LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

Principles and Practices of Financial Management (PPFM)

Version 16.1

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1. Introduction

1.1 Company information

Liverpool Victoria Friendly Society Limited (the "Society") 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 bound by its Memorandum of Association and Rules. It is authorised by the Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority (the "FCA") and the PRA.

The structure of the Society is as follows:

- The Society's main fund (referred to in this document as "the LVFS Fund" or "the Fund") which holds the Society's business that sits outside the RNPFN Fund and the Teachers Assurance Fund;
- The RNPFN Fund, a ring-fenced sub-fund within the Society which holds the remaining business transferred from the Royal National Pension Fund for Nurses on 31 December 2001; and
- The Teachers Assurance Fund, a ring-fenced sub-fund within the Society which holds the remaining with-profits business transferred from Teachers Provident Society Limited on 1 June 2016.

1.2 Purpose of this document

This document sets out how the with-profits business within the LVFS Fund is managed, as required by the FCA. It is known as the Principles and Practices of Financial Management ("PPFM").

A glossary of the key words and phrases used in this document is included as Appendix 1.

1.3 Scope of this document

This document covers the LVFS Fund and the with-profits policies invested in it. These are set out in the list of products in Appendix 2 and comprise the following broad product types:

- Conventional with-profits life policies;
- Conventional with-profits pension policies;
- First generation unitised with-profits policies;
- Second generation unitised with-profits policies;
- Accumulating with-profits policies; and
- With-profits annuity policies.

It excludes the RNPFN Fund and the Teachers Assurance Fund and the with-profits policies within them. These are subject to their own PPFMs.

1.4 The Principles

The Principles are enduring statements of the standards the Society follows when managing the LVFS Fund. These Principles cover duties to the with-profits policyholders in both current and future business and economic environments, compliance with relevant regulation and legislation and the need to be fair to all with-profits policyholders and all the Society's other 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 notifying affected policyholders at least three months in advance.

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 when managing the LVFS Fund. The practices may be changed from time to time and the information below only reflects current practice.

1.6 Monitoring compliance and governance

The Board of Directors of the Society ("the Board") produces an annual report to with-profits policyholders (available on the website or on request) on the Society's compliance with this PPFM. It is the responsibility of the Board to ensure that the Society manages the LVFS 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 its with-profits business in the LVFS Fund. A report from the With-Profits Actuary to with-profits policyholders is included within the Board's annual report.

The Society also has a With-Profits Committee to provide independent advice to the Board on material issues in assessing compliance with this PPFM. The With-Profits Committee may also include a report to with-profits policyholders within the Board's annual report if it deems it appropriate.

1.7 Changes to the PPFM

The PPFM will be reviewed at least annually to ensure that it continues correctly to reflect the Principles and Practices that are applied to the LVFS Fund.

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

With-profits policyholders covered by this PPFM will be notified of material changes to any Principles in this document that affect them at least three months in advance. The FCA will also be notified of the change.

With-profits policyholders covered by this PPFM will be notified of material changes made to any Practices in this document that affect them as soon as is reasonable.

1.8 Consumer-friendly PPFM

Separate consumer-friendly versions of the PPFM ("CFPPFMs") for different product groups are available on the website or on request. These documents contain key information from the PPFM. For the avoidance of doubt, in the event of a conflict, the PPFM will take precedence over the CFPPFMs.

1.9 Schedule

A Schedule of disclaimers is shown in section 12 of this document.

2. The methods used to guide the determination of the appropriate amount payable to individual with-profits members

2.1 Principles

2.1.1 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 the other principles below are subject to these requirements.

2.1.2 The aim of the methods used to guide the determination of the amount payable to with-profits members in the LVFS Fund on claim is to pay them a fair return on their investment.

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 The Board might change the historical assumptions or parameters relevant to the methods used if it can be clearly demonstrated to the Board by the Society that incorrect assumptions and parameters have been used.

2.2 Practices

2.2.1 The Society generally considers Asset Shares to guide the determination of the amount payable to with-profits members in the LVFS Fund. “Asset Share” means broadly, in relation to a with-profits policy, the accumulation, at investment rates of return, of premiums paid less charges for expenses incurred, taxation, the cost of benefits provided and any charges for the cost of guarantees or the use of capital. The assumptions and parameters used in the calculation of Asset Shares are described in paragraphs 2.2.3 to 2.2.12.

2.2.2 In addition, the Society may exercise its discretion and increase the Asset Share if the Board decides to allocate Miscellaneous Surpluses (such as profits arising from business risks and distributed from 2011 by way of Mutual Bonus, as described in section 7). Miscellaneous Surpluses and Mutual Bonus are not permanent additions to Asset Shares. They may be reduced or removed in the future (along with any investment return allocated to them) if the Board considers it appropriate, having taken account of the current and projected financial strength of the LVFS Fund at the time and the aim to treat all groups of its members fairly. Past allocations that have been removed may subsequently be reinstated if the Board considers it appropriate, though currently no past allocations have been removed. Mutual Bonus is likely to be removed from Asset Shares ahead of other forms of Miscellaneous Surpluses.

2.2.3 For **conventional with-profits life and pension policies** (except for benefits calculated in accordance with paragraph 2.2.14), the Society does not pay the precise Asset Share to each with-profits member on claim, but instead adds a final bonus to the guaranteed benefits, calculated as a rate depending on the type of policy and duration in-force as follows:

- For Industrial Branch and Ordinary Branch whole-of-life policies final bonus rates are based on the ratio of the aggregate projected Asset Share to the aggregate guaranteed benefits for those policies expected to claim during the period in question.
- For other conventional with-profits policies, final bonus rates are derived from the Asset Share and guaranteed benefits under sample policies chosen so as to be representative of the policies expected to claim during the period in question.

2.2.4 For some types of **conventional with-profits life policies**, where Asset Shares are not appropriate because of historic practice or due to lack of data, other methods are used to assist the Board to assess a fair return on the with-profits members' investment. The policy types where this is the case and the methods used include:

- whole-of-life and endowment policies that have ceased paying premiums early, where final bonus rates are set to a rate determined from premium-paying policies of the same duration or policies of the same duration that have paid all premiums due, as appropriate;
- death claims for endowment policies, where final bonus rates are set to those determined from maturing policies of the same duration;
- Industrial Branch tax-exempt and taxable whole-of-life policies with entry dates prior to 1980, where final bonus rates are set to the rate for a taxable whole-of-life policy with an entry date in 1980;
- Industrial Branch tax-exempt endowments, where final bonus rates are set to the rate for an equivalent taxable policy of the same duration;
- Ordinary Branch whole-of-life policies with entry dates prior to 1968, where final bonus rates are set to the rate for a taxable whole-of-life policy with an entry date in 1968; and
- Ordinary Branch tax-exempt whole-of-life policies with entry dates from 1968, where final bonus rates are set to the rate for an equivalent taxable policy of the same duration.

2.2.5 For **conventional with-profits life and pension policies** the main assumptions or parameters in the Asset Share calculations are determined using actual experience or a reasonable assessment of actual experience. The assumptions or parameters are adjusted to reflect the taxation position of the class of business. Different expense assumptions are used depending on whether the business is Industrial Branch or Ordinary Branch, and whether the business is life or pensions. These differences are intended to reflect a reasonable estimate of actual experience for each group of policies. All expenses incurred for **conventional with-profits pension policies** from 1 April 2018 are applied in accordance with paragraph 8.2.3.

2.2.6 For **unitised and accumulating with-profits policies** and **with-profits annuities**, the investment return is based on actual experience and is adjusted for tax where appropriate. The expense deductions are the charges set out in the policy conditions, Key Features or similar document, as appropriate (including any changes to the charges made in accordance with these documents), using a reasonable estimate of actual experience where the level of the charge is not stated. This includes a fund-based charge applied to **accumulating with-profits Appropriate Personal Pension policies** in accordance with paragraph 8.2.2.

2.2.7 The investment return allocated to particular Asset Shares is the investment return on the assets (the "Asset Pool") underlying those Asset Shares. The Society includes **all with-profits policies** except **With Profits Income Bonds** and **second generation unitised with-profits policies** in the same Asset Pool as they share a common investment policy. **With Profits Income Bonds** have their own Asset Pool to support a specific product feature. For **second generation unitised policies** different Asset Pools are available according to the type of product and the investment option selected by the policyholder. Investment returns are calculated as often as required in order to calculate Asset Shares.

2.2.8 The Society apportions its total acquisition expenses and total maintenance expenses incurred across all policies in the LVFS Fund, RNPFN Fund and the Teachers Assurance Fund using a reasonable estimate of the actual incurred expenses applicable to each policy, noting:

- For the LVFS Fund, any difference between the apportioned actual expenses incurred and the amounts deducted from policies is met by the inherited estate of the LVFS Fund;
- The RNPFN Fund is charged the apportioned actual expenses incurred for those policies within it; and
- Expenses incurred for policies in the Teachers Assurance Fund are currently set by the terms of the Instrument of Transfer of Engagements of that business, with any difference to the apportioned actual expenses incurred being met by the inherited estate of the LVFS Fund.

2.2.9 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 Society and the sum of the amounts within the individual Asset Share calculations is met by or credited to the inherited estate of the LVFS Fund.

2.2.10 The Society is a mutual with no shareholders, so there is no additional liability to tax on with-profits policies arising because of transfers to shareholders.

2.2.11 Charges for benefits provided such as mortality and morbidity risks are made to Asset Shares by deduction of appropriate amounts from Asset Shares, where relevant. For **conventional with-profits pension policies**, where the death benefit payable is lower than the Asset Share, an appropriate addition is made to the Asset Share. For **with-profits annuity policies**, the Society's own and industry mortality experience and how they might change in future is taken into account in Asset Share calculations.

2.2.12 The Society makes explicit charges for the cost of term-related guarantees on **second generation unitised with-profits policies.** It does not otherwise currently make a charge for the cost of guarantees or for the use of capital in its Asset Share calculations other than for the costs implicitly included in the charges on **all unitised with-profits policies, accumulating with-profits policies** and **with-profits annuity policies**.

2.2.13 Some **conventional with-profits life and pension policies** were treated as non-profit (or received no further annual bonuses) by the Society from the time premiums ceased being paid namely:

- Industrial Branch endowment and whole-of-life policies that ceased paying premiums early;

- Industrial Branch whole-of-life policies that paid all premiums due (except for policies issued under Table 25);
- Ordinary Branch endowment and whole-of-life policies that ceased paying premiums early; and
- Retirement Annuity Contract pension policies that ceased paying premiums early.

From 2001 the Society exercised its discretion when the Board decided to recommence adding bonuses to all these policies.

2.2.14 For **conventional with-profits pension policies**, from 1 April 2018 where a transfer value or surrender benefit is paid, it is calculated as follows:

- Before age 50 (except on ill-health retirement), the amount payable is the Asset Share;

- From age 50 but below age 55 (except on ill-health retirement), the amount payable is the greater of:

  a) (55-Age)/5 x Asset Share + (Age-50)/5 x the discounted value of the guaranteed annuity benefit (calculated assuming the benefits are taken at age 55); and
  b) Asset Share

- From age 55 (and on all ill-health retirements) the amount payable is the greater of:

  a) The discounted value of the guaranteed annuity benefit (calculated assuming the benefits are taken at the date of the calculation); and
  b) Asset Share

where

- the discounted value of the guaranteed annuity benefits is determined using the basis used to calculate the original guaranteed benefits (or, where the actual basis is not available, an appropriate proxy for this basis) and reflects the premiums actually paid; and

- the Asset Share is calculated in accordance with section 2.2 on a monthly basis, subject to smoothing referred to in section 5.2, with the exception that its value at 31 March 2018 is set to a minimum of the transfer value applying on that date, as calculated on the previous transfer basis.

At approximately annual intervals the Society reviews whether the discounted value of the guaranteed annuity benefits underpin to the Asset Share should be removed (for example, because of a low level of financial strength of the LVFS Fund) and reviews the basis used to calculate the discounted value.

2.2.15 No annual or final bonuses are added to **second generation unitised with-profits policies**. Instead, the value of the units allocated to the policy at outset is accumulated in line with the Asset Share through the unit price, using the approach to smoothing outlined in section 5.2. At the end of a guarantee term, if the guaranteed amount is higher than the surrender value of the policy, additional units are added to make the surrender value equal to the guaranteed amount. On certain products, the Asset Pool invested in by a policy may be switched to another on request of the policyholder by surrendering units in the current Asset Pool and purchasing units in a different Asset Pool. For **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies, the Society may delay buying, selling or switching units in accordance with the policy conditions of these products.

2.2.16 Where Asset Shares are used to guide the amount payable, the Society manages the LVFS Fund with the long term aim of making total aggregate payouts of 100% of Asset Share.

2.2.17 Where Asset Shares are used to guide the amount payable, the Society aims to make payouts on maturity, transfer, surrender or death for with-profits policies in the LVFS Fund that are between 80% and 120% of Asset Share (known as the target range) except in the circumstances listed in paragraphs 2.2.18. This range is set taking into account the investment strategy, the smoothing approaches used, the frequency of reviews of final bonus and top-up bonus and the desire to minimise the risk of policyholders not receiving a fair payout. For **conventional with-profits policies**, the Asset Share used for the purpose of assessing payouts against the target range, reflects the methods used to set final bonus rates described in paragraph 2.2.3.

A payout above target range may occur if a guaranteed benefit is payable. For **conventional with-profits pension policies**, payouts may occur above target range for benefits paid in accordance with paragraph 2.2.14, and payouts on death may be below target range given this is a return of the premiums paid. The Society may also make a payout that falls outside the target range if it believes it might be fair, or fairer, to a particular policyholder or the other policyholders in the Fund to do so, for example due to the smoothing process employed or in extreme investment conditions.

2.2.18 Though Asset Share is used as a guide to the amount payable, the target range is not deemed to apply on:

- **with-profits annuities** and in-payment **conventional with-profits pension policies,** as there is no single payout;
- **second generation unitised with-profits policies,** as (unless a guarantee applies) payouts are either set to the Asset Share or a prescribed smoothing method is used; and
- partial payments for **all unitised with-profits policies** (which are described under paragraphs 5.2.5 and 5.2.6).

2.2.19 The Society documents the methods, parameters and assumptions that it uses to determine the amount payable to with-profits members in the LVFS Fund in reports which are available to the Board. Parameters and assumptions used in calculations used to determine the amount payable are maintained in spreadsheets which are also available to the Board.

2.2.20 Any proposed material changes to the current methods, or to the current parameters or assumptions relevant to a particular method, (or to historic parameters and assumptions) will be submitted to the Board for approval, and documented in the reports referred to above.

2.2.21 The Society manages the LVFS Fund so that the discretionary benefits under with-profits policies are calculated and paid disregarding, to the extent necessary for all the Society's policyholders to be treated fairly, any liability to make payments under the Subordinated Debt.

3. The approach to setting annual bonus rates

3.1 Principles

3.1.1 The rates of annual bonus for with-profits policies in the LVFS Fund 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 LVFS Fund.

3.1.2 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. The Board will introduce a new bonus series where it deems that these factors make it appropriate to do so.

3.2 Practices

3.2.1 In setting annual bonus rates on with-profits policies, the Society has regard to:

- expected future investment returns;
- the relative position of Asset Shares against:
  - guaranteed benefits for **conventional with-profits life and pension policies** and **with-profits annuity policies**,
  - the value of units for **first generation unitised with-profits policies**,
  - the accumulation account for **accumulating with-profits policies**;
- the current and projected financial strength of the LVFS Fund; and
- past communications made to applicable with-profits policyholders.

For example, high expected future investment returns, in tandem with a high level of asset shares relative to guaranteed policy benefits, is likely to lead to a higher level of annual bonus rates than would otherwise be the case.

For **With Profits Pension Annuity** policies, the rate set has regard to current gilt yields of an appropriate duration and may vary by calendar year of entry. In addition, for Series 3 and 4 policies the annual bonus rate is reduced if the Asset Share referred to in section 2.2 falls below 95% of the Asset Share subject to smoothing referred to in section 5.2.

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 for **first generation unitised with-profits policies** more frequently than annually if the considerations described in paragraph 3.2.1 indicate a change is appropriate.

3.2.3 The Society's current practice is not to alter annual bonus rates by more than 0.5% over a twelve month period.

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 considerations described in paragraph 3.2.1 indicate that a change is appropriate.

3.2.5 Subject to smoothing referred to in section 5.2, the annual bonus for **accumulating with-profits Flexible Whole Life policies** is set with the aim of paying out the Asset Share as calculated in section 2.2 as no final bonuses apply to these policies.

3.2.6 **Pension Income Plus Annuity** policies receive an annual declared investment return rather than an annual bonus. Subject to smoothing referred to in section 5.2, the declared investment return is set at the level required to pay out the Asset Share as calculated in section 2.2 over the expected lifetime of the policyholder. The Society currently reviews the declared investment return up to four times a year. The most recent return is applied to an individual policy at its policy anniversary. It can vary by date of entry. The declared investment return is also taken into account when calculating any increase in the minimum level of income that is guaranteed under the policy.

3.2.7 The design of **second generation unitised with-profits policies** means no annual bonuses are added for these policies.

4. The approach to setting final bonus rates and top-up bonus rates

4.1 Principles

4.1.1 Final bonus rates and top-up bonus rates for with-profits policies in the LVFS Fund will be reviewed at least annually. They will be set such that total payouts on policies will, whenever possible, have regard to the amounts calculated under the methods referred to in section 2.1, subject to smoothing referred to in section 5.1. Account will also be taken of the current and projected financial strength of the LVFS Fund.

4.2 Practices

4.2.1 A final bonus may be added on maturities, deaths, transfers and surrenders to **conventional with-profits policies**, **first generation unitised with-profits policies** and **accumulating with-profits Appropriate Personal Pension policies** in the LVFS Fund. The Society's current approach to setting final bonus rates is such that total payouts on policies will broadly reflect the amounts calculated under the methods referred to in section 2.2, subject to smoothing referred to in section 5.2. Payouts may be reduced if there is evidence that significant smoothing losses are being incurred due to a high level of transfers and surrenders.

4.2.2 For **conventional with-profits life policies,** the Society expects to set its final bonus rates four times a year. For **conventional with-profits pension policies,** the Society expects to set its final bonus rates on an annual basis. However, it may change rates more frequently than this if the results of calculations performed in accordance with section 2.2, subject to smoothing referred to in section 5.2, indicate that a change is appropriate.

4.2.3 For **conventional with-profits endowment policies,** which have a formulaic surrender basis, only a proportion of the level of final bonus applicable to a maturity or death claim for the same policy type may be included in the policy value on claim. The amount included is determined using the methods referred to in section 2.2, subject to smoothing referred to in section 5.2. The surrender basis is updated every time a new set of final bonus rates are declared.

4.2.4 For **conventional with-profits pension policies**, the concept of final bonus rates is not used for transfer values or surrender benefits as the Asset Share is calculated directly in accordance with paragraph 2.2.14, subject to smoothing referred to in section 5.2. If an annuity is taken at vesting, final bonus rates would be applied to the guaranteed annuity benefit in accordance with paragraph 4.2.2, though currently they are set to zero and are expected to remain so in future. For the avoidance of doubt the Asset Share used in calculating final bonus rates is not set to a minimum of the transfer value as described in paragraph 2.2.14.

4.2.5 For **first generation unitised with-profits policies** and **accumulating with-profits Appropriate Personal Pension policies**, final bonus rates are calculated mechanically as often as required. For individual **first generation unitised with-profits policies**, the Society does not apply a Market Value Reduction (as described in paragraphs 5.1.4 and 5.2.3) at the same time a final bonus applies and vice-versa.

4.2.6 For **With Profits Pension Annuity** policies, a top-up bonus may be payable. Any top-up bonus will be applied as an increase to the basic annuity payable during the policy year. Top-up bonus rates may vary by calendar year of entry. The top-up bonus will broadly reflect the amounts calculated under the methods referred to in section 2.2, subject to smoothing referred to in section 5.2. In addition, for Series 3 and 4 policies the top-up bonus will not take smoothing into account if the impact of smoothing on the total annual annuity amount is greater than 10%.

4.2.7 The design of **Flexible Whole Life policies** and **second generation unitised with-profits policies** means no final bonuses are added for these policies. Similarly, the design of **Pension Income Plus Annuity** policies means no top-up bonuses are added for these policies.

5. The approach to smoothing the value of with-profits policies

5.1 Principles

5.1.1 The aim of the Society's smoothing policy is to protect with-profits policyholders in the LVFS Fund from temporary fluctuations in investment markets. It is not intended, over the long term, to be a source of profit or loss.

5.1.2 The Society adopts a similar approach to smoothing irrespective of the type of claim arising under a with-profits policy, although different approaches may apply to different types of with-profits policy.

5.1.3 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 Society to meet its commitments to its members.

5.1.4 Market Value Reductions will only be applied to reflect movements in the value of assets held by the Fund. The decision whether or not to apply Market Value Reductions will take into account the level of surrenders and the expected cost of not applying a Market Value Reduction. 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.

5.2 Practices

5.2.1 The Society does not set a period over which it expects smoothing to be neutral. In addition, the Society does not set a limit for the overall accumulated cost of (or excess from) smoothing under the with-profits policies in the LVFS Fund. However, the accumulated cost under **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies is monitored with the intention of removing smoothing subject to the fair treatment of the policyholders concerned should the accumulated cost reach an amount that is agreed by the Board. Any costs or excesses from smoothing are charged to the inherited estate of the LVFS Fund.

5.2.2 The Society uses different smoothing approaches for different types of policy in determining the amount that it is appropriate to pay, as follows:

- For **conventional with-profits life policies**, smoothing is applied by limiting the change in the payout at a single review of final bonus rates, so that payouts do not change by more than 20% from one year to the next, excluding amounts added in respect of Mutual Bonus, at the time the rates are declared. In addition, for **conventional with-profits endowment policies**, the Society smooths the investment returns used over the previous five years, taking the geometric average of the actual investment returns.

- For **conventional with-profits pension policies**, from 1 April 2018 smoothing is normally applied by limiting the investment return used to calculate Asset Shares, with the balance (positive or negative) being released in future months until extinguished. If the balance becomes large then the limit on the investment return can be amended to accelerate the release of the balance. Before 1 April 2018, the return applied is not smoothed.

- For **first generation unitised and accumulating with-profits policies** the Society smooths the investment returns used over the previous two years taking the geometric average of the actual monthly investment returns. The Society may introduce a new pricing series for top-up investments on first generation unitised with-profits policies at times of a sustained significant up-turn or down-turn in investment returns.

  For **first generation unitised with-profits bonds** only, if the Asset Share calculated using actual investment returns ("UAS", i.e. unsmoothed asset share) falls sufficiently far below the Asset Share calculated using smoothed investment returns ("SAS", i.e. smoothed asset share), then the amount payable may be reduced towards the UAS by taking an appropriate percentage of the SAS.

- For **second generation unitised with-profits policies**, the Society smooths the investment return by using an averaged unit price, calculated as the arithmetic average (over the previous 26 weeks) of the unit price calculated using the actual investment return. Smoothing does not apply during the first six months from the date the policy commences or switches Asset Pool, when the unit price calculated using the actual investment return is used instead.

  The Society compares the Asset Share calculated using actual investment returns ("UAS" i.e. unsmoothed asset share) with the Asset Share calculated using investment returns smoothed in accordance with the above ("SAS" i.e. smoothed asset share). Provided that UAS is greater than 80% of SAS, the payout is set to SAS. However, except for death and terminal illness claims, if UAS falls to 80% or less of SAS~~,~~ then the payout is reduced to UAS. Once payouts are set to UAS, they continue to be calculated using UAS until UAS exceeds SAS, from which time they revert to SAS (unless UAS becomes 80% or less of SAS again).

  For **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies, the Society also has the right to set the payout to the UAS in other exceptional circumstances. For example, the Society might do this if it felt the smoothing costs for the relevant asset pool were, or were likely to become, excessive relative to the size of the relevant asset pool or if it is in the best interests of with-profits members generally. Payments will revert back to the SAS when the Society considers it appropriate and fair.

- For **With Profits Pension Annuity (Series 1)** policies, the Society smooths the investment returns used over the previous five years and two years, taking the geometric average of the actual investment returns, using the smoothing period that provides the higher annuity amount.

- For **With Profits Pension Annuity (Series 2 to 4)** policies, the Society smooths the investment return used over the previous two years, taking the geometric average of the actual investment returns.

- For **Pension Income Plus Annuity** policies, smoothing is applied by limiting the change in the annuity at a single review of the declared investment return, rather than by smoothing the investment returns used to calculate Asset Shares.

5.2.3 For **first generation unitised with-profits policies and accumulating with-profits Flexible Whole Life policies**, if the amount determined in accordance with section

2.2 and paragraph 5.2.2 is below the value of the units allocated to the policy, then a Market Value Reduction may be applied, if permitted under the terms of the policy document, so as to bring the value of the units down to the amount payable. However the current practice is only to apply a Market Value Reduction, should it be relevant, on **first generation unitised with-profits bonds.**

5.2.4 Subject to the distinctions in paragraphs 5.2.2 and 5.2.3, the Society applies the same approach to smoothing for each type of policy, irrespective of the type of claim, size of the claim or the entry-date of the policy.

5.2.5 Partial payments under **first generation 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.

5.2.6 Partial payments under **second generation unitised with-profits policies** are met by the 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 reduction made in accordance with paragraph 5.2.2 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. Any Mutual Bonus allocated to the policy is excluded from this calculation.

6. The significant aspects of the investment strategy

6.1 Principles

6.1.1 The aim of the investment strategy for with-profits business in the LVFS Fund is to optimise the return to with-profits members in the Fund while preserving the ability of the Society to meet its commitments to its members. In determining the mix of assets between different asset classes, the investment strategy will take account of the current and projected financial strength of the LVFS Fund, its ability to meet its regulatory capital requirements and the long-term expected returns available in the asset classes, their volatility and the benefits to be obtained from diversification.

6.1.2 The Society does not rely on any assets outside the LVFS Fund in setting the investment strategy.

6.1.3 The Society uses derivatives and other instruments for the purpose of efficient portfolio management or to hedge specific liabilities and not for speculation.

6.1.4 Some constraints on the investment strategy may be applied to match guarantees under certain policy types.

6.1.5 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 LVFS Fund.

6.1.6 The Society holds assets in the Fund that would not normally be traded because of their importance. These may include assets such as subsidiary companies. The Society has contingent support or guarantee arrangements to or from the Society's subsidiaries and the RNPFN Fund.

6.1.7 The Board reviews the assets that are not normally traded at least annually to ensure these assets remain appropriate.

6.1.8 The Society does not impose a fixed limit on the scale of its investments in assets that are not normally traded.

6.1.9 The out-turn from the Society's investment in assets that are not normally traded does not directly impact the amounts payable under with-profits policies in the LVFS Fund.

6.1.10 The Society does not impose fixed credit or liquidity requirements on assets that are not normally traded.

6.2 Practices

6.2.1 The Society currently formally reviews the long-term investment strategy for each of the Asset Pools in the LVFS Fund in detail at least every three years, though less detailed reviews are performed at approximately annual intervals. The investment outlook, investment mix and performance are monitored periodically between formal reviews when tactical decisions may be made. Approval from the Investment Committee of the Board is required before tactical investment decisions outside the previously agreed long-term investment strategy can be implemented.

6.2.2 The Society seeks to optimise the return to the with-profits members in the LVFS Fund while preserving its ability to meet its commitments to all its members and its ability to meet its regulatory capital requirements. It also seeks to maintain a reasonable level of liquidity in either cash or short term credit to meet policy payouts as they arise.

6.2.3 The assets actually held by the Society for certain with-profits policies in the LVFS Fund differ from those assumed to be held in the Asset Pool used to determine the investment return applied to their Asset Shares. This has no impact on the payouts to the holders of these policies. The policy types where this is done are:

- **Conventional with-profits pension policies**, so as to provide a better match for the guarantees present under these policies;
- **With Profits Income Bonds**, due to the small size of the Asset Pool; and
- **All-in-1 Investment Bonds** and **Guaranteed Capital Bonds**, due to the small size of the Asset Pools for these products.

6.2.4 In determining the mix of assets for an Asset Pool, the investment strategy will take account of the description of the Asset Pool supplied to policyholders and the requirements of specific product features as appropriate, as well as the principles set out in Section 6.1. For the Asset Pool for those with-profits policies sharing a common investment strategy (defined in paragraph 2.2.7) and the Asset Pool for **With Profits Income Bonds**, the Society formally anticipates reducing the proportion which is invested in equities on a sharp fall in equity markets, and also reserves the right to do so on the Asset Pools for **second generation unitised with-profits policies**. Details of the current long-term benchmark and actual investment mixes of the separate Asset Pools are available on the LVFS web-site (www.lv.com) or can be obtained directly from the Society.

6.2.5 Fewer assets are held than those underlying the Asset Pools for **Flexible Guarantee Bond**, **Flexible Guarantee Funds** and **Flexi Guarantee Plan** policies so as to hedge the Society's asset based market exposures relating to charges. This has no impact on the payouts to holders of these policies.

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

6.2.7 Within the LVFS Fund different mixes of assets are held in the inherited estate and in respect of the liabilities of the non-profit policies in the LVFS Fund than are held in the Asset Pools supporting Asset Shares.

6.2.8 Before investing in new or novel investment instruments, the Society seeks the formal approval from the Investment Committee of the Board as to their suitability. The Investment Committee will consider any proposals, and the associated risks, in the context of the overall investment strategy that has been adopted. The Investment Committee will consider advice from the Risk Committee, the With-Profits Committee, the With-Profits Actuary and the Life Chief Actuary in making its decision.

6.2.9 By far the LVFS Fund's largest investment in assets that are not normally traded is its holding in a General Insurance Business. The Board reviews that this investment and any other material strategic assets are likely to have no adverse effect on the interests of the with-profits policyholders in the Fund and are made in the best interests of all the Society's policyholders at approximately annual intervals.

7. The exposure of the with-profits business to business risk

7.1 Principles

7.1.1 The Society may only undertake a significant business risk in the LVFS Fund after approval by the Board. The Board will only approve the taking on of such risks provided the expected benefits are no worse than the expected benefits available from alternative investment opportunities for the LVFS Fund taking into account the results projected on a range of scenarios and its current and projected financial strength.

7.1.2 The control over existing business risk is monitored at least annually by the Board and takes account of the current and projected financial strength of the LVFS Fund and the expected rate of return on the investment.

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

7.2 Practices

7.2.1 The current restrictions that the Society applies in relation to business risk from acquiring and maintaining non-profit and with-profits policies in the LVFS Fund are those set out in section 10. The Society does not currently set fixed limits on the amount of the Fund that may be invested in any subsidiary companies. Instead it applies the principles set out in section 7.1 of this document.

7.2.2 The LVFS Fund is exposed to business risk in the normal course of events 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 LVFS Fund also provides a capital support facility to the RNPFN Fund (for which a charge is levied on the RNPFN Fund), which would be called on if the RNPFN Fund failed to comply with its Solvency Capital Requirement. The maximum amount of capital support was set to £100 million at 31 December 2001 and subsequently varies in line with the value of the assets attributable to the with-profits business in the RNPFN Fund (subject to a cap of £100 million). Further details are given in the PPFM for the RNPFN Fund. Further information on some of the business risks undertaken by the LVFS Fund can be obtained from Annual Report & Accounts, which are available on the LVFS web-site (www.lv.com) or directly from the Society.

7.2.3 The LVFS Fund does not currently charge losses from business risks against Asset Shares, though losses from one source may be offset against profits from another. In addition the Society may pay more than would be indicated by Asset Shares if the Board decides to allocate profits from business risks.

7.2.4 With effect from 2011, profits from business risks in the LVFS Fund are being allocated as Miscellaneous Surplus through the declaration of Mutual Bonus. The decision on whether to declare a Mutual Bonus in respect of a given year and, if so, the level and form of the bonus and which policies should receive it, will be determined by the Board. This will take into account:

- the performance of the LVFS Fund’s Trading Businesses;
- the LVFS Fund’s capital position;

- Smoothing profits and losses; and
- the contribution to the LVFS Fund made by various groups of policies within it (for example, the risks taken by them in supporting the establishment and growth of the LVFS Fund’s Trading Businesses).

For **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies the Mutual Bonus declared is expected to be zero at shorter policy durations after which consideration will be given to paying a Mutual Bonus.

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

8.1 Principles

8.1.1 The charges applied to **all unitised with-profits policies, accumulating with-profits policies** and **with-profits annuity policies** in the LVFS Fund will be the charges set out in the policy conditions, Key Features or similar document. This includes a fund-based charge applied to **accumulating with-profits Appropriate Personal Pension policies**.

8.1.2 **For conventional with-profits life and pension policies** in the LVFS Fund, the aim of the Society's approach to applying charges and apportioning expenses is to reasonably reflect the underlying experience of the LVFS Fund. In applying such charges and expenses different groups of policies and generations of members will be considered together and therefore cross-subsidies between individual members will occur.

8.1.3 The basis on which the Society applies charges to or apportions its actual expenses may be changed in the light of new information and changes in economic conditions.

8.2 Practices

8.2.1 Where the level of a charge is not guaranteed, it may be varied by the Society, subject to the requirement to treat its policyholders fairly.

8.2.2 The charges applied to the Asset Shares of **all unitised with-profits policies, accumulating with-profits policies** and **with-profits annuity policies** in the LVFS Fund are deducted in accordance with paragraph 2.2.6 and 8.1.1. Since 1 May 2017 a fund-based charge is applied to **accumulating with-profits Appropriate Personal Pension policies**, equal to the actual investment costs (including any asset allocation fees or any performance fee paid to the asset manager) allowing for VAT and other taxes.

8.2.3 The expenses applied to the Asset Shares of **conventional with-profits life and pension policies** are the apportioned actual expenses incurred in acquiring such policies, along with the apportioned actual expenses incurred in administering and paying claims on them and actual investment costs (including any asset allocation fees or any performance fee paid to the asset manager) allowing for Value Added Tax and other taxes. From 1 April 2018 apportioned actual expenses incurred for all **conventional with-profits pension policies** are totalled and then converted to an equivalent fund-based charge applied to the Asset Share of individual policies.

8.2.4 Paragraph 2.2.8 sets out details of how expenses are apportioned and when the inherited estate meets the expenses incurred.

8.2.5 The Society does not charge expenses to the LVFS Fund at an amount other than the costs it bears in carrying out its business.

8.2.6 The Society obtains a range of out-sourced services from independent suppliers. The more material 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.

8.2.7 The Society currently out-sources the investment management of the majority of the assets in the LVFS Fund to Columbia Threadneedle Investments under an arrangement scheduled to run until 2018. Certain specialised assets such as commercial real estate loans are outsourced to other third parties, though these are not used in the mix of assets used for Asset Pools. The performance of the asset managers 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.

8.2.8 As a mutual, the Society has no shareholders. No judgement is therefore required in applying charges and apportioning expenses between the Society and shareholder owned funds, firms or service companies. Judgement is required in apportioning expenses between the LVFS Fund, the RNPFN Fund and the Teachers Assurance Fund, and between different types of policy.

9. The management of the inherited estate

9.1 Principles

9.1.1 The inherited estate means the excess of the value of the assets of the LVFS Fund over a realistic assessment of the liabilities and provides the working capital for the Society. The Board manages the 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 Society to meet its commitments to its members.

9.1.2 The inherited estate is primarily used for:

9.1.2.1 Providing statutory capital to meet reserving requirements, including:

- supporting the smoothing of benefits paid to with-profits members in the Fund,
- meeting reserving requirements in excess of a realistic assessment of the liabilities,
- providing capital support to cover the costs of meeting guarantees.

Charges applied to policies to cover the cost of guarantees remain within the Fund as part of the inherited estate;

9.1.2.2 Allowing investment freedom;

9.1.2.3 Providing working capital to cover any mismatch in timing between the receipt of charges applied to policies in the fund and the actual expenses incurred in the acquisition and maintenance of those policies;

9.1.2.4 Meeting any exceptional costs in managing the with-profits business in the Fund arising as a result of legislation, taxation or other circumstances which in the reasonable opinion of the Board should not be charged to with-profits policies because it would be unfair to do so; and

9.1.2.5 Financing new business, financing acquisitions, taking business risk and providing working capital for operational projects.

9.1.3 The Society monitors the ratio of the capital resources of the LVFS Fund to the level of capital it is required to hold against a range agreed by the Board.

9.1.4 The relative size of the inherited estate will influence the investment policy, smoothing, volume of new business that can be sold and the level of discretionary benefits. At a low level of the inherited estate, the Board may restrict the investment policy of the LVFS Fund, the smoothing of benefits to existing with-profits policyholders, level of discretionary benefits and the level of new business being written in the Fund. At a high level of the inherited estate, the Board may pursue a less restrictive investment policy, increase levels of discretionary benefits and (if possible) greater volumes of new business with the overall aim of improving policy values for a greater number of with-profits policyholders. The Board may also consider other actions to improve policy values if there is a high level of the estate.

9.1.5 There is no division of the inherited estate between any classes of business within the Fund.

9.1.6 There are currently no constraints on the Board's freedom to deal with the inherited estate of the LVFS Fund or any obligation on the Board to distribute the inherited estate to the current generation of members.

9.2 Practices

9.2.1 The Society's investment strategy for the inherited estate of the LVFS Fund takes account of the uses in section 9.1, including the investment in subsidiaries.

9.2.2 The Society does not have any current guidelines in place as to the size or scale of the inherited estate or as to how the firm would manage the inherited estate and over what time period if it became too large or too small.

9.2.3 At least once a year the Board determines (after receiving advice from the Life Chief Actuary and the With-Profits Actuary) whether there is a surplus within the LVFS Fund which exceeds the capital which the Society is required to hold and whether it is to retain that excess surplus as part of the inherited estate or to implement any other permitted arrangements to deal with excess surplus consistent with the Society's regulatory obligations to with-profits members in the Fund as a whole.

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

10.1 Principles

10.1.1 New business will only be accepted into the LVFS Fund if, in the opinion of the Board, the terms on which the business is effected are likely to have no adverse effect on the interests of the existing with-profits policyholders in the Fund nor threaten the ability of the Society to meet its commitments to its members. The volume of new business deemed acceptable will allow for the characteristics of the business written, including whether it is with-profits and/or non-profit business.

10.1.2 In the event of the LVFS Fund permanently ceasing to take on new business of any significant amount and not carrying out any other business activity, the Board would seek to distribute the inherited estate of the Fund in an equitable manner over the remaining lifetime of the with-profits policies in the Fund. If such an event occurred, all of the Practices and some of the Principles, including the approach taken to investment strategy and smoothing, may be changed.

10.2 Practices

10.2.1 The Board monitors at least annually the current and projected financial strength of the LVFS Fund and uses this to determine the volume of new business and any particular limits on classes of business, including non-profit business, accepted into the Fund.

10.2.2 The Society does not currently set a minimum proportion or scale of new business of a with-profits type to justify the Fund staying open to new business.

11. Equity between the LVFS Fund and any shareholders

11.1 Principles

11.1.1 The Society is a mutual with no shareholders and therefore all distributed profit in the LVFS Fund is available for all its members in accordance with its rules.

11.1.2 No changes to the profit sharing arrangements are envisaged.

11.2 Practices

11.2.1 The Practices are in line with the Principles in section 11.1.

12. 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 with-profits members and other interested parties to understand the way in which the with-profits business in the LVFS Fund is conducted and the material risks and rewards involved in effecting or maintaining a with-profits policy in the LVFS Fund. It is not a comprehensive explanation either of the management of the with-profits business of the LVFS Fund 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 in the LVFS Fund 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 notice of any material change to the Principles in this document to affected with-profits members at least three months in advance. Changes to the Practices may be made without notice, in which case the Society will inform affected with-profits members of any material changes 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 LVFS Fund is conducted and the material risks and rewards involved in effecting and maintaining a with-profits policy in the LVFS Fund. 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 the with-profits business in the LVFS Fund. 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 with-profits 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 paragraph 2.2.1.

Governance Arrangements

Changes to the PPFM are subject to the approval of the Board. Independent advice in assessing compliance with the PPFM and addressing conflicting rights and interests of with-profits policyholders is provided by the With-Profits Committee. The With-Profits Committee is a sub-committee of the Board. The membership currently comprises three members who are independent of the LV Group (one of whom is the Chairman) and one non-executive director. Advice is also provided by the With-Profits Actuary.

Appendix 1 Glossary

The "Board"

The Board of Directors of Liverpool Victoria Friendly Society Limited.

The "Society"

Liverpool Victoria Friendly Society Limited.

Accumulating With-Profits Policy

These are a type of with-profits policy which have an 'accumulation account' which is a fund that increases as premiums are paid, regular bonuses are added and decreases as any charges are taken. The accumulation account for **Appropriate Personal Pension policies** may be increased with a final bonus when it is paid out. The accumulation account for **Flexible Whole Life policies** may be reduced by a Market Value Reduction when it is paid out.

Annual Bonus

An annual distribution of surplus which is guaranteed at the maturity date of the policy (or at a specified encashment date) and/or on death provided certain conditions are met. It is also known as **regular bonus**, **reversionary bonus** or **declared bonus**.

For **conventional with-profits life and pension policies** the rate of annual bonus declared is multiplied by the original guaranteed benefits (or the reduced original guaranteed benefits if premiums have ceased early) which is then added to the current guaranteed benefits.

For **accumulating with-profits life policies** the rate of annual bonus declared gradually increases the value of the accumulation account over the year.

For **first generation with-profits unitised policies** the rate of annual bonus declared gradually increases the unit price over the year.

For **With Profits Pension Annuity policies** the rate of annual bonus declared increases the current basic annuity.

Asset Share

The accumulation, at investment rates of return, of premiums paid less charges for expenses incurred, taxation, the cost of benefits provided and any charges for the cost of guarantees or the use of capital. Discretionary additions for Miscellaneous Surplus (including Mutual Bonus) may also be included.

Asset Pool

The assets underlying asset shares.

Conventional With-Profits Policy

An older-style with-profits policy which guarantees a minimum investment return as long as premiums are maintained. The guarantee can be reduced if premiums cease or the policy is cashed in.

Declared Investment Return

The rate used to recalculate the income paid on a Pension Income Plus Annuity policy at a policy anniversary.

Final Bonus

An addition made to the guaranteed benefits of a **conventional with-profits life and pension policy** (or the unit value of a **first generation unitised with-profits policy,** or the accumulation account of an **accumulating with-profits Appropriate Personal Pension policy**) to achieve a fair level of payout when a claim arises. It is not guaranteed and may change at any time. It is also known as **Terminal Bonus**.

Interim Bonus

A bonus that may be added on the encashment of a conventional with-profits policy to allow for part or all of an annual bonus that has been earned by the policy but not yet added to it. The rate declared is multiplied by the original guaranteed benefits (or the reduced original guaranteed benefits if premiums have ceased early) and then added to the current guaranteed benefits.

Life Chief Actuary

The Life Chief Actuary is a regulatory role with the responsibility for advising the Board in relation to the Society's ability to meet the liabilities to policyholders for its life business.

Market Value Reduction (MVR)

A reduction to the unit value of a **first generation unitised with-profits policy** (or to the accumulation account for an **accumulating with-profits Flexible Whole Life policy**) that may be made if the policyholder takes money out of the LVFS Fund. It 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. The equivalent of an MVR for the **second generation unitised with-profits policies** is the reduction made in accordance with paragraph 5.2.2.

Miscellaneous Surplus

A discretionary addition to Asset Share made by the Society to an eligible policy from amounts not generated by the policy itself (such as profits arising from business risks). It is not guaranteed.

Mutual Bonus

A discretionary addition to Asset Share made by the Society from 2011 to allocate profits from business risks arising in its Trading Businesses to eligible policies. It is not guaranteed. For **second generation unitised with-profits policies** and **Pension Income Plus Annuity** policies it is added explicitly to relevant policy payouts. For accumulating with-profits **Flexible Whole Life policies** it is added as an increase to the accumulation account. For all other **with-profits policies** it is added by increasing any final bonus or top-up bonus (or reducing any Market Value Reduction) that otherwise would be paid, except for transfer and surrender benefits on conventional with-profits pension policies where it is included in the Asset Share calculated in accordance with paragraph 2.2.14.

Non-profit policy

A life or pensions policy with fixed benefits, or benefits that change in a fixed manner with no contractual bonuses applied, or a unit-linked 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 no contractual bonuses applied.

Policyholder

The owner of any policy insured by Liverpool Victoria Friendly Society Limited. These include the with-profits policies covered by this document, and other with-profits and non-profit policies insured by the Society. For the purposes of this document, it does not refer to an owner of a policy insured by any subsidiary of the Society.

Solvency Capital Requirement

This is the amount of capital required to be held by insurance companies and Friendly Societies under Solvency II regulation as a buffer against adverse experience.

Subordinated Debt

A type of capital raised by the Society from external investors.

Top-up Bonus

An addition made to the basic annuity payable under With-Profits Pension Annuity policies. It is not guaranteed and may change at any time.

Trading Business

That part of the LVFS Fund that is actively selling new life insurance business, along with its holding in a General Insurance Business.

Unitised With-Profits Policy

A type of with-profits 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. For **first generation** policies this value may be increased by the addition of a final bonus, or reduced by the application of a Market Value Reduction when a claim arises.

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 independent advice in assessing compliance with the PPFM and addressing conflicting rights and interests of with-profits policyholders.

Appendix 2 Product types covered by this document

This Appendix provides a list of all the with-profits policy product types covered by this document. All policies were originally written by the Society except for historic Industrial Branch business acquired from other Friendly Societies within the product types indicated by an asterisk.

Conventional with-profits life policies

Generic policy types are used for this category as there are a large number of product names and rate series.

Industrial Branch:

- Tax-exempt whole-of-life *
- Tax-exempt whole-of-life with regular cash payments *
- Taxable whole-of-life
- Taxable whole-of-life with regular cash payments
- Tax-exempt endowment
- Taxable endowment

Ordinary Branch:

- Tax-exempt whole-of-life
- Taxable whole-of-life
- Tax-exempt endowment
- Taxable endowment
- Low cost endowment

Conventional with-profits pension policies (deferred and in-payment annuities)

- Retirement Account Contract *aka* Ordinary Branch Pension-Annuity
- Personal Pension Policy (two rate series)
- Free-Standing Additional Voluntary Contribution Policy (two rate series)

First generation unitised with-profits policies

Bonds:

- Flexible Investment Bond
- Mutual Investment Bond (two versions)
- With Profits Investment Bond (two versions)
- With Profits Growth Bond (two versions)
- With Profits Income Bond
- Bank of Ireland/Liverpool Victoria Group With Profits Bond

Other policy types:

- Tax Free Savings Plan
- Regular Savings Plan
- Mortgage Savings Plan (two versions)
- Flexible Savings Plan (two versions)
- MAX
- Family and Legacy Fund
- With Profits Life ISA

- Top-up Company Pension Plan
- Flexible Personal Pension Plan
- With Profits Retirement Plan

Second generation unitised with-profits policies

- All-in-1 Investment Bond
- Guaranteed Capital Bond
- Flexible Guarantee Bond (series 1-3)
- Flexi Guarantee Plan
- Flexible Guarantee Funds *aka* Flexible Guarantee Trustee Investment Plan (series 1-2)

Accumulating with-profits policies

- Appropriate Personal Pension policy
- Flexible Whole Life policy *aka* Flexible Whole Life Assurance policy

With-profits annuity policies

- With Profits Pension Annuity (series 1-4)
- Pension Income Plus Annuity

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

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