial strength we need to invest more in shares, and so to give our members the potential for better returns in the long run.

12 What's mutual bonus?

The mutual bonus scheme is designed to reward qualifying members for their ownership of the Society and the risks taken in supporting the establishment and growth of the group's trading businesses in life and general insurance.

The Board of Directors will consider the financial performance of the Group's trading businesses each year to determine whether, at what level, and in what form, we should declare any mutual bonus, and which members are eligible to receive it. In the case of with-profits members, any such mutual bonus will be paid by making an addition to the value of your policy. You will therefore receive it when your policy matures or is cashed in.

Unpaid mutual bonus allocations do not form part of the guaranteed policy benefits, so might be taken away in the future. However, we would do so only in exceptional circumstances, for example if it were required to protect our financial solvency.

13 Could we ever close the with-profits fund to new business?

Yes we could but we'll let people invest in our with-profits fund as long as we feel it's in the interests of both our existing and new members.

14 What would happen if we stopped accepting new business?

If we did ever permanently stop accepting new business and closed the with-profits fund, we'd share out the inherited estate over the lifetime of the remaining with-profits plans held in the fund. Our main concern would be to make sure this was fair to all remaining members – to do this, we might change the way we invest the fund and smooth the return.

15 How to find out more

We hope you've found this guide useful. To find out more about the technical details of the with-profits fund, please read our Principles and practices of financial management booklet covering unitised with-profits. You can get a copy from our website www.LV.com/manage or from our Head Office. If the booklet changes after you've requested a copy, we'll let you know.

And if you have any questions about what we've said in this document, please contact us or your financial adviser.



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You can get this and other documents from us in Braille, large print or on audiotape by contacting us.

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