Investment Report 2010

With Profits Fund

LIVERPOOL VICTORIA

With Profits Fund Investment Report 2010

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 1 January 2010 to 31 December 2010. These investments are managed by Liverpool Victoria Asset Management Ltd (LVAM). The content of this report was written in February 2011.

The information in this report should not be considered as investment advice and we recommend that you 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 that 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 at www.LV.com/withprofitsguide or a hard copy is available on request.

With Profit Performance Review

The With Profits Fund, in which your bond is invested, returned 15.5%, outperforming its benchmark by 2.97% over the year.

The benchmark for the fund as a whole, and for any of the types of holdings we talk about below, is a measure of how the fund or asset type might have been expected to perform. For instance, the benchmark for equities is a combination of the FTSE All Share Total Return Index, S&P 500, FTSE Europe ex UK, FTSE All World Japan and FTSE All World Asia Pacific ex Japan.

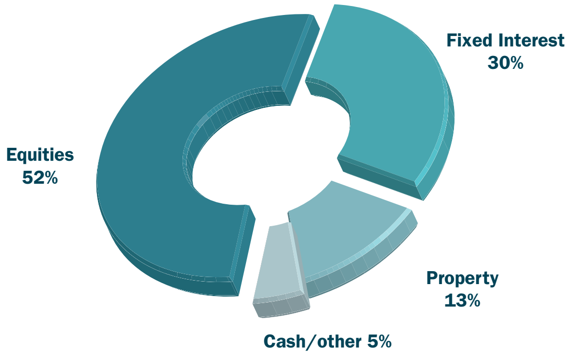
Equities, and in particular UK equities, accounted for the majority of the Fund's overall outperformance. In the UK the Fund benefited from having relatively little invested in BP (which fell after its well publicised problems in the Gulf of Mexico) and also from holding companies in the financial sector which did better in share price terms than their rivals. The Fund's holdings in Japanese and Asian equities also rose further in value than those wider markets. This was because, across the year as a whole, we tended to choose the right companies in the right industry sectors.

The Fund's holding of corporate bonds – IOUs issued by companies – also outperformed during the year. In this area, holding a larger than average position in the financial sector was the key driver of returns.

In contrast UK Gilts – IOUs issued by the UK Government – did less well than corporate bonds, but the Fund beat the Gilt benchmark by using a variety of strategies, such as buying longer-dated and shorter-dated bonds at different points in the year.

In 2010 the return from UK commercial property was the strongest it has been in four years. The Fund's UK property portfolio was consistently ahead of its benchmark during this period. Direct investments in prime properties held up well, particularly in London, despite the uncertain economic environment.

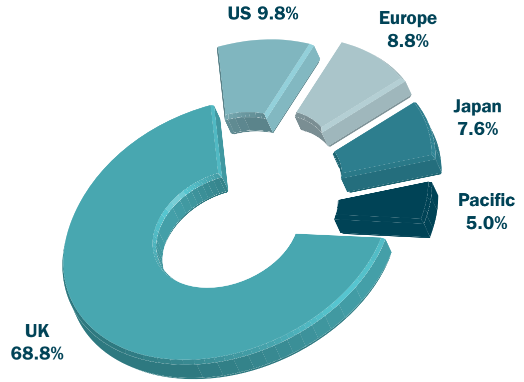
Overall fund asset allocation as at 31 December 2010



Fixed Interest Holdings split

38 % Corporate Bonds 62% Gilts

Equity country weightings as at 31 December 2010



Total Equity Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	**18.7%**	**14.7%**

Our equities portfolio is benchmarked against a combination of the FTSE All Share Total Return Index, S&P 500, FTSE Europe ex UK, FTSE All World Japan and FTSE All World Asia Pacific ex Japan.

Standardised Performance

These figures show the percentage growth of the equities portfolio each calendar year in the Fund for the last five years.

Yr to 29 Dec 2006	14.1%*
Yr to 31 Dec 2007	8.6%*
Yr to 31 Dec 2008	-27.9%*
Yr to 31 Dec 2009	27.4% **
Yr to 31 Dec 2010	**18.7% ****

* 12 months total return % (mid price to mid price) gross income reinvested.
** 12 months total return % (bid price to bid price) gross income invested.
Source: LVAM

Please remember that past performance doesn't necessarily reflect what will happen in the future.

Total Property Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	**16.0%**	**14.5%**

Our property portfolio is benchmarked against the IPD UK Annual Estimate Index.

Standardised Performance

These figures show the percentage growth of the property portfolio each calendar year in the Fund for the last five years.

Yr to 29 Dec 2006	22.2%*
Yr to 31 Dec 2007	-1.2%*
Yr to 31 Dec 2008	-21.8%*
Yr to 31 Dec 2009	4.2% **
Yr to 31 Dec 2010	**16.0% ****

* 12 months total return % (mid price to mid price) gross income reinvested.
** 12 months total return % (bid price to bid price) gross income invested.
Source: LVAM

Please remember that past performance doesn't necessarily reflect what will happen in the future.

Total Fixed Interest Performance from 31 December 2009 to 31 December 2010 (LV= against Benchmark)

	LV=	Benchmark
12 months	**10.0%**	**9.2%**

Our fixed interest portfolio is benchmarked against a combination of the FTSE Actuaries 5-15 Year Gilt Index, FTSE Actuaries >15 Year Gilt Index and Iboxx Sterling Non-Gilt over 5 years.

Standardised Performance

These figures show the percentage growth of the fixed interest portfolio each calendar year in the Fund for the last five years.

Yr to 29 Dec 2006	0.3%*
Yr to 31 Dec 2007	3.7%*
Yr to 31 Dec 2008	7.2%*
Yr to 31 Dec 2009	6.1% **
Yr to 31 Dec 2010	**10.0% ****

* 12 months total return % (mid price to mid price) gross income reinvested.
** 12 months total return % (bid price to bid price) gross income invested.
Source: LVAM

Please remember that past performance doesn't necessarily reflect what will happen in the future.

Market and Economic Review

During the year consistent themes affected markets. Worries about subjects such as the outlook for government debt in Greece, the impact of austerity measures in the UK and Europe, and some well documented company specific problems, such as those that affected BP, affected the price of assets like shares and bonds.

There was a tentative start to the first quarter of 2010, with share prices showing modest gains. However, stock markets went on to lose all of these gains, and more, during the second quarter of the year which proved to be an extremely volatile period for investors.

During the second quarter, markets reacted to concerns about Greece after its credit rating was downgraded to sub-investment grade status. After that, fears spread that Ireland, Spain and Portugal might not be able to make interest payments or repay their debts. Politicians and the International Monetary Fund (IMF) reacted aggressively by announcing a 750 billion Euro rescue package which sparked a rally in the markets.

Fears of political stagnation in the UK were realised as the general election returned a hung parliament for the first time in 40 years. A coalition was installed following a week of talks with both the Conservatives and Liberals agreeing that cutting public debt should be top of both parties' agendas.

After the high level of volatility experienced in the first half of the year, markets were calmed in the second half by stronger economic data and clear policy responses from most of the central banks in developed markets. These policy responses such as quantitative easing – where central banks intervene in some markets to buy assets - and comments that suggested that interest rates would stay low for longer gave investors confidence, and equity markets delivered double digit returns in many countries. However, concerns around European government debt remained, with Spain losing the top AAA credit rating and the Irish Government being forced to bail out its banking system.

Key to the final outcome for the year were developments in the US. In November the US Federal Reserve signalled its intention to support the US economy for an extended period, pledging a further $600bn of bond purchases. This stimulated a wide range of markets and equity markets ended the year strongly.

The UK property market also performed strongly over the year as it experienced a recovery after a sustained period of decline.

Market and Economic Outlook

2010 finished positively for equities, supported by better than expected economic data and the further quantitative easing promised in the US. This optimism has continued into the early part of 2011 and has increased as investors' concerns about the debt problems in Europe have eased.

We expect interest rates in the developed world to begin to rise this year, particularly in the UK. We still favour equities over sovereign fixed interest assets. Within fixed interest assets, we continue to favour UK Corporate Bonds relative to UK Gilts. In relation to Gilts, we favour longer dated over shorter dated Gilts. In addition, we still favour UK index-linked over conventional Gilts.

In our opinion UK commercial property will continue to offer an attractive source of income, with rental income being about 6% of the value of properties. This has appeal relative to fixed interest investments such as bonds or bank deposits. We believe that property returns during 2011 will consist mainly of this rental income and that the capital values of the best properties will be resilient. Property should act as a good hedge against inflation.

For equities, we feel that the UK and Japanese markets offer the best value. We've therefore increased our exposure to Japan and reduced it to the rest of Asia.

We continue to believe that the UK equity market will produce attractive long-term returns for investors. Many of the companies are trading at attractive valuations and have strong balance sheets with plenty of cash and not too much debt. The cash is available to finance future expansion or to return to shareholders through dividends.

Our main concern for 2011 is inflation as key commodity prices continue to rise. As the global economy continues to recover, the attention of central banks may switch to reducing inflationary pressures by raising interest rates, which could stifle recovery.

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