Annual Report

For the year ended 31 December 2022

2022

Financial Highlights

£31m
Operating profit generation

(14.3)%
Main With-Profits Fund return

£91m
Operating capital generation

£(265)m
Loss before tax and mutual/exit bonus

£35m
Profit-related bonuses shared with members

£391m
Solvency II capital surplus

4%
Reduction in total expenses

174%
Capital Coverage Ratio

A bit about us and what we do

We're a leading UK life and pensions mutual insurer.

We help our members and customers protect their income while they are working and maximise it when they stop. By doing this we enable people to live financially confident lives.

We serve over a million members and customers across the UK and as a protection, investment and retirement specialist, we offer a range of products, services and advice. We want members to be able to plan for a financially secure future. We put our members at the heart of all that we do.

We believe that everyone should have access to independent, regulated financial advice. It should not be seen as a luxury for the few who can afford it or who are experienced in using it. Why? Because it provides financial and emotional benefits. Good advice ensures better financial outcomes and frees people from the worry of making complex decisions that could have long-term implications.

We work with a wide range of financial advisers and it is through them that the majority of customers will buy our products and services.

We have tried to use plain English throughout this document to make it as understandable as possible for all our stakeholders. However some of the information in the Annual Report is quite technical and it has been necessary to use terminology or performance measures which are not commonly understood. To assist the reader a glossary is provided on page 60 and explanations as to why we use certain non-standard performance measures is provided on page 61 to 62.

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Our Accounts

The LV= Strategic Report was approved by the Board of Directors on 29 March 2023 and signed on its behalf by

Simon Moore

Simon Moore
Chair

Chairman's Review

Simon Moore Chair

Delivering for our members

Mutuals have an important role to play in delivering financial confidence across society. Helping individuals and families through challenging economic circumstances is the reason mutuals like LV= were first established. Our values-driven offering carries this tradition forward in difficult times.

Whether you are a pensioner on a fixed income struggling to keep up with the rising cost of living, or a homeowner facing a doubling of your mortgage rates, you will have felt the effects of the economic uncertainty. Our long-term study, the Wealth and Wellbeing Research Programme, has shown the consistently increasing impact of rising costs on households since its launch in 2020. The economic challenges of the last year proved exactly why LV's mission to deliver financial resilience to individuals and families is the right one.

Across the business, we have traded well and our insurance businesses - protection, equity release and annuities - have all exceeded their 2022 sales targets. New business sales for our Savings and Retirement business totalled £1,097m.

Our operating profit has remained stable year-on-year at £31m, despite being impacted by inflationary pressures.

The business has made progress on stabilising operational costs and management continue to embed strong cost disciplines - an essential aspect of how we deliver value for members. This led to expenses remaining largely flat even allowing for inflationary pressures.

In 2022 we were delighted we could share £35m of bonuses with eligible members.

More broadly, despite the economic and market turmoil, our Solvency II capital position remains strong, with a capital surplus of £391m. Our Capital Coverage Ratio remains well above our regulatory minimum at 174%. Although market volatility and turbulence led to a decrease in capital surplus, our operating and trading profits remain stable, the business continues to have strong foundations and sufficient headroom to weather the current economic circumstances. We are seeing that our business strategy is delivering.

You'll find more information about our full performance on pages 9 to 15

Members and mutuality at the heart

It is times like these that we appreciate the need for diversity of ownership models in personal finance markets. There may be fewer mutuals today than there once were, but their importance and value and the choice they offer, has in my opinion only grown. As well as the financial benefits of mutual membership, there is the tangible sense of having a stake and a say in where the business is headed.

Our members are at the heart of LV= and we've seen how important it is to ensure we have our finger on the pulse of what members are thinking. Connecting with members is a fundamental part of running a mutual business.

That is why we are expanding how we engage with our members.

The new online LV= Member Community is a space for members of all ages and from all around the country to get involved in LV=, which is their company, and provide their thoughts, opinions and feedback on a range of surveys and topics.

There remain challenges for mutuals compared to other ownership models. To help drive change and reform, we need to raise our voice.

For that reason, and to work alongside our fellow mutuals, we have joined the Association of Financial Mutuals so we are able to influence the public debate. Over the past year, we have been engaging with parliamentarians to support progress on regulatory changes and to emphasise the fundamental importance of diverse business models being available to all members and customers.

A warm welcome and thank you

There have been some changes on the LV= Board during 2022. I'm privileged that in June 2022 I joined LV= as chair, taking over from Seamus Creedon who stood in as interim chair. I would like to thank Seamus for his service, his support and his counsel. We wish him well in his retirement.

I'd also like to take this opportunity to welcome David Rogers, who joins the LV= Board. David has more than 25 years' experience of financial services with a deep knowledge of the insurance and life and pensions industry. He worked at Aviva for more than 20 years in a variety of senior roles including chief finance officer of Aviva's UK Life and Pensions business. He is a non-executive director at AA Insurance Services Limited and brings a wealth of expertise to the Board.

I'm delighted that in September, David Hynam joined us as LV's chief executive. David has extensive experience as well as a values-driven approach and his commitment to our members is unwavering. LV= is a strong, resilient business, with a positive outlook, which in no small part is due to the dedicated management of our executive leadership team. This will continue, strengthen and thrive under David's leadership.

Everyone at LV= remains wholly focused on delivering great service and products which meet our members' and customers' needs now and in the future.

I would like to thank our LV= colleagues, the senior leadership team and my fellow Board members for their hard work and steadfast commitment to ensure our members and customers are at the heart of everything we do. And to our members, thank you for your ongoing support. Our strength comes from standing together in the true co-operative spirit. Long may this continue.

Simon

Member Community

An 'always on' way of being able to share updates with members as well as listening to their views and receiving feedback.

£35m

Member bonuses

Section 172 statement

The Section 172 statement, explaining how the directors have carried out their duty to promote the success of the company for the benefit of stakeholders as a whole, can be found at the end of this Strategic Report on page 30.

Chief Executive's Review

David Hynam Chief Executive Offcer (CEO)

Overview of performance

2022 was a year like no other and there's no doubt that the economic challenges, market volatility and uncertainty affected businesses around the UK. High inflation, rising interest rates and low growth still pose challenges for businesses and consumers alike. We are not immune to this and we know that our members are affected, not least by the rising cost of living.

LV= benefits from strong, mutual foundations and the most incredible ones. I want our members and colleagues to be proud to be part of a business that has - for 180 years - helped individuals and families to look to the future with confidence. This is why we are still here today.

Since joining LV= as chief executive in September, my focus has been on continuing with the delivery of the core components of our business strategy and stewarding the long-term health of our mutual business so that we can continue to deliver the value for money that members rightly expect in tough economic times.

Our strategy and plan are clear. We offer protection, investment and retirement solutions – helping our members to protect their income while they are working and maximise it when they stop. Smoothed Managed Funds are a range of low volatility, multi-asset investment funds. As a specialist in these funds, we distribute our products principally through financial advisers. Our business model is underpinned by a focus on delivering great customer service and experiences, improving the digital capability of our business and managing our cost base effectively.

Financial and business highlights

We continue to strengthen our Smoothed Managed Fund range. We have launched two new funds - Extra Cautious and Impact Growth - to appeal to a wider range of investors. Although market conditions have slowed the growth of the Smoothed Managed Funds and have affected the one-year investment performance across many of our funds, the smoothing mechanism we use continues to reduce volatility for members and cushions them from the worst of the ups and downs of investment markets. We expect this range of funds to remain an expanding area of the business as members continue to seek low-volatility investments.

I'm delighted that we were awarded 5 star ratings for our Investments, Pensions and Protection services at the Financial Adviser Service Awards. We also won Outstanding Individual Income Protection provider at the Cover Excellence Awards.

Our protection solutions are seeing strong sales growth and exceeding our expectations. Quite understandably, more and more individuals and families are looking to achieve resilience and insure themselves against events, which could pose significant challenges to their finances.

The launch of affordable critical illness cover added to our existing range of policies - critical illness, income protection and life insurance - is helping thousands of families across the nation guard against serious accidents or illnesses that prevent them from working. We picked up a clutch of awards, and received industry recognition, including Best Income Protection Provider from Moneyfacts for the 13th year in a row.

Before becoming a CEO, I spent much of my career in customer experience and service. So I am in no doubt whatsoever that great service must be at the core of what we offer to our members and to advisers. Service levels last year dipped and at times were not where I would expect them to be. However, we saw a marked improvement towards the end of the year – improving the experience that we give to our members and advisers continues to be a key area of focus for me and my team.

It's essential that when our members need us most we support them. In 2022 we paid out £127m in critical illness, income protection and life insurance claims; we approved and paid 97% of all life claims made.

We made some real strides in our journey to digitise internal processes and systems and we launched enhanced functionality to our established adviser and customer portals.

Despite inflationary pressures, a disciplined approach has seen our operating costs remain largely flat. This gave the business the freedom to give colleagues a one-off cost of living payment of £750, to support them during this difficult time.

We must achieve our business ambitions in the context of the environmental impact of our operations and our investments. This matters to me very much and as such I have assumed overall responsibility for sustainability, including the development and delivery of our strategic plans in relation to sustainability and climate change. A dedicated sustainability manager was appointed during the year to help us achieve these plans and we have made good progress on our environmental objectives as we prepare for our first Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting at year-end 2023.

Outlook

The outlook for LV= remains positive and members can look ahead with confidence that as a modern mutual, we operate a collaborative, inclusive business environment where we do our utmost to achieve the best outcomes and returns for members. We will continue to serve you as a proud mutual business, both now and in the future.

£750
Colleague one-off cost of living payment

£127m
Critical illness, income protection and life insurance claims

97%
of all life claims made, approved and paid

Our Business Strategy and Mutual Model

> "We are proud of our mutual ethos and believe in the value, and role, that purpose-driven organisations play in the financial services sector and wider society."
>
> David Hynam, Chief Executive

We are a leading life and pensions mutual insurer and member owned business that has existed for 180 years: providing financial confidence and security for our one million plus members. Our range of protection, investment and retirement products, services and advice enable our members to protect their income when they are working and maximise it when they stop.

Our strategy is built around LV's specialised low volatility, multi asset Smoothed Managed Fund range, which members access via independent financial advice. This approach enables LV= to grow a modern With-Profits Fund that invests in its complementary Pensions, Later Life, Protection and in-house Advice businesses.

We target the distribution of our products specifically with advisers and their clients where the LV= brand and products are most competitive. This enables us to hone our offer by developing our digital capability, focus on the quality of our member, customer and adviser services and simplify our operations.

Our business strategy

What we offer

Investments	Pensions	Later Life	Protection	Advice and Direct
Offer multi-asset low volatility investments through our with-profit Smoothed Managed Fund range.	Enable and secure retirement provisions with advice led pension propositions.	Help supplement retirement income via equity release to access housing wealth and guarantee a secure income in later life.	A range of critical illness, income protection and life insurance products to help protect peoples' lives and their incomes.	In-house Retirement Advisers providing whole of market 'at retirement' advice and direct to consumer products.

Who we serve

Advisers	LV= Customers	Partnerships
Target advisers and their clients where the LV= brand and products are most competitive. Grow our digital capability to increase adviser access.	Grow our direct to customer proposition focused on protection, retirement and equity release products.	Explore potential for corporate partnerships in Protection, and leverage the Smoothed Managed Funds proposition on third-party platforms.

How we deliver

Culture	Customer and Adviser Experience	Technology	Brand	Capital Optimisation
Our values sit at the heart of LV= and help to define and strengthen our culture.	Continue modernisation to ensure consistent service delivery to members, customers and advisers.	Modernise, renew and simplify our IT estate, improve our digital offering and realise efficiencies.	Leverage LV's strong and recognised brand in the market to engage prospective consumers and existing policyholders.	Continue balance sheet and capital management alignment to the business strategy.

Our culture

Our culture is one of our most prized assets, it's unique to LV= and drives how our colleagues behave and show up at work. A positive culture encourages respect, openness and a place where our colleagues can be themselves. When we're at our best, we thrive together and can do great things for our members, customers and LV=.

As a mutual, members are central to our decisions and our culture is built on and fostered by a set of four values.

Our values are simple, but they mean a lot.

We are
COURAGEOUS

Doing our best for our members and each other – giving all we've got to meet our goals

Own it

Challenge it

Simplify it

Learn from it

#thisis**us**

We are
TRUSTED

Doing the right thing is everything

Be true

Be transparent

Be a safe pair of hands, and more

Believe in our strong team

#thisis**us**

We are
CURIOUS

Ideas come from all around
Invite them and learn from them

Know it

Try it

Share it

Research it

#thisis**us**

We are
INCLUSIVE

Everyone's welcome here

Value individuality

Share the floor

This is us

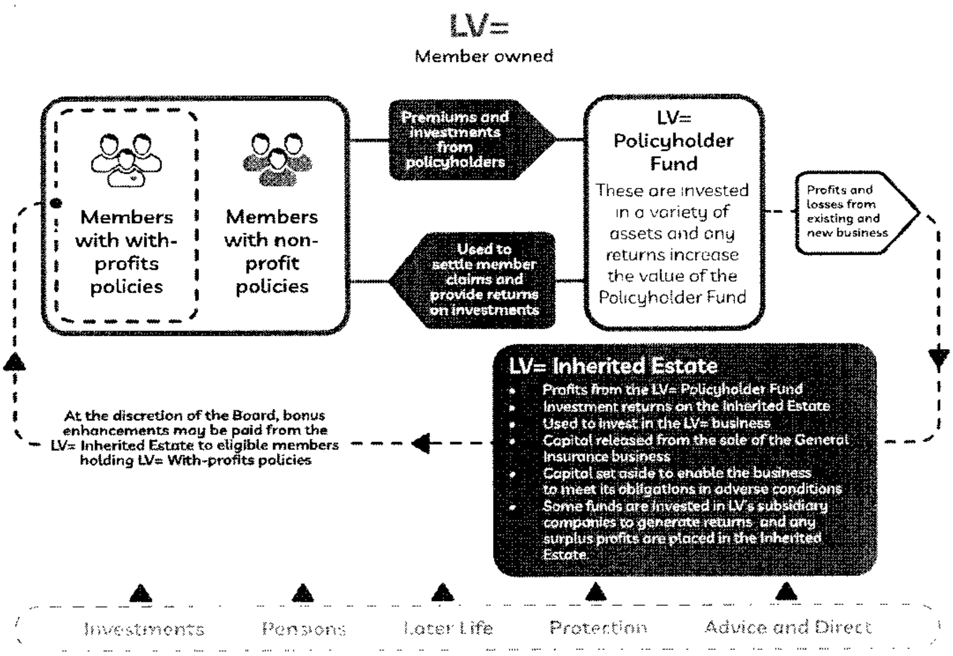
Be you

#thisis**us**

Our mutual model

As a mutual business, LV= is run for the benefit of our members and is therefore different from other organisations which are owned by shareholders. We believe this difference is important in serving our members and creating long-term value for them which we aim to grow consistently. We do this in an appropriate way to manage any risks involved in doing so.

Our one million plus members hold a variety of products with us including life insurance, income protection, investments and retirement income solutions. They have access to a range of member benefits and eligible members, who hold certain with-profits policies, may also benefit from additional rewards when the business performs well.



About our mutual model

Our mutual model shows how premiums and investments from our members flow into the LV= Inherited Estate and what benefits and returns it generates, including bonus enhancements which may be paid to eligible members.

Our products and services feed into the mutual model via our lines of business.

- Savings and Retirement. Smoothed Managed Fund range, pensions equity release and retirement advice.
- Protection: products that help protect people's lives and their incomes such as critical illness, income protection and life insurance.
- Heritage: a closed book of savings and retirement products issued by LV= and friendly societies and companies acquired by LV= a long time ago, as well as Teachers Assurance and RNPFN policies that are looked after by LV=.

Our products, that are predominantly sold through financial advisers, represent a careful balance of well-established and profitable products. This mix of business provides us with a diverse risk appetite and helps to mitigate the impact of adverse market conditions.

Our **LV= Policyholder Fund** is managed on our behalf by our strategic partners. our primary investment manager is Columbia Threadneedle Investments (CTI). This allows us to focus on our core expertise of risk-based insurance business while benefiting from the investment management expertise of our partners. The partnership arrangements are reviewed regularly to ensure the risk and return balance is appropriate for our members.

The **LV= Inherited Estate** is made up of a range of profits and investment returns and has capital set aside to enable the business to meet its obligations. A full list of what makes up the Inherited Estate can be found in the mutual model above.

The subsidiary companies such as LV= Equity Release, LV= Commercial Mortgages and LV= Financial Advice Services, provide the business with wider strategic and capital advantages. In addition, any surplus profits generated in these companies are placed in the LV= Inherited Estate.

Key Performance Indicators

The LV= Board judge the following Key Performance Indicators (KPIs) to be the most effective in measuring business performance and assessing progress against strategic objectives. Our KPIs are based on key metrics in the balanced scorecard that drive colleague and director remuneration. The performance of the With-Profits Fund is also included as a KPI so we can monitor how we are returning value to our members.

Our aims

Operating capital generation £m
Generate positive capital from our trading businesses in order to continue to return good value to our members.

Capital Coverage Ratio (CCR) %
Ensure the long-term sustainability of the group by maintaining a robust Solvency II CCR.

Main With-Profits Fund return %
Deliver strong investment returns for with-profits members over the medium to long term.

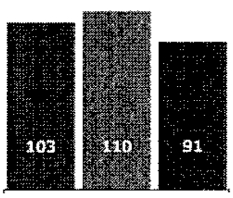
Colleague engagement
Maintain good levels of colleague engagement to ensure our workforce is energised, fulfilled and connected.

Best loved
Deliver excellent customer service levels while consistently treating customers fairly.

2020
2021
2022

2022 performance

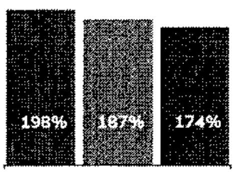
Operating capital generation £m



Operating capital generation for 2022 reduced to £91m. This decrease was mainly driven by the reduction in Smoothed Managed Funds and pension new business sales, in the face of difficult economic conditions.

For further detail see our capital and profit performance section on page 10.

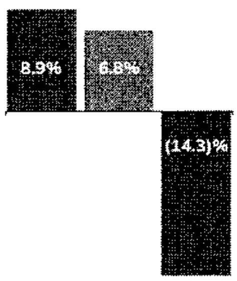
Capital Coverage Ratio (CCR) %



Our 2022 CCR of 174% continues to be well within risk appetite. The overall decrease was mainly driven by the market volatility and economic turbulence experienced during the year.

For further detail on the movement in our capital position see our Solvency II capital surplus section on page 13.

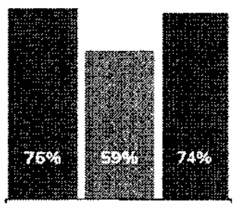
Main With-Profits Fund return %



Our 2022 investment return of -14.3% for the main With-Profits Fund was as a result of both equity and bond values being negatively impacted by rising interest rates as central banks moved to control inflation in the face of macroeconomic uncertainty during the year.

For further detail see our investment performance section on page 11.

Colleague engagement %

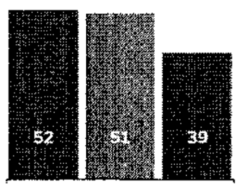


Our average colleague engagement score for 2022 has increased and we've seen significant improvement in a number of areas.

The majority of our colleagues feel proud to work for LV= and agree that as a business we go the extra mile to do the right things for our members, customers and advisers.

Best loved

Customer NPS score



Adviser NPS score rank 3rd out of 17

By the end of 2022 we achieved an overall customer NPS score of 39. This score reflects a challenging period of service in the summer months. Our turnaround activity since then has seen our monthly NPS score increase by 17 points.

Our Adviser NPS score ranked 3rd out of 17 providers in the protection and savings and retirement markets.

Financial Review

Our financial results for the year tell a mixed story. Although our overall surpluses, both on a Solvency II and International Financial Reporting Standards (IFRS) basis, were significantly impacted by the economic fluctuations experienced during the year, our operating performance remained stable, supported by the diversity of our product portfolio and our ongoing focus on cost control.

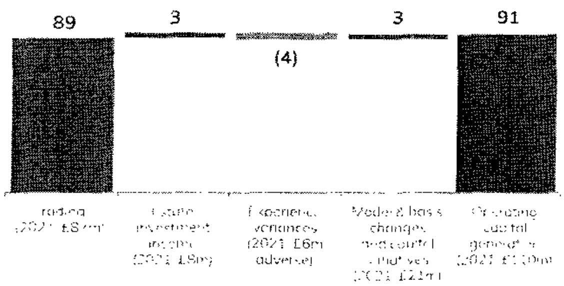
Because we are a mutual business, we do not need to generate profits to pay shareholder dividends and so consider the strength of our members' funds and the returns generated from these funds to be the key measures of our performance. As such, we manage our business on a capital-focused Solvency II basis and as reported on page 9 our financial Key Performance Indicators relate to capital generation, capital strength and With-Profits Fund performance, rather than IFRS profitability. Within this Financial Review, in order to allow a fuller understanding of our financial performance and position, we will explain the drivers of our results on both a Solvency II and IFRS basis. We will also provide details of our investment performance, what has impacted this during the year and how this has affected fund values.

Transition to UK GAAP

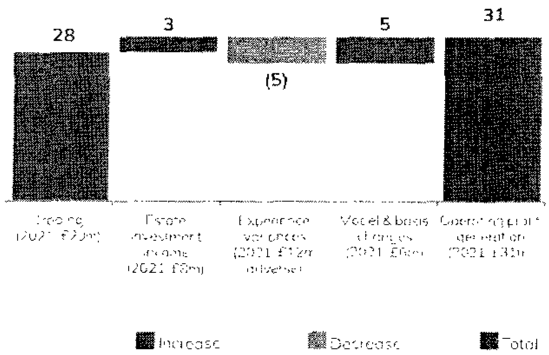
After careful consideration, the Board has decided that UK Generally Accepted Accounting Practice (UK GAAP) is a more suitable basis for a UK mutual than IFRS, allowing transparency of our financial performance and being widely recognised and understood by readers of accounts. The Board has therefore approved transition to UK GAAP with effect from 1 January 2023. As part of this transition the group intends to closer align its insurance contract reserving methodology to Solvency II, as permitted by FRS 103. It is likely that this will lead to a significant transitional adjustment, although further work needs to be completed before this can be quantified. A further material change to the group's results will arise from the intention to fully amortise the group's goodwill asset. This will result in a transitional adjustment, removing the £46m goodwill asset from the balance sheet and reducing reserves accordingly.

Operating capital and profit performance

Operating capital generation 2022 £m



Operating profit generation 2022 £m



Operating capital generation

Over the course of 2022 our trading businesses have added £89m (2021: £87m) to the Solvency II capital surplus. This result reflected a continuing strong trading performance in our Protection business, where we saw both improved volumes and margins. However, this was offset by a decrease in the Savings and Retirement result where new business sales of Smoothed Managed Funds and other pension products were constrained, in the face of increasing levels of economic and geopolitical uncertainty. Estate investment income added an additional £3m (2021: £8m) of operating capital.

Our operating capital generation metric of £91m (2021: £110m) is also impacted by adverse experience variances of £4m (2021: £6m), which were mainly offset by favourable model and basis changes and capital initiatives of £3m (2021: £21m).

Operating profit generation

Our business is managed on a Solvency II basis rather than IFRS. While some factors impacting performance are aligned between the two reporting bases, the IFRS result does not benefit from the positive capital impacts generated by our existing business, which arise under Solvency II due to the run-off of capital over time.

Operating profit generation is stable year-on-year at £31m (2021: £31m), with a slightly lower trading profit of £28m (2021: £29m) reflecting the reduced new business sales in our Savings and Retirement business offset by the improved volumes and profitability in our Protection business. Estate income adds a further £3m (2021: £9m) to operating profit generation, while experience variances and model and basis changes net to £nil.

We are pleased that despite the current inflationary pressures and economic uncertainties impacting the business and wider market, we have been able to maintain strong cost discipline and an operating performance that generates a stable level of capital and profitability. Our focused business strategy and ongoing efforts to provide excellent customer service while maintaining control of our costs, give the business the strong foundations and resilience required to weather the current challenges and move forward with confidence.

New business performance

New business sales for the group on a Present Value of New Business Premiums (PVNBP) basis have decreased by 8% to £1,454m (2021: £1,589m). See page 61 for the definition of our PVNBP alternative performance measure and page 15 for the reconciliation of this metric to IFRS premiums.

During the year our Savings and Retirement business achieved new business sales of £1,097m (2021: £1,257m) on a PVNBP basis, made up of:

- Single premiums paid into our Smoothed Managed Fund range of £280m (2021: £437m)
- Single premium annuities of £264m (2021: £139m)
- We arranged equity release mortgage advances of £242m (2021: £204m)
- Our policyholders also added £311m (2021: £478m) to their pensions by way of deposits to their unit-linked pensions and SIPP funds.

IFRS Trading profit generated by these new business sales reduced to £nil (2021: £12m), mainly driven by the reduced level of premiums paid into our Smoothed Managed Fund range during the year. Sales of the Smoothed Managed Fund range have been affected by difficult economic conditions, but net fund flows are broadly neutral.

Our Protection business achieved new business sales of £357m (2021: £332m) on a PVNBP basis, made up of new business regular premiums of £42m (2021: £39m) that will continue to generate premiums for the business over the coming years. These new business sales generated £14m of trading profit (2021: £5m), driven by the increase in volumes during the year, alongside improved margins.

Operating expenses

Targeted operating expenses have remained stable at £105m (2021: £105m) despite inflationary pressures during the year, with strong cost disciplines now embedded within the business. Total IFRS Other operating and administrative expenses have reduced by £10m to £273m (2021: £283m) with a decrease in the level of spend on non-operational items. Reducing spend on non-operational items over the medium term was identified as an area of management focus in last year's Annual Report.

See page 61 for the definition of our targeted operating expenses alternative performance measure and page 15 for the reconciliation of this metric to IFRS Other operating and administrative expenses.

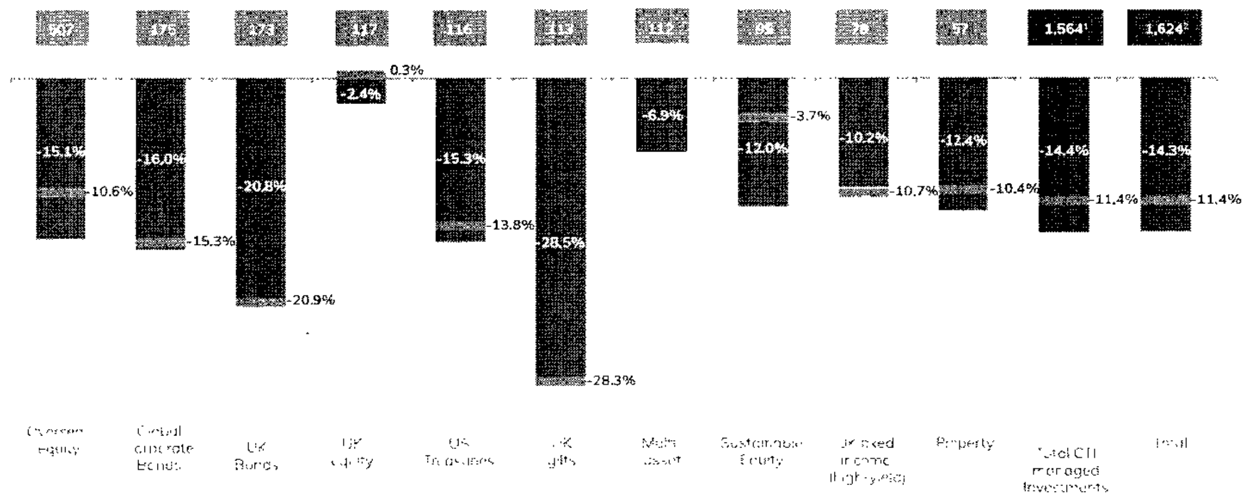
Investment returns

2022 was a difficult year for balanced portfolios which are traditionally designed to balance the investment risks from equities (stocks and shares) and the risks from fixed income assets such as bonds. The investment return on both equities and bonds were negative in the majority of global markets. As a barometer, the Bloomberg US Equity: Fixed Income 60:40 Index registered a negative (16.9)% return for the year. The key driver for this was inflationary fears and the subsequent actions of central banks as they moved to try to control inflation through significant rises in interest rates. Rising interest rates negatively impacted bond performance and also fed through negatively into equity valuations.

Main With-Profits Fund

Our main With-Profits Fund did not manage to escape the headwinds seen in the global markets delivering a negative (14.3)% return, eroding the positive returns seen over the prior two years of 6.8% in 2021 and 8.9% in 2020. Poor performance was generally through our holdings of bonds which were directly affected by increasing interest rates and secondly our underweight positions in the energy sector and oil producing countries which we find difficult to invest in from an Environmental, Social and Governance (ESG) perspective. It was generally not a good year to hold bonds and a good year to invest in the energy sector. We believe an underweight energy sector is appropriate given the ESG risks over the medium term where oil and energy companies will face rising costs of capital compared to greener industries.

Main With-Profits Fund assets structure and returns

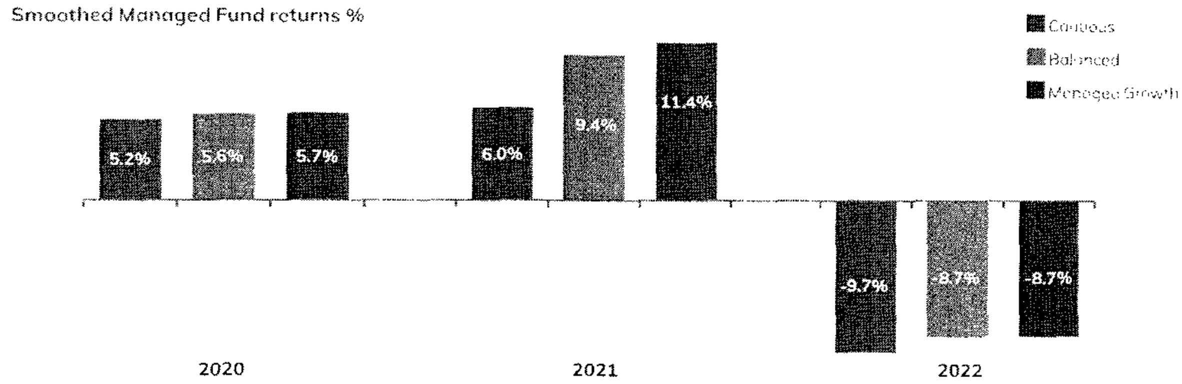


1. In addition to the assets above, Total CTI managed investments also contained £20m of cash and cash equivalents.
2. In addition to the Total CTI managed investments, the main With-Profits Fund also contained £60m of lifetime property and alternative assets, which generated a negative return of (11.5)%.
3. This represents assets held within the main With-Profits Fund. The performance of this fund is reported before deduction for investment fees and represents a change in value of the fund itself, rather than a change in the value of individual members' policies during the year.
4. Benchmark performance is calculated using a basket of recognised metrics which seek to more accurately present the market level performance for the mix of assets included in the main With-Profits Fund.

Smoothed Managed Funds

Our Smoothed Managed Funds range also felt the headwinds seen in the wider financial markets. Returns in these funds are smoothed taking the average of the funds' daily unit price over the preceding 26 weeks to produce an averaged price. During 2022 our smoothing mechanism remained resilient where the worst daily performance was a reduction of (0.2)% (compared to the MSCI All World Index which saw a single day loss of (3.7)% in June 2022 and has previously seen falls of c(10)% in a single day in 2020).

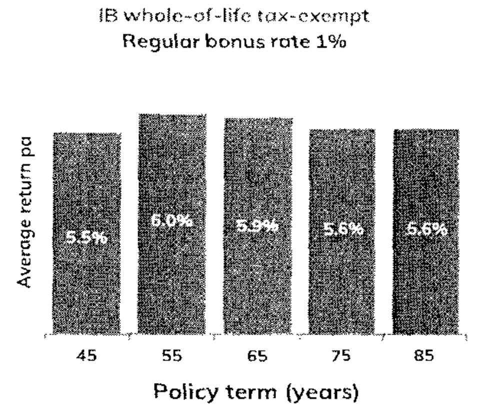
During 2022, the Managed Growth Fund annual return was negative at (8.7)% and the Cautious Fund, hurt by a higher concentration of traditionally lower risk fixed income assets delivered a negative annual return of (9.7)% as a consequence of the increases in interest rates

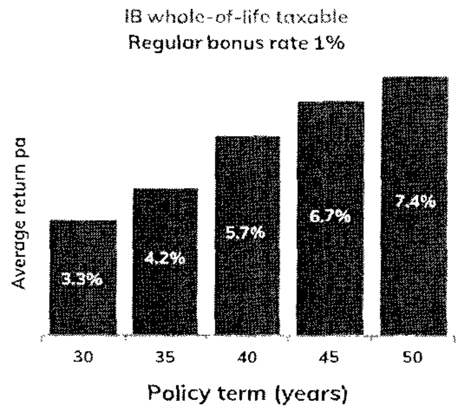


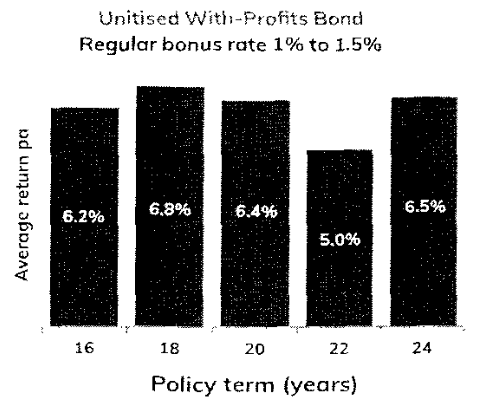
Heritage returns

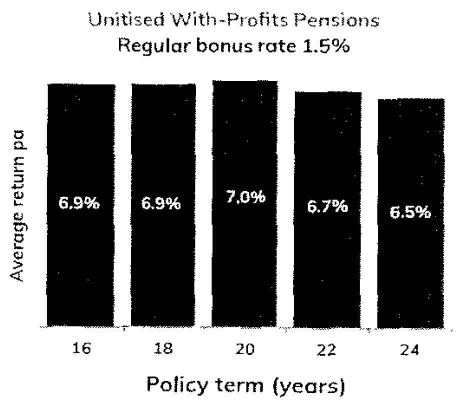
The Heritage business looks after our legacy with-profits policies along with a small amount of non-profit business. This includes with-profits and unit-linked business acquired from the Royal National Pension Fund for Nurses (RNPFN) and Teachers Assurance.

Our Heritage members hold longer-term financial products with us, including whole-of-life and unitised with-profits policies. The performance of the main With-Profits Fund impacts the returns on all with-profits policies. The average annual return over the policy term for a selection of Heritage policies in force at the end of 2022 is shown below.



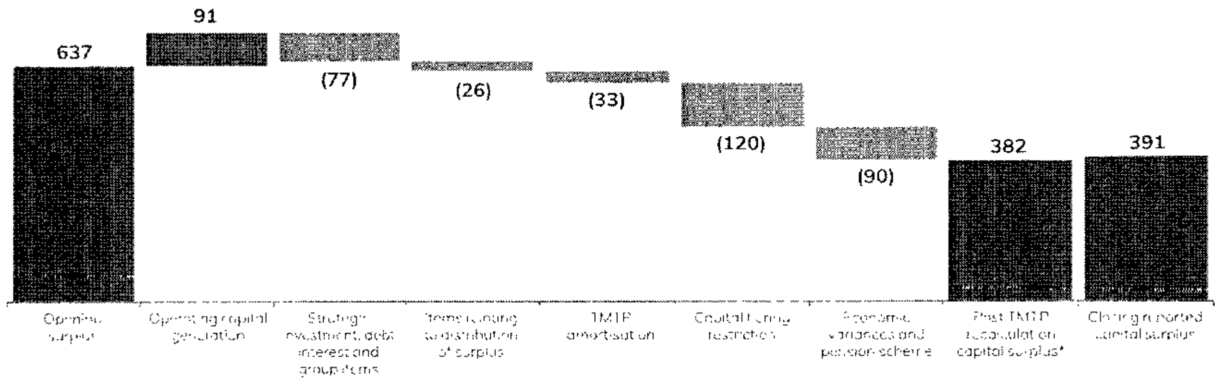






Solvency II capital surplus

Solvency II capital surplus reconciliation £m



* The reconciliation is disclosed on a post TMTP recalculation (shadow) basis. If TMTP had been recalculated at year-end 2022 it would reduce by £9m. Therefore, our closing reported capital surplus of £391m is £9m higher than the shadow surplus of £382m, which is used internally to manage the business.

Solvency II capital surplus has decreased by £246m to £391m (2021: £637m). Operating capital generation of £91m (2021: £110m) has been offset by non-trading expenditure, items relating to distributions to members and the annual reduction in the Transitional Measures on Technical Provisions (TMTP) we are permitted to take credit for. However, the main items generating the significant reduction in capital surplus during the year are driven by economic fluctuations.

Non-trading expenditure of £77m (2021: £86m) is made up of the £65m of non-operational expenses explained in the expenses review on page 15, plus £23m of debt interest, offset by £11m of non-operational income and other adjusting items.

Items relating to distribution of surplus of £26m (2021: £65m) include £23m of allocated mutual bonus and £12m of exit bonus. Economic fluctuations led to a £28m reduction in Estate funds set aside for payment of future discretionary bonuses. This was made up of £50m of investment losses partially offset by £22m of capital reduction. Offsetting this was £35m of capital released when actions were taken to reduce the level of risk inherent in the investment strategy of these funds by disinvesting from asset share.

Economic fluctuations during the year have led to a reduction in our Solvency Capital Requirement. The Solvency II regulations mean that this has also generated a restriction of the capital benefits associated with our subordinated debt and deferred tax assets, reducing the capital surplus by a further £120m.

Market movements have resulted in further negative economic variances of £90m (2021: £56m positive) primarily arising from adverse pension scheme impacts of £71m (2021: £12m favourable), where we have seen a significant fall in the value of the pension benefit asset when calculated on an IAS 19 basis, mainly driven by the increase in the discount rate.

Although our capital surplus is now lower than that reported in recent years, the overall quality of our capital being reported has improved, with a reduced proportion of our reported surplus generated by the IAS 19 pension benefit asset and lower tier capital, such as subordinated debt or deferred tax assets. Our Capital Coverage Ratio still remains well above risk appetite at 174%.

Solvency II capital position

At the end of 2022 the group capital surplus on a Solvency II Standard Formula basis is estimated to be £391m (2021: £637m). The Capital Coverage Ratio (CCR) of both the group (174%) and the company (167%) is above our risk appetite of 140%.

	Group		Company	
Capital surplus £m	**2022**	2021	**2022**	2021
Eligible own funds	**920**	1,365	**936**	1,365
Solvency Capital Requirement (SCR)	**529**	728	**560**	816
Surplus[1]	**391**	637	**376**	549
Capital Coverage Ratio	**174%**	187%	**167%**	167%

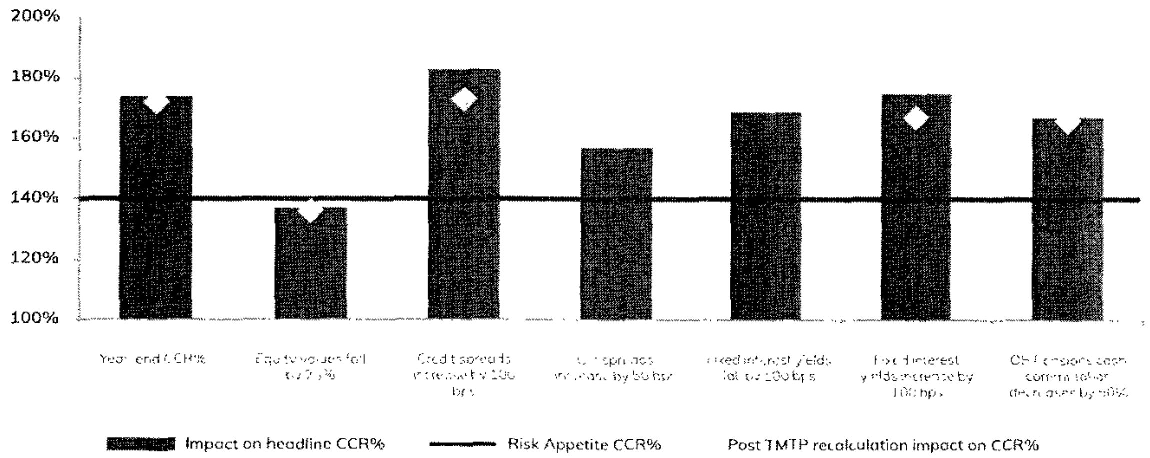
[1] The capital surplus reported in the Annual Report is based on the estimate of the results at the Annual Report's publication date. It is possible that the result will be adjusted prior to the publication of the group Solvency Financial Condition Report later in 2023.

In order to report our CCR on a standard 'Investor view' basis, the Eligible own funds and SCR reported above exclude amounts attributable to ring-fenced funds (Royal National Pension Fund for Nurses (RNPFN) and Teachers Assurance). Including these funds, to provide a 'Regulatory view', would dilute the reported CCR to 169% for the group and 163% for the company as Eligible own funds and SCR would increase, however surplus would remain materially unchanged.

Eligible own funds for the group and company include the impact of £169m (2021: £325m) TMTP and are reconciled to the Unallocated Divisible Surplus (UDS) in note 3.

Sensitivity analysis of Solvency II group capital surplus

The following table shows the sensitivity of the group's Capital Coverage Ratio to economic assumptions on a pre and post-TMTP recalculation basis. All other assumptions remain unchanged for each sensitivity, except where these are directly affected by the revised economic conditions or where a management action that is allowed for in the Solvency Capital Requirement calculation is applicable for that sensitivity. The credit and gilt spread sensitivities represent a widening of yields on relevant asset classes in basis points (bps) relative to swap rates. The sensitivities below allow for the impact of the group's hedging strategy.

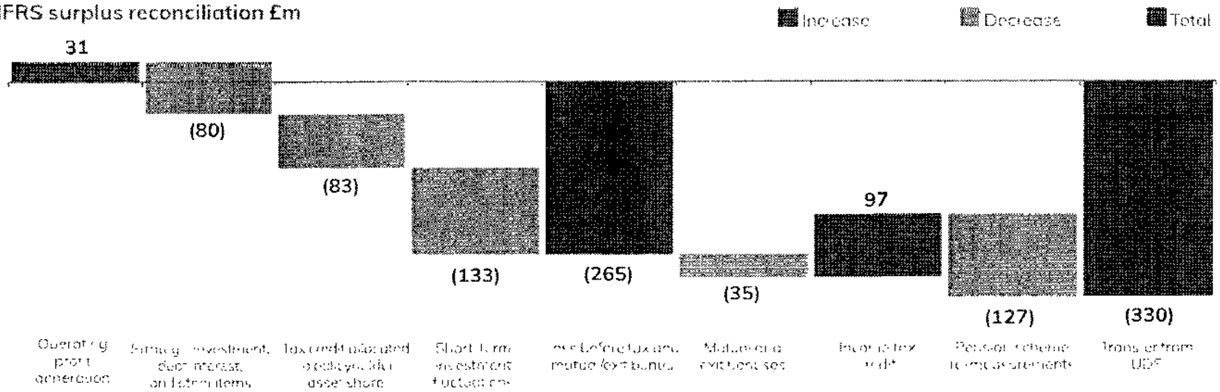


The group's capital surplus position is sensitive to the above economic assumptions due to the following:

- A fall in equity values reduces the value of the group's defined benefit pension schemes, increases with-profits guarantee and smoothing costs and reduces the benefit of future charges on unit-linked business, all of which have partial hedges in place to limit the exposure to adverse equity market movements. A TMTP recalculation would not reduce the impact of this sensitivity as TMTP is predominantly driven by interest rate related market risks. A fall in equity values generates a significant increase in capital requirement because the cost of lapses on certain lines of business will increase in adverse market conditions such as an equity fall.
- A widening of credit spreads, relative to swaps, increases the value of the group's defined benefit pension schemes by reducing the value of future liabilities. It also reduces the value of liabilities using the Volatility Adjustment. Following a TMTP recalculation, the benefit reduces due to the loss of Volatility Adjustment and increased risk associated with annuity business, arising from an assumption under the previous solvency regime of increased credit defaults as spreads widen.
- A widening of gilt spreads, relative to swaps, reduces the value of the group's defined benefit pension schemes and the assets invested to support the group's liabilities. Following a TMTP recalculation, liabilities reduce as the discount rate for TMTP purposes is defined relative to the gilt curve (in contrast to the swap curve as per Solvency II)
- Changes to fixed interest rate yields (both swap and gilt rates) lead to changes in the group's capital surplus position prior to a TMTP recalculation as the Solvency II yield exposure is hedged on a post TMTP recalculation basis. Following a TMTP recalculation, the residual exposure largely arises from the defined benefit pension schemes.
- A decrease in the rate at which CB Persions deferred annuity policyholders commute their annuities to cash increases the group's liabilities. This is because the liability to pay the annuity is higher than that to pay the cash lump-sum. This implies an annuity rate significantly more generous than that currently available in the market

IFRS Result analysis

IFRS surplus reconciliation £m



The IFRS Unallocated Divisible Surplus (UDS) has decreased by £330m during 2022 (2021: £92m). The total transfer from UDS of £330m is made up of £203m included within the IFRS Result for the year and £127m included within other comprehensive income.

Operating profit generation of £31m (2021: £31m) is discussed in further detail in the operating capital and profit performance section on page 10. This was offset by £80m (2021: £90m) of non-operational items, which was made up of the £65m of non-operational expenses explained in the expenses review below plus £23m of debt interest, offset by £8m of non-operational income and other adjusting items. We are focused on reducing the level of spend on non-operational items over the next two to five years.

Policyholders' investment losses generated by market movements in the year have led to tax credits being applied to their asset share of £83m. Although, the overall impact on UDS of the policyholder tax credit is minimal, IFRS reporting rules mean that while the tax credit receivable by the group is reported after loss before tax and mutual/exit bonus, the group's liability to its policyholders in relation to this tax credit is reported within the loss before tax and mutual/exit bonus.

Short-term investment fluctuations have had a £133m adverse impact on profit, driven by a £58m impact from widening credit spreads, £50m from negative returns on money invested in asset share to back future bonus declarations and £40m from residual exposure to policyholder investments in asset shares and unit funds, partially offset by £25m positive impact from the rise in interest rates.

These items have generated a loss before tax and mutual/exit bonus for the year of £265m (2021: £66m). In addition to this, the overall result was further reduced by mutual and exit bonuses allocated to our eligible with-profit members of £35m (2021: £38m) and adverse pension re-measurements of £127m (2021: £23m favourable), partially offset by the tax credit of £97m (2021: £11m charge).

During the year, the total Unallocated Divisible Surplus for the group reduced from £1,023m to £693m.

IFRS expenses

Expenses reconciliation £m	2022	2021
Targeted operating expenses	**105**	105
Commission paid on acquisition of business	**83**	76
Investment fees	**27**	21
Operating Costs	**215**	202
Strategic investment	**36**	30
Strategic review	**6**	21
Restructuring, one-offs and other	**23**	41
Claims handling cost adjustment	**(7)**	(11)
IFRS Other operating and administrative expenses (see note 11)	**273**	283

Targeted operating expenses are management business as usual costs and are discussed in more detail in our operating expenses performance review on page 11. As well as targeted operating expenses, commission paid on acquisition of business and investment fees are incorporated into our operating capital and operating profit generation metrics.

IFRS Other operating and administrative fees which are not incorporated into our operating costs include strategic investment spend of £36m (2021: £30m), spend in relation to the strategic review of £6m (2021: £21m) and restructuring, one-offs and other costs of £23m (2021: £41m). The total non-operational spend of £65m (2021: £92m) is reduced by claims handling costs of £7m (2021: £11m) in the reconciliation above because these are presented as gross benefits and claims under IFRS.

Sales reconciliation to IFRS premiums

Sales reconciliation £m	2022	2021
Group sales (PVNBP basis)	**1,454**	1,589
Equity release mortgage advances	**(242)**	(204)
Gross written premiums for non-participating investment contracts which are deposit accounted	**(231)**	(406)
SIPP deposits	**(80)**	(71)
Effect of capitalisation factor on regular premium long-term business	**(315)**	(294)
New business gross earned premiums	**586**	614
Gross premiums from existing in-force business	**241**	232
IFRS Gross earned premiums (see note 5)	**827**	846

We report sales for the group on a Present Value of New Business Premiums (PVNBP) basis. Our PVNBP metric is defined in the alternative performance measures section on page 61. The 8% decrease in group sales during 2022 to £1,454m (2021: £1,589m) is discussed in further detail in our new business performance review on page 11.

Risk Management

Introduction

Risk management is key to the success of LV=. We operate a fully integrated risk management framework (LV=RM) which brings together the key processes and activities undertaken throughout the business to ensure that our members' and customers' security is at the forefront of our decision making. Structuring engagement and risk management practices in line with this framework and our values enables senior management to demonstrate that risk is actively and appropriately managed across LV=.

The Board is responsible for determining the acceptable level of risk to which the group may be exposed and for ensuring that these risks are appropriately controlled. These include risks to the business model and future performance, potential threats to policyholder security and/or liquidity management and adverse impacts to member outcomes.

The Board seeks to achieve this by ensuring that the LV=RM continues to include the setting of a proportionate risk strategy, risk appetite and a clear risk mandate and organisational design. The Risk Committee, on behalf of the Board, regularly monitors the operational effectiveness of the LV=RM to ensure that it continues to drive a strong risk culture within LV=.

Risk environment

Like all financial services firms, we operated within a challenging external context throughout 2022. At the start of the year, Russia invaded Ukraine. Many countries responded with severe economic sanctions on Russia and Belarus and connected companies and individuals. The conflict has resulted in heightened market volatility and economic uncertainty. In particular, the price of oil, gas, wheat and other commodities has risen, driving increasing inflation and adversely impacting disposable incomes and economic growth.

In September 2022, the UK 'mini-budget' (focusing on growth versus fiscal discipline) led to a significant loss of market confidence in the UK economic outlook. Sterling fell to a 37 year low against the US dollar on the day of the budget and gilt values fell significantly over the following weeks. In addition, mortgage rates in the UK rose to a 14 year high in October. Consequently, the Bank of England intervened to reduce the risk of fire sales of assets by pension funds to meet derivative payments on their hedging strategies.

Following the appointment of Rishi Sunak as Prime Minister in late October, markets have stabilised with borrowing costs falling back and the pound recovering, with the Autumn Statement confirming the intention to reduce borrowing and increase tax revenues, primarily through the freezing of income tax thresholds.

By the end of the year, UK retail price inflation was at its highest rate for 40 years. There remains the risk that heightened inflationary expectations could lead to a wage-price spiral, resulting in a prolonged period of high inflation and low growth. There is likely to be increased pressure on central banks to tighten monetary policy more aggressively to counteract inflation, tempered by concerns over the impact on economic growth.

This economic backdrop has impacted consumer sentiment. We continue to track this, including through our Wealth and Wellbeing Research Programme monitor. This confirms that many consumers are currently feeling the cost of living squeeze due to the higher interest rates and inflationary pressures. In July 2022, the Financial Conduct Authority (FCA) published its policy statement and finalised guidance on a new Consumer Duty - this is expected to set a higher level of protection for consumers and includes a new specific Duty of Care obligation with greater focus on customer outcomes. An initial implementation plan was approved by the Board in October and we are currently on track to meet the regulatory timescales.

In November 2022, the Chancellor confirmed plans to reform the Solvency II regulation in the UK, striking a balance between easing certain requirements and providing the Prudential Regulation Authority (PRA) with additional powers. In particular, these included a proposal to reduce the Risk Margin and broaden the asset and liability eligibility criteria for the Matching Adjustment. The latter would allow the industry to invest in a wider array of assets and also enable insurers to include morbidity liabilities in their Matching Adjustment portfolios. Further technical details of these changes, including associated implementation timescales, are still to be determined/communicated.

Over the year, we have continued to observe increasing stakeholder and regulatory expectations over firms' Environmental, Social and Governance (ESG) activities in response to global issues such as climate change. The FCA is also consulting on the requirements for firms to include climate-related financial disclosures as part of their external reporting.

Risk profile

The principal risks and uncertainties facing LV= are summarised within the table below.

Key risks	Impact and mitigation
Political, economic and regulatory uncertainty The risk of a reduction in solvency, policyholder value or customer returns resulting from prolonged uncertainty within the political, economic and regulatory landscape.	This risk continues to be significant as a result of the current conflict in Ukraine, global macroeconomic uncertainty and the associated implications for the UK economy. The rate of inflation increased significantly over 2022 and this elevated level is expected to continue into 2023, with winter fuel support expected to end for many at the end of March and frozen tax thresholds all potentially contributing to squeezed household incomes. The impact of this squeeze (and potentially corresponding market volatility) on sales, persistency and customer outcomes is closely monitored by management to enable appropriate responses to be developed. We also recognise the upcoming changes in relation to Solvency II which will likely have implications for capital management. The impact on peers may also impact the competitive positions in the markets in which we operate.
Financial market volatility The risk that the financial resilience of LV= is adversely impacted by changes in the financial markets.	The value of assets and liabilities held on LV's balance sheet, including those related to the LV= pension schemes are impacted by movements in the financial markets, most notably the equity and fixed-interest markets. We manage the risk to solvency from changing market conditions through a number of actions including investing in high quality assets with durations closely matched to liabilities, making use of the Matching Adjustment allowance in regulatory reporting, and where necessary through supplementary equity, interest rate and inflation hedging programs to reduce exposures to acceptable levels. These exposures are monitored regularly at the Asset and Liability Management Committee and through specific, active monitoring undertaken by our asset manager. Actions are taken to change exposures if required and we expect this to continue in 2023 due to ongoing market volatility. The strategy for managing financial market risks, which balances the best interests of members and the management of the regulatory solvency position, is also regularly monitored through the Asset and Liability Management Committee.

Key risks	Impact and mitigation
Strategic transformation The execution risks associated with pursuing the strategic priorities.	Following the outcome of the member vote in 2021 and the subsequent consideration of the strategic options, the Board and management continue to drive the sustainability of LV= as a mutual. This includes a focus on delivering the business plan and managing the associated execution risks. There remains the risk that the expected strategic outcomes are not achieved or are delayed due to internal and external factors. We monitor this risk through ongoing review of key metrics and taking timely management actions to avoid potential adverse deviations to the plan.
IT sustainability The risk that capability and capacity issues in relation to our IT systems lead to significant operational or customer risk events.	We currently operate with a number of legacy IT systems and infrastructure which can be exposed to capability or capacity issues including, for example, the system being unavailable for a period of time. These risks could result in adverse operational and customer impacts should they crystallise. During the year, significant investment and progress has been made in addressing IT sustainability risk. This remains a top strategic priority and the work to mitigate these risks continues as part of a multi-year project. We continue to develop and embed the regulatory requirements in relation to operational resilience.
Cyber security The risk of customer data loss or a severe reduction in customer service as a result of a cyber-event.	The threat of external cyber-attacks remained heightened during 2022. We operate a comprehensive cyber-risk strategy which is designed to ensure that the business continues to identify, assess and respond to the evolving threat of a cyber-attack. In addition, a range of messaging has been delivered to improve both colleague and customer awareness of the threat of fraudulent activity. The business is investing in its response to cyber security and it remains a top strategic priority to ensure the mitigating controls are robust.
People risk The risk that strategic initiatives are not delivered as planned or operational or conduct risks arise as a result of not having sufficient people, our people do not have the right skills and experience or that they are over stretched.	Like other financial services firms, we continue to focus on recruiting and retaining appropriate skills and capabilities in order to deliver our business plan securely. During 2022, work has focused on optimising the hybrid working model and attracting, developing and retaining talent. In addition, our focus on diversity and inclusion supports greater colleague engagement and wellbeing.
Conduct risk The risk that key operational controls are ineffective, resulting in poor member or customer outcomes.	The complex and long-term nature of life and pensions products means that, as customer needs change over time, there is a risk that products do not perform as customers would expect and that they no longer deliver appropriate customer outcomes. We operate a product governance framework which ensures that each new product or product change is subject to review. In addition, regular product reviews ensure our existing products perform as customers would expect and continue to deliver appropriate customer outcomes. Over 2022, we completed the work required to comply with PS21/11, which was issued by the FCA to improve the governance of general insurance and protection customers, including the annual product reviews for pure protection products. Looking ahead, work is on track to meet the FCA requirements for Consumer Duty, which includes greater emphasis on delivering and protecting customer outcomes.

Emerging risks

As well as monitoring near-term risks, senior management and the Board also consider emerging risks and opportunities which may impact LV in the future. The top themes from our latest review include:

Emerging risks	Example events/drivers
Business interruption	This considers future business interruption events (including a further pandemic) which could impact UK infrastructure, communications and ways of working.
Medical advancements	This includes consideration of a potential medical breakthrough that would impact mortality or morbidity rates, together with improved self-testing technology with no requirement to disclose related medical information (anti-selection). The risk assessment has also considered the long-term impacts of increasing medical treatment waiting lists on our risk experience.
Corporate governance and legislation	This includes both adverse regulation together with regulators raising the standards required to demonstrate compliance. The impact would potentially include increased regulatory attention on both an individual company and industry-wide basis.
Market/competitor disruption	New players enter the market, most likely in the protection sector. This may occur together with significant market changes, particularly in relation to digital platform innovation.

Each emerging risk is assigned to an executive team owner with regular reporting to the Risk Committee. This includes where appropriate, risk monitoring, the actions that can be taken to respond and the triggers for the action to be considered

Climate change risk

Since 2019, there has been increased focus across a range of stakeholders on the financial risks associated with climate change. We recognise the importance of understanding and managing the potential short and long-term implications of climate-related risk and have incorporated this risk within our existing risk management framework, to ensure appropriate oversight is maintained and enhanced over time. We've categorised climate change risk as a driver of risks, rather than a standalone risk, reflecting its wide-reaching potential impact. Changes to the risk are monitored alongside other drivers of risk and any changes are assessed qualitatively and, if deemed material, quantitatively.

We continue to enhance the management and governance oversight of climate-related risks, particularly in relation to asset transition risk (discussed further below) as part of our approach to ESG investment management. Climate change was prominently featured within the 2022 Own Risk and Solvency Assessment (ORSA) report including a detailed assessment of the risks to which LV= may be exposed.

During 2022, we appointed a dedicated sustainability manager to support the development and embedding of a sustainability strategy. Additionally, an external partner was engaged during the second half of 2022 to assist with the development of the strategy and to provide external insights into further enhancing our approach to the management and governance of climate related risks.

The financial performance of LV= and the wider insurance sector may be adversely affected by harmful environmental events and developments including those related to physical risks and asset transition risks, as described below:

Physical risks (medium to long term)

Physical risks due to climate change arise from a number of factors and relate to specific weather events (such as heat waves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, sea level rise and rising mean temperatures).

Longer-term changes to the climate are likely to affect the longevity, morbidity and mortality risks to which the LV= business is currently exposed, although the scale and direction attributed to climate change is not yet known. Currently, we mitigate these risks through the significant use of reinsurance and other risk reduction instruments. We will continue to monitor evolving industry best practice and regulatory guidance for assessing and adjusting for mortality, morbidity and longevity changes as the experience emerges over time.

We are also exposed to physical risk through potential adverse impacts to property values arising from the investments in commercial property and residential property from equity release loans.

Following the sale of the general insurance business at the end of 2019, we no longer have any direct significant short-term exposure to the immediate physical risks of climate change (for example, claims from flood or storm damage to insured properties).

Asset transition risks (short to medium term)

Asset transition risks can arise from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment, including, climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations.

We are exposed to a reduction in the value of assets held which are either considered environmentally unfriendly or whose prospects may be adversely affected by climate change. In addition, we are also exposed to a potential fall in the value of equity or corporate bond investments, and/or counterparty default as a result of a business failure particularly related to climate change risks.

We are addressing asset transition risk as part of our approach to delivering our sustainability strategy. We continue to increase the range of ESG funds available for customers, including the launch of an Impact Fund within our Smoothed Managed Funds. Additionally, we monitor the emissions from different funds alongside other ESG metrics and have developed a Responsible Investment Framework, which covers climate change alongside other ESG issues (see page 29 for more information). In addition, we work with our asset managers, Columbia Threadneedle Investments, to understand how the ESG ratings of potential investments influence fund managers' decision making.

We recognise that these risks may also impact our members, customers and suppliers directly. We expect that consumers and companies will increasingly consider the environmental impact of their investments and select investments which take into account ESG factors, rather than those with a greater carbon footprint.

Our actions in relation to climate change risk

We hold capital against unexpected and extreme changes to our business model from both insurance and asset related risks, in line with prudential regulations. This is considered sufficient at the current time and will be adjusted over time in line with emerging climate related risk experience.

Other actions taken in 2022 to increase the focus on managing climate change risk include:

- The development of a sustainability strategy to deliver financial confidence, with engagement across LV=, the executive team and the Board. This includes agreeing the additional governance structures required to drive, monitor and oversee delivery.
- The appointment of a sustainability manager, who will work within the finance function and with the chief risk officer, to lead the development and embedding of the sustainability strategy.
- Ongoing risk reporting throughout the year.
- Increasing the engagement and focus on sustainability with our external asset managers, including development of appropriate management information to support reporting.
- Continuing to update on potential risk exposures and external requirements at the Risk and Investment Committees.

LV=RM overview

The LV=RM framework is owned by our chief risk officer on behalf of the Board. It provides a systematic set of processes, tools and behaviours which allow senior management to respond effectively to any potentially significant internal or external event that may have an impact on delivering the business strategy. The LV=RM also enables LV= to enhance its business and risk-based decisions, while ensuring that it remains compliant with all regulatory and legislative requirements, as well as internal policies.

The key elements of the LV=RM are summarised below:

Risk Universe	The risk universe is a standard set of key risk categories where LV= has or is likely to have, material risk exposures. These are used for identifying, reporting and modelling our risk exposures.
Risk Strategy	This sets out our approach to risk management including providing a clear direction and preference for taking on or avoiding risk.
Risk Governance	This covers the framework and processes which demonstrate to the Board that appropriate and effective risk management, oversight and assurance is being undertaken for all material risks faced by the business.
Risk Appetite	These are a set of statements and supporting measures which clearly state the level of risk that the Board is willing to accept in order to achieve its business objectives.
Risk Policies and Standards	These set out the expectations and evidence requirements for how the Board expect the key risks within the risk universe to be identified, categorised, assessed, controlled, monitored and reported.
Risk & Control Assessment	This is an integrated and co-ordinated set of processes which facilitate the timely and effective identification, assessment and management of risks that could or will impact the business.
Own Risk & Solvency Assessment	The Own Risk & Solvency Assessment (ORSA) processes facilitate the timely and effective identification, assessment, monitoring and control of our risk, capital and liquidity positions.
Culture and Performance	This includes performance measures that drive appropriate behaviours and promote an effective risk culture.
Training and Communications	This is a programme of regular and timely risk-based training and communication across all areas of the business. It ensures that there is a clear understanding of risk management processes and controls.
MI & Reporting	The provision of complete, accurate and timely management information to senior management and the Board to allow them to discharge their risk management responsibilities and to facilitate risk-based decision making.

Risk universe

As a business we are exposed to both financial and non-financial risks with profitability and growth, together with customer outcomes dependent upon the proactive management of these risk exposures. The risk universe sets out the key risk categories where LV= has, or is likely to have, material risk exposures. At a high level the risk categories to which we are exposed are:

- Life insurance risk
- Financial markets risk
- Credit counterparty risk
- Liquidity risk
- Strategic risk
- Conduct risk
- Operational risk

Clear executive accountabilities for managing each of these risks have been agreed at the Risk Committee.

Risk strategy

The risk strategy is aligned with the business strategy and ensures that an effective approach to risk management is in place, in line with its business and financial goals. This risk strategy aims:

- To inform the Board in identifying the most attractive risks to accept and setting a robust risk appetite which ensures that the business model and strategy are designed and executed in a controlled manner to safeguard member value.
- To drive a strong risk culture that ensures the business is managed in line with the Board's risk strategy.

Risk governance

We operate a three lines of defence model as part of our day-to-day risk management operations, as set out within a board-approved risk mandate. The Board delegates much of its oversight of risk matters to the Risk Committee, which together with the executive risk committee, the chief risk officer and the risk management teams, ensures that the business is operating in line with the requirements of the LV=RM.

The roles and responsibilities across the three lines of defence model are included within the risk strategy. Ownership of risk is summarised as follows:

- **First line of defence:** led by the chief executive who is supported by the executive and senior leadership team. The executive team are accountable for the management of risk and are required to identify, assess, manage and report on the risk profile on a current and forward looking basis. Sound risk management tools, practices and knowledge facilitate informed business decision making in accordance with the LV=RM, and in particular LV's risk appetite.
- **Second line of defence:** led by the chief risk officer who is supported by the risk management team, compliance and actuarial functions and other risk management professionals across the organisation. The risk management team develops and directs the implementation of the LV=RM, monitors, reviews and challenges first line compliance with this framework and escalates material breaches to the Board.
- **Third line of defence:** led by the chief internal auditor who is supported by the internal audit team and the Audit Committee. The internal audit team provides independent and objective assurance to the Audit Committee and to executive management on the effectiveness of the systems of risk management and internal controls across the business.

First line of defence	Second line of defence	Third line of defence
Run the business: Accountable for day to day risk-taking and risk management	**Protect the business:** Accountable for advice, oversight and challenge	**Reassure the business:** Accountable for providing independent assurance
	Board	
Chief Executive	Chief Risk Officer	Chief Internal Auditor
Protection, Savings & Retirement	Risk Management (Financial and Non-Financial Risks)	Internal Audit
FAS Limited	Life Chief Actuary	
Operations	Compliance & Regulatory Relations	
Finance	Financial Crime / Money Laundering Reporting / Data Protection	
With-Profits Actuary		
Legal & Secretariat		

Risk appetite

The LV= risk appetite comprises a suite of quantitative and qualitative statements that are used to measure current and future business performance. These consider both financial (Solvency, liquidity and return on new business) and non-financial (people, proposition, customer and adviser service, IT risk, data and processes).

Each of the appetite statements provide direction to senior management regarding their priorities in the execution of the risk strategy and are underpinned by a suite of more granular supporting measures, limits and triggers relating to key risk drivers.

Risk and control assessment

Management undertake regular assessments to help determine whether the risk and control environment continues to operate in line with expectations. This helps ensure that the risks that LV= faces are identified, understood and managed effectively. The conclusions of these assessments are used to inform our senior management and the Board as to whether there is an increasing likelihood that a single risk or group of risks could impact the business or its members and customers.

Own Risk and Solvency Assessment (ORSA)

The ORSA is an integral part of our capital management processes and the overall LV=RM and is an effective tool used to inform strategic decision making. The ORSA comprises iterative internal risk and capital assessment processes operated throughout the year to monitor ongoing risk exposures relative to appetite, and to ensure solvency and liquidity needs are met on both a current and forward-looking basis. These processes support the implementation and embedding of the LV=RM and include risk strategy and risk appetite, risk identification, assessment and measurement, risk monitoring and reporting, linkages to business strategy and stress and scenario testing.

An annual ORSA report is developed and agreed with the Board and consolidates the findings from the ORSA processes performed throughout the year. For example, the ORSA report includes key outcomes from the risk review of the business financial plan, stress and scenario testing (including reverse stress testing); the assessment of the appropriateness of the Standard Formula; and regular solvency and risk exposure monitoring. The solvency position of the business is determined in accordance with the Solvency II Standard Formula requirements.

Key risk developments emerging throughout the year are escalated to the Board or Risk Committee as appropriate through regular risk reporting.

Risk management effectiveness

We conduct an annual risk maturity and culture assessment to assess the ongoing effectiveness of the embedding of the LV=RM and to test how the risk culture of the business is evolving over time. The outputs from this assessment are used to determine areas for further development under our programme of continuous improvement. This is also included within the balanced scorecard to directly link risk management performance to overall reward.

Non-Financial Information

The table below details our 2022 corporate responsibility initiatives and activities that align to five areas of focus. These comply with sections 414CA and 414CB of the Companies Act 2006 where we need to set out and signpost key information, that is non-financial. As a result, we can demonstrate what we've accomplished, and what we continue to do in these areas.

Area of focus	Policies/activity	Initiatives	Find out more
Our employees	Flexible working	We've continued our hybrid working approach since it was introduced during the Covid-19 pandemic.	
	Women in Finance	By the end of 2022 we achieved 44% female representation for our executive team and direct reports.	See our people and culture section on pages 24 and 25 for more information.
	Mental health and wellbeing	We supported our colleague's mental health, wellbeing and resilience through a wide range of initiatives.	
Environmental matters	We're carbon negative	1,071 tCO2e of carbon offsets purchased.	
	Controlling our energy usage and emissions	Ongoing initiatives to improve the efficiency of our office energy usage.	See our safeguarding our environment section on pages 26 and 27 for more information.
	Renewable energy	Our energy contracts for electricity are from 100% renewable energy sources	
Social matters	Colleague fundraising	£43,000 was donated to a Ukraine Humanitarian Appeal.	
	Regional Community Committees	The committees arranged food collection points in each of our offices for local foodbanks.	
	LV= Charity Matching	We £ for £ match our colleagues' own fundraising.	See our investing in our communities section on page 23 for more information.
	Pennies for Charity	The majority of our colleagues make a charity donation every month from their net pay	
	Member Support	Payment breaks to eligible members will be permanently open and members continue to be supported via member benefits.	
Respect for human rights	Diversity and inclusion networks	Our colleagues can join any of our diversity and inclusion networks that are sponsored by members of our executive team.	See our people and culture section on pages 24 and 25 for more information.
	Human rights and modern slavery	We publish Our Modern Slavery Statement every year at **LV.com/modern-slavery-statement**.	See our responsible business practice section on page 28 for more information.
Anti-corruption and anti-bribery matters	'Speak Up' service	A confidential hotline for our colleagues to report any suspicions or wrong doings.	See our responsible business practice section on page 28 for more information.

Risks relating to non-financial information are discussed in further detail in the risk management section on pages 16 to 18 and also within note 4 in the financial statements. It should be noted that we will always seek to uphold our brand image with members and customers, colleagues and other external parties and that we have no appetite whatsoever for regulatory weaknesses or failings that lead to censure actions.

In addition to the above, further information required by these regulations can be found on page 9 in our Key Performance Indicators section and on page 8 in our business strategy and mutual model section.

Corporate Responsibility Report

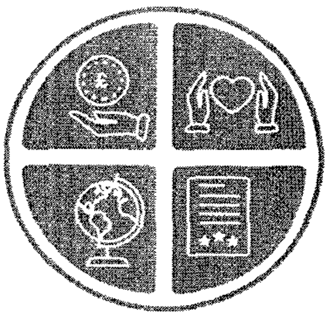
Our corporate responsibility strategy has four key areas which help us to focus on the ways we can make the greatest impact.

This Corporate Responsibility Report provides a summary of how we've performed against each of the areas, as well as the activities that took place in 2022.

You can find more information in the Corporate Responsibility section of our website at **LV.com/lvcares**

Investing in our communities

Our people and culture



Safeguarding our environment

Responsible business practice

Investing in our communities

During 2022, through community investment, partnerships and fundraising, we helped a range of charities and good causes. We're delighted that our colleagues were able to get out and about throughout the year to take part in volunteering opportunities for our local communities. We also continued to support members in need.

Community investment

We are deeply saddened by the ongoing situation in Ukraine and our heart-felt thoughts continue to be with everyone affected. In April 2022, our colleagues launched a campaign to fundraise for the Disasters Emergency Committee's Ukraine Humanitarian Appeal. From bake sales and raffles, to summer strolls and sunflower growing competitions, £43,000 was raised which included our Charity Matching.

Supporting Ukraine
Do great things together

> “It's great that so many of our LV= teams across our offices worked collaboratively and creatively together to raise money for this extremely worthwhile cause.”
>
> **David Hynam, Chief Executive**

At the end of 2022, our Regional Community Committees arranged food collection points in each of our offices. Our colleagues donated vital supplies to local foodbanks in time for the festive period.

The committees are voluntarily run by our colleagues and they play an important part in supporting local charities and good causes. We have committees in each of our UK offices in Bournemouth, Exeter and Hitchin.

Community partnerships

Read about our 16th year of sponsorship of **LV= KidZone** on LV.com

Community fundraising

In addition to our Supporting Ukraine campaign, our colleagues fundraised for other charities close to their hearts. To support their efforts we matched pound for pound what they raised through our **Charity Matching** scheme. This is capped at £500 per colleague and at £1,000 for a team.

Did you know that we hold a Platinum Award and over 97% of our colleagues make a charity donation every month? Find out more about **Pennies for Charity** on LV.com

Member support

At the start of the Covid-19 pandemic we recognised the need to help financially vulnerable members who were experiencing financial difficulties and struggling to pay their policy premiums. In March 2020, we introduced payment breaks to support eligible members. Since it was introduced, our support has totalled nearly £80,000 in waived premiums for 445 members.

We're committed to providing this support and therefore payment breaks will be permanently open to those unable to pay their premiums, subject to certain eligibility criteria. Members can apply for a maximum of three months.

Member benefits and additional support services also continue to be available for our members, one of which is our Member Support Fund that can provide financial and practical support. For one particular member we covered car repairs so they could get to hospital appointments. We also gifted food vouchers, contributed to funeral costs and purchased a wheelchair to name just a few other ways we've supported members.

Member benefits include:

- Care Navigator
- Member Discounts
- Member Support Fund
- Voting Rights

Our people and culture

We want LV= to be a truly inclusive place where everybody feels comfortable being themselves and where individuals are recognised and respected. We're committed to creating a positive culture right across the business - a culture that embraces, values and celebrates individual differences.

> "At LV=, an inclusive culture is important to us and to me personally. The diversity of our team is critical - I want all our colleagues to be able to bring their whole self to work."
>
> **David Hynam, Chief Executive**

Creating a diverse and inclusive culture

Our senior leadership team harnesses a diverse range of thoughts, ideas and perspectives. Our diversity and inclusion networks continue to be sponsored by members of our executive team as follows:

Network	Sponsor
Pride (LGBTQIA+)	**Clive Bolton** Managing Director of Protection and Savings and Retirement
Balance (Gender)	**Emma Woodford** Chief People Officer
Diversability (Disability)	**Harry Hanscomb** Chief Operating Officer
Respect (Multi-cultural)	**Deirdre Davies** Chief Internal Auditor

A key focus in 2022 was to encourage more of our colleagues to confidentially, share their diversity data so we could understand who we are as an organisation. We saw an increase from 35% to 78% by the end of December 2022. This data has provided us with insight that will help create a more inclusive environment for all of our colleagues by identifying and removing barriers in our business.

You can find out more about these diversity and inclusion networks on LV.com.

You can also read about our board diversity policy in the Corporate Governance Statement on pages 41 and 42.

Equal opportunities

Visit LV.com for information about equal opportunities.

Gender pay gap

Compared to women we currently have a higher proportion of men in senior positions. However, we believe that pay and reward at LV= is fair and unbiased and that the gap is driven by the gender distribution across LV=. In 2022, our gender pay gap increased to 31.5% (2021: 25.5%). The increase has primarily been caused by a reduction in the number of senior positions within LV= being filled by women (further details are provided on page 50).

We will ensure that everyone at LV= has access to the same opportunities and we want to continue to improve the gender balance of our workforce. One of the ways we do this is by looking at the talent we have and where we can promote from within the business. We'll continue to monitor our initiatives to further improve the gender pay gap across the business.

Flexible working

At LV= we want our colleagues to have the ability to make choices that support both their professional and personal lives. That's why we've continued our hybrid working approach since it was introduced during the Covid-19 pandemic.

We believe our offices are an integral part of our work life; it's a place where we build new and existing relationships, collaborate, create and have fun together. More of our colleagues are now working in the office on a regular basis, with some returning full time. We want our teams to enjoy the benefits of working together and the unity achieved from being in an office environment. As such, we've created more meeting rooms and breakout spaces to enable the positive collaboration that is much needed to continue to make LV= a great success.

Women in Finance

Signing up to the Women in Finance Charter since 2016 is another way we've shown our commitment to support gender diversity. Our aim is to increase the proportion of women in senior positions and this is supported by our executive team and is Board-endorsed.

Our pledge under the Women in Finance Charter was to reach 43% female representation in senior roles by 2023. As at 31 December 2022 we're currently slightly above the target for our executive team and direct reports at 44% and have achieved 40% throughout all our management and senior management grades, which demonstrates LV's commitment to producing a diverse pool of leaders and senior managers.

Supported by the HM Treasury Women in Finance Charter, the Women in Finance Awards are Europe's largest diversity initiative in the finance sector, recognising high-achievers, advocates and role models for women in the industry. We've supported and sponsored these awards since they launched in 2017.

44%

female representation in our executive team and direct reports at the end of 2022

Mental health and wellbeing

We know how important it is to support our colleague's mental health, wellbeing and resilience. We continue to focus on providing a wide range of initiatives to help.

Cost of living support

A £750 one-off payment was made to colleagues in October 2022 to support with the increased cost of living. We have continued to offer a range of externally run financial wellbeing sessions such as 'coping with the cost of living' and 'making the most of your money.'

Mental Health Awareness Week

Throughout Mental Health Awareness Week we held a number of initiatives, which had support from our executive team. We held mental health drop in sessions across our offices, held relaxation sessions and encouraged colleagues to internally nominate their mental health heroes.

Wellbeing support initiatives

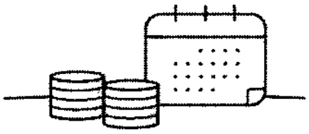
To support our wellbeing agenda we held both virtual and face-to-face sessions on a range of topics. Colleague stories were shared to further break down stigma in certain wellbeing areas, such as male mental health.

Our Mental Health First Aiders completed a mental health refresher training course and all colleagues had the opportunity to complete an online learning module about mental health.

Flu vaccines were also offered as an option for all colleagues.

Diversity, Equity and Inclusion

As well as increasing our diversity data to 78%, we've added two new diversity questions into our recent engage survey to ensure that colleagues feel they are treated fairly. Further focus has been placed on our Diversity, Equity and Inclusion strategy as we work towards celebrating our colleague's differences and embedding an inclusive culture and supportive working environment where all colleagues feel welcome, respected, supported and valued.



£750

Colleague one-off cost of living payment

Reward and recognition

The amount we pay our colleagues is assessed on a regular basis. This ensures that we reward our colleagues fairly and in line with market rates. All of our colleagues are paid at least the Living Wage Foundation rates of pay and on top of their salary, they're also eligible to be considered for a bonus. This bonus is based on their own performance, that of the overall business and how they've lived our internal values while at work.

Our colleagues have a choice as to how much they wish to contribute into their pension from a minimum of 3% up to 7%. We'll then double match their contribution up to a maximum of 14%. Pension information can be accessed online and there are tools to help our colleagues plan for their future. They can also track their pensions and check the impact it will have on their retirement income.

Our colleagues continue to receive core benefits as part of their employment with LV= such as life assurance, virtual doctor services and a competitive holiday entitlement. Our additional flexible benefits package can be selected all year round, which also gives them the chance to select from a wider range of options, including buying and selling holiday and private medical and health assessments.

We know that recognition for great work drives motivation and makes people feel truly appreciated and proud of what they've achieved. Our 'My Recognition' platform allows colleagues to nominate each other to receive a reward for going above and beyond or for living our values.

#thisisus

Our values

We are
COURAGEOUS

We are
TRUSTED

We are
INCLUSIVE

We are
CURIOUS

Safeguarding our environment

As a UK insurer the environmental footprint from our business operations is small in comparison to many other businesses. To further reduce our own environmental impact we continue to monitor our energy efficiency and waste management across our offices and look to ensure that any business travel only takes place when absolutely necessary.

During 2022, our energy consumption totalled 3,140,207 kWh (2021: 3,038,571 kWh), while our greenhouse gas emissions totalled 317 tCO2e (2021: 270 tCO2e). This usage has generated reported intensity ratios for the year of:

Annual KWh per No. of FTE Employees 2,539 (2021: 2,178)
Annual tCO2e per No. of FTE Employees 0.26 (2021: 0.19)

The increase in energy consumption and emissions during 2022 was mainly due to the increased levels of business travel during the year, as our colleagues returned to our offices following two years of predominantly working from home. Although business travel has increased from 2021 levels, we are pleased that travel during 2022 was restricted to approximately 30% of pre-pandemic levels. We replaced halogen bulbs with low energy LED bulbs to save energy and we installed sensors in our offices which work by detecting motion or heat, which ensures lighting isn't left on when it's not needed. Energy saving initiatives, such as this have led to a year-on-year reduction in the energy usage and emissions associated with our buildings. Further details relating to the sources of our energy consumption and greenhouse gas emissions are detailed in the following table.

Source of Energy and Emissions*	Energy consumption (KWh)		Greenhouse gas emissions (tCO2e)**	
	2022	2021	2022	2021
Combustion of natural gas	989,809	1,039,532	181	190
Combustion of fuel in company vehicles	286,593	110,170	71	27
Combustion of other fuels***	120,218	159,102	29	47
Scope 1 total	**1,396,620**	**1,308,804**	**281**	**264**
Generation of purchased electricity	1,596,837	1,707,660	309	363
Renewable electricity	n/a	n/a	(309)	(363)
Scope 2 total	**1,596,837**	**1,707,660**	**-**	**-**
Combustion of fuel in personal vehicles	146,750	22,107	36	6
Scope 3 total	**146,750**	**22,107**	**36**	**6**
Total	**3,140,207**	**3,038,571**	**317**	**270**
Intensity per No. of FTE Employees	**2,539**	**2,178**	**0.26**	**0.19**
Carbon offsets purchased	n/a	n/a	(1,071)	-

* Energy consumption and emissions [illegible] where we are supplied directly [illegible] for business purposes. These metrics do not include the energy consumption and emissions associated with [illegible] usage, for example by home workers [illegible].

** We have used the 2022 UK government greenhouse gas conversion factors for [illegible] reporting [illegible].

*** Other fuels relate to a diesel generator which was used in the period [illegible] Fluorinated gases (F gas) used by our [illegible] to top up [illegible] air conditioning systems.

Definition

kWh: Kilowatt-hour
We report our energy consumption using kWh, a standard measure of energy.

tCO2e: Tonnes carbon dioxide equivalent
We report our greenhouse gas emissions using tCO2e, a standard measure of greenhouse gas emissions.

Carbon Neutral Organisation

We're carbon negative

This means we have calculated our carbon emissions and offset 110% of our total emissions which has supported worthwhile projects.

During the year we have achieved carbon negative status in relation to our operational greenhouse gas emissions. This means that we have calculated our carbon emissions as a business and more than offset both our direct and indirect operational emissions. We've achieved this by supporting three worthwhile projects, which were voted for by our colleagues. The projects we supported were Amazon rainforest deforestation prevention, wildlife sanctuary preservation in Cambodia and an improved cook stove project, which is having a considerable environmental impact by reducing emissions and saving trees in Uganda. It is anticipated that these carbon offsets purchased in the year will reduce greenhouse gas emissions by 1 071 tCO2e.

Achieving carbon negative status is just the beginning of our environmental journey. We will continue to maintain our status and work to identify and implement environmental improvement initiatives to lower our carbon footprint further and reduce reliance on offsetting.

We invest over £10bn of our policyholders' premiums and savings and therefore a very important part of our environmental impact arises from how we invest this money. To read more about our approach to responsible investment see page 29.

Safeguarding our environment – future years

Although we're proud of what we've done to safeguard the environment during 2022, going forward we have ambitions to further strengthen our approach in this area. During 2023, we will fall within the scope of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, which place requirements on certain publicly quoted companies and large private companies to incorporate Task Force on Climate-related Financial Disclosures (TCFD) aligned climate disclosures in their annual reports.

In order to comply with these requirements, our 2023 Annual Report will contain a Non-Financial and Sustainability Information statement within the Strategic Report, rather than the current Non-Financial Information statement. This statement will contain information which will allow the reader to understand our governance, strategy, risk management and metrics and targets in relation to environmental matters.

The new regulations require climate-related financial disclosures to be made against these four pillars using a common list of requirements as outlined in the table below. Over the last year we've been progressing towards compliance with these requirements, focusing on governance, where our new CEO, David Hynam has assumed management responsibility for sustainability (see page 40 for further details) and risk management, where climate change risk has been incorporated into LV's Risk Management Framework and Own Risk and Solvency Assessment (ORSA) (see page 18 for further details). Board committees have been engaged in the development of a sustainability strategy which will be finalised during 2023.

Requirements for 2023 year end	Our progress during 2022
A description of the governance arrangements of the company in relation to assessing and managing climate-related risks and opportunities.	During 2022, we strengthened our governance structure to define more clearly the accountabilities for delivering our sustainability and climate-related risk strategic objectives across the business. See page 40 for further details.
A description of how the company identifies, assesses, and manages climate-related risks and opportunities.	We recognise the importance of understanding and managing the potential short and long-term implications of climate-related risks and opportunities. An external partner was engaged during the second half of 2022 to provide external insights into further enhancing our approach to the management and governance of climate-related risks and opportunities. See page 18 for further details.
A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company.	Climate-related risk has been classified as a driver of risks, rather than a standalone risk, reflecting its wide-reaching potential impact. Changes to the risk are monitored alongside other drivers of risk and any changes are assessed qualitatively and, if deemed material, quantitatively. See page 18 for further details.
A description of the principal climate-related risks and opportunities arising in connection with the operations of the company, and the time periods by reference to which those risks and opportunities are assessed.	Physical risks relating to climate change are assessed over a medium to long-term time horizon. Asset transition risks are assessed over the short to medium term. See page 18 for further details.
A description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company.	During 2022, a dedicated sustainability manager was appointed to support the development and embedding of a sustainability strategy. Additionally, an external partner was engaged during the second half of 2022 to assist with the development of the strategy and assess the actual and potential impacts of the principal climate-related risks and opportunities on our business model and strategy. Good progress was made in 2022, with further work required in early 2023 to finalise the assessment.
An analysis of the resilience of the business model and strategy of the company, taking into consideration of different climate-related scenarios.	Climate change was prominently featured within the 2022 ORSA report including a detailed assessment of the risks to which LV= may be exposed. Further work is required during the first half of 2023 in order to embed the required scenario analysis into our business as usual processes.
A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and performance against those targets.	Discussions were ongoing during 2022 in order to ensure that the correct targets are set to help drive our sustainability ambitions. Final targets will be set during 2023 as part of the sustainability strategy completion work. Performance against the targets will be reported at year-end 2023.
The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.	See above.

Responsible business practice

Customer satisfaction

Our LV= colleagues, across every site, are committed to delivering great outcomes for all of our members and customers. We want everyone to be happy with the interactions that they have with us and the service they receive. However we realise we don't always get things right. That's why it's important that we fix any issues that arise and learn from them.

We were recognised for our handling of complaints with an award win for the Best Approach to Complaints courtesy of the Collaboration Network Awards. The award recognises that our complaints processes and approach are highly regarded by peers within our industry and others.

In 2022 the Financial Ombudsman Service (FOS) agreed with 94% of the decisions we made on complaints referred to them. This shows that we continue to be committed to provide the right outcomes for our members and customers. Any dissatisfaction that we receive is addressed as quickly as possible and over half the complaints we received during 2022 were resolved within three working days.

The team don't just deal with complaints. They also offer additional support to vulnerable members and customers. On an individual basis, and where appropriate, they'll tailor our services and signpost to our member benefits, external charities and organisations that may be able to help.

You can view our **full complaints summary** for 2022 on LV.com

Financial crime

In 2022 we successfully prevented financial losses amounting to £8.7m. This is due to our robust systems and controls that help us to effectively prevent financial crime and losses across LV=.

We continue to protect our members, customers and the wider business from becoming victims of crime and we do this by:

- carrying out verification checks to ensure we're dealing with the correct individual and we know where funds are coming from or going.
- carrying out enhanced due diligence on higher risk customers
- investigating suspicious insurance claims.
- reviewing pension transfers to protect our members from pension scams

Information about **Data Vishing** can be found on LV.com

Bribery and fraud

We have a financial crime policy, which sets out the framework for managing crime arising from bribery and corruption, fraud, money laundering, terrorist financing and market abuse. We have a dedicated financial crime team, which operates within our risk management department, to monitor adherence to this policy.

Via our 'Speak Up' service, our colleagues can report any suspicions or wrong-doings. You can find out more on LV.com.

Human rights and modern slavery

As a responsible business we understand the importance of human rights. We have fair and transparent employment and supply chain practices in place. Our Modern Slavery Statement for 2022 provides more information about the actions we have taken to identify, assess and mitigate against the risk of modern slavery and human trafficking across our business and supply chains.

You can read our full **Modern Slavery Statement** on LV.com/modern-slavery-statement

Third party management

During 2022 a new third party management (TPM) team was formed to help the business buy goods and services in a way that maximises value for the business - as well as for our customers and members - and is in line with LV='s overall strategic direction.

Initially introduced in 2021, and under its supervision, the Prudential Regulatory Authority (PRA) brought in two pieces of legislation and new regulatory requirements for our sector – Impact tolerances for important business services and Outsourcing and third party risk management. Both became fully effective in March 2022

The TPM team played a critical role to ensure we complied with these requirements within the regulatory deadline, and will continue to oversee all supplier contracts. They've introduced new processes to underpin the changes that were required, and collaborate with a number of vendors including Hellios, Docusign, Moody's and Experian using their software tools to support these activities. They also developed an operating model, detailing the required processes, that undergoes a regular programme of revision and enhancement to ensure the business remains focused on the key aspects of our third party relationships.

More information about the role of TPM, the new legislation and the vendors we work with can be found on LV.com

Responsible investment

Responsible investment encompasses all Environmental, Social and Governance (ESG) considerations. ESG considerations are firmly embedded in the management of our investments as we believe we have an obligation to our members to invest their money responsibly. By doing so, we aim to achieve strong investment returns and contribute to the sustainable development of the world and society.

You can take a look at our **approach to responsible investment** in detail on LV.com

We continue to divest from firms who we believe aren't taking action fast enough to address ESG concerns, particularly in our equity holdings. For example, we divested from a healthcare provider who was being investigated for allegations of mistreatment of patients. In our assets backing annuity business we actively restrict new investments into bonds issued by tobacco or energy firms whose ESG ratings are poor.

Focusing specifically on environmental risks and financial risks arising from climate change, the carbon footprint of our investments is regularly monitored. This is done by the Investment Committee, With-Profits Committee and other relevant management committees who review metrics covering carbon intensity and carbon emissions. The carbon intensity and carbon emissions of our investments in our With-Profits Funds are lower than the market indices. In some cases they are considerably lower, for example, the carbon emissions of our US equity fund are 14% lower than the carbon emissions of the S&P500. We regularly monitor a range of other metrics such as controversial name exposure and ESG ratings.

In the 2023 Annual Report we expect to be able to add further information on our management of the financial and non-financial risks arising from climate change to align with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

2022 saw the UK heat up to over 40°C - the warmest year on record according to the Met Office - and low rainfall led to droughts across the country. We believe that rapid and coherent action is needed to tackle the risks and opportunities presented by climate change on our investment portfolio. That's why we've accelerated our response during 2022.

2022 highlights

We launched a new investment fund

In May we launched a new addition to our Smoothed Managed Fund range - the Impact Growth Fund. The fund aims to:

- deliver long-term investment performance, while investing responsibly. Independently risk rated by Defaqto as six, on a scale of 1-10, it offers higher return potential but with the same smoothed journey.
- actively invest in companies delivering sustainable outcomes or progressing towards the delivery of sustainable outcomes. This includes high quality companies that can deliver solutions to today's environmental and social challenges such as renewable energy and affordable housing.

We increased our strategic asset allocation

Over the year we continued to increase holdings in sustainable equities. This increased the strategic asset allocation in our main With-Profits Fund and Smoothed Managed Funds by over £30m. These holdings, or funds, are designed to align with the UN Sustainable Development Goals. We continue to develop and enhance our approach to sustainability and will explore further allocations to dedicated ESG funds in 2023.

We enhanced our screening of corporate bonds

We extended our Responsible Investment Framework by introducing an ESG overlay to screen bonds held in our non-policyholder funds. Initially this is focused on new trading activity, but we expect to extend this to include the existing corporate bond assets. The overlay uses the framework outlined by the UN Global Compact initiative to consider human rights, labour, environment and anti-corruption in investment decision making. For example, we prohibited an investment in the Middle East due to human rights concerns.

NextEra ENERGY

COLUMBIA THREADNEEDLE INVESTMENTS

NextERA Energy – a leading developer of green energy

A key activity that takes place with our investments is ESG engagement. Our asset manager Columbia Threadneedle Investments (CTI) engages on our behalf to drive change and seek to deliver sustainable long-term value. In June CTI met with NextERA Energy's CEO to understand the company's plans to meet their decarbonisation target following the announcement of a Real Zero target before 2045. NextERA Energy is a top 10 holding in our Global Sustainable Equity fund, helping invest in the transition to a low carbon economy.

Section 172 Statement

When making decisions, the directors recognise that the long-term success of our business is dependent on the way the group interacts with a large number of stakeholders. Directors are bound by Section 172 of the Companies Act 2006, which requires each director and the Board as a whole to have regard, among other matters, to the:

- likely consequences of any decision in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

The directors have regard to the views and interests of a wide set of stakeholders. For LV= this includes our members, customers, colleagues, regulators, suppliers, and the communities we work in.

The directors acknowledge that each decision made will not necessarily lead to a positive outcome for all stakeholders. However, through wide-ranging engagement with our stakeholders, listening to their views and assessing the impact of any decisions, our stakeholders' views are incorporated into our decision-making process. You can find more information about how we support and engage with our stakeholders on pages 39 to 40 and our full Section 172 statement can be found below.

Key stakeholder groups:

(1) Our members
(2) Our customers
(3) Our colleagues
(4) Regulators
(5) Financial advisers and brokers
(6) Suppliers
(7) Pension scheme
(8) Environment and community

Strategy and company performance

Business plan (1, 2, 3, 5, 6, 7)

- Reviewed performance against the five-year business plan and considered any changes for the 2023-2027 business plan.
- Discussed and set the KPIs across the business and assessed progress against objectives throughout the year to ensure the business was meeting the targets and performing against our strategic objectives.

Strategy – an independent future (1, 2, 3, 4, 5, 6, 7)

- Agreed to an independent future as a modern mutual.
- Become a member of the Association of Financial Mutuals, in early 2023.

Trading updates (1, 2, 3, 5)

- Regularly discussed the trading performance and reviewed market analysis.
- Considered the impact of the business plan, strategy and costs on the group's trading results.

Products (1, 2, 5)

- Considered the risks, benefits and governance of the advice proposition for the equity release business.
- Received regular updates on product governance activity across the business including reviewing the key themes and conclusions from annual risk assessments and product reviews to ensure products remained commercially viable and appropriate for our members and customers.
- Customer NPS score of 39 reflects a challenging period. However, our turnaround activity has seen our monthly score increase by 17 points.
- Advisor NPS score ranked 3rd out of 17 providers.

Colleague engagement (3)

- Considered the results of our colleague surveys and the actions taken by management as a result.
- Invited the group's Employee Consultative Forum (ECF) to attend Board meetings and discuss the views of the workforce.
- Supported the one-off payment of £750 to the majority of colleagues in October to support with the increased cost of living.

Budget and costs (1, 2, 3, 4, 6)

- Considered performance against the 2022 budget.
- Agreed the budget for the group for 2023/2024 having considered the impact on long-term performance, member bonus and employee perception.
- Reaffirmed the commitment to have a leaner, more efficient cost base.
- Reviewed the operational cost savings throughout the year

Governance

Board training programme (1, 3, 4)

- Received training at both Board and Board committee level covering a range of topics including the Consumer Duty to ensure directors remained well-informed of all new legislation and topical issues affecting the company and the wider industry.
- Undertook 'deep dives' into specific subject matters at Board and committee level to improve understanding and discussion in these areas.
- Directors are encouraged to develop their skills and knowledge, to ensure that they are providing accurate and valuable advice to management. It also ensures the Board is current and making well informed and appropriate actions and decisions for stakeholders.

Board effectiveness (3, 4)

- The Board appointed a third party facilitator to undertake an external evaluation to provide an independent assessment of the operation of the Board and committees.
- One of the main objectives of the review was to assess the decision making process to ensure that all decisions are made with the appropriate oversight, challenge and rigour.
- The review took place in early 2023 and the report has not been finalised at the date of publication of this Report. The results from the review will be monitored by the Board throughout 2023 to ensure that any findings and recommendations are addressed.

Pension scheme (3, 7)

- Approved the transfer of the employee pension schemes to a new Master Trust Pension.
- Employees and the ECF were kept informed of the process and any issues escalated to management or the Board.

Environmental, Social and Governance (ESG) (1, 2, 5, 8)

- Initiated the retender process of the group's asset manager in order to ensure members receive the best possible return on their investment.
- Launched the Impact Growth Fund in the Smoothed Managed Fund range which aims to deliver long-term investment performance, while investing responsibly.
- Increased holdings in sustainable equities which improved the strategic asset allocation in our main With-Profits Fund by 1%.
- The financial risks associated with climate change have continued to be embedded and enhanced within our governance and risk management processes.

Board composition (3, 4)

- Refreshed the Board membership to bring a new diversity of background, skills and thinking into the boardroom.
- Welcomed a new chair in June and a new chief executive joined the Board in October bringing a wealth of knowledge and experience to the Board.
- The Board committees' membership was also reviewed and refreshed following the appointment of two new non-executive directors in March to provide an appropriate balance of skills and experience across the committees and ensure sufficient oversight and challenge to committee matters.

Member engagement (1)

- Agreed a new forum for members to communicate with LV= and share their views on a range of topics.

Corporate Governance Report

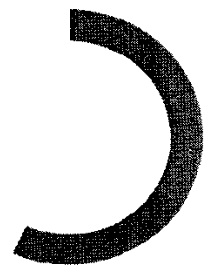
Governance Overview

A diverse and inclusive Board combined with strong governance

Board independence

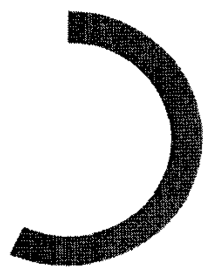
Chair (1) Executive (1) Non-Executive (5)

Board tenure*



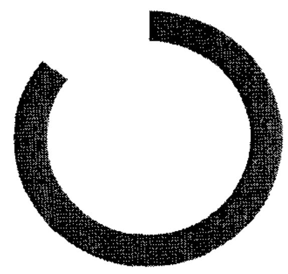
0-1 years (4) 2-3 years (2) 4+ years (1)

Board gender diversity



Male (4) Female (3)

Board ethnic diversity



Non BAME (6) BAME (1)**

* Tenure is calculated from the date of the director's first appointment at an AGM

** Black, Asian and minority ethnic (BAME)

Key

- B Board
- RN Remuneration and Nomination Committee
- A Audit Committee
- Ri Risk Committee
- I Investment Committee
- W With-Profits Committee
- * Committee chair

Board Biographies

Board of Directors - as at 31 December 2022

Simon Moore, Chairman

B * RN

Appointment:

Simon joined the Board on 17 June 2022 as a non-executive director. He was formally appointed by our members at the 2022 AGM.

Skills and experience:

Simon has over 30 years' experience in financial services. He began his career as a credit analyst, specialising in insurance at Lloyds Banking Group, and went on to join the global insurance team at Chase Manhattan Bank. He was later appointed regional director for the corporate banking business at Barclays Bank (South-West of England and Wales). Simon spent three years as the Confederation of British Industry (CBI) international director and as a member of its management Board. In 2022 he completed a ten-year term as chair at Cambridge and Counties Bank. He has also been a governor at the University of the West of England, a non-executive board member of the Government Office of the South West and chairman of Pennant International Group PLC.

External appointments:

- Chair of FCF Group and RCI Bank UK
- Trustee of Wallscourt Foundation
- Lay Member of the audit and risk committee of the Recruitment and Employment Confederation

David Hynam, Chief Executive

B I

Appointment:
David was appointed as chief executive on 26 September 2022 and joined the Board on 24 October 2022.

Skills and experience:
David has spent 30 years in the financial services and insurance sector. He began his career at Barclays in 1992 working in a variety of roles before becoming chief operating officer at Barclays' Offshore business. He joined AXA UK in 2001 in a senior operations role, ultimately overseeing operations for the UK and Ireland. When Resolution acquired the majority of the UK life business from AXA, merging the business with the Friends Provident business to create Friends Life, David joined Friends Life as group chief operating officer leaving as UK chief executive officer in 2013. He joined Bupa UK in 2014 and led the transformation agenda for the UK business as well as running the health clinics division. His most recent role was as chief executive officer of Bupa's UK and global markets, which included all the UK businesses and international health insurance.

External appointments:
- Non-executive chairman of HomeServeUK

Natalie Ceeney, CBE, Senior Independent Director

B RN* A RI

Appointment:
Natalie joined the Board on 1 March 2022 as a non-executive director and senior independent director. She was formally appointed by our members at the 2022 AGM.

Skills and experience:
Natalie is an experienced non-executive director with a strong background in financial services and regulation. Natalie has held three chief executive roles, including at the National Archives, HM Courts and Tribunal Service and the Financial Ombudsman Service. She's also served on the UK executive of HSBC. Her non-executive experience includes Anglian Water, OpenReach, Countrywide plc, Innovate Finance and Ford Credit Europe (Bank). She was awarded a CBE in 2010.

External appointments:
Chair of Cash Access UK Ltd

Non-executive director of

- Ford Credit Europe (Bank)
- Anglian Water Ltd
- OpenReach

Colin Ledlie, Non-Executive Director

B A* RI I W

Appointment:
Colin joined the Board on 1 August 2017 as a non-executive director. He was formally appointed by our members at the 2018 AGM.

Skills and experience:
Colin is an experienced actuary and risk professional with over 30 years' experience in the insurance industry. He has previously held a number of senior executive roles at Standard Life, including as chief actuary and chief risk officer. Colin's non-executive experience includes Bupa, ReAssure and the National Records of Scotland.

External appointments:
- None

Seamus Creedon, Non-Executive Director

B

Appointment:
Seamus joined the Board on 16 January 2020 as a non-executive director. He was formally appointed by our members at the 2020 AGM.

Skills and experience:
Seamus is a qualified actuary with more than 40 years' experience in the financial services industry in both Ireland and the UK. He was the first chief executive officer of Lifetime, Bank of Ireland's life assurance company and later became a partner with KPMG in London. He has been a leader for the European actuarial profession, with a particular focus on Solvency II.

External appointments:
Non-executive director of:

- RenaissanceRe Syndicate Management
- Baillie Gifford Investment Management (Europe)
- RGA International Re
- Renaissance Reinsurance of Europe

Susan McInnes, Non-Executive Director

B RN RI * I W

Appointment:
Susan joined the Board on 1 April 2020 as a non-executive director. She was formally appointed by our members at the 2020 AGM.

Skills and experience:
Susan has worked in the life and pensions sector for over 30 years. She was at the Phoenix Group for over twelve years where she was customer director of the life companies and chief risk officer, before being appointed chief executive officer of Standard Life Assurance in September 2018. Susan was previously appointed as a board member of the ABI and chair of the ABI's Long-Term Savings Committee.

External appointments:
Non-executive director of:

- Royal and Sun Alliance
- Diligenta
- Curtis Banks

Suzy Neubert, Non-Executive Director

B RN A I *

Appointment:
Suzy joined the Board on 1 March 2022 as a non-executive director. She was formally appointed by our members at the 2022 AGM.

Skills and experience:
Suzy has deep financial services experience as both an executive and non-executive director. Her executive roles have included managing director of equities at Merrill Lynch followed by 14 years at J O Hambro Capital Management where she was global head of distribution. Suzy sits on the Boards of ISIO, Jupiter Asset Management and Witan Investment Trust and is also a trustee of the Prince's Trust. She is a qualified barrister.

External appointments:

- Senior independent director of Witan Investment Trust
- Non-executive director of Jupiter Asset Management and ISIO
- Trustee of the Prince's Trust.

Outgoing Directors

Alan Cook, Chair

Appointment: Board 1 January 2017, Chair 20 June 2017
Resignation: 28 February 2022
Committees served during 2022: Corporate Governance and Nomination, Risk and Investment

David Barral

Appointment: Board 7 March 2016, Senior Independent Director 1 April 2018
Resignation: 7 March 2022
Committees served during 2022: Corporate Governance and Nomination, Audit, Risk and Investment

Alison Hutchinson

Appointment: Board 1 January 2018
Resignation: 1 April 2022
Committees served during 2022: Remuneration, Corporate Governance and Nomination

Luke Savage

Appointment: Board 1 February 2018
Resignation: 1 April 2022
Committees served during 2022: Corporate Governance and Nomination, Audit and Remuneration

Mark Hartigan, Chief Executive

Appointment: CEO 1 January 2020, Board 15 June 2020
Resignation: 30 September 2022
Committees served during 2022: Investment

Incoming Directors in 2023 (subject to regulatory approval)

David Rogers, Non-Executive Director

Appointment: 1 March 2023

Corporate Governance Statement

Our governance

The Board is committed to high standards of corporate governance and stewardship. As a mutual, we are owned by our members and strive to provide long-term benefit and confidence through the operation of an effective governance framework, efficient controls and transparent decision making.

For the year ended 31 December 2022, LV= adhered to the principles and provisions of the Financial Reporting Council's Corporate Governance Code (the Code) and the Board considers that it has complied in full with the Code during the year.

The Board believes that effective corporate governance ensures that there's clarity of roles and responsibilities which enhances accountability and transparency. Good governance helps to create a sustainable business and support the delivery of its long-term strategy.

Our governance framework defines the decision-making authorities and responsibilities of the Board, committees and management. The governance framework assists with the oversight and delivery of our performance, strategy, values and culture.

We rejoined the Association of Financial Mutuals (AFM) in early 2023, so we're now in a position to add our voice to the fantastic work the AFM and its members are already doing. The Board continues to consider good corporate governance to be fundamental in its operations and intends to report against the principles of the AFM's Corporate Governance Code from the next reporting period.

The Board

The role of the Board is to set the tone from the top on the group's governance, culture and values, and to be collectively responsible for the long-term success of the group. For the Board, this means running our business with integrity, complying with all relevant laws and regulations and enabling the highest standards of internal control and risk management.

The Board ensures that we truly live our values every day, delivering for our members, customers, and colleagues, harnessing the latest technologies and building a business that is sustainably lean and strong.

During the year, the Board has continued to develop LV's mutual future and the opportunities that it presents for our members, customers and colleagues.

2022 was an important year for the Board, and a significant number of meetings were held to ensure that matters and decisions were given the appropriate oversight, rigour and debate. The directors committed the time and provided constructive advice and challenge to proposals and decisions.

Further details on LV's strategy can be found on page 6 and information on the Board's activities during the year can be found on page 38.

Roles and responsibilities

The Board is comprised of a non-executive chair, five independent non-executive directors and the chief executive who is an executive director. The directors collectively have the appropriate balance of skills, knowledge and experience in the financial services industry, in particular life insurance, with-profits, investments, risk and governance.

Each role on the Board has a specific responsibility and a summary of each can be found below. The skills and experience that each director brings to the Board is included in their biographies on pages 32 to 34.

Attendance table for current Board members as at 31 December 2022

Total Board meetings held: 18 (6 scheduled, 12 ad hoc)

Board member	No. eligible to attend	No. attended	%	Board member	No. eligible to attend	No. attended	%
Simon Moore	10	10	100%	Suzy Neubert[1]	17	16	94%
David Hynam	4	4	100%	Alan Cook	1	1	100%
Natalie Ceeney[1]	17	15	88%	David Barral	1	1	100%
Seamus Creedon[1]	18	17	94%	Mark Hartigan	9	6	66%
Colin Ledlie	18	18	100%	Alison Hutchinson	3	3	100%
Susan McInnes	18	16	100%	Luke Savage	3	3	100%

[illegible]
[illegible]

Board of Directors - as at 31 December 2022

Chair
Simon Moore*

- Ensures the Board is effective and fosters honest and open debate in the boardroom.
- Ensures effective decision making and robust challenge of management.
- Sets the tone from the top both in terms of LV's culture and in setting the strategic direction.
- Oversees and supports the CEO.
- Promotes high standards of corporate governance.

Senior Independent Director
Natalie Ceeney, CBE**

- Acts as a sounding board to the chair.
- Leads the annual review of the chair's performance by the Board.
- Available to the directors and members when contact through the usual channels (chair or CEO) may not be appropriate.

Non-Executive Directors
Seamus Creedon
Colin Ledlie
Susan McInnes
Suzy Neubert***

- Contributes to discussions and challenges and holds management to account, to ensure transparent decision making and oversight.
- Contributes to the development of the business plan, strategy and risk appetite.
- Promotes the long-term success of LV=.

Chief Executive
David Hynam****

- Leads the executive team in the day-to-day running of the business.
- Delivers the strategy and business plan agreed by the Board.
- Implements and monitors the controls for best practice, policy and practices to maintain operational efficiency and high standards of business conduct.

Company Secretary
Michael Jones

- Ensures the Board has high quality information, adequate time and appropriate resources in order to function effectively and efficiently.
- Advises and keeps the Board updated on corporate governance matters and developments.
- Considers Board effectiveness in conjunction with the chair.
- Facilitates the directors' induction programmes and assists with professional development.
- Provides advice, services and support to all directors as and when required.

Key

* Simon Moore was appointed to the Board on 17 June 2022
** Natalie Ceeney was appointed as a non-executive director and senior independent director on 1 March 2022.
*** Suzy Neubert was appointed as a non-executive director on 1 March 2022
**** David Hynam was appointed as CEO on 26 September 2022 and joined the Board on 24 October 2022

Further details of the role and responsibilities of the Board, including the Board's terms of reference, are available at **LV.com/board**

Board changes

There have been a number of changes to the Board in 2022.

The Chair

Immediately following the outcome of LV's SGM in December 2021, Alan Cook announced that he would resign as chair. In February 2022, the Board announced the appointment of Seamus Creedon as interim chair with effect from 1 March. The Board agreed that a priority was to secure a permanent chair for the Board. With the assistance of Ridgeway (now Teneo), an external recruitment consultant, the company secretary and the senior independent director initiated the search for a permanent chair. Ridgeway was provided with the role description, expectations and the essential criteria for the position including level of experience, expertise and personal characteristics. In preparation for the search, the skills of the current Board were also assessed in order to identify any areas that could be considered during the recruitment process

Ridgeway initiated an intensive search of the market and presented a list of twelve candidates to the interim chair, company secretary and senior independent director for discussion. Five candidates were shortlisted to progress to interview stage and these were held with the interim chair, company secretary and senior independent director.

Following the initial interviews, three candidates were put forward to a second round of interviews with the remaining Board members. The Remuneration and Nomination Committee discussed the interviewers' observations and reviewed each candidate's skills, experience, cultural fit, style, time commitments and availability. The committee unanimously agreed that Simon Moore was the preferred candidate and his appointment was recommended by the committee to the Board. The Board approved Simon's appointment with effect from 17 June 2022.

The Non-Executive Directors

In February 2022, Alison Hutchinson and Luke Savage announced their intention to resign from the Board with effect 1 April 2022. Both directors wished to pursue other external opportunities but had agreed to remain on the Board until the completion of an assessment of LV's strategic options. David Barral also tendered his resignation from the Board, with effect 7 March 2022, having served his six-year term.

Following a thorough and robust recruitment process in 2021, with the assistance of Russell Reynolds Associates, Suzy Neubert and Natalie Ceeney were selected as non-executive directors for the Board. It was agreed that both had the right blend of skills and experience to contribute and help the Board to develop an independent future for LV=. Natalie and Suzy joined the Board on 1 March 2022.

During the year, Seamus Creedon noted his intention to retire from the Board and agreed to remain a director until a successor had been appointed. Following a thorough and comprehensive recruitment process, David Rogers was appointed to the Board with effect from 1 March 2023 and Seamus Creedon will step down from the Board on 31 March 2023.

The Chief Executive

In July 2022, the Board announced that by mutual agreement, Mark Hartigan would resign as CEO and a director of the Board once his successor had been appointed. A full market search, and a rigorous interview process was undertaken and David Hynam was announced as the new CEO in September. A thorough handover was undertaken and Mark resigned with effect from 30 September 2022.

Following David's appointment as CEO, the Remuneration and Nomination Committee reviewed the proposal to appoint David to the Board as an executive director. The Committee endorsed the proposal and the Board approved David's appointment as an executive member of the Board with effect from 24 October 2022.

Although David was in role, the chair, Simon Moore, assumed the regulatory responsibilities of the CEO under the '12 week rule' while David's regulatory application was awaiting approval. This ensured appropriate and continued oversight and accountability of the business and executive team during this period. Simon remained accountable until 1 February when David's regulatory approval was received. During the transition period safeguards and mitigations were put in place to ensure Simon remained as independent as possible while retaining and exercising his regulatory responsibility for the running of the business. A robust governance structure was put in place to manage and monitor any conflicts of interest. Simon's time commitment was also evaluated to ensure that he had sufficient time to manage the additional responsibilities.

Re-appointment and retirement

In accordance with the Company's Articles, and the recommendations of the Code, all directors who were in post at the date of the AGM on 18 October 2022, stood for appointment or re-appointment at the AGM. All directors were supported by members and received over 94% of votes in favour. As David was not a Board member at the date of the AGM, he will be put forward for his first election by members at the 2023 AGM.

Induction

Upon appointment, all directors receive a comprehensive induction programme led by the company secretary. Suzy's and Natalie's induction programmes were designed to ensure that they were equipped with the requisite information and knowledge about LV= to help facilitate their roles on the Board and committees. The induction plan started in 2021 and continued in March 2022 following their formal appointment to the Board.

Simon received a thorough induction when he joined the Board in June. His induction programme was structured to include meetings with key personnel across the business and members of the Board and senior management to gain an in-depth understanding of the present position of the business and the matters and priorities for the Board. Simon also visited the Exeter and Bournemouth offices to meet with customer facing teams and receive a greater insight into the strategy and plans for the different lines of the business.

David also received a detailed induction into his role as CEO. He received a formal handover from the outgoing CEO, Mark Hartigan and met at length with his executive team and senior management to discuss LV's customers and members, colleagues, strategy, vision, business plan and risks and controls to gain an extensive introduction to the business.

Performance evaluations

Board and committee evaluation

The Code recommends that all FTSE 350 companies undertake an externally facilitated board effectiveness review at least every three years. Although LV= is not a FTSE 350 company we still consider the recommendation on a three-year basis. The last externally led review was conducted by Ernst and Young (EY) for the year ended 2019 and internally led reviews have been completed for the past two years following approval by the Board.

The Remuneration and Nomination Committee discussed the approach for the 2022 review and recommended to the Board that an externally led review was undertaken. A tender process was initiated and three firms were approached and interviewed. Following a thorough selection process and with consideration to past references, the chair, company secretary and senior independent director made the decision to appoint Christopher Saul Associates (CSA). CSA demonstrated an insightful and pragmatic approach to the process and had a valuable legal background and experience, including knowledge of leading evaluations for regulated firms. It is noted that CSA is independent from and does not have any connection with LV=.

The review focused on the operation of the Board and its committees, dynamics within the boardroom, among Board members and with management, engagement and relationships with stakeholders, succession planning and the quality of information. CSA undertook a detailed review of a broad range of documentation before observing a meeting of the Board and each of its committees. Interviews were also carried out with all Board members, the company secretary, members of the executive team and the external auditors, Mazars. The regulators were also engaged with the process and an initial meeting was held with CSA and the FCA and PRA to discuss the scope of the review.

Due to the number of changes to the Board composition during the second half of 2022, it was agreed that the review would start in the first quarter of 2023. Therefore at the date of this report, the review is underway but the report and recommendations have not yet been finalised and agreed by the Board.

The Chair

The senior independent director, Natalie Ceeney, conducted the evaluation of the chair's performance through a series of individual discussions with the non-executive directors. The report was shared with the Board following discussion with the chair.

The Non-Executive Directors

The chair held individual meetings with each non-executive director. The chair discussed the director's role and their views on the Board's performance and areas for development. These conversations identified the strong, positive and diverse contribution being made by the non-executive directors collectively and individually, but also raised useful indications of additional steps the Board can take. It was recognised and agreed that further performance reviews would be undertaken in 2023, in addition to the planned independent board effectiveness review.

The Board's activities during the year

In addition to the six standard meetings, a significant number of ad hoc meetings were held during the year to discuss strategic matters as well as the appointment of the chair and CEO. Sub-committee meetings were also held to discuss and approve fund governance proposals and the year-end 2021 IFRS and Solvency II reporting.

The agenda for each Board meeting is carefully considered in advance by the chair, CEO and company secretary to ensure that any standing or situational matters follow the correct governance process. A typical meeting will comprise of reports from:

- The CEO on performance and strategy.
- The chief finance officer on the trading and financial performance.
- The chief risk officer on risk and regulatory matters.
- The protection and savings and retirement managing director on the trading performance of the business.

The remainder of the agenda focuses on member, customer, employee and governance matters, as well as matters of current interest.

The principal focus for the Board during the year was the generation of new business and distribution opportunities. As part of the Board's strategic planning, the directors assessed the future needs of LV= and gave particular focus to Board and executive succession planning concluding with the appointment of a new chair and chief executive. The reorganisation of the Board has brought new perspectives, experience and skillsets to the boardroom which has helped develop the longer-term strategy of the business and evolve the Board's thinking and decision making.

Customer

In line with the FCA's Consumer Duty coming into force in 2023, the Board nominated Susan McInnes as the Board Consumer Duty Champion. Susan's primary role is to work alongside the chair and CEO to ensure that the Duty is being discussed regularly and raised in all relevant discussions in a meaningful way.

Voice of the employee

The Code enforces the importance of strengthening the voice of the employee and other stakeholders in the boardroom and outlines methods by which the Board should engage with the workforce. The Board fully supports initiatives to engage and empower our colleagues and as with previous years, the Board relied on alternative arrangements, rather than the appointment of a director from the workforce, to consider the interests of our colleagues during 2022. The views of our colleagues are reported regularly to the Board via the chief people officer and the company's employee consultative forum (ECF) representative was invited to update the Board on the opinions and concerns of the wider workforce throughout the year. The forum is neutral and independent from management and is a key method used by the Board to assess and monitor the culture within LV=.

Governance and decision making

LV= has a robust governance framework which provides the appropriate oversight, decision-making authority and delegation powers for the Board. For each matter that comes before the Board, the directors consider the likely consequences of any decision in the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

The directors of LV= and those of all UK companies, must act in accordance with a set of general duties outlined in the Companies Act 2006. These include a duty to promote the success of the company, consider the long-term consequences of decisions, and its impact on stakeholders including employees, members and the environment. As an insurance business, the directors are also bound by the FCA's code of conduct which sets out certain rules to be adhered to. These include acting with integrity, acting with due skill, care and diligence, being open and cooperative with the regulators, paying due regard to the interests of customers and treating them fairly, and observing proper standards of market conduct. Each director has complied with the code of conduct throughout the year.

The Board actively engages with its stakeholders and the following table outlines how the directors have fulfilled their duties during the year. It also demonstrates how the Board considered the impact of its decisions on its stakeholders and provides additional information in support of the Section 172 statement available on page 30.

Key Stakeholders

Members and Customers

Understanding what's important to our members is key to our long-term success as a company. During the year, we held various events for our members and held our first hybrid AGM.

Annual General Meeting

The 2022 AGM was held on 18 October as a hybrid meeting. This meant that members could join us on the day in person or online. Members were still able to vote via proxy in advance. Members who attended on the day, either in person or online, were able to vote and engage directly with the Board via a question and answer session. All resolutions were passed with at least 94% of votes in favour which included the appointment of three new directors.

Recordings of the AGM including the minutes from the meeting were uploaded to LV.com after the meeting to ensure those members who were unable to attend were still able to access and review the events.

Member Panel

Our LV= Member Panel is a small group of members who are particularly interested in how the business is run. We've continued to engage with them via an online hub where we shared business news and updates. During 2022, we met with the Member Panel on two occasions. In January, members of our senior leadership team held a Zoom meeting where we updated Panel Members on the performance of the business, listened to their views about the future of LV= and answered any questions they had. In early December, our chair and CEO hosted a private lunch which provided an opportunity for the Member Panel to meet in person Simon Moore, who joined as chair in June, and David Hynam, who was appointed CEO in September. At the lunch we were also able to share a first look at our new online LV= Member Community which the Member Panel will transition to in 2023.

Other initiatives

During 2022, we completed three bespoke surveys where members shared their:

- views on what is important to them as members
- feelings about mutuality
- understanding of the strategy of the business.

We have a wider ongoing programme where we seek member and customer feedback on our products and services. Members and customers who contact our customer experience teams are invited to give us feedback via an SMS survey which is open all year. We have a programme of research that asks for their views on the specific product they hold with us to ensure it is meeting their needs.

We have also explored members' views on investment risk and sustainability in relation to investments in 2022 within further bespoke surveys.

Other Stakeholders

Our colleagues

The wellbeing and consideration of our colleagues was a key focus for the Board and senior management during the year. We are committed to promoting equality of opportunity for all colleagues, ensuring that colleagues are informed and empowered to make positive choices to maintain their wellbeing. As such, a number of initiatives were put in place to ensure the right support and information was available, such as:

- Employees were invited to participate in a pulse engage survey mid-year and an annual engage survey in November. 87% of the workforce participated in the annual survey, which was a 9% increase from the pulse survey in June. The average engagement score also rose to 74% in December 2022 up from 59% in December 2021.
- Virtual all-colleague engagement meetings were held throughout the year, where colleagues could ask questions to key stakeholders across the business.
- A £750 one off payment was made to all band A-C employees in October to support with the increased cost of living.
- Our mental health first aiders all completed their refresher training this year to continue to support our colleagues who are experiencing mental ill health or distress.
- Further focus was placed on our Diversity, Equity and Inclusion strategy plans, as we work towards celebrating our colleagues' differences and embedding an inclusive culture and supportive working environment where all colleagues feel welcomed, respected, supported and valued.
- We reviewed our Employee Assistance Programme offering to ensure we now sign-post colleagues to the most up to date wellbeing and lifestyle support. This was supported through the MyHealthyAdvantage app focusing on boosting wellness, improving wellbeing, increasing engagement and providing reward and recognition.

Regulators

As an insurance company, we are subject to financial services regulations and are regulated by the PRA and FCA. We have a constructive and open relationship with both regulators and senior management and the Board maintain a programme of regular engagement with them. As part of the PRA's supervision programme meetings are held with the CEO quarterly and the chair annually. There is also regular engagement with the following individuals at LV=:

- Chief risk officer (quarterly)
- Chief finance officer (quarterly)
- Risk and Audit Committee chairs (annually)
- Chief actuary (annually)
- Chief internal auditor (annually)
- External auditor (annually)
- Independent non-executive directors (annual group meeting)

With-Profits Committee

The With-Profits Committee (WPC) was an important stakeholder during the year. The WPC provided advice and challenge ahead of each Board meeting to ensure consideration was given to the fairness of the proposal and decision for with-profits policyholders.

The committee's views were considered and proposals revised following their review before being presented to the Board for approval. The WPC chair attended most Board meetings to present the views of the committee back to the Board

Business relationships

We operate and work with a wide range of suppliers to deliver services to our customers. It is vital that we build and foster strong working relationships with all our suppliers and financial advisers.

Community and environment

The Board recognises the importance of contributing to our communities through investment, partnerships and fundraising and the business has undertaken a number of initiatives throughout the year to help the environment and communities:

- We achieved Carbon Negative status in relation to our operational carbon footprint by investing in carbon offset schemes.
- We have maintained our zero waste to landfill status.
- We have introduced food waste bins in all our offices to help prevent the contamination of recyclable waste and to create a way to generate energy from our food waste.
- We collaborated with Surfers Against Sewage to participate in their Million Mile Clean initiative and also organised local beach cleans from our Bournemouth site.
- We replaced halogen light bulbs with low energy LED bulbs to save energy across all our sites.

Further information is available in the Corporate Responsibility Report on page 23 and pages 26 and 27.

Environmental, Social and Governance (ESG)

The Board is committed to assessing and addressing the financial risk associated with climate change and the framework to support this continues to be embedded and enhanced within our governance and risk management processes. The Board, with support from the Investment and Risk Committees, has mandated and monitored this progress throughout 2022 and continues to ensure appropriate oversight is maintained and enhanced over time.

In particular during 2022, we strengthened our governance structure to define more clearly the accountabilities for delivering our sustainability and climate risk strategic objectives across the business. The governance structures have been designed with the intention of achieving greater integration of the sustainability strategy into everything we do, and leverages existing Board meetings and other Board committees to oversee this.

Board

The Board sponsored the development of our sustainability strategy, which will support our response to monitoring and mitigating our environmental impact and drive our valuable contribution so that our members and customers can achieve financial confidence throughout their lifetimes.

Investment Committee

The Investment Committee met four times over 2022 and discussed the progress made in relation to our strategic aims and regulatory requirements at each meeting. The committee continued to monitor ESG metrics on the core With-Profits Fund and supported the development of our sustainability strategy.

Risk Committee

The Risk Committee met four times and discussed sustainability and climate risk as distinct items at two of its meetings. The committee approved an updated governance structure to support LV's sustainability strategy and approach to climate risk. The committee also reviewed results from LV's Own Risk and Solvency Assessment (ORSA) which includes meaningful consideration of developments in the financial risks associated with climate change.

Board

Responsible for setting the business strategy including consideration of sustainability and climate risk.

Risk Committee	Investment Committee	Audit Committee	Remuneration Committee
Monitor climate and other related risks.	Develop and monitor the investment strategy with regard to responsible investing framework.	Review disclosures including annual TCFD report.	Oversee policy and governance of variable remuneration.

Executive Team

Responsible for implementing the Board approved sustainability strategy, escalating any issues to Board as appropriate.

Executive Risk Committee	Asset and Liability Committee	Other Committees
Advise on recommendations to the Board Risk Committee as set out in terms of reference.	Advise on recommendations to the Board Risk Committee and Investment Committee as set out in terms of reference.	Discuss sustainability where appropriate.

Sustainability Steering Committee

Bring together key sustainability stakeholders to co-ordinate delivery of LV's sustainability strategy.

Management's role

Our chief executive has assumed overall responsibility for sustainability. He is responsible for the development and delivery of our strategic plans, and this also includes consideration of climate change. As a member of the Board, the chief executive is well positioned to raise opportunities and any issues to the Board when required.

Our chief risk officer continues to be responsible for climate risk, in line with requirements set out in the Prudential Regulation Authority's Supervisory Statement 'Enhancing Banks' and Insurers' approaches to managing the financial risks from climate change'. He is responsible for integrating the management of financial risks arising from climate change into the LV= Risk Management framework, advising the Board on LV's financial exposure to climate risk and challenging the business to identify, measure and mitigate climate related risks. See the risk management section on page 18 for further information.

To support the executive team in the development and delivery of LV's sustainability strategy, a dedicated sustainability manager was appointed during 2022. He will lead the Sustainability Steering Committee whose focus is on the preparation of LV's first Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting at year-end 2023.

Board committees

Further details of the role and responsibility of each Board committee, including each committee's terms of reference, are available at **LV.com/board**

Remuneration and Nomination Committee

Membership	Attendance
Natalie Ceeney (Chair)*	**14/14**
Susan McInnes*	**17/17**
Simon Moore**	**3/4**
Suzy Neubert*	**11/14**
Alison Hutchinson***	**3/3**
Luke Savage***	**2/3**
Alan Cook****	**2/2**
David Barral****	**2/2**

* Natalie Ceeney took over as chair of the committee from 1 April replacing Susan McInnes, as chair of the Remuneration Committee. Suzy Neubert joined the committee at the same time.

** Simon Moore joined the committee from 19 August 2022.

*** Alison Hutchinson and Luke Savage resigned from the Board on 1 April 2022 before the committee was merged. Both were members of the two respective committees before their resignation. Alison had full attendance at both committees and Luke was absent from one Corporate Governance and Nomination Committee meeting.

**** Alan Cook and David Barral were members of the Corporate Governance and Nomination Committee and both had full attendance at the two meetings before their retirement.

During the year, the Board agreed to merge the Remuneration and Corporate Governance and Nomination Committees. It was agreed that the nomination matters would remain with this committee and the governance responsibilities would transfer as matters reserved to the Board. This section of the report will focus on the nomination matters and details on the remuneration processes, decisions and outcomes can be found in the report on directors' remuneration on pages 49 to 59.

The committee's principal nomination responsibilities are reviewing and evaluating the size, structure and composition of the Board and its committees and ensuring succession plans are in place for the Board, the executive team and the company secretary. The committee is responsible for overseeing the search process for new Board members and endorsing the appointment to the Board for approval.

Succession Planning

Succession planning was a key focus during the year and the Board, through this committee, considered succession planning for the Board, executive team and senior management. As our business strategy continues to evolve, so does the need to shape our organisation to ensure our leadership aligns with our strategic goals. While considering succession, the committee was mindful of fostering existing talent within the organisation, while injecting new talent and ideas where needed as well as the benefits of a diverse and inclusive workforce.

The Board

There were a number of director changes during the year, and succession planning was a principal focus for the committee. As part of the succession planning process, the committee considered the current skills, experience and tenure of the directors against the future needs and longer-term strategy of the company.

During the year, Seamus Creedon noted his intention to step down from the Board and agreed to remain a director until a successor had been appointed. Led by the senior independent director and the company secretary, the Board undertook a skills analysis and identified life and pensions and finance experience as areas that were required. As part of this review, the composition of the Board committees was also discussed. It was agreed that a reorganisation of the committee memberships would be considered to better align the skills and experience of the non-executives. With this in mind, the recruitment search focused on finding a candidate who had finance, actuarial and life and pensions experience and who would be able to chair the Audit Committee. Following a thorough and comprehensive process, the search concluded with the appointment of David Rogers with effect from 1 March 2023.

Executive and senior management

During the year, executive and senior management talent and succession planning was a key focus for the committee. The committee received regular updates on the progress and initiatives for developing and improving the talent pipeline across the business and considered the contingency arrangements and dependencies within these plans. Due to the increasing attrition levels at the start of the year, the Risk Committee also considered the principal risk relating to talent and succession at length and monitored this closely throughout the year. The Board recognises that diversity in our senior management needs to be improved and there is a continued focus on improving this through development, succession planning and recruitment.

Succession planning for the chief executive was a key process undertaken during the year. A systematic talent assessment of the executive team was completed and considered against the business' long-term strategy and the present and future needs of the company. The outcome of the assessment was critical in the search process and identifying the specification for the chief executive role.

Conflicts of interest and time commitment

The Code requires that non-executive directors must have sufficient time available to carry out their responsibilities effectively. The committee reviews each non-executive's time commitment both annually and throughout the year following any changes to external appointments or the membership of Board committees.

The Board is responsible for approving a director's external appointment, providing that the appointment is not likely to lead to a conflict of interest and the director continues to be able to dedicate sufficient time to their current role. These appointments provide an opportunity for the director to gain broader experience outside of LV= and can be a benefit and advantage to the Board and LV= as a whole. The Board is satisfied that all directors are able to commit the necessary time to fulfil their roles and responsibilities and that no external appointments are considered significant or a conflict.

The directors' time commitment and conflicts of interest are assessed by the committee as part of the recruitment process for new Board appointments. For current Board members, approval to accept any new external appointment is provided by the chair and the Board, as appropriate, before an external commitment is accepted. At each meeting, the Board considers any material or situational conflicts relating to the matters of the meeting. Any such conflicts are disclosed and recorded in the minutes with appropriate approval and/or mitigation agreed and taken at each meeting. The Board undertakes an annual review of the agreed mitigation for standing conflicts and this is further reviewed as part of the annual fitness and propriety exercise.

During the year, the committee reviewed the directors' conflicts of interest and approved the mitigating action. It also assessed the fitness and propriety and time commitment of each of the non-executive directors to ensure that they remained independent, fit and proper and able to dedicate sufficient time to their roles. There were no situations during the year where conflicts were identified or mitigation required.

Diversity and inclusion

LV= is committed to equality of opportunity and treatment for all those who work for us, at all levels throughout the business. In line with our values, we agree to treat all colleagues, workers and applicants with dignity, fairness, respect and consideration.

The Board is committed to diversity and inclusion, ensuring it remains well informed, balanced, innovative and open-minded to continue to drive the business forward. The Board has adopted a Board diversity policy which was reviewed and revised by the committee during the year.

Board diversity policy

The Board has adopted the following diversity policy:

LV= recognises and embraces the benefits of having a diverse Board. We see it as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, education and professional background, race, ethnicity, gender, and other qualities of directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

All Board appointments will be made on merit and reflect the skills and experience the Board as a whole requires to be effective. The Remuneration and Nomination Committee (Rem&Nomco) reviews and assesses the Board's composition and recommends the appointment of all new directors to the Board.

In reviewing Board composition, Rem&Nomco will consider the benefits of all aspects of diversity in order to maintain an appropriate range and balance of skills, experience and background on the Board. The Board supports ethnic and gender diversity and is aware of the Women in Finance Charter target for women to represent 33% of Board membership and the Parker Review recommendation to have at least one non-white director by 2024. However, in identifying suitable candidates for appointment to the Board, Rem&Nomco will consider candidates on merit against objective criteria as well as having due regard for the benefits of diversity on the Board.

The Board is committed to ensuring continued focus on the diversity of their membership, with the aim of better reflecting the demographics of LV's customers and members. The Rem&NomCo will continue to challenge management to improve policies and processes to ensure diversity remains a key focus and targets are progressed and achieved.

Application and performance against the Board diversity policy

Throughout the year, the committee evaluated the Board and its committees' composition and considered the benefits of all aspects of diversity in order to maintain an appropriate range and balance of skills, experience and knowledge.

The Board supports the recommendations set out in the Hampton-Alexander Review and the Women in Finance Charter on gender diversity and the Parker Review on ethnic diversity. The Board therefore commits to having at least 33% female representation in its membership and at least one Board member from a Black, Asian and Minority Ethnic (BAME) background.

As at year end, the Board had 43% female representation (four male and three female directors) and one Board member from a BAME background. Each non-executive director has a different area of expertise and professional background which balances the skills and experience of the Board. For more details of the composition of the Board see pages 32 to 34.

Senior management

The Board is committed to developing a diverse workforce and is dedicated to promoting women in leadership. The Hampton-Alexander Review 2016 set the target to have 33% of women not just on Boards, but also a 33% representation on executive committees and their direct reports. Our pledge under the Women in Finance Charter was to reach 43% female representation in senior roles by 2023. As at 31 December 2022 we're currently slightly above the target for our executive team and direct reports at 44% and achieving 40% throughout all our management and senior management grades, which demonstrates LV's commitment to producing a diverse pool of leaders and senior managers.

Looking ahead

Over 2023, the committee will continue to consider the balance of skills and experience of the Board, its committees and senior management as well as ensuring an adequate talent pipeline and succession plans are in place. The committee will have continued focus on diversity and inclusion in order to harness a diverse range of thoughts, ideas and perspectives in the boardroom and the wider business. The committee will continue to review remuneration arrangements for the group and ensure that fair and appropriate decisions and outcomes are made. The committee will review and approve the remuneration policy ahead of putting it forward for members vote at the 2023 AGM.

Audit Committee

Membership	Attendance
Colin Eodlie (Chair)*	7/7
Natalie Ceeney**	5/5
Suzy Neubert**	5/5
Luke Savage*	2/2
David Barral***	1/1

* Luke Savage resigned from the committee on 1 April 2022 and Colin Eodlie resumed the role of chair

** Natalie Ceeney and Suzy Neubert joined the committee with effect from 1 April 2022.

*** David Barral resigned from the committee with effect 7 March 2022

The role of the committee is to oversee and challenge the integrity of the group's financial reports and the robustness of the financial internal controls. It also has oversight of the external and internal auditors, and monitors their objectivity, independence and operation. The significant issues considered by the committee in relation to the 2022 Annual Report along with the work that the committee has carried out during the year in relation to the group's internal control and external auditors are set out in this report.

The committee received all the assurances required from management to conclude satisfactorily on the robustness of the Annual Report.

Significant issues considered in relation to the financial statements

In fulfilling its duties regarding ensuring the integrity of financial reporting across the group, the committee focused on the following significant issues during the year.

Long-term insurance and investment contract liabilities

The valuation of long-term insurance and investment contract liabilities is an area of significant judgement. The reserving methodology and assumptions used for IFRS and Solvency II reserving are assessed by management and the chief actuary and recommended to the committee. The most significant area of committee discussion was the setting of the unit costs, reflecting the significant inflationary challenges seen over 2022. Additional areas of committee discussion related to the setting of claims rates on income protection and persistency assumptions across a number of products.

The committee reviewed and challenged the reports from management and the chief actuary as well as considering feedback from the external auditors in order to satisfy itself that the reserving methodology and assumptions are appropriate.

Pensions

The measurement of the defined benefit pension schemes requires judgement in setting the valuation assumptions. The committee is satisfied that the measurement of the defined benefit pension schemes has been calculated using appropriate assumptions.

Goodwill

The committee assessed management's impairment assessment of the goodwill in light of the group's five-year plan. The committee concurred with management that there is sufficient headroom for the goodwill associated with the long-term insurance business and that no impairment of the goodwill associated with the long-term insurance business is required.

External reporting

The committee reviewed and challenged the financial reporting documents including the Annual Report and associated press release. In performing these reviews the committee considered the balance of good and bad news and the explanations included regarding one-off and temporary items impacting the results. In ensuring compliance with the fair, balanced and understandable criteria, the committee reviewed the report of the external auditors on the Annual Report and noted that there were no significant findings to report.

Areas of reporting which required specific focus for the 2022 year-end included the appropriateness of disclosures relating to the risks associated with and the impacts during the year from the increasing uncertainty over global macroeconomic growth and inflation prospects. Specifically, the committee has considered how the impacts have been incorporated into significant judgements and accounting estimates and the going concern basis and viability assessment.

Reviewing and recommending the 2021 Solvency and Financial Condition Reports, released for LVFS in April 2022 and for the group in May 2022, was also part of the committee's responsibilities during 2022. Meetings were held for the committee to discuss and challenge the Solvency II results and their presentation within the Solvency and Financial Condition Reports, before recommendations for approval were made to the Board.

During the year, the committee reviewed and discussed management's proposals for the transition from IFRS to UK GAAP. The committee considered that UK GAAP would be a more suitable financial reporting basis for a UK mutual than IFRS and would not impair the usefulness and quality of the group's financial reporting. It was concluded that transitioning to UK GAAP would be in the best interests of the business and the committee recommended to the Board the adoption of UK GAAP, with the Board subsequently approving this recommendation. As set out on page 10, the group plans to change to UK GAAP with effect from the financial year commencing 1 January 2023.

Internal control

The Board has overall responsibility for the group's internal control systems and for monitoring the effectiveness of these. The Audit Committee facilitates the Board in executing this responsibility by ensuring that the internal control environment and risk management across the organisation is sufficiently robust. The group's internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management.

Internal control and risk management in relation to financial reporting

Internal control and risk management systems are used to ensure the accuracy and robustness of financial reporting. Key controls which mitigate risks are identified across the processes that impact financial reporting. The design and operation of these controls is monitored by process and control owners with regular risk and control assessment and reporting.

Oversight of the internal control framework

The Audit Committee assesses the performance of the internal control systems through review of reports from the internal audit and risk functions. Annually, the committee receives an attestation and exception report regarding the effectiveness of internal controls and the risk management system. The committee also seeks the opinion of internal audit which provides objective assurance on the internal control environment. The committee approves the scope of internal audit's plan, including the activities and controls subject to review, and monitors the work performed through:

- Review of key findings and emerging themes
- Challenge of management's response to control weaknesses identified
- Oversight of the resolution of action plans

The committee evaluates the effectiveness and independence of internal audit on an annual basis to ensure that the function has the relevant experience, expertise, objectivity and quality to add value to the business.

The regular review of the effectiveness of the system of risk management and internal control concluded that these systems remain effective and there were no significant failings or weaknesses to report.

External audit

Effectiveness

The committee reviewed a report evaluating the effectiveness of the external auditor. Key stakeholders involved in the 2021 year-end audit process completed a questionnaire, and a number were also interviewed, to evaluate the effectiveness of the external audit processes. Areas assessed were expertise, communication, team, delivery and value for money. The committee concluded that the external audit was effective.

The committee also reviewed the FRC's Mazars Audit Quality Inspection and Supervision report (their annual assessment of Mazars' audit quality, published July 2022). The results of this review were of concern to the committee with 38% of the 8 audits reviewed assessed as significant improvements required and a further 13% as improvements required. The Mazars engagement leader was asked to assess areas where the LV= audit may be impacted. None of the regulatory findings were of direct relevance to the LV= audit. The committee will continue to monitor Mazars' progress on actions to address previous findings in relation to its firm-wide procedures and the results of any further inspections of Mazars' firm-wide audit quality.

Independence

The committee reviewed the policy for and monitored the use of the external auditors for any non-audit related work. The policy clearly identifies permitted services for which it is appropriate to use the external auditors, where the independence of the external auditors would not be threatened. The policy also regulates the appointment of former audit employees to senior positions in the group.

The committee ensured that the external auditors have reviewed their own independence in line with these criteria and their own ethical guidance standards and have confirmed to the committee that following their review they are satisfied that they have acted in accordance with relevant regulatory and professional requirements and that their objectivity is not impaired.

Fees for non-audit services in 2022 were negligible. See note 12 for details of fees incurred.

Having considered compliance with our policy and the fees paid to the external auditors, the committee is satisfied as to the continued independence and objectivity of the external auditor.

Looking ahead

Over 2023, the committee intends to meet in order to review, challenge and if appropriate recommend to the Board, the 2022 Solvency and Financial Condition Reports for the LVFS entity and group.

The Committee will continue to meet regularly to oversee and, as appropriate, challenge the integrity of the Group's financial reports, including the transition from IFRS to UK GAAP and the expansion of the group's environmental reporting in order to achieve compliance with the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

In addition, the committee will continue to monitor the work of the internal audit function and the effectiveness of the group's internal control systems and external auditors.

Risk Committee

Membership	Attendance
Susan McInnes (Chair)*	2/2
Natalie Ceeney**	2/2
Colin Ledlie	4/4
David Barral*	1/1
Alan Cook***	1/1
Seamus Creedon****	2/2

* David Barral stepped down on 7 March 2022 and Susan McInnes joined the committee and was appointed as chair from 1 April 2022
** Natalie Ceeney joined the committee from 1 April 2022.
*** Alan Cook resigned from the Board on 28 February 2022.
**** Following his appointment as interim chair, Seamus Creedon stepped down from the committee

Following the Board changes, the committee welcomed a new chair, Susan McInnes and Natalie Ceeney as a member from 1 April 2022. Seamus Creedon stepped down from the committee following his appointment as interim chair of the Board.

Throughout the year, and in the context of the challenges and uncertainties arising from the volatile macroeconomic environment and evolving geopolitical issues, the committee gave regular consideration to the group's risk profile including both current and emerging risks.

The committee contributed to the ORSA-related processes both in setting out key areas of focus for the year and challenging analysis and recommendations provided by management. Specific items discussed over the course of the year included targeted scenario testing to support greater understanding of the potential impacts of heighted inflation, the approach to liquidity risk management and the continued development of a strategy to manage the risks associated with climate change. The committee also met to discuss the draft ORSA report prior to its presentation to the Board for approval.

The committee remained focused on operational and conduct risks, including those relating to the ongoing transformation agenda, IT sustainability, cyber security and third-party management. Regular focus was also given to people risk to address attrition and engagement within the business. The chief risk officer provided updates on the regulatory engagement and the current priorities for the business with the FCA and PRA.

Looking ahead, during 2023, the committee will continue to review and evaluate the risk profile and concentrate on the principal and emerging risks affecting the company.

More details of the risk management framework, appetite and strategy are set out in the Risk Management section on pages 16 to 20.

Investment Committee

Membership	Attendance
Suzy Neubert (Chair)*	2/2
Colin Ledlie	4/4
Susan McInnes*	2/2
David Hynam**	1/1
Barry Cudmore**	3/4
Alan Cook*	0/0
David Barral*	0/0
Mark Hartigan**	2/3

* Alan Cook and David Barral left the committee on 28 February and 7 March 2022 respectively. Suzy Neubert joined the committee and replaced Colin Ledlie as committee chair from 1 April 2022. Susan McInnes also joined the committee on 1 April 2022.
** Executive members. David Hynam joined the committee on 29 November 2022. Mark Hartigan stepped down from the Board on 30 September 2022

There were a number of changes to the membership of the committee during the year. From 1 April 2022, the committee welcomed a new chair, Suzy Neubert and Susan McInnes as a member. Alan Cook and David Barral were members of the committee until their resignation, however there were no committee meetings held during the period. David Hynam became an executive director of the committee following Mark Hartigan's resignation.

The committee's role is to act for the group to ensure that assets are invested in an appropriate way to meet the needs of its members and policyholders. This is achieved by developing and overseeing the investment strategy for the group on behalf of the Board. The committee ensures that the strategy is within risk appetite and is developed in accordance with the requirements for the fair treatment of with-profits policyholders and is in line with the LV= Principles and Practices of Financial Management (PPFM), which outlines our approach to the financial management of with-profits investments to make sure that customers are treated fairly.

During 2022, the committee monitored the investment portfolio performance as the markets continued to recover from the Covid-19 pandemic, but were hit by global uncertainties such as the war between Ukraine and Russia. The performance of the assets managed by Columbia Threadneedle Investments was discussed at each meeting, including their compliance with delegated authorities approved by the committee.

The committee undertook a number of 'deep-dives' into our investments to ensure the investment strategy was still aligned to our business strategy and risk appetites and to challenge management where necessary.

During the year, the committee continued to responsibly invest and considered new asset classes and asset allocations across the portfolios. The committee regularly challenged and supported management's efforts to continue to enhance responsible investing and over 2022, the committee developed a sustainability strategy. Further information on our approach to responsible investing is available on page 29.

Looking ahead, during 2023, the committee will advise the Board on the available investment options to ensure that investment objectives align with policyholder expectations.

With-Profits Committee (WPC)

Membership	Attendance
Ian Blanchard (Chair)	5/5
Colin Ledlie	5/5
Susan McInnes	5/5
Veronica Oak*	3/3
Mike Kipling**	4/4

* Veronica Oak joined the committee on 19 July 2022
** Mike Kipling stepped down from the committee following his appointment as chair of the RNPFN Supervisory Board in October 2022

The WPC membership currently comprises of an independent chair (Ian Blanchard), an independent member (Veronica Oak), and two non-executive directors who sit on the LV= Board (Susan McInnes and Colin Ledlie). All four members are experienced financial services professionals, with considerable experience of with-profits business.

The role of the WPC is primarily to do two things:

- Act in an advisory capacity to inform the decision-making of the Board; and
- Act as a means by which the interests of with-profits policyholders are appropriately considered within an insurer's governance structures

The committee's terms of reference cover all the minimum regulatory requirements of a with-profits committee. In addition, the terms of reference contains a number of other specific duties, in order to reflect aspects of the Court-approved legal scheme that transferred the business of Teachers Assurance Limited into the LV= With-Profits Fund some years ago.

The WPC met five times in 2022 to cover its business as usual responsibilities, reviewing for example, proposed bonus declarations and payout-setting approaches, investment strategy and performance, customer service levels, policyholder communications and ongoing compliance with the Principles and Practices of Financial Management (PPFM). In addition to the business as usual meetings the committee met a further five times, to provide the Board with feedback on matters relating to with-profits members.

The committee's key focus and activities during 2023 will be to continue to protect the interests of with-profits policyholders and to advise the Board in so far as it may affect with-profits policyholders' interests.

RNPFN Supervisory Board

Membership	Attendance
Mike Kipling (Chair)*	4/4
Ian Blanchard	4/4
Paul Downey	4/4
Veronica Oak**	2/2
Peter Nowell*	2/2
Rodney Baker-Bates ***	4/4

* Peter Nowell died in service on 17 July 2022 and Mike Kipling resumed the role of chair
** Veronica Oak joined the committee on 19 July 2022
*** Rodney Baker-Bates resigned from the committee on 22 November 2022

The RNPFN Fund is 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. The RNPFN Supervisory Board, established in accordance with the Scheme of Transfer and at the request of the LVFS Board, also fulfils the function of the RNPFN with-profits committee.

The Supervisory Board comprises of three independent members, one of which is the chair, and two LV= nominated members.

Sadly, Peter Nowell died unexpectedly in July 2022. LV= would like to thank Peter's family for his long and valued service and extend our sincere sympathies for their loss. The Supervisory Board selected Veronica Oak as the replacement independent member and appointed one of the existing independent members, Mike Kipling, as the new chair (after he had resigned from his role on the With-Profits Committee to avoid a conflict of interest). At the last meeting of the year, Rodney Baker-Bates retired from the Supervisory Board after 21 years of membership. LV= wants to thank Rodney for his long service to the Supervisory Board and the policyholders of the RNPFN fund. Ian Blanchard, who was previously an LV= appointed member, stepped down from that role and being eligible, was selected by the Supervisory Board as the replacement independent member for Rodney. LV= appointed Jenny Briars as its second appointed member in February 2023.

During 2022, the Supervisory Board continued to monitor the changing balance of the fund and any actions that needed to be taken to ensure its smooth running going forward, while maintaining compliance with the scheme documents. Acting as a with-profits committee, the Supervisory Board continued to consider and advise on the interests and views of RNPFN policyholders and brought independent judgement of the assessment of compliance with the statement of Principles and Practices of Financial Management (PPFM) and the Scheme of Transfer.

The committee's focus for 2023 will include monitoring the run-off of the fund to achieve a fair distribution of the available surplus to with-profits policyholders over time and providing comments on proposals from LV= so far as they may affect RNPFN policyholders.

Directors' Report

Michael Jones
Company Secretary

Business activities and future prospects

We are a protection, investment and retirement specialist and one of the UK's leading life and pensions mutual insurers. We offer a range of products, services and advice. These products include with-profits insurance, life protection, pensions, annuities, online retirement advice and equity release. The directors consider that all the activities undertaken by the group during the year were within the company's rules and relevant regulatory permissions.

The Board sets objectives and priorities which are supported by key performance indicators and targets. These are monitored by the Board on an ongoing basis throughout the year. The key objectives and priorities were aligned to our strategic agenda which you can find out more about on page 6. We've also included our strategy for the current year and the years ahead.

Business strategy

The Board has chosen to set out the group's full strategic report information, required under applicable law and regulations, in this Report which can be found on pages 4 to 30.

Basis of accounting

The audited financial statements of the group have been prepared in accordance with UK-adopted International Accounting Standards drawn up on a going concern basis. Further details about the directors' responsibilities for the financial statements are described on page 48.

Going concern and longer-term viability statement

In accordance with the provisions of the UK Corporate Governance Code, the directors are required to assess the prospect of the group as a going concern generally over the next 12 months and also its longer-term viability.

Going concern

Under the UK Corporate Governance Code the directors are required to state whether the business is a going concern.

In considering this requirement, the directors have taken into account the following:

- The Board approved group financial plan and in particular the forecast regulatory solvency position. Sensitivity analysis is included within this forecast.
- For the group, regulatory solvency is given more attention than liquidity. This is because, by the nature of its business, the group holds very substantial liquid assets on its balance sheet which would enable it to pay claims and expenses as they fall due for at least a 12 month period.
- The principal risks and uncertainties that could impact the group's solvency and liquidity over the next 12 months, including stress and scenario testing focused on the main risks to future trading such as the increasing uncertainty over global macroeconomic growth and inflation prospects.

Having due regard to these matters and after making appropriate enquiries, the directors have a reasonable expectation that the group and the company as a whole have adequate resources to continue in operational existence for a period of at least 12 months from the date of the approval of the financial statements. For this reason they consider it appropriate to prepare the financial statements on a going concern basis.

Longer-term viability statement

Our members rely on the sustainability of the group over the longer term and this is reflected in our strategy, business model and management of risk. An assessment of viability is integral to our strategic planning and decision making process in order that we can continue in operation and meet our obligations to policyholders. Our strategy is developed considering members' best interests, value accretion, solvency and liquidity. The principal risks and uncertainties that the group is exposed to underpin the strategic planning process and are outlined in further detail on pages 16 to 18.

Period of assessment

In the Board's assessment of viability a three-year time period has been used. Each year a financial plan is developed and is subject to robust review and challenge by the Board. This plan is over a five-year horizon, with greater certainty associated with the first three years. The further two years are included to provide the Board with an extended plan for strategic decision making. The Board recognises that uncertainty increases over time and this is reflected in the period used in the assessment of viability. The Board have reviewed the outer two years of the plan and assessed they do not contain any information which would impact the conclusion reached regarding the longer-term viability of the group. By restricting the period of assessment to the first three years of the plan, this takes into account the uncertainty of future external developments and the typical timescale over which changes to major regulations tend to take place. Future external developments may include longer-term socioeconomic changes following the Covid-19 pandemic, increasing impacts relating to climate change and also other changes in the economic, political and regulatory environment in which we operate.

Summary of capital position

The capital position has remained within risk appetite (CCR 140% - 200%) throughout 2022. At the end of 2022 the capital position was within risk appetite with a CCR of 174% reflecting the strength of our balance sheet and supporting our confidence to move forward as a mutual. The capital position and ongoing operating capital generation are a priority for the group and are monitored as key performance indicators (see page 9), ensuring the continued sustainability of the group.

Strategic planning process

The strategic plan aligns to our strategic agenda which you can read more about on page 6. The strategic planning process includes an assessment of the sustainability and resilience of our business model and an in-depth analysis of the group's forecast risk profile, capital, solvency and liquidity.

The validity of the planning process is assessed by reconciling the projections to actual business outcomes over the past planning cycle, and understanding differences that are identified in order to continually improve the process going forward. The plan provides a road map for implementing the group's strategic objectives and is underpinned by a series of economic and other assumptions which are subject to stress and scenario testing outlined below.

Stress and scenario testing

An integral part of the planning process is an assessment of the risks to achieving the projected performance. As part of the Own Risk and Solvency Assessment (ORSA) process we perform stress tests to assess the capital resilience of the group to a range of severe, but plausible, scenarios (see page 20).

In addition to this, the group conducts stress tests which gives the Board an understanding of the maximum resilience of the group to extremely severe adverse scenarios. In considering these scenarios the impacts of mitigating management actions designed to maintain or restore capital, solvency and liquidity to within risk appetite are taken into account. These tests allow the Board to review and challenge the strategic plan and risk management strategy. In addition, the results of stress tests form part of the process to set the group's risk appetite Capital Coverage Ratio of 140%, equivalent to a buffer of £212m above the solvency capital requirement at 31 December 2022. Our risk appetite above the regulatory capital requirement is set to protect us against any shocks and stresses (see page 20 for more information).

The base case business plan for 2023 to 2027 was approved by the Board in November 2022. A primary focus of this business plan was debt strategy, driven by the proximity of the first call date in May 2023 of the existing £350m of subordinated debt. At that point, we have the option to redeem the debt in advance of the final maturity date, which falls due in 2043. A number of scenarios were modelled ranging from full retention to full repayment and allowance was made for heightened borrowing costs allowing for movement in interest rates over 2022. The Board is currently considering its options in relation to the subordinated debt. An updated trading outlook was reflected with key drivers being updated to align to the latest operational expectations, for example an updated view of Protection profitability allowing for pricing optimisation achieved in 2022 along with beneficial reinsurance rate tender outcomes across key products. Analysis of projected costs was included in the plan submission where the inflationary pressures were discussed along with the benefits expected from strategic investment and restructuring spend expected to be incurred in the early years of the plan.

As in previous years the plan resilience was tested by applying a number of adverse stress tests and scenarios. These included:

- Unexpected increases in the level of planned expenditure.
- Reductions in sales growth and new business profitability.
- Changes in market risk factors, such as interest rates, equity returns and credit spreads.
- Changes in demographic factors, such as longevity and persistency.
- Combined scenarios based on a mix of the above.

Of these, the most onerous stresses are those that include sustained cost pressure or a combination of market shocks followed by lapse. In these instances mitigating actions could include a review of discretionary distributions to members, further cost cutting or switching off smoothing in order to limit losses being crystallised on lapse.

Overall, under the central plan assumptions, headline financial metrics of solvency, new business profitability and liquidity consumption were maintained within risk appetite.

Formal viability statement

The directors make this viability statement based on a robust assessment of those risks that could threaten the business model, future profitability, capital adequacy, solvency or liquidity of the group. Based on this assessment, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to December 2025.

Margin of solvency

Throughout the year and at 31 December 2022 we held the required capital resources for each business class as prescribed by the Prudential Regulation Authority (PRA).

Assessment of risk

We look to create value for members by maintaining an appropriate balance between the returns that we seek and the level and type of risk we take on in order to achieve these returns.

In accordance with the UK Corporate Governance Code, the directors have carried out a robust assessment of our principal risks, including those which would threaten the business model, future performance, solvency or liquidity of the group.

A full overview of our risk management can be found on pages 16 to 20. In the Audit Committee report on page 43 you can find further details of the ongoing monitoring and the annual review of the effectiveness of our risk management systems. See note 4 of these accounts for further detail about our risk management and control.

Internal control

The Board has overall responsibility for the group's internal control systems and for monitoring the effectiveness of these. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management. The performance of the internal control systems is reviewed by the relevant Board committees, principally the Audit Committee which receives reports from the internal audit, compliance and risk functions. The Audit Committee report on page 43 describes the main features of the internal control and risk management systems in relation to the financial reporting process and the process for preparing consolidated accounts. These are a subset of the internal control systems under the supervision of the Board's committees.

The group's internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefit from, internal control systems. The regular review of the effectiveness of the system of risk management and internal control concluded that these systems remain effective and there were no significant failings or weaknesses to report.

Independent auditors

At the 2023 Annual General Meeting (AGM) we will propose a resolution for the re-appointment of Mazars LLP (Mazars) as auditors of LV=. Legislation regarding audit firm rotation requires the external audit contract to be tendered at least every ten years. Mazars have been our auditors since 2021 and were appointed following a competitive tender in 2020.

Board directors and interests

The current members of the Board and details of its various committees are shown on pages 32 to 34.

The directors have the benefit of a qualifying third-party indemnity provision (as defined in Section 234 of the Companies Act 2006). The group also maintains directors' and officers' liability insurance in respect of itself and its directors.

Our colleagues

Our colleagues are key to the success of our business at LV=. We are committed to creating an inclusive culture and supportive working environment where all colleagues feel welcome, respected and valued, and this is reflected in our employment policies, rewards and recognition schemes. You can find out more about our policies and action taken on employment, development and incentivisation of our colleagues, including colleagues with disabilities, in the corporate responsibility report on pages 24 and 25. We actively create talent pipelines that promote a diverse workforce and offer a range of development opportunities for further growth. Through a well-developed network of colleague communication channels, including working groups, forums and our engage survey, colleagues have opportunities to share their views on matters that are really important to them, as described in the Section 172 statement on page 30.

We are fully committed to equal opportunities in our human resources practices, regardless of age, sex, ethnic origin, religion or disability. Our policy is to give full consideration to suitable applications for employment by people with disabilities. Opportunities also exist for our colleagues who become disabled while in service to continue in their employment or to be trained for other positions within our workforce.

Sustainability

Our corporate, social and environmental activities are set out in the corporate responsibility report on pages 26 and 27. Also included on these pages are details of our greenhouse gas emissions in line with the requirements of the streamlined energy and carbon reporting framework.

Customers, suppliers and others

Our directors engage with, and consider the needs of, wider stakeholders when making principal business decisions as described in the Section 172 statement on page 30. The responsible business practices employed in the manner in which we work with members, customers, suppliers and others is part of our culture. You can find out more about this in our corporate responsibility report on pages 28 and 29.

Financial instruments

The group uses financial instruments to manage certain types of risks. The group's financial risk management objectives and exposure to risks arising from its investments in financial instruments including price risk, credit risk and liquidity risk are described in note 4. Derivative contracts are entered into for financial risk management purposes as described in note 15. There are no designated hedging relationships within the group.

Political donations

The group made no political donations in 2022.

Statement of disclosure of information to the auditors

As at the date of this Report each director confirms that:

- So far as they are each aware, there is no information relevant to the audit of the company's and the group's financial statements for the year ended 31 December 2022 that the auditors are unaware of.
- Each director has taken all steps that they ought to have taken in their duty as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' statement of responsibility

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the company and group financial statements in accordance with UK-adopted International Accounting Standards. Under company law the directors must not approve the Annual Report unless they are satisfied that it provides a true and fair view of the state of affairs of the company and the group, and of the profit or loss and cashflow of the group for that period. In preparing the Annual Report, the directors are required to:

- Select suitable accounting policies and ensure they are applied consistently.
- Prepare the accounts on a going concern basis, unless it is inappropriate to presume that the company and the group will continue in business.
- Make judgements and accounting estimates that are reasonable and prudent.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- State that the company and the group have complied with applicable UK-adopted International Accounting Standards, subject to any material departures disclosed and explained in the accounts.

The directors are also responsible for maintaining:

- Proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the company and the group.
- Appropriate internal control systems to safeguard our assets and to prevent and detect fraud and other irregularities.
- The integrity of the corporate and financial information included on our website **LV.com**.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are shown on pages 32 to 34, confirm that to the best of their knowledge and belief:

- The company and the group financial statements, which have been prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the company and the group.
- The financial review on pages 10 to 15 of the Strategic Report includes a fair review of the development and performance of the business during the financial year and the financial position of the group at the end of 2022.
- A description of the group's principal risks and details of the group's risk governance structure are provided on pages 16 to 20.

The directors are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for our members, customers and investors to assess the company's and the group's position and performance, business model and strategy.

By order of the Board of Directors

Michael Jones

Michael Jones
Company Secretary
29 March 2023

Report on Directors' Remuneration

Natalie Ceeney
Chair of the Remuneration and Nomination Committee

Annual statement

I am very conscious that the Report on Directors' Remuneration is one of the most read elements of any company's Annual Report. Given the current concern about the cost of living crisis on the one hand, and high pay on the other, this is not surprising. In LV's case, our mutual status heightens the focus because our company is owned by its members.

While the focus of many external commentators is just on the pay of senior executives, the Remuneration and Nomination Committee's role is far wider than this. Our challenge is to ensure that the remuneration levels across the company, from starting salaries to those of the company's leaders are sufficient to attract and retain talent; that they incentivise the right behaviour (and penalise the wrong behaviour); reward both short-term and long-term outcomes; and also feel fair and reasonable given our mutual status. Therefore, throughout 2022, the Remuneration and Nomination Committee (the committee) has considered a wide range of issues including the cost of living crisis, colleague turnover levels and base pay for our lowest paid staff as well as the remuneration of our senior executives.

We, like all remuneration committees, are very aware that high salaries can feel incomprehensible to most people when they represent many multiples of the median UK earnings of £640 per week*. At the same time, we compete in a global market for talent and unless we pay the market rate for any role we are unlikely to attract talented people to work for us. I would like to assure readers of this report that we take all decisions through this lens and our ultimate focus is securing the best outcome for LV= and its members in the long term.

2022 was not a business as usual year for the committee. After members' rejection of the sale to Bain Capital, LV= committed itself to a mutual future. Perhaps unsurprisingly, this led to some significant changes at senior levels of the organisation, including the chief executive officer (CEO), chair and a number of other non-executive Board directors. In addition, the cost-of-living crisis necessitated in-year support for our colleagues who have, like many, been hit hard by the inflationary pressures on their living costs.

This is my first year of chairing the committee, which I joined as chair on 1 March 2022. I'd like to thank my predecessor, Susan McInnes, for her work in chairing the Remuneration Committee before me. Susan provided a huge amount of support for me as the new chair over the course of the year. It is testament to Susan's work that we secured a positive vote of 94.52% of members for the 2021 Remuneration Report at the AGM.

*[illegible]

LV= colleagues and the cost of living crisis

LV= employs around 1,250 people across three offices, mostly in Bournemouth, but with offices in Hitchin and Exeter. The cost of living crisis brought employee pay under the spotlight this year, as many of our colleagues struggled with the inflationary costs of their basic living.

In addition, the uncertainty around LV's future had caused a higher level of colleague turnover than we would like, with turnover levels peaking at the end of March 2022, and colleague engagement levels lower than we were comfortable with.

In response to these issues, the following action was taken. Firstly, as reported in the 2021 Annual Report, for those colleagues eligible, a pay rise was awarded (which was close to inflation at that time) from 1 April 2022. Secondly, a one-off cost of living payment of £750 was given to over 90% of our colleagues in October 2022 and, for those eligible, this will be followed by a 1 April 2023 annual pay rise which will give the majority a pay rise of between 3.5% and 6.5%.

Positively, over the course of the year we saw a significant improvement in our colleague engagement scores and a material reduction in turnover in some critical areas of the business.

We believe that through these actions we have demonstrated a clear commitment to supporting our broader colleague base through these challenging times, which enables LV= to continue to provide support to its members.

Overall business performance and remuneration outcomes

As reported earlier in the Annual Report, we were delighted that we could share £35m of profit-related bonuses with eligible members during 2022, despite the economic and market turmoil. Our Solvency II capital position remains strong, with a capital surplus of £391m and our Capital Coverage Ratio remains well within risk appetite at 174%. While we have seen a decrease in capital surplus, operating and trading profits remain stable and the business continues to have strong foundations and sufficient headroom to weather the current economic circumstances.

A significant proportion of LV= colleagues (89%) benefit from a bonus opportunity which is created to incentivise and reward performance. LV= has a single annual bonus scheme for the majority of its colleagues, which runs from top to bottom of the organisation, with different colleagues allocated different percentages of reward based on their level, their role and their performance. Performance ranges were agreed at the start of 2022, which aligned to the business goals for financial performance, member service experience, risk management performance and diversity and engagement goals. The scorecard structure can be seen on page 55. If the bonus pool is triggered by the achievement of these goals then all eligible colleagues share in the bonus pool, with the payment level dependent on their individual performance in their specific role.

Although we name this a bonus, for most colleagues it is viewed more as 'pay at risk' i.e. pay that colleagues can only get if they and the business hit the required threshold levels. When we benchmark salaries we look at total compensation and 'opportunity to earn', making the bonus a part of colleagues' total pay that they expect to earn if performance is sufficiently good. For that reason, we would expect to pay some level of bonus in most years, but with the level of bonus rising in line with our performance as a company.

For 2022, LV= did achieve the level of performance to trigger payment of a bonus, having exceeded the level required to achieve a threshold payment, but which was slightly below the target for the business (see page 55).

Details of the bonuses awarded to the CEOs (Mark Hartigan and David Hynam) can be found on page 56.

Long-term incentive programmes (LTIPs) are part of the LV= remuneration structure because we want to ensure that our senior colleagues focus on long-term and not just short-term performance. LTIPs are also a retention tool, as they pay out in future years after they are awarded if the business achieves set measures. Whereas bonuses apply to the majority of staff in the organisation, LTIPs are focused on a smaller number of senior staff who make the strategic decisions for the future of the business. LV= uses LTIPs for a relatively small number of senior colleagues (21 were invited to participate in the 2022-24 LTIP). Mark Hartigan was not awarded any LTIP in 2022, and David Hynam will only be eligible from 1 January 2023 onwards.

There is always a debate around LTIPs as to how complex they are made, and whether a complex LTIP actually incentivises performance. There is now a lot of research which suggests that staff are more motivated by LTIPs which pay out a lower amount but which are clearer and more certain, subject to key performance thresholds being met. The LTIP structure set at the start of 2022 (which runs until the end of 2024 and would then pay out from 2025 onwards) was set on this new basis, namely a simpler structure offering lower levels of pay-outs but with clearer targets. As a mutual, we believe that this structure better fits the company we are, namely one which doesn't want to incentivise risk taking with excessive rewards but instead focuses on delivering robust results for our members.

For 2023, we intend to operate annual bonus and LTIP awards in a similar manner to 2022. All executive directors will be participants, in line with the remuneration policy. The committee will continue to consider the mutual bonus allocated to members' policies and performance in the round when determining the size of any bonus pool and individual bonus awards.

Board changes

Following members' rejection of the sale of LV= to Bain Capital, there were a number of changes to the Board membership.

In December 2021, Alan Cook announced that he would step down as chair and he left the business on 28 February 2022. Seamus Creedon stepped up as interim chair with effect from 1 March 2022, while we led a search for a new chair with the support of Ridgeway (now Teneo). We had an excellent field of candidates and were very pleased to appoint Simon Moore, who brings a wide range of experience of the UK life insurance sector and asset management to LV=. During his 30 year career, Simon has held roles in a number of financial institutions including Lloyds Banking Group, Chase Manhattan Bank, ABN AMRO, Barclays Bank and the Confederation of British Industry (CBI). Simon joined LV= as chair on 17 June 2022. The committee determined that Simon should receive the same pay as Alan Cook did, which is detailed on page 54.

During 2022, in addition to Alan Cook, three of the non-executive directors stepped down (see details on page 34). Suzy Neubert and I were appointed to the Board from 1 March 2022, with Suzy taking up the role of chair of the Investment Committee and myself as senior independent director and chair of the combined Remuneration and Nomination Committee. These appointments were at the same pay levels and structure as the outgoing directors.

Mark Hartigan agreed with the Board to step down as CEO and leave the business on 30 September 2022. David Hynam joined as the new CEO on 26 September 2022. In considering the handling of Mark's departure, the committee were committed to honouring Mark's legal and contractual entitlements, but made no additional payments above these commitments.

In hiring a CEO, the committee carefully considered the skills and experience LV= required. Having committed to an independent mutual future, the Board agreed that we needed a CEO who brought deep experience in the life and pensions industry but also brought the values required for a mutual business. The Board also agreed that we needed a CEO who would be able to take up the reins immediately, without a steep learning curve. We engaged Russell Reynolds Associates to support the search after a competitive selection process.

In recruiting a CEO, we were acutely aware of the competitive market for UK CEO talent, informed by rigorous pay benchmarking of the life and pensions sector. We therefore determined that we did need to pay the market rate for the role in order to secure the right level of experience. We were delighted to recruit David Hynam, who comes with 30 years' extensive experience in the UK insurance sector, including as CEO of Bupa's UK and global markets, UK CEO of Friends Life and chief operating officer of AXA. David's remuneration package is detailed on page 54.

Remuneration policy

It is good practice for any company to regularly review their remuneration policy. Our last directors' remuneration policy was approved at the 2019 AGM. Over the course of the year, we have taken the opportunity to review our policy in line with the needs of the business, good market practice and member interests. This revised policy will be put to a vote of members at the 2023 AGM.

Details of the proposed new policy can be seen on pages 51 to 53.

Other disclosures

Our 2022 Directors' Remuneration Report is prepared in line with best practice and the reporting requirements which apply to listed companies which we voluntarily comply with where possible, taking into account our mutual status.

The executive management team has proactively remained engaged with the LV= National Employee Consultative Forum (NECF) during the year and further engagement with the Board took place in January 2023.

LV= has publicly published its 2022 gender pay gap report. This shows an increase in our gender pay gap of 6% to 31.5% compared to the fall of 3.1% in the previous year. Our reported gender pay gap of 31.5% is slightly better than the broader financial services sector, which is currently at 32.2%. However, it's worth stressing that a gender pay gap increase does not necessarily mean a worsening of diversity, as the gender pay gap is driven by the structure of LV's workforce, where there is a higher representation of women in lower graded roles and there are fewer women in senior roles. Recruiting more women into the workforce at a first-line level can therefore worsen our gender pay gap in the short term. At the same time, we recognise that we do not have the level of diversity in our senior management team that we would like and we are therefore committed to seeking diverse talent for all of our recruitment.

Committee evaluation

The Remuneration and Nomination Committee discussed the approach for the Board and Board committees' 2022 evaluation and recommended to the Board that an externally led review was undertaken. See page 37 for further detail of the process.

Yours sincerely

Natalie Ceeney, CBE

Chair of the Remuneration and Nomination Committee

Remuneration policy

In reviewing the remuneration policy, LV= continues to compare itself to other businesses, in particular financial services organisations of a similar size and complexity. We aim to ensure our policy is designed to support the recruitment and retention of talented people who are able to achieve stretching targets and deliver greater benefits for our members. Our aim, where possible, is to provide remuneration packages that take account of the external market pay position and which have a significant proportion dependent upon the delivery of strong performance. Our remuneration policy is governed by good risk management practice to ensure that management are incentivised appropriately to support the short, medium and long-term interests of our members. The policy for executive directors is described in more detail below. LV= is subject to the Solvency II regulations and fully adheres to the remuneration aspects of those, which have been incorporated within the policy.

Remuneration policy for executive directors (to apply from 1 January 2023)

Purpose and link to strategy	Operation	Maximum opportunity	Performance measure
Salary			
To attract high performing individuals to lead the company and continue to reward them fairly in the context of alternative opportunities open to them.	Salaries are reviewed annually (but not necessarily increased) taking account of several factors including individual experience, responsibilities, function and sector, along with individual and group performance. The committee also reviews benchmarking information on pay levels in organisations of comparable size and complexity to LV=. If salaries are increased, they are normally effective from 1 April each year.	There is no prescribed maximum annual increase. The committee is guided by the general increase for the LV= colleague population and wage increases generally, but on occasions may need to take into account factors such as retention risk, development in the role and/or changes in responsibility.	Individual performance is taken into account when salary levels are reviewed.
Benefits			
To operate a competitive benefits structure that provides adequate protection to our colleagues and aids recruitment and retention.	The company currently provides: - Car allowance - Medical insurance - Income protection cover - LV= product discounts or any other benefits, which are available to all colleagues and directors on equal terms - Other benefits may be introduced if considered appropriate by the committee	Market level benefits are offered to ensure LV= remains competitive. The values of benefits are based on the cost to the group and are not subject to a pre-determined maximum.	N/A
Pension			
To provide the facility for a competitive contribution towards executive directors' funding for retirement.	Directors can elect to join a defined contribution pension scheme or receive a cash sum in lieu of pension contributions.	Up to 14% of base salary may be paid as a cash sum and/or contribution to a defined contribution pension scheme.	N/A
Annual Bonus			
To drive and reward delivery of near-term business objectives.	Annual bonus awards are discretionary but are based on business performance against an agreed balanced scorecard and individual performance measures that are reviewed at the end of the performance year with advice sought from the Risk Committee. The annual bonus is not pensionable. Part of the annual bonus may be deferred. Any amount deferred will usually be paid over a period of three years and may be subject to the performance of an appropriate LV= policyholder investment fund over the deferral period.	Chief executive officer: Maximum opportunity of 150% of salary (with 75% paid for on target performance). Other directors: maximum opportunity of 120% of base salary (with 60% paid for on target performance).	The annual bonus pool is normally measured against annual financial objectives, accounting for at least 50% of the assessment and a balanced scorecard of non-financial objectives accounting for the balance of the assessment. These normally include strategy and change, customer and member, risk and compliance and people. Risk is taken into account when assessing performance against all the measures in the balanced scorecard and the committee may reduce or cancel any bonus payment if it considers that risk exceeded acceptable levels. The committee has the discretion to adjust the formulaic outcomes both upwards and downwards (including to zero) to ensure alignment of pay with performance.

Purpose and link to strategy	Operation	Maximum opportunity	Performance measure
Long-Term Incentive Plan (LTIP)			
To drive and reward the achievement of longer-term business objectives. The scheme provides further alignment between the interests of executive directors and members.	LTIP pay-outs will be made in cash and may be subject to the performance of an appropriate LV= policyholder investment fund over the performance and/or deferral period. Performance against the overall performance objectives agreed by the committee will be measured over a period of at least three years and is followed by a two year holding period.	Maximum initial award levels are: Chief executive: 150% of base salary. Other Board executive directors: 125% of base salary.	The LTIP structure is based on a series of underpinning factors that determine if a payment should be made without any increase in value above the initial award (excluding any movement in the LV= investment fund). The committee has the discretion to adjust the formulaic outcomes both upwards and downwards (including to zero) to ensure alignment of pay with performance.
Deferral, Variable Pay and Malus			
In line with the requirements of the Solvency II regulations and PRA and FCA guidance, LV= operates a policy of deferral that covers the annual bonus scheme and the LTIP. This includes the option for the committee to reduce or cancel completely any deferred awards.	At least 40% of the total variable remuneration paid to executive directors is delivered in long-term pay. If this ratio is not met, then a portion of the annual bonus payment for that year will be deferred. Long-term remuneration is normally paid over a five-year period. Performance is measured over a three-year period, which is then followed by a two-year holding period. The committee may operate malus and two-year clawback following vesting in respect of annual bonus awards deferred and/or LTIP awards. This will cover circumstances such as a misstatement of financial results, an error in assessing vesting levels, gross misconduct or a failure of risk management or any other circumstances in which the committee, in its absolute discretion, considers that the company is required by any remuneration code to reduce or cancel any deferred awards.		

The committee keeps under review all elements of remuneration and retains the discretion to make changes in response to market conditions and, in exceptional circumstances, where it is in the interest of members to do so. The committee also retains the discretion to make reasonable and proportionate changes to the remuneration policy if the committee considers this appropriate in order to respond to changing legal or regulatory requirements or guidelines.

Payments outside the policy

The committee reserves the right to make any remuneration payments and/or payments for loss of office, including exercising any discretions available to it in connection with such payments, where the terms of the payment were agreed before the policy set out above came into effect, provided that the terms of the payment were consistent with the directors' remuneration policy in force at the time they were agreed, or at a time when the relevant colleague was not a director of LVFS. For these purposes 'payments' include the committee satisfying awards of variable remuneration.

Changes to previous policy

A number of minor changes have been made to the policy put forward to a member vote at the 2018 AGM to align it with updated best market practice. The key changes from the previous policy are as follows:

- All executive director LTIP awards will continue to be subject to three-year performance conditions determined by the committee but will now also be subject to the performance movement (positive and negative) of an appropriate LV= investment fund. This will provide a closer alignment to member's outcomes.
- The LTIP structure will be based on a series of underpinning factors that determine if a payment should be made without any increase in value above the initial award (excluding the movement of an appropriate LV= investment fund).
- In addition, annual bonus deferrals will also be subject to the performance movement (positive and negative) of an appropriate LV= investment fund, further enhancing member alignment.
- Executive director service agreements will now have notice periods limited to six months from twelve months previously.
- Any deferral of annual bonus awards required will be set at 40% of total variable pay for the year in alignment with regulations.
- Employer pension contributions have been reduced to 14% for all executive directors in alignment with the maximum contribution available to all our colleagues.

Selection and disclosure of performance measures

The committee selects the performance conditions which are central to LV's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business.

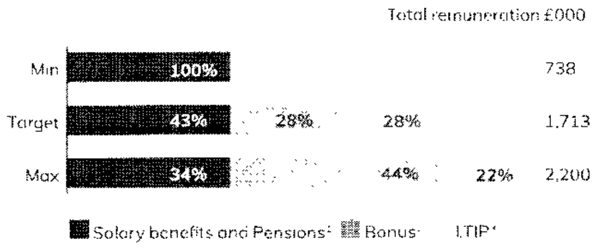
The committee is of the opinion that the performance targets for the annual bonus are commercially sensitive to LV= and that it would be detrimental to the interests of the business to disclose them before the start of the financial year. The targets will be disclosed in the Report on Directors' Remuneration that follows the end of the relevant financial year.

Illustrations of application of remuneration policy

LV's policy results in a significant portion of remuneration received by executive directors being dependent on the group's performance. The chart below illustrates how the total pay opportunities for the executive directors vary under three different performance scenarios: minimum, maximum and on target.

David Hynam was recruited in 2022 with an annual salary of £650,000 with normal employee benefits including a car allowance of £10,500 and a cash payment in lieu of employer pension contributions, based on the maximum employee contribution of 14% less employer costs. For 2023 David will also have a maximum annual bonus opportunity of 150% of salary, together with a maximum LTIP opportunity of 75% of salary in the year. There were no other recruitment related awards or payments.

2023 CEO illustrative graph of total remuneration



Approach to recruitment and promotions

The remuneration package for any new executive director would be set in line with the remuneration policy in force at the time of appointment. In exceptional circumstances, to ensure LV= is able to recruit appropriate talent to the business, it may be necessary to make an offer to a new director on terms outside the current policy. In such an event, the committee would notify members of the arrangements in the next Report on Directors' Remuneration.

When it considers it to be in the best interests of LV= and its members, the committee may offer additional cash payments to new appointees as compensation for the loss of bonus, LTIP or other such arrangements from their former employer. Any cash payments would normally take into account the time horizons and performance requirements attached to the lost remuneration. Members will be informed of any such payments in the next Report on Directors' Remuneration.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would normally be allowed to continue in accordance with its terms. For external and internal appointments the committee may agree that LV= will meet certain relocation expenses as appropriate.

Service contracts, notice payments and treatment of other payments on termination

Our executive directors are now subject to a notice period of six months. Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. The service contracts contain a provision for early termination and notice periods given by LV= are limited to six months or less.

In certain circumstances, such as gross misconduct, a director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination that are not contingent on conduct.

If LV= terminates the employment of a director in other circumstances and a decision is taken to make a payment in lieu of notice (PILON), compensation is generally limited to salary due for any unexpired notice period and any amount assessed by the committee for the value of other contractual benefits (including pension), which would have been received during the unexpired notice period. However, the committee may determine that a level of compensation above this is appropriate in individual cases. PILON payments are not pensionable.

Any PILON payment may be subject to phasing and mitigation where this is in the interests of LV= and payments will cease where alternative employment is obtained. In addition, any statutory entitlements would be paid as necessary. In certain circumstances, a pro rata bonus may be payable, along with the entitlement to LTIP awards at the usual time.

The default treatment under the LTIP is that any unvested awards lapse when employment ends. However, if an individual is a 'good leaver' (death, disability, agreed retirement or any other situation where the committee determines in its discretion that the individual shall be treated as a good leaver) awards may not lapse immediately and the individual may retain their entitlement to a pro rata payment, to reflect their reduced period of employment during the term of the LTIP.

Payments received under these circumstances will be subject to the same performance conditions and timescales as other participants. If it considers it appropriate to do so the committee may choose to remove the normal payment conditions and time pro rating, and/or make payments under the scheme at the point employment ends, although it is envisaged that this would only be applied in exceptional circumstances. In determining whether an executive director should be treated as a good leaver or not, the committee will take into account the performance of the individual and the reasons for their departure. If employment ends after an LTIP award has vested but during its deferral period, the LTIP award will continue unless the individual resigned (unless the committee determines otherwise) or was dismissed for gross misconduct, in which case it will lapse.

Where an executive director leaves service, all prior year deferred bonus awards will continue to be paid in line with the original payment dates and will remain subject to any malus or clawback provisions that the committee deem appropriate at its absolute discretion, including the ability to reduce deferred awards to zero.

Summary of the policy for non-executive directors

The policy is intended to apply for three years beginning on 1 January 2023.

The committee keeps under review all elements of the policy and retains the discretion to make changes in response to market conditions and in exceptional circumstances, where it is in the interest of members to do so.

Fees

In order to attract and retain high calibre non-executive directors to the Board, LV= pays individual's fees for the positions they undertake for the organisation. Fees are generally reviewed on an annual basis and while there is no prescribed maximum increase, consideration is taken of the fees paid for similar roles in other organisations, the responsibility and necessary time commitment to LV's affairs, the general increase for the broader UK employee population and on occasion the need for specific skills, changes in responsibility, or other relevant factors. No other remuneration is paid apart from these non-pensionable fees and non-executive directors are not eligible to participate in any performance-related arrangements. Fees for the non-executive directors are determined by the executive members of the Board and the chair. For the chair, fees are determined by the whole Board (excluding the chair). Non-executive directors may also be reimbursed for their travel and accommodation costs incurred in the pursuance of their duties (including any tax which may be payable in respect of such costs).

Notice

Either party may give three months' notice of termination.

Other matters

Seeking the views of members

At our 2022 AGM, the annual advisory vote on our Report on Directors' Remuneration received support from 94.52% of our members who voted. In addition to the annual advisory vote, we will also hold a vote on the directors' remuneration policy at our 2023 AGM.

Going forward LV= will aim to hold an advisory policy vote after three years in accordance with our practice of meeting the appropriate governance requirements for directors' remuneration.

Consideration of employment conditions elsewhere in LV=

When setting levels of remuneration for directors, the committee takes into account the pay arrangements across LV= as a whole to ensure that consistent underlying principles are applied for all colleagues when making decisions about rewards. The remuneration arrangements for the executive directors are similar to those for the general LV= population, aside from quantum and participation rates in incentive schemes.

Annual report on remuneration

The Remuneration and Nomination Committee

The committee determines the remuneration policy and agrees the remuneration of each executive director and other senior managers. The committee reviews the effectiveness of the remuneration policy and strategy at least once a year and all incentive and bonus schemes are established and monitored by the committee.

The committee also ensures that the highest levels of governance are followed and that the committee's decisions are compliant with remuneration regulations in the Code and the Solvency II regulations.

During 2022, the committee determined the remuneration packages for joiners, promotions and leavers and reviewed the annual bonus and LTIP measures for the group. The committee also considered gender pay reporting and wider workforce pay trends.

Members of the committee are provided with training and topical briefing sessions on developments and trends in executive remuneration, particularly as this relates to the financial sector.

Advisors to the committee

Following appointment in 2015 as an external advisor, Deloitte LLP provided advice to the committee on remuneration practices and structures and attended committee meetings by invitation until mid-2022. Following a review by the committee, FIT Remuneration Consultants LLP were appointed as external advisers from July 2022.

The committee continues to ensure that its advisors remain independent and that the advice provided is impartial and objective. Both Deloitte and FIT Remuneration are members of the Remuneration Consultants' Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

The total fees paid to Deloitte and FIT Remuneration in respect of services that materially assisted the committee during the year were £34,950 and £22,530 respectively for LVFS. During the year Deloitte also provided the group with other risk advisory, regulatory and legal services. Fees for these additional services are not included in the figures above.

All-employee remuneration

While the committee does not consult directly with employees specifically when setting the remuneration for directors, it is mindful of pay and employment conditions elsewhere in the group when doing so and when considering potential payments under the policy. At the same time as approving directors' and the executive team's pay outcomes the committee also approves the overall pay and bonus outcomes for all colleagues. LV= continues to voluntarily pay at least the Living Wage Foundation's minimum hourly rates of pay to all colleagues, with the minimum pay of £10.90 per hour (outside of London) effective 1 October 2022 as recommended by the Foundation. In addition, as reported within the committee chair's annual statement LV= has also made a one-off cost of living payment of £750 to over 90% of colleagues.

Directors' remuneration for the past year (year ended 31 December 2022)

Summary table of executive directors' remuneration – audited

The remuneration of individual directors, including that of the highest paid director, was as follows:

£'000	Year	Salary and fees	Other benefits[1]	Pension[2]	Annual bonus[3]	Other emoluments[4]	Total	Total variable remuneration	Total fixed remuneration
Mark Hartigan	2022	326	15	37	318	70	**766**	**388**	**378**
	2021	435	17	50	511	n/a	1,013	511	502
David Hynam[6]	2022	175	3	20	225	-	**423**	**225**	**198**
	2021	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

1. Benefits include car allowance, medical insurance, life cover and taxable travel and subsistence.
2. These amounts have been taken as cash in lieu of pension contributions by [illegible] directors.
3. This relates to the annual bonus awarded for the year ended 31 December 2022. [illegible] both the corporate and [illegible] bonus payable to Mark Hartigan based on specific objectives set by the [illegible] and the committee. An element of these full year amounts may be subject to deferral.
4. Other emoluments for Mark Hartigan include holiday pay and a contractual payment.
5. Mark Hartigan resigned from the Board on 30 September 2022.
6. David Hynam's salary and bonus cover the period from his start date of 26 September 2022 (David was [illegible] to the Board on 24 October 2022).

Summary table of non-executive directors' remuneration – audited

Non-executive directors' fees include a base fee plus other fees for membership of committees. See pages 32 to 34 for details of committee membership.

£'000	Year	Base fee	Other fees[1]	Other benefits[2]	Total
Simon Moore (chair)[3]	2022	114	-	1	115
	2021	n/a	n/a	n/a	n/a
Natalie Ceeney[4]	2022	44	31	-	75
	2021	n/a	n/a	n/a	n/a
Colin Ledlie	2022	53	32	1	86
	2021	53	24	1	78
Susan McInnes	2022	53	30	3	86
	2021	53	10	-	63
Seamus Creedon	2022	80	-	-	80
	2021	55	10	-	65
Suzy Neubert[4]	2022	44	25	-	70
	2021	n/a	n/a	n/a	n/a
Alan Cook[5]	2022	33	-	-	33
	2021	200	-	1	201
Luke Savage[6]	2022	13	5	-	18
	2021	53	18	1	72
David Barral[7]	2022	10	5	1	16
	2021	53	29	-	82
Alison Hutchinson[8]	2022	13	2	-	15
	2021	53	13	-	66

1. Other fees relate to committee chair and membership fees and subsidiary Board fees.
2. Other benefits include taxable travel and subsistence.
3. Simon Moore was appointed as chair on 17 June 2022.
4. Natalie Ceeney and Suzy Neubert were appointed as non-executive directors on 1 March 2022. In addition to the fees disclosed in the table above, they received £[illegible] and £14k respectively during the year for activities carried out in relation to the [illegible] LVFS Board.
5. Alan Cook's figures are up to the last day in post, which was 28 February 2022.
6. Luke Savage's figures are up to the last day in post, which was 1 April 2022.
7. David Barral's figures are up to the last day in post, which was 31 March 2022.
8. Alison Hutchinson's figures are up to the last day in post, which was 1 April 2022.

Annual bonus for the year ended 31 December 2022 – audited

The annual bonus for the year under review was based on performance against a scorecard of financial objectives, risk metrics and people and customer objectives. Details of actual performance against targets are as follows:

Financial measures	Weighting	Threshold	Plan	Maximum	Actual	Outcome
Operating capital surplus generation/ (consumption)[1]	17.5%	£8.4m	£30.5m	£52.5m	£10m	14.4%
Targeted operating expenses	17.5%	£110.3m	£105m	£99.8m	£105m	17.0%
SMF Volumes[2]	7.5%	£38.2m	£50.9m	£63.3m	£28m	0%
EVNB[3]	17.5%	0.6%	3.7%	6.8%	7.4%	21.0%

Non-financial measures	Weighting	Threshold	Plan	Maximum	Highlights	Rating	Outcome
Delivering successful member outcomes	20%	16%	20%	24%	▪ At the start of 2022 customer service and call handling times were not where we wanted them to be. After additional recruitment into our call centres these improved and over the second half of the year reached a level just below our overall target. ▪ We exceeded our target for the number of complaints that were handled immediately by our frontline customer service teams (rather than needing escalation to a central complaints function which delays a response). ▪ We saw an improvement in the service that members experienced when making a claim, reaching target levels of service for the year. ▪ We were able to resolve the number of customer risk events in the year to above target level.	Marginally below Plan	19.7%
Risk	10%	8%	10%	12%	▪ The relationship with our regulators is an important one and is measured based on the speed and quality of our response to their requests. Over 2022, we improved in all areas so that we finished the year with no outstanding actions or responses due. ▪ In addition there were no risk-focused audit actions outstanding at year end.	Marginally below Plan	9.4%
Leadership and diversity	10%	8%	10%	12%	▪ There was a marked improvement in the average engagement level of our colleagues with significant improvement in many areas, resulting in performance at above target. ▪ Good progress has been made on the quality of our diversity data and the development of our internal networks in place to support our approach to diversity, equity and inclusion. The number of women in senior roles remains a key focus though as we reached below target level for the year.	Marginally above plan	10.8%

Total bonus pool as a percentage of plan (out of a maximum of 120%): 92.3%

1. Operating capital surplus generation/(consumption) is before mutual bonus and modified to reflect plan [illegible] costs so as not to take a benefit [illegible] twice in relation to expenses.
2. SMF volumes relates to Smoothed Managed Funds.
3. EVNB is Economic Value of New Business.

The financial performance of the group accounts for 60% of the annual bonus target, which is made up of four measures. The group operates a performance range for all elements that are included within the scheme (see table above) all of which are considered to be stretching at all levels. Threshold is the level of performance that must be achieved to release 80% of the bonus pool. Plan is the level of performance that must be achieved to release 100% of the bonus pool. Maximum is the level of performance that must be achieved to release 120% of the bonus pool. The committee considered performance in the round and determined that a moderately below target outcome of 92.3% was a fair reflection of wider company performance.

Individual

The table below gives a broad indicator of how the CEOs performed against their individual and strategic objectives.

	Individual objectives
Mark Hartigan	Mark continued to lead the organisation on an interim basis until his permanent successor was appointed. He was assessed as a perform rating in respect of his leadership over this period, particularly noting his development of a plan for LV= continuing as an independent business and stabilising the business and management team following members' rejection of the Bain Capital transaction.
David Hynam	**Transitioning to CEO at pace** • Effective induction to the CEO role and accountabilities, including building positive regulatory and governance relationships quickly. • Leadership model confirmed and implemented with all function head direct reports now in post and operating effectively. **People and member communications and experience** • Pro-actively reset CEO communications' tone of voice, including consideration of LV= vision, mission and purpose, along with AGM commitment to transparency and mutuality. • Delivered significant improvements through the last three months of 2022 in key member and customer service and in staff engagement levels. **Planning for 2023 and beyond** • Ensured that the close of 2022 activity was well managed and effective. • Rapid immersion into existing strategic plan, being clear on challenges and opportunities. • Effective response to regulatory feedback on our future plans.

Mark Hartigan stepped down from his executive director position on 30 September 2022. He was assessed by the Board as a 'good leaver' under the terms of his contract and he was therefore eligible for a pro rated bonus for 2022.

As set out below, up to 60% of the CEO pay-outs will be deferred if required over a three-year period. The Remuneration Committee looks at the performance of the business and the individual in the round to understand any internal and external factors that have impacted performance and the broad trajectory of the business and market conditions, before determining the appropriate level of bonus to be awarded. This assessment included consideration of member mutual bonus outcomes for the year.

The total bonus awarded to each director and the percentage deferred is set out in the next table.

	Maximum as % of salary	Payout (% of maximum)	Total 2022 bonus (£'000s)	Total 2022 bonus (% of bonus-able earnings)	2022 bonus deferred %	2022 bonus deferred[1] (£'000s)
Mark Hartigan[2]	170%	58%	318	96%	40%	127
David Hynam[2]	150%	86%	225	129%	0%	0

1 Amounts deferred achieve the deferral rate, whereby 40% of variable remuneration (60% if variable remuneration is above £500,000) is deferred for 2022, variable remuneration is calculated using the 2022 bonus and the 2023-2025 LTIP award where applicable. Any variable pay amount deferred will be paid in equal parts over the following three years. During the deferral period, the value of deferred amounts will be tied to the value of members' invested funds, thereby creating a link to ongoing performance.

2 Both the CEO's bonuses are pro-rated. Mark Hartigan received pro-rated bonuses up to his leave date of 30 September 2022 and David Hynam received a pro-rated bonus from his start date of 26 September 2022.

LTIP payments made in the year (2020 – 2022 plan) – audited

The 2020-22 LTIP is for the performance period from 1 January 2020 to 31 December 2022, and is based on a balanced scorecard approach with financial performance making up 75% of the total.

Performance against the original targets is set out below which applies to Wayne Snow who was previously a director

Financial measures	Weighting	Threshold (0.5x)	Target (1x)	Maximum (2x)	Actual performance	Performance against target
Operating capital surplus generation	25.00%	£247m	£281m	£315m	£254m	15.1%
Total costs (including strategic and central costs)	25.00%	£(454)m	£(422)m	£(390)m	£(466)m	0.0%
Total Economic Value of New Business written	25.00%	£(26)m	£1m	£28m	£11m	33.9%

Non-financial measures	Weighting	Highlights	Actual performance	Multiplier
Creating a sustainable business fit for the future	12.5%	While the approved Board strategy was implemented during the performance period the proposed transaction with Bain Capital was not approved by policyholders.	Between plan and threshold	8.8%
Employee engagement	12.5%	Employee engagement was below threshold	Below threshold	0.0%
		Overall multiplier		**0.578x**
		Outturn as a percentage of maximum		**28.9%**

Group LTIP summary of awards and amounts vested during 2022 – audited

As neither CFO were participants in any LTIP schemes there are no awards to disclose.

Group LTIP awards made in the year (2022 – 2024 scheme) – audited

As neither CFO were participants in any LTIP schemes there are no awards to disclose.

Pensions – audited

Since the closure of the defined benefit (DB) section of our pension scheme to future accrual in 2013, directors have had the choice of receiving contributions into the defined contribution (DC) section of our pension scheme or being paid an equivalent cash allowance. All executive directors received cash payments in lieu of pension contributions.

Additional information on 2022 remuneration

Percentage change in remuneration levels

The table below shows the movement in the salary, benefits and annual bonus for all directors between the current and previous financial year compared to the total amounts for the same elements for all colleagues.

	Salary[1]		Other benefits[2]		Bonus	
	2022	2021	2022	2021	2022	2021
David Hynam[3]	n/a	n/a	n/a	n/a	n/a	n/a
Simon Moore[4]	n/a	n/a	n/a	n/a	n/a	n/a
Natalie Ceeney[5]	n/a	n/a	n/a	n/a	n/a	n/a
Colin Ledlie	10%	0%	0%	(80)%	n/a	n/a
Susan McInnes	32%	40%	100%	0%	n/a	n/a
Seamus Creedon	23%	16%	0%	0%	n/a	n/a
Suzy Neubert[5]	n/a	n/a	n/a	n/a	n/a	n/a
Mark Hartigan[6]	(25)%	0%	(10)%	(18)%	(38)%	(26)%
Alan Cook[7]	(84)%	0%	(100)%	(80)%	n/a	n/a
Luke Savage[8]	(75)%	6%	(100)%	n/a	n/a	n/a
David Barral[9]	(82)%	0%	100%	(100)%	n/a	n/a
Alison Hutchinson[10]	(79)%	0%	0%	(100)%	n/a	n/a
% change based on a static population excluding the chief executive	3.2%[11]	2.4%	1.5%	2%	(4.3)%	19%

1. Salary for non-executive directors includes base fee and other fees relating to committee chair and membership fees and subsidiary Board fees.
2. The other benefits for the directors include taxable travel and subsistence which is not included in the calculation for the remaining population.
3. David Hynam was appointed to the Board on 24 October 2022.
4. Simon Moore was appointed as chair on 17 June 2022.
5. Natalie Ceeney and Suzy Neubert were appointed as non-executive directors on 1 March 2022.
6. Mark Hartigan's figures are up to the last day in post which was 30 September 2022.
7. Alan Cook's figures are up to the last day in post, which was 28 February 2022.
8. Luke Savage's figures are up to the last day in post, which was 1 April 2022.
9. David Barral's figures are up to the last day in post, which was 7 March 2022.
10. Alison Hutchinson's figures are up to the last day in post which was 1 April 2022.
11. The increase in employee salary reflects the average annual pay rise from 1 April 2022 of 3.2% (as reported in the 2021 Remuneration Report) and excludes the impact of promotions.

CEO pay ratio

In January 2019, the UK Government introduced new regulations that would require certain UK companies to disclose their executive pay ratios. This does not apply directly to us but we believe it is best practice to meet the requirements where practical and helpful. In doing so, we have chosen to use the Option A methodology, the ratio compares the total remuneration of the CEO against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles), as it is considered the most robust approach and is the approach favoured by investors in the listed environment. This ratio will build annually to cover a rolling ten-year period.

Year	Method	Employee population		
		25th percentile	Median	75th percentile
2019[1]	Option A	77:1	51:1	32:1
2020[1]	Option A	49:1	34:1	21:1
2021[1]	Option A	39:1	26:1	17:1
2022[2]	Option A	39:1	29:1	19:1
Salary[2]	CEO £498,096	£25,000	£33,000	£49,733
Total Remuneration[2]	CEO £1,138,733	£28,926	£39,669	£60,365

1 [illegible]
2 [illegible]

The median pay ratio as at 31 December has increased from 26:1 in 2021 to 29:1 in 2022. This year the CEO pay ratio is a mixture of Mark Hartigan and David Hynam's salary and remuneration in 2022. The CEO's remuneration package is made up of a proportion of performance related variable pay, the ratio can therefore vary year-on-year depending on the performance of the individual and group. No adjustments have been made to the calculation. The committee will take the CEO pay ratio into account as another useful reference point when setting and determining executive pay.

Relative importance of the spend on pay

The table below shows the group's actual spend on pay (for all employees) relative to the mutual bonus, which represents a significant, discretionary disbursement of profit to members.

	Total remuneration		
	2022 £m	2021 £m	% change
Staff costs	78	86	(9)%
Mutual bonus[1]	23	28	(18)%

1 [illegible]

Chief executive's remuneration over ten financial years

The total remuneration figures for the CEO during each of the last ten financial years is shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and LTIP awards based on three-year performance periods ending in the relevant year. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	2013	2014	2015	2016		2017	2018	2019	2020	2021	2022	
	Mike Rogers	Mike Rogers	Mike Rogers	Mike Rogers	Richard Rowney	Richard Rowney	Richard Rowney	Richard Rowney	Mark Hartigan	Mark Hartigan	Mark Hartigan	David Hynam
Total remuneration (£'000)	2,364	1,666	1,970	891	610	1,719	1,029	1,911	1,210	1,013	767	423
Bonus % of maximum awarded	74%	60%	86%	13%	79%	80%	44%	40%	94%	69%	58%	86%
LTIP % of maximum vesting	90%	25%	59%	49%	50%	100%	0%	92%	n/a	n/a	n/a	n/a

Leaving arrangements for Mark Hartigan

Mark Hartigan stepped down from his position on the Board and left LV= on 30 September 2022. Upon termination, Mark was contractually entitled to a payment of £120,000 which has £72,000 (60%) deferred for three years, payable in three equal instalments.

Mark will receive the equivalent of 10 months' salary and the cash value of benefits in line with his contractual entitlement totalling £412,545. This will be paid in monthly instalments and is subject to the company's right to reduce or stop payments if alternative employment is undertaken. Mark also remained eligible for a pro rated bonus for 2022 and will continue to receive outstanding deferred bonus awards on their normal time horizons subject to the normal risk assessment.

Details of Mark Hartigan's 2022 bonus award are set out on page 56

Payments to past directors – audited

The leaving arrangements for Wayne Snow were disclosed in the 2021 Directors' Remuneration Report.

Directors' loans

As at 31 December 2022 there were no loans outstanding to directors.

Results of members' votes on remuneration resolutions at the 2022 AGM

At the Company's AGM in September 2022, the members approved the 2021 Remuneration Report, with 94.52% of the 40,835 total votes cast in favour[1]. The Directors' Remuneration Policy was put forward and approved by members at the 2018 AGM with 95% of the 47,344 votes in favour[2].

1 There were 1,657 abstentions to this resolution.

2 There were 1,642 abstentions to this resolution.

Remuneration decisions taken in respect of the coming year (year ending 31 December 2023)

Chief Executive Officer's arrangements

David Hynam's remuneration arrangements for 2023 will not be changed from those that he was recruited on and therefore no increase to salary has been awarded.

Annual bonus

There are no significant changes planned for the annual bonus, which will continue to include performance conditions based on a mixture of financial and non-financial measures, see page 55. The specific measures and actual targets associated with the annual bonus are considered commercially sensitive at this time.

2023-25 LTIP

The LTIP award level for David Hynam will be 75% of his 2023 salary.

The proposed approach is that LTIPs will be paid in full, after five years (three years' deferral and a then a two-year holding period), at the granted rate subject to:

- Individual remaining in employment and not on notice at the payroll date post vesting date.
- Application of the normal malus and clawback risk assessment.
- An underpin of LVFS maintaining solvency, measured by solvency capital requirement (SCR) compliance being met, with no breaches of red risk appetite for regulatory solvency unless approved by the Board.
- Remuneration and Nomination Committee retain discretion for any payments made.

Non-executive directors' fees

Fees for the LVFS non-executive directors are determined by the Board, based on the responsibility and time committed to the group's affairs and appropriate market comparisons. Individual non-executive directors do not take part in discussions regarding their own fees.

The fees have been reviewed against the current market to ensure they remain appropriate and the changes proposed have been set out below, effective from 1 April 2023.

Measure	
Chair	£200,000
Non-executive director base fee	£70,000
Additional fees	
Senior independent director	£15,000
Committee chair (various)	£15,000
Consumer Duty champion	£15,000
With-Profits Committee membership	£4,400

The directors approved the Report on Directors' Remuneration on 29 March 2023.

Natalie Ceeney, CBE
Chair of the Remuneration and Nomination Committee

Glossary

Annuity: An insurance policy that provides a regular income in exchange for a lump-sum payment.

Asset shares: Asset shares reflect the amount of money paid into policies by way of premiums and investment returns, less the costs of administering those policies.

Company: Liverpool Victoria Financial Services Limited.

Discretionary assets: Assets where the investment decisions are made at the portfolio manager's discretion.

Economic Value of New Business (EVNB): The total profit expected from new business after allowing for all expected expenses and the cost of the solvency capital required to support it.

Eligible own funds: Capital resources held, this includes the excess of assets over liabilities (excluding the subordinated debt) in the Solvency II balance sheet and is subject to tier restrictions.

Equity release: A lifetime mortgage where interest is added to the loan and is settled by the property sale proceeds when the borrower dies or enters permanent residential care.

Environmental, Social and Governance (ESG) investing: ESG investing is the integration of Environmental, Social and Governance factors into investment processes and decision making.

Exit bonus: A discretionary enhancement to asset shares, allocated at the point the policy is exited.

Financial Conduct Authority (FCA): A body that regulates the conduct of retail and wholesale financial services firms.

Group: Consolidated reporting for Liverpool Victoria Financial Services Limited and its subsidiaries.

Industrial Branch (IB): Small premium whole-of-life and endowment policies.

International Financial Reporting Standards (IFRS): Accounting standards issued by the International Accounting Standards Board (IASB).

Longevity risk: The risk associated with increased life expectancy of customers.

LVFS: Liverpool Victoria Financial Services Limited

Morbidity risk: The risk associated with the likelihood that a customer will fall ill during the period of insurance cover.

Mortality risk: The risk associated with the likelihood that a customer will die during the period of insurance cover

Mutual: A business that is owned by its members rather than by shareholders

Mutual bonus: A discretionary enhancement to asset shares.

Ordinary Branch (OB): With-profits endowments, whole-of-life, annuities and pensions policies.

Persistency: The expectation of the level of policies that will be retained by customers over their contract terms.

Present value of acquired in-force business (PVIF): The group's interest in the expected cash flows of insurance and investment contracts acquired through a business combination.

Protection: A policy providing a cash sum on the death or critical illness of the life assured

Prudential Regulation Authority (PRA): A regulatory body that is responsible for the prudential regulation and supervision of financial services firms

Regular premium: Premiums received in respect of long-term contracts where the customer agrees to make regular payments throughout the term of the contract.

RNPFN: Royal National Pension Fund for Nurses.

Short-term Investment Fluctuations: Short-term Investment Fluctuations is the difference between the longer-term average expected return on invested assets and the actual investment return in the current year. Current year investment returns are impacted by market volatility, whereas the longer-term average expected return excludes such short-term volatility as it is expected to be temporary.

Single premium: Premiums received in respect of long-term contracts where one premium is paid at inception and there is no obligation for the customer to make subsequent payments.

Smoothed Managed Funds: Smoothed Managed Funds are a range of multi-asset, risk-rated funds intended to grow your investment while providing protection against unpredictability in the market. In comparison to traditional investments, Smoothed Managed Funds undergo a 'smoothing' process which shelters your fund from the impact of sudden market shocks.

Solvency II: The capital adequacy regime for the European insurance industry that establishes a comprehensive framework for insurance supervision and regulation

Solvency Capital Requirement (SCR): The amount of regulatory capital that we are required to hold. LV= applies the Standard Formula in calculating the SCR. The capital required is based on our ability to survive a 1 in 200 year stress event, considering our investment strategy, risk profile and allowing for diversification.

Transitional Measures on Technical Provisions (TMTP): Transitional relief for the higher capital requirements of Solvency II compared with the previous capital regulatory regime. This is amortised over a 16 year period from 1 January 2016.

UK Corporate Governance Code (the Code): The Code sets out standards of good governance practice. It covers, amongst other things, the board composition and its accountability and relations with business owners.

UK Generally Accepted Accounting Practice (UK GAAP): This will replace IFRS reporting for the LV= Group with effect from 1 January 2023.

Unallocated Divisible Surplus (UDS): The amounts that have not yet been formally declared as bonuses for participating policyholders, together with the free assets of the group.

With-Profits Fund: An investment fund where we combine all of our with-profits investors' money and manage it on their behalf.

Alternative Performance Measures

In addition to IFRS and Solvency II measures, LV= uses Alternative Performance Measures (APMs) to report on the performance of the group. APMs are non-GAAP measures which are used to supplement IFRS and Solvency II regulatory disclosures. Management believe that APMs provide insight into the underlying trading performance of the business or are a more useful measure than the pure IFRS or Solvency II measure.

Trading APMs

Non-GAAP measure	Why we use the non-GAAP measure
New business contribution	New business contribution is used to monitor the contribution to the IFRS result from new business written in the year. New business contribution is reconciled to the IFRS Loss before tax and mutual/exit bonus for the year in the table below.
Trading profit generation	Trading profit generation is used to report the underlying trading results of the business units from new and existing business prior to the impact of experience variances and model and basis changes. Trading profit generation is reconciled to the IFRS Loss before tax and mutual/exit bonus for the year in the table below.
Operating profit generation	Operating profit generation is used as a measure of the overall performance of the business units rather than the overall group. Operating profit generation is reconciled to the IFRS Loss before tax and mutual/exit bonus for the year in the table below.
Targeted operating expenses	Targeted operating expenses is used by management to assess performance against our strategic goal of operating with an annual Business As Usual (BAU) cost base below a cost control target. Targeted operating expenses exclude sales related costs such as commissions and investment fees and also non-BAU costs such as strategic investment and non-recurring costs. Targeted operating expenses are reconciled to IFRS Operating and administrative expenses in the financial review on page 15.
Present value of new business premiums (PVNBP)	PVNBP provides a measure of the value of new business written in the year that is more useful than IFRS new business premiums as it includes the present value of the regular premiums we expect to receive over the term of contracts sold in the year. PVNBP is the total of new single premium sales received in the year, plus the discounted value at the point of sale of the regular premiums we expect to receive over the term of the new contracts sold in the year, adjusted for expected levels of persistency. In addition to IFRS premiums, this metric includes the amount of Equity Release loans advanced and policyholders' deposits to their unit-linked pensions and SIPP funds. PVNBP is reconciled to the IFRS gross earned premiums in the financial review on page 15.

Reconciliation of Trading APMs to IFRS Result for the year £m	2022	2021
New business contribution	**14**	17
Existing business	**14**	12
Trading profit generation	**28**	29
Estate investment income	**3**	8
Experience variances	**(5)**	(12)
Model and basis changes	**5**	6
Operating profit generation	**31**	31
Strategic investment, debt interest and other items	**(80)**	(90)
LIBOR to SONIA yield curve	**-**	(20)
Tax (credit)/expense allocated to policyholder asset share	**(83)**	23
Short-term investment fluctuations	**(133)**	(10)
Loss before tax and mutual/exit bonus	**(265)**	(66)

The LV= business is managed on a Solvency II basis. The capital based KPIs cannot be reconciled to the nearest IFRS measure so they are reconciled to their Solvency II equivalent.

Capital Key Performance Indicators (KPIs) - Definitions

Capital KPI	Definition
Operating capital generation	Operating capital generation is the primary KPI used by management to monitor the performance of the three business units. Operating capital generation is analysed into the Solvency II trading result, Estate investment income, experience variances and model and basis changes / management actions. Operating capital generation is Solvency II surplus generated by the business, adjusted to remove the effects of temporary volatility from market movements and the impacts from TMTP. As a measure of the performance of the business units rather than the overall group, it excludes the revaluation of defined benefit pension schemes, mutual and exit bonuses, debt interest, strategic investment (non-BAU project spend), and other group items including restructuring, non-recurring costs, and the results of investments in strategic assets. The APM is reconciled to Solvency II surplus generation in the financial review on page 13. Operating capital generation and Solvency II surplus capital are reported in the Annual Report on an Investor view basis, i.e. excluding the impact from ring-fenced funds.
Capital Coverage Ratio (CCR) %	The Capital Coverage Ratio is used by management for strategic planning purposes and to monitor the group's capital against our risk appetite. CCR% represents the ratio of our available capital to our required capital. CCR% is calculated as the ratio of Eligible own funds to the Solvency Capital Requirement (SCR) on an Investor view basis. This reconciles to the Solvency II Regulatory view capital figures for Eligible own funds and SCR by adding in the available and required capital for ring-fenced funds as shown in the financial review on page 13.

Our Accounts

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Liverpool Victoria Financial Services Limited (the parent company) and its subsidiaries (the group) for the year ended 31 December 2022 which comprise Statements of Comprehensive Income, Statements of Financial Position, Statements of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's and the parent company's result for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to apply UK-adopted international accounting standards, has also applied International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our audit procedures to evaluate the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern.
- Obtaining an understanding of the process relating to the directors' going concern assessment: the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the group's and the parent company's future financial performance;
- Obtaining a cash flow forecast for the parent company and the group company extending at least 12 months from the date of approval of the financial statements;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included assessing the viability of mitigating actions within the directors' control;
- Considering the directors' assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios considered, which have been derived from the company's Own Risk and Solvency Assessment;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Conducting a retrospective review of the historical forecasts prepared by the directors;
- Discussing with the directors regarding future financing options;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Evaluating the key assumptions used and judgements applied by the directors in forming their conclusion on going concern; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

In relation to Liverpool Victoria Financial Services Limited's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to the Audit Committee through our Audit Completion Report.

Key audit matter

Valuation of insurance contract liabilities – annuitant mortality assumptions (group and parent company)

Gross insurance contract liabilities - group £7.9 billion (2021: £10.1 billion), parent company £7.9 billion (2021: £10.1 billion)

Refer to notes 20, 22, 25 and 26 to the *financial statements*

Annuitant mortality assumptions are an area of significant management judgement, due to the inherent uncertainty involved. Whilst the group manages the extent of its exposure to annuitant mortality risk through reinsurance, we consider these assumptions underpinning gross insurance contract liabilities to be a key audit matter given the group's and the parent company's exposure to a large volume of annuity business. The annuitant mortality assumption has two main components:

- Base mortality assumption: This part of the assumption is mainly driven by internal experience analyses, but judgement is also required. For example, in determining the most appropriate granularity at which to carry out the analysis; the time window used for historic experience, or whether data should be excluded from the analysis; and in selecting an appropriate industry mortality table to which management overlays the results of the experience analysis.
- Rate of mortality improvements: This part of the assumption is more subjective given the lack of data and the uncertainty over how life expectancy will change in the future. The allowance for future mortality improvements is inherently subjective, as improvements develop over long timescales and cannot be captured by analysis of internal experience data. The Continuous Mortality Investigation Bureau (CMIB) provides mortality projection models which are widely used throughout the industry and contain a standard core set of assumptions including initial rates of improvement, calculated by the CMIB based on the most recent available population data.

In addition, a margin for prudence is applied to the annuitant mortality assumptions.

How our audit addressed the key audit matter

In conjunction with our actuarial specialists, we performed the following to test the annuitant mortality assumptions (including base mortality assumptions, future mortality improvements and IFRS prudence margins):

- Met with senior management involved in the annuitant mortality assumptions process to understand the methodology and the governance over the assumptions process;
- Validated the appropriateness of the data, models, and methodology used to perform the annual experience studies, including the Continuous Mortality Investigation (CMI) model selection and parameterisation used to model mortality improvements;
- Evaluated the design and implementation of the controls in place around the performance of annuitant mortality experience analysis studies, approval of the proposed assumptions and implementation within actuarial models;
- Validated the appropriateness of areas of expert judgements used in the *development of the mortality improvement assumptions;*
- Assessed the appropriateness of the IFRS prudence margin to be applied to the actuarial best estimate and its consistency over time by considering the allowance for uncertainties inherent in the data and assumptions used in the estimate;
- In respect of COVID-19, we assessed management's considerations and any allowances made for changes in current and future expected rates of annuitant mortality; and
- Assessed the disclosure of the annuitant mortality assumptions in the financial statements and the commentary to support the profit arising, if any, from changes in these assumptions over 2022.

Our observations

Based on these procedures, we consider the annuitant mortality assumptions to be appropriate and found that the valuation of insurance contract liabilities is reasonable.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – expense assumptions (group and parent company) *Gross insurance contract liabilities - group £7.9 billion (2021: £10.1 billion), parent company £7.9 billion (2021: £10.1 billion)* ***Refer to notes 20, 22, 25 and 26 to the financial statements*** The group's and the parent company's financial statements include reserves for the estimated future expenses that would be incurred in maintaining the in-force policies at the balance sheet date over their duration. Such liabilities are included within the insurance contract liabilities for both the group and the parent company of £7.9 billion (2021: £10.1 billion). The expense assumptions made are a significant area of risk. The expense assumptions are calculated using significant judgement, in particular over manual reserves, removal of designated 'one-off' costs and achieved cost savings, together with the cost allocations between acquisition and maintenance and then between products groups (as different products have different expected durations i.e. the 'capitalisation factors'). The estimated unit cost is calculated as allocated maintenance expense over policy in force. As such, the methodology and assumptions have a significant impact on the insurance contract liabilities.	In conjunction with our actuarial specialists, we performed the following to test the expense assumptions: - Met with senior management involved in the expense assumptions process to understand the methodology and the governance over the assumptions process; - Validated the completeness and accuracy of the total expense base and the allocation of expenses to the appropriate cost centres; - Assessed the historical accuracy of forecasts prepared by performing a retrospective review of the historical budgeted costs and actual costs; - Assessed the appropriateness of significant judgements made in application of the methodology, including excluded costs, the allocation of expenses between acquisition and maintenance costs, the allocation between products and the capitalisation factors; - Assessed the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience; - Performed data testing over the completeness of the policies-in-force; - Recalculated the unit costs for all products and traced supporting calculations through management's workings to ensure mathematical accuracy; - Assessed the appropriateness of the expense inflation assumptions relative to market experience and external indices, where relevant; - Considered whether any adjustments are required to reflect changes in future expected policy volumes, for example, to allow for diseconomies of scale; and - Assessed the disclosure of the maintenance assumptions in the financial statements and the commentary to support the profit arising, if any, from changes in these assumptions over the year. **Our observations** Based on these procedures, we consider the expense assumptions to be appropriate and found that the valuation of insurance contract liabilities is reasonable.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Our overall materiality was £20.9 million (2021: £30.6 million) and £19.1 million (2021: £29.0 million), for the group and the parent company, respectively.
How we determined it	3% of Unallocated Divisible Surplus (UDS).
Rationale for benchmark applied	In determining our materiality, we considered the financial metrics which we believe to be most relevant to the members of the group and the parent company, as a body. Members interests in the group are represented primarily by the UDS and, consequently, we concluded that the UDS was considered to be the primary metric to use to determine materiality.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set the group's and the parent company's performance materiality at £15.7 million (2021: £18.4 million) and £14.3 million (2021: £17.4 million), which represents 75% and 60%, respectively, of overall materiality. The primary factors we considered in determining the level of performance materiality include our understanding of the parent company's and the group's control environment, the level and nature of errors detected in our previous audit and our expectation of the number of errors in the current year audit.
Reporting threshold	We agreed with the audit committee that we would report to them misstatements identified during our audit above £0.9 million (2021: £0.9 million) and £0.8 million (2021: £0.9 million) for the group and the parent company, respectively, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the group and the parent company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Our group audit scope included an audit of the group and the parent company financial statements. A full scope audit was performed of the parent company and one further significant component due to their contributions to the group UDS. In addition, we performed a limited scope audit covering specific financial statement line items for a further two components. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatements.

Taken together, the procedures we performed over the two entities included in full audit scope above and the group consolidation entries accounted for over 91% (2021: 95%) of the group's UDS and over 99% (2021: over 99%) of the group's net earned premiums.

All audit procedures across all entities were performed by the group engagement team. At the parent company level, the group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

The company is a regulated insurance company. Some activities are outsourced to third party providers including investment administration and payroll processing.

In order to gain appropriate audit evidence, we performed a combination of testing the internal controls over financial reporting and testing transactions and balances to supporting evidence. In respect of the outsourced service providers we were able to gain appropriate audit evidence through a combination of evaluating the providers' published assurance reports on internal control and performing substantive procedures.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Corporate governance statement

We have reviewed the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's voluntary compliance with the provisions of the UK Corporate Governance Code.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 46;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate, set out on pages 46 and 47;
- Directors' statement on fair, balanced and understandable, set out on page 48;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 48;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 47; and
- The section describing the work of the audit committee, set out on pages 42 and 43.

Report on directors' remuneration

The group and the parent company prepare a report on directors' remuneration in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the report on directors' remuneration specified by the Companies Act 2006 to be audited as if the group and the parent company were each a quoted company.

In our opinion, the part of the report on directors' remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Directors' statement of responsibility

As explained more fully in the Directors' statement of responsibility set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the group and the parent company and their industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: breaches of the regulatory requirements of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the group and the parent company, the industry in which they operate, and the structure of the group, and considering the risk of acts by the group and the parent company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the group and the parent company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Companies Act 2006, UK tax legislation and pension legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to those areas as shown in our key audit matters, the presumed risk of fraud in revenue recognition and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Critically assessing accounting estimates impacting amounts included in the financial statements for evidence of management bias; and
- Considering significant transactions outside of the normal course of business. Our approach included reviewing Board minutes, review of correspondence of regulators (where applicable), and substantively testing the transaction and related disclosure where considered material.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities.** This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were first appointed by the members at the Annual General Meeting on 30 September 2021 to audit the financial statements for the year then ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 December 2021 to 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Other than those disclosed in note 12 to the financial statements, we have provided no non-audit services to the group in the period under audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Lionel Cazali (Senior Statutory Auditor) for and on behalf of Mazars LLP Chartered Accountants and Statutory Auditor, 30 Old Bailey, London, EC4M 7AU

29 March 2023

Statements of Comprehensive Income

Year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Gross earned premiums	5	**827**	846	**827**	846
Premiums ceded to reinsurers	5	**(301)**	(284)	**(301)**	(284)
Net earned premiums	5	**526**	562	**526**	562
Investment income	6	**223**	222	**542**	407
Net (losses)/gains on investments	7	**(2,193)**	217	**(2,516)**	21
Other income	8	**53**	50	**26**	26
Total income		**(1,391)**	1,051	**(1,422)**	1,016
Gross benefits and claims, excluding exit bonus	9	**(1,036)**	(960)	**(1,036)**	(960)
Claims ceded to reinsurers	9	**261**	272	**261**	272
Net benefits and claims, excluding exit bonus	9	**(775)**	(688)	**(775)**	(688)
Gross change in long-term contract liabilities, excluding mutual/exit bonus	23	**2,844**	(126)	**2,840**	(126)
Change in long-term contract liabilities ceded to reinsurers	23	**(551)**	11	**(551)**	11
Change in non-participating value of in-force business	23	**(94)**	(7)	**(94)**	(7)
Net change in contract liabilities, excluding mutual/exit bonus	23	**2,199**	(122)	**2,195**	(122)
Finance costs	10	**(25)**	(24)	**(24)**	(23)
Other operating and administrative expenses	11	**(273)**	(283)	**(243)**	(258)
Total other expenses		**(298)**	(307)	**(267)**	(281)
Total benefits, claims and expenses, excluding mutual/exit bonus		**1,126**	(1,117)	**1,153**	(1,091)
Loss before tax and mutual/exit bonus		**(265)**	(66)	**(269)**	(75)
Mutual bonus	23	**(23)**	(28)	**(23)**	(28)
Exit bonus	9	**(12)**	(10)	**(12)**	(10)
Income tax credit/(expense)	35	**97**	(11)	**97**	(12)
Loss after tax and mutual/exit bonus		**(203)**	(115)	**(207)**	(125)
Transfer from the Unallocated divisible surplus	45	**203**	115	**207**	125
Result for the year		**-**	-	**-**	-
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Re-measurements of defined benefit pension schemes, net of tax	38	**(127)**	23	**(127)**	23
Other comprehensive income, net of tax		**(127)**	23	**(127)**	23
Transfer from/(to) the Unallocated divisible surplus	45	**127**	(23)	**127**	(23)
Total comprehensive income for the year		**-**	-	**-**	-

As a mutual, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus. Accordingly, there is no profit for the year shown in the Statement of Comprehensive Income.

The Group and the Company have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or the Company.

Statements of Financial Position

Year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Assets					
Pension benefit asset	38	**18**	197	**18**	197
Intangible assets	28	**46**	53	**-**	6
Investments in group undertakings	29	**-**	-	**249**	572
Property and equipment	27	**23**	25	**4**	4
Deferred tax asset	36	**42**	-	**41**	-
Reinsurance assets	24	**1,358**	1,909	**1,358**	1,909
Prepayments and accrued interest	31	**60**	62	**56**	57
Loans and other receivables	16	**63**	46	**69**	50
Insurance receivables	30	**103**	101	**103**	101
Corporation tax asset		**11**	8	**11**	8
Financial assets at fair value through income	14	**11,013**	13,797	**10,804**	13,378
Derivative financial instruments	15	**13**	84	**13**	84
Cash and cash equivalents (excluding bank overdrafts)		**427**	385	**355**	207
Total assets		**13,177**	16,667	**13,081**	16,573
Liabilities					
Unallocated divisible surplus	45	**693**	1,023	**634**	968
Participating insurance contract liabilities	20	**4,447**	5,445	**4,447**	5,445
Participating investment contract liabilities	21	**634**	786	**634**	786
Non-participating value of in-force business	22	**(256)**	(350)	**(256)**	(350)
		5,518	6,904	**5,459**	6,849
Non-participating insurance contract liabilities	20	**3,422**	4,664	**3,413**	4,651
Non-participating investment contract liabilities	17	**3,415**	4,134	**3,415**	4,134
		6,837	8,798	**6,828**	8,785
Deferred tax liability	36	**6**	122	**6**	122
Provisions	39	**20**	22	**20**	22
Subordinated liabilities	18	**350**	349	**350**	349
Derivative financial instruments	15	**229**	197	**229**	197
Other financial liabilities	19	**3**	66	**3**	66
Insurance payables	32	**45**	54	**45**	49
Trade and other payables	33	**169**	155	**141**	134
Total liabilities		**13,177**	16,667	**13,081**	16,573

The financial statements on pages 69 to 142 were approved by the Board of Directors on 29 March 2023 and signed on its behalf by:

David Hynam

Director

29 March 2023

Statements of Cash Flows

Year ended 31 December 2022

	Notes	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Cash and cash equivalents at 1 January		**383**	352	**205**	218
Cash flows arising from:					
Operating activities					
Cash used in operating activities before movements in investments held at fair value through income or OCI	48	**(905)**	(415)	**(909)**	(402)
Net decrease in investments held at fair value through income		**740**	254	**530**	21
Cash used in operating activities		**(165)**	(161)	**(379)**	(381)
Dividend income received		**79**	73	**79**	73
Interest income received		**145**	155	**143**	154
Utilisation of provisions		**(1)**	(1)	**(1)**	(1)
Finance cost paid		**(1)**	-	**(1)**	-
Income tax paid		**(1)**	(8)	**-**	(9)
Net cash flows generated from/(used in) operating activities		**56**	58	**(159)**	(164)
Investing activities					
Increase in investment in group undertakings		**-**	-	**-**	(10)
Dividend income received from group undertakings		**-**	-	**320**	186
Purchase of property, equipment and intangibles		**-**	(1)	**-**	(1)
Net cash flows (used in)/generated from investing activities		**-**	(1)	**320**	175
Financing activities					
Payment of lease liabilities		**(2)**	(3)	**(1)**	(1)
Interest paid on subordinated debt	18	**(23)**	(23)	**(23)**	(23)
Net cash flows used in financing activities		**(25)**	(26)	**(24)**	(24)
Net increase/(decrease) in cash and cash equivalents		**31**	31	**137**	(13)
Cash and cash equivalents at 31 December		**414**	383	**342**	205

Cash and cash equivalents comprise:

	Notes	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Bank balances		**83**	101	**73**	92
Short-term deposits		**344**	284	**282**	115
Cash and cash equivalents per the Statement of Financial Position		**427**	385	**355**	207
Bank overdrafts	33	**(13)**	(2)	**(13)**	(2)
Cash and cash equivalents per the Statement of Cash Flows		**414**	383	**342**	205

The Group and the Company classifies the cash flows for the acquisition and disposal of financial assets and their related income as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts. The company classifies the cash flows for the acquisition and disposal of group undertakings and their related income as investing activities.

Significant accounting policies

This section describes the Group's significant accounting policies and accounting estimates that relate to the financial statements and notes as a whole. If an accounting policy or an accounting estimate relates to a specific note, the applicable accounting policy and/or accounting estimate is contained within the relevant note. These policies have been consistently applied to all years presented, unless otherwise stated.

1. Significant accounting policies

Basis of presentation

The Group financial statements consolidate the results of Liverpool Victoria Financial Services Limited ('LVFS' or 'the Company') and its subsidiary companies. The Group's and LVFS's financial statements have been prepared in accordance with UK-adopted International Accounting Standards ('IFRS').

In accordance with IFRS 4 'Insurance Contracts', the Group has applied existing accounting practices for insurance contracts and participating investment contracts modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy ( ) below and Note 20.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivatives and non-participating investment contract liabilities) at fair value. The primary economic environment which the Group operates in is the United Kingdom. The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation and functional currency.

As described in the Directors' Report on page 46, after making appropriate enquiries, the directors are satisfied that the Group and Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. The Group and Company therefore continue to adopt the going concern basis in preparing their financial statements. The directors have also concluded that there are no material uncertainties to the Group's or Company's ability to adopt the going concern basis of accounting.

Going forward

After careful consideration, the directors have decided that UK GAAP is a more suitable basis for a UK mutual than IFRS and intends to transition to UK GAAP with effect from 1 January 2023. As part of this transition the Group intends to closer align its insurance contract reserving methodology to Solvency II, as permitted by FRS 103. It is likely that this will lead to a significant transitional adjustment, although further work needs to be completed before this can be quantified. A further material change to the Group's results will arise from the intention to fully amortise the Group's goodwill. This will result in a transitional adjustment removing the £46m goodwill asset from the balance sheet and reducing Unallocated divisible surplus accordingly.

Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates. Furthermore, complex estimates often involve a significant level of management judgement. These significant accounting estimates are disclosed separately from significant judgements made in application of accounting policies.

The following areas involve significant judgement by management on policy application.

Area	Significant accounting judgements	Note
Insurance contract classification	▪ Whether significant insurance risk has been transferred to the Group.	1(b)
Reinsurance assets	▪ Transfer of significant insurance risk for reinsurance arrangements entered into.	24

The following areas include significant estimates and assumptions, including the exercise of management judgement. Although these estimates are based on management's best knowledge of current circumstances and future events and actions, material adjustments could be made to the carrying amounts of assets and liabilities within the next financial year.

Area	Significant accounting estimates	Note
Fair value financial assets	▪ Estimate of fair value where there is no or limited market data for assets classified within Level 2 or Level 3 of the fair value measurement hierarchy (see Note 4b(vii))	14,15
Insurance and participating investment contract liabilities	▪ Assumptions and adjustments used in determining insurance contract and participating investment contract liabilities and associated reinsurance assets. This includes economic and non-economic assumptions and unit cost expense allocations across products. ▪ Assessment of future options and guarantees.	20
Intangibles	▪ Estimation of recoverable amount of the Cash Generating Unit when reviewing goodwill for possible impairment.	28
Pension benefit asset	▪ Assumptions used to measure the pension benefit obligation.	38

1. Significant accounting policies (continued)

Additional considerations impacting significant accounting estimates and judgements due to increased market uncertainty and volatility are outlined within these notes as required.

The preparation of the financial statements has also considered the impact of climate change. As at 31 December 2022, management does not consider this to be a significant area of accounting judgement or source of estimation uncertainty. The uncertainty associated with the future impact of climate change on the Group's results, runs too far into the future and is not yet well enough understood, leading to an absence of data required for a reliable estimate of these impacts to be factored into the financial statements. Management do not currently consider that climate change will generate a risk of a material adjustment to carrying values of assets and liabilities in the next year, but recognise that it could have medium or longer-term impacts.

Accounting policies

a) Consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group directly or indirectly, has control. The Group controls an entity when the Group has all of the following:

- power over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns from its involvement with the entity; and
- the ability to affect those returns through the power over the entity.

The assessment of control is based on the consideration of all the facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group using uniform accounting policies consistently applied across the Group. They are excluded from consolidation from the date on which control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Accordingly, the cost of an acquisition is measured as the fair value of the cash or other assets given, equity instruments issued and liabilities incurred or assumed at the date control passes. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised in the Statement of Comprehensive Income.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Details of the company's subsidiaries are given in Note 42.

(ii) Associates and jointly controlled entities in property holding companies

Joint ventures are arrangements where the Group has joint control and rights to the net assets of the entity. The Group does not currently have any associates, which are all entities over which the Group has significant influence but not control.

For each investment in an associate or jointly controlled entity the Group determines whether to apply the equity method or to designate the investment at fair value through income in accordance with the exemption permitted under IAS 28 applicable to investment-linked insurance funds. The Group currently has a joint venture in an investment property holding company. Due to the nature of this joint venture the Group has taken the exemption to designate this investment at fair value through income within UK unlisted investments.

b) Contract classification

The Group issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Significant insurance risk is transferred where the occurrence of an insured event could result in significant additional payments to the policyholder. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Management have applied judgement in determining whether contracts entered into transfer significant insurance risk and can therefore be accounted for as insurance contracts. In making this judgement management review all contract terms and conditions and obtain the opinion of an independent expert where necessary.

The Group has chosen not to separate embedded options to surrender insurance contracts for a fixed amount (or a fixed amount and an interest rate) from the underlying insurance contract. Embedded derivatives that meet the definition of an insurance contract are outside the scope of IAS 39. All other embedded derivatives are separated and measured at fair value if they are not considered closely related to the host insurance contract or do not meet the definition of an insurance contract.

Contracts are also classified as either participating or non-participating. Participating contracts are those contracts that entitle the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
  - (i) the performance of a specified pool of contracts or a specified type of contract;
  - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the fund; or
  - (iii) the unallocated surplus of the fund that issues the contract.

All with-profits contracts have been classified as participating contracts.

1. Significant accounting policies (continued)

Product classification

Business area	Product classification			
	Insurance (Participating)	**Insurance (Non-participating)**	**Investment (Participating)**	**Investment (Non-participating)**
Savings & Retirement	**Smoothed Managed Funds** Smoothed Managed Funds include a significant death benefit. Policyholders are entitled to a share of the surplus of the with-profits fund.	**Retirement non-profit funds (fixed term / enhanced annuities)** Significant insurance risk is transferred (mortality / longevity) from the policyholder to LV=. Policyholders are not entitled to a share of the surplus of the funds.		**Unit-linked pensions, including SIPP** No significant insurance risk is transferred to LV=: the customer chooses their investment(s) and is exposed to the associated financial risk with no additional participation benefits.
Protection		**All Protection products** Significant insurance risk (primarily morbidity and mortality) is transferred from the policyholder to LV= whereby the policyholder is financially compensated on occurrence of the insured event (such as injury, illness or death). Policyholders are not entitled to a share of the surplus of the funds.		
Heritage	**LVFS Heritage (including RNPFN and Teachers Assurance Funds) with-profits life and pensions policies** These policies transfer significant insurance risk (mortality / longevity) from the policyholder to LV=. Policyholders are entitled to a share of the surplus of their respective with-profits fund.	**LVFS Heritage (including RNPFN and Teachers Assurance Funds) conventional non-profit life, pensions and annuities in payment** These policies transfer significant insurance risk (mortality / longevity) from the policyholder to LV=. Policyholders are not entitled to a share of the surplus of the funds.	**LVFS Heritage (including Teachers Assurance Fund) with-profits investments** These investment products provide the policyholder with market returns. The value paid to the policyholder is not significantly impacted by whether pay-out is on surrender, maturity or death, therefore this is not an insurance contract. The investments entitle the policyholder to a share of the surplus of the with-profits fund.	**LVFS Heritage (including RNPFN Fund) linked life and pensions** These products do not transfer significant insurance risk from policyholder to LV=. Policyholders are not entitled to a share of the surplus of the funds.

1. Significant accounting policies (continued)

c) Foreign currencies

Investment assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange in force at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the transaction date. Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transaction is reported.

d) Financial assets and liabilities

Recognition

The Group classifies financial assets and liabilities upon initial recognition as shown below. The classification is impacted by the nature of the instrument and the purpose for which the investments were acquired.

Category	Financial Instrument	Basis of classification	Subsequent Measurement	Recognition of change in fair value
Designated fair value through income on initial recognition	Debt Securities, Equity Securities Loans secured on residential and commercial property	Where the investment return is managed on the basis of the total return on investment.	Fair value using prices at the end of the period. Fair value on a discounted cash flow basis, taking into account no negative equity guarantees where relevant	Income Statement – net investment gains/ (losses).
	Non-participating investment contract liabilities	Designated as fair value in order to avoid a measurement inconsistency with the associated unit-linked financial assets.	Amount equal to the fair value of the associated unit-linked financial assets.	
Fair value through income held for trading	Derivative assets/ (liabilities)	Derivatives are classified as held for trading as required by IAS 39.	Carried at fair value. Asset / (liability) classification dependant on whether fair value is positive or negative.	Income Statement – net investment gains/ (losses).
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities.	Financial assets with fixed or determinable payments not quoted in an active market.	Amortised cost using the effective interest method. Reviewed for impairment whenever events indicate that the carrying amount may not be recoverable.	Income Statement – Net investment gains/ (losses) when realised or impaired.
Cash and cash equivalents	Cash and cash equivalents	Consist of cash and highly liquid investments that are readily convertible into a known amount of cash.	Carrying amounts at amortised cost.	N/a
Other financial liabilities	Subordinated debt	Financial liabilities with fixed or determinable payments and maturity date	Amortised cost using the effective interest method.	N/a

The accounting policy for each type of financial asset or liability is included within the relevant note for the category.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset and has:
  - transferred the risks and rewards of the asset, or
  - transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

e) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1. Significant accounting policies (continued)

f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the Statement of Cash Flows, Cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts.

g) Collateral

Collateral is received or pledged in the form of cash collateral and non-cash collateral.

Cash collateral received, which is not legally segregated from the Group, is recognised as an asset with a corresponding liability for its repayment in the Statement of Financial Position. Cash collateral pledged which is legally segregated from the Group, is derecognised from Cash and cash equivalents and a corresponding asset for its return is recognised in the Statement of Financial Position.

Non-cash collateral received that is neither sold nor re-pledged, and where the counterparty is not in default is not recognised in the Statement of Financial Position. Non-cash collateral pledged where the Group is not in default is not derecognised from the Statement of Financial Position and remains within the appropriate asset classification.

h) Mutual and Exit bonus

The Mutual and Exit bonuses allocated by LVFS are considered by management to be the equivalent of dividends in a company owned by shareholders. As such, these bonuses are presented separately on the Statement of Comprehensive Income and not within Gross change in long-term contract liabilities or Gross benefits and claims. The impact on Gross change in long-term contract liabilities is disclosed separately within Note 23 and the impact on Gross benefits and claims is disclosed separately within Note 9.

Changes and future developments in accounting policies

a) New and amended standards adopted in the year

With effect from 1 January 2022, the following changes have been made to accounting standards that are applied by the Group.

Annual Improvements to IFRS Standards 2018-2020

These amendments, issued in May 2020, make minor amendments to IFRS 1 'First-time Adoption of IFRS', IFRS 9 'Financial instruments', IAS 41 'Agriculture' and the Illustrative Examples accompanying IFRS 16 'Leases'. These amendments did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 – Property, plant and equipment

These amendments, issued in May 2020, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. These amendments did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 37 – Provisions, contingent liabilities and contingent assets

These amendments, issued in May 2020, specify which costs a company includes when assessing whether a contract will be loss-making. These amendments did not have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 3 – Business Combinations

These amendments, issued in May 2020, update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. These amendments did not have a material impact on the Group's consolidated financial statements.

b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued and are effective for annual periods beginning after 1 January 2022, and have not been applied in preparing these consolidated financial statements.

If implemented, the standards (IFRS 9 and IFRS 17) would have a material impact on the Group and transitioning to the new standards would require significant effort. After careful consideration, the Group has decided that UK GAAP is a more suitable basis for a UK mutual than IFRS and intends to transition to UK GAAP with effect from 1 January 2023. The necessary restatements and reconciliations from IFRS to UK GAAP will be included in the Group's 2023 Annual Report.

IFRS 9 'Financial instruments'

IFRS 9 replaces IAS 39 'Financial instruments' and addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard was effective from 1 January 2018. However the Group and the Company continue to apply the temporary exemption from IFRS 9.

Compliance with the criteria for the temporary exemption from IFRS 9

IFRS 4 permits insurance entities which meet the predominance ratio test to have a temporary exemption from IFRS 9 where this standard has not yet been adopted. The period of the temporary exemption initially covered all accounting periods commencing before 1 January 2021. From 1 January 2021 a further amendment to IFRS 4 extends this exemption to include accounting periods commencing before 1 January 2023 in line with the deferral of IFRS 17 effective date to 1 January 2023.

The predominance ratio test is required to be performed at the reporting entity level using the annual reporting date that immediately precedes 1 April 2016 (i.e. 31 December 2015) and reassessed following a significant change in the business. The Group and the Company meet the criteria to apply the temporary exemption from IFRS 9. The Group and the Company's activities are predominantly connected with insurance as demonstrated by the predominance ratio test. The predominance ratio test was initially met as at 31 December 2015 and has been reassessed following the disposal of the general insurance business on 31 December 2019. In the most recent predominance ratio test at 31 December 2019 the Group and the Company's pure IFRS 4 liabilities are significant at 72% of liabilities. Total liabilities connected with insurance for the Group and the Company are 94% once non-participating investment contract liabilities (Note 17) are included.

Relevant disclosures to facilitate comparison with companies which have adopted IFRS 9 are included in Note 13. IFRS 9 information for the non-insurance subsidiaries within the Group which have adopted IFRS 9 can be obtained from the individual financial statements available at Companies House.

IFRS 17 'Insurance contracts'

IFRS 17 is effective from 1 January 2023 and replaces IFRS 4 'Insurance contracts' and provides a new accounting model for insurance contracts that will supersede the requirements of IFRS 4, which was largely based on grandfathering previous local accounting policies. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach for short-duration contracts.

There are no other new or amended standards yet to be adopted by the Group that would have been expected to have a significant effect on the financial statements.

Segmental information

This section details the disclosures required under IFRS 8 Operating segments. These segmental disclosures are based on operating segments that reflect the level within the Group at which key strategic and resource allocation decisions are made and the way in which operating performance is reported internally to the executive directors.

2. Segmental information

Segmental accounting and reporting

Reporting to the executive directors focuses primarily on Solvency II capital metrics and this is reflected in the Key Performance Indicators on page 9. IFRS segmental information reported to the board is limited to IFRS based Trading result, with reconciliation to the Statement of Comprehensive Income. As such, no segmental disclosure has been reported for segment assets and liabilities.

The executive directors manage the Group using the three business units of Savings and Retirement, Protection and Heritage as described in the Strategy section on page 6.

These business units have been identified as the reportable segments and relevant disclosures are included below.

Trading result is a non-GAAP measure as explained on page 60 and is calculated as Profit/(loss) before tax and mutual/exit bonus adjusted for the following items:

- Estate investment income.
- Experience variances and model and basis changes.
- Strategic investment, debt interest and other.
- Tax (credit)/expense allocated to policyholder asset share.
- Short-term investment fluctuations.

The products and services from which each reportable segment derives its income are as follows:

- Savings and retirement: pensions, savings, investments and equity release products and provision of financial advice.
- Protection: life insurance and income protection products.
- Heritage: savings and investment products that are no longer actively marketed, the majority of these are with-profits products.

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments.

a) Segment profit

The profit measure used by the executive directors to monitor performance is Trading result. Trading result by segment is shown in the table below, with a reconciliation of Trading result to the IFRS Loss before tax and mutual/exit bonus.

	2022 £m	2021 £m
Savings and retirement	10	22
Protection	19	9
Heritage	(1)	(2)
Trading profit generation	28	29
Estate investment income	3	8
Experience variances	(5)	(12)
Model and basis changes	5	6
Operating profit generation	31	31
Strategic investment, debt interest, group items and other	(80)	(90)
LIBOR to SONIA yield curve	-	(20)
Tax (credit)/expense allocated to policyholder asset share	(83)	23
Short-term investment fluctuations	(133)	(10)
Loss before tax and mutual/exit bonus	(265)	(66)

Definitions of the line items in the segment profit statement can be found in the Alternative Performance Measures on page 60.

b) Revenue

In order to meet IFRS segmental reporting requirements a revenue figure is presented as this makes up part of the Trading result reported. The revenue metric presented is a Present Value of New Business Premiums (PVNBP) based metric, which can be reconciled to IFRS gross premiums.

	2022 £m	2021 £m
Savings and retirement sales (PVNBP)	1,097	1,257
Protection sales (PVNBP)	357	332
Group sales (PVNBP)	1,454	1,589
Equity release mortgage advances	(242)	(204)
Gross written premiums for non-participating investment contracts which are deposit accounted	(231)	(406)
SIPP deposits	(80)	(71)
Effect of capitalisation factor on regular premium long-term business	(315)	(294)
New business gross earned premiums	586	614
Gross premiums from existing in-force business	241	232
IFRS Gross earned premiums	827	846

c) Major customers

The directors consider the Group's external customers to be individual policyholders. As such, the Group is not reliant on any individual customer.

d) Geographical

The primary economic environment in which the Group operates is the United Kingdom.

Capital and risk management

This section details the capital and risk management approach of the Company and Group. The Group seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available. The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

3. Capital management

Policies and objectives

Capital is managed on both economic and regulatory bases to ensure the Group has sufficient funds to meet its business objectives, the promises made to members and policyholders and regulatory requirements.

The Group's key capital management objectives are that:

(i) Regulatory capital will be managed to remain within upper and lower limits agreed by the Board;

(ii) The regulatory risk profile will be monitored against that projected in our business plan to ensure any deviation from the expected position is understood and acted upon if appropriate; and

(iii) Sources of capital which are considered to be of a lower quality will not be over-relied upon to meet regulatory capital requirements.

These objectives are reviewed at least annually and benchmarks are set by which to judge the adequacy of the Group's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Group.

The Group complied with all regulatory capital requirements that it was subject to throughout the reporting period.

Capital Management

Capital is monitored and managed at a Group and entity level. The Group manages capital resources under Solvency II at the level of Eligible own funds. Excluding RNPFN and Teachers ring-fenced funds, Eligible own funds were £920m for the Group and £936m for the Company (2021: £1,365m for the Group and the Company). Including RNPFN and Teachers ring-fenced funds, Eligible own funds were £956m for the Group and £972m for the Company (2021: £1,433m for the Group and the Company). See further details on the Group's and Company's Solvency II capital position on page 13.

The Group seeks to deploy capital where it believes the risk is properly rewarded. Asset and liability matching is extensively used and risks are hedged where the Group believes it would otherwise receive insufficient return for the risk taken or to reduce volatility.

The Eligible own funds figures disclosed above are based on the estimate of the results at the Annual Report signing date. It is possible that this result will be adjusted prior to final publication of the Group Solvency Financial Condition Report later in 2023.

Risk appetite

The Group has embedded its approach to risk management through its risk appetite. The risk appetite for capital management is that sufficient solvency capital is held to ensure that the Group can continue to trade following a severe adverse movement in markets or other risks. As at 31 December 2022, the capital risk appetite was set to target a Capital Coverage Ratio of 140%. See further details on risk management on pages 16 to 20.

Measurement and monitoring of capital

The capital position of the Group is monitored and reviewed formally on a regular basis by the Asset and Liability Committee (ALCO) and is presented within the monthly Financial Performance Pack (FPP). The capital management objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital and ensure that sufficient capital is available.

The Group's capital requirements are forecast on a regular basis and compared against the available capital and the Group's risk appetite. The forecast includes the trading outlook and the benefits of any strategic investment, where an internal rate of return forecast to be achieved is measured against minimum required benchmarks, taking into account the risks associated with the investment.

Methodology

Eligible own funds comprise the excess of the value of assets over the liabilities, as valued on a Solvency II basis. Subordinated debt issued by the Group is considered to be part of Eligible own funds, rather than a liability, as it is subordinate to policyholder claims.

Assets are valued at IFRS fair value with adjustments to remove intangibles and deferred acquisition costs, and to value reinsurers' share of technical provisions consistently with the Solvency II regulations.

Liabilities are valued on a best estimate market consistent basis, with the application of a Matching Adjustment for valuing qualifying annuity liabilities, and a Volatility Adjustment for other qualifying business. Transitional measure on technical provisions (TMTP) is recognised on the balance sheet and has been calculated on a basis approved by the Audit Committee which seeks to capture the differences between the Technical Provisions and the total Financial Resources Requirement under the previous Solvency I regime and the current Solvency II regime.

The liabilities include the Risk Margin which represents an allowance for the cost of capital for a purchasing insurer taking on the portfolio of liabilities and residual risks that are deemed to be not hedgeable under Solvency II. This is calculated using a cost of capital of 6% as prescribed in the regulations, and represents the cost to the purchaser of raising capital to meet the regulatory capital requirements.

The Solvency Capital Requirement (SCR) is the amount of capital required to cover a prescribed 1-in-200 year outcome in the year following the valuation, allowing for real sic management and policyholder actions and the impact of the stress on the tax position of the Group. This allows for diversification between the different exposures within the Group and between the risks to which they are exposed.

All non-insurance regulated businesses are included using the current regulatory surplus.

Allowance is made within the Solvency II Balance Sheet for the Group's defined benefit pension scheme using results on an IFRS basis.

3. Capital management (continued)

Assumptions

The calculation of the Solvency II balance sheet and associated capital requirements requires a number of assumptions, including:

(i) assumptions required to derive the present value of best estimate liability cash flows. Non-market assumptions are broadly the same as those used to derive the Group's IFRS disclosures, and are structured so as to capture both short-term and long-term behaviour. Future investment returns and discount rates are those defined by the PRA, which means that the risk free rates used to discount liabilities are market SONIA-derived swap rates. For eligible annuity business, the liability discount rate includes a Matching Adjustment. For other eligible business, the liability discount rate includes a Volatility Adjustment.

(ii) assumptions regarding management actions. The only management actions allowed for are those that have been approved by the Board and are in place at the balance sheet date.

Use of and limitations of sensitivity analysis

Sensitivity analysis is used to determine the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the Solvency II position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action. Other limitations of sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Stress and scenario testing

Due to the limitations of sensitivity analysis in isolation, the Group undertakes a series of stress and scenario tests to ensure the robustness of its solvency position in regard to different levels of new business growth, movements in investment markets and changes in other assumptions such as the expected lifetime of our enhanced annuity customers. In looking at movements in investment markets the Group considers a number of single stresses (e.g. a significant fall in equities) but more importantly because investment markets are highly correlated consideration is given to how they will move together in stressed conditions. The Group uses the outcomes of the stress and scenario testing to develop the management actions that would be undertaken if capital or other performance measures move outside of the defined risk appetite.

In order to plan for the future operations of the Group, forecast plans are produced including stress and scenario testing to provide the Board with assurance that the Group will be able to withstand adverse events if they arise.

Reconciliation of Group IFRS UDS to Solvency II Eligible own funds

The table below gives a reconciliation of Group IFRS Unallocated divisible surplus to the Group's Eligible own funds on a Solvency II basis.

The Group Solvency II results disclosed below are based on the unaudited estimate of the year-end results at the Annual Report signing date. It is possible that the Solvency II results will be adjusted prior to final publication of the group Solvency Financial Condition Report later in 2023.

	2022 £m	2021 £m
IFRS Unallocated divisible surplus	**693**	1,023
Remove DAC, goodwill and other intangible assets and liabilities	**(46)**	(53)
Add subordinated debt treated as available capital	**282**	348
Insurance contract valuation differences	**99**	142
Deferred tax adjustments	**(44)**	-
Other	**7**	18
Less net eligible own funds relating to ring-fenced funds	**(71)**	(113)
Estimated eligible own funds (excluding ring-fenced funds)	**920**	1,365
RNPFN – eligible own funds	**65**	101
Restriction of own funds in respect of RNPFN	**(35)**	(42)
Teachers – eligible own funds	**6**	12
Restriction of own funds in respect of Teachers	**-**	(3)
Group estimated eligible own funds	**956**	1,433

4. Risk management and control

The Group's primary business activities include the provision of insurance, investment and retirement products to UK-based customers. In providing these products the Group accepts and needs to manage risk. A description of these risks and how they relate to the Group's products is outlined below and the Group's approach to managing and controlling these risks through its governance and risk management framework is set out on page 15 to 20.

As part of its risk management framework, the Group records its current and projected risk position across a defined set of risk categories. In addition a measure of the sensitivity on Profit before tax and Unallocated divisible surplus under both deterministic and stochastic scenarios is performed.

Management uses the insight gained through these sensitivities to help manage the Group's risk exposure and sustainability. The models, scenarios and assumptions used are reviewed regularly and updated as necessary including any interdependencies between risk types.

Risk environment

2022 has been characterised by increasing uncertainty over global macroeconomic growth and inflation prospects. Further detail in relation to this can be found on page 16. Climate change continues to gain increasing focus from regulators and government bodies. Further details in relation to the climate change risks impacting LV= are set out on page 18.

Principal risks and categories

The Risk Management section of the Strategic Report on pages 16 to 20 sets out the principal risks and uncertainties that the Group faces. The Group uses a standard categorisation to combine and assess similar risks. All such risks are subject to the same risk management and control framework. However, they impact the business and its financial performance in different ways. The following sections provide more detail on these main risk categories and how they may impact the Group.

a) Insurance risk

Insurance risk arises from both the claims commitment that the Group has made to its policyholders and the pricing assumptions made in respect of the insurance policies. As such, this covers the following risks:

- The timing and the amount of the claim is uncertain and hence there is a risk that the exposure to loss arising from this claims experience is different to that anticipated.
- The product is priced assuming certain assumptions covering how long the policies will be maintained by the customer (persistency risk) and the cost of administering the product over its life cycle (expense risk). There is a risk that across the Group's insurance portfolio the actual experience is different to previously assumed levels. This is more likely the longer the term of the product.

The Group's insurance activities primarily involve the provision of protection, retirement and savings products. These products are long term in nature and provide key benefits to the policyholder and their dependants.

A number of key assumptions are made when determining the future claims liability that will arise from these policyholder commitments. These are based on prior experience and latest forecasts in trends and patterns and include the future life expectancy and health of policyholders, the extent to which contracts will be terminated early, the extent to which insurance contract administration costs may increase and growth in the value of investments, interest rates and tax rates.

Details of insurance contract liabilities and associated valuation assumptions are disclosed in Notes 20 and 25 respectively.

Differences in actual experience versus the previous assumptions will give rise to liabilities that differ from those previously anticipated. In addition the assumptions made regarding the length of time the policy stays in force and the cost of administering the policy may vary from original assumptions. Wherever these outcomes vary from the original or most recent estimates they may give rise to a change in life insurance risk exposure. The primary life insurance risks prevalent within the Group's products are described below.

Mortality, longevity and morbidity

Life protection and annuity business is exposed to changes in life expectancy (mortality - reduced life expectancy, longevity – increased life expectancy) and health expectancy (morbidity) experience.

Protection product liabilities (with the exception of Lifetime+) are exposed to mortality and morbidity risks whereby higher mortality rates and adverse morbidity will lead to increases in contract liabilities. Protection Lifetime+ and Annuity product liabilities are exposed to longevity risk whereby contract liabilities will increase with life expectancy.

Mortality, longevity and morbidity risk is managed in the Group through the assessment of the risk associated with individual policyholders against a set of acceptance (underwriting) criteria, which may include an individual's medical history, occupation, smoking and drinking habits (i.e. indicators of life expectancy). The actual experience of policyholders is then regularly monitored to assess that the underwriting criteria remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite. A large amount of this risk is managed via the use of reinsurance.

Persistency

In pricing life insurance business, the Group makes assumptions as to how long the policyholder is likely to retain the product. Persistency risk arises from the actual experience being different to the assumptions. The level of persistency influences the ability to recover initial costs of sale from the premiums and charges that relate to the product. The Group is exposed to persistency risk whereby the profitability can be adversely impacted by changes in the length of time that policies remain in force.

For certain Heritage products the level of persistency influences the estimated cost of guarantees and options. The risk for these products is that a larger proportion of the portfolio remains in-force to take advantage of these guarantees and options.

Persistency risk is managed in the Group through the assessment of the risk associated with different products against the assumptions used when pricing and subsequently valuing the insurance obligations. The actual lapse experience segmented into appropriate product groups is regularly monitored to assess whether the pricing and valuation assumptions remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite.

4. Risk management and control (continued)

Cash take-up

In pricing life insurance business, the Group makes assumptions as to how many policyholders are likely to take the lump-sum cash option at retirement. Cash take-up risk arises from the actual experience being different to the assumptions. The assumed level of cash take-up influences the future cost of the product, for example the cost of paying a guaranteed annuity income for life is more onerous than the lump-sum cash at retirement option.

Cash take-up risk is managed in the Group through the assessment of the risk associated with different products against the assumptions used when pricing and subsequently valuing the insurance obligations. The actual cash take-up experience, segmented into appropriate product groups, is regularly monitored to assess whether the pricing and valuation assumptions remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite.

Expense

In pricing life insurance business, assumptions are made as to how long the Group will need to continue to service and maintain the product and communicate with the policyholder. The Group is exposed to the risk that the charges it deducts from policyholder benefits or the costs which were assumed in pricing protection and annuity products are not sufficient to cover the full extent of these expenses. In addition, the Group makes an assumption as to how much this service and maintenance will cost each year. Expense risk is the exposure from the most recent assumptions on cost and duration varying from the previous assumed levels, with higher than expected expenses reducing profits.

The Group manages this risk through an ongoing assessment of the factors that will generate additional expenses in the product servicing costs and the average duration of life insurance products.

Reinsurance

In order to mitigate the mortality, longevity and morbidity risk within the Group's life insurance book described earlier, a material proportion of mortality, and morbidity risk on protection business and longevity risk on annuity business is transferred via reinsurance agreements. The most material counterparties are leading global reinsurers Pacific Life Re, Gen Re and RGA.

In addition, longevity risk on pensioners within the main staff pension scheme is reinsured via a buy-in contract with Phoenix.

Insurance concentration risk

The Group is not exposed to significant concentrations of insurance risk. Experience shows that the larger the portfolio of similar independent insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group writes a diverse mix of life insurance business across a wide group of people and businesses. However, as the Group has substantially written all of its business in the UK, results are sensitive to demographic and economic changes arising in the UK.

The Group minimises the level of insurance concentration through the use of portfolio analysis and reinsurance. The Group's exposure to life insurance risk is captured in the long-term insurance and investment contract liabilities set out below. The products listed below cover the Group's protection, annuity and pensions products and also the investment exposure arising from the Group's savings, pensions, retirement and investment products. The Company's exposure to life insurance risk is consistent with that of the Group.

	2022			2021		
Group	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Whole life	**3,267**	**(53)**	**3,214**	3,785	(17)	3,768
Endowment	**163**	**-**	**163**	231	-	231
Term Assurance	**505**	**(613)**	**(108)**	609	(690)	(81)
Immediate and deferred annuity contracts	**2,816**	**(526)**	**2,290**	3,977	(868)	3,109
UWP pensions and protected retirement plans	**1,326**	**-**	**1,326**	1,431	-	1,431
Critical illness	**65**	**(74)**	**(9)**	108	(92)	16
Income protection	**(12)**	**(92)**	**(104)**	174	(242)	(68)
Legacy WP ISA	**159**	**-**	**159**	120	-	120
Other	**92**	**-**	**92**	140	-	140
	8,381	**(1,358)**	**7,023**	10,575	(1,909)	8,666
Long-term claims liabilities	**122**	**-**	**122**	116	-	116
Unit linked	**3,415**	**-**	**3,415**	4,338	-	4,338
	11,918	**(1,358)**	**10,560**	15,029	(1,909)	13,120

4. Risk management and control (continued)

Life insurance risk sensitivities

The table below sets out the impact on Profit before tax and mutual/exit bonus and the Unallocated divisible surplus of reasonably possible movements in key assumptions. The Company's exposure to life insurance risk is materially consistent with that of the Group.

Sensitivity analysis for the change in assumptions used in long-term insurance and investment contract liabilities	Impact on Profit before tax and mutual/exit bonus 2022 £m	2021 £m	Impact on the Unallocated divisible surplus 2022 £m	2021 £m
Increase in mortality rates by 5% – Non annuity products	**(3)**	(4)	**(3)**	(4)
Decrease in mortality rates by 5% – Annuity products	**(9)**	(14)	**(9)**	(14)
Increase in morbidity rates by 5%	**(9)**	(12)	**(9)**	(12)
Increase in persistency by 10%	**15**	10	**15**	10
Decrease in OB pensions cash take-up rates by 50%	**(34)**	(77)	**(34)**	(77)
Increase in expenses by 10%	**(44)**	(47)	**(44)**	(47)

The sensitivities above are performed on our insurance and investment contract liabilities net of re-insurance. They do not generally include the potential impacts on financial assets as the impacts are not material.

The impact of an adverse or favourable movement in the assumptions is largely symmetric. The persistency sensitivity is performed as stresses to the persistency assumptions proportionally for all products and therefore implicitly allows for offsets between products exposed to different directional sensitivities.

b) Financial markets risk

As a result of the insurance, investment and retirement products offered to policyholders the Group is exposed to financial markets through the investment of premiums and investment lump sums in various investment assets such as equities, gilts, corporate bonds and property.

Financial markets risk is defined as the risk that arises from adverse fluctuations or increased volatility in asset values, asset income or interest rates. This includes credit spread widening. The Group manages these risks through aligning the investment strategy, asset allocation and performance benchmarks with the Group's risk appetite and utilising asset liability matching and stochastic modelling techniques. These actions aim to match the risks arising from the liabilities under the Group's insurance and investment contracts with the risks inherent in its assets and seek to ensure there is sufficient capital available such that the Group is able to meet policyholder commitments when they fall due and to achieve a sufficient return for members.

Inflation risk arises when there is an inflationary mismatch between the assets and liabilities. This mainly arises due to inflation-linked benefit payments and maintenance expenses. The Group manages this risk through hedging using the same calculation methodology and techniques as the hedging strategy for interest rate exposures.

In addition to the actions summarised above, the Group may also look to use derivative instruments particularly to assist in hedging policyholder guaranteed options and, where cost effective, to transfer risks it believes are either unrewarded or which it believes can be better managed by a third party. For example, derivatives are used to reduce exposure to fluctuations in interest rates, exchange rates and for efficient portfolio management purposes. The main derivatives used for this function are interest rate contracts (including interest rate swaps), forward foreign exchange contracts and equity derivatives (index futures and options) respectively. The Group does not hold derivatives for investment purposes, they are held purely as a risk management technique to manage financial market risk exposures within its investment holdings (see Note 15 on how these are used).

The investment management agreement between the Group and Columbia Threadneedle Investments specifies the limits for holdings in certain asset categories and currencies. Asset allocation and performance benchmarks are set, which ensure that each fund has an appropriate mix of assets and is not over or under exposed to a particular asset category, currency or specific investment relative to its risk appetite. The Investment team monitors the actual asset allocation and performance against benchmarks with oversight provided by the Asset and Liability Committee (ALCO) and the Investment Committee.

The Group is not exposed to significant financial markets risk in respect of assets held to cover unit linked liabilities as these risks are borne by the holders of the contracts concerned, except to the extent that income from the fund based management charges levied on these contracts varies directly with the value of the underlying assets and where policyholder smoothing and guarantees exist on Smooth Managed Fund policies. Where appropriate the Group manages this exposure via internal and external hedging arrangements.

The key types of financial markets risk to which the Group is exposed are set out in more detail in the following paragraphs. Sensitivities to key market risks are shown on page 85.

(i) Asset performance risk

Asset performance risk is the risk that the fair value or future cash flows of an asset or liability will fluctuate because of changes in market prices, other than those arising from interest rate or currency risks.

The Group is primarily exposed to asset performance risk arising from its investment in equities, property, gilts and corporate bonds.

Equity price risk

The Group is exposed to equity price risk from daily fluctuations in the market values of the equity portfolio. These assets are used to support contractual liabilities arising from investment and long-term insurance contracts. For investment and long-term linked insurance contracts the price movements are matched with corresponding movements in contractual obligations except where policyholder smoothing and guarantees exist on SMF policies. For participating insurance contracts the aim is to achieve growth in excess of the obligations. Decreases in the market price of equities will negatively impact the profits and capital of the Group. The risks from investing in equities are managed by investing in a diverse portfolio of high quality securities ensuring that holdings are diversified across industries and geographies, and concentrations in any one company or industry are limited by parameters established by the Investment Committee. In addition, the Group may use derivatives to reduce the level of equity price risk.

4. Risk management and control (continued)

Property price risk

The Group is subject to property price risk due to its exposure to the residential and commercial property market through its equity release and commercial mortgage products, where sustained underperformance in property prices could result in proceeds on sale being exceeded by the mortgage debt at the date of redemption (see Note 14 for disclosures relating to loans secured on residential and commercial property). This risk is managed through limits on the maximum loan to value ratio and seeking to limit concentrations in particular geographic areas. Monitoring of actual experience in house prices versus expected is also undertaken.

In addition, the Group is exposed to property price risk from property investments held to support contractual liabilities arising from investment and long-term insurance contracts. For investment and long-term linked insurance contracts the price movements are matched with corresponding movements in contractual obligations. For participating insurance contracts the aim is to achieve growth in excess of the obligations. The risks from investing in property are managed by investing in a diverse portfolio of high quality properties ensuring that holdings are diversified across sector and location.

Corporate bond price risk (Credit spread risk)

The credit spread risk represents the risk of adverse fluctuation in the values of assets and liabilities due to changes in the level of corporate bond credit spreads.

A widening in credit spreads, over and above risk-free yields, causes bond values to decrease. There is a partial offset where the value of certain insurance liabilities fall in value but the overall impact on IFRS profits is negative. Conversely a narrowing of credit spreads results in a positive impact on IFRS profits. The Group monitors credit spread risk by regularly reviewing its exposure to corporate bonds by sector (e.g. financial or non-financial), credit rating and duration and through its asset and liability matching tools.

(ii) Interest rate risk

Interest rate risk is the risk that the Group is exposed to lower returns or loss as a direct or indirect result of fluctuations in the value of specific assets and liabilities arising from changes in underlying interest rates.

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of products sold by the Group have features that influence the Group's exposure to interest rate risk. These features include guaranteed surrender values, guaranteed annuity options and minimum surrender and maturity values, which can lead to the present value of claims being higher than the value of the backing assets when interest rates change.

The Group manages interest rate risk by investing in fixed income securities which closely match the interest rate sensitivity of the liabilities (using an internal view of the exposure), where such investments are available. The Group also makes use of derivatives in addition to physically held assets to manage the interest rate exposure resulting from the liabilities. These derivatives are principally interest rate swaps and gilt forward contracts. The Group also considers its exposure on both an IFRS basis and a regulatory capital basis under Solvency II.

Exposure to interest rate risk is monitored using several techniques, including scenario testing, stress testing and asset liability duration control.

(iii) Investment concentration

Investment concentration risk arises through exposure to particular asset types, geographical markets, industry sectors, groups of business undertakings or similar activities. The Group may suffer losses in the investment portfolio as a result of over exposure to particular sectors engaged in similar activities or similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political and other conditions. The Group's trading activities are UK-based and associated insurance and investment contract liabilities are impacted by the UK marketplace and hence there is a high concentration in corresponding matching UK investment assets.

The Group invests in a portfolio of assets and seeks to maximise portfolio expected return for a given amount of portfolio risk, or equivalently minimise risk for a given level of expected return, by carefully choosing the proportions of various assets. The Investment Committee sets the Group's investment strategy and recommends to the Board the policy and limits required. Responsibility for implementation is delegated to the chief investment officer, with day-to-day investment activities being undertaken by the Group's investment manager, Columbia Threadneedle Investments.

The Investment team monitors the actual asset allocation and performance against benchmarks with oversight provided by ALCO and the Investment Committee.

(iv) Foreign currency risk

The Group predominantly operates within the UK and is therefore not significantly exposed to currency exposures within its normal trading activities. However, the Group's investment strategy and policies allow for a limited level of investment in overseas markets, via both equities and fixed interest securities. The main currency exposures here are to the Euro and US dollar and a large percentage of the exposure is hedged back to GBP.

The risk to the Group is that the fair value or future cash flows of an overseas investment asset will change as a result of changes in foreign exchange rates. Residual currency risk is managed by the use of exposure limits and authorisation controls operated within the Group's Risk Management Framework.

The table below summarises the Group's exposure, after hedging, to foreign currency exchange risk in sterling.

	2022			2021		
	Euro £m	US Dollar £m	Total £m	Euro £m	US Dollar £m	Total £m
Derivatives	**(161)**	**(669)**	**(830)**	(205)	(835)	(1 040)
Equity securities	**-**	**87**	**87**	-	193	193
Debt securities	**151**	**800**	**951**	205	875	1 080
Cash and cash equivalents	**-**	**3**	**3**	1	9	10
	(10)	**221**	**211**	1	242	243

4. Risk management and control (continued)

(iv) Foreign currency risk (continued)

A strengthening of the value of sterling against the foreign currency (increase in exchange rates), in which the investment asset is denominated, will lead to a devaluation of the asset value and any associated income flows. A weakening of the value of sterling against the foreign currency will have the reverse impact.

The sensitivity of investment assets to a 10% increase/decrease in Euro and US Dollar exchange rates, net of derivatives, is £(1)m (2021: £nil) and £22m (2021: £24m) respectively. In determining the percentage rates to use in this sensitivity the movements in the actual market rates of Euro and US Dollars during 2022 were taken into account. The above table incorporates all material currency risk to Profit before tax. Therefore, a 10% increase/decrease across all currencies could impact Profit before tax by up to £21m (2021: £24m).

Some foreign debt securities are denominated in sterling so bear no direct currency risk and have not been included within the preceding table.

(v) Summary of market risk sensitivities

The table below sets out the impact on Profit before tax and mutual/exit bonus and the Unallocated divisible surplus net of the impact on derivatives for movements in sectors of the market that the Group is invested in including equity release mortgages, but excluding the Group's defined benefit pension schemes. Explanations of the movements are provided below. The Company's exposure to market risk is materially consistent with that of the Group.

In determining the percentage rates to use in the sensitivity analysis reference has been made to those used for internal reporting within the Group. Where sensitivities have not been produced in both directions, the impact of the sensitivity in the other direction is materially consistent with the sensitivity provided.

	2022		2021	
Sensitivity analysis to movements in key market sectors	**Impact on profit before tax and mutual/exit bonus £m**	**Impact on the Unallocated divisible surplus £m**	Impact on profit before tax and mutual/exit bonus £m	Impact on the Unallocated divisible surplus £m
Equity values fall by 20%	**(54)**	**(19)**	(118)	(72)
Property values fall by 12.5%	**(8)**	**(5)**	(7)	(3)
Credit spreads increase by 100bps relative to swap yields	**(53)**	**(48)**	(94)	(86)
Government Bond spreads increase by 50bps relative to swap yields	**(7)**	**(3)**	(29)	(22)
Fixed interest yields fall by 50bps	**n/a**	**n/a**	14	1
Fixed interest yields fall by 100bps	**(12)**	**(27)**	n/a	n/a
Fixed interest yields increase by 100bps	**8**	**20**	(35)	(12)
Inflation increases by 50bps	**0**	**(0)**	n/a	n/a

The table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In practice there may be dependencies between the underlying risks. It should also be noted that the impact on the unallocated divisible surplus from changes in these assumptions may not be linear as implied by these results. The fixed interest yields sensitivity has been adjusted for 2022 to demonstrate a reasonably possible fall. Larger or smaller impacts should not be interpolated or extrapolated from these results.

The Group interest rate hedging strategy is defined relative to the Solvency II post-TMTP position, including relevant portions of the capital requirements. In particular the assets used to hedge the regulatory capital requirement exposure to interest rates materially affect the interest sensitivity on an IFRS basis, with no offsetting capital movement to counteract the movements in the assets. The effectiveness of the hedging strategy is monitored by ALCO and rebalanced where necessary.

A number of changes to exposure are seen since last year

- Funds previously invested in asset share to hedge future bonus distributions have been disinvested to better stabilise the absolute value of future member bonuses. This drives the reduction in equity exposure.
- The significant rise in interest rates over 2022 has led to falls in the value and the duration of fixed interest assets. This reduced their sensitivity to subsequent changes in credit and gilt spreads.
- The sensitivity to changes in the risk-free rate has changed. There is a reduction, primarily due to changes in the approach to hedging the Solvency II capital requirements, together with smaller impacts driven mostly by the rise in risk free rates over 2022
- A sensitivity to inflation has been included in the 2022 suite of sensitivities. This is a stress applied to inflation at all durations, and as a result the stress level has been set with reference to observed movements in longer-term inflation expectations rather than referencing the larger movements in short-term inflation experienced over 2022.

Asset values and, where appropriate, asset share changes are reflected in each sensitivity. With-profits future policy related liabilities are recalculated using these revised values and, where appropriate, economic scenarios generated by an asset model calibrated to the revised risk-free rate.

4. Risk management and control (continued)

(vi) Fair value estimation

The following fair value estimation tables present the Group's and Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2022.

Level 1 – quoted prices

The fair value of financial instruments included in the Level 1 category is based on the value within the bid-ask spread that is most representative of fair value quoted in an active market at the year-end date. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – observable inputs

Level 2 financial instruments are not traded in an active market and their fair value is determined using valuation techniques. These valuation techniques maximise the use of data from observable current market transactions (where it is available) using pricing obtained via pricing services, even where the market is not active. It also includes financial assets with prices based on broker quotes.

Specific valuation techniques used to value financial instruments classified as Level 2 include:

- Derivatives are valued by discounted cash flow techniques, using observable yield curves and models such as Black Scholes using implied market forward rates and volatilities.
- Units in listed investment funds are valued using quoted prices from external pricing services.
- Debt securities are valued using quoted prices from external pricing services.
- Non-participating investment contract liabilities are valued *on a basis consistent with the underlying assets in the* investment fund.

Level 3 – significant unobservable inputs

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments and other financial investments held at fair value classified as Level 3 include:

- Private equity holdings are valued on a net asset value basis using unobservable external unit prices factoring in distributions or calls since the latest valuations. The private equity valuations are reviewed regularly to ensure ongoing validity and accuracy.
- The fair value of the loans secured on residential property is determined using discounted cash flow projections. The expected value of redemptions is estimated based on the assumed prepayments over future time periods (months), mortality and long-term care entry rates including any early redemption charges. The expected redemptions are discounted at swap rates plus spread plus allowances for risk factors, liquidity and profit deferral. The full swap curve is used so each discount rate is matched to the appropriate cash flow. The risk factors in the discount rate are an allowance for the 'No Negative Equity Guarantee' provided to the policyholder with the loan, the value of which depends on the projection of the underlying property value and how this compares to the projected loan value (see Note 14 for further details). The assumptions used for prepayment, mortality and long-term care are based on the experience of the in-force book supported by industry data. The valuation is performed by the Investment solutions team and reviewed by a qualified Actuary. The assumptions are set by the Board upon recommendation by the Audit Committee.
- Loans secured on commercial property are valued using discounted cash flows to reflect changes in underlying gilt yields, discount spreads and debt margins. There are two factors used to create the discount rate that is used to value the loans secured on commercial property. Firstly, the prevailing gilt rate at point of valuation which is fully market observable. Secondly, the credit spread which is based on the managers' expectation of the level that they would price the loan at if it were funding in the market at that point in time. The managers base their assessment of the spread on comparable loans they fund in the market and considerations specific to the funded asset or the sponsor.

There were no changes to the valuation techniques during the year. There were no transfers between Levels 1 and 2 during the year.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

The valuation of all of the Group's investment holdings is performed by independent and qualified valuers.

Any changes to fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income with the exception of Investment contract liabilities where the movement is recognised within the Gross change in contract liabilities. Details of these gains/losses are disclosed within Notes 7 and 23 respectively.

4. Risk management and control (continued)

Group	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total fair value £m	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	10	-	10	-	58	-	58
Gilt forwards	-	-	-	-	-	9	-	9
Forward exchange contracts	-	-	-	-	-	15	-	15
Interest rate futures	2	-	-	2	-	1	-	1
Bond futures	1	-	-	1	-	1	-	1
	3	10	-	13	-	84	-	84
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	255	6,318	-	6,573	304	7,860	-	8,164
– UK unlisted	-	-	50	50	-	-	59	59
– Overseas listed	84	-	-	84	192	-	-	192
– Overseas unlisted	-	-	9	9	-	-	16	16
Debt and other fixed income securities								
– UK listed	317	1,495	-	1,812	483	1,892	-	2,375
– Overseas listed	17	1,676	-	1,693	22	2,042	-	2,064
Loans secured on residential property	-	-	394	394	-	-	532	532
Loans secured on commercial property	-	-	398	398	-	-	395	395
	673	9,489	851	11,013	1,001	11,794	1,002	13,797
	676	9,499	851	11,026	1,001	11,878	1,002	13,881
Financial liabilities								
Non-participating investment contract liabilities	-	3,415	-	3,415	-	4,134	-	4,134
Derivative financial instruments								
Cash flow swaps	-	201	-	201	-	194	-	194
Interest rate swaps	-	7	-	7	-	-	-	-
Gilt forwards	-	3	-	3	-	1	-	1
Equity/index derivatives	-	-	-	-	2	-	-	2
Forward exchange contracts	-	18	-	18	-	-	-	-
	-	229	-	229	2	195	-	197
	-	3,644	-	3,644	2	4,329	-	4,331

4. Risk management and control (continued)

Company	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total fair value £m	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	10	-	10	-	58	-	58
Gilt forwards	-	-	-	-	-	9	-	9
Forward exchange contracts	-	-	-	-	-	15	-	15
Interest rate futures	2	-	-	2	-	1	-	1
Bond futures	1	-	-	1	-	1	-	1
	3	10	-	13	-	84	-	84
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	239	6,272	-	6,511	282	7,858	-	8,140
– UK unlisted	-	-	50	50	-	-	59	59
– Overseas listed	84	-	-	84	192	-	-	192
– Overseas unlisted	-	-	9	9	-	-	16	16
Debt and other fixed income securities								
– UK listed	308	1,357	-	1,665	471	1,509	-	1,980
– Overseas listed	17	1,676	-	1,693	22	2,042	-	2,064
Loans secured on residential property	-	-	394	394	-	-	532	532
Loans secured on commercial property	-	-	398	398	-	-	395	395
	648	9,305	851	10,804	967	11,409	1,002	13,378
	651	9,315	851	10,817	967	11,493	1,002	13,462
Financial liabilities								
Non-participating investment contract liabilities	-	3,415	-	3,415	-	4,134	-	4,134
Derivative financial instruments								
Cash flow swaps	-	201	-	201	-	194	-	194
Interest rate swaps	-	7	-	7	-	-	-	-
Gilt forwards	-	3	-	3	-	1	-	1
Equity/index derivatives	-	-	-	-	2	-	-	2
Forward exchange contracts	-	18	-	18	-	-	-	-
	-	229	-	229	2	195	-	197
	-	3,644	-	3,644	2	4,329	-	4,331

4. Risk management and control (continued)

The table below presents the movements in Level 3 financial instruments for the year ended 31 December 2022.

Group and Company	At 1 January 2022 £m	Total losses recognised through income £m	Purchases £m	Sales £m	At 31 December 2022 £m	Unrealised losses recognised through income in 2022 £m
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	59	(5)	-	(4)	50	(4)
– Overseas unlisted	16	(4)	-	(3)	9	(8)
Loans secured on residential property*	532	(103)	3	(38)	394	(101)
Loans secured on commercial property	395	(52)	71	(16)	398	(52)
	1,002	(164)	74	(61)	851	(165)

Group and Company	At 1 January 2021 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	At 31 December 2021 £m	Unrealised gains/(losses) recognised through income in 2021 £m
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	67	(6)	-	(2)	59	(8)
– Overseas unlisted	19	8	-	(11)	16	-
Loans secured on residential property*	620	(46)	3	(55)	532	(41)
Loans secured on commercial property*	229	(15)	188	(7)	395	(13)
	945	(59)	191	(75)	1,002	(62)

* In relation to Loans secured on residential and commercial property, purchases represent loans advanced and sales represent loans repaid.

4. Risk management and control (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Included below are the significant unobservable inputs that impact the valuation of material level 3 assets and liabilities for the Group, these apply equally to the Company.

Group	Fair value at 31 December 2022 £m	Fair value at 31 December 2021 £m	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	**50**	59	Adjusted net asset method	Net asset value per unit	Could vary significantly due to the range of holdings	The higher the net asset value per unit, the higher the fair value.
				Distributions or calls since last valuation	Could vary significantly due to the range of holdings	The fair value varies on distributions/calls and period since last valuation
– Overseas unlisted	**9**	16	Adjusted net asset method	Net asset value per unit	Could vary significantly due to the range of holdings	The higher the net asset value per unit, the higher the fair value.
				Distributions or calls since last valuation	Could vary significantly due to the range of holdings	The fair value varies on distributions/calls and period since last valuation.
Loans secured on residential property	**394**	532	Discounted cash flow	Spread	Varies based on cohorts of loans	The spread (together with the underlying risk free yield curve) forms the discount rate used to value the cashflows.
				Prepayments	Varies by policy year Min 3.0% - Max 12.9%.	Prepayment rate will determine the profile of expected cashflows.
				Mortality and long-term care assumptions	Annuitant mortality tables are applied, with an uplift for long-term care rates	Mortality and long-term care rate will determine the profile of expected cashflows.
Loans secured on commercial property	**398**	395	Discounted cash flow	Spread	Varies based on cohorts of loans	The spread (together with the underlying gilt rate) forms the discount rate used to value the cashflows.
	851	1,002				

4. Risk management and control (continued)

Sensitivity to changes in unobservable inputs (Level 3)

The only financial instruments which are significantly impacted by reasonably possible changes in unobservable inputs are the loans secured on commercial and residential property. These loans are sensitive to changes in discount rate spread, which includes the profit and liquidity premium as well as the No Negative Equity Guarantee risk allowance for loans secured on residential property. An increase/decrease in the discount rate spread will lead to a decrease/increase in the fair value of the loan respectively.

The impact of reasonably possible alternative assumptions is shown in the table below:

		2022			2021		
		Reasonably possible alternative assumptions			Reasonably possible alternative assumptions		
Description	Unobservable input	Current fair value £m	Increase in fair value £m	Decrease in fair value £m	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Loans secured on residential property	Discount rate +/- 100bps (2021: Discount rate +/- 50bps)	**394**	**28**	**(25)**	532	22	(20)
Loans secured on commercial property	Discount rate +/- 100bps	**398**	**17**	**(16)**	395	n/a	n/a

c) Credit counterparty risk

Credit counterparty risk (credit risk) is defined as the risk of loss if another party defaults on its obligations or fails to perform them in a timely fashion. Exposure to credit counterparty risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty.

The Group is exposed to credit counterparty risk from different sources, firstly within the business activities associated with its insurance, investment and retirement products and secondly in the financial assets held in the Group's investment portfolio.

Credit counterparty risk is managed via a Group policy and risk limits covering aspects such as total exposure, and concentration. Group counterparty exposures are monitored by ALCO, with ultimate oversight of risk being undertaken by the Risk Committee.

(i) Sources of exposure to credit counterparty risk

The main credit counterparty risks within the Group are as follows:

Investment counterparties

The key source of credit risk arises from the assets held in the investment portfolio. The risk is that the investment counterparty enters financial difficulties and the fair value of the asset diminishes or the income stream is not paid or alternatively the counterparty becomes insolvent and the value of the asset is written off.

The investment portfolio contains a range of assets, including equities, corporate bonds and other fixed income securities and cash deposits. The credit counterparty risk policy stipulates that there must be a list of approved counterparties, permitted investments, geographical territories and specific asset class exposure limits. These are implemented within the investment management agreement with Columbia Threadneedle Investments, and risk appetite statements. The agreements also require that asset holdings are within limits that restrict excessive concentrations with individual counterparties or with particular asset classes. In order to minimise its exposure to credit counterparty risk the Group invests primarily in higher graded assets, rated BBB and above. The main exception to this is in the high-yield bond portfolios where lower rated bonds can be held.

In addition, the Group uses derivatives to transfer elements of financial markets risk exposures. Counterparty exposures from over-the-counter derivatives are mitigated by the use of collateral. The fair value of the derivative is matched by collateral received from the counterparty, which increases or reduces in line with the contract's fair value. The collateral can be sold or re-pledged by the Group and is repayable if the contract terminates or the contract's fair value decreases. Details of collateral received and pledged is included within the offsetting disclosure on page 93.

Loans secured on residential and commercial property

Residential (equity release) mortgage loans and commercial mortgage loans are held to match certain insurance obligations. Holding these loans creates an exposure to credit risk from the borrower. This risk is managed by using the property as security against the loan, assessment of the risk and maintaining a low loan to value ratio. While the Covid-19 and latterly the cost of living crisis led to increased uncertainty around the prospects of certain types of commercial property such as those linked to retail or the tourism industries, for new lending LV= exercises strong controls around the types of assets lent against while the performance of existing loans are closely monitored such that covenants can be enacted at appropriate times if required.

Abrdn and AgFe are mandated to originate new commercial mortgages for the Group. They provide expertise to source and underwrite loan prospects within an agreed mandate and perform on-going management of the existing commercial mortgages which they have sourced.

Exposure to 'No Negative Equity Guarantees' (NNEG) on equity release mortgages is limited by low loan to value ratios and the use of third party funders (who have the exposure to this risk) for certain tranches of business. Note 14 provides further disclosure and provisions for NNEG on equity release mortgages. The prevailing higher interest rates, inflation and cost of living crisis may lead to fewer early repayments of residential mortgages and consequentially increased exposure to NNEG. This has been allowed for (determined by expert judgement) when calculating the value of the loans, by using early repayment rates lower than would have been set based purely on recent experience.

Reinsurance counterparties

Reinsurance agreements are entered into to transfer an element of potential insurance risk exposure from contract liabilities. This does not however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a reinsurance claim, the Group remains liable for the payment to the policyholder. To manage this exposure the creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract, which is then regularly reviewed. In addition, under certain contracts collateral is held to manage the counterparty exposure to the reinsurer. At 31 December 2022, £592m of off-balance sheet collateral was held in relation to reinsurance assets (2021: £984m).

4. Risk management and control (continued)

Reinsurance concentration risk

Reinsurance concentration risk is minimised through contracting with a diverse range of reinsurance counterparties with credit ratings within our risk appetite. Reinsurance concentration risk is managed through reviewing the credit rating of reinsurance counterparties and exposure limits.

Insurance receivables

Insurance sales expose the Group to credit risk from policyholders and intermediaries for outstanding premiums. The creditworthiness of the intermediaries is assessed and credit limits are used to manage any potential concentration risk associated with individual counterparties.

No further credit counterparty risk provision is required in excess of the normal provision for doubtful receivables.

(ii) Credit risk exposure

The tables below show the credit profile of the Group's assets. The credit risk profile of the Company is materially consistent with that of the Group.

	Neither past due nor impaired								
Credit risk exposure 2022	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m	Past due but not impaired £m	Total £m
Debt and other fixed income securities	**507**	**1,099**	**1,181**	**715**	**3**	**-**	**3,505**	**n/a**	**3,505**
Loans secured on residential and commercial property	**54**	**28**	**181**	**121**	**7**	**401**	**792**	**n/a**	**792**
Derivative assets	**-**	**-**	**13**	**-**	**-**	**-**	**13**	**n/a**	**13**
Loans and other receivables	**-**	**-**	**24**	**-**	**-**	**37**	**61**	**2**	**63**
Reinsurance assets	**-**	**1,293**	**62**	**-**	**-**	**3**	**1,358**	**-**	**1,358**
Insurance receivables	**-**	**67**	**6**	**-**	**-**	**23**	**96**	**7**	**103**
Cash and cash equivalents	**51**	**83**	**274**	**-**	**19**	**-**	**427**	**n/a**	**427**
	612	**2,570**	**1,741**	**836**	**29**	**464**	**6,252**	**9**	**6,261**

	Neither past due nor impaired								
Credit risk exposure 2021	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m	Past due but not impaired £m	Total £m
Debt and other fixed income securities	649	1,424	1,471	879	16	-	4,439	n/a	4,439
Loans secured on residential and commercial property	34	20	232	96	8	537	927	n/a	927
Derivative assets	-	6	78	-	-	-	84	n/a	84
Loans and other receivables	-	-	7	-	-	39	46	-	46
Reinsurance assets	-	1,903	1	-	-	5	1,909	-	1,909
Insurance receivables	-	81	-	-	-	18	99	2	101
Cash and cash equivalents	17	78	272	-	11	7	385	n/a	385
	700	3,512	2,061	975	35	606	7,889	2	7,891

Impairment

The Group reviews the carrying value of its financial assets held at amortised cost at each Statement of Financial Position date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the Statement of Comprehensive Income.

4. Risk management and control (continued)

(iii) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset in the Statement of Financial Position when the Group intends to apply a current legally enforceable right to offset. Master netting arrangements and collateral are utilised by the Group to minimise credit risk exposure.

The following financial assets and liabilities of the Group are subject to offsetting, enforceable master netting arrangements and similar agreements. LVFS's exposure to credit risk associated with offsetting is materially consistent with that of the Group.

An analysis is included of netting arrangements which meet the offsetting criteria within IAS 32 and are set off in the Statement of Financial Position and related amounts which do not meet the criteria.

	Amounts recognised in the Statement of Financial Position			Related amounts not set off in the Statement of Financial Position		
As at 31 December 2022	Gross amount £m	Amounts offset £m	Net amount £m	Financial Instruments* £m	Collateral pledged/ (received) £m	Net amount £m
Financial assets						
Derivative financial assets	936	(923)	13	-	(4)	9
	936	(923)	13	-	(4)	9
Financial liabilities						
Derivative financial liabilities	(1,152)	923	(229)	-	222	(7)
Bank overdrafts	(23)	10	(13)	-	-	(13)
	(1,175)	933	(242)	-	222	(20)

	Amounts recognised in the Statement of Financial Position			Related amounts not set off in the Statement of Financial Position		
As at 31 December 2021	Gross amount £m	Amounts offset £m	Net amount £m	Financial Instruments* £m	Collateral pledged/(received) £m	Net amount £m
Financial assets						
Derivative financial assets	1,126	(1,042)	84	(1)	(74)	9
	1,126	(1,042)	84	(1)	(74)	9
Financial liabilities						
Derivative financial liabilities	(1,239)	1,042	(197)	1	194	(2)
Bank overdrafts	(32)	30	(2)	-	-	(2)
	(1,271)	1,072	(199)	1	194	(4)

* Collateral requirements arising from derivatives between LVFS and its counterparties are managed on a net basis.

In accordance with IFRS 7 the collateral reported in the table above is limited to the amount reported in the Statement of Financial Position for the associated financial instrument.

Total collateral held by the Group in relation to derivative financial assets is £4m (2021: £74m) and is split between cash collateral received of £3m (2021: £66m) and cash collateral held by a third party of £1m (2021: £8m). No collateral received from the counterparty has been sold or repledged (2021: £nil).

Total collateral pledged by the Group is £225m (2021: £201m) and is split between corporate bonds pledged in relation to cash flow swaps of £142m (2021: £179m), collateral in relation to cross currency swaps £59m (2021: £15m), future margin of cash of £4m (2021: £7m) and cash collateral paid of £20m (2021: £nil).

Collateral posted to LV= by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association (ISDA) agreement. This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex. Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the Group.

4. Risk management and control (continued)

d) Liquidity risk

Liquidity risk is the risk that the Group cannot make payments as they become due because there are insufficient assets in cash form, or in a form that can be converted to cash in a timely fashion at close to fair market value.

The Group encounters potential liquidity risk exposures from its different business activities. It principally arises from its insurance and investment contracts and the timing of the associated policyholder commitments. Increased liquidity demands can arise from events such as higher instances of death/sickness claims or mass surrenders/lapses of policies. In addition, where the Group uses derivatives to manage financial market risks it creates an additional liquidity risk due to the need to post collateral under certain scenarios.

Liquidity risk is managed in line with the board risk appetite which requires that sufficient liquid resources are maintained to cover net cash outflows under stressed conditions. Assets identified for liquidity purposes are classified as primary liquid assets (realisable over a very short time horizon even in stressed conditions) and secondary liquid assets (realisable over a short to medium-term time horizon). Liquidity metrics are monitored at least monthly by ALCO.

Liquidity risk exposures are managed using several methods and techniques, which include:

- Management of a liquidity stock metric which identifies assets available to meet liquidity demands and assets which are classified as 'primary' and 'secondary' liquid assets;
- Policyholder sub-funds are cash-flow/duration matched as appropriate and monitored regularly;
- Two liquidity adequacy tests are performed against the liquidity stock, one short-term and one long-term. The short-term adequacy test is assessed against the primary liquidity stock while the long-term adequacy test is assessed against the sum of primary and secondary liquidity. The short-term adequacy test is scenario based and calibrated to ensure the Group has sufficient liquid assets to withstand a 1-2 month period of adverse strain while maintaining its normal business activities. The long-term liquidity adequacy test uses a comparable methodology to determining the Solvency II Solvency Capital Requirement, with adjustments made such that the stresses are appropriate for liquidity.
- The liquidity adequacy tests allow for the liquidity commitments of the business plan and a liquidity risk management options catalogue is maintained to ensure suitable options are available should action need to be taken to restore liquidity within risk appetite; and
- The proportion of illiquid assets held is monitored regularly against board approved thresholds.

The table below summarises the maturity profile of the financial and insurance related assets of the Group and the Company.

	Group			Company		
Maturity profile of assets 2022	**Within 1 year £m**	**Over 1 year £m**	**Total £m**	**Within 1 year £m**	**Over 1 year £m**	**Total £m**
Reinsurance assets	-	**1,358**	**1,358**	-	**1,358**	**1,358**
Prepayments and accrued interest	**60**	-	**60**	**56**	-	**56**
Loans and other receivables	**63**	-	**63**	**69**	-	**69**
Insurance receivables	**74**	**29**	**103**	**74**	**29**	**103**
Financial assets at fair value through income	**7,270**	**3,743**	**11,013**	**7,070**	**3,734**	**10,804**
Derivative financial instruments	**3**	**10**	**13**	**3**	**10**	**13**
Cash and cash equivalents	**427**	-	**427**	**355**	-	**355**
	7,897	**5,140**	**13,037**	**7,627**	**5,131**	**12,758**

	Group			Company		
Maturity profile of assets 2021	Within 1 year £m	Over 1 year £m	Total £m	Within 1 year £m	Over 1 year £m	Total £m
Reinsurance assets	-	1,909	1,909	-	1,909	1,909
Prepayments and accrued interest	62	-	62	57	-	57
Loans and other receivables	46	-	46	50	-	50
Insurance receivables	67	34	101	67	34	101
Financial assets at fair value through income	8,924	4,873	13,797	8,517	4,861	13,378
Derivative financial instruments	26	58	84	26	58	84
Cash and cash equivalents	385	-	385	207	-	207
	9,510	5,874	16,384	8,924	6,862	15,786

4. Risk management and control (continued)

The tables below summarise the maturity profile of insurance contracts and financial liabilities of the Group and the Company. The Unallocated divisible surplus represents a surplus for which the allocation between participating policyholders has yet to be determined and has therefore been excluded from the table below.

As permitted by IFRS 4, the maturity profiles for insurance and participating investment contracts are presented based on the estimated timing of the amounts recognised in the Statement of Financial Position.

The remaining financial liabilities are presented based on the undiscounted contractual obligations and as such will not tie into the balances disclosed within the Statement of Financial Position. Non-participating investment contract liabilities, accounted for in accordance with IAS 39, can be called upon immediately by the policyholder and are therefore presented as 'on demand'.

Group Maturity profile of financial, insurance and investment contract liabilities 2022	Unit-linked (on demand) [2] £m	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
Participating insurance contract liabilities	-	470	735	589	2,653	4,447
Participating investment contract liabilities	-	81	71	64	418	634
Non-participating value of in-force business	(62)	(14)	(28)	(24)	(128)	(256)
Non-participating insurance contract liabilities	-	361	502	415	2,144	3,422
Non-participating investment contract liabilities	3,415	-	-	-	-	3,415
Total insurance and investment contract liabilities	3,353	898	1,280	1,044	5,087	11,662
Financial liabilities						
– Derivative financial instruments	-	32	29	44	228	333
– Subordinated liabilities	-	-	-	-	350	350
– Other financial liabilities	-	-	-	-	6	6
Insurance payables	-	45	-	-	-	45
Trade and other payables						
– Lease liabilities	-	2	4	4	19	29
– Other trade and other payables	-	139	-	-	-	139
	3,353	1,116	1,313	1,092	5,690	12,564

Group Maturity profile of financial, insurance and investment contract liabilities 2021	Unit-linked (on demand) £m	Within 1 year £m	1-3 years £m	3-5 years £m	Over 5 years £m	Total £m
Participating insurance contract liabilities	-	505	817	692	3,441	5,445
Participating investment contract liabilities	-	80	88	74	544	786
Non-participating value of in-force business	(81)	(19)	(34)	(28)	(188)	(350)
Non-participating insurance contract liabilities	204	319	523	441	3,177	4,664
Non-participating investment contract liabilities	4,134	-	-	-	-	4,134
Total insurance and investment contract liabilities	4,257	885	1,394	1,169	6,974	14,679
Financial liabilities						
– Derivative financial instruments	-	10	37	40	176	263
– Subordinated liabilities [1]	-	-	-	-	350	350
– Other financial liabilities	-	10	-	-	66	76
Insurance payables	-	54	-	-	-	54
Trade and other payables						
– Lease liabilities	-	2	4	4	21	31
– Other trade and other payables	-	126	-	-	-	126
	4,257	1,087	1,435	1,213	7,587	15,579

1 As at the statement of financial position date, it is not possible to report the maturity of the £350m subordinated debt Notes with certainty. The Notes have a maturity date of 22 May 2043 but the issuer has the option to redeem the Notes at the first call date of 22 May 2023 and annually thereafter up to the maturity date. The Notes' first call date falls shortly after the signing of the financial statements. The Board is currently considering its options in relation to the Notes. The maturity profile of the Notes disclosed in the table has been determined based on the ultimate maturity date, although the Notes could be settled sooner. For consistency the 2021 comparative information has been restated and is presented on the same basis. Further information is disclosed within Note 18.

2 For investment and long term linked insurance contracts (unit linked) the Group matches all the assets on which the unit prices are based with assets in the portfolio. The Group is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due.

4. Risk management and control (continued)

Company Maturity profile of financial, insurance and investment contract liabilities 2022	Unit-linked (on demand) [1]	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities	-	470	735	589	2,653	4,447
Participating investment contract liabilities	-	81	71	64	418	634
Non-participating value of in-force business	(62)	(14)	(28)	(24)	(128)	(256)
Non-participating insurance contract liabilities	-	361	501	414	2,137	3,413
Non-participating investment contract liabilities	3,415	-	-	-	-	3,415
Total insurance and investment contract liabilities	3,353	898	1,279	1,043	5,080	11,653
Financial liabilities						
– Derivative financial instruments	-	30	29	44	228	331
– Subordinated liabilities [2]	-	-	-	-	350	350
– Other financial liabilities	-	-	-	-	6	6
Insurance payables	-	45	-	-	-	45
Trade and other payables						
– Lease liabilities	-	1	1	1	-	3
– Other trade and other payables	-	131	-	-	-	131
	3,353	1,105	1,309	1,088	5,664	12,519

Company Maturity profile of financial, insurance and investment contract liabilities 2021	Unit-linked (on demand)	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities	-	505	817	682	3,441	5,445
Participating investment contract liabilities	-	80	88	74	544	786
Non-participating value of in-force business	(81)	(19)	(34)	(28)	(188)	(350)
Non-participating insurance contract liabilities	204	319	522	440	3,166	4,651
Non-participating investment contract liabilities	4,134	-	-	-	-	4,134
Total insurance and investment contract liabilities	4,257	885	1,393	1,168	6,963	14,665
Financial liabilities						
– Derivative financial instruments	-	10	37	40	176	263
– Subordinated liabilities	-	-	-	-	350	350
– Other financial liabilities	-	10	-	-	66	76
Insurance payables	-	49	-	-	-	49
Trade and other payables						
– Lease liabilities	-	1	1	2	-	4
– Other trade and other payables	-	125	-	-	-	125
	4,257	1,080	1,431	1,210	7,555	15,533

e) Operational risk

Operational risk is defined as the potential for loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in every part of the business and covers a wide spectrum of issues, including operational failures, management stretch, cyber risk and emerging areas of operational risk such as future business interruption events risk (see page 17). Senior management are responsible for ensuring that the material operational risks as relevant to their area of responsibilities are identified, assessed and managed using the approach as outlined in the LV= Risk Management Framework. A formal internal attestation process provides assurance about the effectiveness of the overall control environment and reports on any material exceptions.

LV= is materially exposed to operational failures as a result of the high level of customer service inherent in its business model and reliance on third parties, for example reinsurers, asset managers, technology suppliers and other suppliers. It therefore looks to limit and reduce its exposure to operational risk and does so by establishing a robust control environment and maintaining/enhancing this through a combination of assessment, testing and audit. LV= will always seek to uphold its brand image with customers, employees and other external parties and LV= has no appetite whatsoever for regulatory weaknesses or failings that lead to censure actions.

Performance

The notes included within this section focus on the performance and results of the Group and the Company. Information on the income generated, benefits and claims paid and expenditure incurred are presented here.

5. Net earned premiums

Accounting for net earned premiums

Written premiums include new business premiums plus ongoing regular premiums received for in-force policies. Net earned premiums are arrived at following deduction for premiums ceded to reinsurers.

Premiums ceded to reinsurers are accounted for in the same accounting period as the related premiums for the direct business being reinsured.

Long-term insurance and participating investment contracts

Regular premiums on long-term insurance and participating investment contracts are recognised as income when due for payment. For single premium business, recognition occurs on the date from which the policy is effective. For insurance policies the effective date is the point at which insurance coverage begins and for an investment policy the effective date is the policy commencement date communicated to the policyholder.

Pensions vested into annuity contracts during the year are included as new annuity single premium business at the annuity purchase price. Where periodic premiums are received other than annually, the periodic new business premiums are stated on an annualised basis.

Non-participating investment contracts

Premiums and claims relating to non-participating investment contracts are not recognised in the Statement of Comprehensive Income but are recorded as contributions to and deductions from the non-participating investment contract liabilities recorded in the Statement of Financial Position.

	Group		Company	
	2022	2021	2022	2021
Gross earned premiums	£m	£m	£m	£m
Long-term insurance and participating investment contracts				
Single premium				
Investments and savings	**280**	437	**280**	437
Pensions and annuities	**264**	138	**264**	138
Regular premium				
Investments and savings	**14**	17	**14**	17
Pensions and annuities	**5**	6	**5**	6
Life and health protection	**264**	248	**264**	248
Gross earned premiums	**827**	846	**827**	846
Premiums ceded to reinsurers				
Long-term insurance premiums	**(301)**	(284)	**(301)**	(284)
Net earned premiums	**526**	562	**526**	562
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 17)	**231**	406	**231**	406

All contracts are written in the UK.

6. Investment income

Accounting for investment income

Investment income includes dividends and interest. Dividends are recorded on the date on which the shares are declared ex-dividend. Interest receivable from investments at fair value through income is accounted for on an accruals basis. Interest receivable on loans and receivables is calculated on an effective interest rate basis.

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Income from investments at fair value through income:				
– Dividend income	**79**	73	**79**	73
– Interest income from debt and fixed interest securities	**103**	112	**102**	111
– Interest on loans secured on residential property	**26**	28	**26**	28
– Interest on loans secured on commercial property	**14**	9	**14**	9
Interest on loans and receivables	**1**	-	**1**	-
Dividend income from group undertakings	**-**	-	**320**	186
	223	222	**542**	407

7. Net (losses)/gains on investments

Accounting for net gains/(losses) on investments

Realised gains and losses

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses

Unrealised gains and losses arise on investments held at the Statement of Financial Position date that are classified as fair value through income. Unrealised gains and losses represent the change in valuation of such investments over the period less the reversal of previously recognised unrealised gains and losses associated with investments disposed of in the period.

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Investments at fair value through income:				
– Debt securities	**(872)**	(249)	**(872)**	(248)
– Equity securities	**(1,020)**	605	**(1,020)**	604
– Loans and mortgages	**(152)**	(45)	**(152)**	(45)
Derivative financial instruments	**(149)**	(94)	**(149)**	(94)
Investments in group undertakings	**-**	-	**(323)**	(196)
	(2,193)	217	**(2,516)**	21

Included within net (losses)/gains on investments are realised losses of £167m (2021: realised gains of £303m) for both the Group and the Company.

8. Other income

Accounting for Other income

Other income includes revenue from contracts with customers relating to fee and commission income. Fee and commission income arises from contracts to provide annual asset management services on policyholder investments, contracts whereby the Group acts as an agent for the origination of equity release mortgages and an introducer for insurance products of certain third parties.

Fee and commission income is recognised in the Statement of Comprehensive Income as performance obligations are satisfied, including the provision of asset management services over time and the completion of origination of equity release mortgages. Asset management services are performed on policyholder investments on an ongoing basis over the policy term and this is reflected in the pattern of revenue recognition over time. Fee and commission is settled at the transaction date as asset management charges are levied directly on policy holder asset shares at the contractual rate and commission based on the terms of the equity release mortgage is deducted from the mortgage amount.

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Revenue from contracts with customers				
Asset management charges	**23**	23	**23**	23
Commission	**21**	18	**-**	-
Other fee income	**9**	9	**3**	3
	53	50	**26**	26

9. Net benefits and claims

Accounting for net benefits and claims

Benefits and claims arising on long-term insurance and participating investment contracts include amounts paid to policyholders, claims handling costs and also the change in provision for outstanding claims. Benefits and claims are reported net of expected reinsurance recoveries. Reinsurance recoveries are accounted for in the same period as the related claim and amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Maturity claims and regular annuity payments are accounted for when due for payment. Surrenders are accounted for on the earlier of the date when paid or when the policy ceases to be included within the long-term insurance contract liability. Death claims and other claims are accounted for when the Group is notified. The value of claims on participating contracts includes bonuses paid or payable.

The change in adjustment to reinsurance receivable is the change in fair value of amounts due from reinsurers that are contracted to be settled over an extended period of time (see Note 30).

	2022			2021		
Group	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Long-term insurance and participating investment contracts						
Benefits and claims paid	**1,042**	**(266)**	**776**	965	(263)	702
Change in the provision for claims	**6**	**-**	**6**	5	-	5
Fair value adjustment to reinsurance receivable	**-**	**5**	**5**	-	(9)	(9)
Exit bonus (disclosed separately on the Statement of Comprehensive Income)	**(12)**	**-**	**(12)**	(10)	-	(10)
	1,036	**(261)**	**775**	960	(272)	685
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 17)	**527**	**-**	**527**	403	-	403

	2022			2021		
Company	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Long-term insurance and participating investment contracts						
Benefits and claims paid	**1,042**	**(266)**	**776**	955	(263)	702
Change in the provision for claims	**6**	**-**	**6**	5	-	5
Fair value adjustment to reinsurance receivable	**-**	**5**	**5**	-	(9)	(9)
Exit bonus (disclosed separately on the Statement of Comprehensive Income)	**(12)**	**-**	**(12)**	(10)	-	(10)
	1,036	**(261)**	**775**	960	(272)	688
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 17)	**527**	**-**	**527**	403	-	403

10. Finance costs

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Interest expense on subordinated liabilities (see Note 18)	**23**	23	**23**	23
Other interest expense	**2**	1	**1**	-
	25	24	**24**	23

11. Other operating and administrative expenses

Accounting for other operating and administrative expenses

Other operating and administrative expenses are accounted for as incurred.

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Commission paid on acquisition of business	**83**	76	**74**	67
Amortisation and impairment of intangible assets	**7**	1	**6**	1
Depreciation on property and equipment	**2**	3	**-**	2
Loss/(profit) on disposal of property and equipment	**-**	2	**-**	2
Investment management expenses and charges	**27**	21	**26**	21
Auditors' remuneration (see Note 12)	**1**	1	**1**	1
Employee benefits expense (see Note 37)	**78**	86	**78**	86
Management charge allocated to group undertakings	**-**	-	**(15)**	(12)
Facilities expense	**7**	7	**6**	6
Marketing and advertising	**3**	3	**3**	3
Other staff costs	**11**	9	**11**	9
IT costs	**35**	26	**35**	26
Legal, consultancy and other fees	**22**	34	**21**	32
Customer redress	**-**	20	**-**	20
Other expenses	**4**	5	**4**	5
Claims handling cost recognised in Gross benefits and claims	**(7)**	(11)	**(7)**	(11)
	273	283	**243**	258

12. Auditors' remuneration

	2022 £000	2021 £000
Audit of LVFS	**965**	850
Fees payable to the company's auditors and its associates for other services:		
– Audit of subsidiaries	**65**	70
– Audit-related assurance services	**255**	250
– Other non-audit services not covered above	**10**	110
	1,295	1,280

Audit-related assurance services include the audit of the Solvency II regulatory return for LVFS Group and LVFS Solo.

In addition to the amounts disclosed above, expenses relating to audit work of £nil (2021: £nil) were paid to the auditors.

Financial assets and liabilities

This section presents information relating to the financial assets and liabilities held by the Company and Group. These financial assets and liabilities are held at either fair value through income or amortised cost as defined by the Group's accounting policies.

13. Disclosures associated with the deferral of IFRS 9

As explained in Note 1, the Group and Company have taken the temporary exemption from IFRS 9. In order to facilitate comparison with companies which have adopted IFRS 9, the following disclosures are included regarding the fair value and credit risk associated with financial assets.

Financial assets are grouped into two categories for the purposes of these disclosures:

- Financial assets with cash flows that are Solely Payments of Principal and Interest (SPPI) excluding those categorised as fair value through income (FVTI) due to either being managed on a fair value basis or held for trading.
- All other financial assets

Fair value of financial assets

The fair value at 31 December 2022 and the amount of change in the fair value during the reporting period of the Group and Company's financial assets are as follows.

	Group		Company	
	Fair value		Fair value	
	2022	2021	2022	2021
Financial assets	£m	£m	£m	£m
Financial assets that meet the SPPI criteria and are not valued as FVTI				
Loans and other receivables	**63**	46	**69**	50
Short-term insurance receivables	**74**	67	**74**	67
	137	113	**143**	117
All other financial assets				
Insurance receivables relating to OB pensions annuities held at FVTI	**29**	34	**29**	34
Financial assets at fair value through income	**11,013**	13,797	**10,804**	13,378
Derivative financial instruments, assets net of (liabilities)	**(216)**	(113)	**(216)**	(113)
	10,826	13,718	**10,617**	13,299

* The carrying amount of the financial asset measured applying IAS39 is deemed to be a reasonable approximation of its fair value.

The fair value of Financial assets that meet the SPPI criteria and are not valued as FVTI has increased by £24m for the Group and increased by £26m for the Company during the reporting period. The fair value of All other financial assets has decreased by £2,892m for the Group and decreased by £2,682m for the Company during the reporting period.

Credit risk information for SPPI financial assets

At 31 December 2022, the Group and Company held £24m (2021: £7m) of A rated Loans and receivables respectively with the remaining balances all not rated. Insurance receivables, for both the Group and the Company, include AA rated assets with a carrying value of £42m (2021: £47m), A rated assets with a carrying value of £8m (2021: £nil) with the remaining £24m (2021: £20m) not rated.

14. Financial assets – Fair value through income

Accounting for financial assets and liabilities at fair value through income

Financial assets at fair value through income include financial assets that are held for trading and financial assets that are designated as fair value through income on inception.

Derivatives are classified at fair value through income as they are held for trading (see Note 15). Financial instruments are designated as fair value through income on inception where they are part of a group of financial assets or liabilities that are managed and their performance evaluated and reported to the board on a fair value basis in accordance with the Group's documented investment strategy. These financial instruments are measured at market prices, or prices consistent with market ratings should no price be available. Day one gains are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Financial assets at fair value through income include listed and unlisted investments, units in authorised unit trusts and open ended investment companies (OEICs), loans secured on residential and commercial property.

Financial liabilities at fair value through income include derivative financial instruments and non-participating investment contract liabilities; see Notes 15 and 17 respectively.

The IFRS "fair value hierarchy" levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 4.

Loans secured on residential property

The fair value of loans secured on residential property (arising from the equity release mortgage business) is determined using a discounted cashflow approach. The cashflow profile is calculated by applying the demographic and economic assumptions over the projection period to the initial loan amount rolled forward by the contractual interest. The discount rate is based on the swap yield curve increased by a spread and an allowance for risks associated with the 'No Negative Equity Guarantee'.

The key economic assumptions are the swap yield curve, RPI, future house price inflation (allowing for dilapidation) and its volatility. The key demographic assumptions are early loan repayment rates, mortality rates and long-term care rates.

The loans incorporate a 'No Negative Equity Guarantee' to customers. The contractual terms of these guarantees require the Group to accept the lower of the market value of the customer's property and the value of the loan plus accrued interest at the date of redemption as full settlement of the mortgage. For almost all loans it is expected that the 'No Negative Equity Guarantee' will not be invoked and the value of the loan plus accrued interest will be received.

The fair value of the 'No Negative Equity Guarantee' is determined using a closed form solution and is included in the fair value of the loans through adjusting the discount rate.

The loans secured on residential property within LVFS were purchased from a subsidiary company that is authorised to initiate these loans. This is now a closed book, other than increments added to existing loans. The purchase by LVFS was at origination value plus 7% (which was expensed in LVFS when paid).

Loans secured on commercial property

The fair value of the loans secured on commercial property is determined using discounted cash flows to reflect changes in underlying gilt yields and debt margins. Where the value is not expected to be recovered through ongoing loan payments, the fair value represents the recoverable value of the property net of transaction costs.

Significant accounting estimates

Fair value of financial assets

Financial assets are valued at fair value using market observable inputs wherever possible. Judgement is applied to determine whether a market is active based upon the facts and circumstances of the relevant market. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's-length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

Details of the key assumptions used in the absence of an active market for level 2 and level 3 financial instruments are contained in the fair value estimation tables disclosed in Note 4 b) (vi).

The inputs to level 2 and level 3 valuations are a source of major estimation uncertainty which bears the risk of a material adjustment to the carrying amounts of these financial assets within the next financial year.

14. Financial assets – Fair value through income (continued)

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
– UK listed	**6,573**	8,164	**6,511**	8,140
– UK unlisted	**50**	59	**50**	59
– Overseas listed	**84**	192	**84**	192
– Overseas unlisted	**9**	16	**9**	16
Debt and other fixed income securities				
– UK listed	**1,812**	2,375	**1,665**	1,980
– Overseas listed	**1,693**	2,064	**1,693**	2,064
Loans secured on residential property	**394**	532	**394**	532
Loans secured on commercial property	**398**	395	**398**	395
	11,013	13,797	**10,804**	13,378
Assets held to cover linked liabilities included above	**3,376**	4,360	**3,376**	4,360

15. Derivative financial instruments

Accounting for derivative financial instruments

Derivatives are classified at fair value through income as they are held for trading. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Derivatives are settled on a gross basis.

Changes in the fair value of derivative instruments are recognised immediately in gains or losses on investments in the Statement of Comprehensive Income for the period. Realised gains or losses are taken to the Statement of Comprehensive Income as they occur.

The Group uses derivatives primarily to reduce its exposure to interest rate risk on its Solvency II balance sheet and to protect against fluctuations in equity values. The cash flow swaps improve asset liability matching within the annuity fund and the forward exchange contracts reduce the currency risk of holding overseas assets. There are no designated hedging relationships within the Group.

Group and Company	2022 Contract/ notional amount £m	2022 Fair value – asset £m	2022 Fair value – liability £m	2021 Contract/ notional amount £m	2021 Fair value – asset £m	2021 Fair value – liability £m
Interest rate swaps	**107**	**10**	**(7)**	192	58	-
Gilt forwards	**127**	**-**	**(3)**	259	9	(1)
Cash flow swaps	**1,135**	**-**	**(201)**	1,175	-	(194)
Forward exchange contracts	**813**	**-**	**(18)**	1,056	15	-
Equity/index derivatives	**48**	**-**	**-**	61	-	(2)
Interest rate futures	**49**	**2**	**-**	95	1	-
Bond futures	**66**	**1**	**-**	81	1	-
	2,345	**13**	**(229)**	2,919	84	(197)

16. Loans and other receivables

Accounting for loans and other receivables

Loans and other receivables are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method. Other receivables are recognised when due.

The Group assesses at each Statement of Financial Position date whether there is any indication that a loan or receivable, or a group of loans or receivables, is impaired. For loans, the amount of any impairment loss is measured as the difference between the carrying amount and the present value of future cash flows (discounted at the original effective interest rate). For other receivables, the impairment loss is measured as the difference between the carrying value and the recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Cash collateral pledged	24	7	24	7
Amounts due from group undertakings	-	-	7	6
Investments receivable	26	26	26	25
Other receivables	13	13	12	12
	63	46	69	50

Details of impairments on financial assets held at amortised cost are included within the credit counterparty risk section (c) of Note 4. The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

17. Non-participating investment contract liabilities

Accounting for non-participating investment contract liabilities

Investment contract liabilities are initially recognised upon receipt of premium from the policyholder. Non-participating contracts are accounted for as a financial liability and are initially recognised at the value of premium received. The liability is designated as fair value through income on inception and subsequently measured at fair value in order to avoid a measurement inconsistency with the associated financial assets.

Subsequent deposits and withdrawals are recorded directly as an adjustment to the contract liability in the Statement of Financial Position, a method known as deposit accounting. Fees charged and investment income received are recognised in the Statement of Comprehensive Income when earned.

Fair value adjustments are measured at each reporting date and are recorded within Gross change in contract liabilities (Note 23). Fair value is calculated as the number of units allocated to the policyholder in each unit linked fund multiplied by the unit price of those funds at the reporting date. The unit prices are determined with reference to the fund assets and liabilities, which are valued on a basis consistent with that used to measure the equivalent assets and liabilities in the Statement of Financial Position, adjusted for the effect of future tax arising from any unrealised gains or losses. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the minimum surrender value.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Balance at 1 January	4,134	3,780	4,134	3,780
Deposits received from policyholders	231	406	231	405
Payments made to policyholders	(527)	(403)	(527)	(403)
Change in contract liabilities included in the Statement of Comprehensive Income	(423)	351	(423)	351
Balance at 31 December	3,415	4,134	3,415	4,134

18. Subordinated liabilities

Accounting for subordinated liabilities

Subordinated liabilities are initially measured at the fair value of the proceeds less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost. The transaction costs are amortised over the period to the expected redemption date on an effective interest rate basis. The amortisation charge is included in the Statement of Comprehensive Income within finance costs. An equivalent amount is added to the carrying value of the liability such that at the redemption date the value of the liability equals the redemption value.

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Subordinated notes (GBP 350m)	**350**	349	**350**	349
	350	349	**350**	349

In 2013 LVFS issued £350m of Fixed Rate Reset Subordinated Notes at par. The directly related costs of £4m incurred to issue the Notes have been capitalised as part of the carrying value and are being amortised using the effective interest rate basis over the period to the first call date in 2023. The effective interest rate on the £350m liability is 6.654% resulting in a £23m finance charge for the year (see Note 10).

The Notes have a maturity date of 22 May 2043 but the issuer has the option to redeem the Notes at the first call date of 22 May 2023 and annually thereafter up to the maturity date. The initial first call date falls shortly after the signing of the financial statements. The Board is currently considering its options in relation to the Notes.

Interest is payable on the Notes at a fixed rate of 6.5% (£23m) per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year. If the Notes are not redeemed on 22 May 2023, the interest rate is reset on that date and at five yearly intervals thereafter at a rate equal to the five year gilt rate quoted on the day before the reset date plus an initial margin of 463 basis points and a step up margin of 100 basis points.

There is an option of cumulative deferral of interest at the issuer's discretion and mandatory interest deferral in the event that a regulatory deficiency interest deferral event has occurred or is continuing (breach of the applicable regulatory solvency capital requirement of the issuer or group) or would occur if payment of interest on the subordinated notes were to be made. Following any deferral of a principal or interest payment, LVFS would be prevented from declaring any distribution to members which falls within the Mutual Bonus arrangements. LVFS has the option to elect to defer payment of interest in whole or in part and this will not constitute a default or give the right to the noteholders or the trustee to accelerate repayment of the Notes or to take any enforcement action.

Subordinated liabilities are held in the Statement of Financial Position at amortised cost. The fair value at 31 December 2022 was £346m (2021: £366m). The valuation of the subordinated notes was determined by reference to the bid price obtained from the markets as at 31 December 2022. Management consider this to be representative of fair value.

19. Other financial liabilities

	Group		Company	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Cash collateral received	**3**	66	**3**	66
	3	66	**3**	66

Cash collateral received relates to OTC cash collateral on derivatives. See Note 4 C) (iii) for more details.

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

Insurance contract related assets and liabilities

This section presents information relating to contracts accounted for in accordance with IFRS 4 'Insurance contracts'. This includes amounts relating to insurance contracts, participating investment contracts and reinsurance contracts. The assumptions used in the valuation of insurance and investment liabilities are disclosed within Note 25. Sensitivities are provided within Note 4.

20. Insurance contract liabilities

Accounting for insurance contract liabilities

Insurance contract liabilities are recognised for insurance contracts in existence at the end of the reporting period. Such liabilities are only derecognised when the obligation specified in the contract is discharged, cancelled or expires.

IFRS 4 Insurance Contracts permits the continued application, for income statement presentation and liability measurement purposes, of accounting policies that were being used at the date of transition to IFRS, except where a change is deemed to make the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. As such, the Group accounting for insurance contracts and participating investment contracts continues to be in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, amended in December 2006 and withdrawn in December 2015.

Liability adequacy testing is performed for all long-term insurance and participating investment contract liabilities. At each reporting date, an assessment is made of whether the recognised long-term contract liabilities are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the Statement of Comprehensive Income by setting up an additional liability.

Liabilities are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers, see Note 24.

a) Participating business

Participating insurance and participating investment contract liabilities are calculated in accordance with the PRA's previous 'realistic' liability regime, which was the regime in place at the date of transition to IFRS. In particular, provision is made for all bonus payments (declared and future, reversionary and terminal) estimated, where necessary, in a manner consistent with the relevant fund's Principles and Practices of Financial Management (PPFM) where there is a constructive obligation to policyholders. The liabilities include an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for future management actions.

The realistic participating liabilities are based on the aggregate value of policyholder asset shares reflecting past premiums, investment return, expenses and charges applied to each policy. Allowance is also made for policy related liabilities such as guarantees, options and future bonuses calculated using a stochastic model simulating investment returns, asset mix, expense charges and bonuses.

There are a large number of IB Whole of Life policies where the customer is either no longer aware of the policy's existence or has died and no claim has been submitted, despite extensive tracing activity having been undertaken in the past in an attempt to identify these customers or their next-of-kin. A proportion of these policies are treated as "gone-away" and reserves are reduced by applying reduction factors dependent on age, policy type and premium paying status. These reduction factors are determined based on analysis of historical actual mortality experience versus that expected.

The participating investment contract liabilities are disclosed separately within Note 21.

In determining the realistic value of liabilities for participating contracts, the value of future profits on non-participating business written in the with-profits part of the fund is included in the calculation. The present value of future profits on non-participating business ('Non-participating value of the in-force business', Note 22) is separately determined and its value is presented as a deduction from the sum of the liabilities for participating contracts and the Unallocated divisible surplus in the Statement of Financial Position.

b) Non-participating business

Liabilities for non-participating insurance contracts are calculated in accordance with the requirements of the PRA's handbook using a gross premium valuation method or a method no more prudent than the gross premium method. This was the regime in place at the date of transition to IFRS. LVFS and relevant subsidiaries have adopted the modified statutory solvency basis in the valuation of provisions for non-participating business.

20. Insurance contract liabilities (continued)

Significant accounting estimates

The valuation of insurance contract liabilities is a significant accounting estimate, requiring the use of management judgement, which has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Assumptions and adjustments applied in the valuation of insurance liabilities

The valuation of participating contract liabilities is based on assumptions reflecting management's best estimate, which are typically reviewed annually. The valuation of non-participating insurance contracts is based on prudent assumptions, including margins for the risk of adverse deviation. These margins are determined using standard actuarial techniques and expert judgement, reflecting the underlying risks. A separate calculation is also performed to assess the non-participating value of in-force business which is on best estimate assumptions. Assumptions including the margin for prudence used are described in Notes 25 and 26.

Notable changes to assumptions in the year include:

- Income Protection termination rates have been updated to reflect recent experience, decreasing net of reinsurance liabilities by £15m.
- The unit cost allocations have been revised to reflect expected future expense levels, including an allowance for long-term strategic investment costs. The unit costs have increased for some products and decreased for others. The assumption changes have decreased liabilities by £10m.
- Lifetime+ persistency rates have been updated to reflect recent experience, increasing liabilities by £6m.
- The OB Pensions cash take-up rates have been updated to reflect recent experience increasing liabilities by £4m.

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables. The assumptions used for investment returns and discount rates are based on current market yields. The assumptions used for expenses and persistency reflect product characteristics and are primarily based on relevant internal experience.

Where allowance is made for mortality improvements, this is done using the Institute and Faculty of Actuaries Continuous Mortality Investigation (CMI) Mortality Projections model. The version used is the 2019 model with the following advanced parameterisation:

- Long-term improvement rates of 1.5% for males and 1.25% for females.
- Smoothing parameter (Sk) of 7.
- Initial additions to improvement rates ("A" parameter) of 0.1% for males and 0.2% for females.

The same mortality improvement basis is used for all products and following the naming convention used by the CMI is:

- CMI_2019_M [1.5%; S=7, A=0.1%] for males.
- CMI_2019_F [1.25%; S=7, A=0.2%] for females.

Throughout these notes, this is abbreviated to "CMI_2019 Adjusted".

Management have applied judgement in setting assumptions. The assumptions for mortality, morbidity and longevity have been set by applying adjustments to reflect the Group's own experience. In particular, for impaired annuities the mortality assumptions are adjusted so as to allow for convergence to standard mortality at advanced ages. These adjustments vary according to lifestyle or medical condition, gender, age and duration in-force. The assumptions used for discount rates are adjusted for the Group's own risk exposure.

Due to the long-term nature of the liabilities, the estimates are subject to significant uncertainty. Sensitivities are performed against the assumptions and disclosed in Note 4 a).

Assessment of future options and guarantees

The value of options and guarantees on with-profits business is valued within the market-consistent discounted cash flow valuation, the most material of which are minimum benefit guarantees on LVFS With-profits business and guaranteed annuity options on RNPFN.

Due to the asymmetric nature of these liabilities, stochastic valuation techniques are required. A market consistent economic scenario generator is used with a wide range of future economic conditions to capture the asymmetry, and a discounted cash flow model is used to derive a value of the liability at the valuation date. These techniques are widely used in the life insurance industry to value liabilities with embedded options and guarantees.

The valuation models make appropriate allowance for both management and policyholder actions, where appropriate, including appropriate demographic assumptions on option or guarantee dates.

Details of all the long-term insurance and investment contract liabilities valuation assumptions and the non-participating value of in-force business valuation assumptions are disclosed separately within Notes 25 and 26 respectively.

20. Insurance contract liabilities (continued)

a) Analysis of insurance contract liabilities and reinsurance assets

Group	Note	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	20 b (i)	**4,447**	**-**	**4,447**	5,445	-	5,445
Non-participating insurance contract liabilities							
Reinsurance relating to participating contracts*	20 b (ii)	**-**	**(601)**	**(601)**	-	(954)	(954)
Long-term insurance contract liabilities	20 c	**3,230**	**(648)**	**2,582**	4,116	(749)	3,367
Long-term linked insurance contract liabilities	20 d	**70**	**(109)**	**(39)**	432	(206)	226
Long-term claims liabilities	20 e	**122**	**-**	**122**	116	-	116
		3,422	**(1,358)**	**2,064**	4,664	(1,909)	2,755

Company	Note	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	20 b (i)	**4,447**	**-**	**4,447**	5,445	-	5,445
Non-participating insurance contract liabilities							
Reinsurance relating to participating contracts*	20 b (ii)	**-**	**(601)**	**(601)**	-	(954)	(954)
Long-term insurance contract liabilities	20 c	**3,221**	**(648)**	**2,573**	4,103	(749)	3,354
Long-term linked insurance contract liabilities	20 d	**70**	**(109)**	**(39)**	432	(206)	226
Long-term claims liabilities	20 e	**122**	**-**	**122**	116	-	116
		3,413	**(1,358)**	**2,055**	4,651	(1,909)	2,742

* Reinsurance contracts are precluded from being classified as participating contracts as payments are not subject to discretion. For clarity reinsurance assets relating to participating insurance contracts that have been reinsured are presented separately.

b) (i) Movement in long-term insurance contract liabilities – participating

Group and Company	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Balance at 1 January	**5,445**	**-**	**5,445**	5,489	-	5,489
Transfer of Smooth Managed Fund business to With-Profits Fund*	**346**	**-**	**346**	-	-	-
Premiums received	**14**	**-**	**14**	16	-	16
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(470)**	**-**	**(470)**	(473)	-	(473)
New business	**58**	**-**	**58**	242	-	242
Benefits and claims variation	**23**	**-**	**23**	75	-	75
Fees deducted	**(23)**	**-**	**(23)**	(23)	-	(23)
Accretion of investment income or change in unit prices	**(500)**	**-**	**(500)**	187	-	187
Adjustment due to changes in assumptions:						
– Investment return	**(463)**	**-**	**(463)**	(95)	-	(95)
– Expense	**1**	**-**	**1**	(7)	-	(7)
– Lapse and surrender rates	**4**	**-**	**4**	(8)	-	(8)
– Other basis changes	**13**	**-**	**13**	-	-	-
Model changes	**(4)**	**-**	**(4)**	13	-	13
Other	**(10)**	**-**	**(10)**	16	-	16
Teachers Assurance (TA) fund special bonus	**(5)**	**-**	**(5)**	(5)	-	(5)
Mutual bonus	**18**	**-**	**18**	18	-	18
Balance at 31 December	**4,447**	**-**	**4,447**	5,445	-	5,445

* All Smoothed Managed Fund new business is now written on a with profits basis. During the year, all in-force Smoothed Managed Fund investments, which had previously been classified as linked insurance contract liabilities, were converted to a with profits basis. Refer to Note 20d.

20. Insurance contract liabilities (continued)

b) (ii) Movement in non-participating reinsurance assets relating to long-term participating insurance contract liabilities

Group and Company	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Balance at 1 January	-	(954)	(954)	-	(1,053)	(1,053)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	-	10	10	-	22	22
Accretion of investment income or change in unit prices	-	(8)	(8)	-	1	1
Adjustment due to changes in assumptions:						
– Investment return	-	347	347	-	75	75
– Lapse and surrender rates	-	-	-	-	(1)	(1)
Model changes	-	3	3	-	-	-
Other	-	1	1	-	2	2
Balance at 31 December	-	(601)	(601)	-	(954)	(954)

c) Movement in long-term insurance contract liabilities – non-participating

Group	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Balance at 1 January	4,116	(749)	3,367	4,467	(677)	3,790
Premiums received	199	(105)	94	191	(92)	99
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(432)	104	(328)	(485)	108	(377)
New business	250	(114)	136	139	(99)	40
Benefits and claims variation	1	(9)	(8)	10	(1)	9
Fees deducted	(13)	-	(13)	(14)	-	(14)
Accretion of investment income or change in unit prices	56	2	58	31	1	32
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	(34)	23	(11)	(32)	22	(10)
– Investment return	(915)	204	(711)	(215)	33	(182)
– Expense	(8)	-	(8)	(19)	6	(13)
– Lapse and surrender rates	15	(12)	3	60	(41)	19
– Other basis changes	5	-	5	5	-	5
Model changes	(3)	6	3	(1)	(2)	(3)
Other	(7)	2	(5)	(21)	(7)	(28)
Balance at 31 December	3,230	(648)	2,582	4,116	(749)	3,367

Company	2022 Gross £m	2022 Reinsurance £m	2022 Net £m	2021 Gross £m	2021 Reinsurance £m	2021 Net £m
Balance at 1 January	4,103	(749)	3,354	4,454	(677)	3,777
Premiums received	199	(105)	94	190	(92)	98
Liabilities paid for deaths, maturities, surrenders benefits and claims	(431)	104	(327)	(484)	108	(376)
New business	250	(114)	136	139	(99)	40
Benefits and claims variation	1	(9)	(8)	10	(1)	9
Fees deducted	(13)	-	(13)	(14)	-	(14)
Accretion of investment income or change in unit prices	56	2	58	31	1	32
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	(34)	23	(11)	(32)	22	(10)
– Investment return	(913)	204	(709)	(215)	33	(182)
– Expense	(8)	-	(8)	(19)	6	(13)
– Lapse and surrender rates	15	(12)	3	60	(41)	19
– Other basis changes	5	-	5	5	-	5
Model changes	(3)	6	3	(1)	(2)	(3)
Other	(6)	2	(4)	(21)	(7)	(28)
Balance at 31 December	3,221	(648)	2,573	4,103	(749)	3,354

20. Insurance contract liabilities (continued)

d) Movement in long-term linked insurance contract liabilities

	2022			2021		
Group and Company	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	**432**	**(206)**	**226**	239	(168)	71
Transfer of Smooth Managed Fund business to With-Profits Fund*	**(346)**	**-**	**(346)**	-	-	-
Premiums received	**40**	**(16)**	**24**	37	(14)	23
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(48)**	**9**	**(39)**	(27)	8	(19)
New business	**273**	**(79)**	**194**	203	(41)	162
Benefits and claims variation	**(14)**	**8**	**(6)**	(9)	7	(2)
Fees deducted	**(3)**	**-**	**(3)**	(2)	-	(2)
Accretion of investment income or change in unit prices	**(33)**	**-**	**(33)**	5		5
Adjustment due to changes in assumptions:						
– Mortality/morbidity/longevity	**(54)**	**43**	**(11)**	(24)	17	(7)
– Investment return	**(180)**	**136**	**(44)**	3	(7)	(4)
– Expense	**(3)**	**-**	**(3)**	4	-	4
– Lapse and surrender rates	**(1)**	**(3)**	**(4)**	5	(3)	2
Model changes	**-**	**-**	**-**	-	(7)	(7)
Other	**7**	**(1)**	**6**	(2)	2	-
Balance at 31 December	**70**	**(109)**	**(39)**	432	(206)	226

* All Smoothed Managed Fund new business is now written on a with-profits basis. During the year, all in-force Smoothed Managed Fund investments, which had previously been classified as linked insurance contract liabilities, were converted to a with-profits basis. Refer to Note 20b(i).

e) Movement in long-term claims liabilities

	2022			2021		
Group	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	**116**	**-**	**116**	111	-	111
Claims notified	**1,048**	**(266)**	**782**	970	(263)	707
Claims paid during the year	**(1,042)**	**266**	**(776)**	(965)	263	(702)
Balance at 31 December	**122**	**-**	**122**	116	-	116

	2022			2021		
Company	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	**116**	**-**	**116**	111	-	111
Claims notified	**1,048**	**(266)**	**782**	970	(263)	707
Claims paid during the year	**(1,042)**	**266**	**(776)**	(965)	263	(702)
Balance at 31 December	**122**	**-**	**122**	116	-	116

21. Participating investment contract liabilities

Accounting for participating investment contract liabilities

Participating investment contract liabilities are valued using accounting techniques consistent with those adopted prior to the transition to IFRS as permitted under IFRS 4 'Insurance contracts'. The accounting treatment of these contracts is described within Note 20.

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Balance at 1 January	**786**	781	**786**	781
Premiums received	**4**	5	**4**	5
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(74)**	(68)	**(74)**	(68)
Benefits and claim variation	**32**	28	**32**	28
Fees deducted	**(4)**	(4)	**(4)**	(4)
Accretion of investment income or change in unit prices	**(98)**	46	**(98)**	46
Adjustment due to changes in assumptions:				
– Investment return	**(18)**	(3)	**(18)**	(3)
– Expense	**-**	(3)	**-**	(3)
Model changes	**-**	1	**-**	1
Other	**1**	(7)	**1**	(7)
Mutual bonus	**5**	10	**5**	10
Balance at 31 December	**634**	786	**634**	786

22. Non-participating value of in-force business

Accounting for the non-participating value of in-force business

In determining the realistic value of liabilities for participating contracts as disclosed in Note 20, the value of future profits on non-participating business written in the with-profits part of the fund is included in the calculation. The present value of future profits of the non-participating business ('non-participating value of in-force business') is separately determined and its value is presented as a deduction from the sum of the liabilities for participating contracts and the Unallocated divisible surplus in the Statement of Financial Position. Such an amount is not recognised for business written outside participating contract funds. The principal assumptions are disclosed separately within Note 26.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Balance at 1 January	350	357	350	357
Premiums received	(1)	(1)	(1)	(1)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(8)	(11)	(8)	(11)
New business	20	25	20	25
Benefits and claims variation	(4)	2	(4)	2
Fees deducted	(14)	(11)	(14)	(11)
Accretion of investment income or change in unit prices	(10)	13	(10)	13
Adjustment due to changes in assumptions:				
– Mortality/morbidity/longevity	(4)	(5)	(4)	(5)
– Investment return	(71)	(24)	(71)	(24)
– Expense	(6)	(3)	(6)	(3)
– Lapse and surrender rates	7	(2)	7	(2)
– Other basis changes	-	1	-	1
Model changes	1	6	1	6
Other	(4)	3	(4)	3
Balance at 31 December	256	350	256	350

23. Net change in long-term contract liabilities and non-participating value of in-force business

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Gross decrease/(increase) in long-term contract liabilities				
Decrease in long-term insurance contract liabilities - participating	1,344	44	1,344	44
Decrease/(increase) in investment contract liabilities - participating	152	(5)	152	(5)
Decrease in long-term insurance contract liabilities - non-participating	886	351	882	351
Decrease/(increase) in investment contract liabilities - non-participating	423	(351)	423	(351)
Decrease/(increase) in long-term linked insurance contract liabilities	16	(193)	16	(193)
	2,821	(154)	2,817	(154)
Mutual bonus (disclosed separately on the Statement of Comprehensive Income)	23	28	23	28
	2,844	(126)	2,840	(126)
Decrease/(increase) in long-term contract liabilities ceded to reinsurers				
(Decrease)/increase in long-term insurance contract liabilities relating to non-participating contracts	(101)	72	(101)	72
Decrease in long-term insurance contract liabilities relating to participating contracts	(353)	(99)	(353)	(99)
(Decrease)/increase in long-term linked insurance contract liabilities	(97)	38	(97)	38
	(551)	11	(551)	11
Decrease in non-participating value of in-force business	(94)	(7)	(94)	(7)
Net change in contract liabilities	2,199	(122)	2,195	(122)

24. Reinsurance assets

Accounting for reinsurance assets

The Group transfers certain risks arising on its underlying insurance contracts through entering into contracts with reinsurers. Such contracts are classified as reinsurance contracts within the scope of IFRS 4 where significant insurance risk is transferred from the Group to the reinsurer. Reinsurance assets are the net contractual rights arising from cashflows due from and to reinsurers regarding ceded insurance liabilities. Amounts are estimated in a consistent manner with the gross reserves of the underlying policies and in accordance with the relevant reinsurance contract.

An impairment review is performed at the Statement of Financial Position date. Impairment occurs when there is evidence that the Group will not recover outstanding amounts under the contract, such losses being recorded immediately in the Statement of Comprehensive Income.

All reinsurance contracts are classified as non-participating as the Group and the reinsurer do not share in the returns on underlying items. This is consistent with the treatment of reinsurance contracts being reported separately from the underlying insurance contracts issued.

Significant accounting judgements

Classification of the Group's contracts with reinsurers as reinsurance contracts

Management have applied judgement in determining whether contracts entered into with reinsurers transfer significant insurance risk and can therefore be accounted for as reinsurance contracts. In making this judgement management review all contract terms and conditions and obtain the opinion of an independent expert where necessary.

In order for significant insurance risk to be transferred the following conditions must be met.

- The reinsurer must have an obligation to compensate the Group if an uncertain future event that is insured by the Group occurs;
- It is reasonably possible that the reinsurer may realise a significant loss from the contract, and
- There is a reasonable possibility of a significant range of outcomes from the contract.

There were no material external reinsurance contracts entered into in 2022.

		Group		Company	
	Note	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Reinsurers' share of long-term insurance contract liabilities - non participating	20a	**648**	749	**648**	749
Reinsurers' share of long-term insurance contract liabilities - participating	20a	**601**	954	**601**	954
Reinsurers' share of long-term linked insurance contract liabilities	20a	**109**	206	**109**	206
		1,358	1,909	**1,358**	1,909

25. Long-term insurance and investment contract liabilities valuation assumptions

As explained within the accounting policy in Note 20, the setting of assumptions for the valuation of insurance contract liabilities is a significant accounting estimate involving the exercise of judgement. Sensitivities are performed against the assumptions and disclosed in Note 4 a).

Assumptions are set having regard for the circumstances impacting each line of business prevailing at the Statement of Financial Position date. Insurance liabilities are valued using assumptions which would achieve a result within the normal range of possible outcomes. To the extent that the ultimate cost differs to the amounts provided, for example where experience is worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

When valuing options and guarantees the asset model used is the Deloitte XSG model. This is a deflator model based on published financial economic theory that is capable of market-consistent valuations for multiple asset classes in multiple currencies. The model is calibrated to market data at the reporting date representative of the nature and term of the guarantees inherent in the Group's participating insurance contracts.

Margins are included in the Peak 1 basis for non-participating business, to provide for potential adverse variations in experience. The margins are typically (as a percentage of the assumption):

- 20% for mortality and morbidity risks
- 15% for annuitant longevity
- 30% for persistency
- 10% for expenses

a) LVFS

(i) Participating insurance contracts

For participating insurance contracts, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out below.

Interest rates

The risk-free swap-based interest rates assumed are:

Year	2022	2021
5	**4.06%**	1.05%
15	**3.62%**	0.91%
25	**3.45%**	0.85%
35	**3.26%**	0.80%

These interest rates are gross of tax and investment expenses.

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(i) Participating insurance contracts

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 0.1% (2021: RPI plus 0.1%), where RPI in both 2022 and 2021 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	2022 Cash	2022 Fixed interest	2022 Equities	2022 Property	2021 Cash	2021 Fixed interest	2021 Equities	2021 Property
Flexible Guarantee Funds Cautious	**2%**	**59%**	**34%**	**5%**	2%	67%	28%	3%
Flexible Guarantee Funds Balanced	**2%**	**42%**	**51%**	**5%**	2%	46%	47%	5%
Flexible Guarantee Funds Managed	**2%**	**30%**	**61%**	**7%**	2%	31%	60%	7%
All in One Bond Cautious Fund	**2%**	**59%**	**34%**	**5%**	2%	67%	29%	3%
All in One Bond Balanced Fund	**2%**	**42%**	**51%**	**5%**	2%	46%	47%	5%
All in One Bond Managed Fund	**2%**	**30%**	**61%**	**7%**	2%	31%	60%	7%
Smoothed Managed Funds Cautious	**2%**	**59%**	**34%**	**5%**	2%	67%	28%	3%
Smoothed Managed Funds Balanced	**2%**	**42%**	**51%**	**5%**	2%	46%	47%	5%
Smoothed Managed Funds Managed	**2%**	**30%**	**61%**	**7%**	2%	31%	60%	7%
Other With-Profit	**3%**	**39%**	**51%**	**7%**	3%	42%	51%	4%

Mortality rate tables	2022	2021
Conventional Life Business	**89% AMC00 / 93% AFC00**	89% AMC00 / 93% AFC00
Conventional Pensions Business	**106% AMC00 / AFC00 CMI_2019 Adjusted**	106% AMC00 / AFC00 CMI_2019 Adjusted
Conventional Industrial Branch Business	**112% up to age 80, falling linearly to 100% at age 100, of ELT17**	112% up to age 80, falling linearly to 100% at age 100, of ELT17
Non-Unitised Accumulating Pensions Business	**85% AMC00 / AFC00**	85% AMC00 / AFC00
Unitised Accumulating Life Business	**85% AMC00 / AFC00**	85% AMC00 / AFC00
Unitised Accumulating Pensions Business	**85% AMC00 / AFC00**	85% AMC00 / AFC00
Unitised Accumulating Bond Business	**89% AMC00 / AFC00**	89% AMC00 / AFC00
Unitised Accumulating Life ISA Business	**85% AMC00 / AFC00**	85% AMC00 / AFC00
Smoothed Managed Funds	**89% AMC00 / AFC00**	89% AMC00 / AFC00
Heritage Annuities in Payment	**112% PML08 / 95% PFL08 CMI_2019 Adjusted**	112% PML08 / 95% PFL08 CMI_2019 Adjusted

Per policy expenses – regular premiums	2022	2021
Conventional Life Business	**£42.69**	£38.77
Conventional Pensions Business	**£49.19**	£43.86
Conventional Industrial Branch Taxable Business*	**£54.18**	£19.66
Conventional Industrial Branch Tax-exempt Business*	**£17.76**	£19.66
Non-Unitised Accumulating Pensions Business	**£49.19**	£43.86
Unitised Accumulating Life Business	**£42.69**	£38.77
Unitised Accumulating Pensions Business	**£49.19**	£43.86
Unitised Accumulating Bond Business (Legacy)	**£42.69**	£38.77
Unitised Accumulating Flexible Guarantee Business	**£83.36**	£64.03
Unitised Accumulating Life ISA Business	**£42.69**	£38.77
Smoothed Managed Funds	**£83.36**	£80.82
Heritage Annuities in Payment	**£50.44**	£38.27

* The unit cost for IB business has been grossed up to allow for a reduction made to the in-force data to reflect policies that are believed no longer likely to give rise to a claim.

Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions for each product class are adjusted where necessary to reflect more recent experience.

Options and guarantees

Allowance is made in respect of cash commutation options on OB Pensions.

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(ii) Non-participating insurance contracts

Interest rate	2022	2021
Non-profit temporary assurances*	**3.30%**	0.85%
Whole of life assurances	**3.30%**	0.85%
Permanent health insurance:		
a) active lives	**3.30%**	0.85%
b) claims reserves	**3.80%**	0.90%
Critical illness	**3.30%**	0.95%
Retirement Solutions annuities in payment MAP	**4.88%**	1.81%
Retirement Solutions annuities in payment non-MAP	**5.26%**	2.52%

* These interest rates are netted down at 20% tax for life contracts written before 1 January 2013.

Investment expenses	2022	2021
Non-profit temporary assurances*	**0.06%**	0.06%
Whole of life assurances	**0.06%**	0.06%
Permanent health insurance		
a) active lives	**0.06%**	0.06%
b) claims reserves	**0.06%**	0.06%
Critical illness	**0.06%**	0.06%
Retirement Solutions annuities in payment MAP	**0.13%**	0.12%
Retirement Solutions annuities in payment non-MAP	**0.03%**	0.03%

* These expenses are netted down at 20% tax for life contracts written before 1 January 2013.

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(ii) Non-participating insurance contracts

Mortality rate tables	2022	2021
Non-profit temporary assurances*	**TMN00,TMS00 / TFN00,TFS00**	TMN00,TMS00 / TFN00,TFS00
Whole of life assurances (50+)*	**AMC00 / AFC00**	AMC00 / AFC00 CMI_2019 Adjusted
Whole of life assurances (Lifetime+)	**TMN00,TMS00 / TFN00,TFS00** **CMI_2019 Adjusted**	TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted
Retirement Solutions annuities in payment**	**PMA08 / PFA08** **CMI_2019 Adjusted**	PMA08 / PFA08 CMI_2019 Adjusted

* A series of duration and age-related adjustment factors are applied to the base mortality rates. These adjustments vary by product line and smoking status.

** The mortality rates for enhanced annuity contracts are adjusted so as to allow for convergence to standard mortality at advanced ages. These adjustments vary according to lifestyle or medical condition, gender, age and duration in-force.

Morbidity rate tables	2022	2021
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Adjusted reinsurer rates**	Adjusted reinsurer rates

A series of adjustments are made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data. The adjustments for permanent health insurance vary by product line, age, smoking status, sickness duration, deferred periods and occupations.

Per policy expenses – regular premiums	2022	2021
Non-profit temporary assurances*	**£19.77**	£17.36
Whole of life assurances	**£19.77**	£17.36
Permanent health insurance		
a) active lives	**£19.77**	£17.36
b) claims reserves (per policy in claim)	**£1,336.80**	£922.88
Critical illness	**£19.77**	£17.36
Retirement Solutions annuities in payment (life annuity)	**£55.48**	£53.14
Retirement Solutions annuities in payment (fixed term)	**£55.48**	£53.14

* Expenses are netted down at 20% tax for life contracts written before 1 January 2013

Options and guarantees

There are no significant options and guarantees in the non-participating business.

(iii) Investment and long-term linked insurance contracts

The provision for unit linked business is equal to the value of the assets to which the contracts are linked. This is classified as an investment product and the liability is included within the long-term investment contract liabilities.

Within insurance contract liabilities the provisions for index-linked permanent health insurance claims, index-linked temporary assurances and index-linked annuities in payment have been calculated using the same mortality and morbidity assumptions as used for the corresponding non-linked liabilities for both 2022 and 2021.

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

b) LVFS (originally Teachers)

(i) Participating insurance contracts

As part of the Teachers acquisition in 2016, LVFS purchased the non-participating business from Teachers Assurance. The Teachers Assurance participating business remains within the ring-fenced TA Fund (see section f)

(ii) Non-participating insurance contracts

Interest rate

The interest rates for Teachers are set using an approach consistent with that described for LVFS in section a(ii).

Mortality rate tables	2022	2021
Teachers annuities in payment	**48.5% PMA08 / 57.0% PFA08 CMI_2019 Adjusted**	48.5% PMA08 / 57.0% PFA08 CMI_2019 Adjusted

Per policy expenses	2022	2021
Teachers annuities in payment	**£55.48**	£53.14

Options and guarantees

There are no options and guarantees in the non-participating business.

(iii) Investment linked contracts

The provision for unit linked business is equal to the value of the assets to which the contracts are linked. This is classified as an investment product and the liability is included within the long-term investment contract liabilities.

c) LVFS (Originally RNPFN)

(i) Non-participating business

All material non-participating business was transferred in full from the RNPFN fund to LVFS in 2021. The assumptions used for RNPFN annuities are consistent with that described for LVFS in section a(ii) "Retirement Solutions annuities in payment MAP" with the exception of the mortality rate tables.

Mortality rate tables	2022	2021
RNPFN annuities in payment	**70.6% PMA08 / 86.7% PFA08 CMI_2019 Adjusted**	70.6% PMA08 / 86.7% PFA08 CMI_2019 Adjusted

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data.

Options and guarantees

There are no options and guarantees in the non-participating business.

ii) Investment linked contracts

The provision for unit linked business is equal to the value of the assets to which the contracts are linked. This is classified as an investment product and the liability is included within the long-term investment contract liabilities.

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

d) Liverpool Victoria Life Company Limited – Ordinary Long-Term Fund

(i) Participating insurance contracts

Liverpool Victoria Life Company Limited has no participating business.

(ii) Non-participating insurance contracts

Interest rate	**2022**	2021
Non-profit temporary assurances*	**3.30%**	0.85%
Other assurances*	**3.53%**	0.96%

* These rates are netted down at 20% tax for life contracts written before 1 January 2013.

Investment expenses	**2022**	2021
Non-profit temporary assurances*	**0.06%**	0.06%
Other assurances	**0.07%**	0.07%

* These rates are netted down at 20% tax for life contracts written before 1 January 2013.

Mortality rate tables	**2022**	2021
Non-profit temporary assurances*	**TMN00,TMS00 / TFN00,TFS00**	TMN00,TMS00 / TFN00,TFS00
Other assurances	**PML16/PFL16**	AMC00/AFC00

* A series of duration and age related adjustment factors are applied to the base mortality rates. These adjustments vary by product line and smoking status.

Per policy expenses – regular premiums	**2022**	2021
Non-profit temporary assurances	**£19.77**	£17.36
Other assurances	**£24.00**	£24.00

e) RNPFN fund

RNPFN denotes Royal National Pension Fund for Nurses, which is a ring-fenced fund. The free assets attributable to this fund are reported as insurance contract liabilities of LVFS.

(i) Participating business

For participating insurance contracts, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out in the tables below.

Interest rates

The interest rates for RNPFN are set using an approach consistent with that described for LVFS in section a(i).

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 0.1% (2021: RPI plus 0.1%), where RPI in both 2022 and 2021 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	**2022**	2021
Cash	**3%**	2%
Fixed interest	**56%**	63%
UK Equities	**41%**	35%

Mortality rate tables	**2022**	2021
Conventional Life Business	**60% AMC00 / AFC00**	60% AMC00 / AFC00
Life Deferred Annuities	**50% AMC00 / AFC00**	50% AMC00 / AFC00
Pension Deferred Annuities	**50% AMC00 / AFC00**	50% AMC00 / AFC00
Unitised With-profits business	**60% AMC00 / AFC00**	60% AMC00 / AFC00

Per policy expenses – regular premiums	**2022**	2021
Conventional Life Business	**£42.69**	£38.77
Pensions Deferred Annuities	**£49.19**	£43.86
Life Deferred Annuities	**£42.69**	£38.77
Unitised With-profits ISA	**£42.69**	£38.77
Unitised With-profits Bond	**£42.69**	£38.77

Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions are adjusted where appropriate to reflect more recent experience.

Options and guarantees

The provisions held in respect of guaranteed annuity options are determined on a market consistent basis. The total amount provided in respect of the future costs of the guaranteed annuity options was £25m (2021: £68m).

25. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(ii) Non-participating business

There is no material non-participating business left in the RNPFN fund following the full transfer to LVFS. Future annuities will either vest externally or within LVFS.

f) TA fund

The TA fund denotes the Teachers Assurance Fund, which is a ring-fenced fund. The free assets attributable to this fund are reported as insurance and investment contract liabilities of LVFS.

(i) Participating contracts

For participating contracts, a market consistent valuation is used to calculate the liability. This involves placing a value on liabilities similar to the market value of assets with similar cash flow patterns. The key assumptions used in this valuation are set out below.

Interest rates

The interest rates for the TA fund are set using an approach consistent with that described for LVFS in section a(ii).

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI plus 0.1% (2021: RPI plus 0.1%*), where RPI in both 2022 and 2021 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	**2022**	2021
Cash	**2%**	2%
Fixed interest	**36%**	36%
Equities	**62%**	62%

Mortality rate tables	**2022**	2021
Conventional Life Business	**40% AM92 / 53% AF92**	40% AM92 / 53% AF92
Unitised Accumulating Life Business	**40% AM92 / 53% AF92**	40% AM92 / 53% AF92
Unitised Accumulating Bond Business	**40% AM92 / 53% AF92**	40% AM92 / 53% AF92
Unitised Accumulating Life ISA Business	**40% AM92 / 53% AF92**	40% AM92 / 53% AF92

Per policy expenses	**2022**	2021*
Conventional Life Business	**£42.69**	£38.77
Unitised Accumulating Life Business	**£42.69**	£38.77
Unitised Accumulating Bond Business	**£42.69**	£38.77
Unitised Accumulating Life ISA Business	**£42.69**	£38.77

* The 2021 Future expense inflation assumption and the Per policy expenses have been restated to correct an error in the 2021 Annual Report

Persistency – lapses, surrenders and paid up rates

A review of persistency is carried out annually. Assumptions for each product class are adjusted where necessary to reflect more recent experience.

Options and guarantees

There are no guaranteed annuity or financial options within the contracts participating in the TA Fund.

26. Non-participating value of in-force business valuation assumptions

a) LVFS

Non-participating contracts

Interest rates

The earned rate and discount rate are set by reference to the risk free yield curve applicable at the valuation date with adjustments for an illiquidity premium and margins for risk and uncertainty, with the exception of annuities in payment where the earned rate is based on the IRR of the risk adjusted backing assets cashflows.

The margins for risk and uncertainty are:

Product	Margin (Basis Points)
Annuities	**50**
Unit linked pensions	**75**
Life protection	**100**
Critical Illness	**275**
Income Protection	**200**

Mortality rate tables	2022	2021
Non-profit temporary assurances *	**TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted**	TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted
Whole of Life Assurances (50+)	**AMC00 / AFC00 CMI_2019 Adjusted**	AMC00 / AFC00 CMI_2019 Adjusted
Whole of Life Assurances (Lifetime+)*	**TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted**	TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted
Retirement Solutions annuities in payment**	**PMA08 / PFA08 CMI_2019 Adjusted**	PMA08 / PFA08 CMI_2019 Adjusted
Unit linked pensions (original LVFS)	**80% AX92C20**	80% AX92C20
Teachers annuities in payment	**57% PMA08 / 67% PFA08 CMI_2019 Adjusted**	57% PMA08 / 67% PFA08 CMI_2019 Adjusted
RNPFN annuities in payment	**83% PMA08 / 102% PFA08 CMI_2019 Adjusted**	83% PMA08 / 102% PFA08 CMI_2019 Adjusted

* A series of duration and age related adjustment factors are applied to the base mortality rates. These adjustments vary by product line and smoking status.

** The mortality rates for enhanced annuity contracts are adjusted so as to allow for convergence to standard mortality at advanced ages. These adjustments vary according to lifestyle or medical conditions, gender, age and duration in force.

Morbidity rate tables	2022	2021
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Adjusted reinsurer rates**	Adjusted reinsurer rates

A series of adjustments are made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data. The adjustments for permanent health insurance vary by product line, age, smoking status, sickness duration, deferred periods and occupations.

Persistency and unit costs

Persistency and unit costs assumptions are based on our best estimate of future experience. A review of persistency is carried out annually. Assumptions for each product class are adjusted where appropriate to reflect more recent experience.

Fixed assets and investments

This section gives detail on the tangible, intangible and investment assets of the Company and Group that are used to generate profit for the business.

27. Property and equipment

Accounting for property and equipment

Operational property and equipment are held at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Both property and equipment are depreciated to their estimated residual values on a straight line basis over their estimated useful lives. The periods used are as follows:

Freehold buildings	10 to 50 years
Leasehold right of use assets	Lease term (1 to 25 years)
Property enhancements	10 years or lease term if shorter
Fixtures and fittings	3 to 10 years
IT equipment	3 to 8 years
Land is not depreciated	

Assets are written down to their recoverable amount where this is less than the carrying value. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

Group	Freehold buildings £m	Leasehold right of use assets £m	Property enhancements £m	Fixtures, fittings and IT equipment £m	Total £m
Cost:					
At 1 January 2022	**5**	**28**	**8**	**8**	**49**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2022	**5**	**28**	**8**	**8**	**49**
Accumulated depreciation:					
At 1 January 2022	**4**	**9**	**5**	**6**	**24**
Provided in the year	-	**1**	**1**	-	**2**
At 31 December 2022	**4**	**10**	**6**	**6**	**26**
Net book value at 31 December 2022	**1**	**18**	**2**	**2**	**23**
Cost:					
At 1 January 2021	5	28	8	11	52
Additions	-	-	-	1	1
Disposals	-	-	-	(4)	(4)
At 31 December 2021	5	28	8	8	49
Accumulated depreciation:					
At 1 January 2021	4	7	4	8	23
Provided in the year	-	2	1	-	3
Disposals	-	-	-	(2)	(2)
At 31 December 2021	4	9	5	6	24
Net book value at 31 December 2021	1	19	3	2	25

28. Intangible assets

Accounting for goodwill and intangible assets

Intangible assets with definite useful lives are held at cost less amortisation. Amortisation is charged to the Statement of Comprehensive Income, see Note 11. Intangible assets with indefinite lives are not amortised.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the acquisition date and is included in intangible assets. Goodwill is reviewed for impairment at the end of the first full year of acquisition. Thereafter, it is tested at each Statement of Financial Position date for impairment against the recoverable amount (being the higher of value in use or fair value less costs of disposal) of the relevant cash generating unit and carried at cost less accumulated impairment losses.

Goodwill arising on acquisitions prior to 1998 has been eliminated against the Unallocated divisible surplus. Goodwill on acquisitions prior to 1 January 2006 (the date of transition to IFRS) is carried at its original cost less cumulative amortisation on that date, less any impairment subsequently incurred.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Present value of acquired in-force business (PVIF)

On acquisition of a portfolio of long-term insurance and investment contracts, the net present value of the Group's interest in the expected post-tax cash flows of the in-force business is capitalised as an intangible asset.

The carrying value of the asset is amortised, in line with the original expected run-off over a period of 10 years, based on the anticipated lives of the majority of the related contracts. Amortisation is stated net of any unwind of the discount rate. The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen, compared to the amortised acquired value.

Other intangibles

Where an acquisition takes place that gives access to existing customers, distribution channels or the right to charge for investment or policy administration services, the fair value of these is recognised as an intangible asset.

The carrying value of the asset is amortised, on a straight line basis over its expected economic life. The expected economic life of other intangibles carried by the Group is determined by reference to the acquired business, considering factors such as the remaining terms of agreements, the normal lives of related products and the competitive position, and lies within the range of 10 to 20 years. The carrying value of the asset is assessed annually for indications of impairment.

IT Software

Costs directly attributable to the development of software for internal use are capitalised as intangible assets if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Software costs, including computer application software licences, are amortised using the straight line method over their useful lives (three to eight years). The amortisation periods used are reviewed annually. Software values are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Any amortisation or impairment charges for all intangibles are recorded in the Statement of Comprehensive Income within Other operating and administrative expenses.

Significant accounting estimate

Impairment assessment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which the goodwill is allocated. Following the disposal of the general insurance business on 31 December 2019, the Group has allocated goodwill to a single cash generating unit being the life business. The estimation of the recoverable amount of the cash generating unit is a major source of estimation uncertainty and has a significant risk of resulting in a material adjustment to the carrying amounts of goodwill within the next financial year.

Details of the key assumptions used in the estimation of the recoverable amounts and the carrying value at the reporting date are contained at the end of this note.

28. Intangible assets (continued)

Group	Goodwill £m	Other intangible assets £m	PVIF £m	IT software £m	Total £m
Cost:					
At 1 January 2022	**46**	**23**	**3**	**12**	**84**
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2022	**46**	**23**	**3**	**12**	**84**
Accumulated amortisation and impairment:					
At 1 January 2022	-	**21**	**1**	**9**	**31**
Charge for the year	-	-	**1**	**1**	**2**
Impairment in the year	-	2	**1**	2	5
At 31 December 2022	-	**23**	**3**	**12**	**38**
Net book value at 31 December 2022	**46**	-	-	-	**46**
Cost:					
At 1 January 2021	55	23	3	12	93
Disposals	(9)	-	-	-	(9)
At 31 December 2021	46	23	3	12	84
Accumulated amortisation and impairment:					
At 1 January 2021	8	21	1	8	38
Charge for the year	-	-	-	1	1
Disposals	(8)	-	-	-	(8)
At 31 December 2021	-	21	1	9	31
Net book value at 31 December 2021	46	2	2	3	53

28. Intangible assets (continued)

Impairment testing of goodwill

Goodwill is reviewed annually for impairment, or more frequently when there are indicators that impairment may have occurred, by comparing the carrying value to its recoverable amount. The recoverable amount of the cash generating unit is based on value in use calculations. The calculations are based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the cash generating unit, the determination of both of which requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasts are available and to assumptions regarding the long-term sustainable cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

Key assumptions used in the annual impairment testing of intangible assets

The key assumptions used for impairment testing are set out below. The recoverable amount of the long-term insurance business has been determined using discounted cash flow predictions based on financial plans approved by management covering a five year period, with a terminal growth rate applied thereafter.

Growth rate – the value in use calculation uses a terminal growth rate which has been set with regard to past experience and relevant available UK market statistics. Cash flows beyond the plan period have been assumed to grow at a steady rate of 1.5% per annum (2021: 1.3% per annum).

Discount rate – the cash flows have been discounted using a risk-adjusted discount rate of 12% (2021: 10%). The increase in the discount rate compared to 2021 reflects market related trends and competitor benchmarking, which have been used as a reference point, together with the increased risk in variation of cash flows due to inherently uncertain market conditions as a result of increasing uncertainty over global macroeconomic growth and inflation prospects.

Both the growth rates and the discount rates used are consistent with the ranges observed in the market place.

	2022 Group	2021 Group
Assumptions		
Terminal growth rate	1.5%	1.3%
Pre-tax discount rate	12%	10%
Recoverable amount in excess of carrying value	£283m	£255m
Sensitivities		
Impact on recoverable amount of a 2% increase in the pre-tax discount rate	£63m	£60m
Pre-tax discount rate required to eliminate headroom	43%	31%
Impact on recoverable amount of a 10% annual reduction in forecast cashflows	£40m	£41m
Reduction required in annual forecast cashflows to eliminate headroom	70%	62%

29. Investments in group undertakings

Accounting for investments in group undertakings

Shares in subsidiaries

The subsidiaries are held in the Company's Statement of Financial Position at cost less any provision for impairment. An assessment of the *realisable value is made at the Statement of Financial Position date and, if the Directors assess that there has been a permanent fall in that* value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

Company	2022 £m	2021 £m
Shares in subsidiaries		
Cost less provisions at 1 January	**572**	758
Additions	**-**	10
Reduction in carrying value including impairment	**(323)**	(196)
	249	572

During the year the Company made a capital contribution of £nil (2021: £10m) to a subsidiary company. The Company has examined the carrying value of its subsidiaries and concluded that an impairment of £3m (2021: £10m) was required in regard to these investments, the remaining £320m (2021: £186m) relates to an impairment in carrying value down to the underlying net asset value of a subsidiary as a result of dividends paid by the subsidiary company to LVFS during the year.

Further details of the Group's investments are given in Notes 42 and 43.

Other assets and liabilities

This section includes information on the other assets and liabilities arising within the Group.

30. Insurance receivables

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Due from policyholders	**24**	20	**24**	20
Due from reinsurers	**50**	47	**50**	47
Due from reinsurers - held at fair value	**29**	34	**29**	34
	103	101	**103**	101

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

* The amounts due from reinsurers held at fair value relates to reinsurance amounts that are contracted to be settled over an extended period of time, the movements of which are disclosed separately in Note 9

31. Prepayments and accrued interest

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Accrued interest	**51**	52	**47**	47
Prepayments	**9**	10	**9**	10
	60	62	**56**	57

32. Insurance payables

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Due to policyholders	**30**	41	**30**	37
Due to brokers and intermediaries	**1**	-	**1**	-
Due to reinsurers	**14**	13	**14**	12
	45	54	**45**	49

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

33. Trade and other payables

Accounting for trade and other payables

Trade and other payables are recognised when they fall due. They are initially measured at fair value and subsequently at amortised cost. Accounting and disclosures regarding leases is disclosed in Note 34.

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Trade payables	**4**	7	**4**	7
Other taxes and social security costs	**8**	6	**8**	6
Other creditors	**46**	35	**40**	35
Accruals and deferred income	**76**	82	**74**	81
Bank overdrafts	**13**	2	**13**	2
Lease liabilities (see Note 34)	**22**	23	**2**	3
	169	155	**141**	134

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

34. Assets held under leases and lease liabilities

Accounting for assets held under leases and lease liabilities

The Group recognises a right of use asset within Property and equipment and a lease liability within Trade and other payables at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The lease liability is initially measured at the present value of outstanding lease payments over the lease term.

In determining the lease term management consider the impact of contractual break clauses. The majority of leases have break clauses exercisable only by the lessee, no leases have extension options. The lease term is identified as the period up to the break clause unless management is reasonably certain not to exercise a break option.

The minimum lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The incremental borrowing rate is determined by obtaining interest rates from external financing sources for periods equivalent to the terms of the leases and rent review intervals. Lease payments used in the measurement of the lease liability comprise fixed payments including minimum prescribed rental increases at contractual rent reviews.

The right of use asset is subsequently depreciated on a straight line basis over the lease term. The lease liability is subsequently measured at amortised cost using the effective interest method. Depreciation charged on the right of use asset is recognised within Other operating and administrative expenses and interest expense on the lease liability is recognised within Finance costs. Cash payments for the principal portion of lease payments are reported within Financing activities in the Statement of Cash flows as required by IFRS 16. In addition cash payments for the interest portion are also reported within Financing activities in the Statement of Cash flows, consistent with the classification of interest on the subordinated debt.

The lease liability is re-measured when there is a change in future lease payments arising from a change in management's assessment of whether the Group will exercise a break clause or the rental payments are revised in accordance with a contractual rent review. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

IFRS 16 lease disclosures

The Group occupies leased premises for its head office and a small number of regional offices. At 31 December 2022, right of use assets held by the Group are £18m (2021: £19m) and lease liabilities are £22m (2021: £23m). Right of use assets and lease liabilities are unwound over the lease terms. The remaining lease terms, average 3 years for regional offices and 18 years for the head office. Lease rentals are typically renegotiated every 5 years to market rentals and include break clauses for additional flexibility.

The movement in the right of use asset balance is reported within note 27. The lease liability has experienced a net movement of £1m in the year to £22m (2021: lease liability experienced a net movement of £2m in the year to £23m). The movements include:

- additions of £nil (2021: additions of £nil),
- interest expense of £1m (2021: £1m)
- offset by rental payments of £2m (2021: £3m).

Cash spent on leases reported within the Cash flow statement is £2m (2021: £3m). The maturity analysis of the undiscounted lease payments is reported within Note 4 d).

The majority of leases include break clauses and these are only exercisable by the Group, not the landlord. Where the Group expects not to terminate the lease at such break clauses, the remaining period is included within the lease term. The amount of additional undiscounted cashflows associated with periods beyond break clauses that are not included within lease liabilities is £69m (2021: £69m), this primarily relates to the head office which is a 99 year lease entered into in 1974, with a break clause in 2040. Due to the significant timeframe to this break clause, the lease term is defined as the period to 2040 as it is not reasonably certain that the Group will not exercise this break option.

The Group had no other material short-term leases during 2022.

Taxation

This section includes information relating to the tax charge and movements in the corporation and deferred tax assets and liabilities held by the Company and Group.

35. Income tax (credit)/expense

Accounting for income tax

Income tax expense /(credit)

The income tax expense/(credit) recorded in the Statement of Comprehensive Income represents the current year corporation tax charge/(credit). As a mutual, the corporation tax charge/(credit) for LVFS relates to policyholder tax payable/(receivable) on the net investment return levied on certain types of business. Whereas for Group subsidiaries corporation tax is charged on trading profits arising in the year. The tax charge/(credit) excludes movements in deferred tax relating to items reported in Other Comprehensive Income, including the re-measurements of the defined benefit pension scheme.

Current income tax

Current income tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the Statement of Financial Position date.

Deferred income tax

Deferred income tax arises on the temporary differences between the tax bases and carrying amounts of assets and liabilities in the Statement of Financial Position. Deferred income tax is recognised using the liability method by applying tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax balance is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

a) Current year tax (credit)/expense

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Current tax				
Current year	(3)	1	(4)	2
Adjustment in respect of prior years	1	(4)	1	(4)
Total current tax	(2)	(3)	(3)	(2)
Deferred tax				
Temporary differences	(95)	14	(94)	14
Total deferred tax	(95)	14	(94)	14
Total income tax (credit)/expense	(97)	11	(97)	12

b) Reconciliation of tax (credit)/expense

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Loss before tax and mutual/exit bonus	(265)	(66)	(269)	(75)
Tax calculated at the average standard rate of corporation tax in the UK at 19% (2021: 19%)	(50)	(12)	(51)	(14)
Permanent differences				
Income and expenses not subject to tax	-	(3)	-	-
Mutual loss not subject to tax	51	14	51	14
Policyholder I-E tax	(99)	16	(98)	16
Adjustment to current tax charge in respect of prior years	1	(4)	1	(4)
Total (credit)/expense	(97)	11	(97)	12

36. Deferred tax asset/(liability)

Disclosed on the Statement of Financial Position	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
– Deferred tax asset	42	-	41	-
– Deferred tax liability	(6)	(122)	(6)	(122)
Net deferred tax asset/(liability)	**36**	(122)	**35**	(122)

a) Movement on the net deferred tax asset/(liability)	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Balance at 1 January	(122)	(91)	(122)	(91)
Amounts recorded in the Statement of Comprehensive Income within profit for the year	95	(14)	94	(14)
Amounts recorded within Other Comprehensive Income	63	(17)	63	(17)
Balance at 31 December	**36**	(122)	**35**	(122)

b) Analysis of deferred taxation temporary differences	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Temporary differences on expenses	2	2	2	2
Temporary differences on unrealised losses/(gains)	40	(55)	39	(55)
Temporary difference on re-measurement of defined benefit pension scheme	(6)	(69)	(6)	(69)
Net deferred tax asset/(liability)	**36**	(122)	**35**	(122)

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation, temporary differences on expenses and taxable losses carried forward is dependent on the availability of future taxable profits within the Company and Group. Management forecasts currently support the future recoverability of deferred tax assets recognised in the balance sheet as at 31st December 2022

At Budget 2021, the Government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2021 and 1 April 2022 would remain at 19%. The rate will increase to 25% for the year beginning 1 April 2023

Employee benefits

This section includes information relating to the short-term and long-term employee benefits within the Company and the Group.

37. Employee benefits expense

Accounting for employee benefits

Employee benefits expense includes the expense incurred in the period relating to both short and long-term employee benefits. Short-term employee benefits include salaries, accrued bonuses and social security costs and are recognised over the period in which the employees provide the services to which the payments relate. Expenses related to long-term employee benefits include pension contributions to defined contribution schemes made in exchange for employee service and pension costs relating to defined benefit schemes. Other long-term benefits include amounts for long-term incentive plans (LTIPs), the expense for which is accrued over the plan term.

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Wages and salaries	**64**	73	**64**	73
Social security costs	**6**	7	**6**	7
Pension costs	**8**	6	**8**	6
	78	86	**78**	86

Of the £78m (2021: £86m) employee benefit expense in LVFS, £9m (2021: £8m) is recharged to other Group companies, leaving £69m (2021: £78m) of staff costs directly relating to LVFS.

Wages and salaries include charges for the long-term incentive plans (LTIPs) of £0.8m in 2022 (2021: £0.9m). The LTIP plan terms are described in the Report on Directors' Remuneration on page 52.

For the 2020-22 scheme, £0.6m will be paid to eligible employees in 2023 (2022: £1.3m pay-out for the 2019-21 scheme). The amounts vested represent a slightly above threshold outcome. Economic value of new business was above plan. Total costs were below threshold and Group operating capital surplus generation was between threshold and plan. This results in an overall multiplier of 0.58x.

The number of employees during the year, including executive directors, calculated on a monthly average basis, was as follows:

	Group		Company	
	2022 Number	2021 Number	2022 Number	2021 Number
Member and customer contact	**579**	625	**579**	625
Administration	**645**	751	**645**	751
	1,224	1,376	**1,224**	1,376

38. Pension benefit asset

Accounting for pension benefits

For defined benefit schemes, the net surplus or deficit is calculated annually with the assets measured at fair value at the Statement of Financial Position date and the liabilities discounted at the rate of return available on high quality corporate bonds.

IFRIC 14 'The limit on a defined benefit asset, minimum funding requirement and their interaction' is applied in determining whether an asset for net surplus is recognised and also whether a liability for future funding requirements is recognised in the Statement of Financial Position. The terms of the pension schemes are assessed to determine whether the Group has an unconditional right to a refund of scheme assets which ultimately remain following scheme termination, assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme. Where the criteria are met, any net surplus is recognised as a pension benefit asset and no liability is recognised for future funding obligations, as these will increase the pension scheme assets when paid. Where the criteria are not met, a net surplus cannot be recognised, and any future funding requirements are recognised as a separate liability. Schemes in a net deficit are recognised as a pension liability.

The criteria in IFRIC 14 are met for the LVFS and Ockham pension schemes and a net pension benefit asset is recognised in the Statement of Financial Position. The Group notes that the IASB project to amend IFRIC 14 is now on hold. Management will consider the implications of any future amendments once published.

The pension cost for the schemes is analysed between current service cost, past service cost, net interest on the net defined benefit asset/liability and any gain or loss on settlement. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the period in which the increases in benefits vest or are earned. The current and past service costs are recognised in Other operating and administrative expenses in the Statement of Comprehensive Income, whereas net interest income is credited to Investment income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as re-measurements in Other Comprehensive Income in the period in which they arise.

The pension benefit asset or liability is reported gross, with the associated tax liability reported as a deferred tax liability or asset.

For defined contribution plans, the Group pays contributions to an independently administered pension fund. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Significant accounting estimates

The valuation of the pension benefit obligations for the Group's defined benefit schemes is a significant accounting estimate, requiring the use of management judgement, which has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Assumptions used to measure the pension benefit obligation

The valuations of the pension benefit obligations for the Group's defined benefit schemes require actuarial assumptions about discount rates, inflation, longevity and future pension increases. These inputs and the long-term nature of these obligations, are a major source of estimation uncertainty which has a significant risk of resulting in a material adjustment to the carrying amounts of the pension benefit obligation within the next financial year.

Details of the principal assumptions used for each of the material defined benefit schemes are disclosed within the valuations of the individual schemes disclosed in section (iv). Sensitivities are performed against the assumptions and disclosed in section (v).

Defined benefit pension schemes

The Group operates two pension schemes with defined benefit sections: the LV= Employee Pension Scheme ("LV Scheme") and the Ockham Pension Scheme. LVFS is the principal employer for the LV Scheme and the Ockham Pension Scheme. The LV Scheme and the Ockham Pension Scheme are both hybrid schemes with a defined benefit section and a defined contribution section.

Defined contribution pension schemes

Until 30 November 2022, all LVFS employees were eligible to join the defined contribution section of the LV Scheme. From 1 December 2022 the defined contribution section of the LV Scheme closed to future accrual with all future employee contributions to be paid to the LV= Future Savings section of the Aon MasterTrust. From this date all LVFS employees are eligible to join the LV= Future Saving section of the Aon MasterTrust. Employee contributions are double matched by LVFS up to a maximum employer contribution of 14%. The assets of this scheme are held separately from those of the Group in an independently administered fund. The Group's contribution under this scheme during the year amounted to £6m (2021: £6m).

The Aon MasterTrust

The Aon MasterTrust is a multi-employer occupational pension scheme where each employer has its own distinct section within the arrangement. The LVFS section is the LV= Future Savings section of the Aon MasterTrust and is a Defined Contribution pension scheme. The Aon MasterTrust has a board of independent Trustees to oversee and monitor the MasterTrust in the best interest of its members. LVFS is a participating employer.

38. Pension benefit asset (continued)

a) Summary of defined benefit schemes

Pension benefit asset	2022 LV Scheme £m	2022 Ockham £m	2022 Total £m	2021 LV Scheme £m	2021 Ockham £m	2021 Total £m
Asset	9	9	18	175	22	197
	9	9	18	175	22	197

Re-measurements	2022 LV Scheme £m	2022 Ockham £m	2022 Total £m	2021 LV Scheme £m	2021 Ockham £m	2021 Total £m
Re-measurements	(175)	(15)	(190)	39	1	40
Income tax credit/(expense)	58	5	63	(16)	(1)	(17)
Amount (charged)/credited to Comprehensive Income	(117)	(10)	(127)	23	-	23
Cumulative re-measurements recognised in the Statement of Comprehensive Income	(36)	(25)	(61)	139	(10)	129

Further details of the Group's defined benefit pension schemes are disclosed below.

b) LV Scheme

(i) Information about the scheme

The defined benefit section of the LV scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits depends upon the member's length of service and their final salary. This section is closed to new entrants and to future accrual. Up to 30 November 2022, new entrants were contractually enrolled into the defined contribution section of the Scheme. From 1 December 2022 new entrants are contractually enrolled into the LV – Future Savings section of the Aon MasterTrust.

The scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees.

The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method, which is an accrued benefits valuation method.

The scheme has a Corporate Trustee required to act in the best interests of the scheme's beneficiaries. The Trustee may be removed at the discretion of LVFS, in its capacity as principal employer, provided that the board of any new trustee company comprises three directors representing the members, including one director who must be a pensioner and a further four directors selected by LVFS. With the agreement of LVFS, the directors of the Corporate Trustee may co-opt one other director.

On 29 May 2020 the Trustee closed out the longevity swap (which was taken out in 2012) and purchased a bulk annuity policy with Phoenix Life Limited. The Trustee holds this bulk annuity policy as an investment for the benefit of all Scheme members. It provides an income to the Scheme that exactly matches some of the benefit obligations of the Scheme.

(ii) Net Statement of Financial Position	2022 £m	2021 £m
Present value of defined benefit obligation	**(933)**	(1,488)
Fair value of plan assets	**942**	1,663
Pension benefit asset at the end of the year	**9**	175

38. Pension benefit asset (continued)

b) LV Scheme (continued)

(iii) The movement in the net defined benefit asset over the year is as follows:	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2022	**(1,488)**	**1,663**	**175**
Pension costs:			
Current service cost	**(2)**	**-**	**(2)**
Interest (expense)/income	**(27)**	**31**	**4**
	(29)	**31**	**2**
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	**-**	**(710)**	**(710)**
– Gain from changes in demographic assumptions	**15**	**-**	**15**
– Gain from changes in financial assumptions	**556**	**-**	**556**
– Experience loss	**(36)**	**-**	**(36)**
	535	**(710)**	**(175)**
Other movements:			
– Contributions by employer	**-**	**7**	**7**
– Benefits paid	**49**	**(49)**	**-**
	49	**(42)**	**7**
At 31 December 2022	**(933)**	**942**	**9**
At 1 January 2021	(1,580)	1,709	129
Pension costs			
Current service cost	(2)	-	(2)
Interest (expense)/income	(20)	22	2
	(22)	22	-
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	(19)	(19)
– Loss from changes in demographic assumptions	(5)		(5)
– Gain from changes in financial assumptions	82	-	82
– Impact of new valuation data	9	-	9
– Experience loss	(28)	-	(28)
	58	(19)	39
Other movements			
– Contributions by employer	-	7	7
– Benefits paid	56	(56)	-
	56	(49)	7
At 31 December 2021	(1,488)	1,663	175

38. Pension benefit asset (continued)

b) LV Scheme (continued)

(iv) Principal assumptions used	Buy-in policy 2022	Whole scheme 2022	Buy-in policy 2021	Whole scheme 2021
Discount rate	**4.75%**	**4.75%**	1.80%	1.90%
RPI inflation	**3.20%**	**3.10%**	3.60%	3.35%
CPI inflation	**2.50%**	**2.40%**	2.60%	2.65%
Pension increases for in-payment benefits				
– RPI price inflation capped at 5% pa, floor of 3% pa	**3.65%**	**3.60%**	3.80%	3.70%
– RPI price inflation capped at 5% pa	**3.10%**	**3.05%**	3.40%	3.20%
– RPI price inflation capped at 2.5% pa	**2.20%**	**2.15%**	2.30%	2.20%
– CPI price inflation capped at 3.0% pa	**2.50%**	**2.45%**	2.30%	2.15%

The discount rate and inflation rate assumptions for 2022 and 2021 have been set with reference to yield curves. The single rates disclosed above represent the weighted average equivalent rate based on the yield curve used. The pension increase assumptions disclosed represent spot rates on the yield curve at the approximate duration of the scheme's liabilities.

For 2022, mortality for members is assumed to follow LV specific Club Vita individual base tables, published in 2020, based on pooled experience during the period 2016 to 2018 (2021: LV specific Club Vita tables 2016 to 2018).

The table below shows the life expectancy assumptions used in the accounting assessments based on the average future life expectancy of a scheme member who is a pensioner aged 65 (non-pensioner is assumed to be 45 now).

Future life expectancy assumptions (in years) as at 31 December	2022	2021
Pensioner (currently aged 65)		
– Male	**22.7**	22.6
– Female	**24.6**	24.5
Non-pensioner (at age 65, currently aged 45)		
– Male	**23.7**	23.6
– Female	**26.0**	25.9

In all cases, as at 31 December 2022 CMI Core 2019 projections with a long-term rate of improvement of 1.50% a year (smoothing = 7.0) and an 'A' parameter of 0.50% for males and 0.25% for females, have been applied (31 December 2021: CMI Core 2019 projections with a long-term rate of improvement of 1.50% a year (smoothing = 7.0) and an 'A' parameter of 0.50% for males and 0.25% for females).

The COVID-19 pandemic which emerged during 2020 led to a very heavy year for population mortality in the UK, particularly amongst older pensioners. When setting future life expectancy for this year-end, there is not sufficient data on the longer-term implications of Covid-19 to justify a step change in life expectancy over the last two years.

(v) Sensitivity analysis: Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Decrease by 1.0%**	**Increase by £150m (16%)**
Discount rate	**Increase by 1.0%**	**Decrease by £108m (12%)**
Inflation rate (both RPI and CPI)	**Increase by 0.5%**	**Increase by £34m (4%)**
Inflation rate (CPI)	**Increase by 0.1%**	**Increase by £7m (1%)**
Life expectancy	**Increase by 1 year**	**Increase by £37m (4%)**

The sensitivity analysis has been calculated by valuing the defined benefit obligation using the amended assumptions shown in the table above and keeping the remaining assumptions the same as disclosed in the principal assumptions table for the scheme, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly. These sensitivities demonstrate the impact on the gross liability so make no allowance for the impact on the buy-in contract.

38. Pension benefit asset (continued)

b) LV Scheme (continued)

(vi) Plan asset information

The following table shows a breakdown of the plan assets

	2022				2021			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	-	2	2	-	52	3	55	3
Debt securities	566	-	566	60	1,365	-	1,365	82
Cash and cash equivalents	218	-	218	23	-	1	1	-
Real estate/property	-	-	-	-	76	-	76	5
Derivatives and REPOs	-	(352)	(352)	(37)	-	(500)	(500)	(30)
Buy-in	-	432	432	46	-	604	604	36
Pooled investment vehicles	-	-	-	-	34	-	34	2
Other	48	28	76	8	-	28	28	2
	832	110	942	100	1,527	136	1,663	100

The use of derivatives includes gilt repos of £(346)m (2021: £(530)m), swaps of £(5)m (2021: £15m) and currency derivatives of £(1)m (2021: £15m) to hedge the interest, inflation and currency exposures. In addition, credit default swaps and options are used to gain and manage exposures to corporate bonds, and a synthetic equity strategy is used to gain exposure to global equity markets.

In determining and reviewing the Scheme's investment strategy, the Trustee adopts a Pensions Risk Management Framework (PRMF). This framework translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF is reviewed and monitored by the Trustee on at least a quarterly basis.

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long-term target of moving towards being fully funded on a Gilts +0.25% liability valuation basis by 2028. In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objectives within the PRMF;
- Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total risk on the Scheme below the risk budget set in the PRMF
- Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

Following the triennial scheme valuation which took place as at 31 March 2021, LVFS as principal employer agreed, on behalf of participating employees, to continue to pay monthly deficit reduction contributions of £416,777 until 31 March 2028 to meet the statutory funding objective[1]. In addition to these funding contributions, LVFS continues to make payments of £216,542 per month towards the regular expenses of administering the defined benefit section of the Scheme plus payments equal to the pension protection fund (PPF) levies.

[1] The statutory funding objective is that the Scheme must have 'sufficient and appropriate' assets to meet the expected costs of providing members past service benefits.

(vii) Pension scheme risks

Through its defined benefit pension schemes the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility:	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan assets are predominantly held in debt securities which match the liabilities with a small holding of equities that are expected to outperform corporate bonds in the long term.
Changes in bond yields:	A decrease in corporate bond yields will increase plan liabilities, although this will be offset by an increase in the value of the scheme's bond holdings.
Inflation risk:	The majority of the scheme's benefit obligations are linked to inflation, therefore an increase in inflation will lead to an increase in liabilities. In most cases, caps on the level of inflationary increases and derivatives are in place to protect the scheme against significant rises in inflation.
Life expectancy:	The scheme's obligations are to provide benefits for the life of the member, so any increases in life expectancy will result in an increase in the scheme's liabilities. *On 29 May 2020 the Trustee converted* the longevity swap to a bulk annuity policy with Phoenix Life. This provides an income to the Scheme that exactly matches some of the benefit obligations of the Scheme.

38. Pension benefit asset (continued)

b) LV Scheme (continued)

(viii) Expected maturity analysis of undiscounted pension benefits:

	Less than a year £m	Between 1-2 years £m	Between 2-5 years £m	Over 5 years £m	Total £m
At 31 December 2022	**46**	**48**	**151**	**1,857**	**2,102**

The weighted average duration of the gross defined benefit obligation is 14 years. The duration of the buy-in policy is 9 years.

The expected contributions to the scheme for the year ending 31 December 2023 are £7m.

c) Ockham Scheme

(i) Information about the scheme

The defined benefit section of the Ockham scheme provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits depends upon the member's length of service and their final salary. The scheme is closed to new entrants and future accrual.

The scheme assets are held in separate trustee-administered funds to meet long-term pension liabilities to past employees. The liabilities of the scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method, which is an accrued benefits valuation method.

The scheme has a Corporate Trustee required to act in the best interests of the scheme's beneficiaries. The Trustee may be removed at the discretion of LVFS, in its capacity as principal employer, provided that any new trustee board comprises two directors representing the members and up to four directors selected by LVFS.

(ii) Net Statement of Financial Position	2022 £m	2021 £m
Present value of defined benefit obligation	**(107)**	(156)
Fair value of plan assets	**116**	178
Pension benefit asset at the end of the year	**9**	22

(iii) The movement in the net defined benefit asset over the year is as follows:

	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2022	**(156)**	**178**	**22**
Pension costs:			
Interest (expense)/income	**(3)**	**3**	**-**
	(3)	**3**	**-**
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	**-**	**(61)**	**(61)**
– Gain from changes in demographic assumptions	**1**	**-**	**1**
– Gain from changes in financial assumptions	**50**	**-**	**50**
– Impact of changes in inflation	**3**	**-**	**3**
– Experience loss	**(8)**	**-**	**(8)**
	46	**(61)**	**(15)**
Other movements:			
– Contributions by employer	**-**	**2**	**2**
– Benefits paid	**6**	**(6)**	**-**
	6	**(4)**	**2**
At 31 December 2022	**(107)**	**116**	**9**
At 1 January 2021	(162)	181	19
Pension costs:			
Interest (expense)/income	(2)	2	-
	(2)	2	-
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	(2)	(2)
– Loss from changes in demographic assumptions	(1)	-	(1)
– Gain from changes in financial assumptions	5	-	5
– Impact of new valuation data	(1)	-	(1)
	3	(2)	1
Other movements:			
– Contributions by employer	-	2	2
– Benefits paid	5	(5)	-
	5	(3)	2
At 31 December 2021	(156)	178	22

38. Pension benefit asset (continued)

c) Ockham Scheme (continued)

(iv) Principal assumptions used	2022	2021
Discount rate	**4.75%**	1.85%
RPI inflation	**3.15%**	3.40%
CPI inflation	**2.45%**	2.70%
Pension increases for in-payment benefits		
– RPI price inflation capped at 5% pa	**3.10%**	3.30%
– linked to RPI inflation	**3.15%**	3.40%

The discount rate and inflation rate assumptions for 2022 and 2021 have been set with reference to yield curves. The single rates disclosed above represent the weighted average equivalent rate based on the yield curve used. The pension increase assumptions disclosed represent spot rates on the yield curve at the approximate duration of the scheme's liabilities.

Mortality rate assumptions are based on the same mortality tables as disclosed within the LV Scheme, but using Ockham specific individual base tables.

Future life expectancy assumptions (in years) as at 31 December	2022	2021
Pensioner (currently aged 65)		
– Male	**23.5**	23.4
– Female	**24.9**	24.8
Non-pensioner (at age 65, currently aged 45)		
– Male	**24.2**	24.1
– Female	**26.7**	26.6

The COVID-19 pandemic which emerged during 2020 led to a very heavy year for population mortality in the UK, particularly amongst older pensioners. When setting future life expectancy for this year-end, there is not sufficient data on the longer-term implications of Covid 19 to justify a step change in life expectancy over the last two years.

(v) Sensitivity analysis: Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Decrease by 1.0%**	**Increase by £14m (13%)**
RPI rate	**Increase by 0.5%**	**Increase by £4m (4%)**
Life expectancy	***Increase by 1 year***	***Increase by £4m (4%)***

The sensitivity analysis has been calculated by valuing the defined benefit obligation using the amended assumptions shown in the table above and keeping the remaining assumptions the same as disclosed in the principal assumptions table for the scheme, except in the case of the inflation sensitivity where other assumptions that depend on assumed inflation have also been amended correspondingly.

(vi) Plan asset information

Plan assets are comprised as follows:

	2022				2021			
	Quoted £m	*Unquoted* £m	*Total* £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	**30**	**-**	**30**	**26**	41	-	41	23
Debt securities	**78**	**-**	**78**	**67**	155	-	155	87
REPOs	**-**	**(10)**	**(10)**	**(9)**	-	(42)	(42)	(23)
Cash and cash equivalents	**9**	**-**	**9**	**8**	6	-	6	3
Pooled investment vehicles	**9**	**-**	**9**	**8**	18	-	18	10
	126	**(10)**	**116**	**100**	220	(42)	178	100

In determining and reviewing the Scheme's investment strategy, the Trustee adopts an objectives based approach. This translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. These objectives are reviewed and monitored by the Trustee on a regular basis.

38. Pension benefit asset (continued)

c) Ockham Scheme (continued)

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long-term target of moving towards being fully funded on a Gilts +0.25% liability valuation basis by 2028. In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objective.
- Manage the investment risk including that arising due to a mismatch between assets and liabilities by hedging to the Scheme's funding level on a Gilts +0.25% liability valuation basis, as well as limit the total risk on the Scheme below the risk budget; and
- Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

Following the triennial scheme valuation which took place as at 31 March 2021, LVFS as principal employer agreed, on behalf of participating employees, to continue to make annual deficit reduction contributions of £2,000,000, until 31 March 2028, to meet the statutory funding objective. In addition to these funding contributions, LVFS continues to make payments of £35,280 per month towards the regular expenses of administering the defined benefit section of the Scheme plus payments equal to the pension protection fund (PPF) levies.

(vii) Pension scheme risks

Details of the pension scheme risks that the Group is exposed to are disclosed within the LV Scheme.

(viii) Expected maturity analysis of undiscounted pension benefits:

	Less than a year £m	Between 1-2 years £m	Between 2-5 years £m	Over 5 years £m	Total £m
At 31 December 2022	6	6	20	178	210

The weighted average duration of the defined benefit obligation is 12 years.

The expected contributions to the Ockham pension scheme for the year ending 31 December 2023 are £2m.

Provisions, contingent liabilities and commitments

This section describes the provisions, contingent liabilities and commitments of the Company and Group.

39. Provisions

Accounting for provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Group expects some or all of a provision to be reimbursed this is recognised as a separate asset when the reimbursement is certain. Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The expense relating to provisions is presented in the Statement of Comprehensive Income.

Movement during the year on provisions	Group £m	Company £m
Balance at 1 January 2022	22	22
Provided during the year	6	6
Released during the year	(7)	(7)
Utilised during the year	(1)	(1)
Balance at 31 December 2022	20	20

	Group		Company	
	2022	2021	2022	2021
Provisions relate to:	£m	£m	£m	£m
Teachers mis-selling compensation	18	20	18	20
Other	2	2	2	2
	20	22	20	22

The provision for Teachers mis-selling compensation is held to cover the expected customer redress costs in respect of mis-selling claims on pension products sold by the Teachers Assurance Group prior to it being transferred into the LV= Group in 2016.

40. Contingent liabilities and other risk factors

Accounting for contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

LVFS has granted a guarantee to the landlord of one of its leased properties, to guarantee that the tenant, Frizzell Financial Services Limited, a subsidiary of LVFS, shall pay the rents reserved by the lease and observe and perform the tenant covenants of the lease and that if the tenant fails to do so LVFS shall pay or observe and perform them.

LVFS has provided certain guarantees in relation to mortgage purchase agreements between its subsidiary LV Equity Release Limited and Phoenix Life Limited. In the event that the subsidiary fails to pay certain amounts in connection with the agreements, LVFS would cover the payment and any loss incurred by the counterparty as a result.

LVFS has provided a limited guarantee of £3m in relation to liabilities of Liverpool Victoria Financial Advice Services Limited (LVFAS), a subsidiary of LVFS, arising out of claims by recipients of financial advice where LVFAS is legally liable for that advice.

41. Commitments

Capital commitments

Capital commitments relate to authorised and contracted commitments payable but not provided for regarding financial investments. The total amount of capital commitments for the Group and the Company at 31 December 2022 is £2m (2021: £3m).

Other financial commitments

The Group has entered into several long-term contracts following service outsourcing which will end no later than 2024. These amount to £29m (2021: £57m) for the Group and the Company. These contracted commitments have not been provided for in the financial statements, *except where included in expense assumptions within the long-term insurance contract liabilities valuation.*

The Group has no material short-term lease commitments at 31 December 2022.

Consolidation and interests in other entities

This section includes information on the Group's investments in subsidiaries, joint ventures, associates and structured entities. The accounting policy regarding the Group's investments is disclosed in Note 1. This section also includes information regarding the Unallocated divisible surplus of the Company and Group.

42. Subsidiary undertakings

All subsidiary undertakings are included in the consolidation. The Group's holdings in subsidiary companies are listed below. All holdings are in relation to ordinary shares. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The Group and all principal undertakings are incorporated and domiciled in England and Wales. The registered office is County Gates, Bournemouth BH1 2NF for all subsidiaries.

Name	Principal activity	Percentage held by Group
Subsidiaries directly owned by LVFS		
Frizzell Financial Services Limited (Note 1)	Property management	100%
LV Life Services Limited (Note 1)	Management services	100%
LV Commercial Mortgages Limited (Note 1)	Commercial mortgages	100%
NM Pensions Trustees Limited (Note 1)	Self-invested personal pension (SIPP) administrator	100%
Liverpool Victoria Financial Advice Services Limited (Note 1)	Financial advice services	100%
Liverpool Victoria Life Company Limited	Life insurance	100%
LV Protection Limited	Insurance	100%
LV Capital Limited (Note 1)	Holding company	100%
LV Equity Release Limited (Note 1)	Origination of equity release lifetime mortgages	100%
Teachers Financial Services Limited (Note 1)	Insurance and financial intermediary	100%
Teachers Assurance Company Limited	General insurance	100%
Teachers Management Services Limited (Note 1)	Management services	100%
Teachers Property Limited (Note 2)	Dormant	100%
Sovereign Unit Trust Managers Limited (Note 2)	Dormant	100%
Liverpool Victoria Banking Services Limited (Note 2)	Dormant	100%
Ayresbrook Limited (Note 2)	Dormant	100%
Highway Corporate Capital Limited (Note 2)	Dormant	100%
Ockham Corporate Limited (Note 2)	Dormant	100%
NLC Name No. 1 Limited (Note 2)	Dormant	100%
NLC Name No. 2 Limited (Note 2)	Dormant	100%
NLC Name No. 3 Limited (Note 2)	Dormant	100%
NLC Name No. 4 Limited (Note 2)	Dormant	100%
NLC Name No. 5 Limited (Note 2)	Dormant	100%
NLC Name No. 7 Limited (Note 2)	Dormant	100%
LV Administration Services Limited (Note 2)	Dormant	100%
The LV= Pension Trustee Limited (Note 2)	Dormant trustee company	Note 3
The LV= General Trustee Limited (Note 2)	Dormant trustee company	Note 3
The Ockham Pension Trustee Limited (Note 2)	Dormant trustee company	Note 3
Liverpool Victoria Trustees Limited (Note 2)	Dormant trustee company	Note 3

Note 1 – The financial statements of these subsidiary undertakings have not been audited for the year ended 31 December 2022. These subsidiary undertakings are exempt from the requirements of the Companies Act 2006 relating to the audit of individual financial statements by virtue of Section 479A of the Companies Act 2006.
Note 2 – The financial statements of these dormant companies have not been audited for the year ended 31 December 2022. These companies were entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies.
Note 3 – These companies are limited by Guarantee and have no issued share capital.

All the principal subsidiaries have the same year end as LVFS and all have been included in the consolidation.

43. Associates and joint ventures

The associates and joint ventures of the Company at 31 December 2022 are shown below. They are incorporated and domiciled in England and Wales. The registered office is 33 Cavendish Square, London, W1G 0PW.

Name	Year end	Class of shares	Principal activity	Percentage held
Joint ventures				
Great Victoria Partnership	31/03/2022		Investment property	50.0%

* The percentage held represents the share of the partnership capital and partner loans held by the Company as at 31 December 2022.

The Group holds 50% of the voting rights of its joint arrangement. The Group has joint control over this arrangement as, under the contractual agreement, unanimous consent is required from all parties to the agreement for all relevant activities.

The Group's joint arrangement is structured as a partnership and provides the Group and the other parties to the agreement with rights to the net assets of the partnership. Therefore, this arrangement is classified as a joint venture.

The principal activity of the Great Victoria Partnership comprises investment in, and development of, freehold and leasehold property in the United Kingdom. Property investments are held by the Group to support contractual liabilities arising from investment and long-term insurance contracts. During the year the Group received dividends from the partnership of £nil (2021: £nil).

Commitments and contingent liabilities in respect of joint ventures

There are no commitments or contingent liabilities relating to the Group's interest in the joint venture.

Summarised financial information for joint ventures

In accordance with the provisions of IFRS 12 which states that an entity may present the summarised financial information on the basis of the joint venture's or associate's financial statements if:

- the entity measures its interest in the joint venture or associate at fair value in accordance with IAS 28; and
- the joint venture or associate does not prepare IFRS financial statements and preparation on that basis would be impracticable or cause undue cost.

The summarised financial information set out below is presented on the basis of the Great Victoria Partnership's financial statements for the year ended 31 March 2022 prepared in accordance with UK-adopted International Accounting Standards ('IFRS').

Within the Group financial statements this holding is accounted for as an investment at fair value in accordance with the exemptions permitted under IAS28 applicable to investment-linked insurance funds and as such, is included within the Risk Management disclosures for financial instruments in Note 4.

Summarised Statement of Financial Position	31 March 2022 £m	31 March 2021 £m
Assets		
Non-current		
– Investment properties	88	104
Current		
Trade and other receivables	1	3
Cash and cash equivalents	18	11
	107	118
Liabilities		
Non-current		
– Financial liabilities	-	-
Current		
– Other liabilities	(77)	(75)
	(77)	(75)
Net assets	30	43
Partners' capital	5	5
Retained earnings	25	38
Total partners' funds	30	43

Summarised Statement of Comprehensive Income	31 March 2022 £m	31 March 2021 £m
Net rental income	2	5
Revaluation deficit on investment properties	(15)	(43)
Operating loss	(13)	(38)
Finance costs	-	(6)
Loss for the year	(13)	(44)

44. Investments in unconsolidated structured entities

The Group has interests in structured entities which are not consolidated as the definition of control has not been met based on the investment proportion held by the Group. As at 31 December 2022 the Group's interest in unconsolidated structured entities, which are classified as investments held at fair value through income, are shown below:

Investment	2022 £m	2021 £m
Open Ended Investment Companies	**5,993**	7,613
Unit trusts	**140**	194
Liquidity funds	**298**	116
	6,431	7,923

Included within the above are £3,378m (2021: £4,101m) of investments held to cover linked liabilities. Other than these, the Group's exposure to financial loss from the interest in the unconsolidated structured entities is limited to the investment amount shown above. The Group is not required to provide financial support to the entities, nor does it sponsor the entities.

45. Unallocated divisible surplus

Accounting for the Unallocated divisible surplus

The Unallocated divisible surplus represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. It represents amounts that have yet to be formally declared as bonuses for the participating contract policyholders together with the free assets of the Company and Group. Any profit or loss for the year arising through the Statement of Comprehensive Income (for the Company and for the Group) is transferred to or from the Unallocated divisible surplus.

UK regulations, the Group's Principles and Practices of Financial Management, and the terms and conditions of participating contracts set out the bases for the determination of the amounts on which the participating additional discretionary contract benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Balance at 1 January	**1,023**	1,115	**968**	1,070
Transfer included within loss for the year	**(203)**	(115)	**(207)**	(125)
Transfer included within other comprehensive income	**(127)**	23	**(127)**	23
Balance at 31 December	**693**	1,023	**634**	968

Other disclosures

This section includes information on other disclosure matters, comprising: related party transactions, directors' emoluments and other relevant LVFS information.

46. Related party transactions

a) Key management compensation

Key management personnel of the Group comprise all executive and non-executive directors and senior management. The summary of the compensation of key management personnel for the year is as follows:

	Group 2022 £000	2021 £000
Short-term employment benefits	**3,671**	5,113
Other long-term benefits	**110**	494
Post-employment benefits	**56**	73
Termination benefits	**124**	457
Total compensation of key management personnel	**3,961**	6,137

There were no premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products (2021: £nil).

b) Transactions between LVFS and other Group companies

	2022 £m	2021 £m
Management charge by LVFS (see note 11)	**15**	[illegible]
Beneficial interest in loans sold to LVFS	**74**	191
Investment expenses charged to LVFS	**(3)**	(2)
Dividend income from group undertakings	**320**	186

Balances outstanding between LVFS and other Group companies:

	2022 £m	2021 £m
Receivable by LVFS	**7**	6

c) Other related party disclosures

LVFS has granted a contingent loan facility to the RNPFN fund, a closed fund within LVFS, to be used in the event of a shortfall in the capital resources of that fund. The maximum level of capital support is reset every year in line with the terms of the RNPFN Scheme (the level which applied in 2022 was £43.4m). The RNPFN fund is required to manage its capital in a manner so as not to require use of this facility and, if it is used, to repay it to LVFS as soon as possible. While undrawn a charge for the facility is made at 1% per annum.

47. Directors' emoluments

a) Emoluments

Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows:

	Total remuneration £000							
	2022							2021
	Salary and fees	Bonus	Deferred Bonus	Pension related benefits	Other benefits	Other emoluments	Total	Total
M. Hartigan (resigned 30 September 2022)[1]	**326**	**191**	**127**	**37**	**15**	**70**	**766**	1,013
D. Hynam (appointed 24 October 2022)[2]	**175**	**225**	**-**	**20**	**3**	**-**	**423**	-
S. Moore (appointed 17 June 2022)	**114**	**-**	**-**	**-**	**1**	**-**	**115**	-
C. Leddie	**85**	**-**	**-**	**-**	**1**	**-**	**86**	78
S. McInnes	**83**	**-**	**-**	**-**	**3**	**-**	**86**	63
S. Creedon	**80**	**-**	**-**	**-**	**-**	**-**	**80**	65
N. Ceeney (appointed 1 March 2022)	**75**	**-**	**-**	**-**	**-**	**-**	**75**	-
S. Neubert (appointed 1 March 2022)	**69**	**-**	**-**	**-**	**1**	**-**	**70**	-
A. Cook (resigned 28 February 2022)	**33**	**-**	**-**	**-**	**-**	**-**	**33**	201
I. Savage (resigned 1 April 2022)	**18**	**-**	**-**	**-**	**-**	**-**	**18**	72
D. Barral (resigned 7 March 2022)	**15**	**-**	**-**	**-**	**1**	**-**	**16**	82
A. Hutchinson (resigned 1 April 2022)	**15**	**-**	**-**	**-**	**-**	**-**	**15**	66
W. Snow (resigned 16 September 2021)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	629
	1,088	**416**	**127**	**57**	**25**	**70**	**1,783**	2,269

(1) Mark Hartigan stepped down from his position on the Board and left LV= on 30 September 2022. Upon termination, Mark was contractually entitled to a payment of £120,000 which has £72,000 (60%) deferred for three years, payable in three equal instalments.

Mark will receive the equivalent of 10 months' salary and the cash value of benefits, in line with his contractual entitlement, totalling £412,545. This will be paid in monthly instalments and is subject to the Company's right to reduce or stop payments if alternative employment is undertaken. Mark also remained eligible for a prorated bonus for 2022 and will continue to receive outstanding deferred bonus awards on their normal time horizons subject to the normal risk assessment.

Other emoluments for Mark Hartigan include holiday pay and [illegible].

(2) David Hynam's salary and bonus cover the period from his start date of 26 September 2022. David was appointed to the Board on 24 October 2022.

47. Directors' emoluments (continued)

Further details of the directors' emoluments for the year ended 31 December 2022 are set out in the Directors' Remuneration Report.

Pension related benefits are amounts taken as cash in lieu of forgone pension contributions.

Deferred bonus represents the amount of the 2022 performance bonus payable over the next 3 years.

Other benefits include car allowance, medical insurance, life cover and taxable travel and subsistence.

b) Pension arrangements

The LV= Employee Pension Scheme is administered at Group level and incorporates both defined benefit and defined contribution sections.

The defined benefit section was closed to future accrual in 2013 at which point existing members were eligible to join the defined contribution section. Until 30 November 2022, all LVFS employees were eligible to join the defined contribution section of the LV Scheme. From 1 December 2022 the defined contribution section of the LV Scheme closed to future accrual with all future employee contributions to be paid to the LV= Future Savings section of the Aon MasterTrust.

The company has made no contributions to personal pension arrangements during 2022 (2021: £nil). There were no contributions to the defined contribution section in 2022 (2021: £nil).

No directors were deferred members of the defined benefit section during the year.

48. Cash used in operating activities

	Group		Company	
	2022	2021	2022	2021
	£m	£m	£m	£m
Loss before tax and mutual/exit bonus	**(265)**	(66)	**(269)**	(75)
Investment income	**(223)**	(222)	**(542)**	(407)
Net losses/(gains) on investments	**2,193**	(217)	**2,193**	(217)
Finance costs	**25**	24	**24**	23
Net increase in derivatives	**(46)**	(46)	**(46)**	(46)
Non-cash items				
Amortisation and disposal of intangible assets	**2**	2	**2**	1
Depreciation of property and equipment	**2**	3	**-**	2
Loss on disposal of property and equipment	**-**	2	**-**	2
Impairment of intangible assets	**5**	-	**4**	-
(Decrease)/increase in provisions	**(1)**	20	**(1)**	20
Increase in pension benefit asset	**(11)**	(9)	**(11)**	(9)
Increase in subordinated liabilities	**1**	-	**1**	-
Impairment write-offs in subsidiaries	**-**	-	**323**	196
Mutual and exit bonus	**(35)**	(38)	**(35)**	(38)
Changes in working capital				
Increase in loans and receivables	**(17)**	(10)	**(19)**	-
Decrease/(increase) in reinsurance assets	**551**	(11)	**551**	(11)
Increase in insurance receivables	**(2)**	(20)	**(2)**	(20)
Decrease/(increase) in prepayments	**1**	(1)	**1**	(1)
Decrease in participating insurance contract liabilities	**(998)**	(44)	**(998)**	(44)
Decrease in non-participating insurance contract liabilities	**(1,242)**	(153)	**(1,238)**	(153)
Decrease in non-participating value of in-force business	**94**	7	**94**	7
(Decrease)/increase in participating investment contract liabilities	**(152)**	5	**(152)**	5
(Decrease)/increase in non-participating investment contract liabilities	**(719)**	354	**(719)**	354
Decrease in other financial liabilities	**(63)**	(47)	**(63)**	(47)
(Decrease)/increase in insurance payables	**(9)**	12	**(4)**	13
Increase/(decrease) in trade and other payables	**4**	40	**(3)**	43
Cash used in operating activities	**(905)**	(415)	**(909)**	(402)

49. Solvency and Financial Condition Report

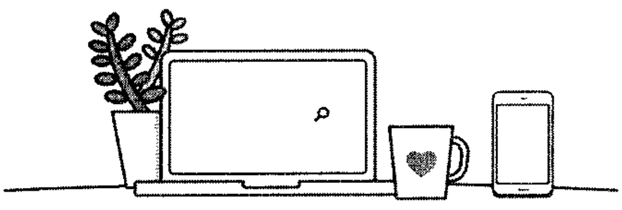
The Solvency and Financial Condition Report of the Group and the Company as at 31 December 2022 will be available on LV.com after they have been submitted to the Prudential Regulation Authority or on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

50. Company information

Liverpool Victoria Financial Services Limited is a private company limited by guarantee registered under the Companies Act 2006.

LV= and Liverpool Victoria are trademarks of Liverpool Victoria Financial Services Limited. LV= and LV= Liverpool Victoria are trading styles of the Liverpool Victoria group of companies. Liverpool Victoria Financial Services Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority, and is a member of the Association of British Insurers and the Investment and Life Assurance Group.

Registered office:
County Gates
Bournemouth
BH1 2NF



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Liverpool Victoria Financial Services Limited: County Gates, Bournemouth BH1 2NF.

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