

**2024 Annual Report from the Board of
Liverpool Victoria Financial Services Limited
to its With-Profits Policyholders**

You're about to read a summary of how we made decisions affecting the with-profits policyholders in the LVFS Fund in 2024.

We've gone into a lot of detail here to provide you with reassurance that we're managing your money as we should. We've done our best to keep it easy to read, but you can always get in touch if you have questions. You can find out how by clicking on 'contact us' at [LV.com/wp-info](https://www.lv.com/wp-info).

1. Summary

This report examines the management of the with-profits business within the main fund of Liverpool Victoria Financial Services Limited ('LVFS Fund') during 2024. It covers the governance arrangements, how we have made decisions (we call this exercising discretion), and how any competing interests between different classes of policyholders were addressed.

We describe the way in which we manage the with-profits business in the LVFS Fund in a formal document known as the 'Principles and Practices of Financial Management' (or 'PPFM'). Each year we review our compliance with the PPFM. We provide a summary of the results of the review for 2024 in this report.

This report does not apply to with-profits policies in the RNPFN Fund and the Teachers Assurance Fund (both ring-fenced funds within LVFS). These have their own Principles and Practices of Financial Management documents and separate reports.

The Board of Directors ('the Board') of Liverpool Victoria Financial Services Limited¹ ('LVFS') confirms that, in its opinion, its exercise of discretion and its management of the potentially competing or conflicting rights, interests or expectations of policyholders in the LVFS Fund were in accordance with its PPFM during 2024, thereby treating with-profits policyholders fairly. The Board can also confirm that, in its opinion, LVFS complied with the obligations set out in the PPFM during 2024 except in respect of the issue noted in 4.11 where a long-standing issue causing incorrect claim payments was not rectified in 2024 (though is expected to be addressed in 2025).

The reasons for these opinions are outlined in this report. **The With-Profits Committee agrees with the opinions of the Board.**

2. Governance Arrangements

The Board is ultimately responsible for the LVFS Fund and for the management of with-profits business within it. The With-Profits Committee is a sub-committee of the Board, set up to provide independent advice relating to the exercise of discretion in respect of the business within the scope of this report. It also

¹ Prior to its conversion to a mutual company limited by guarantee on 2 January 2020, the company was known as Liverpool Victoria Friendly Society Limited.

monitors compliance with the PPFM. At the end of 2024, it comprised a Chair who is independent of LVFS, two independent non-Executive Directors, and two independent members².

LVFS also has a With-Profits Actuary, approved by the Prudential Regulation Authority, who provides advice to the Board, the With-Profits Committee and management on the exercise of discretion relating to matters affecting the with-profits business within the Fund. The current With-Profits Actuary is Catherine Gavin and her report is annexed to this report. Catherine Gavin replaced Trevor Fannin who was With-Profits Actuary during 2024 and up to 5 February 2025.

3. Overview of the LVFS Fund

Before we cover each area where we exercised discretion in 2024 in section 4, we thought it may be useful to give you an overview of the LVFS Fund.

You can find the PPFM for the LVFS Fund at [LV.com/ppfm](https://www.lv.com/ppfm). But if you would like a shorter overview, 'Your guide to how we manage our with-profits business' can be found at [LV.com/wp-info](https://www.lv.com/wp-info). There are different versions of this guide depending on the product you have.

And if you'd like more information about where we invest your funds, you can find details at [LV.com/asset-allocation](https://www.lv.com/asset-allocation).

3.1 Here's a reminder of what's included in the LVFS Fund

We've been looking after our customers' money since 1843.

All our own with-profits business³ is held within the LVFS Fund. We combine your money with other investors' money and manage it on your behalf. There are other types of policies in the LVFS Fund, together with its 'inherited estate' (the assets that are in excess of the LVFS Fund's liabilities).

LVFS is a mutual company limited by guarantee which means we have no external shareholders but are owned by our members, such as yourself.

3.2 Regular bonuses may be added

We aim to add a regular bonus to your policy, where applicable, each year to increase guaranteed benefits.

3.3 Final (or similar) bonuses may be added or market value reductions may be made to ensure you get a fair return for the main policy benefits

We want to make sure that you receive a fair return on your policy. If the regular bonuses you've had during your policy term are less than a fair return, we'll add a final bonus or top up bonus to increase your payout.

² There were no changes in its composition in 2024.

³ With-profits policies sold by RNPFN and Teachers Assurance are held within separate ring-fenced funds within LVFS.

Sometimes these bonuses can be a high proportion of the final value of your policy. For some policies we may apply a market value reduction rather than add a final bonus to ensure you receive a fair return.

For most policies we use 'asset shares' to make sure you receive a fair payout, for example when setting final bonuses or market value reductions. The 'asset share' is the underlying value of a policy and is calculated as the sum of the premiums that have been paid, less charges taken in respect of expenses and for the cost of benefits, tax (where applicable), all accumulated at the investment returns earned on the with-profits fund.

For Pension Income Plus Annuity policies 'Declared Investment Returns' are used to ensure a fair payout. For lump sum benefits for conventional with-profits pensions policies we use the asset share directly in determining fair payouts (with death benefits paid in accordance with the policy conditions).

For second generation unitised with-profits policies (All-In-1 Investment Bond, Guaranteed Capital Bond, Flexible Guarantee Bond, Flexi Guarantee Plan, Flexible Guarantee Funds policies) by design we don't use final bonuses and market value reductions but use the asset share subject to smoothing (where applicable) directly for payouts.

For third generation unitised with-profits policies (Smoothed Managed Funds policies), by design we also don't use final bonuses and market value reductions as the benefits payable to policyholders are determined by the number and value of units allocated to the policy under the policy conditions.

3.4 We group similar policies together to set final bonus rates for some policies

For some types of conventional policies, rather than work out the value of each individual policy we generally use representative policies, or combine policies together, to decide the level of final bonuses to pay.

3.5 We use a process called smoothing for some products to help protect with-profits policyholders

Smoothing helps protect policyholders from temporary changes in the value of the investments in the with-profits fund. Because we smooth payouts, it's possible that when you cash in your policy or your policy ends, the amount paid out is higher or lower than the underlying value of the investments.

We use different methods to smooth payouts depending on the product which are set out in the PPFM. Other than where the smoothing methodology is specified in the policy conditions (i.e. other than second and third generation unitised with-profits policies), smoothing is not intended, over the long term, to be a material source of profit or loss. We reserve the right to remove smoothing in exceptional circumstances. Some policies have automatic rules for when smoothing is not used.

3.6 We may also pay mutual bonus and exit bonus

Since it was set up, our mutual bonus scheme has rewarded members with eligible policies for their support of the development and growth of our business. All with-profits policies in the LVFS Fund are eligible to receive mutual bonus.

In addition, we decided to use some of the proceeds from the sale of our general insurance business to pay certain policies an exit bonus on claim though this is not guaranteed. All with-profits policies in the LVFS Fund are eligible for this except Flexible Guarantee Bonds, Flexi Guarantee Plans, Flexible Guarantee Funds and Smoothed Managed Funds policies. These products contributed less (or due to when they started didn't contribute) to supporting the growth of our general insurance business.

4. How we used discretion to manage the LVFS fund in 2024

The areas where we exercised our discretion in relation to the with-profits business in the LVFS Fund during 2024 are covered in detail below, together with how our decisions comply with the PPFM of the Fund. We've also included information on other areas of interest, namely rectification and PPFM changes.

4.1 The claim amounts we paid are fair

During the year policy claim payouts for many policies were based on policy asset shares (as defined in section 3.3) as a means of assessing a fair payout value, subject to a minimum payout of any guaranteed policy benefits that apply on exit.

For those groups of policies and claim types where asset shares are used as a guide to set payouts, where it is relevant* we aim to make payouts that are within 80% and 120% of asset share (known as the target range). For these groups of policies, 99.3% of maturity claims and 99.9% of surrender claim payouts during the year were within the target payout range, with 98.3% of death claims during the year also being within the target payout range. In performing these assessments, we take into account how we group conventional policies in determining payouts and we have used the asset share methodologies in place at the time of payment.

We changed how we set payouts for Industrial Branch (IB) conventional whole-of-life policies on 21 February 2024, and how we set payouts for Ordinary Branch (OB) conventional whole-of-life policies on 1 August 2024. We consider that fair payouts were made on these policies both before and after the change.

Financial Conduct Authority regulation states that we may make payouts outside the target range if we have a good reason to believe 90% of payouts fall within the target range. LVFS is comfortable that it is reasonable for those payouts which are above or below target range to be so.

*Though asset share is used to assess payout values, a target range is not relevant for the following:

- With Profits Pension Annuity, Pension Income Plus Annuity policies and vested conventional with-profits pension policies (as these policies do not have a single payout that can be reasonably compared to asset share⁴); and
- partial withdrawals for unitised policies (as they reduce asset shares with the target range applying only on the final claim).

As detailed in the PPFM, methods other than asset shares are used to set payouts (and so no target range is set) for some groups of conventional with-profits policies. LVFS was comfortable with the approach it used in regard to these policies during 2024.

Some conventional with-profits life and pension policies contractually became non-profit or were treated as non-profit (or received no further regular bonuses) by LVFS from the time premiums ceased being paid. From 2001 LVFS exercised its discretion when the Board decided to recommence adding bonuses to all these policies, and this continued in 2024.

For second generation unitised with-profits policies (defined in section 3.3), policy conditions require asset shares which are subject to smoothing (where applicable) 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. Hence no target range is required to be set.

For third generation unitised with-profits policies (defined in section 3.3), the benefits payable to policyholders are determined by the number and value of units allocated to the policy under the policy conditions and so we do not use asset shares as a guide to determining the benefits payable. Hence no target range is required to be set.

4.2 Our regular bonus rates were reviewed during the year

Regular bonus rates were reviewed during the year in accordance with the PPFM. The rates declared on 1 March 2024⁵ were at the same level as the previous year except for Flexible Whole Life policies, which are covered in section 4.3. Interim regular bonus rates for conventional policies were maintained at the same level as the regular bonus rates declared on 1 March 2024. Discretion was exercised in deciding the rates.

Regular bonus rates are not applied to Pension Income Plus Annuity, All-In-1 Investment Bond, Guaranteed Capital Bond, Flexible Guarantee Bond, Flexi Guarantee Plan, Flexible Guarantee Funds and Smoothed Managed Funds policies.

4.3 We added final (or similar) bonuses to most claim payments, with no market value reductions

A final bonus declaration for conventional with-profits life policies was made with effect from 1 March, 1 June, 1 September and 1 December 2024 which changed claim payments from those dates. The exception to this was that from 1 August

⁴ In addition, for these vested conventional with-profits pension policies no asset share is calculated except at vesting given the strength of the guarantees.

⁵ Except for With Profits Pension Annuity policies, where the declaration date was 1 February 2024.

2024 final bonuses for OB conventional whole-of-life policies are set monthly on an individual policy basis.

A top-up bonus declaration for With Profits Pension Annuity policies was made with effect from 1 February 2024, which changed payouts from policy anniversary. A final bonus declaration for conventional with-profits pension policies was made with effect from 1 March 2024, with the rates remaining unchanged (at zero).

Quarterly declarations were made in respect of the Declared Investment Return for Pension Income Plus Annuity policies, taking effect from 1 February, 1 May, 1 August and 1 November 2024 which changed rates at each declaration.

For Flexible Whole Life policies, where the regular bonus rate is set with the aim of paying out asset share subject to smoothing (unlike other policies which receive regular bonus), the monthly rate decreased from 0.20% to 0.10% on 1 March 2024.

Final bonus rates and any market value reductions (where allowed under policy conditions) are calculated on an individual policy basis for Appropriate Personal Pension policies and first generation unitised with-profits policies. No market value reductions were applied during 2024.

These declarations and calculations were made in accordance with the PPFM in 2024. Discretion was exercised with regards to smoothing, the level of charges allocated to asset shares, the investment return used to project asset shares to the period covered by the review, tax (where applicable), mortality, and the choice of sample policies or grouping of policies to calculate the aggregate asset shares (as relevant) used to determine final bonus or top-up bonus rates.

4.4 Our surrender payouts for conventional with-profits policies were fair

Discretion is exercised in the methods and assumptions used to calculate surrender and cash/transfer values for conventional with-profits policies.

For conventional endowment policies, the method used applies the same rate of final bonus to the recalculated guaranteed benefits as would apply to a maturity or death claim for the same policy type and duration in force, which is considered to provide a fair payout.

For conventional IB whole-of-life policies, the surrender value is set at a level designed to pay asset share subject to smoothing with the death benefit being higher.

For conventional OB whole-of-life policies, the surrender value was set to be the same as the death benefit up to 31 July 2024. From 1 August 2024, the surrender value is set at a level designed to pay asset share subject to smoothing with the death benefit being higher.

For conventional with-profits pension policies, the basis used for cash or transfer values ensures at least individual asset share is paid (subject to smoothing).

These methods were all used in 2024 in accordance with the PPFM.

4.5 We continued smoothing payouts to give policyholders a fair outcome

LVFS uses various methods of smoothing investment returns depending on the type of policy as detailed in the PPFM. LVFS operated in accordance with these methods during 2024.

The approaches used during 2024 give an appropriate level of smoothing to those with-profits policyholders leaving the LVFS Fund, given the mix of the pool of assets backing asset shares. Smoothing profits and losses from expected claims are hedged for most with-profits policies to protect the inherited estate of the LVFS Fund from undue volatility. This practice does not affect current customer payouts.

Where it applies, the target range from 80% to 120% of the asset share used for LVFS with-profits policies is appropriate taking into account the investment strategy, the smoothing methods and the frequency of reviews of final bonuses.

LVFS reserves the right to remove, suspend or reduce smoothing on all with-profits policies (except where contractual) in exceptional circumstances. This right was not exercised in 2024.

4.6 We also reviewed and continued to add mutual bonus to all eligible policies

A mutual bonus was declared for the calendar year 2023 at the rates shown in the table below, in accordance with the PPFM. This was included in claims paid from 1 March 2024 for most policies⁶.

Policy group	Mutual bonus rate%
Conventional with-profits policies and with-profits annuities	0.90%
Accumulating and unitised with-profits policies except Flexible Guarantee Bond, Flexi Guarantee Plan, Flexible Guarantee Funds and Smoothed Managed Funds policies	0.90%
Flexible Guarantee Bonds Series 1 and 2 / Flexi Guarantee Plan / Flexible Guarantee Funds Series 1	0.45%
Flexible Guarantee Bonds Series 3 / Flexible Guarantee Funds Series 2 and Smoothed Managed Funds policies in force at least 12 months as at 31 March 2024	0.15%

4.7 We continue to add exit bonus to eligible policies

As noted in section 3.6, in 2020 we decided to use some of the proceeds from the sale of our general insurance business to pay an exit bonus on claim in accordance with the PPFM, normally through an increased final (or similar) bonus. All with-profits policies in the LVFS Fund are eligible for this except Flexible Guarantee Bonds, Flexi Guarantee Plans, Flexible Guarantee Funds and

⁶ The exceptions are 1 April 2024 for All-In-1 Investment Bond, Guaranteed Capital Bond, Flexible Guarantee Bond, Flexi Guarantee Plan, Flexible Guarantee Funds and Smoothed Managed Funds policies, on the policy anniversary on or after 1 February 2024 for With Profits Pension Annuity policies and on the policy anniversary on or after 1 May 2024 for Pension Income Plus Annuity policies.

Smoothed Managed Funds policies. The rate of exit bonus is reviewed by the Board at least annually. The rates approved by the Board applying in 2024 were:

Date	Exit bonus rate%
1 January 2024 – 31 May 2024	4.75%
1 June 2024 – 31 December 2024	4.60%

From December 2023, the funds used to support future distributions of Exit Bonus were invested using a blended approach based on cash and the asset share asset mix with the aim of increasingly aligning it with asset shares. From February 2024 it was invested fully in line with asset shares.

4.8 We monitored and reviewed the investment strategy during 2024

In accordance with the PPFM, the investment strategy was monitored and reviewed during 2024 to ensure that it remained appropriate. A full review of the investment strategy was performed in late 2023 in the light of the transition to a new asset manager with the resulting changes being implemented in the first half of 2024. A further review was carried out later in 2024 with no changes being recommended. The current target mix of assets is shown at [LV.com/asset-allocation](https://www.lv.com/asset-allocation).

Discretion was exercised with respect to the types of investment held and the proportions invested in different types of assets. Different investment strategies were maintained to manage guaranteed liabilities, non-profit liabilities in LVFS and its inherited estate.

Columbia Threadneedle Investments carried out the majority of investment management of the LVFS Fund during early 2024. From April 2024 BlackRock became LVFS' primary asset manager.

4.9 Charges and expenses taken were in accordance with the PPFM

LVFS exercised discretion in the method used to apportion the maintenance expenses of LVFS to the LVFS Fund in 2024. For some policy types, we applied these expenses, together with investment management fees (inclusive of Value Added Tax), as charges to asset shares. For other policy types, the charges applied to asset shares were in line with charges set out in policy conditions or similar documents. Tax on investment returns and tax relief on expenses was applied, as appropriate.

Any difference between the charges applied to asset shares and the actual expenses charged to the LVFS Fund is borne by the inherited estate. Costs of strategic projects (e.g. due to changes in legislation or regulation) are not applied to asset shares but are charged to the inherited estate.

Mortality, morbidity, and guarantee charges were applied for certain types of policies. For second and third generation unitised policies we can review charges for new term-based guarantees purchased by existing policyholders.

The expenses charged to the Fund and the charges applied to asset shares were in accordance with the PPFM during 2024.

4.10 How the LVFS Fund is exposed to business risk

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

New business will only be accepted into the LVFS Fund if, in the opinion of the Board of Directors, 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 LVFS nor threaten the ability of LVFS to meet its commitments to its members.

The other key business risks of the LVFS Fund arise from:

- variations in such factors as policy longevity, annuity take-up rates, and the proportion of policies in-force that are not expected to claim, and expenses;
- higher contributions associated with staff defined benefit pension schemes;
- exceptional or unexpected expenses;
- compensation to policyholders, resulting from any mis-selling and maladministration;
- variations in costs of guarantees, options and smoothing;
- the value of the investments of the inherited estate of LVFS; and
- the risk that the RNPFN Fund and the Teachers Assurance Fund cannot meet their liabilities.

Discretion was exercised in determining the amount of business risk taken by LVFS during 2024 through writing with-profits and non-profit business, and through its subsidiary companies.

4.11 Rectification

Where issues are found that affect customers' payouts they are remediated in line with our Risk Management Framework. Various long-standing issues were rectified in 2024 however a long-standing issue which is causing payments on certain with-profits annuity policies to be incorrect remained outstanding at the end of 2024 and, as such, is considered to lead to non-compliance with the PPFM. Rectification of affected policies is expected to be completed in 2025.

4.12 A summary of changes to the PPFM is on our website

The current version of the LVFS PPFM is on our website together with a summary of all recent changes. A number of changes to the PPFM were made during 2024. The more material changes were to reflect:

- the change to how payouts are set for IB conventional whole-of-life policies on 21 February 2024;
- the change to how payouts are set for OB conventional whole-of-life policies on 1 August 2024;
- the appointment of BlackRock as the primary asset manager for LVFS from 12 April 2024;

- the change in investment strategy for the portion of the inherited estate used to support future distributions of Exit Bonus; and
- removal of the rebate of part of investment costs from the inherited estate of LVFS to the Teachers Assurance Fund in certain circumstances as the rebate does not apply following the appointment of BlackRock.

The current PPFM and a full list of changes are on our website at [LV.com/ppfm](https://www.lv.com/ppfm).

5. When competing or conflicting rights, interests or expectations of policyholders occur

The LVFS Fund is run as a mutual which therefore avoids having any competing or conflicting interests with shareholders.

Potential conflicts can occur between the LVFS Fund and the RNPFN Fund and the Teachers Assurance Fund (for example, regarding the allocation of expenses). Where such conflicts occur, the With-Profits Committee and With-Profits Actuary provide advice to the Board to ensure that with-profits policyholders in all Funds are fairly treated. If a material potential conflict were to arise, consideration would be given to the need for independent external advice.

Potentially competing or conflicting rights, interests, or expectations of with-profits policyholders may come about, for example, between:

- different types of policy;
- policies with varying benefits and policy conditions;
- policies with different terms or of different sizes;
- policies with different entry or maturity dates; and/or
- different types of claim on a policy (for example, on maturity, death or surrender).

To ensure that LVFS Fund with-profits policyholders are treated fairly in balancing their respective interests, throughout 2024 LVFS exercised discretion between these groups of policyholders through:

- the choice as to how policy benefits are smoothed;
- maintaining different series of regular bonus and mutual bonus rates for different policy types;
- the choice of LVFS with-profits policies that are eligible for exit bonus;
- the method used to group policies when setting final bonus rates and when allocating investment returns, tax (where applicable) and charges to asset shares; and
- the management of LVFS's capital resources.

6. Conclusion

The Board can confirm that, in its opinion, the exercise of discretion (as detailed in section 4), and its management of the potentially competing or conflicting rights, interests, or expectations of policyholders in the LVFS Fund (detailed in section 5) were in accordance with its PPFM during 2024, thereby treating with-profits policyholders fairly.

The Board can also confirm that, in its opinion, LVFS complied with the obligations set out in the PPFM of the LVFS Fund during 2024 except in respect of the issue noted in 4.11 where a long-standing issue is causing incorrect claim payments and was not rectified in 2024 (though is expected to be addressed in 2025). The reasons for this conclusion are detailed in section 4.

The With-Profits Committee and the With-Profits Actuary agree with these opinions.

The Board of Directors
Liverpool Victoria Financial Services Limited
29 May 2025

Annex

Report from the With-Profits Actuary to the With-Profits Policyholders of Liverpool Victoria Financial Services Limited

It is my responsibility as With-Profits Actuary ('WPA') of Liverpool Victoria Financial Services Limited ('LVFS') to advise the Board of Directors on the management of its with-profits business, and to report annually to with-profits policyholders on the exercise of discretion in relation to that business.

This report covers the period from 1 January 2024 to 31 December 2024 inclusive. I was formally engaged by LVFS as WPA on 6 February 2025 following confirmation by the Prudential Regulation Authority and the Financial Conduct Authority. My predecessor Trevor Fannin was involved in consideration of the matters referred to in the attached report on LVFS's compliance with its Principles and Practices of Financial Management during 2024 and up to 5 February 2025.

In my opinion the discretion exercised by the LVFS Board of Directors in relation to the LVFS Fund in 2024 may be regarded as having taken the interests of with-profits policyholders into account in a reasonable and proportionate manner. It was also consistent with disclosures to customers and with the PPFM.

I note that the long-standing issue causing payments on certain with-profits annuity policies to be incorrect was not rectified in 2024 but is expected to be addressed in 2025.

In reaching this opinion I have relied on reports and information provided to me by the company and my predecessor, and I have taken into account the relevant rules and guidance issued by the Prudential Regulation Authority and the Financial Conduct Authority and applicable standards and guidance issued by the Financial Reporting Council⁷.

Catherine Gavin
With-Profits Actuary for LVFS
29 May 2025

⁷ TAS 100 and TAS 200

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