WITH PROFITS FUND

Investment Report 2009

LIVERPOOL VICTORIA

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Investment Report 2009

This report provides information on the performance of the Equities, Property and Fixed Interest investments held in the Liverpool Victoria Friendly Society With Profits fund, for the period 1st January 2009 to 31st December 2009. These investments are managed by Liverpool Victoria Asset Management Ltd.

This information does not constitute investment advice and we recommend you to speak to a suitably qualified financial adviser before making any investment decision based upon this, or any other, information.

Every company that offers with-profits investments is required to document the **Principles and Practices** (the beliefs and behaviours) behind how they manage their with-profits investments; so consumers can understand what to expect from the provider they invest with, or are considering investing with. Our consumer friendly version can be found on the LV= website or a hard copy is available on request.

With Profit Performance Review

The With Profits Fund, in which your bond is invested, outperformed over the year, bettering its 12 month benchmark by 2%. The prime driver of the strong performance over the year was the decision to allocate a less-than-benchmark weighting UK Gilts. This was further boosted by strong stock selection within the UK Corporate Bonds and UK Gilts portfolios. While the UK Gilts index continued to fall over most of the year as risk assets outperformed, positioning the UK Gilt portfolio for a rise in yields was a successful strategy.

Stock selection within the European ex-UK Equity portfolio was another positive contributor to yearly performance aided by an overweight position in this market. Underweight positions for much of 2009 in the underperforming US and Japan equity markets were further benefits to performance with our short position on the US dollar earlier in the year also boosted returns.

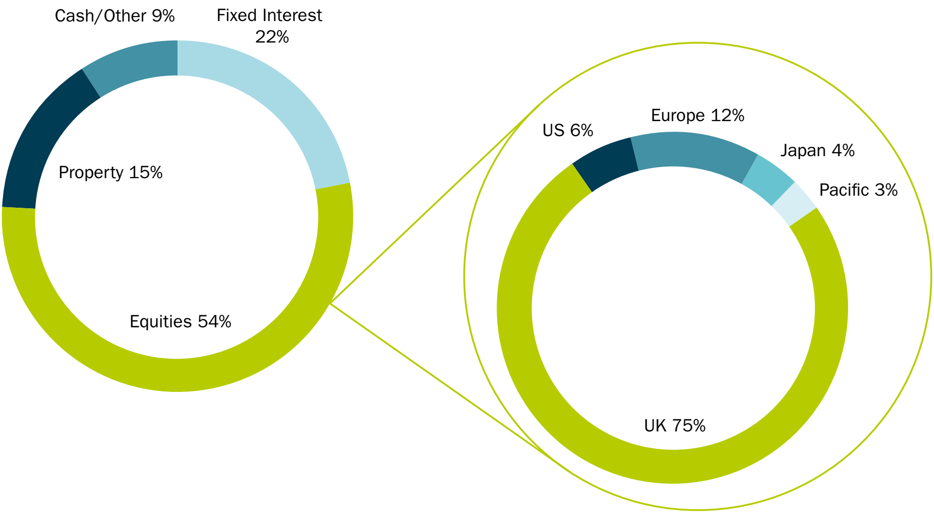
With the **UK Equity** market gaining 30% over the year, the asset allocation decision of underweighting **UK Equities** detracted from relative performance. The **UK Equity** portfolios' defensive positioning at a time when lower quality stocks outperformed in the first half of the year, and selection among resources stocks later in the year further detracted from relative returns. However, this was more than offset by the overweight position in **Pacific ex-Japan Equity**, the best performing asset class in 2009.

Over the year, the overweight position in **Venture Funds** detracted from returns mainly due to foreign exchange effects. Most of the **Alternative Assets** held within the portfolios are priced in the US dollar which depreciated against sterling for much of the year.

As the property market recovered, the overweight position in **UK Property** started to benefit relative returns although the overweight position earlier in the year detracted from 12-month performance. This was partially offset by strong performance from the portfolio over the year.

Overall fund asset allocation at 31 December 2009

Equity country weightings as at 31 December 2009



Change in Unit Price over 2009

Product	Price at 31 December 2008	Price at 31 December 2009	Percentage Change
Mutual Investment Bond/Flexible Investment Bond	161.40p	165.10p	2.29%
With Profits Growth Bond /With Profits Investment Bond	131.00p	133.30p	1.76%

Fixed Interest Holdings

42 % Corporate Bonds 58% Gilts

Market and Economic Review

The early stages of 2009 continued to suffer from the fallout of the financial crisis at the end of 2008. Despite an absence of solid economic evidence, by early March markets bottomed as participants started to place faith in the prospect of recovery, largely based on improvements in participants' attitude to risk and ongoing support from governments various liquidity programmes. Following a brief lull mid year, financial markets rallied over the remainder of the year as improved corporate profitability provided further evidence to support the recovery.

Shares that had the poorest balance sheets and which had been hit hardest during the financial crisis started to benefit the most from this return of risk appetite. Meanwhile, Government bond prices mirrored the rise in equity prices as investors shunned the safety they provided in the preceding year for higher returns promised by riskier assets.

The recovery in credit markets was perhaps faster than had been expected or could have been hoped for as Quantitative Easing and its variants, together with historically low interest rates around the world, enabled credit markets to reopen and provide liquidity for companies looking to refinance short-term credit facilities.

Renewed institutional interest in the UK property sector started in the summer of 2009 when the property index (Investment Property Databank, commonly referred to as IPD) posted its first positive monthly return for two years. The improvement was cemented by year end with the IPD for December returning its highest monthly reading for 15 years.

Despite this rally in markets, most G7 economies only started to exit recession by the summer to be joined by the US at the end September. The UK was widely anticipated to join this list and while economic data was disappointing, the economy eventually managed a return to growth in the final quarter of the year.

A weak dollar and strengthening commodity markets, particularly base metals and oil, were themes that continued throughout the year whilst gold continued its steady rise breaking record highs along the way. Despite a small pull back in some risk assets towards the end of the year, 2009 ended with very positive annual gains for global equity markets.

Market and Economic Outlook

Economically, 2009 will be characterised as a year of stabilisation as the worst economic crisis in post-World War II history was met by the largest global policy response on record. We believe these policy measures have set the stage for a synchronised global recovery into 2010. However the sustainability of this upswing will remain a key question.

The UK is not alone with its record level of national debt, but with being in excess of 50% of GDP and with the current Government continuing to spend to shore up growth; significant Gilt issuance will remain a focus feature for many years to come. Some of this debt will be taken on by the financial sector which will be required to maintain improved capital ratios by holding more of these liquid instruments. In addition, the political party elected at the next general election will need to address the growing budget deficit, which could bring a measure of pain to the public sector.

Despite a cautious outlook for the UK economy, we believe that the UK equity market has better prospects for two notable reasons: a large percentage of quoted companies' earnings are earned overseas; and there is an improvement in prospect for the global economy. We believe that the UK market will continue to make steady progress over the next 6 to 12 months.

Global financial systems will require time to heal and as the various policy stimuli eventually fade, risks to the global economy could return. The private sector debt that has built up over the years in many G7 countries will take years to unwind and this, together with the tremendous financing challenges governments are facing, means that tax increases and public sectors spending cuts are inevitable.

Whilst US economic releases show an improving trend supporting the recovery, inflationary risks remain benign. This is similar in the UK – albeit at least three months behind. As such we believe that interest rates in the US, UK and Europe will continue to stay low for a considerable time in order for the recovery to become more firmly established, uncertainty still remains whether the current level of national debt will result in a high increase to inflation in the future.

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