Flexible Guarantee Bond, Flexible Guarantee Bond Series 2 and Flexi Guarantee Plan

Investment Report 2015

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Investment Report 2015

This information does not constitute 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.

This report provides information on the performance of your bond, for the period 1 January 2015 to 31 December 2015.

Columbia Threadneedle Investments

Since 1 November 2011 the asset management of our funds has been undertaken on our behalf by Columbia Threadneedle Investments. Columbia Threadneedle is responsible for the day to day management of the assets within investment guidelines set by LV=.

Columbia Threadneedle is a leading international investment manager that manages £320bn of assets (as at 31 December 2015), investing on behalf of individuals, pension funds, insurers and corporations. Columbia Threadneedle is the global asset management group of Ameriprise Financial, a leading US-based financial services provider. Columbia Threadneedle is the 13th largest manager of long term mutual fund assets in the US and the 4th largest manager of retail funds in the UK. Columbia Threadneedle's website address is www.columbiathreadneedle.co.uk.

Principles and Practices of Financial Management (PPFM)

Your bond is a with-profits investment. Every company that offers with-profits investments has to document the principles and practices (the beliefs and behaviours) they use to manage them in a technical document called 'Principles and Practices of Financial Management' so that investors can understand what to expect from the provider they invest with, or are considering investing with.

The current version of the PPFM that relates to your bond, together with a customer friendly version called "Your guide to how we manage our with-profits fund", is available on our website at **www.LV.com/wp-info**, where you can also view the reports of our annual review on how we have managed our fund compared to our PPFM. Hard copies are available upon request.

Unit price and performance of each fund option available

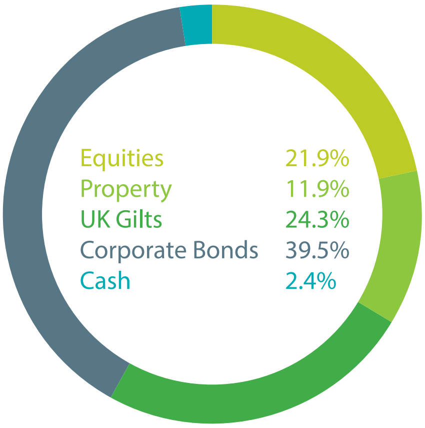
Within the following pages you'll find the performance of each available fund option.

Your individual statement will show you the number of units, the unit price, the value of your bond and the fund option in which you are invested at your bond's last anniversary. You can find the current unit price of your bond at **www.LV.com/fgbprices**. This information should be read alongside your Bond Conditions and Key Features document. You need to be aware that in each fund option your investment can go down as well as up. The higher the amount invested in equities (also known as stocks and shares), the more frequently this will happen and the more significant the changes in value are likely to be.

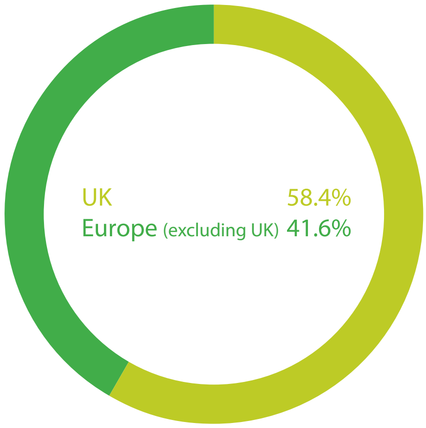
Cautious Series 2

This fund is designed to provide the potential for steady growth. The fund is mainly invested in fixed interest securities with the balance in equities and property. This is the lowest risk fund option under our bond and therefore offers the lowest growth potential.

Asset allocation as at 31 December 2015



Equity weightings as at 31 December 2015



Unit Price Date	**31 December 2015**	31 December 2014	31 December 2013	31 December 2012	30 December 2011	31 December 2010
Unit Price*	**146.4p**	138.2p	130.3p	123.0p	115.3p	112.9p
Growth (%) for the 12 months to date shown	**5.9%**	6.1%	5.9%	6.7%	2.1%	8.6%
Total percentage growth of Unit Price from 1 January 2011 to 31 December 2015 (5 years)						**29.7%**
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2015						**46.4%**

*The unit price quoted is the Averaged Price.

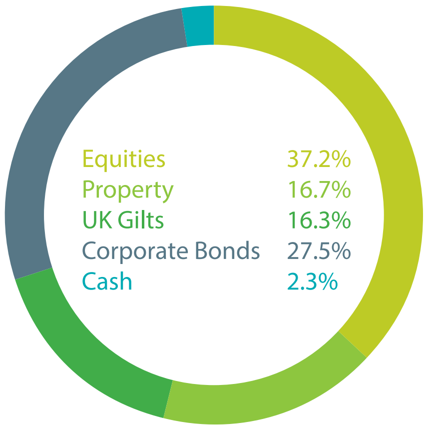
Please see your annual statement and bond documentation for an explanation of Averaged and Underlying Prices.

Please note: Product charges are paid by the cancellation of units rather than reflected in the unit price.
Past performance is not a reliable guide to future performance.

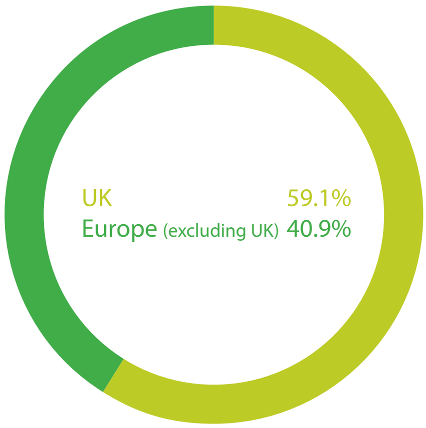
Balanced Series 2

This fund is designed to provide the potential for moderate growth. Around half of this fund is invested in fixed interest securities with the balance in equities and property. We believe this fund is higher risk than the Cautious Series 2 fund, but lower risk than the Managed Growth fund.

Asset allocation as at
31 December 2015



Equity weightings as at
31 December 2015



Unit Price Date	**31 December 2015**	31 December 2014	31 December 2013	31 December 2012	30 December 2011	31 December 2010
Unit Price*	**155.2p**	144.1p	134.6p	123.6p	115.4p	114.5p
Growth (%) for the 12 months to date shown	**7.7%**	7.1%	8.9%	7.1%	0.8%	8.6%
Total percentage growth of Unit Price from 1 January 2011 to 31 December 2015 (5 years)						**35.5%**
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2015						**55.2%**

*The unit price quoted is the Averaged Price.

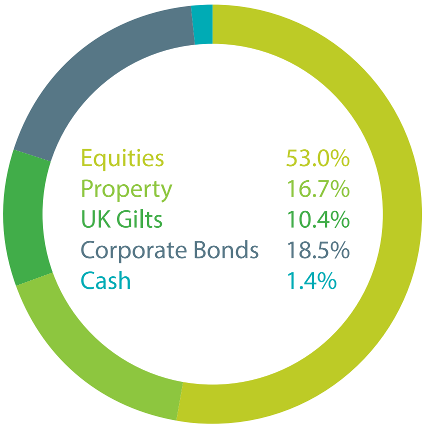
Please see your annual statement and bond documentation for an explanation of Averaged and Underlying Prices.

Please note: Product charges are paid by the cancellation of units rather than reflected in the unit price.
Past performance is not a reliable guide to future performance.

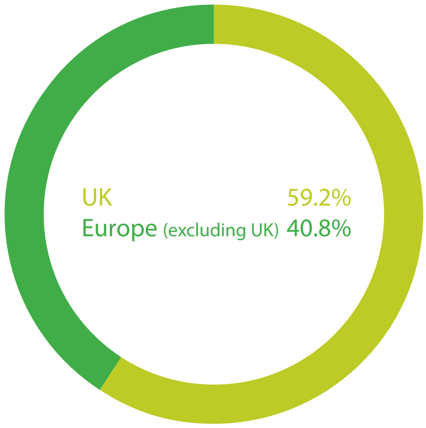
Managed Growth

This fund is designed to provide the potential for higher growth than the other two fund options. But of course, this means that it's also the most risky. Around two thirds of the fund is invested in equity and property with the balance in fixed interest securities.

Asset allocation as at
31 December 2015



Equity weightings as at
31 December 2015



Unit Price Date	**31 December 2015**	31 December 2014	31 December 2013	31 December 2012	30 December 2011	31 December 2010
Unit Price*	**163.3p**	149.2p	138.8p	124.5p	115.6p	115.8p
Growth (%) for the 12 months to date shown	**9.5%**	7.5%	11.5%	7.7%	-0.2%	9.1%
Total percentage growth of Unit Price from 1 January 2011 to 31 December 2015 (5 years)						**41.0%**
Total percentage growth of Unit Price from 18 August 2009 (launch date) to 31 December 2015						**63.3%**

*The unit price quoted is the Averaged Price.

Please see your annual statement and bond documentation for an explanation of Averaged and Underlying Prices.

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Performance Review

In line with the investment strategy in place throughout much of 2014, the asset allocation within the three fund options during 2015 continued to maintain an underweight position in UK Gilts and a corresponding overweight versus benchmark in UK and European equities. This contributed to all three fund options outperforming their respective benchmark. The main driver of this was the performance of the underlying equity investments.

The biggest change in asset allocation during 2015 was a reduction in UK and European equities as and when rising markets pushed weights towards the top end of the portfolios ranges. This enabled profits to be 'locked-in' before the volatility witnessed later in 2015 and early 2016. Despite a post-election rally, UK equities underperformed Europe during 2015.

The investment manager has actively used cash holdings to invest in UK Gilts on any pull back in yields, then taken profits once yields had recovered. During the fourth quarter, the investment manager moved to reduce the overweight in equities further. There were three main reasons for this: firstly, equity prices rose over the quarter with little if any improvement in fundamentals; second, valuations have become richer given broadly weak earnings; and third, macro-economic and geopolitical risks are on the rise, such as the UK's in/out EU referendum.

The return on other fixed income investments was broadly flat over 2015, although conditions were at times quite volatile. International events such as Greek debt, emerging market turmoil, and the Chinese currency devaluation hit both government debt and credit markets. Given the challenges ahead, such as the uncertainty over the UK's membership of the EU, the need for further austerity measures, and the timing of any interest rate rise, both UK Gilt and credit funds have been defensively positioned in anticipation of further volatility.

The three fund options continue to maintain an exposure to commercial property which was one of the strongest and least volatile asset classes of 2015. The property fund that underpins our exposure underperformed. The fund manager remains of the view that the London market, and the office sector in particular, is significantly overvalued in comparison with areas outside the Capital within the London periphery and M4 corridor. As a consequence the current property investment has a significant underweight to London across all sectors, with a corresponding overweight to the South East (ex-London), particularly industrial and retail space.

Market and Economic Review

2015 signalled the beginning of the transition from a long period, post the financial crisis of 2008, where financial stimulus and liquidity provision supported by central banks moves towards one where the fundamentals of economic growth, corporate earnings, and asset valuation drive investment returns. Investment returns overall were volatile, particularly in the second half of the year, and well below the double digit levels witnessed in 2014. For UK investors, 2015 was disappointing with both domestic equity and fixed interest markets barely breaking even.

The year started positively, with monetary easing by central banks, signs of recovery in Europe, and a steadying of the oil price all supporting markets. The European Central Bank (ECB) cheered investors by announcing a bigger-than-expected Quantitative Easing (QE) programme, further weakening the euro and boosting Eurozone asset prices. Despite the expanding UK economy, 10-year UK Gilt yields fell and lower fuel and food costs helped to push down inflation. The ECB easing saw Eurozone yields fall to all-time lows, making UK Gilt yields increasingly attractive. On the downside, although the US economy continued to improve, an increasing proportion of data readings failed to match elevated expectations.

The UK commercial property market's stronger capital appreciation and encouraging rental-value growth continued at a broadly constant level. It should be noted however that rental-value growth continued to be a phenomenon only seen in the office and industrial sectors as rental values in the retail sector remained stubbornly flat.

Later in the first half of 2015, the more optimistic tone set by continued accommodative central bank policy and better-then-expected US corporate earnings, shifted to a more volatile and negative picture, led principally by concerns over the intensification of the Greek debt crisis. In the UK, equities enjoyed a bounce following the Conservative's surprise outright victory in the General Election in May.

The third quarter was a tough period for global equities. The spotlight moved from Greece to China, where a combination of overstretched equity valuations and economic disappointment triggered a global sale of Chinese equities, despite interventions by the Chinese authorities.

In the third quarter US economic data was mixed, with falling unemployment and upward Gross Domestic Product revisions set against below-target inflation, but on balance pointed towards ongoing economic recovery. In Europe, modestly encouraging news on the domestic economy was overshadowed by external concerns, prompting the ECB to lower growth and inflation forecasts and suggest a possible extension of its QE programme. The Volkswagen emissions scandal also impacted the European equity market. The FTSE All-Share underperformed the rest of Europe as the pound weakened. The index was led downwards by oil and mining-related stocks as the oil price fell and worries over China cast further doubt on the outlook for metal prices.

The latter part of the year was a much better period for global equities. Terrorist atrocities dominated the headlines but anticipation of changes to central-bank policy was a bigger driver of sentiment. For most of the period, investors looked towards further stimulus from the ECB which arrived in December. European stocks continued to rise, bolstered by more hints that the ECB was poised to ramp up its stimulus programme in December. The Euro weakened in anticipation, but while the ECB did cut its interest rate to minus 0.3% and extend the QE programme by six months, it disappointed investors by failing to increase its monthly asset purchases. This led to European equities and fixed interest investments falling, while the Euro strengthened.

Against this backdrop, all the major equity markets posted quarterly gains. The FTSE All-Share underperformed the FTSE Europe ex UK, held back by a comparatively large weighting to the oil and gas sector, which fell heavily as the oil price plunged on oversupply concerns. The 10-year UK Gilt yield rose from 1.76% to 1.96%, despite disappointing inflation and dovish commentary from the Bank of England suggesting that the base rate might remain on hold until 2017.

Market and Economic Outlook

2016 began with significant volatility across equity and fixed income markets. During late January the FTSE100 index had fallen to 5,673, over 20% below its peak of the previous April at over 7,120. Widespread fears over ongoing stock market and currency weakness in China, the tensions in the Middle East, overvalued assets and an end to fiscal stimuli have all contributed to the plunge in global investment markets as has the fall in oil prices, with Brent crude slumping to a little over US$27.50 per barrel on 20th January 2016, down 75% from its June 2014 high of US$112 per barrel.

The increase in volatility should not come as too much of a surprise for investors. Central bank policy of Quantitative Easing (QE) has had the effect of keeping volatility artificially low in recent years while boosting asset prices. The US Federal Reserve raised interest rates in December 2015, removing one of the most significant tailwinds for financial markets, and it is becoming clear that the era of asset price reflation post the 2008 crisis is easing.

This is not to say that investment markets cannot make ground this year but it is likely to be a low growth, low return world generally. Much will depend, firstly on the Chinese economy, secondly, on where (or indeed if) the oil price settles at a level that still makes it economic for oil companies to operate, and lastly, the pattern and timing of interest rate moves in the US. At the time of writing the US Federal Reserve has a clearly stated aim of four rate rises in 2016. This looks increasingly unlikely baring a sudden, and unexpected, upturn in growth. Add in the timing of US Presidential Elections in November, and two rate increases look more likely. How the US Federal Reserve manage this change will be key to how markets react.

Political developments are likely to play an important role in markets in 2016. Aside from the US presidential election, the UK will hold its 'Brexit' referendum this year. Market volatility has certainly picked up from the artificially low levels that prevailed in the QE era, and earnings growth globally is likely to be quite modest, given low rates of economic growth. In this environment, the value generated by skilled active investment managers is likely to be an important component of total portfolio returns.

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

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