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

Principles and Practices of Financial Management (PPFM)

Version 32

21 February 2024

Contents

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; and
- With-profits annuity policies.

1.4 The Principles

The Principles are enduring statements of the standards LVFS follows when managing the LVFS Fund. These Principles cover duties to the with-profits policyholders in both current and future business and economic environments, compliance with relevant regulation and legislation and the need to be fair to all with-profits policyholders and all 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 Fund. The practices may be changed from time to time and the information in this document only reflects current practice.

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 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 in 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 who are independent of the LV Group (one of whom is the Chairman) and two non-executive directors from the Board.

1.7 Changes to the PPFM

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

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

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

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

1.8 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 guide the determination of 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 to guide the determination of the amount payable to with-profits policyholders in the LVFS Fund is to pay them a fair return on their investment, where relevant, on maturity, surrender or death, subject to a minimum of any guaranteed benefits. On death, the exceptions to this are 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 sample calculations. 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 paragraphs 2.2.7 and 2.2.8), 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 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, taxation, the cost of any benefits provided, any charges for the cost of guarantees or the use of capital, regular annuity payments and partial payouts. The Asset Share may also be increased in the circumstances described in paragraph 2.2.15. The assumptions and parameters used in the calculation of Asset Shares are described in paragraphs 2.2.10 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 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.

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.

2.2.2 The Board may use its discretion to increase the Asset Shares (or the units of **third generation unitised with-profits 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 are distributed from 2011 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 The Board may also use its discretion to uplift the Asset Share (allowing for any smoothing in accordance with section 5) at the time of any relevant claim (including partial payments and pension income) for eligible with-profits policies by an Exit Bonus, as described in paragraph 7.2.4.

2.2.5 For the following **conventional with-profits life and pension policies** (except for benefits calculated in accordance with paragraph 2.2.18), LVFS does not pay the individual Asset Share to each with-profits policyholder on claim, but instead adds a final bonus to the guaranteed benefits or otherwise sets payouts (including for claims paid in accordance with paragraphs 2.2.7 and 2.2.8), calculated using representative policies as follows:

- For **Ordinary Branch conventional whole-of-life policies**, final bonus rates are based on a 'sample policy' basis for each calendar year of entry, and are calculated as the ratio of the aggregate projected Asset Shares to the aggregate projected guaranteed benefits, grouped by calendar year of entry, for those taxable policies which are premium-paying or have paid all premiums due and which are expected to claim (whether through death or surrender) during the period in question.
- For all **Industrial Branch conventional whole-of-life policies**, surrender values from 21 February 2024 are set by reference to granular sample policy Asset Shares which are calculated in accordance with the relevant paragraphs in section 2. The accumulation of the Asset Share starts from a value at 1 January 2010 which is consistent with the surrender payout basis used immediately prior to that date. Proxy expense assumptions were used in the accumulation between 2010 to 2021 in order to provide a fair value.
- For **conventional with-profits endowment policies**, final bonus rates are derived from the Asset Share and guaranteed benefits under sample taxable premium-paying policies for each curtate duration in-force, chosen so as to be representative of the policies expected to mature during the period in question.
- For **conventional with-profits pension policies** at vesting, final bonus rates are derived from the Asset Share and guaranteed annuity benefits under 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 significantly in excess of the Asset Share so final bonus rates at vesting are currently zero. Given this situation is expected to remain for the foreseeable future, no Asset Share is calculated after the annuity benefits are in payment.

2.2.6 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 referred to in section 5. Sample policies are used for each series and as often as required under paragraphs 4.2.9 and 4.2.10.

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

- **Industrial Branch and Ordinary Branch endowment policies** that have ceased paying premiums early and have reduced guaranteed benefits, where final bonus rates are set to a rate determined from premium-paying policies of the same duration;
- **Ordinary Branch whole-of-life policies** that ceased paying premiums early and have reduced guaranteed benefits and this occurred before 1 December 2018, where final bonus rates are set to a rate determined from the aggregate of all premium-paying policies and policies that have paid all premiums due for the same calendar year of entry (as described in paragraph 2.2.5);
- **Industrial Branch tax-exempt endowments**, where final bonus rates are set to the rate for an equivalent taxable policy of the same duration;
- **Ordinary Branch whole-of-life policies** with entry dates prior to 1968, where final bonus rates are set to the rate for a taxable whole-of-life policy with an entry date in 1968; and
- **Ordinary Branch tax-exempt whole-of-life policies** with entry dates from 1968, where final bonus rates are set to the rate for an equivalent taxable policy of the same duration.

Payouts for Ordinary Branch conventional whole-of-life policies that have ceased paying premiums early and have reduced guaranteed benefits, and this occurred on or after 1 December 2018, are calculated assuming that premiums are maintained in full, less a deduction for missed premiums accumulated with interest, subject to a minimum of the guaranteed benefits which have been adjusted for premiums ceasing early.

2.2.8 For certain policy types, death benefits are calculated in accordance with policy conditions and policyholder expectations generated by LVFS' established practice rather than using Asset Share to determine them. For example:

- **Industrial Branch conventional whole-of-life policies**, where the death benefit is uplifted 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 which uplift the death benefit decrease with age and are set to 1.0 for ages 100 and above, so the surrender value and death benefit are equal at these ages. The 'premium paying' factors which uplift the death benefit decrease with premium paying term and are set to 1.0 when premiums cease (either early or contractually). They were designed with the objective of the death benefit being supportable up to age 100 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. Payouts for policies where premiums have ceased early on or after 21 February 2024 are calculated assuming that premiums are maintained in full less a deduction for missed premiums for a 12 month period starting from when premiums cease. The death benefit is subject to a minimum of the guaranteed death benefit;
- **conventional with-profits endowment policies**, where final bonus rates are set to those determined from maturing policies of the same duration; and
- **conventional with-profits pension policies**, where the payout on death is a return of the premiums paid.

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

2.2.10 For **unitised and accumulating with-profits policies** and **with-profits annuities**, the charges made to Asset Shares 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.

2.2.11 For **conventional with-profits life and pension policies**, the charges made 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, adjusted for tax where appropriate. LVFS currently includes **all with-profits policies** (except **With Profits Income Bonds** and **second generation unitised with-profits policies**) in the same 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 if not available.

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 Charges for benefits provided such as mortality and morbidity risks are made to Asset Shares by deduction of appropriate amounts from Asset Shares, where relevant. For **conventional with-profits pension policies** before vesting (where the death benefit payable is typically lower than the Asset Share) and for **with-profits annuity policies** an appropriate addition is made to the Asset Share of surviving policies. For **with-profits annuity policies**, LVFS's own and industry mortality experience and how they might change in future may be taken into account in the Asset Share calculations referred to in paragraph 2.2.6. This is currently assessed and applied by product series.

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

- Before age 50 (except on ill-health retirement – see below), the amount payable is the Asset Share;
- From age 50 but below age 55 (except on ill-health retirement – see below), the amount payable is the greater of:
  a) (55-Age)/5 x Asset Share + (Age-50)/5 x the discounted value of the guaranteed annuity benefit (calculated assuming the benefits are taken at age 55); and

  b) Asset Share
- From age 55 (and on all ill-health retirements) the amount payable is the greater of:
  a) The discounted value of the guaranteed annuity benefit (calculated assuming the benefits are taken at the date of the calculation); and

  b) Asset Share

where

- the discounted value of the guaranteed annuity benefits is determined using the basis used to calculate the original guaranteed benefits (or, where the actual basis is not available, an appropriate proxy for this basis) and reflects the premiums actually paid; and
- the Asset Share is calculated in accordance with section 2 on a monthly basis, subject to smoothing 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.

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

2.2.19 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 buying, selling or switching 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 paragraphs 2.2.7 and 2.2.8), LVFS manages the LVFS Fund with the long term aim of making total aggregate payouts of 100% of Asset Share.

2.2.21 For **conventional**, **accumulating** and **first generation unitised with-profits policies** (except for where Asset Shares are not used to set payouts as detailed in paragraphs 2.2.7 and 2.2.8, and 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 between 80% and 120% of Asset Share (known as the target range). This range is set taking into account the investment strategy, the smoothing approaches used, the frequency of reviews of final bonus and top-up bonus and the desire to minimise the risk of policyholders not receiving a fair payout. For **conventional with-profits policies**, the Asset Share used for the purpose of assessing payouts against the target range, reflects the methods used to set final bonus rates described in paragraph 2.2.5.

2.2.22 For the payouts detailed in 2.2.21 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 occur above target range for benefits 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 historic parameters and assumptions relevant to a particular method, will be submitted to the Board for approval, and included in the documentation referred to above.

2.2.26 In the event of a deferral of interest or principal on the Subordinated Debt (e.g. as a result of reduced LVFS solvency coverage), no future Mutual Bonus, One-off Bonus or Exit Bonus can be distributed until the deferral of interest or principal had been made good. Otherwise, LVFS manages the LVFS Fund so that the discretionary benefits under with-profits policies (i.e. future annual bonuses declared or future bonuses declared which are based on Asset Shares or units for **third generation unitised with-profits policies** including past declarations of Mutual Bonus) are calculated and paid disregarding any liability to make payments under the 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 attaching to the policy, and subsequently deducted at the point of claim (including in relation to any withdrawals);
- Units are allocated to policies from premiums paid, following the investment option selected by the policyholder;
- Units are deducted from policies to pay 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 under the policy conditions. 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 allocating, deducting or switching 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 7);
- No annual or final bonuses are added.

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** and **with-profits 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** 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 projected relative position of Asset Shares against:

- guaranteed benefits for **conventional with-profits life and pension policies** and **with-profits 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 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 or if a new product type was introduced that used annual bonus rates with a materially different level of guarantees or investment strategy.

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 payouts on policies 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**, LVFS expects to set its final bonus rates four times a year. For each individual **Industrial Branch policy**, the final bonus rate is set to the level required to be applied to the guaranteed benefits to pay the death benefit for the policy when the surrender value is aligned with the smoothed asset share, which is set in accordance with paragraph 2.2.8. The surrender value is set to the level required to pay the Asset Share of the granular sample policy referred to in paragraph 2.2.5, subject to smoothing referred to in section 5 and allowing for the difference in premium size between the actual policy and sample policy.

4.2.3 For **conventional with-profits endowment policies**, LVFS expects to set its final bonus rates four times a year. On surrender the guaranteed benefits are recalculated for the reduced duration in force and the same rate of final bonus is applied as would apply to a maturity claim for the same policy type and duration in force, with appropriate adjustments being made where surrenders occur at non-integer durations.

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 expected 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 transfer values and surrender benefits (as stated 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 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 can be calculated more frequently in exceptional circumstances.

4.2.6 For **first generation unitised with-profits policies**, if the payout amount 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. For the avoidance of doubt, partial payments and the policy value used in the calculation includes any Exit Bonus.

4.2.8 The annual bonus for **accumulating with-profits Flexible Whole Life policies** is set with the aim of paying out the Asset Share as calculated in 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.

4.2.9 For **With Profits Pension Annuity** policies, a top-up bonus may be payable in accordance with paragraph 2.2.6 and subject to smoothing 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 (rather than a combination of annual and top-up bonus as for other **with-profits annuities**) payable in accordance with paragraph 2.2.6 and subject to smoothing 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.

4.2.11 The design of **second and third generation unitised with-profits policies** means no final bonuses are added for these policies.

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 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. For the avoidance of doubt, partial payments and the policy value used in the calculation includes any Exit Bonus if the policy type is eligible.

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. 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.

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 Other than where the smoothing methodology is specified in the policy conditions (i.e. other than **second and third generation unitised with-profits policies**), LVFS does not set a period over which it expects smoothing to be neutral in the LVFS Fund. 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 one factor in any decision to remove, suspend or reduce smoothing. Any such decision would also consider the fair treatment of both the policyholders concerned and other policyholders and members in the LVFS Fund. 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 historic and expected cost of maintaining smoothing (taking account of any hedging), the fair treatment of the 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 Asset Share for the granular sample policy referred to in paragraph 2.2.5. The geometric average is initially seeded with two years of expected returns. The approach was reflected in payouts from the 1 March 2023 declaration, with a check being performed to ensure an appropriate transition from the previous smoothing approach. For the declaration of final bonus rates for policies on 21 February 2024 which included an alteration to how payouts are set, no smoothing was applied to changes in final bonus rates in respect of the alteration.
- 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. The geometric average is initially seeded with two years of expected returns. The approach was reflected in payouts from 1 December 2023, with a check being performed to ensure an appropriate transition from the previous smoothing approach.
- For **conventional with-profits endowment policies**, smoothing is normally applied by smoothing investment returns and historic miscellaneous surplus taking the geometric average of these over the previous five years.
- For **conventional with-profits pension policies**, from 1 April 2018 smoothing is normally applied by formulaically limiting the investment return (positive or negative) used to calculate Asset Shares, with the balance being released in future months. If the balance becomes large then the formulaic limit on the investment return can be amended to accelerate the release of the balance. Before 1 April 2018, the investment return applied was not smoothed.
- 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.
- 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 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 fixed 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. Returns earned prior to 1 July 2023 are set to ensure the introduction of this new approach results in minimal profit or losses over time. The approach was reflected in annuity payments from the 1 August 2023 declaration with checks being performed to ensure an appropriate transition from the previous smoothing approach (which limited the change in annuity at a single review rather than by smoothing the investment returns directly).

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.

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 material, the Board reviews these assets at least annually to ensure they remain appropriate.

6.1.7 The LVFS Fund provides a capital support facility to the RNPFN Fund.

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 Life 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 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.

For **third generation unitised with-profits policies**, Asset Shares are not used to guide policyholder payouts and references in the practices in this section to Asset Shares or Asset Pools should be interpreted as relating to the investment fund options available under these policies.

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, 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 directly from LVFS.

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 to a limited extent 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 reassurance of the majority of the benefits;
- **With Profits Income Bonds**, due to the small size of the total Asset Shares for this product; and
- **All-In-1 Investment Bonds** and **Guaranteed Capital Bonds**, due to the small size of the total Asset Shares for these products.

6.2.7 Fewer assets are currently held than those underlying the Asset Pools so as to help hedge the LVFS Fund's asset based market exposures relating to charges, guarantees and smoothing. For **conventional life with-profits policies**, after each quarterly final bonus declaration, the expected payouts on those rates 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 LVFS seeks to ensure there are sufficient available assets in the LVFS Fund to meet its obligations as they fall due and to ensure sufficient liquidity 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 portion of the inherited estate used to support future distributions of Exit Bonus (which derives from proceeds from the sale of LVFS's general insurance business) is currently invested using a blended approach based on cash and asset shares with the aim of increasing it fully to be in line with asset shares during 2024.

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, 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 Life Chief Actuary in making its decision.

6.2.12 At approximately annual intervals the Board reviews any material subsidiaries to confirm that they are unlikely to have any adverse effect on the interests of the with-profits policyholders in the Fund and are made in the best interests of all LVFS's policyholders.

6.2.13 The Asset Pools used to support Asset Shares for **with-profits policies excluding second generation unitised with-profits policies** currently include illiquid investments in private equity and direct property.

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 the LVFS Fund 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 investment 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. LVFS does not currently set fixed limits on the amount of the Fund that may be invested in any subsidiary companies. Instead it applies the principles set out in section 7.1 of this document.

7.2.2 The 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 and the Ockham Pension Scheme, which in turn will be dependent on the actual and expected longevity of members of the schemes, as well as the actual and expected returns on the assets held by the schemes;
- demographic experience and assumptions, including in particular the proportions taking up cash or guaranteed annuity benefit options under **conventional with-profits pensions 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 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 and bonuses (after allowing for any hedging);
- costs 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);
- the cost of meeting the obligations under any subordinated debt allocated to the LVFS Fund; and
- the performance of subsidiaries held as assets of 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). In connection with this, the LVFS Fund provides a capital support facility to the RNPFN Fund that would be called on if the RNPFN Fund failed to comply with its Solvency Capital Requirement. The maximum amount of capital support varies in line with the value of the assets attributable to the with-profits business in the RNPFN Fund subject to a cap of £100 million. The capital support would, however, be repaid to the LVFS Fund, together with the investment return thereon, unless the RNPFN Fund cannot meet its liabilities. Further details of the terms of the facility (including the charge levied on the RNPFN Fund for it) are given in the PPFM for the RNPFN Fund;
- 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 the LVFS Fund will have to rebate part of the investment costs incurred in respect of the Teachers Assurance Fund in the circumstances detailed in the PPFM of the Teachers Assurance Fund;
- the risk that compensation to policyholders and associated costs resulting from 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; and
- risks arising from the merger with the LVFS Fund of either of 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 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 under various estate distribution policies. The current Estate Distribution Policy is summarised in section 9.2.

7.2.4 From 2020, an Exit Bonus may be declared at the discretion of the Board for members with **with-profits policies in the LVFS Fund** (except **second generation Flexible Guarantee unitised with-profits policies** and **third generation unitised with-profits policies**) in respect of the distribution of part of the proceeds from the sale of LVFS's general insurance business. The Board has exercised its discretion and includes eligible with-profits policies owned by non-members in the declaration of Exit Bonus as it believes this is a fair outcome. The initial declaration of Exit Bonus in 2020 was backdated to apply to claims from 28 November 2017. Exit Bonus uplifts the Asset Share and any death benefits dependent on the Asset Share (allowing for any smoothing in accordance with section 5) at the time of any relevant claim calculation (including partial payments and pension income) by the most recently approved rate and, in doing so becomes part of policy benefits at the time it is paid out. It is not added to monetary guaranteed benefits, or the guaranteed annuity benefits underpin for surrender values of **conventional with-profits pension policies** detailed in paragraph 2.2.18. Hence, Exit Bonus increases any final bonus or top-up bonus, or reduces any Market Value Reduction, that would otherwise be paid. For **Pension Income Plus Annuity** policies, any Exit Bonus is added to regular annuity payments separately.

In deciding what rate of Exit Bonus to declare, the LVFS Board will take into account:

- the portion of the proceeds from the sale of the LVFS's general insurance business used to support the paying of Exit Bonus that has not yet paid out, allowing for investment returns on that portion;
- changes in policy Asset Shares since the last declaration;
- the number of in-force policies eligible to receive Exit Bonus; and
- the LVFS Fund's current and projected financial strength.

As a result, the rate of Exit Bonus applied may be varied in future, including being set to zero, if the Board considers it appropriate at the time. It is currently expected that a reduction in the rate of Exit Bonus would be implemented ahead of Mutual Bonus being reduced. The level of Exit Bonus is reviewed at least annually.

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, One-off Bonus and Exit Bonus have been reduced to zero and prior allocations of Mutual Bonus had been removed. However, losses from one source may be offset against profits from another.

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

8.1 Principles

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

8.1.2 For **conventional with-profits life and pension policies** in the LVFS Fund, the aim of 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 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

8.2.1 Where the level of a charge is not guaranteed, it may be varied by LVFS, subject to the requirement to treat its policyholders fairly. LVFS uses an internal fair value framework to help assess this.

8.2.2 The charges applied to 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.

8.2.3 The charges in respect of expenses applied to 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 (allowing for any Value Added Tax) at the rates applicable to the relevant Asset Pool together with certain investment related expenses, adjusted for tax relief at the appropriate rate where applicable.

8.2.4 Other than investment management fees and certain investment related expenses, the total 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 representative policies for the policy types detailed in paragraph 8.2.3 except:

- From 1 April 2018, each calendar year the expenses incurred for all **conventional with-profits pension policies** are totalled and then converted to an equivalent fund-based charge applied to the Asset Share of individual policies.
- From 1 January 2022, each calendar year the expenses incurred for all **Industrial Branch conventional whole-of-life policies** are totalled and converted to equivalent fund-based charges, applied to the Asset Shares of granular taxable and tax-exempt sample policies, with the percentage charge for tax-exempt policies being higher than that for taxable policies (in recognition of difference in average sizes of the policies). Before this proxy expense assumptions were used in accordance with paragraph 2.2.5.

8.2.5 LVFS does not outsource overall management and administration services, although some specific services are outsourced. LVFS currently outsources the investment management of the majority of the assets in the LVFS Fund to Columbia Threadneedle Investments under an arrangement which is expected to end in May 2024. LV has announced plans to appoint BlackRock in its place subject to regulatory process. Certain specialised assets are currently outsourced to other third parties. The performance of the asset managers is reviewed on a regular basis against agreed performance benchmarks. LVFS is able to terminate all or parts of the arrangements without compensation with immediate effect if the manager persistently fails to meet agreed criteria.

8.2.6 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.

8.2.7 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 Fund and the expenses charged to the Fund under the RNPFN Scheme of Transfer;
- **For the Teachers Assurance Fund**: The difference between the expenses incurred in respect of the Fund and the expenses charged to the Fund under the Teachers Instrument of Transfer;
- **For acquisition expenses**, **maintenance expenses and investment-related expenses in respect of with-profits policies in the LVFS Fund**: The difference between the expenses incurred and the charges deducted from the asset shares (or from the units of **third generation unitised with-profits 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; 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 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 and Exit Bonus fairly over time.

9.1.6 Other than in relation to expectations set regarding future distributions of Mutual Bonus and Exit 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 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 its members and non-members over time; and
- To help, alongside other management actions, to maintain LVFS' total available capital to provide appropriate level of protection for all LVFS' policyholders (with-profits and non-profit), and to help ensure that LVFS is able to continue in operation as a 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 Articles of Association to whom it makes distribution 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 and **third generation unitised with-profits policies** are not eligible for estate distributions until a policy has been in force for at least 12 months. **Third generation unitised with-profits policies** originally taken out on a non-profit basis are not eligible for estate distributions until a policy has been in force for at least 12 months from the date the policy converted to with-profits.

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 various estate distribution policies. 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, or the guaranteed annuity benefits underpin for surrender values of **conventional with-profits pension policies** detailed in paragraph 2.2.18.

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 all other **with-profits policies** it is added by increasing any final bonus or top-up bonus (or reducing any Market Value Reduction) that otherwise would be paid, except for transfer and surrender benefits on **conventional with-profits pension policies** where it is included in the Asset Share calculated in accordance with paragraph 2.2.18.

Estate Distribution Policy – Frequency and timing of distributions

9.2.11 The rates of Mutual Bonus to be declared are currently determined by the Board in the lead-up to the end of each calendar year, taking into account LVFS's forecast calendar year performance, its forecast year end capital position, and its projected performance and capital position, having regard to advice from the With-Profits Committee, With-Profits Actuary and Life Chief Actuary.

9.2.12 Adjustments to the rates may be made by the Board if the actual calendar year performance or year-end capital position differs materially from forecast.

9.2.13 Mutual bonus rates are then typically announced and reflected in policy benefits around the time of the announcement of LVFS's annual results.

9.2.14 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.

9.2.15 The Board may also declare a One-off Bonus at its discretion in the same form as Mutual Bonus. In doing so the Board will consider how a fair outcome for those policy groups considered eligible to share in the proceeds of the sale of LVFS' general insurance businesses (Groups 2 and 3) is maintained 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 Life Chief Actuary.

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 Life Chief Actuary and taking into account:

- LVFS' current forecast and projected future capital position (regulatory and economic) in relation to LVFS's risk appetite statements, capital management policy and sustainability framework.
- A comparison of the amount to be distributed (as implied by the rates determined) with the forecast earnings and forecast 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 to zero) if the circumstances require it e.g due to changes in LVFS' capital position.

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

- Flexible Guarantee Bond Series 3; Flexible Guarantee Funds Series 2
- Third generation unitised with-profits policies (which includes LVFS' with-profits policies open to new business)

Group 2

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

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 are determined to provide members who were considered eligible to share in the proceeds of the sale of LVFS' general insurance businesses (Groups 2 and 3) with a fair outcome, given the original intention of the announcements in this respect in 2020 and how LVFS's business has evolved since then.

9.2.21 The ratios between the Mutual Bonus rates for different policy classes 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 Life 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, having regard to the objectives in 9.2.26 and developments in LVFS's business since that time.

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 those policy groups considered eligible to share in the proceeds of the sale of LVFS' general insurance businesses (Groups 2 and 3), having regard to advice from the With-Profits Committee, With-Profits Actuary and Life Chief Actuary.

Estate Distribution Policy – Clawback of Mutual 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 Life 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 Life 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 any capital provision at LVFS Fund's risk appetite, with the addition 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 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 justify 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.

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 members and other interested parties to understand the way in which the with-profits business in the LVFS Fund is conducted and the material risks and rewards involved in effecting or maintaining a with-profits policy in the LVFS Fund. It is not a comprehensive explanation either of the management of the with-profits business of the LVFS Fund or of every matter which may affect that business. In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to the effecting or maintaining of a with-profits policy.

Statements in this document in relation to the risks and rewards involved in effecting and maintaining a with-profits policy in the LVFS Fund are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.

The contents of this document may change as the circumstances of 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.

Regardless of whether Asset Shares are used as a guide for payouts on with-profits policies, policyholders have no entitlement to receive the Asset Shares on their policies. Asset Shares can also decrease as well as increase and, at any time, an Asset Share may be greater or less than the contractual guaranteed benefits due under the policy. Asset Shares are defined in detail in 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 regular bonuses are added, and decreases as any charges are taken. The accumulation account for **Appropriate Personal Pension policies** may be increased with a final bonus when it is paid out. The accumulation account for **Flexible Whole Life policies** may be reduced by a Market Value Reduction when it is paid out.

Annual Bonus

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

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

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

For **first generation 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.

Asset Share

The accumulation, at investment rates of return, of premiums paid less charges for expenses incurred, taxation, the cost of any benefits provided, any charges for the cost of guarantees or the use of capital, regular annuity payments and partial payouts. Discretionary additions for Miscellaneous Surplus (including Mutual Bonus and One-off Bonus) and uplift at the time of any relevant claim by Exit Bonus may also be included. Section 2.2 provides further details.

Asset Share Cover

This is defined in paragraph 3.2.2.

Asset Pool

The assets underlying Asset Shares. For certain with-profits policies the assets held can differ from those assumed to be held in the Asset Pool used to determine the investment return applied to their Asset Shares.

Conventional With-Profits Policy

An older-style with-profits policy which guarantees a minimum level of benefits on death or maturity as long as premiums are maintained. The guarantee can be reduced if premiums cease early or the policy is cashed in.

Declared Investment Return

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

Estate Distribution Policy

This is defined in section 9.2.

Exit Bonus

For eligible with-profits policies, Exit Bonus, at the most recently approved rate, uplifts the Asset Share at the time of any relevant claim (including partial payments and pension income). Paragraph 7.2.4 provides further details.

Final Bonus

An addition 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 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 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.

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 LVFS's business that sits outside the RNPFN Fund and the Teachers Assurance Fund.

Life Chief Actuary

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

Market Value Reduction (MVR)

A reduction to the unit value of a **first generation unitised with-profits policy** (or to the accumulation account for an **accumulating with-profits Flexible Whole Life policy**) that may be made if the policyholder takes money out of the LVFS Fund. It is used to achieve a fair level of payouts and to be fair to the remaining with-profits policyholders in the Fund. There may be MVR-free events for the policy such as specific points during its term, when an MVR is guaranteed not to be applied. The policy conditions will specify when these arise.

Miscellaneous Surplus

A discretionary addition to Asset Share (or to units of **third generation unitised with-profits policies**) 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.

Mutual Bonus

A discretionary addition to Asset Share (or to units of **third generation unitised with-profits policies**) made by LVFS from 2011 to allocate profits from business risks to eligible with-profits policies. It 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 contractual bonuses applied, or a unit-linked policy where the value of the benefits is measured by reference to a number of units allocated to the policy at the date of calculation with no contractual bonuses applied.

One-off bonus

A one-off discretionary addition to Asset Share (or to units of **third generation unitised with-profits policies**) 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. Paragraph 9.2.15 provides 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.

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 LVFS 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 a 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 a claim arises.

With-Profits Actuary

The With-Profits Actuary is a regulatory role with 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.

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 historic Industrial Branch business acquired from other Friendly Societies within the product types indicated by an asterisk (*).

Conventional with-profits life policies

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

Industrial Branch:

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

Ordinary Branch:

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

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

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

First generation unitised with-profits policies

Bonds:

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

Other policy types:

- Tax Free Savings Plan
- Regular Savings Plan
- Mortgage Savings Plan (two versions)
- Flexible Savings Plan (two versions)
- MAX
- Family and Legacy Fund
- With Profits Life ISA
- Top-Up Company Pension Plan
- Flexible Personal Pension Plan
- With Profits Retirement Plan

Second generation unitised with-profits policies

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

Third generation unitised with-profits policies

- Smoothed Managed Funds Bond Series 1†
- LV= ISA†
- Smoothed Managed Funds Pension Series 1 (available via our LV= 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 aka Flexible Whole Life Assurance policy

With-profits annuity policies

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

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

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