Liverpool Victoria Financial Services Limited Main Fund ('LVFS Fund')

Principles and Practices of Financial Management (PPFM)

Version 41

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1. Introduction

1.1 Company information

Liverpool Victoria Financial Services Limited ("LVFS") was formed upon the conversion of Liverpool Victoria Friendly Society Limited into a company limited by guarantee on 2 January 2020 following a vote by its members. Its predecessor was originally founded in 1843 as a burial society. As a mutual organisation LVFS has no shareholders, instead being owned by its members.

LVFS is incorporated under the provisions of the Companies Act 2006 and is bound by its Articles of Association.

It is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA.

In this document where LVFS is used in a context that predates conversion, the reference is to Liverpool Victoria Friendly Society Limited.

The structure of LVFS is as follows:

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

1.2 Purpose of this document

As required by the FCA, this document sets out how the with-profits business within the LVFS Fund is managed and, in particular, how discretion is to be exercised. It is known as the Principles and Practices of Financial Management ("PPFM").

It excludes the RNPFN Fund and the Teachers Assurance Fund which are subject to their own PPFMs.

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

1.3 Policies covered by this document

This document covers the with-profits policies invested in the LVFS Fund. A list of the types of policy covered is provided in Appendix 2 which comprise the following broad types:

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

1.4 The Principles

The Principles are enduring statements of the standards LVFS follows when managing the with-profits business within the LVFS Fund. These Principles cover duties to the with-profits policyholders in the LVFS Fund 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 of LVFS's other policyholders.

The Principles are not expected to change often. However, there are no restrictions on LVFS's ability to change them, where appropriate, subject to satisfying the relevant regulatory requirements, including notifying affected policyholders as stated in paragraph 1.7.

1.5 The Practices

The Practices describe how LVFS intends to follow the Principles in the day-to-day management of the LVFS Fund. They are more detailed descriptions of how LVFS responds to short-term changes to the business and economic environment when managing the with-profits business within the LVFS Fund. The Practices may be changed from time to time and the information in this document only reflects current practice. There are no restrictions on LVFS's ability to change the Practices, beyond any requirements set out in regulations.

1.6 Monitoring compliance and governance

The Board of Directors of LVFS ("the Board") produces an annual report to with-profits policyholders (available on the LVFS website or on request) on LVFS's compliance with this PPFM. It is the responsibility of the Board to ensure that LVFS manages the with-profits business within the LVFS Fund in accordance with the Principles and Practices set out in this document.

A With-Profits Actuary has been appointed to advise management and the Board on its exercise of discretion in managing the with-profits business within the LVFS Fund. A report from the With-Profits Actuary to with-profits policyholders is included within the Board's annual report.

LVFS also has a With-Profits Committee to consider the rights, interests and reasonable expectations of the with-profits policyholders in the LVFS Fund in their capacity as policyholders, members and customers of LVFS, and exercise independent judgement in advising the Board on the achievement of the fair treatment of those with-profits policyholders. This includes advising on material issues in the exercise of discretion and 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. The membership currently comprises three members (including the Chair) who are independent of the LVFS Group and two non-executive directors from the Board.

1.7 Changes to the PPFM

This PPFM will be reviewed at least annually to ensure that it continues to correctly reflect the Principles and Practices that are applied in managing the with-profits business within the LVFS Fund.

Any proposed changes to this PPFM 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 published.

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 changes.

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

1.8 Customer-friendly PPFM

Separate customer-friendly versions of the PPFM ("CFPPFMs") published as "Your guide to how we manage our with-profits business" for different product groups are available on the LVFS 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 Disclaimers

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

2. The methods used to determine the appropriate amount payable to individual with-profits policyholders

2.1 Principles

2.1.1 As a minimum, LVFS will pay the guaranteed benefits under each contract. The Board aims to treat all groups of policyholders 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 in determining the amount payable to with-profits policyholders in the LVFS Fund is to pay them a fair return on their investment on claim payouts, subject to a minimum of any guaranteed benefits. The exceptions to this are, on death claims on certain policy types, where the amount payable is set in accordance with policy conditions and policyholder expectations generated by LVFS' established practice.

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 calculations based on sample policies. Any material changes to the current methods used will be approved by the Board.

2.1.4 The Board might change the historical assumptions or parameters relevant to the methods used if a) it can be clearly demonstrated that incorrect assumptions and parameters have been used or b) to satisfy paragraphs 2.1.1 and 2.1.2.

2.2 Practices

2.2.1 For **conventional, accumulating** and **first generation unitised with-profits policies** and **with-profits annuity policies** (except for the payouts for policies detailed in paragraph 2.2.9), LVFS uses Asset Shares to guide the determination of the amount payable to with-profits policyholders in the LVFS Fund, where relevant, on maturity, surrender, death claims or as part of regular annuity payments. "Asset Share" means broadly, in relation to a with-profits policy, the accumulation, at rates of return achieved on investments, of premiums paid less charges for expenses incurred, and less, where relevant, taxation, the cost of any benefits provided, any charges for the cost of guarantees or the use of capital, regular annuity payments, and allowing for partial payouts. The Asset Share may also be increased or reduced in the circumstances described in paragraph 2.2.15. Notable features, where they exist, for particular policy types are referenced in paragraphs 2.2.4 to 2.2.8. The assumptions and parameters used in the calculation of Asset Shares are described in paragraphs 2.2.11 to 2.2.16.

For **second generation unitised with-profits policies**, policy conditions require Asset Shares which are subject to the smoothing described in section 5 to be used to directly determine the benefits payable (except in defined situations) hence Asset Shares are not considered to be used as a guide to determining the benefits payable. Further information is provided in paragraph 2.2.19.

For **third generation unitised with-profits policies**, the benefits payable to policyholders are determined by the number and value of units allocated to the policy under the policy conditions and LVFS does not use Asset Shares as a guide to determining the benefits payable. As a result, the practices in this section specifically relating to Asset Shares are not applicable to **third generation unitised with-profits policies**. A summary of certain aspects of the operation of these policies is included in paragraph 2.2.28.

For **with-profits fixed term annuity policies** the main benefits payable to the policyholder are detailed under the contract. As a result, the practices specifically relating to Asset Shares in this section, section 6 and section 8, together with all of sections 3, 4 and 5, are not applicable for these policies. A summary of certain aspects of the operation of these policies is included in paragraph 2.2.29.

2.2.2 The Board may use its discretion to increase the Asset Shares (or the units of **third generation unitised with-profits policies** or the final benefit payable under the contract for **with-profits fixed term annuity policies**) of eligible with-profits policies by allocating Miscellaneous Surplus (such as distributions of the inherited estate of the LVFS Fund from profits arising from business risks which from 2011 are distributed by way of Mutual Bonus or One-off Bonus, as described in section 9.2).

2.2.3 Allocations made as Mutual Bonus or One-off Bonus may be reduced, removed or reinstated as described in paragraph 9.2.24. In addition, where permitted under policy conditions, in exceptional adverse circumstances (for example, in order to ensure the fair treatment of all policyholders in the LVFS Fund) deductions or charges can be made to Asset Shares (which includes Miscellaneous Surplus allocations made before 2011).

2.2.4 For all **Industrial Branch conventional whole-of-life policies**, surrender values from 21 February 2024 are set by reference to representative granular sample policy Asset Shares which start from a value at 1 January 2010 consistent with the surrender payout basis used immediately prior to that date, and then accumulated in accordance with paragraphs 2.2.1-2.2.3 (allowing for any smoothing in accordance with section 5). Proxy expense assumptions were used in the accumulation between 2010 to 2021 in order to provide a fair value. Payouts on death claims are detailed in paragraph 2.2.8.

2.2.5 For **conventional with-profits pension policies** at vesting, final bonus rates are derived from the Asset Share (allowing for any smoothing in accordance with section 5) and guaranteed annuity benefits of sample premium-paying policies for each curtate duration in-force, chosen so as to be representative of the policies expected to vest during the period in question. The value of the guaranteed annuity benefits is in excess of the Asset Share so final bonus rates at vesting are currently zero. Given this situation, no Asset Share is currently calculated after the annuity benefits are in payment. Payouts on death claims are detailed in paragraph 2.2.8. The calculation of lump sum benefits payable on transfer or surrender are detailed in paragraph 2.2.18.

2.2.6 For all **Ordinary Branch conventional whole-of-life policies**, from 1 August 2024 Asset Shares are calculated for individual policies starting from a value at 1 January 2010 derived from the surrender payout basis used immediately prior to that date (adjusted to provide a fair value), and then accumulated in accordance with paragraphs 2.2.1-2.2.3. Proxy expense assumptions were used in the accumulation between 2010 to 2022 in order to provide a fair value.

2.2.7 For all **Industrial Branch and Ordinary Branch conventional endowment policies**, from 1 March 2025 Asset Shares are calculated for individual policies starting from a value at 1 October 2024 derived from the surrender payout basis used immediately prior to that date (adjusted to provide a fair value), and then accumulated in accordance with paragraphs 2.2.1-2.2.3.

2.2.8 Top-up bonus rates for **With Profits Pension Annuity** and declared investment returns for **Pension Income Plus Annuity** policies are set so as to pay out the Asset Share over the expected lifetime of sample policies, subject to smoothing as referred to in section 5 and, as such, impact the annuity benefits payable. Sample policies are used for each product series with top-up bonus rates and declared investment returns determined as often as required under paragraphs 4.2.9 and 4.2.10.

2.2.9 Death benefits for the following policy types are calculated in accordance with policy conditions and policyholder expectations generated by LVFS' established practice rather than using Asset Share to set them:

- **Industrial Branch and Ordinary Branch conventional whole-of-life and Industrial Branch and Ordinary Branch conventional endowment policies**, where the death benefit is determined by uplifting the surrender value by a 'cash-in' factor and, if premium-paying, 'premium paying' factor so that it is set at or above the surrender value. The 'cash-in' factors decrease with age and are set to 1.0 for ages 100 and above for whole-of-life policies (or an assumed maturity age for endowment policies), so the surrender value and death benefit are equal at these ages. The 'premium paying' factors decrease with premium paying term and are set to 1.0 when premiums cease (either early or contractually). The factors were designed with the objective of the death benefit being supportable up to age 100 for whole-of-life policies (or an assumed maturity age for endowment policies) allowing for future premiums payable on the policy and based on assumptions as to future investment returns, expenses and mortality at the time they were set. The factors are expected to remain stable over time; however, they may change if expectations around those assumptions used to set them change materially.

  For a 12-month period starting from when premiums cease early, payouts are calculated assuming that premiums are maintained in full less a deduction for missed premiums.

  The death benefit is subject to a minimum of the guaranteed death benefit.

- **conventional with-profits pension policies**, where the payout on death is a return of the premiums paid.

2.2.10 Expenses are charged to the LVFS Fund in accordance with section 8.

2.2.11 For **unitised and accumulating with-profits policies** and **with-profits annuities**, the charges taken directly from Asset Shares (or units for **third generation unitised with-profits policies**) for expenses are those set out in paragraph 8.2.2. The charges for the cost of benefits are determined in accordance with paragraphs 2.2.15 and 2.2.16. For **conventional with-profits life and pension policies**, the charges made directly to Asset Shares for expense deductions are those set out in paragraph 8.2.3. The charges for the cost of benefits are in accordance with paragraphs 2.2.15 and 2.2.16.

2.2.12 The investment return allocated to particular Asset Shares of policies in the LVFS Fund is the investment return on the assets (the "Asset Pool") underlying those Asset Shares, net of the expenses detailed in paragraph 8.2.5 and adjusted for tax where appropriate. LVFS currently includes **all conventional**, **accumulating** and **first generation unitised with-profits policies** (except **With Profits Income Bonds**), and **with-profits annuity policies** in the same Asset Pool (the "Main Asset Pool"). **With Profits Income Bonds** have their own Asset Pool. For **second generation unitised with-profits 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, and are estimated when not yet available, with a true-up to the actual values performed when they are known.

2.2.13 In Asset Share calculations, where relevant, LVFS allows for tax on investment income and capital gains, and tax losses or tax relief on expenses, using rates of tax appropriate to the type of business. Any difference between the total tax charge allocated to the LVFS Fund and the sum of the amounts within the individual Asset Share calculations is credited to or borne by the inherited estate of the LVFS Fund.

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

2.2.15 For **conventional with-profits pension policies** before vesting, when the death benefit payable is lower (or higher) than the Asset Share an appropriate increase (or charge) is made to the Asset Share of surviving policies. For **with-profits annuity policies**, an appropriate increase or decrease is made to the Asset Share of surviving policies used in the calculations referred to in paragraph 2.2.8. This takes into account LVFS's own and industry mortality experience and how they might change in future and is currently assessed and applied by product series. Charges for benefits provided for other policy types such as in relation to mortality and morbidity risks are made to Asset Shares by deduction of appropriate amounts from Asset Shares, where relevant.

2.2.16 LVFS makes explicit charges to Asset Shares for the cost of policyholder selected 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 **unitised with-profits policies**, **accumulating with-profits policies** and **with-profits annuity policies**.

2.2.17 Some **conventional with-profits life and pension policies** contractually became non-profit or were treated as non-profit (or received no further annual bonuses) by LVFS 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 Board exercised its discretion by deciding to recommence adding annual bonuses to all these policies (though not retrospectively for the period from the time premiums ceased being paid to 2000), and deciding all such policies could have a final bonus on claim. For the purposes of this PPFM, all these policies are treated as with-profits policies.

2.2.18 This practice includes the current discretionary methods used for **conventional with-profits pension policies** to recalculate guaranteed annuity benefits if the retirement date is changed or if premiums cease early, and the calculation of lump sum benefits payable on transfer or surrender.

2.2.18.1 For all **conventional with-profits Personal Pension policies taken out after 1 January 1995**, the current methods are as follows:

a) Recalculation of guaranteed annuity benefits

- The guaranteed annuity benefit to apply at a new selected retirement date is recalculated using the premium rate basis used to calculate the guaranteed benefits when the policy started, with the same annual bonus rates added. If regular premiums have already ceased early, then this benefit will be reduced using the method that applied at the time the premiums ceased, or a reasonable proxy of that method.
- If regular premiums cease early, the current method used to recalculate the guaranteed annuity benefit is to multiply the current benefit by a factor which is the total premiums actually paid divided by the total premiums that were expected to be paid over the full term of the policy.

b) Calculation of the lump sum benefits payable on transfer or surrender

This is the greater of the Underpin and the Asset Share, where:

- The Underpin is:
  - If benefits are taken from age 55 (or on ill-health retirement before age 55): the discounted value of the guaranteed annuity benefits payable at the date of taking the lump sum benefit.
  - If benefits are taken from age 50 but below age 55 (except on ill-health retirement):

    (55-Age)/5 x Asset Share + (Age-50)/5 x the discounted value of the guaranteed annuity benefit payable at age 55.
  - If benefits are taken before age 50 (except on ill-heath retirement): zero i.e. no underpin applies.
- The Asset Share is calculated in accordance with section 2 on a monthly basis, subject to smoothing as referred to in section 5, 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.
- 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.

2.2.18.2 For all **conventional with-profits pension policies excluding Personal Pension policies taken out after 1 January 1995**, if benefits are taken on or before the Reference SRD, the current methods used are the same as those detailed in paragraph 2.2.18.1 a) and 2.2.18.1 b). The date **Reference SRD** is defined as the later of the selected retirement date held for the policy by LVFS on 31 October 2025, and 31 October 2025.

2.2.18.3 For all **conventional with-profits pension policies excluding Personal Pension policies taken out after 1 January 1995**, if benefits are taken after the Reference SRD, the current methods used from 1 November 2025 are set out below. The intended outcome is to preserve the value of the guaranteed annuity benefit or the Underpin that would have been payable at the Reference SRD.

a) Recalculation of guaranteed annuity benefits

- The guaranteed annuity benefit payable at the Reference SRD (calculated using the same method as that detailed in paragraph 2.2.18.1 a)) is multiplied by an annuity factor calculated using current investment returns, current mortality assumptions and the age at the Reference SRD.
- This value is accumulated to allow for the revised retirement age and premiums paid, current investment returns, current mortality assumptions and charges for expenses over the period between the Reference SRD and the revised selected retirement date.
- The accumulated value is divided by an annuity factor (calculated using current investment returns, current mortality assumptions and the age at the new retirement date) to give the guaranteed annuity benefit at the revised selected retirement date.
- If a change to the retirement date to be later than the Reference SRD has been made and then, following this change, premiums cease early, the guaranteed annuity benefit is calculated in a consistent manner, allowing for unpaid premiums.
- If there are further changes to the retirement date made, they are also calculated in a consistent manner, though if the change is to a retirement date before or on the Reference SRD the method set out in paragraph 2.2.18.1 a) applies.

The following assumptions are used:

- The current investment returns are the current risk-free swap rates earned at an appropriate fixed term. Where past investment returns are also required, these are the Bank of England base rates.
- The current mortality assumptions used are consistent with those used in paragraph 2.2.15.
- Charges for expenses are implicitly allowed for in the calculation of the guaranteed annuity benefit.

b) Calculation of the lump sum benefits payable on transfer or surrender

This is the greater of the Underpin and the Asset Share, where:

- The Underpin at the Reference SRD calculated using the method set out in paragraph 2.2.18.1 b) is accumulated from this date to the date the benefit is calculated allowing for premiums actually paid, current investment returns, current mortality assumptions and charges for expenses.
- The Asset Share is calculated in accordance with section 2 on a monthly basis, subject to smoothing as referred to in section 5, 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.

The following assumptions are used in the accumulation of the Underpin:

- The current investment returns are the Bank of England base rates.
- The current mortality assumptions used are consistent with those used in paragraph 2.2.15.
- The charges for expenses used for **conventional with-profits pension policies** are as stated in paragraphs 8.2.3 and 8.2.4.

2.2.18.4 LVFS reserves the right to amend these discretionary methods. At approximately annual intervals the Board reviews whether the Underpin used in the calculation of lump sum benefits on transfer or surrender 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 of the guaranteed annuity benefits used in 2.2.18.1 b).

2.2.19 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. 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, LVFS may delay switching units (over and above the default 10-working day waiting period), or otherwise deducting units in accordance with the policy conditions of these products.

2.2.20 For payouts on **conventional, accumulating** and **first generation unitised with-profits policies** and **with-profits annuity policies** (except for where Asset Shares are not used to set payouts as detailed in paragraph 2.2.9), LVFS sets the smoothing approaches it uses (as detailed in paragraph 5.2.3) with the long term aim of making total aggregate payouts of 100% of Asset Share.

2.2.21 Where, as defined in paragraph 2.2.1, LVFS uses Asset Shares to guide the determination of the amount payable to with-profits policyholders in the LVFS Fund (except in the circumstances listed in 2.2.23), LVFS aims to make payouts on maturity, transfer, surrender or death for with-profits policies in the LVFS Fund that are within a range around the policy's Asset Share (known as the target range). The ranges used are:

- 85% to 115% for **conventional with-profits policies**
- 80% to 120% for **accumulating and first generation unitised with-profits policies**

The ranges are set taking into account the investment strategy and the way payouts are set (including the frequency of review and the smoothing approach). Asset Share for this purpose means the individual Asset Share of a policy where this is used to set payouts, except for **Industrial Branch conventional whole-of-life policies**, where the Asset Share used reflects the use of representative granular sample policies in setting payouts, as described in paragraph 2.2.4.

2.2.22 For the payouts where the target range applies, a payout above target range may occur if a guaranteed benefit is payable. For **conventional with-profits pension policies**, payouts may also occur above target range if the Underpin for lump sum benefits is paid in accordance with paragraph 2.2.18. LVFS 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.

2.2.23 Though Asset Share is used as a guide to the amount payable for the following payouts, no target range is set for:

- **with-profits annuities** and in-payment **conventional with-profits pension policies**, as there is no single payout that can be reasonably compared to a calculated asset share; and
- partial payments (also known as withdrawals) for **first generation unitised with-profits policies** (which are described under paragraph 4.2.7) as they reduce Asset Shares with the target range applying only on the final claim.

2.2.24 LVFS documents the methods, parameters and assumptions that it uses to determine the amount payable to with-profits policyholders in the LVFS Fund.

2.2.25 Any proposed material changes to the current methods, or to the current or historical parameters and assumptions relevant to a particular method, will be submitted to the Board for approval (after advice from the With-Profits Committee and the With-Profits Actuary), and included in the documentation referred to above.

2.2.26 Other than in respect of future Mutual Bonus and One-off Bonus declarations, LVFS manages the LVFS Fund so that the discretionary benefits under with-profits policies are calculated and paid disregarding any liability to make payments under the LVFS Group's Subordinated Debt.

2.2.27 For clarity, any profits or losses from payouts on maturity, transfer, surrender, death or as part of regular annuity payments for with-profits policies in the LVFS Fund are not reflected in Asset Shares, beyond any charge or credit made for the benefits provided under the policy. Instead, they accrue to the inherited estate of the LVFS Fund.

2.2.28 For **third generation unitised with-profits policies**, where we do not use Asset Shares as a guide to determining the benefits payable:

- The benefits payable are determined by the number and value of units attached to the policy, which are subsequently deducted at the point of claim (including in relation to any withdrawals);
- Units in the investment option selected by the policyholder are allocated to policies from premiums paid;
- Units are deducted from policies to pay direct charges, including any policyholder-selected guarantee charges;
- The units allocated to a policy may from time to time be switched to a different investment option chosen by the policyholder;
- The unit prices applicable on claims, switches, and unit allocation or deduction, are set out in the policy conditions (allowing for smoothing if applicable – see section 5);
- The investment return on the policy is determined by the progression of the price of units allocated to the policy, as determined from fund valuations of the relevant investment option under the policy conditions and net of the expenses detailed in paragraph 8.2.5. Where appropriate, taxation is allowed for in the prices of units determined from fund valuations;
- At the end of any guarantee term, if the guaranteed amount is higher than the surrender value of the policy, additional units are allocated to increase the surrender value to the guaranteed amount;
- LVFS may delay switching units (over and above the default 10-working day waiting period), or otherwise deducting units in accordance with the policy conditions;
- Mutual Bonus is allocated to the policy as additional units, which are kept separate from the other units allocated to the policy (see section 9);
- No annual or final bonuses are added.

2.2.29 For **with-profits fixed term annuity policies**, where we do not use Asset Shares as a guide to determining the benefits payable:

- The main benefits paid on maturity or death under the contract are guaranteed based on investment conditions at the point of sale, and reflect charges in respect of expenses;
- The main benefit paid on transfer reflects the investment conditions at that time of transfer, and also reflects charges in respect of expenses. Ending the policy and transferring the benefits is referred to as exercising the conversion option in the Plan Conditions;
- Mutual Bonus is allocated to the policy as a separate monetary amount at each declaration. It is kept separate from the main benefits of the policy and is paid with the final payment due under the contract (see section 9);
- No annual or final bonuses are added and no smoothing is applied to these policies.

3. The approach to setting annual bonus rates

3.1 Principles

3.1.1 The general aim in setting annual bonus rates for relevant with-profits policies in the LVFS Fund is to add such bonuses at a modest and stable level, such that this does not incur a material cost and does not materially impact the current and projected financial strength of the LVFS Fund.

3.1.2 Different annual bonus rates will be used to the extent deemed appropriate for different types of policies or for different generations within policy classes. A new annual bonus series will be introduced where it is deemed appropriate to do so.

3.1.3 The rates of annual bonus for with-profits policies in the LVFS Fund will be reviewed at least annually.

3.2 Practices

3.2.1 This section applies to all **conventional with-profits life and pension policies, With Profits Pension Annuity policies**, **accumulating with-profits Appropriate Personal Pension policies** and **first generation unitised with-profits policies**. The approach to setting the annual declared investment return for **Pension Income Plus Annuity** policies and the annual bonus rate for **accumulating with-profits Flexible Whole Life policies** is detailed under section 4. The design of **second and third generation unitised with-profits policies** and **with-profits fixed term annuity policies** means no annual bonuses are added for these policies.

3.2.2 When considering whether it may be appropriate to change annual bonus rates, LVFS primarily considers whether the Asset Share Cover for a material proportion of policies falls outside a broad range set by LVFS. As the range is broad, changes in annual bonus rates should be expected to be relatively infrequent. Asset Share Cover refers to the current and/or projected relative position of Asset Shares against:

- guaranteed benefits for **conventional with-profits life and pension policies** and **With Profits Pension Annuity policies**;
- the accumulation account for **accumulating with-profits Appropriate Personal Pension policies**; and
- the value of units for **first generation unitised with-profits policies**.

3.2.3 LVFS may change annual bonus rates for **accumulating with-profits Appropriate Personal Pension policies** and **first generation unitised with-profits policies** more frequently than annually if the considerations described in paragraph 3.2.2 indicate a change is appropriate.

3.2.4 LVFS has not set a maximum amount by which annual bonuses would alter if a change is made.

3.2.5 For **conventional with-profits policies**, LVFS increases guaranteed benefits for annual bonus declared in respect of a particular calendar year during the following calendar year. LVFS reviews its interim bonus rates for **conventional with-profits policies** at the same time it reviews its annual bonus rates for these policies using the same practices. LVFS reserves the right to change its interim bonus rate before the next declaration of annual bonus rates if the considerations described in paragraph 3.2.2 indicate that a change is appropriate.

3.2.6 Consideration would be given to introducing a new series of annual bonus rates if very material differences in Asset Share Cover arose that resulted in unfair treatment between policyholders or if a new product type was introduced.

4. The approach to setting final bonus rates and other bonus rates of a similar nature

4.1 Principles

4.1.1 Final bonus rates, other bonus rates of a similar nature, Market Value Reductions and surrender values for relevant with-profits policies in the LVFS Fund will be set at least annually. They will be set such that payouts on policies will, whenever possible, have regard to the amounts calculated under the methods referred to in section 2, subject to smoothing referred to in section 5. Account will also be taken of the current and projected financial strength of the LVFS Fund.

4.1.2 The decision whether or not to apply Market Value Reductions will take into account the expected cost of not applying a Market Value Reduction and 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**. It can also be added where an annuity is taken at vesting on **conventional with-profits pension policies**. LVFS's current approach to setting final bonus rates is such that the payout amount (which includes any Mutual Bonus and One-off Bonus) will broadly reflect the amounts calculated under the methods referred to in section 2, subject to smoothing referred to in section 5.

4.2.2 For **conventional with-profits whole-of-life policies:**

- For **Industrial Branch conventional whole-of-life policies**, LVFS expects to set payouts four times a year. The surrender value of an individual policy is based on the Asset Shares of appropriate granular sample policies as referred to in paragraph 2.2.4, allowing for the difference in premium size between the actual policy and sample policies, and subject to smoothing as referred to in section 5. For death claims, the final bonus rate for each individual policy is set to the level required to be applied to its guaranteed benefits to pay the death benefit set in accordance with paragraph 2.2.9 using appropriate representative granular sample policies as referred to in paragraph 2.2.4.
- For all **Ordinary Branch conventional whole-of-life policies**, LVFS expects to set payouts on a monthly basis. The surrender value of each individual policy is the Asset Share of the individual policy referred to in paragraph 2.2.6 subject to smoothing as referred to in section 5. For death claims, the final bonus rate for each individual policy is set to the level required to be applied to the guaranteed benefits to pay the death benefit for the policy set in accordance with paragraph 2.2.9.

4.2.3 For **conventional with-profits endowment policies**, LVFS expects to set payouts on a monthly basis. For maturity benefits, the final bonus rate for each individual policy is set to the level required to be applied to the guaranteed benefits to pay the Asset Share of the individual policy referred to in paragraph 2.2.7 subject to smoothing as referred to in section 5. The surrender value of each individual policy is the Asset Share of the individual policy referred to in paragraph 2.2.7 subject to smoothing as referred to in section 5. For death claims, the final bonus rate for each individual policy is set to the level required to be applied to the guaranteed benefits to pay the death benefit for the individual policy set in accordance with paragraph 2.2.9.

4.2.4 For **conventional with-profits pension policies**, LVFS 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, subject to smoothing referred to in section 5, indicate that a change is appropriate. If an annuity is taken at vesting, final bonus rates would be applied to the guaranteed annuity benefit in accordance with paragraph 4.2.1, though currently they are set to zero and are likely to remain so in the foreseeable 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 or surrender benefit as described in paragraph 2.2.18. By design of the basis used to calculate lump sum benefits payable on transfer or surrender (as detailed in paragraph 2.2.18), no final bonus rates are required.

4.2.5 For **first generation unitised with-profits policies**, final bonus rates are currently calculated weekly, however they can be calculated more frequently in exceptional circumstances. For individual **first generation unitised with-profits policies**, LVFS does not apply a Market Value Reduction (as described in paragraph 4.2.6) at the same time a final bonus applies and vice-versa. For **accumulating with-profits Appropriate Personal Pension policies**, final bonus rates are currently calculated monthly, however they can be calculated more frequently in exceptional circumstances.

4.2.6 For **first generation unitised with-profits policies**, if the payout amount (which includes any Mutual Bonus and One-off Bonus) calculated in accordance with this section 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**.

4.2.7 Partial payments (also known as withdrawals) under **first 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 final bonus or Market Value Reduction that is applicable to the partial payment calculated in accordance with this section. At the time of any partial payment, the value of that partial payment plus the residual surrender value will be equal to the total surrender value immediately prior to the partial payment.

4.2.8 The annual bonus rate for **accumulating with-profits Flexible Whole Life policies** is set with the aim of paying out the Asset Share (excluding any Mutual Bonus and One-off Bonus) as calculated in accordance with section 2 subject to smoothing referred to in section 5, with no final bonus applying. If the payout amount determined in accordance with this section is below the accumulation account for the policy, then a Market Value Reduction may be applied, if permitted under the terms of the policy document, so as to bring the accumulation account down to the amount payable. The current practice is not to apply a Market Value Reduction, should it be relevant. Any Mutual Bonus and One-off Bonus are added to the payout separately.

4.2.9 For **With Profits Pension Annuity** policies, a top-up bonus (which includes any Mutual Bonus and One-off Bonus) may be payable in accordance with paragraph 2.2.8 and subject to smoothing as referred to in section 5. Any top-up bonus will be applied as an increase to the basic annuity payable during the policy year. LVFS currently sets the top-up bonus rates once a year on the policy anniversary. The rates may vary by calendar year of entry.

4.2.10 Pension Income Plus Annuity policies receive an annual declared investment return payable in accordance with paragraph 2.2.8 and subject to smoothing as referred to in section 5. LVFS currently sets the declared investment return once a year on the policy anniversary for policies issued in 3-month tranches. The declared investment return is also taken into account when calculating any increase in the minimum level of income that is guaranteed, as detailed in policy conditions. Any Mutual Bonus and One-off Bonus are added to the payout separately.

4.2.11 The design of **second and third generation unitised with-profits policies** and **with-profits fixed term annuity policies** means no final bonuses are added for these policies. Any Mutual Bonus and One-off Bonus are added to the payout separately.

4.2.12 Partial payments (also known as withdrawals) under **second and third 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 suspension, reduction or removal of smoothing 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 surrender value will be equal to the total surrender value immediately prior to the partial payment. Any Mutual Bonus and One-off Bonus allocated to the policy is excluded from this calculation as it is only paid on final claim.

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

5.1 Principles

5.1.1 The aim of the LVFS Fund's smoothing policy is to protect with-profits policyholders in the LVFS Fund from temporary fluctuations in investment markets. For **second and third generation unitised with-profits policies**, the smoothing methodology is specified in the policy conditions. For **with-profits fixed term annuity policies**, the product design means no smoothing is applied for these policies. For all other **with-profits policies in the LVFS Fund** smoothing is not intended, over the long term, to be a material source of profit or loss.

5.1.2 Except where contractual, a similar approach to smoothing is normally adopted irrespective of the type of claim arising under the same type of with-profits policy in the LVFS Fund, although different approaches may apply to different types of with-profits policies.

5.1.3 The total scale or cost of smoothing in the LVFS Fund over the shorter term is not limited, except as is necessary to avoid undue losses to the Fund which may affect the ability of LVFS to meet its commitments to, and the expectations of, its policyholders and members.

5.2 Practices

5.2.1 For **conventional, accumulating and first generation unitised with-profits policies** (where the smoothing methodology is not specified in the policy conditions), LVFS does not set a period over which it expects smoothing to be neutral in the LVFS Fund. For **second and third generation unitised with-profits policies** (where the smoothing methodology is specified in the policy conditions) neutrality is not a consideration. In addition, LVFS does not set a limit for the overall accumulated profits or losses from smoothing under the with-profits policies in the LVFS Fund. However, accumulated profits and losses (allowing for any offsetting profits and losses derived from hedging the smoothing cost) may be monitored for consideration as a factor in any decision to remove, suspend or reduce smoothing. Any profits or losses from smoothing are credited to or borne by the inherited estate of the LVFS Fund.

5.2.2 Other than where policy conditions constrain its actions, LVFS has the right to remove, suspend or reduce smoothing on all with-profits policy payouts in exceptional circumstances. The decision to do so will take into account the historical and expected cost of maintaining smoothing (taking account of any hedging), the fair treatment of both the policyholders concerned and other policyholders and members in the LVFS Fund, and the current and projected financial strength of the LVFS Fund.

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

- For **Industrial Branch conventional with-profits whole-of-life policies**, from 1 January 2023, smoothing is normally applied by using the geometric average of the actual investment returns over the previous two years in the representative granular sample policy Asset Shares referred to in paragraph 2.2.4. When the geometric averaging was first applied, expected returns were used for the two years of returns prior to 1 January 2023. The approach was reflected in payouts from the 1 March 2023 declaration.
- For **Ordinary Branch conventional with-profits whole-of-life policies**, from 1 July 2023, smoothing is normally applied by using the geometric average of actual investment returns over the previous two years. When the geometric averaging was first applied, expected returns were used for the two years of returns prior to 1 July 2023. The approach was reflected in payouts from 1 December 2023.
- For **conventional with-profits endowment policies**, from 1 March 2025, smoothing is normally applied by using the geometric average of actual investment returns over the previous two years. When the geometric averaging was first applied, expected returns were used for the two years of returns prior to 1 March 2025. On 1 October 2024, the way payouts were set was altered with the benefits to policyholders of the previous smoothing approach at the re-set date being preserved.
- For **conventional with-profits pension policies**, from 1 April 2025 smoothing is normally applied by using the geometric average of actual investment returns over the previous two years. When the geometric averaging was first applied, expected returns were used for the two years of returns prior to 1 April 2025. The approach was reflected in payouts from 14 April 2025, with a check being performed to ensure an appropriate transition from the previous smoothing approach.
- For **first generation unitised and accumulating with-profits policies**, smoothing is normally applied by using by the geometric average of the actual investment returns over the previous two years. LVFS 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 to ensure ongoing fairness to policyholders.
- For **second generation unitised with-profits policies**, the smoothing approach is in accordance with policy conditions, which are described and applied as follows:

  LVFS smooths the investment return by using a unit price (known as the 'Averaged Price'), calculated as the arithmetic average over the previous 26 weeks of the unit price calculated using the actual investment return (known as the 'Underlying Price').

  When policyholders invest or switch into an Asset Pool, units are invested at the Underlying Price. During the first 26 weeks after this, payouts on all claims* are calculated using the Underlying Price.

  After 26 weeks, for death and terminal illness claims, the Averaged Price is always used to calculate payouts.

  After 26 weeks, for surrenders* and withdrawal claims, the Averaged Price is normally used to calculate payouts. However:

  - If the Underlying Price is 80% or less of the Averaged Price, then the Underlying Price is used to calculate payouts from this point. Payouts will revert to using the Averaged Price only when the Underlying Price has returned to the same level as the Averaged Price.
  - For **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies only, LVFS also has the right to calculate payouts using the Underlying Price in other exceptional circumstances. For example, if it is considered necessary in the best interests of LVFS with-profits policyholders generally. Payouts will revert back to the Averaged Price when LVFS considers it appropriate and fair.

* A switch out of an Asset Pool after 26 weeks is treated as a surrender claim.

- For **third generation unitised with-profits policies**, the smoothing approach is in accordance with policy conditions, which are described and applied as follows:

  For all policies except for **LV= ISA**

  LVFS smooths the investment return in accordance with the policy conditions by calculating three unit prices:

  - a unit price reflecting the actual price of units determined from each fund valuation (known as the Underlying Price),
  - a unit price (known as the Gradual Averaged Price), calculated as a lengthening average of the daily Underlying Price, for up to a 26 week period following the date of premium allocation (or fund switch), and
  - a unit price (known as the Averaged Price), calculated as the arithmetic average over the previous 26 weeks of the daily Underlying Price.

  When policyholders invest, or switch into an investment option, units are allocated at the Underlying Price.

  In the first 26 weeks following investment or switching, payouts on all claims are calculated using the Underlying Price on day 1 and the Gradual Averaged Price from day 2.

  After 26 weeks the Averaged Price is always used to calculate payouts for death and terminal illness claims and is normally used to calculate payouts for surrenders* and withdrawal claims.

  However, smoothing on surrender* and withdrawal claims can be suspended (or reduced) at LVFS' discretion. This means that such payouts would be determined using a price different to those normally used, as described above (the Gradual Averaged Price in the first 26 weeks, and the Averaged Price thereafter).

  Suspension of smoothing would only be considered if either the Underlying Price is 80% or less of the Averaged Price, or in exceptional conditions. These exceptional conditions would be primarily if the cost of smoothing becomes higher than the Board feels it is reasonable to bear and suspension is considered prudent and necessary in the best interests of LVFS with-profits policyholders generally.

  If smoothing is suspended, payouts on surrender* and withdrawal will typically switch to use the Underlying Price until smoothing is reintroduced.

  As an alternative, at LVFS' discretion, payouts on surrender* and withdrawal may switch to using a daily Gradual Averaged Price with an appropriate averaging period of up to 26 weeks, instead of switching to the Underlying Price. For example, payouts might switch to be based on the Gradual Averaged Price methodology using an averaging period of say 13 weeks if it were believed that this would be fairer to the policyholders concerned and LVFS with-profits policyholders generally.

  If payouts on surrender* and withdrawal are switched to using a daily Gradual Averaged Price with a shorter averaging period, the averaging period will typically then increase daily up to 26 weeks. However, the averaging period may be maintained at a period below 26 weeks before increasing in this way. In this scenario, payouts on surrender* and withdrawal may switch again to using the Underlying Price in exceptional conditions.

  Payouts on surrender* and withdrawal will revert back to the Averaged Price when appropriate and fair to the policyholders concerned after the price being used to value units (either the Underlying Price or Gradual Averaged Price) recovers to equal or exceed the Averaged Price. Payouts may alternatively, at LVFS' discretion, revert back to the Averaged Price at an earlier point.

* A switch out of an investment option after 26 weeks is treated as a surrender claim.

  For the **LV= ISA**

  LVFS smooths the investment return in accordance with the policy conditions by calculating two unit prices:

  - a unit price reflecting the actual price of units determined from each fund valuation (known as the Underlying Price) for up to a 26 week period following the date of premium allocation (or fund switch), and
  - a unit price (known as the Averaged Price), calculated as the arithmetic average over the previous 26 weeks of the daily Underlying Price.

  When policyholders invest, or switch investment option, units are allocated at the Underlying Price.

  In the first 26 weeks following investment or switching, payouts on all claims are calculated using the Underlying Price.

  After 26 weeks the Averaged Price is always used to calculate payouts for death claims and is normally used to calculate payouts for surrenders* and withdrawal claims.

  However, smoothing on surrender* and withdrawal claims can be suspended at LVFS' discretion. This means that such payouts would be determined using the Underlying Price to calculate payouts from this point.

  Suspension of smoothing would only be considered if either the Underlying Price is 80% or less of the Averaged Price, or in exceptional conditions. These exceptional conditions would be primarily if the cost of smoothing becomes higher than the Board feels it is reasonable to bear and suspension is considered prudent and necessary in the best interests of LVFS with-profits policyholders generally.

  If smoothing is suspended, payouts on surrender* and withdrawal will switch to use the Underlying Price until smoothing is reintroduced.

  Payouts on surrender* and withdrawal will revert back to the Averaged Price when it is considered appropriate and fair to the policyholders concerned after the Underlying Price recovers to equal or exceed the Averaged Price. Payouts may alternatively, at LVFS' discretion, revert back to the Averaged Price at an earlier point.

* A switch out of an investment option after 26 weeks is treated as a surrender claim.

- For **With Profits Pension Annuity (Series 1)** policies, smoothing is normally applied by using the geometric average of the actual investment returns over the previous five and two years, using the smoothing period that provides the higher annuity amount.
- For **With Profits Pension Annuity (Series 2 to 4)** policies, smoothing is normally applied by using the geometric average of the actual investment returns over the previous two years.
- For **Pension Income Plus Annuity** policies, from 1 July 2023, smoothing is normally applied by using the geometric average of the actual investment returns over the previous two years. When the geometric averaging was first applied, expected returns used for the two years of returns prior to 1 July 2023 were set to ensure the introduction of this revised approach results in minimal smoothing profit or losses over time. The approach was reflected in annuity payments from the 1 August 2023 declaration.

5.2.4 LVFS normally 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 subject to the distinctions in paragraph 5.2.3. However, this could change in exceptional circumstances where LVFS decided to remove, suspend or reduce smoothing.

6. The significant aspects of the investment strategy

6.1 Principles

6.1.1 The aim of the investment strategy for the LVFS Fund is generally to optimise the return to with-profits policyholders in the Fund while preserving a level of risk to the return which is consistent with our assessment of with-profits policyholders' expectations and the ability of LVFS to meet its commitments to, and the expectations of, its policyholders and members. Alternative or additional aims for the investment strategy may be applied where these aims have been explicitly communicated to policyholders. In determining the mix of assets between different asset classes, the investment strategy will take account of the long-term expected returns available in the asset classes, their volatility and the benefits to be obtained from diversification, the current and projected financial strength of the LVFS Fund and its ability to meet its regulatory capital requirements and the nature of its liabilities.

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

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

6.1.4 Modifications to the investment strategy may be applied to match guarantees under certain policy types.

6.1.5 The exposure to single counterparties is limited to manage the degree to which a counterparty default would affect the investment return on the LVFS Fund.

6.1.6 LVFS holds subsidiary companies as assets in the LVFS Fund. Where considered strategic, the Board reviews these assets at least annually to ensure that continuing to hold them remains appropriate.

6.2 Practices

6.2.1 The Board has overall responsibility for the investment strategy and risk management of the LVFS Fund taking advice from the With-Profits Actuary, the With-Profits Committee, the Chief Actuary and LVFS's management. The Board delegates approval of changes in investment strategy to its Investment Committee.

6.2.2 LVFS currently formally reviews the long-term investment strategy for each of the Asset Pools used for Asset Shares (or for **third generation unitised with-profits policies**, investment fund options) in the LVFS Fund at approximately annual intervals. The strategy may be reviewed more frequently e.g. if the external economic environment changes. The investment outlook, investment mix and performance are monitored periodically between formal reviews. The strategy allows the asset manager to make tactical asset decisions within agreed limits. Approval by the Investment Committee of the Board is required before tactical investment decisions outside the previously agreed long-term investment strategy can be implemented. A policy, approved by the Investment Committee, sets out controls and limits for those issuing investment instructions.

6.2.3 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, our assessment of with-profits policyholders' expectations regarding a level of risk to the return, our approach to Responsible Investment, developments in investment practice and the requirements of specific product features as appropriate, as well as the principles set out in section 6.1. The Board reserves the right to change the mix of assets on all Asset Pools in response to significant movements in market prices.

6.2.4 Details of the current long-term benchmark and actual investment mixes of the separate Asset Pools are available on the LVFS website at **LV.com** or can be obtained on request.

6.2.5 Investments in non-UK assets may be currency-hedged if this is felt appropriate to reduce the level of risk. Derivatives are also used for the purpose of efficient portfolio management and risk reduction.

6.2.6 The assets actually held for certain with-profits policies in the LVFS Fund can differ from those assumed to be held in the Asset Pool used to determine the investment return applied to their Asset Shares. Any profits or losses resulting from this are credited to or borne by the inherited estate of the LVFS Fund. The policy types where this is done are:

- **Conventional with-profits pension policies**, due to the strength of their guarantees in conjunction with the reinsurance of the majority of the benefits; and
- **With Profits Income Bonds**, due to the small size of the total Asset Shares for this product.

6.2.7 Fewer assets are currently held than those underlying the Asset Pools so as to help hedge the LVFS Fund's investment market exposures relating to charges, guarantees and smoothing. When payouts for **Industrial Branch conventional whole-of-life policies** and **with-profits annuity policies** are set, the expected amounts are moved into cash to hedge them from market movements. Smoothing profits and losses from expected claims for the majority of with-profits policies in the LVFS Fund are hedged. Any profits or losses resulting from this are credited to or borne by the inherited estate of the LVFS Fund.

6.2.8 To manage liquidity risk, LVFS seeks to ensure there are sufficient available assets in the LVFS Fund to meet its obligations as they fall due and to ensure that sufficient liquid cash flows will be generated over the course of the business plan. It maintains a liquidity risk policy and framework which set out the monitoring and management of liquidity risk. LVFS aims to manage its liquidity position with a view to avoiding any constraints on estate distribution on liquidity grounds.

6.2.9 Assets held in respect of guaranteed liabilities and non-profit liabilities in the LVFS Fund are invested appropriately with consideration for the duration of the liabilities and the overall risk appetite of the LVFS Fund.

6.2.10 The balance of the inherited estate invests in a variety of assets, including its non-profit business and subsidiary companies. The investment strategy of the inherited estate takes into account its role in supporting the risks falling on it and their capital requirements.

6.2.11 Before investing in new types of investments, LVFS seeks formal approval from the Investment Committee. The Investment Committee will consider any proposals, the Prudent Person Principle, and the associated risks, in the context of the overall investment strategy that has been adopted and the capability of LVFS to manage such investments. The Investment Committee will consider advice from LVFS's management, the Board's Risk Committee, the With-Profits Committee, the With-Profits Actuary and the Chief Actuary in making its decision.

6.2.12 At approximately annual intervals the Board reviews any subsidiary companies considered to be strategic to confirm that they are unlikely to have any adverse effect on the interests of the with-profits policyholders in the Fund and are held in the best interests of all LVFS's policyholders.

6.2.13 The assets held in the Main Asset Pool currently include illiquid investments in private equity and direct property. These are not held in other Asset Pools.

6.2.14 The design of **with-profits fixed term annuity policies** means that the main benefits paid on maturity or death under the contract are guaranteed and determined based on investment conditions at the point of sale. The assets held in relation to these policies reflects these guarantees and are invested appropriately with consideration for the duration of the liabilities. The main benefit on transfer is not guaranteed and reflects the investment conditions at the point of transfer.

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

7.1 Principles

7.1.1 The profits or losses from all business risks within the LVFS Fund are credited to or borne by its inherited estate and may, if the Board determines to allocate such profits or losses, influence the amount payable under a with-profits policy.

7.1.2 LVFS may only undertake significant additional 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 business opportunities, taking into account the results projected on a range of scenarios and its current and projected financial strength, and provided that the additional business risk will not have a material adverse impact on the policyholders in the Fund.

7.1.3 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 any expected benefit from that risk exposure.

7.2 Practices

7.2.1 The current restrictions that LVFS 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. In respect of business risk from any subsidiary companies held as assets by the LVFS Fund, LVFS does not currently set fixed limits on the amount of the Fund that may be invested in them. Instead, it applies the principles set out in section 7.1 of this document.

7.2.2 The other business risks of the LVFS Fund include those arising from variations in the following:

- funding costs arising from shortfalls in the LVFS Staff Pension Scheme, which in turn will be dependent on the actual and expected longevity of members of the scheme, as well as the actual and expected returns on the assets held by the scheme;
- demographic experience and assumptions, including in particular the proportions taking up guaranteed annuity benefit options under **conventional with-profits pension policies**;
- experience and assumptions regarding the proportion of policies in-force that are not expected to claim where we have lost contact with the policyholder;
- compensation to policyholders and associated costs resulting from any mis-selling and maladministration;
- the value of the investments of the inherited estate of the LVFS Fund;
- exceptional costs charged to the LVFS Fund and differences between the expenses charged to the LVFS Fund and the expense charges made to Asset Shares;
- costs related to guarantees and options attaching to policies (after allowing for any hedging);
- costs resulting from the smoothing of policy payouts (after allowing for any hedging);
- profits and losses resulting from the difference in assets actually held for certain with-profits policies in the LVFS Fund from those assumed to be held in the Asset Pool used to determine the investment return applied to their Asset Shares (detailed in paragraph 6.2.6); and
- the cost of meeting the obligations under the LVFS Group's Subordinated Debt allocated to the LVFS Fund.

In addition, business risks include risks deriving from the RNPFN Fund and the Teachers Assurance Fund as follows:

- the risk that the RNPFN Fund and the Teachers Assurance Fund cannot meet their liabilities (after appropriate management actions were taken within those funds with a view to avoiding such a result);
- the risk that any increase in the expenses of LVFS in relation to the business of the RNPFN Fund and the Teachers Assurance Fund cannot be charged in full to these Funds given the requirements of the RNPFN Scheme of Transfer and the Teachers Instrument of Transfer;
- the risk that compensation to policyholders and associated costs resulting from any mis-selling and maladministration in respect of the RNPFN Fund and/or Teachers Assurance Fund cannot be charged to those Funds given the requirements of the RNPFN Scheme of Transfer and the Teachers Instrument of Transfer, or for reasons of fairness; and
- risks arising from any future merger with the LVFS Fund of either the RNPFN Fund or the Teachers Assurance Fund.

The expected future outcome of these factors, where relevant, is reflected in the assessment of the size of inherited estate of the LVFS Fund.

7.2.3 Reinsurance or insurance can be used, where appropriate, to manage business risks.

7.2.4 From calendar year 2011, distributions of the inherited estate of the LVFS Fund from profits from business risks in the LVFS Fund have been allocated as Miscellaneous Surplus to members with eligible policies at the discretion of the Board through the declaration of Mutual Bonus and One-off Bonus under various estate distribution policies. The current Estate Distribution Policy is summarised in section 9.2.

7.2.5 The LVFS Fund would only charge losses from business risks against Asset Shares in exceptional circumstances, and only once future Mutual Bonus and One-off Bonus have been reduced to zero and prior allocations of any Mutual Bonus and One-off Bonus had been removed. However, losses from one source may be offset against profits from another.

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

8.1 Principles

8.1.1 The charges directly applied to **all unitised with-profits policies**, **accumulating with-profits policies**, **with-profits annuity policies** and **with-profits fixed term 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 LVFS's approach to apportioning expenses and applying charges is to reasonably reflect the underlying experience of the LVFS Fund. In applying such charges and expenses different groups of policies and generations of policyholders will be considered together and therefore cross-subsidies between individual policyholders will occur.

8.1.3 The investment return allocated to Asset Shares of with-profits policies in the LVFS Fund (or, for **third generation unitised with-profits policies**, investment fund options) is net of certain investment related expenses.

8.1.4 The basis on which LVFS apportions its actual expenses or applies charges may be changed, where permitted under the terms of a policy, in the light of new information and changes in economic conditions.

8.2 Practices

Charges for expenses made to Asset Shares

8.2.1 LVFS uses an internal fair value framework to help assess fairness of charges including those for expenses applied to policies in the LVFS Fund and, if necessary, appropriately reduce them. Where the level of a charge is not guaranteed, it may be varied by LVFS, subject to the requirement to treat its policyholders fairly.

8.2.2 The charges taken directly from the Asset Shares of **first and second generation unitised with-profits policies**, **accumulating with-profits policies** and **with-profits annuity policies** (or to the units of **third generation unitised with-profits policies**) in the LVFS Fund 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). 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 Value Added Tax and other taxes. For **with-profits fixed term annuity policies**, charges for expenses are implicit in the main benefits offered under the contract.

8.2.3 The charges in respect of expenses taken directly from the Asset Shares of **conventional with-profits life and pension policies** are as follows:

- the relevant charges for maintenance expenses in accordance with paragraph 8.2.4, adjusted for tax relief at the appropriate rate where applicable; and
- investment management fees (and allowing for any Value Added Tax) at the rates applicable to the relevant Asset Pool together with operational investment related expenses (but excluding all expenses detailed in paragraph 8.2.5), adjusted for tax relief at the appropriate rate where applicable.

The charges are estimated when not yet available, with a true-up to the actual values performed when they are known.

8.2.4 Except for investment management fees, operational investment related expenses and those expenses detailed in paragraph 8.2.5, all expenses incurred by LVFS and its subsidiaries are apportioned into a number of different categories (e.g. acquisition expenses, maintenance expenses and project costs) for groupings of similar products. Per policy maintenance expenses for each product grouping are then calculated using the number of policies in force. The calculated per-policy maintenance expenses are then applied as charges to Asset Shares of **conventional with-profits life and pension policies** as follows:

- From 1 April 2018, each calendar year the expenses incurred for all **conventional with-profits pension policies** are totalled and averaged across these policies using their total Asset Shares and charged to individual Asset Shares via a percentage charge.
- From 1 January 2022, each calendar year the expenses incurred for all **Industrial Branch conventional whole-of-life policies** are totalled and averaged across these policies using their total Asset Shares and charged to the Asset Shares of representative granular taxable and tax-exempt sample policies via a percentage charge. The percentage charge for tax-exempt policies is higher than that for taxable policies in recognition of difference in average sizes of the policies. Before this, the charges for maintenance expenses are in accordance with paragraph 2.2.4.
- From 1 January 2023, each calendar year the expenses incurred for all **Ordinary Branch conventional whole-of-life policies** are totalled and averaged across these policies using their total Asset Shares and charged to individual Asset Shares via (i) a percentage charge (accounting for 50% of the total expenses incurred); and (ii) a per-policy maintenance charge (accounting for the other 50% of total expenses incurred). Before this, the charges for maintenance expenses are in accordance with paragraph 2.2.6.
- From 1 October 2024, each calendar year the expenses incurred for all **Industrial Branch conventional endowment policies** are totalled and averaged across these policies using their total Asset Shares and charged to individual Asset Shares via a percentage charge.
- From 1 October 2024, each calendar year the expenses incurred for all **Ordinary Branch conventional endowment policies** are totalled and averaged across these policies using their total Asset Shares and charged to individual Asset Shares via a percentage charge.

8.2.5 In respect of the Practices detailed in paragraphs 2.2.12 and 2.2.28, the investment return applied to Asset Shares of policies (or for **third generation unitised with-profits policies** through the progression of the price of units allocated to the policy), is net of expenses incurred as a result of buying and selling assets.

Other practices

8.2.6 LVFS does not outsource overall management and administration services, although some specific services are outsourced. LVFS outsources investment management services and has appointed BlackRock as the primary asset manager for LVFS from 12 April 2024 until at least 1 February 2034, with the remaining assets managed by other third parties. The performance of the asset managers is reviewed regularly against agreed performance benchmarks. LVFS is able to terminate all or part of the agreements without compensation with immediate effect if the manager persistently delivers investment returns that underperform the benchmarks, fail to meet agreed criteria or where, following a strategic change, LVFS determine termination is in the best interests of members and policyholders. Certain investment-related operational services are also outsourced such as custodian services and fund accountant services.

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

8.2.8 The inherited estate of the LVFS Fund is credited with or bears:

- **For the RNPFN Fund**: The difference between the expenses incurred in respect of the RNPFN Fund and the expenses charged to that Fund under the RNPFN Scheme of Transfer;
- **For the Teachers Assurance Fund**: The difference between the expenses incurred in respect of the Teachers Assurance Fund and the expenses charged to that Fund under the Teachers Instrument of Transfer;
- **For acquisition expenses, maintenance expenses and investment-related expenses (excluding those allocated in accordance with paragraph 8.2.5) in respect of with-profits policies in the LVFS Fund**: The difference between the expenses incurred and the charges directly applied to Asset Shares (or to the units of **third generation unitised with-profits policies**, or the charges implicit in the main benefits offered for **with-profits fixed term annuity policies**) of those policies in respect of those expenses;
- **For acquisition expenses, maintenance expenses and investment-related expenses in respect of non-profit policies in the LVFS Fund**: The difference between the expenses incurred and the charges (if any) deducted from those policies under their policy conditions or that are implicit in the benefits offered; and
- All other expenses incurred by the LVFS Fund (these are largely project related costs).

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 Fund's liabilities. The Board manages the Fund's inherited estate through regular monitoring of its size and its ability to fulfil its role as described below whilst preserving the ability of LVFS to meet its commitments to, and the expectations of, its policyholders and members.

9.1.2 The role of the inherited estate is to provide capital, along with any other capital resources, to meet regulatory reserving requirements in excess of a realistic assessment of the liabilities of the LVFS Fund, and to support the risks and associated capital requirements of the business in the Fund.

9.1.3 In fulfilling this role, the capital provided by the inherited estate supports the LVFS Fund's ability to invest in assets delivering higher returns to policyholders while maintaining guaranteed benefits, the smoothing of benefits paid to policyholders, and the Fund's ability to write new business.

9.1.4 LVFS monitors the ratio of the regulatory capital resources of the LVFS Fund (including its inherited estate) to the level of regulatory capital it is required to hold against a target range agreed by the Board.

9.1.5 There is no formal division of the inherited estate between any classes of business within the Fund. However, the Board has chosen to differentiate among different groups of with-profits policyholders in future distributions of Mutual Bonus to ensure these occur fairly over time.

9.1.6 Other than in relation to expectations set regarding future distributions of Mutual Bonus, 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 policyholders and members.

9.2 Practices

9.2.1 LVFS maintains a capital management policy which specifies a target operating range for regulatory capital, along with indicative actions for the Board to consider if the regulatory capital were to fall outside this range (including an upper limit above which a distribution of excess surplus might be considered in accordance with paragraphs 9.2.26 and 9.2.27). However, these do not constitute formal requirements for 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.

9.2.2 The other capital resources in the LVFS Fund are currently provided by the LVFS Group's Subordinated Debt.

Estate Distribution Policy – Objectives

9.2.3 The Board maintains a policy for the distribution of the inherited estate of the LVFS Fund to members and non-members with eligible with-profits policies. The current policy is summarised in the paragraphs below.

9.2.4 The key objectives of the policy are:

- To distribute profits arising, both from current and prior years, fairly to relevant members and non-members over time; and
- To help, alongside other management actions, to maintain LVFS' total available capital to provide an appropriate level of protection for all LVFS' policyholders (with-profits and non-profit), and to help ensure that LVFS is able to operate a sustainable business.

9.2.5 The Estate Distribution Policy would be expected to be amended in the circumstances detailed in paragraphs 10.1.2 and 10.2.4.

Estate Distribution Policy – Recipients of distributions

9.2.6 The Board has broad discretion under its Articles of Association as to whom it makes distributions of the inherited estate of the LVFS Fund. Under this discretion, subject to paragraph 9.2.7, currently the Board has agreed members with with-profits policies in the LVFS Fund are eligible for such distributions. In addition, it has also agreed that with-profits policies in the LVFS Fund owned by non-members are also eligible as it believes this is a fair outcome. The Board reserves the right to change this in future.

9.2.7 **Flexible Guarantee Bond Series 3** and **Flexible Guarantee Funds Series 2** policies, **third generation unitised with-profits policies** and **with-profits fixed term annuity policies** are not eligible for estate distributions until a policy has been in force for at least 12 months.

9.2.8 With-profits policies in the LVFS Fund are not eligible for any distributions from the inherited estates of either the RNPFN Fund or the Teachers Assurance Fund. With-profits policies in the RNPFN Fund or the Teachers Assurance Fund are not eligible for any distributions from the inherited estate of the LVFS Fund.

Estate Distribution Policy – Form of distributions

9.2.9 From calendar year 2011, distributions of the inherited estate of the LVFS Fund from profits from business risks in the LVFS Fund have been allocated as Miscellaneous Surplus to eligible with-profits policies at the discretion of the Board through the declaration of Mutual Bonus under the estate distribution policy in place at the time of the declaration. The declared rate of Mutual Bonus which is applicable for an eligible policy uplifts its Asset Share (or uplifts its units if it is a **third generation unitised with-profits policy**) in accordance with paragraph 2.2.2 and so becomes part of policy benefits. It is not added to monetary guaranteed benefits on any policy, or to the Underpin for lump sum benefits of **conventional with-profits pension policies** detailed in paragraph 2.2.18. For **with-profits fixed term annuity policies**, the declared rate of Mutual Bonus is applied to the initial investment less any benefits received, accumulated to the point of the bonus declaration. The rate used for the accumulation is the investment return priced into the plan at outset. This amount is then accrued with amounts of Mutual Bonus from any other declarations.

9.2.10 For **second and third generation unitised with-profits policies** any Mutual Bonus is separately added to the final claim. For **Pension Income Plus Annuity** policies, any Mutual Bonus is added to regular annuity payments separately. For **accumulating with-profits Flexible Whole Life policies** it is added as an increase to the accumulation account. For **with-profits fixed term annuity policies**, the total amount of Mutual Bonus accrued is added separately to the final benefit payable under the contract. 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, or, for **conventional with-profits pension policies**, by increasing the Asset Share used in the surrender and transfer values calculated in accordance with paragraph 2.2.18.

Estate Distribution Policy – Frequency and timing of distributions

9.2.11 The rates of Mutual Bonus to be declared are currently determined annually by the Board as detailed in paragraph 9.2.17.

9.2.12 Mutual bonus rates in respect of a particular calendar year are then typically announced and reflected in policy benefits around the time of the announcement of LVFS's annual results.

9.2.13 The Board has discretion to award Mutual Bonus at a different frequency if considered appropriate, either as a distribution in relation to the prior year, or in advance, in anticipation of a surplus.

9.2.14 The Board may also declare a One-off Bonus at its discretion in the same form as Mutual Bonus (as described in paragraphs 9.2.9 and 9.2.10). In doing so the Board will consider fairness to the different policy groups in paragraph 9.2.18 and the ratios in paragraph 9.2.19 may not apply. In making any declaration of One-off Bonus, the Board will have regard to advice from the With-Profits Committee, With-Profits Actuary and Chief Actuary.

9.2.15 The Board exercised its discretion to declare a One-off Bonus when it uplifted asset shares of with-profits policies in the LVFS Fund (except **Flexible Guarantee Bond** and **Flexible Guarantee Funds** policies, **third generation unitised with-profits policies** and **with-profits fixed term annuity policies**) by 4.597% on 1 April 2026. The policies eligible for this One-off Bonus were those that previously were eligible to receive an Exit Bonus in respect of the distribution of part of the proceeds of the sale of LVFS' general insurance business. Exit Bonus ceased from 1 April 2026 following the declaration of the One-off Bonus. The rate of One-off Bonus declared was the same as the expected rate of Exit Bonus had it been maintained beyond 1 April 2026, less an allowance for the cost of changing the form of distribution from Exit Bonus to One-off Bonus.

Estate Distribution Policy – Determining the rates of Mutual Bonus

9.2.16 Mutual Bonus will be declared at different rates for different policy groups. The rates will be declared as multiples of the rate declared on policies comprising LVFS's new business offering.

9.2.17 The Board will determine the rates of Mutual Bonus to be distributed in relation to a calendar year having regard to advice from the With-Profits Committee, With-Profits Actuary and Chief Actuary and taking into account:

- LVFS' current and projected future capital position (regulatory and economic) in relation to LVFS's risk appetite statements and capital management policy.
- A comparison of the amount to be distributed (as implied by the rates determined) with the earnings and profits results for the calendar year.
- LVFS' past and present communications with its members and policyholders, and fairness between different generations of with-profits policyholders.
- The aim to make distributions which are broadly stable (in percentage terms) over time, with relatively limited changes between consecutive annual distributions. However, this aim for stability shall not limit the Board's freedom to make significant changes to the rates (including setting them to zero) if the circumstances require it e.g. due to changes in LVFS' capital position or projected view of business performance.

Estate Distribution Policy – Policy groups and rate differentials

9.2.18 Different rates of Mutual Bonus are currently declared for the following policy groups:

Group 1 (which includes LVFS' with-profits policies open to new business)

- Flexible Guarantee Bond Series 3; Flexible Guarantee Funds Series 2
- Third generation unitised with-profits policies
- With-profits fixed term annuity policies

Group 2

- Flexible Guarantee Bond Series 1 and 2; Flexible Guarantee Funds Series 1

Group 3

- All other with-profits policies in the LVFS Fund.

9.2.19 The ratios between the rates of Mutual Bonus are currently as follows:

- The Mutual Bonus rate for Group 2 is 3 times the rate for Group 1
- The Mutual Bonus rate for Group 3 is 6 times the rate for Group 1

9.2.20 The ratios differentiate between different cohorts of members due to the differing nature of the products, the extent to which they offer risk absorbency to the LVFS Fund and past contributions these product lines have made to the inherited estate of the LVFS Fund.

9.2.21 The ratios between the Mutual Bonus rates for different policy groups would be expected to remain stable over time, but the Board retains discretion to change the ratios after having regard to advice from the With-Profits Committee, With-Profits Actuary and Chief Actuary.

9.2.22 In the event that the Board proposes a change to the ratios of more than 25% in either direction, the Board will seek the advice of an independent actuary to advise on the fairness of the change.

Estate Distribution Policy – Introduction of new Mutual Bonus groups

9.2.23 In the event that a new product variant is introduced and it is not considered appropriate that that product variant should be included in Group 1 (for example, if LVFS considers that those customers' Mutual Bonus expectations should differ from those in Group 1), the Board will establish a further Mutual Bonus group for the new product variant. The Board will also consider what consequential changes should be made to the ratios between Mutual Bonus rates on different classes of business so as to maintain a fair outcome for all policy groups, having regard to advice from the With-Profits Committee, With-Profits Actuary and Chief Actuary.

Estate Distribution Policy – Clawback of Mutual Bonus and One-off Bonus

9.2.24 Prior allocations of Mutual and One-off Bonus may be reduced or removed in the future (along with any investment return allocated to them) in exceptional circumstances if the Board considers it appropriate. In determining the amount of any such clawback, the Board will take account of the current and projected financial strength of the LVFS Fund at the time and the aim to treat all groups of its policyholders fairly, having regard to advice from the With-Profits Committee, With-Profits Actuary and Chief Actuary. Past allocations that have been removed may subsequently be reinstated if the Board considers it appropriate, though currently no past allocations have been removed.

Estate Distribution Policy – Liquidity

9.2.25 As stated in paragraph 6.2.8, LVFS will aim to manage its liquidity position with a view to avoiding any constraints on estate distribution on liquidity grounds. However, it is recognised that, in exceptional circumstances, it may be necessary to restrict estate distributions on grounds of a lack of liquidity.

Estate Distribution Policy – Excess surplus

9.2.26 At least once a year the Board determines (after receiving advice from the Chief Actuary) whether there is a surplus within the LVFS Fund which exceeds the reasonable capital requirements of the Fund. These capital requirements are determined as the higher of the regulatory capital which LVFS is required to hold and the capital provision at LVFS Fund's risk appetite, with allowance in each case of any additional surplus required to support new business. The capital provision at LVFS Fund's risk appetite takes into account the ranges in its capital management policy.

9.2.27 In the event that, in accordance with paragraph 9.2.26, LVFS is determined to have excess surplus, the Board will determine whether it is fair to retain that excess surplus as part of the inherited estate and, if not, whether an estate distribution is required and the extent, form and recipients of that distribution. In setting that distribution, LVFS will consider the approach to estate distributions set out in the paragraphs above, but may deviate from that approach on grounds of fairness if considered appropriate at the time, given the very different nature of an excess surplus distribution.

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 LVFS to meet its commitments to, and the expectations of, its policyholders and 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 change its Estate Distribution Policy to 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 LVFS monitors the profitability of new with-profits and non-profit business as part of the assessment that such business is likely to have no adverse effect on the interests of the existing with-profits policyholders in the Fund or threaten the ability of LVFS to meet its commitments to, and the expectations of, its policyholders and members.

10.2.2 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.

10.2.3 LVFS monitors the volume of new with-profits business being written in relation to regulatory requirements to assess the appropriateness of it remaining open to new business.

10.2.4 Changes to the Estate Distribution Policy in the circumstances described in paragraph 10.1.2 to seek to fully distribute the inherited estate of the LVFS Fund would take into account the change to the risk profile of the Fund in these circumstances and any specific conditions at that time. Any changes made would reflect policyholder expectations, as reasonably modified for the circumstances.

10.2.5 Where any policyholder in the RNPFN Fund exercises the option to take their benefits as a non-profit annuity, the policy is then transferred to the LVFS Fund in accordance with paragraph 10.2.1 for the PPFM of the RNPFN Fund on terms that are regularly reviewed.

11. Equity between the LVFS Fund and any shareholders

11.1 Principles

11.1.1 LVFS is a mutual with no shareholders and its Board has broad discretion under its Articles of Association to make distributions out of surplus.

11.2 Practices

11.2.1 The LVFS Fund is managed by reference to the Principles in section 11.1. There are no Practices in addition to these Principles.

12. Schedule of disclaimers

None of the contents of this document forms part of, or varies, the terms or conditions of any policy under which Liverpool Victoria Financial Services 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 policyholders 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 LVFS and the business environment changes. The document may also change to reflect changes made by LVFS to the management of the with-profits business, as detailed in section 1.

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.

UK life insurance businesses are subject to a number of inherent risks that arise from a range of factors. For the LVFS Fund the key risks are described in section 7. There can be no assurance that all risks that might emerge have been identified. In addition, the risks to which the with-profits businesses are exposed can change over time.

With-profits policyholders have no entitlement to receive the Asset Shares (where used) on their policies unless specified in policy conditions. 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 section 2.2.

Appendix 1 Glossary

The "Board"

The Board of Directors of Liverpool Victoria Financial Services 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 and annual bonuses are added, and decreases as any charges are taken. The accumulation account for **Appropriate Personal Pension policies** may also 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.** It is only relevant to certain types of policy which are detailed below, together with the methods used to apply it:

- For **conventional with-profits life and pension policies** the rate of annual bonus declared for a calendar year is multiplied by the original guaranteed benefits (or the reduced original guaranteed benefits if premiums have ceased early) and the result is then added to the current guaranteed benefits during the following calendar year.
- 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 unitised with-profits 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 on the policy anniversary.

Articles of Association

These set out how LVFS is governed, how someone becomes a member, the election of directors and the process for Annual General Meetings and Special General Meetings. They are available on the LVFS website (LV.com).

Asset Share

Where used, the Asset Share of a with-profits policy is the accumulation, at rates of return achieved on investments, of premiums paid less charges for expenses incurred, less, where relevant, taxation, the cost of any benefits provided, any charges for the cost of guarantees or the use of capital, regular annuity payments and allowing for partial payouts. The Asset Share may also be increased or reduced in the circumstances described in paragraph 2.2.15. Discretionary additions for Miscellaneous Surplus (including Mutual Bonus and One-off Bonus) may also be included. Paragraphs 2.2.1 to 2.2.3 provide further detail.

Asset Share Cover

This is defined in paragraph 3.2.2.

Asset Pool

The assets underlying Asset Shares (or for **third generation unitised with-profits policies**, investment fund options). For certain with-profits policies the assets actually held can differ from those used to determine the investment return applied to their Asset Shares, as detailed in paragraph 6.2.6.

Chief Actuary

The Chief Actuary is a regulated role, with the holder having responsibility for advising the Board in relation to LVFS's ability to meet its liabilities to policyholders.

Conventional With-Profits Policy

An older-style with-profits policy which guarantees a minimum level of benefits on death or maturity (including retirement date) as long as premiums are maintained. The amount guaranteed increases with any annual bonus added. The guarantee does not apply if the policy is surrendered or (for pensions) a transfer value is paid. The guaranteed amount can be reduced if premiums cease early. For **conventional with-profits pension policies**, the guaranteed amount is altered if the policyholder requests a change to their retirement date.

Declared Investment Return

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

Estate Distribution Policy

This is defined in section 9.2.

Exit Bonus

This was a bonus that uplifted the Asset Share of eligible with-profits policies at the time of any relevant claim (including partial payments and pension income) in respect of the distribution of part of the proceeds of the sale of LVFS' general insurance business. It was removed on 1 April 2026 and replaced by a One-off Bonus. Paragraph 9.2.15 provides further details.

Final Bonus

An addition that may be made to the guaranteed benefits of a **conventional with-profits life** or **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**.

Inherited Estate

The inherited estate means the excess of the value of the assets of the LVFS Fund over a realistic assessment of the Fund's liabilities.

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 for a calendar year 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 the result is then added to the current guaranteed benefits. It is not a guaranteed addition and is replaced by any annual bonus declared for that calendar year. As interim bonus is not guaranteed, it is included with any final bonus at claim or in a policy valuation.

LVFS

Liverpool Victoria Financial Services Limited, the company formed upon the conversion of Liverpool Victoria Friendly Society Limited into a company limited by guarantee.

LVFS Fund

LVFS's main fund which holds all LVFS business other than that within the RNPFN Fund and the Teachers Assurance Fund.

LVFS Group

LVFS and its subsidiary companies.

Liquidity risk

Where the LVFS Fund remains solvent, but either does not have sufficient readily available assets to meet its obligations when they fall due or can secure them only at an excessive cost.

Main Asset Pool

The Asset Pool that currently includes all **conventional**, **accumulating** and **first generation unitised with-profits policies** (except **With Profits Income Bonds**) and **with-profits annuity policies**.

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 payout and to be fair to the remaining with-profits policyholders in the Fund. There may be MVR-free dates or 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.

Miscellaneous Surplus

A discretionary addition made by LVFS to an eligible policy, such as profits arising from LVFS business risks which are distributed from 2011 by way of Mutual Bonus or One-off Bonus. It is added to a policy's Asset Share, except for **third generation unitised with-profits policies** where it is added to a policy's units and for **with-profits fixed term annuity policies** where it is added to the final benefit payable under the contract.

Mutual Bonus

A discretionary addition made by LVFS from 2011 to allocate profits from business risks to eligible with-profits policies. It is added to a policy's Asset Share, except for **third generation unitised with-profits policies** where it is added to a policy's units and for **with-profits fixed term annuity policies** where it is added to the final benefit payable under the contract. Mutual Bonus is not guaranteed and past allocations can be reduced or removed. Section 9.2 provides further details.

Non-profit policy

A life or pensions policy with fixed benefits, or benefits that change in a fixed manner with no discretionary 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 discretionary bonuses applied.

One-off Bonus

A one-off discretionary addition to Asset Share (or to units of **third generation unitised with-profits policies** or the final benefit payable under **with-profits fixed term annuity policies**) that may be made by LVFS to allocate profits from business risks to eligible with-profits policies. It is not guaranteed and past allocations can be reduced or removed. Paragraphs 9.2.14 and 9.2.15 provide further details.

Policyholder

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

Responsible Investment

The practice of incorporating Environmental, Social and Governance (ESG) factors into investment decisions. There is more information about this on our website. To view this, go to LV.com/about-us/lv-cares and click on Safeguarding our Environment and follow the link to our Responsible Investing Approach. Our Sustainability Reports which include climate performance in accordance with the Taskforce on Climate-related Financial Disclosure (TCFD) regulations can also be found on our website at LV.com/about-us/lv-cares/product-reporting.

Solvency Capital Requirement

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

Subordinated Debt

A type of capital raised by the LVFS Group 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.

Unitised With-Profits Policy

A type of with-profits policy where the value of the benefits is measured by reference to the number of units allocated to the policy at the date of calculation. For **first generation unitised with-profits policies** this value may be increased by the addition of a final bonus or reduced by the application of a Market Value Reduction when the policy benefits are taken.

With-Profits Actuary

The With-Profits Actuary is a regulated role, with the holder having responsibility for advising management and the Board in relation to its exercise of discretion as it affects with-profits policyholders.

With-Profits Committee

A committee that provides independent advice to the Board on the fair treatment of with-profits policyholders. Further details are in paragraph 1.6.

With-Profits Fixed Term Annuity policies

These are a type of with-profits policy where the main benefits payable to the member are payable as an annuity for a fixed term as detailed under the contract, and which have the potential for the final benefit payable under the contract to be increased by any Mutual Bonus or One-off Bonus additions.

The previous versions of the product, the Customer Protected Retirement Plan and Trustee Protected Retirement Plan, that were sold up to March 2025, are non-profit contracts and hence not eligible for a Mutual Bonus or One-off Bonus.

With-Profits Policy

A contract falling within a class of long-term insurance business which is eligible to participate in part of any established surplus that is distributed.

Appendix 2 Policies covered by this document

This Appendix provides a list of all the types of with-profits policy covered by this document. All policies were originally written by LVFS, except for historical 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 Annuity Contract (also known as Ordinary Branch Pension-Annuity)
- Personal Pension (two rate series)
- Free-Standing Additional Voluntary Contribution (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)
- Flexible Guarantee Funds (also known as Flexible Guarantee Trustee Investment Plan (series 1-2))

Third generation unitised with-profits policies

- Smoothed Managed Funds Bond Series 1†
- LV= ISA†
- Smoothed Managed Funds Pension Series 1 (available via our LV= SIPP (Flexible Transitions Account)) †
- LV= Smoothed Managed Funds Trustee Investment Plan Series 1†
- LV= Smoothed Managed Funds Pension Series 1 (available via our LV= Pension Portfolio and LV= Junior Pension Portfolio)
- LV= Smoothed Managed Funds ISA Series 1 (available via our LV= ISA Portfolio and LV= Junior ISA Portfolio)

Accumulating with-profits policies

- Appropriate Personal Pension policy
- Flexible Whole Life policy (also known as Flexible Whole Life Assurance policy)

With-profits annuity policies

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

With-profits fixed term annuity policies

- LV= Fixed Term Annuity (Protected Retirement Plan)
- LV= Fixed Term Investment (Protected Retirement Plan)

† includes bonds/plans originally sold on a non-profit basis and subsequently converted to with-profits.

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

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