Annual Report

For the year ended 31 December 2020

Contents

The LV= Strategic Report was approved by the board of directors on 25 March 2021 and signed on its behalf by:

Alan Cook
Chairman

2020

Financial Highlights

£40m Operating profit generation	**£103m** Operating capital generation
£37m Profit before tax	**£690m** Solvency II capital surplus
£139m Transfer from Unallocated Divisible Surplus	**198%** Capital Coverage Ratio

A bit about us and what we do

We're a protection, savings and retirement provider.

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

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.

Our 1.28million customers, 1.25million of which are members, hold a variety of products with us including life insurance, income protection, investments and retirement income solutions such as equity release, fixed-term annuities and drawdown products.

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 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 65 and explanations as to why we use certain non standard performance measures is provided on page 66-67

Chairman's Review

Alan Cook
Chairman

Despite the unprecedented challenges from the pandemic, LV= has delivered a good financial performance in 2020 and we have created real momentum in our trading businesses. We are reporting a Solvency II capital surplus of £690m and operating profit generation of £40m. I am pleased that we have again been able to share some of the financial benefits with our with-profits members through the allocation of a mutual bonus of £28m. This has been applied by uplifting the asset share of relevant with-profits policies by up to 1%.

The sale of the general insurance business in 2019 represented a good return on the investment members made into its growth, with the resultant sale proceeds enabling a surplus to be returned to with-profits members. This surplus will be distributed through on-going mutual bonuses and a special exit bonus introduced in 2020. This has already allowed us to share £45m of exit bonus with eligible members during the year. More information on these distributions can be found on our website at **https://www.lv.com/members/mutual-bonus/lv-difference.**

£28m

Mutual bonus allocated to member's policies

£45m

Exit bonus distributed to eligible members

The vast majority of our people have been working from home since the first lockdown in March. I was impressed with how quickly our teams were able to change the operation from largely office based to largely home based in an incredibly short period of time. It is thanks to the hard work and dedication of our people that unlike some of our competitors we never closed our phone lines at any stage to our members or customers and we even managed to increase our Net Promoter Score among financial advisers over the course of the year. The wider impact of Covid-19 and the actions we took to protect our stakeholders during this difficult period is covered more fully within the Corporate Governance Statement on pages 43 and 44.

As we trade purely within the UK, Brexit has limited direct impact on LV= although like all other financial services organisations we are not immune to the effects of market volatility and investor uncertainty.

In 2020 we completed a significant change agenda and delivered a number of initiatives that helped improve our trading performance. We increased our market share in both the Protection and Savings and Retirement businesses for the first time since 2016. In Protection we launched our Flexible Protection Plan and enhanced Life and Critical Illness cover for children. We also refreshed our Flexible Income Benefit and extended our LV Doctor Services package. Within Savings and Retirement our star performer has been the reinvigoration of our Smooth Managed Funds proposition (also referred to as our Flexible Guarantee products). Not only have we seen an increase in funds invested after simplification of our Pension wrapper, we also launched our new LV= Trustee Investment Plan. More detail on our trading performance can be found in the Overview of Performance section on pages 11 to 14.

During the course of the year we increased the depth of life and pensions knowledge on the board with Susan McInnes joining on 01 April 2020 to replace Tanya Lawler. Susan has over 30 years' experience in the sector including 12 years at Phoenix Group where she held a number of leadership roles including customer director and chief risk officer for the Phoenix Group before being appointed chief executive officer of Standard Life Assurance in September 2018.

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 in the corporate governance statement on pages 40 to 44.

Strategic review

To continue to compete successfully in an increasingly competitive life and pensions market LV= requires significant long-term investment. As a mutual, this investment would have to come from capital provided over time by our with-profits members. The scale of the investment required and time taken to deliver growth means many members would not see the rewards before their policies end.

It is my and the board's duty to take action in the best interests of members and it is in that spirit that during 2020 the board led a comprehensive and rigorous strategic review to assess the strategic options available to the business. It was concluded that simply continuing as we were would not be in the best long-term interests of our members and other stakeholders, and the board explored a wide range of alternative options supported by financial, legal and actuarial advisers.

After careful consideration the board was unanimous in its decision to pursue a transaction with Bain Capital. While this proposal means LV= will no longer be a mutual, LV='s culture, heritage and values will live on. This decision is not one that the board has taken lightly, however it is our duty to put the interests of our members first. The agreed transaction was announced on 15 December 2020 and subject to member and regulatory agreement we expect it to complete by the end of March 2022. Further details are included in the Strategy and Business Model section on pages 8 to 10.

Outlook

We exist to provide affordable, accessible protection insurance for people during their working lives and to enable them to retire with confidence. The new structure along our three business lines, which we introduced at the start of 2020, provides a solid platform from which to build a sustainable business for the long term

Success in 2021 will be determined by three simple objectives, deliver the transaction with Bain Capital, hit our trading targets and continue our drive to reduce the complexity of our business in order to improve efficiency and lower our cost base.

With the backing of Bain Capital, the board is excited by the opportunities for LV= to further develop as a major force in the UK life insurance market for the benefit of our people, partners and customers.

"Although the strategic changes I have outlined above mean that we will no longer be a mutual once the deal is concluded, our customers will remain firmly at the heart of all that we do"

Customers at our Heart - Our Customer Agenda

Lynzi Harrison our Heritage Director and LV= Customer Champion oversees our Customer agenda to ensure that all our LV= customers are provided with the outcomes we promise. We want our customers to feel valued, that we are easy to do business with and that we deliver with heart. We do this by providing

- Strong governance to ensure our solutions and products deliver for our customers.
- Continuously improving service and outcomes to ensure we are there when our customers need us
- Support to our vulnerable customers at all times and with extra care in emergencies with our member fund
- Green Heart Moments when our customers need an extra boost

Our Customer Charter captures how we'll deliver great service to our customers and how it will feel from a customer's perspective when we do:

Purpose – Live Confident

Our purpose is to help all of our members and customers to **live confident** through our products and services

Customer Principles

By adopting our **customer principles**, we'll be able to achieve our **purpose** and **ambition**. We can all help our members and customers to live more confident lives.

- Do it with heart
- Make your money go further
- Do the right thing
- Be here when you need us
- Give back

The desired customer experience...

Easy to do business with | Customers feel **Valued** | Delivered **with Heart**

Underpinned by our values

We are... INCLUSIVE CURIOUS TRUSTED

Strategic Report

Key Performance Indicators

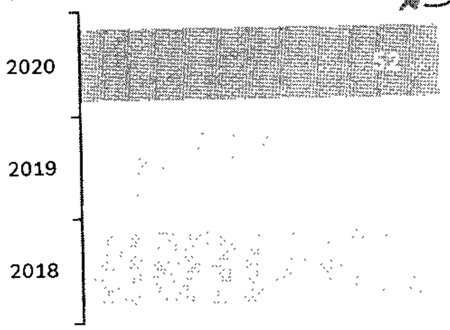
Key
Achieved target
Missed target
Target

Our Key Performance Indicators (KPIs) are those that the directors judge to be most effective in measuring the group's performance and assessing progress against our strategic objectives. Our KPIs are based on the key metrics in the balanced scorecard that drives employee and director [illegible] key indicator of how we are returning value to our members.

Strategic Report

Best loved

Customer NPS



Aim

We aim to deliver excellent customer service levels, while consistently treating customers fairly. We set challenging targets across a range of relevant opinion surveys to measure our 'Best loved' performance. Our main 2020 targets were to achieve a customer net promoter score (NPS) of 52 and to achieve a top five NPS ranking from advisers for both Protection and Savings and Retirement.

Performance

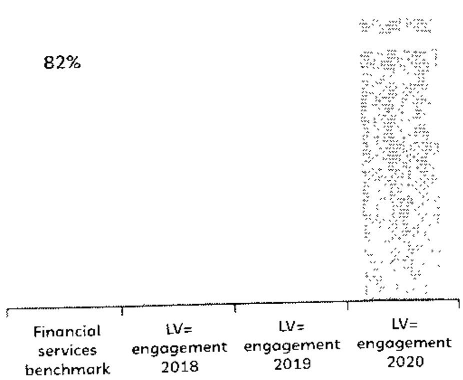
We are pleased to have delivered on our targets for customer service and adviser advocacy. We met our 2020 target, achieving a Customer NPS of 52 at the year end. In addition, we received positive feedback f rom customers throughout the Covid-19 pandemic.

Our Adviser NPS target has been met with Savings and Retirement ranking third and Protection ranking fifth in their respective business categories.

Adviser NPS ranking for 2020

Business Segment	Ranking achieved	Target
Protection	5th	Top 5 ranking
Savings and Retirement	3rd	

Employee engagement



Aim

As we go through a sustained period of change for the business our aim is to maintain employee engagement throughout this time. Our target is to increase engagement above the global financial services benchmark, which for 2020 stood at 82%.

Performance

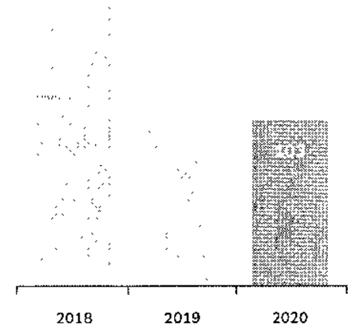
As a business we see our people as the core enabler of our performance and a key differentiator in ensuring that LV= remains 'Best loved'. Although understandable given the sustained period of change and uncertainty in recent years, it has nonetheless been difficult to see employee engagement levels fall year-on-year, since the announcement of the sale of our general insurance business in 2017.

We are therefore delighted that engagement scores have increased to 76% for 2020, up 5% from 2019. Improved results reflect the positive actions taken by the business to ensure our staff could continue to work safely through the Covid-19 pandemic and also positive staff reaction to the announcement of the Bain Capital transaction at the end of the year.

We recognise that there is still a long way to go before we achieve our employee engagement aspirations but the executive team are determined to do all that they can to ensure that staff are fully engaged as LV= moves forward into the next stage of its development.

Key
Achieved target
Missed target
Target

Operating capital generation £m



Aim

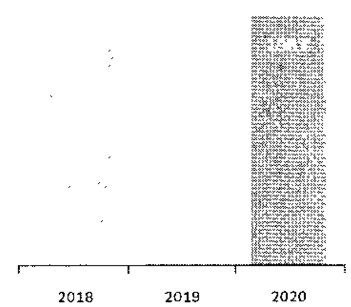
We aim to generate positive capital from our trading businesses in order to continue to return good value to our members. Annual targets are set in our financial plan, with the target for 2020 being £72m.

Performance

Operating capital generation for 2020 was above target at £103m. The tough trading conditions during the year have impacted both new business volumes and margins, leading to the capital generated by our trading activities reducing to £58m (2019: £87m). However, operating capital benefited from Estate investment returns and positive reserving changes. For further detail see our Overview of Performance on page12.

Strategic Report

Capital Coverage Ratio (CCR)%



Aim

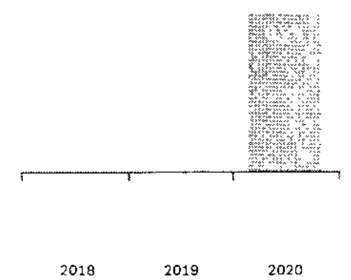
We aim to ensure the long-term sustainability of the group by maintaining a robust Solvency II Capital Coverage Ratio (CCR). Our risk appetite is a CCR% within the range of 140% - 200%.

Performance

A Strategic Review has been conducted to conclude on how best to serve our members in utilising the excess capital generated from the sale of the general insurance business at the end of 2019. Our CCR% at the end of 2020 is within risk appetite at 198%. The fall in CCR% during the year reflects the fall in Solvency II capital surplus from £944m to £690m, driven by £92m relating to distributions to policyholders, £40m relating to the reduction in value of the pension scheme following de-risking activity and £103m economic impact, the majority of which is offset by an increase in TMTP which is aligned to our intended interest hedging strategy. For more details on the movement in our capital during the year see the Financial review at 198% on page 15.

CCR% is the ratio of group eligible own funds to the solvency capital requirement. It indirectly links to directors' remuneration as growth in own funds contributes to Long-Term Incentive Plan (LTIP) vesting for in-flight schemes

Main with-profits fund return %



Aim

We aim to deliver strong investment returns for members by targeting the main with-profits fund return at or above benchmark. In 2020 benchmark returns were 6.2%.

Performance

Volatile investment markets have impacted fund performance over the year. The with-profits fund improved in the final quarter as global markets began to recover from the falls earlier in the year. The fund ended the year having generated returns of 8.9%, which was above benchmark. For further detail see our investment returns analysis in our Overview of Performance on page 13

Our Strategy and Business Model

Strategic Report

Our Core Purpose

We believe that everyone deserves to Live Confident, and we exist to help *people do that.*

Strategic priorities

We started the year as a newly standalone savings, retirement and protection business led by our new chief executive officer, Mark Hartigan.

His priority was to refine our strategy and establish three lines of business – Savings and Retirement Protection and Heritage - with clear and targeted plans to deliver on our ambitions. These plans include the development of savings, retirement and protection products, as well as reducing our cost base to ensure that the business has the right level of costs to reflect its new structure.

Alongside this early in 2020, the board began a strategic review of the business. The sale of the general insurance business at the end of 2019 had significantly strengthened the capital position of LV=. However, it was clear to the board that the life and pensions market was becoming increasingly dominated by large insurers with access to capital. It was clear that the board had to find a way to secure significant external investment to balance the priority of meeting the best interests of members while also investing for the future.

A key milestone in this strategy review was achieved in December 2020 when it was announced that, subject to member approval and completion of the regulatory and legal processes, LV= had agreed a transaction which will see Bain Capital purchase the LV= business. Further details of this strategic review and what it could mean for the LV= business model, are outlined on the following pages.

Our businesses

Savings and Retirement

Our Savings and Retirement strategy is to provide pensions and investments products for people who have worked hard to save over their life and are looking to secure their future finances.

Our Savings and Retirement business will

- Provide products to meet the needs of customers who save and retire with us through an adviser.
- Focus our products and services on our core market segments
- Promote the importance of seeking financial advice when making investment decisions.

Protection

Our core purpose in Protection is to enable consumers to build resilience into their lives by providing solutions that protect their income to meet both changing health and financial needs.

We are committed to building propositions that

- Address unmet customer needs
- *Create customer and adviser journeys that make it easy to do business with us*
- Promote the value of quality advice

Heritage

Our Heritage strategy is to be a modern closed book business that focuses on our members' best interests.

Our areas of focus will be

- Be there for our members, ensuring good member outcomes at all times and in particular prioritising our vulnerable members
- Provide a strong and robust control environment to ensure our members' money and assets are *safe at all times*
- Control our costs and deliver the best outcomes we can for the money invested, ensuring strong returns to with-profit policyholders.

Transition of Our Business Model

The graphic below illustrates the current LV= business model. This demonstrates LV='s mutual model where the LV= business is owned by its members. Members' premiums or investments are invested into the business and managed in order to generate returns which can be used to settle members' claims and provide future returns on their investments. Surplus funds generated by the business may be used to allocate a mutual bonus to eligible with-profits members. This mutual model has served us well for many years, but significantly restricts our ability to invest in the business, both to remain competitive and to achieve future growth.

In 2019 we outlined our plans to create a stronger and more competitive business and some of the potential changes we wanted to make. By the end of that year members had voted for our conversion to a company limited by guarantee and we had sold our remaining stake in the general insurance business to Allianz. This sale provided a necessary strengthening of our capital position and the ability to increase the value returned to our with-profits members over time.

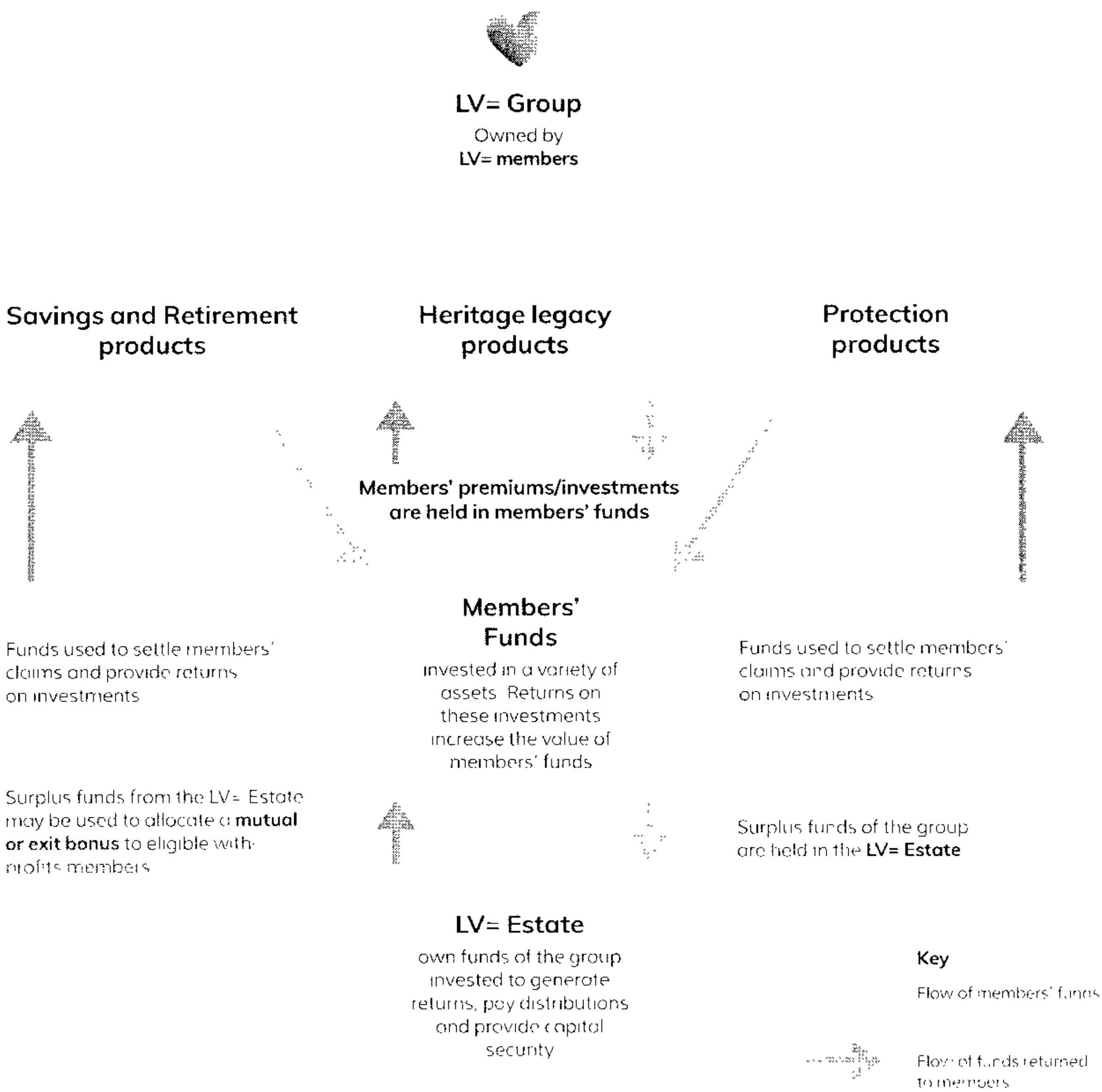
We are now a smaller standalone life and pensions company but with the same ambitions for growth and success. One year in, we are already seeing the results of this focus with delivery of new products to market, improved cost efficiencies and better ways for IFAs to do business with us. However, in a market increasingly dominated by large insurers with access to capital, LV= requires significant long-term investment to realise these ambitions.

It had become clear, that if we continued to operate under the LV= mutual model, many of our with-profits members would not benefit from the return on that investment. The size and scale of the investment required and the time taken to deliver growth, together with the age profile of our with-profits policies, means that many of these members would not see the rewards before their policies end.

The board was faced with the challenge of identifying the most effective way to address the inherent tension between balancing the requirement to invest in the Savings and Retirement and Protection businesses for the long term while providing enhanced returns to with-profits policyholders.

A wide range of options and proposals were carefully considered by the board supported by independent financial and legal advice and in consultation with the independent With-profits Committee to enable it to make an informed decision about which option to pursue

Our current mutual model



Strategic Report

The question the board asked itself at every stage was "What is best for our members?" After careful evaluation of all our options the board unanimously agreed that the proposal from Bain Capital presented members with an excellent financial outcome, as well as offering an unrivalled commitment to LV='s future prospects, business and people. It was announced to members in December 2020 that LV= had agreed a transaction with Bain Capital, a leading global investment firm with extensive insurance industry expertise, to purchase the LV= business.

While we will no longer retain our corporate structure as a mutual, our culture and values will remain the same. We will continue to put customers, employees and financial advisers at the heart of everything we do.

The acquisition is subject to regulatory approval and approval from LV= members. It is expected to complete by the end of March 2022, subject to the conclusion of the legal process.

Under the proposal LV='s with-profits business will be ring-fenced in a separate fund and closed to new business. This will allow the fund's capital available for distribution, including proceeds from the deal, to be distributed to its members as their policies end. Customers will also benefit from the increased investment that Bain Capital will provide. This will strengthen LV='s digital capability, enhance the customer experience and broaden the products and services currently offered.

Bain Capital will support the board's strategic plan, which includes:

- Leveraging LV='s strong brand to expand its presence in the *market*.
- Innovating and refreshing the customer experience for existing and new customers.
- Greater certainty of payouts and value as well as great customer service to existing with-profits policyholders.
- *Strengthening LV='s value proposition to existing and new* financial advisers.

Bain Capital will provide LV= with the external investment needed to grow its leading brand and strong product set for the continued benefit of customers and IFAs.

Our proposed post-transaction business model

LV= owner

Bain Capital

Owner invests additional capital into the group to fund future growth

Surplus funds of the group may be used to allocate dividends to the business owner, subject to board approval.

LV= Group

Ring-fenced with-profits fund

The with-profits business is ring-fenced in a separate fund. The members of the fund are entitled to receive any surplus earnings generated by the fund. This will be distributed to eligible members by way of a mutual or exit bonus allocation.

This fund contains our **Heritage** business legacy products, including the RNPFN and Teachers Assurance ring fenced funds

Non-profit fund

Policies in the non-profit fund are not entitled to a share of the surplus earnings of the fund. The LV= business can use any surplus generated by the fund to support future business growth, provide capital security or allocate dividends to the business owner.

This fund contains our **Retirement and Savings** business products and our **Protection** business products

With-profits customers pay premiums on and invest into our Heritage business legacy products. The with profits fund settles customers' claims and provides returns on their investments. Eligible policyholders may also receive a mutual or exit bonus.

Customers pay premiums on Protection products and invest into Savings and Retirement products. The non-profit fund settles customers' claims and provides returns on their investments

LV= Customers

Key

Flow of funds into the business

Flow of funds back to customers and business owner

Strategic Report

Overview of Performance and Financial Review

Mark Hartigan
Chief Executive Officer

Overview of Performance

Financial and business highlights

LV= performed well against its objectives in 2020, particularly when taking the impact of the pandemic into account. Through the year we have created significant momentum in our trading businesses. By taking quick and positive actions in response to Covid-19, as well as delivery of all our planned change initiatives, we continue to improve service for existing customers and have strengthened the propositions we offer to the market.

In our Savings and Retirement business we have worked hard to strengthen the appeal of our propositions and increase their accessibility. For our Smooth Managed Fund (SMF) range which offers clients protection from market volatility while still facilitating access to potential upside, we started the year by temporarily removing the first year 'wrapper charge' on all pensions when our customers invested fully into our SMF, a saving of 0.15% that helped promote the funds. In April we launched online adviser valuations making it easier for advisers to do business with us. In October we made SMF available through a Trustee Investment Plan (TIP). This increased access to our unique smoothed funds for pension investors who have SIPPs and SSASs with other providers. In addition to improved functionality and accessibility, the underlying funds delivered particularly strong performance making SMF more compelling than ever. We also successfully delivered our new Equity Release system, including our new Equity Release Portal, which allows advisers to complete and track lifetime mortgage applications more efficiently. This was followed by the release of our Lifetime Mortgage Drawdown+ product. This allows customers to borrow a portion of their property value in the form of an initial loan with the option to borrow more in the future from the pre-agreed reserve.

In our Protection business we launched a number of enhancements to our Life and Critical Illness Cover, with Enhanced Children's Cover now available. We improved our Family Income Benefit offering (previously known as Family Income Assurance) which is now available through our Flexible Protection Plan. To share the improvements with the market we launched a new marketing campaign, which was supported by a very successful webinar programme incorporating over 100 virtual events for over 10,000 advisers. As part of our drive to increase digital capability and ease of access we launched our Protection Progress Hub for advisers. This provides self-serve capability so that advisers can quickly and easily track new business applications. In addition to the product enhancements and adviser support measures, we also received extremely positive feedback in respect of our response to the Covid-19 pandemic. We took a flexible and personal approach which helped our customers maintain their protection policies through a difficult period. This included initiatives such as payment breaks for our most vulnerable customers and premium and cover reduction options for others.

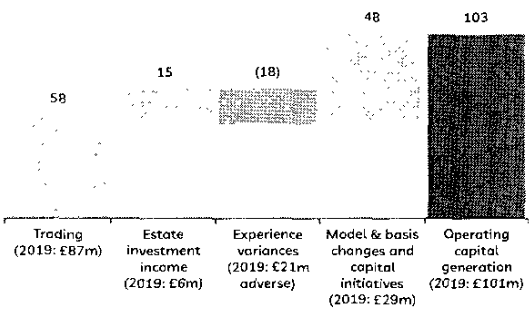
Despite a slight fall in the volume of new business sales, the result of a depressed market, we were pleased that we have increased our market share in both the Protection and Savings and Retirement businesses for the first time since 2016. New business margins were impacted by the challenging trading conditions during the year and this has meant that the contribution from new business to our operating capital and operating profit generation has fallen.

As reported in the 2019 Annual Report, we were anticipating that our operating expenses would rise this year as we took back the share of group overheads which had previously been allocated to the general insurance business. While we were anticipating an increase in the region of £16m I was delighted that our ongoing cost control initiatives restricted the increase to £9m. I am confident that the future efficiency measures we have planned will allow us to meet our target of reducing operating expenses below £100m in the next few years. These cost control measures have benefited our 2020 operating capital and operating profit generation metrics, contributing towards positive model and basis changes.

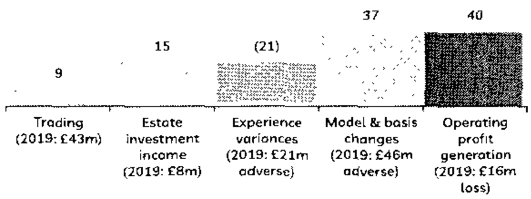
It is very satisfying that despite the large falls in the stock market experienced at the beginning of the pandemic, our main with-profits fund managed to finish the year delivering returns of 8.9%, which was above benchmark. The attractiveness of our Smooth Managed Fund range was demonstrated during the year, when the unique LV= smoothing mechanism allowed our members to avoid the worst of the downside impact earlier in the year and maintain a healthy return on their investments. Unlike other smoothed fund competitors whose funds experienced significant cliff edge falls in value, the largest single day drop across the LV= range during the year was just 0.24%.

Capital and profit performance

Operating capital generation 2020 £m



Operating profit generation 2020 £m



Increase Decrease Total

Note: 2019 results have been restated to reflect the disclosure of Estate investment income as a separate component of operating capital and operating profit generation.

Operating capital generation

Over the course of 2020 our trading businesses have added £58m (2019: £87m) to the Solvency II capital surplus. Our performance was suppressed by the tough trading conditions arising from the Covid-19 pandemic, leading to a reduction in new business volumes and margins. In addition to this, the trading result was *impacted by the increase in operating costs as we took back the* share of overheads that were previously allocated to the general insurance business. Estate investment income added an additional £15m (2019: £6m) of operating capital.

Adverse experience variances of £18m (2019: £21m) mainly relate to increased lapse rates, some of which were believed to be related to the economic impacts of the pandemic, while favourable model and basis changes and capital initiatives have added £48m (2019: £29m) to our operating capital. Model and basis changes of £31m (2019: £16m) comprise a large number of changes with the most significant impact being favourable future impacts arising from our initiatives to reduce targeted operating expenses below £100m in the next few years. Offsetting this is an £8m reserve set up during 2020 to cover the uncertain future impacts of the Covid-19 pandemic, including additional lapses. In addition, operating capital benefited from £17m of capital *initiatives implemented during the year (2019: £13m).*

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 the Solvency Capital Requirement over time. The IFRS result is also exposed to increased volatility from reserving basis changes.

Operating profit generation has increased year-on-year by £56m to *£40m (2019: £16m loss). This improvement was driven by* the £83m year-on-year improvement in the impact from model and basis changes. The underlying performance of our trading businesses was impacted by the tough trading conditions outlined above, reducing the trading profit generated during the year to £9m (2019: £43m). Trading profit contains losses generated by new business of £6m (2019: £14m profit) and profit generated from in-force business of £15m (2019: £29m).

New business performance

New business sales for the group on a Present Value of New Business Premiums (PVNBP) basis have decreased by 8% to £1,291m (2019: £1,406m). See page 66 for the definition of our PVNBP alternative performance measure and page 17 for the reconciliation of this metric to IFRS premiums.

During the year our Savings and Retirement business achieved new business sales of £1,039m (2019: £1,143m) on a PVNBP basis made up of:

- Single premium annuities of £157m (2019: £223m)
- Single premium flexible guaranteed bonds and ISAs of £82m (2019: £70m)
- We arranged equity release mortgage advances of £148m (2019: £179m)
- Our policyholders also added £652m (2019: £671m) to their pensions by way of flexible guaranteed single premiums and deposits to their unit linked pensions and SIPP funds

These new business sales generated £3m of IFRS based trading loss (2019: £6m profit). This negative new business contribution was driven by lower volumes and margins as we faced the challenging trading conditions experienced across the market as the effects of the Covid-19 pandemic were felt.

Our Protection business achieved new business sales of £252m (2019: £263m) on a PVNBP basis, made up of new business regular premiums of £31m (2019: £32m) that will continue to generate premiums for the business over the coming years. These new business sales generated £3m of trading loss (2019: £8m profit). Although volumes were sustained, margins were put under pressure.

Operating expenses

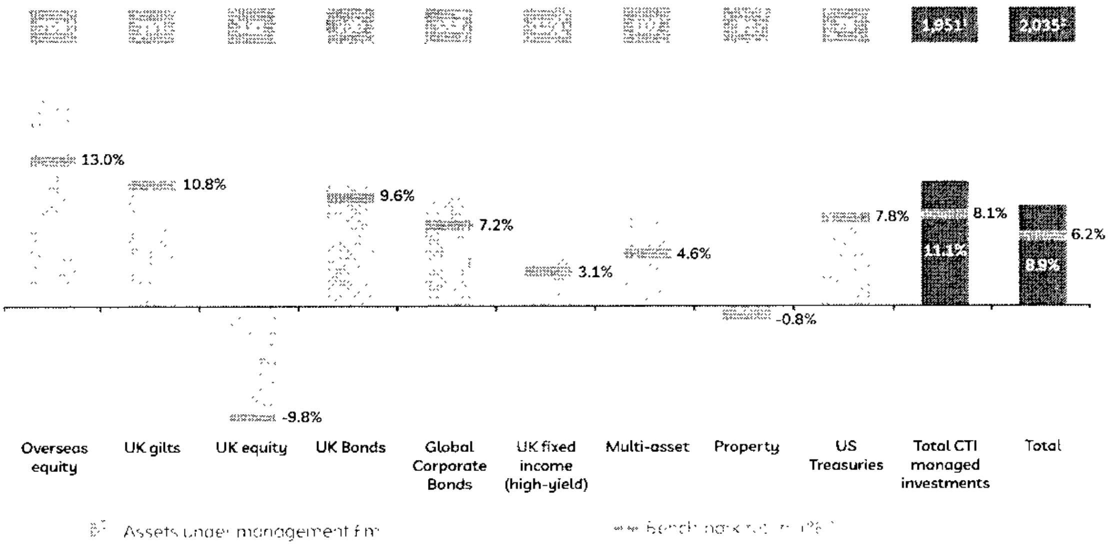
Targeted operating expenses have increased to £108m during the year (2019: £99m), as we took back the share of overheads that were previously allocated to the general insurance business. This increase during the year was lower than planned, reflecting the benefits of our cost control and restructuring. We continue going forward to bring our cost base to reflect the reduced size of our standalone life and pensions business. It is expected that this will reduce operating expenses in future years.

Investment returns

We delivered strong returns for our members in 2020 and outperformed the benchmark on the main with-profits fund. Through 2020 our members benefited from a globally diversified investment strategy with strong returns from overseas equity markets.

Main with-profits fund

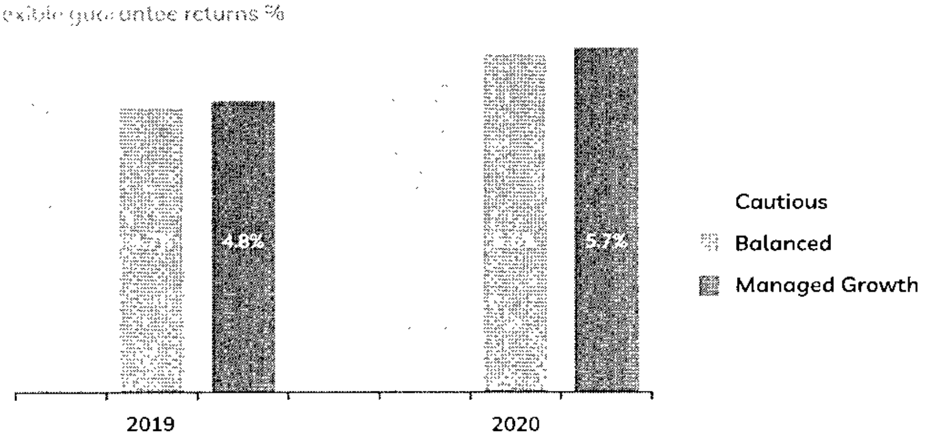
Our main with-profits fund has delivered strong returns of 8.9% (2019: 14.5%), outperforming the benchmark of 6.2%. Within the main with-profits fund, discretionary assets outperformed the benchmark by 300 basis points, reflecting the benefits of Columbia Threadneedle Investments (CTI)'s active management approach. Total fund asset returns at 270 basis points above benchmark, were dampened by the performance of historic direct property assets.



Flexible guarantee bonds (FGB)

The Smooth Managed Funds continued to generate strong positive gains for investors during the year. FGB returns are smoothed, taking the average of the fund's daily underlying unit price over the preceding 26 weeks to produce an averaged price. Our members particularly benefited from the LV= smoothing mechanism as markets dropped significantly at the beginning of the Covid-19 pandemic.

Flexible guarantee returns %

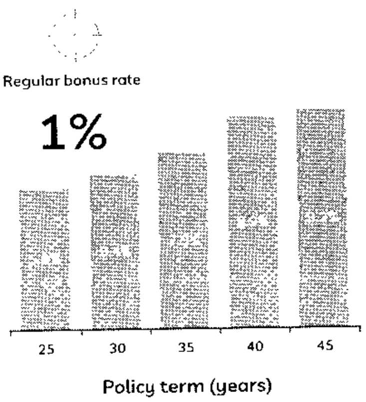


Heritage returns

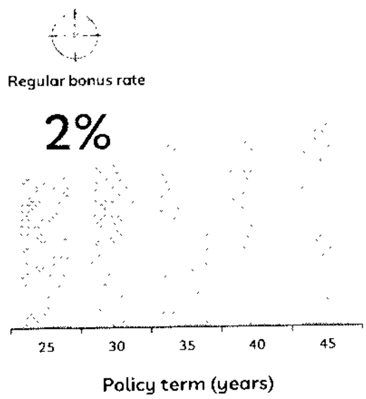
The Heritage business looks after our legacy with-profits policies along with a small amount of non-profit business. This includes with-profits and unit-linked business acquired from the Royal National Pension Fund for Nurses (RNPFN) and Teachers Assurance.

Our Heritage members hold longer-term financial products with us, including endowments and whole-of-life 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 policies in force at the end of 2020 is shown below

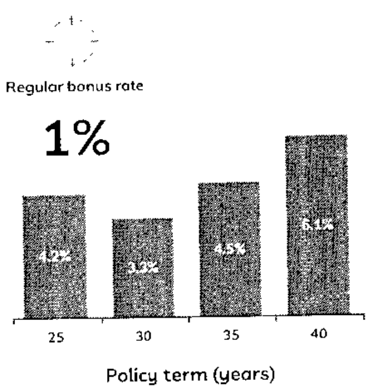
IB endowment (Average return pa)



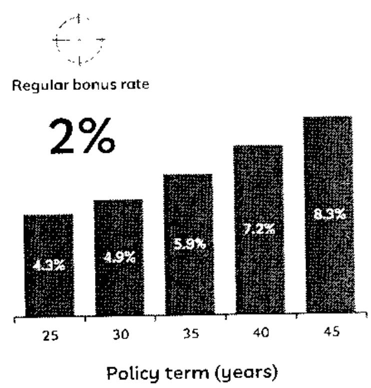
OB endowment (Average return pa)



IB whole-of-life (Average return pa)



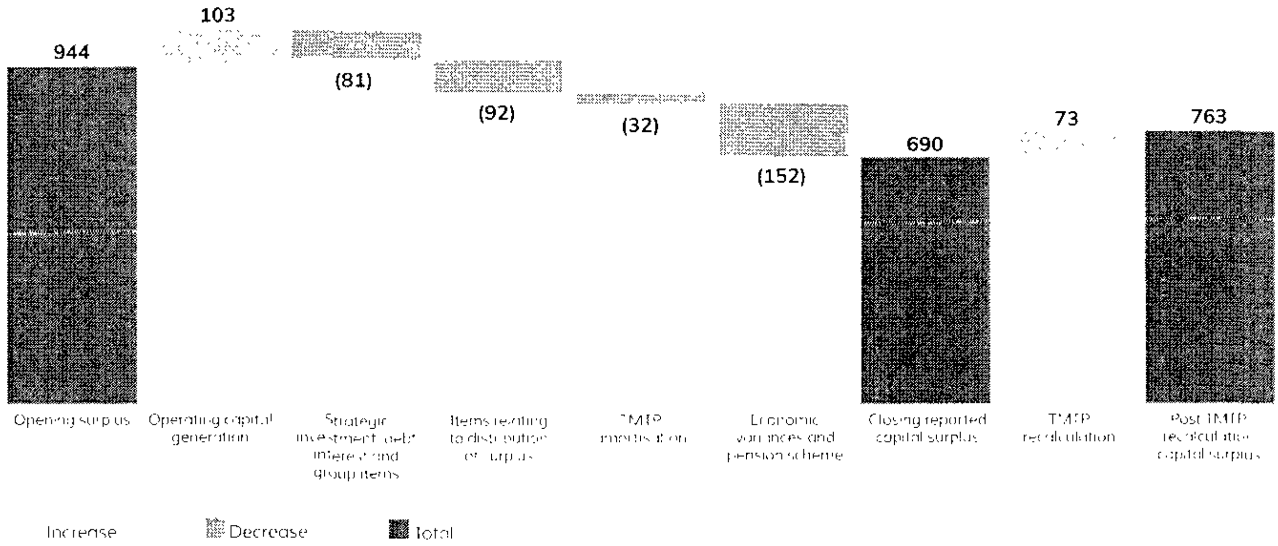
OB whole-of-life (Average return pa)



Financial Review

Solvency II capital surplus

Solvency II capital surplus reconciliation £m



Solvency II capital surplus has decreased by £254m to £690m (2019: £944m). Operating capital generation of £103m (2019: £101m) has been offset by non-trading expenditure, distributions to members, economic variances, pension scheme and the annual reduction in the Transitional Measures on Technical Provisions (TMTP) we are permitted to take credit for.

Non-trading expenditure of £81m (2019: £86m) is made up of the £75m of non operational expenses explained in the expenses review below, less £9m of goodwill amortisation which is not reported under Solvency II, plus £24m of debt interest, offset by £6m of additional capital generated by the Estate investment strategy and £3m of non-operational income. Items relating to distribution of surplus of £92m (2019: £27m) include £2[illegible]m of allocated mutual bonus, £15m of exit bonus and £19m of capital impact relating to an investment in asset share in order to stabilise the cost of future mutual bonus distributions. The surplus is further reduced by the annual step down in TMTP of £32m (2019: £38m).

Market movements have resulted in adverse economic variances of £103m (2019: £58m) primarily arising from falling swap rates, which contribute £80m to this movement. Including TMTP recalculation, the impact of economic variances reduces by £70m because interest rate exposure is hedged on a post-TMTP basis, meaning the increase in TMTP would offset the majority of the capital losses due to the falling swap rates. Adverse pension scheme impacts of £49m (2019: £8m) have also impacted the capital surplus, driven by the the pension scheme buy-in, which reduces the risk to the fund.

Solvency II capital position

At the end of 2020 the group capital surplus on a Solvency II Standard Formula basis is estimated to be £690m (2019: £944m). The capital coverage ratio (CCR) of both the group (198%) and the company (171%) is above our risk appetite.

Capital surplus £m	Group 2020	Group 2019	Company 2020	Company 2019
Eligible own funds	**1,397**	1,600	**1,397**	1,600
Solvency capital requirement (SCR)	**707**	656	**817**	831
Surplus[1]	**690**	944	**580**	769
Capital Coverage Ratio	**198%**	244%	**171%**	193%

[1] [illegible]

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 188% for the group and 165% for the company as eligible own funds and SCR would increase, however surplus would remain unchanged.

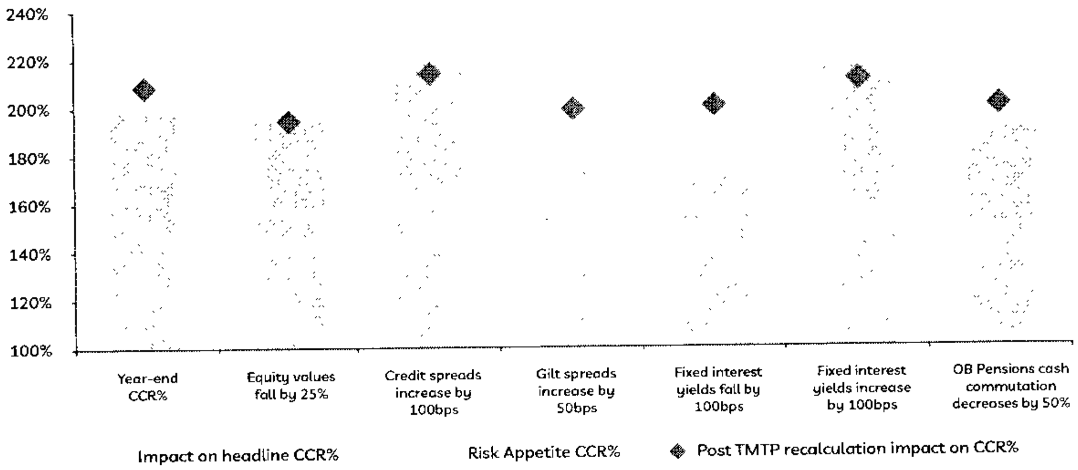
Eligible own funds for the group and company include the impact of £356m (2019: £388m) TMTP and are reconciled to the Unallocated Divisible Surplus (UDS) in note 3.

Strategic Report

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.

Capital sensitivities

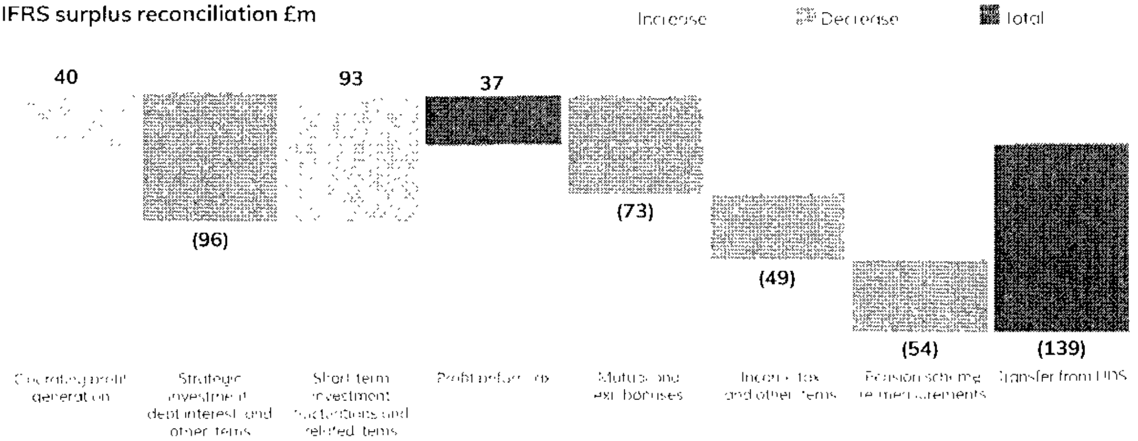


The group's capital surplus position is sensitive to the above economic assumptions due to the following

- 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 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 in fixed interest rate yields (both swap and gilt curves) 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 OB Pensions 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 £139m during 2020 (2019 £127m increase). The £127m increase in UDS during 2019 being driven by the £193m positive impact of discontinued operations relating to the sale of the general insurance business at the end of that year. The total transfer from UDS of £139m is made up of £85m included within the IFRS result for the year and £54m included within other comprehensive income.

Operating profit generation of £40m (2019 £16m loss) is discussed in further detail in our Overview of performance on page 12. This was offset by £96m (2019. £98m) of non operational items, which was made up of the £75m of non-operational expenses explained in the expenses review below, £24m of debt interest, and £3m of non-operational income. Market movements have resulted in £93m (2019: £129m) of favourable short-term investment fluctuations. These items have generated a profit before tax for the year of £37m (2019 £15m).

Offsetting the £37m profit before tax were mutual bonus and exit bonuses allocated and distributed to our eligible with-profit members of £73m (2019: £27m), the tax charge of £41m (2019. £60m) and other items impacting profit of £8m (2019: £1m), along with adverse pension revaluations of £54m (2019: £5m favourable) driven by the the pension scheme buy-in, which reduces the risk to the fund.

During the year, the total Unallocated Divisible Surplus for the group reduced from £1,254m to £1,115m.

IFRS expenses

Expenses reconciliation £m	2020	2019
Targeted operating expenses	**108**	99
Commission on Protection sales	**59**	58
Investment fees	**15**	12
Operating Costs	**182**	169
Strategic investment	**30**	28
Restructuring, one-offs and other	**34**	43
IFRS Other operating and administrative expenses (see note 11)	**246**	240

Targeted operating expenses are management business-as-usual costs and are discussed in more detail in our Overview of performance on page 12. As well as targeted operating expenses, commission on protection sales 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 results include strategic investment spend of £30m (2019. £28m), spend in relation to the strategic review and the restructuring of the group of £23m (2019. £24m) and one-off and group costs of £22m (2019: £23m), which includes £9m of goodwill amortisation. This total non operational spend of £75m (2019 £75m) is reduced by claims handling costs of £11m (2019 £4m) in the reconciliation above because these are presented as Gross benefits and claims under IFRS.

Sales reconciliation to IFRS premiums

Sales reconciliation £m	2020	2019
Group sales (PVNBP basis)	**1,291**	1,406
Equity release mortgage advances	**(148)**	(179)
Gross written premiums for non-participating investment contracts which are deposit accounted	**(435)**	(410)
SIPP deposits	**(107)**	(156)
Effect of capitalisation factor on regular premium long-term business	**(221)**	(231)
New business gross earned premiums	**380**	124
Gross premiums from existing in-force business	**233**	232
IFRS Gross earned premiums (see note 5)	**613**	656

[illegible]

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 156. The 8% fall in group sales during 2020 to £1,291m (2019: 1,406m) is discussed in further detail in our Overview of performance on page 12.

Strategic Report

Risk Management

Wayne Snow
Chief Risk Officer

Introduction

LV= operates a fully integrated risk management framework (LV=RM) which brings together the key processes and activities undertaken throughout the business to ensure that our customers' and members' security is at the forefront of our decision making. Structuring risk management around this framework and our values enables senior management to demonstrate that the right things are being done to manage risk within LV=

Like all financial services firms, LV= has faced a number of challenges throughout 2020 including

- *The unprecedented impact of Coronavirus (Covid 19)*
- A lack of clarity over the UK's future relationship with the EU and the rest of the world following Brexit.
- Increasing stakeholder and regulatory expectations over our environmental, social and governance activities in response to global issues such as climate change.
- *A growing digital economy, increasing focus on data protection and the heightened threat posed by cyber criminals.*

Against this backdrop LV= has successfully delivered positive outcomes for our members *and customers during 2020 underpinned by* LV=RM.

Overall board responsibilities

The board is responsible for determining the level of risk which LV= faces and ensuring that risks are appropriately controlled. These include the risks to the business model and future performance, those which threaten policyholder security and/or liquidity and those which could have a detrimental impact upon member outcomes.

The board does this by ensuring that LV=RM continues to include the setting of a proportionate risk strategy, risk appetite and clear risk mandate. The Risk Committee, on behalf of the board, regularly monitor the operation and effectiveness of the LV=RM to ensure that it continues to drive a suitably robust risk culture within LV=.

LV=RM Overview

The LV=RM framework is owned by LV='s 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 LV='s risk exposures
Risk Strategy	This sets out LV='s approach to risk management including providing a clear direction and preference for taking or or avoiding 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 LV=
Own Risk & Solvency Assessment	The Own Risk & Solvency Assessment (ORSA) facilitates the timely and effective identification, assessment, monitoring and control of LV= 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 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

LV= is exposed to both financial and non-financial risks, with profitability and growth, together with customer outcomes dependent upon the proactive management of these risk types 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 which LV= is exposed to are.

Financial risks.

- Life insurance risk
- Financial markets risk
- Credit counterparty risk
- Liquidity risk

Non-financial risks:

- 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 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 appetite

The risk strategy and associated LV=RM is reviewed on at least an annual basis as part of the broader strategic planning process and considers changes in both the internal and external environment

Risk governance

LV= operates a three lines of defence model as part of its day-to-day risk management operations, 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) Management 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 teams 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 Risk management 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 internal audit director who is supported by the internal audit team and the Audit Committee Internal audit 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 LV=.

First 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

LVFS Board

- Chief Executive Officer
- Protection / Transformation
- Savings & Retirement
- Heritage
- FAS Limited
- Finance
- Administrative Office

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 cover five broad dimensions

- Overall attitude to risk
- Financial
- Conduct
- Operational and transformation
- Regulatory and stakeholder engagement

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

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 LV= or its members and customers

Own risk and solvency assessment (ORSA)

The ORSA is an integral part of LV='s capital management processes and the overall LV=RM. 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

The ORSA is an effective tool used to inform strategic decision making. The annual ORSA Report is presented to the board and consolidates the findings from the ORSA processes. The ORSA report also includes:

- Key outcomes from the risk review of the business plan
- Stress and scenario testing (including reverse stress testing)
- The assessment of the appropriateness of the Standard Formula
- Regular solvency and risk exposure monitoring

The solvency position of the business is determined in accordance with the Solvency II Standard Formula requirements and the 2020 ORSA report which was finalised in August.

Risk management effectiveness

LV= conducts an annual risk maturity and culture assessment to gauge the effectiveness of the embedding of the LV=RM and to test how risk culture is evolving over time The outputs from this assessment are used to determine areas for further development under LV='s programme of continuous improvement

Managing the risks in implementing our strategy

Over the past year, the top risks faced by LV= are summarised within the table below

Key risks	Potential impact
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. LV= operates a product governance framework which ensures each new product or product change is subject to rigorous review. In addition, regular product reviews ensure our existing products perform as customers would expect and continue to deliver appropriate customer outcomes. Our response to the Covid-19 crisis included product changes and servicing initiatives aimed at helping vulnerable customers.
Operational resilience The risk that LV= would not be able to service our customers and members during a disruption.	During 2020 LV= has faced a number of challenges to its operational capability, most notable through the impact of Covid 19. From March, all but a small proportion of our people have been working from home, allowing us to continue to service and support our customers and members throughout this period.
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.	During 2020 the UK economy experienced heightened market volatility due to Covid-19 and Brexit, which is expected to continue into 2021. Our existing operational hedging programmes and ongoing reviews are in place to manage and mitigate such risks. As a UK only business, Britain's departure from the EU in itself is not expected to have a materially adverse impact on our business strategy. Only a small number of our members and customers live in the EU and we will continue to service their policies, as long as they maintain a UK bank account.
Corporate bond spread, default and downgrade risk The risk that there is a change in the market value of LV='s corporate bond holdings	Corporate bonds are held to back the LV= pension scheme and policyholder annuity liabilities. As bond values fluctuate in the open market, any unmatched movement in the associated liabilities would expose the company to an unforeseen profit or loss. LV= makes use of a matching adjustment allowance in its regulatory reporting to mitigate against the impact of economic volatility on assets held to match long-term liabilities. Regular monitoring of LV='s exposure takes place at the Asset and Liability Committee and through specific active monitoring undertaken by the LV= asset manager. Management actions are regularly reviewed and executed in order to address any specific exposures. LV='s Matching Adjustment Fund is its greatest direct exposure to the risk of corporate bond defaults and downgrades. The fund is managed conservatively with a target average credit quality of 'A' and a cap of 45% on any BBE (or lower) rated bonds. A greater proportion of downgrades were experienced during 2020 due to the economic impact of Covid-19. However, the median rating of the Matching Adjustment Fund remains robust at 'A' with no bonds rated below investment grade. This position, including any defaults and downgrades, is monitored regularly with oversight from the Asset and Liability Committee.
Interest rates The risk that the value of LV='s investments and solvency position is adversely affected by changes in interest rates.	UK Interest rates are currently at historically low levels. As a result of the Covid-19 pandemic, and the associated economic uncertainty, there is a risk that rates could fall closer to zero or even become negative. LV= invests in fixed income assets closely matched to the duration of its policyholder liabilities in order to minimise the risks associated with changes in rates. Lower interest rates also have the effect of increasing the level of capital LV= is required to hold. LV= utilises a comprehensive hedging strategy to mitigate this risk and any remaining exposures related to its assets and liabilities. The strategy is regularly monitored through the Asset and Liability Committee. LV= is assessing and improving its operational readiness should interest rates become negative in the future
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 has remained in 2020, with cyber criminals looking to exploit both customers and the business. The inherent risk in this area has increased during the year as a result of Covid-19, and the potential to exploit IT infrastructures not designed to support its people working 100% from home. LV= operates a comprehensive cyber-risk strategy which is designed to ensure that the business continues to identify, assess and respond to the ever changing threat of a cyber-attack. In addition, we continue to alert both customers and employees of the need to remain vigilant to the threat of fraudulent activity.

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 review included.

Key emerging risks	Description
Long-term impact of Covid-19	This includes the impact of Covid-19 on the economy, health services, individual's working patterns and lifestyles as well as their physical and mental health.
Corporate governance and legislation	This could include both new regulation, for example in the pension transfer market or more onerous capital standards, together with regulators raising the bar in terms of the standards required to demonstrate compliance.
New market entrants and competitor disruption	New players entering the market, most likely in the protection sector, together with a game changing development, most likely based on digital capability, by an existing or new market player.

Climate change risk

Since 2019 there has been increased focus across a range of stakeholders on the financial risks associated with climate change. LV= recognises the importance of understanding and managing the potential short and long-term implications of climate-related risk and has incorporated this risk within its existing risk management framework, to ensure appropriate oversight is maintained and enhanced over time.

LV= continues to enhance the management and governance oversight of climate related risks and in 2019 developed a plan to address and integrate risks associated with climate change into its existing risk management framework. Through 2020, LV= has continued to make progress against the plan and remains on track to meet regulator's expectations that these plans will be fully embedded in our business management by year-end 2021.

Climate change was prominently featured within the 2020 ORSA Report including a summary of the financial risks to which LV= is exposed. This included an enhancement of the climate related scenarios explored in the 2019 PRA stress testing industry exercise to allow for potential mortality/longevity risk impacts.

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

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 LV= mitigates these risks through the significant use of reinsurance and other risk reduction instruments. LV= will continue to monitor evolving industry best practice and regulatory guidance for assessing and adjusting for mortality and longevity changes as the experience emerges over time.

LV= is 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, LV= no longer has any direct significant short term exposure to the immediate physical risks of climate change (e.g. claims from flood or storm damage to insured property).

Asset transition risks

Asset transition risks can arise from the process of adjustment towards a lower 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
- Evolving evidence, frameworks and legal interpretations.

LV= is exposed to a reduction in the value of assets held which are either considered environmentally unfriendly or whose prospects may be adversely affected by the transition to a low carbon economy. In addition, LV= is 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 specifically related to climate risks.

LV= is addressing asset transition risk as part of its approach to ESG (environmental, social and governance) investment management. LV= continues to increase the range of ESG funds available for customers, and has developed a Responsible Investment Framework, which covers climate change alongside other ESG considerations (see page 28 for more information). We are in the process of implementing enhanced ESG management information on our asset portfolios with Columbia Threadneedle Investments (CTI) to ensure we are better equipped to monitor asset transition risk and understand how ESG factors influence fund managers' decision making. In addition, during 2020 the Investment Committee has approved a meaningful allocation to sustainable equity funds within the strategic asset allocation for our with profits and smooth managed funds.

We recognise that these risks may also impact our customers, members and suppliers. 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.

LV= actions in relation to climate change risk

LV= holds capital against unexpected and extreme changes to its 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 recent years, to increase focus on climate change risk include:

- Appointing Wayne Snow, the Chief Risk Officer, as the Senior Manager Function (SMF) for the business to ensure there is appropriate oversight of climate related risks
- The creation of a Climate Change Working Group, with representation from across LV=
- Ongoing risk reporting throughout the year
- Holding briefing sessions to discuss potential risks, opportunities and external requirements with the Risk and Investment Committees
- Completed a review of CTI's strategy to understand and ensure that Environmental, Social and Governance matters are a core part of their decision making process

Strategic Report

Non-Financial Information

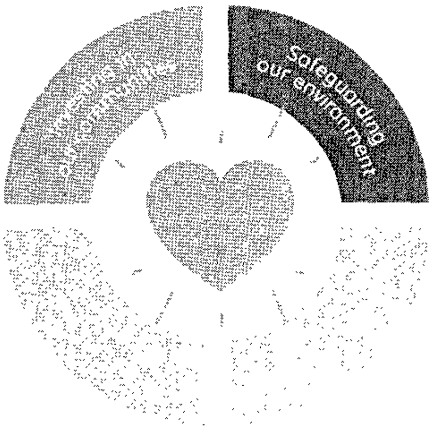
We have policies in place that align to five areas of focus. These areas are in line with sections 414CA and 414CB of the Companies Act 2006 where we need to set out and signpost key information, that is non-financial. In doing so, we can show our readers what we've accomplished, and what we continue to do in these areas. We have detailed below the initiatives pursued by the business during 2020 in connection with these policies.

Area of focus	Policies/activity	Initiatives	Find out more
Our employees	• Flexible working	• Support flexible working choices alongside the Financial Flexible Working Pledge.	
	• Women in Finance	• New target for 2021 to reach 43% female representation for senior roles.	
	• Stay Connected campaign	• Internal campaign to help keep our people connected during the Covid 19 pandemic	See our **People and culture** section on pages 29 to 31 for more information
	• Courageous Conversations	• People manager training to improve mental health conversations with our people.	
	• Calm against the chaos	• Virtual coaching programme to build personal resilience	
Environmental matters	• Responsible investment	• Further enhanced our approach to responsible investment.	
	• Building management system	• Reduced our energy usage due to a new heating and cooling management system installed in 2019.	See our **Safeguarding our environment** section on page 26 for more information
	• Offsetting emissions	• Offset 265 tCO2e of emissions by using energy contracts for electricity from 100% renewable energy sources.	
Social matters	• Regional Community Committees	• Gave £15,000 to national and local causes.	
	• LV= Charity Matching	• We £ for £ match our people's own fundraising.	See our **Investing in our communities** section on pages 24 and 25 for more information
	• Pennies for Charity	• Monthly donations to charity via our people's pay	
	• Member Support	• Gave £52,000 in financial support and waived £33,000 in policy premiums to support members.	
Respect for human rights	• Diversity and inclusion networks	• Four core networks are in place and sponsored by our leadership team	
	• Black lives matter	• Podcasts, RESPECTful readers and open forums.	See our **People and Culture** section on pages 29 to 31 for more information
	• Human rights and modern slavery	• We publish our Modern Slavery Statement every year on **LV.com**	
Anti-corruption and anti-bribery matters	• 'Speak Up' service	• A confidential hotline to report any suspicions or wrong doings	See our **Responsible business practice** section on pages 27 and 28 for more information

Risks relating to non-financial information are discussed in further detail in the Risk management section on pages 21 and 22 and also within Note 4 - Risk management and control in the financial statements. It should be noted that LV= will always seek to uphold its brand image with customers, employees and other external parties and that LV= has no appetite whatsoever for regulatory weaknesses or failings that lead to censure actions.

Strategic Report

Corporate Responsibility Report



Without doubt the UK and indeed the world has, and continues to be, severely impacted by the first global pandemic for over 100 years. *Never has it been more important for us all* to do what we can for the communities and people around us.

Our corporate responsibility strategy continues to centre around four key components.

- **investing in our communities**
- ***safeguarding our environment***
- **responsible business practice**
- **our people and culture**

Our Corporate Responsibility Report intends to provide you with a summary of how we've performed in line with these areas of focus *during 2020*

You can find more information in our ***Corporate Responsibility section*** of our website.

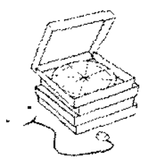
Investing in our communities

In 2020 we committed to helping a wide range of charities and good causes through community *investment, partnerships and fundraising.* We also extended our usual support to members so we could reach even more people going through a difficult time. Although the pandemic sadly meant our people couldn't get out and about in their communities, it didn't stop them from finding inventive ways to do great things.

Community investment

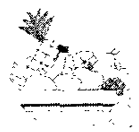
In each of the three locations from where we operate, Bournemouth, Exeter and Hitchin, we have Regional Community Committees which are run by our own employees. Despite working from home, they continued to collaborate as a group and distributed £15,000 to national and local charities. This *included* 'festive' donations that our Committees made at the end of a really tough year for many charitable organisations. These particular donations were voted for by our people

To show our thanks to NHS staff and key workers, who put their own lives on the line to help those in need, we arranged for the delivery of some extra special packages.



Giving a slice of love

Through a local campaign, we *arranged for 100 pizzas to be* delivered to NHS staff at the Royal Bournemouth Hospital. We wanted to make sure that cooking a meal was the last thing on their minds after a long shift



Giving a bowl of love

Communities rely on care homes and *the amazing people who work there.* Two care homes near our Exeter office were sent a little boost. We delivered healthy fruit hampers to be shared amongst their staff.

Giving a box of love

The people who keep our support services *going can often get overlooked.* We showed our appreciation to train drivers, station staff, bus drivers and refuse collectors with 'treat hampers' sent to essential workers near our Exeter and Hitchin offices.

Community partnerships

LV= KidZone

Visit our website to read about our 14th year of sponsorship.

Maggie's

MAGGIE'S
Everyone's home of cancer care

In 2019 we began a partnership with the cancer charity Maggie's. Since then, our marketing team have taken part in personal fundraising to show their support. During 2020 they took on a whole host of challenges and collectively raised an impressive £10,000. This included sponsoring Maggie's Carols in the Kitchen, a wonderful at home carol concert hosted by journalist and newsreader Fiona Bruce in December.

On our website you can read more about **Maggie's**, our work together and what our people did to raise money for them.

Community fundraising

Another important part of giving something back to our communities is our Charity Matching scheme. Even though many national fundraising events, such as the 2020 London Marathon, couldn't go ahead, our people still showed their dedication for the charities that are close to their hearts. They ran virtual London Marathons, cycled indoors and held team Zoom challenges. In doing so they accumulated over £14,000 for charity. With Charity Matching we were able to add another £6,500.

CHARITY MATCHING

We match £ for £ the amount our people raise. This is capped at £500 for one employee or £1,000 for a team of colleagues.

My Pennies for Charity

Did you know that some of our people make donations to charities every month?

Find out more about **Pennies for Charity** on our website

Caring for our communities

Public defibrillators can be a vital lifeline to anyone who suffers from a sudden cardiac arrest when they're out and about. One of our customer service representatives recognised this when she discovered that a colleague's father had passed away when access to a public defibrillator could have saved his life. To make a difference in the local community they started a campaign to provide a potentially lifesaving solution.

Fundraising began to raise £3,000 for a public defibrillator to be installed in Westbourne, the home of our Bournemouth office. Our people set themselves fitness challenges, held virtual quizzes, games, raffles and even an online cuddly toy sale to raise money. Their efforts will result in a defibrillator being installed in Westbourne high street in 2021.

£3k
was raised for a public defibrillator

Many of our colleagues shared their own personal stories and experiences of heart disease and sudden cardiac arrests. So motivated were our service and support team that they began to share tips on how to keep their hearts healthy, from diet and exercise to wellbeing tools and techniques. A true sign of our people coming together as a team for the greater good.

Member Support

When the UK went into lockdown, it became clear that many people would be faced with real financial implications due to furlough or unemployment. In March 2020 we quickly introduced payment breaks and a reduction in cover option to support our Protection members. By the end of the year we had waived over £33,000 in policy premiums for 214 members and our reduction in cover option helped 50 members keep their valuable insurance in place but at a lower cost. This support will remain in place until at least the end of April 2021. Our Member Support Fund also continued to operate and supported a further 73 members with a financial grant, totalling just over £52,000.

We supported
73
members, totalling over
£52k

Member Care Line
Care Navigator
Member Discounts
Member Support Fund
LV= Doctor Services
Voting Rights

Safeguarding our environment

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.

As a UK insurer our environmental footprint 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 all of our offices and look to ensure that any business travel only takes place when absolutely necessary.

During 2020 our energy consumption totalled 2,784,314 kWh, while our gross emissions totalled 633 tonnes CO2 equivalent (tCO2e). 265 tCO2e of this was powered by renewable electricity, which reduced our net emissions to 368 tCO2e.

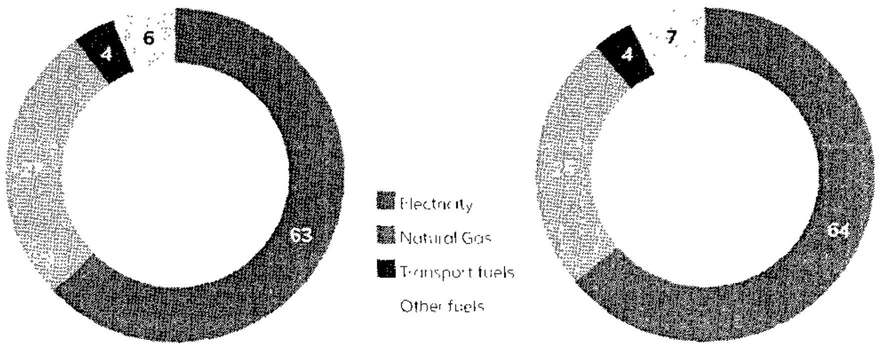
Annual KWh per No. of FTE Employees 1,935

***Annual tCO2e per No. of FTE Employees* 0.26**

The distribution of annual energy consumption and emissions by fuel type is shown below

Annual energy consumption by fuel type%

Annual emissions by fuel type %



* Other fuels relate to a diesel generator and types of Fluorinated gases (F gas) used by our facilities team to top up gases used in refrigeration and air conditioning systems

Our gross emissions *totalled 633 tonnes* CO2 equivalent (tCO2e) of which

265 tCO2e

was powered by renewable electricity reducing our net emissions to *368 tCO2e*

We've followed the 2019 HM Government Environmental Reporting Guidelines and used the 2020 UK government conversion factors for Company Reporting within our methodologies.

Because of the substantial changes which the business has gone through following the sale of the general insurance business at the end of 2019, we aren't able to report meaningful comparative metrics for year on-year comparisons. However, we have seen our energy usage and emissions fall during the year due *to some of the impacts of the Covid 19 pandemic. While business travel has dropped to minimal levels* following the initial lockdown in the spring of 2020, the impact on buildings will have been less material with our offices remaining open throughout the year. This was so we could facilitate a small proportion of staff working on site for business critical or wellbeing reasons. The majority of our staff have been working from home this year which has significantly reduced the amount of waste generated at our sites.

As part of our commitment to the Energy Saving Opportunity Scheme (ESOS) to actively assess and reduce our carbon footprint, we installed a new building management system during 2019 to decrease energy usage at our Bournemouth head office site. *The more accurate, smarter and sophisticated heating and* cooling management system has made us more energy efficient and will have been another contributory factor in reducing 2020 energy consumption and emissions levels. Currently, other energy efficiency projects are being considered but have been placed on hold until the Covid 19 lockdowns are over.

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 **responsible investment approach** see page 28

As we move forward in to 2021 and develop a deeper understanding of what the 'new normal' working environment will look like for our business, we'll be able to incorporate this into our environmental strategy and set appropriately ambitious targets to ensure that we continue to do all we can to safeguard our environment.

Responsible business practice

Customer satisfaction

Customer service will always be important to us and it's our aim to make sure that our customers and members have the best possible experiences with our people.

Everyday our people strive to make sure that we're easy to do business with. We'd like all of our customers' and members' interactions with us to be positive, however we know that sometimes this doesn't always happen. On these occasions we do our upmost to make sure that we put things right. The Financial Ombudsman Service (FOS) agreed with 91% of our decisions in 2020, which shows our commitment to provide the right outcome and do the right thing for our customers and members.

It's also important to us that we respond to any dissatisfaction as quickly as possible. In 2020 a dedicated team was formed to look after our complaints process, but they also exist to support our customers and members with any vulnerable situations they may be in. Our team signposts external charities and organisations who can offer support, provides details about our Member Care Line and looks to tailor our services to meet our customers' and members' needs where possible.

Just some of the feedback given to our colleagues who support vulnerable customers.

After an experience with one of our colleagues, our member said:
"Ever since you came on board everything has become so much easier and I feel a lot better about everything. You're able to articulate things in such a way that it just makes sense. I really appreciate all the work you've put into this."

Our member's psychologist had this to say after we helped their client:
"I just wanted to say thank you so much for taking the time to call me yesterday about [illegible] care you put in to resolving it so quickly. Your support in getting his case to the right place and treating it as sensitively as you did was hugely important for the client."

[illegible]	[illegible]	[illegible]	[illegible]
LV= Financial Services overall	4,202	163	11

You can view our **full complaints summary** for 2020 on our website.

Financial crime

During the first quarter of 2020 we reshaped our financial crime strategy. In particular, this included changes required as a result of the new Money Laundering Regulations and enhancements to our internal screening solution. Both of these changes will help us to meet our legislative and regulatory obligations by screening for individuals on the Financial Sanctions and Politically Exposed Persons lists.

we prevented financial losses of £10m

We continue to operate robust systems and controls across LV= which are in place to help prevent financial crime and losses. Every day we strive to protect all of our customers, members and the wider business from becoming victims of financial crime. In 2020 we were able to prevent financial losses of £10million.

The Financial Conduct Authority issued guidance about financial crime systems and controls during the Covid-19 crisis. The financial crime team provided support to the business so we remained compliant at all times, while ensuring we could still provide the best service to our customers and members.

You can find information about **Data Vishing** on our website.

Bribery and fraud

Our 'Speak Up' service provides a way for our people to report any suspicions or wrong doings. You can find out more on our website.

Our 'Speak Up' service is a confidential hotline and mailbox that our people can use

Human rights and modern slavery

As a responsible business we acknowledge the need to always support human rights and we continue to adhere to fair employment practices. Our Modern Slavery Statement, which you can find on our website, will provide more information about the actions we take to identify, assess and mitigate against modern slavery and human trafficking.

Check out **LV.com/modern-slavery-statement** to read the full Statement.

Strategic Report

Sourcing

Supplier management

Each area of the business is responsible for maintaining a relationship with the suppliers they work with and each supplier is allocated an LV= business owner. This person is usually someone who works with the supplier the most. Their responsibilities include supplier management, performance and engagement. In 2020 the Procurement team rebranded to Sourcing and implemented a new operating model to improve the support they offer to not only business owners, but the whole of LV=. This included the setup of a Cost Management Unit which you can read more about below. This new model focuses on building stakeholder relationships to better understand their needs, provide ongoing support and offer guidance.

Cost Management Unit

The Cost Management Unit (CMU) was created so that the Sourcing team can support ongoing business and commercial objectives. The CMU is held on a weekly basis and attendees include Sourcing, Cost Management and Managing Director delegates from our three lines of business. The role of the CMU is to review all spend from across the business. This review ensures costs are suitably challenged and that the best interests of our customers and members remain at the forefront of everything we do. It also enables a collaborative approach between Cost Management, Supplier Risk and Compliance to manage supplier and business risks.

HELLIOS

We continue to be partnered with the UK based company Hellios Information Limited so we have a view of our supplier's systems, controls and risk management maturity.

To find out more about **Hellios** *visit our website*

Green Heart Procurement

The Buy Social Corporate Challenge, led by Social Enterprise UK, came to an end at the end of 2020. The challenge lasted four years and saw us become one of 24 companies to buy from social enterprises.

As a result of the challenge, we've been introduced to a number of social enterprises across a range of sectors. We'll continue to draw on these for our future business needs. Learning and development, mental health and wellbeing, and diversity and inclusion present opportunities to develop new partnerships with social enterprises. These areas are particularly prominent in how we continue to support our members, customers and employees through the Covid-19 pandemic.

Even though the Buy Social Corporate Challenge has finished, we're committed to its ethos. We'll continue to consider a supplier's ethics and the impact our spend will have on their own social mission. This is also important for subcontractors of suppliers and their supply chains.

WILDHEARTS

[illegible]

Responsible investment

Responsible investment encompasses all Environmental, Social and Governance (ESG) considerations. Throughout 2020 we further enhanced our approach to responsible investment and created a set of principles and practices. We'll continue to develop and enhance this approach in 2021.

You can view our **Responsible Investing Approach** on our website.

In partnership with our asset manager Columbia Threadneedle Investments (CTI), responsible investing is integrated into all of our investment decisions. We believe that well governed companies are likely to outperform in the long run and the key to generating sustainable returns is to understand ESG considerations, risks and opportunities.

We believe that active ownership is core to responsible investing. On our behalf, CTI use our voting rights to firmly engage with companies around material ESG risks and opportunities. There are some exclusions which are operated across various portfolios. These include a ban on controversial weapon investments and a restriction on tobacco holdings within funds backing our RNPFN business. Engagement with investee companies is an effective way to drive positive ESG change and contribute to the long-term success of the global economy. We aim to use our influence and voting rights to drive positive change and generate strong performance over the long term.

Building on strong momentum from 2019, we continue to develop our focus on and management of climate risk related activity. At the end of 2020 only 0.05% of equity assets in our main with-profits fund and our three Smooth Managed Funds were invested in companies with at least 25% revenue generated from coal use, production or extraction. Further detail on this can be found in the Risk Management section on page 22.

COLUMBIA THREADNEEDLE

UK and Global ESG funds which aims to optimise investment returns and deliver improved ESG outcomes.

Strategic Report

Our People and Culture

Our people faced a significant amount of change in 2020. Throughout everything, they showed an immense amount of resilience and we're proud that our customers and members continued to be their top priority. Across the business we put in place many different ways to communicate and support our people, which you can find out more about in this section.

Creating a diverse and inclusive culture

We're delighted that our Executive leadership team now represents a 50/50 gender split. Harnessing a diverse range of thoughts, ideas and perspectives at this senior level will enable our people to truly engage with our future plans. We continue to maintain our core diversity and inclusion networks which are all sponsored by our leadership team

Pride (LQBTQ+)	Wayne Snow – Chief Risk Officer
Balance (Gender)	Georgina Farrell – Chief Administrative Officer
Diversability (Disability)	Debbie Kennedy – Protection Director
Multi-cultural	Deirdre Davies – Internal Audit Director

You can read more about our Diversity and Inclusion policy on pages 38 and 39 of the Corporate Governance Statement

'Inclusion' – one of our four company values

To bring about real change we believe focus is required on building inclusion, as well as diversity. Being inclusive is about embracing all contributions, valuing diverse opinions and making every voice heard. That's why in 2020, we ran 'values workshops' with our managers to explore inclusive leadership by building awareness, commitment and shifting behaviours.

We want our values to be 'lived and breathed' by all of our people, through the actions we take and how we operate as a business. Our values form a key part of our performance conversations and evaluations. Our people are measured, rewarded and held accountable both on what they deliver and how they deliver it.

Storytelling is a powerful way to share what is often invisible about a person's identity and helps to build inclusion. In support of Black Lives Matter we released a series of podcasts from colleagues sharing their experiences, launched a RESPECTful readers book club with a collection of anti-racist books and ran open forums on topics such as identity and privilege to engage people in this important conversation.

Equal opportunities

Our policy is to promote an internal culture that is truly free from discrimination, harassment and victimisation. Take a look at our website to find out how we do this.

Gender Pay Gap

We are encouraged to see our gender pay gap improve by

1.4%

Throughout the business we currently have a higher representation of males in senior positions and more females in junior roles. We're confident that pay at LV= is fair and unbiased and that the gap is primarily driven by this gender representation across LV. We continue to ensure that everyone is open to the same opportunities and we're committed to change the gender balance of our workforce over time. One of the ways we can do this is to focus on promoting from within, when it's appropriate to do so.

In 2020 we witnessed an improvement in our gender pay gap to 28.6% (30.0% in 2019) which we're encouraged by. The number of female leaders at the most senior levels has increased over the same period which is driving this change within the business. We'll continue to monitor our initiatives over the coming years to further improve the gender pay gap across the business.

Full details about our **gender pay gap and latest report** can be found on our website.

The pandemic has shone a spotlight on the importance of flexible working and maintaining a comfortable work life balance. While the majority of our people continue to work from home, at the time of writing this Report, we've enabled greater flexibility to support our people's wellbeing. We've encouraged our team managers to put in place positive changes for anyone who needs it. For more information on flexible working, visit our website.

Following our work with the Chartered Insurance Institute (CII) in 2019, on the market-wide flexible working initiative 'Insuring Women's Futures', we're proud to have committed our support for the following pledge which formed part of the 2020 manifesto.

> **Financial Flexible Working pledge** – we'll work to ensure that at every point where our employees make a change to their working arrangements, they are prompted to consider the immediate and longer-term financial implications of this change.

Women in Finance

When we signed up to the Women in Finance charter in 2016 we committed to two pledges. We're pleased to announce that we've exceeded both of these; we reached 42% female representation in senior roles (Band C-E roles, which cover our management and executive levels) by 2020 (+2% of target) and 42% female representation on our executive team and direct reports by 2019 (+9% of target).

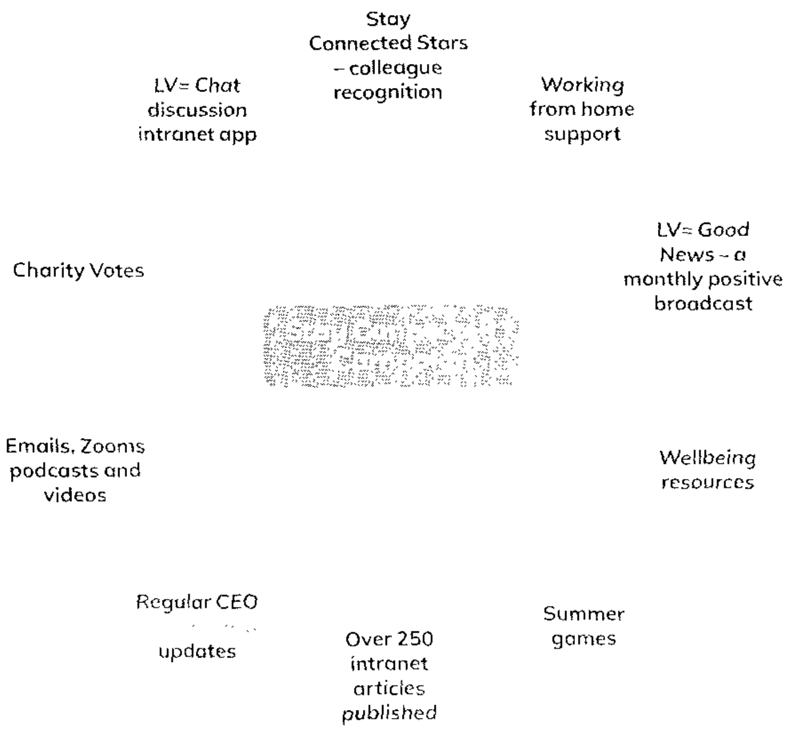
We recognise that this success has been driven by a number of factors including our leadership team's commitment and the successful implementation of our programme of activity. We'll continue to focus our efforts on taking action to improve our gender balance across all senior levels and we've set a new target for 2021, 43% female representation in senior roles.

We continue to support and sponsor the Women in Finance Awards and in 2020 we're thrilled to have two shortlisted nominations of our own; Lisa Simmons for Legal Advisor of the Year and Anna Rogers for *Insurance Leader of the Year.*

Covid-19 communication

Employee engagement goes a long way. If our people feel energised, fulfilled and connected to what we're striving to achieve, they're going to create fantastic green heart experiences for our customers and members. During 2020 it was so important to keep in touch with our people as working from home created a barrier we hadn't needed to navigate before.

Stay Connected is our overall internal campaign. It was launched to help keep our people connected to one another and support their wellbeing throughout a turbulent 2020 and into 2021. This campaign has also allowed us to continue to provide colleagues with strategic business updates and these were supplemented with a large amount of initiatives, support and guidance to help them through lockdown and the ensuing pandemic.



Mental Health and Wellbeing

A main focus of ours has been on supporting the mental health, wellbeing and resilience of our people throughout 2020 and beyond.

Our Stay Connected campaign provided a continued rhythm of communication and ever expanding library of resources which were designed with our people at the heart. You can find out more in the next section.

Courageous Conversations

With the help of mental health charity Mind, we provided our managers with mental health training. The two hour session was designed to improve their capability to have mental health conversations, spotting the signs of mental ill health, building emotional intelligence and providing practical tools and guidance to have better conversations. To further help foster an early intervention culture we also delivered webinars called Talking Mental Health with clinical psychiatrist Paul Murray and ran a number of mental health Tea & Talk sessions.

Series of expert-led parental webinars

Acknowledging the additional pressures our working parents were under last year, we delivered a series of practical webinars designed to support parents and aid them to balance home-schooling, working, caring and managing the home. Lorraine Lee, a childhood education and training specialist, provided guidance on a number of issues ranging from mental health, home schooling, school holidays, work life balance and more. She shared practical ways of teaching while at home, how to manage conflict and address feelings like guilt and pressure.

Wellbeing

Our people were able to make real changes and put in place a new manageable plan which has led to better family and work outcomes.

Virtual 'Calm amongst the chaos' coaching programme

This new programme has been developed to address the feeling of being overwhelmed. Its aim is to build personal resilience which will enable participants to find more energy to achieve what's important to them, pursue their career ambitions and harmonise work and home.

Reward and recognition

To make sure that we're rewarding our people fairly, in line with the market, we assess the amounts we pay our employees regularly. All of our people are paid at least the Living Wage Foundation rates of pay and as well as their salary, they're all eligible to be considered for a bonus. This bonus is based on their own performance and how the business does overall.

Anyone who starts working for us is automatically enrolled into the LV= Pension Plan. Our people can choose to contribute a minimum of 3% of their salary into their LV= pension and we'll double match their contribution up to a maximum of 14%. To help them plan for their future our online tool, the LV= Pensions Village, allows them to track their pension and check the impact it will have on their retirement income.

Through their employment, our people receive core benefits such as life assurance and a competitive holiday entitlement. We also have a flexible benefits package which gives them the chance to select other benefits for their lifestyle. Each year they can choose from a wide range including buying and selling holiday, private medical and dental care to name a few.

In December 2020, we acknowledged the hard work and dedication of all our non-management grade colleagues after what had been a difficult year. We gave each of them a £200 bonus to recognise that the adjustments they had to make to work from home, when this wasn't something they were used to, was appreciated.

My Recognition

Recognition is really important as it drives motivation, and makes people feel appreciated and proud of their achievements. Through the 'My Recognition' platform our people can reward their colleagues for outstanding work and for living our values.

Corporate Governance Report

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.

LV= adheres to the principles and provisions of the Financial Reporting Council's Corporate Governance Code (the Code). The board believes that effective corporate governance ensures that there is clarity of roles and responsibilities which enhances accountability and transparency and helps to create a sustainable business and 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.

For the year ended 31 December 2020, the board considers that it has complied in full with the provisions of the Code.

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 not only ensuring that we comply with all relevant laws and regulations and ensuring that we have high standards of internal control and risk management, but that we run our business with integrity.

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

Roles and responsibilities

The board is comprised of an independent non-executive chair, independent non-executive directors and executive directors. 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.

Following the departure of Richard Rowney, chief executive officer (CEO) in December 2019, Alan Cook, the chair of the board, assumed the regulatory responsibilities of the CEO and became executive chair to ensure appropriate and continued oversight and accountability of the business and executive team.

Following a thorough recruitment and appointment process, Mark Hartigan was appointed as interim CEO on 1 January 2020. Alan remained in the role as executive chair until June 2020 when Mark received regulatory approval for the CEO role. Mark was subsequently appointed a member of the board and Alan's role reverted to non-executive chair. During the transition period, safeguards and mitigations were put in place to ensure Alan remained as independent as possible while retaining and exercising his regulatory responsibility for the running of the business. The position was discussed with the regulators and our external legal advisors and a robust governance structure put in place to manage and monitor any conflicts of interest. Alan's time commitment was also evaluated to ensure that he had sufficient time to manage the extra responsibilities.

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 35 to 37

Chair

Alan Cook*

Chair

- 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.

Executive Chair

(December 2019 – June 2020 'transition period')

Executive Chair

- *As all matters not reserved to the board are delegated to the CEO, these were assigned to Alan during the transition period and where appropriate, delegated to Mark Hartigan accordingly*
- *Exercised appropriate oversight over the executive team and ensured they discharged the authority delegated to them*
- *Held regular one-to-one's with Mark Hartigan*
- *Oversight of all material contracts entered into*

Senior independent director

*David Barral**

- *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

Alison Hutchinson*
Colin Ledlie*
Luke Savage*
Seamus Creedon*
Susan McInnes*
David Neave* ^
Tonya Lawler* ^

- 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 officer

Mark Hartigan

- 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

Executive directors

Wayne Snow

- As a member of the board, collectively with the non-executive directors, sets the business strategy and monitors performance to ensure the long-term success of the business
- Provides the board with additional insight into the operation and performance of the business.
- As members of a unitary board, executive directors have the same duties as non-executives which *extend to the whole of the business and not just the part covered by their individual executive roles*

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:

*Independent

^ Resigned during the year

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

Board Biographies

Key:

B Board

A Audit Committee

C Corporate Governance and Nomination Committee

Investment Committee

Risk Committee

Remuneration Committee

W With-profits Committee

* Committee chair

Alan Cook CBE, Chair

B * C *

Appointment:

Alan joined the board on 1 January 2017 as a non executive director and as chair on 20 June 2017. He was formally appointed by our members at the 2017 AGM.

Skills and experience:

Alan has extensive financial services experience across insurance, banking and investments. During his career he was managing director of the Post Office, chief executive of National Savings & Investments and chief operating officer for Prudential Assurance in the UK and Europe. Alan was chairman of Permanent TSB group, one of the four leading banks in Ireland, senior independent director of Sainsbury's Bank and on the board of MetLife Europe. Alan was formerly chairman of the University of Bedfordshire, the Irish Life Group and the Highways Agency. His previous non-executive positions also included the Department of Transport, the Financial Ombudsman Service and the Office of Fair Trading. Alan is also a past chairman and current patron of 'Action for ME', the UK's leading charity supporting sufferers of ME/CFS

External appointments:

- Chairman of Chetwood Financial Services
- Board member and chairman of the Audit Committee at Milton Keynes College
- Board mentor at Criticaleye

Mark Hartigan,

B

Appointment:

Mark was appointed as interim chief executive officer from 1 January 2020 and, following the receipt of regulatory and board approval, was appointed to the board on 15 June 2020. He was formally appointed by our members at the 2020 AGM.

Skills and experience:

Mark was part of the senior leadership team at Zurich Insurance Group between 2009 and 2019, most recently as head of operations for Zurich EMEA. Before this, he was chief administrative officer of Zurich's general insurance business and chief executive officer of both EMEA and Asia Pacific for Zurich Global Life. Mark has also been chair of a number of life company boards in the UK and overseas. Prior to working at Zurich, Mark was deputy chief executive officer of Nexus Group, the largest insurance broker in the Middle East. He began his career in the British Army and holds a master's degree from Kings College, University of London

External appointments:

- Mark has no external appointments.

Wayne Snow,

B

Appointment:

Wayne joined the board on 2 July 2018 as an executive director. He was formally appointed by our members at the 2019 AGM

Skills and experience:

Wayne's area of expertise is risk management. He joined LV= from the Phoenix Group where he was group chief risk officer from 2013. He was also a board director of Phoenix Life. During his 13 years at Phoenix Wayne held a variety of roles across risk management, finance and corporate development.

External appointments:

- Trustee board member of Queer Britain

David Barral, Senior Independent Director

B A C *

Appointment:

David joined the board on 7 March 2016 as a non executive director, he took on the role of senior independent director on 1 April 2018 He was formally appointed by our members at the 2016 AGM

Skills and experience:

With a career spanning 40 years in financial services, David brings a mix of strategic, transformation and *operational experience with a strong focus on customers, risk and governance He joined LV= from Aviva* where he was the chief executive of UK and Ireland life insurance, the largest business unit within the Aviva group. Previous positions at Aviva included sales director, marketing director and chief operating officer. He is a former chairman of the ABI retirement and savings committee and previously served as Independent customer champion of Old Mutual Wealth's Customer Outcomes Forum.

External appointments:

- David has no external appointments

Colin Ledlie,

B A * 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 and until recently was a non-executive director at ReAssure.

External appointments:

- Non-executive director of BUPA Insurance
- Non-executive director of National Records of Scotland

Alison Hutchinson CBE,

B C *

Appointment:

Alison joined the board on 1 January 2018 as a non executive director. She was formally appointed by our members at the 2018 AGM

Skills and experience:

Alison's experience spans over 34 years in technology and financial services. She began her career at IBM where she became global director of online financial services. At Barclays Bank she was the marketing director of Barclaycard and then managing director and chief executive at the specialist mortgage provider Kensington Group plc. Alison founded a digital charity, The Pennies Foundation, and in 2016 was awarded a CBE for services to the economy and charities.

External appointments:

- Chief executive of The Pennies Foundation
- Non-executive Vice Chair and Senior Independent director of the Yorkshire Building Society
- Senior Independent Director at DFS
- Senior Independent Director of the Foresight Group

Luke Savage,

B A * C

Appointment:

Luke joined the board on 1 February 2018 as a non executive director. He was formally appointed by our members at the 2018 AGM

Skills and experience

Luke is a qualified accountant with over 35 years' experience across banking and insurance sectors. He is the former group chief financial officer at Standard Life. Previously he was director of finance, risk management and operations at Lloyd's of London and before that held senior financial roles at Deutsche Bank AG and Morgan Stanley

External appointments

- Chair of Chesnara
- Non executive director of DWF group
- Non-executive director of Numis
- Member of the council and treasurer of Queen Mary University of London

Seamus Creedon,

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
- Gatcombe Court and Highgrove Court Management

Susan McInnes,

B 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 for the Phoenix Group, 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. Susan is passionate about making a difference for the end customer. She believes that having the customers' best interest at heart helps create a sustainable business where people want to work

External appointments:
- Member of the FCA Practitioner Panel.

Outgoing directors

David Neave, Non-Executive Director
Appointment: 1 June 2013
Resignation: 30 June 2020
Committees served during 2020: Risk, Remuneration and Corporate Governance and Nomination.

Tanya Lawler, Non Executive Director
Appointment: 1 September 2018
Resignation: 29 January 2020
Committees served during 2020: Risk and Remuneration.

External appointments and time commitment

The Code requires that non-executive directors must have sufficient time available to carry out their responsibilities effectively. 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 is assessed as part of the recruitment process for new board appointments and throughout the year 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 Corporate Governance and Nomination Committee undertake 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 initial strategic review discussions, and due to the potential third parties involved, Luke, Colin, Susan and Seamus were conflicted and unable to review the papers or be party to the discussions during the meetings. As these discussions progressed their conflicts were resolved and in the later stages all directors were present and able to participate in the final decisions.

Board Appointments

During the year, the board welcomed three new board directors. Mark Hartigan as an executive director and Seamus Creedon and Susan McInnes as non-executive directors. Mark joined LV= as CEO in January and was appointed as an executive director in June 2020 following board and regulatory approval. Seamus was appointed in January 2020 and Susan in April 2020.

Recruitment process

Following a skills gap analysis in 2019, the chair and company secretary met and discussed the board composition and potential non-executive opportunities with an executive search firm (Russell Reynolds Associates) a firm with no other connection to the Company or the board. Two searches were initiated, focusing on the specified skills required and ensuring that a diverse range of candidates were considered. The diverse pool, in terms of gender, ethnicity, skills and background, of twenty candidates was discussed in depth with the chair and company secretary before a shortlist was agreed. Seven candidates, from the initial shortlist, were put forward for interview with the chair and company secretary. Four candidates were put forward to the second stage, which involved the applicants meeting two non-executive directors and one executive director. The selected candidates were then formally considered by the Corporate Governance and Nomination Committee, before being recommended for board approval.

Induction

All board directors receive a comprehensive induction programme led by the company secretary upon appointment to the board. Susan and Seamus' induction programme was designed to ensure that they were equipped with the requisite information and knowledge about LV= to effectively contribute to board discussions. The induction programme was structured to include meetings with key personnel across the business in order to gain an understanding of LV='s purpose, strategy, operations and performance. Due to the impact of Covid 19, Susan's induction programme was held virtually but further meetings will be held [illegible] possible.

Board Diversity and Inclusion

LV= is committed to equality of opportunity and treatment for all those who work for us. In line with our values, we agree to treat all employees, 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. When identifying suitable candidates for appointment to the board, the board's diversity policy is duly regarded.

Board diversity policy

The board has adopted the following diversity policy:

'LV= recognises and embraces the benefits of having a diverse board, and sees diversity at board level 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, in the context of the skills and experience the board as a whole requires to be effective. The Corporate Governance and Nomination Committee ('Nomco') reviews and assesses board composition on behalf of the board and recommends the appointment of all new directors to the board.

In reviewing board composition, Nomco will consider the benefits of all aspects of diversity including, but not limited to, those described above, 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, Nomco will consider candidates on merit against objective criteria as well as having due regard for the benefits of diversity on the board.

As part of the annual performance evaluation of the effectiveness of the board, board committees and individual directors, Nomco will consider the balance of skills, experience, independence and knowledge on the board and the diversity representation of the board.'

Application and performance against the board diversity policy

The diversity of candidates is a key matter of focus in any recruitment to the board. Throughout the year, the committee evaluated the board's 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 on the board and its committees.

As at year end, the board had 22% female representation (seven male and two female directors). 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 34 to 3[illegible].

Senior management

The board is keen to develop a diverse workforce and is dedicated to promoting women in leadership. In line with our commitment to the Women in Finance Charter we set targets to increase the proportion of women in senior positions and, as at the end of 2020, we had exceeded the target of 33% female representation at executive level and their direct reports, with 42% [illegible] at the end of 2020.

Senior management succession and talent development

Succession planning and talent development of senior management has been considered and reviewed throughout 2020. The CEO and chief administrative officer (responsible for the HR function) have responsibility for senior management succession planning and discussions have been held with the chair and management to ensure a strong and stable senior leadership team, while retaining a focus on developing a talent pipeline to ensure the continued success of LV=. The Corporate Governance and Nomination Committee has oversight of the succession plans to ensure a diverse and suitable pipeline of talent has been identified and coaching and development or recruitment activity is being undertaken. All executive appointments are discussed with the chair, with oversight from the Corporate Governance and Nomination Committee, prior to appointment.

During 2020, the Corporate Governance and Nomination Committee considered and agreed to the extension of Mark Hartigan's contract for a further six months to ensure the stability of leadership during the on-going strategic discussions. When considering the extension, the committee focused on the potential negative impact a change in leadership would have on the workforce and agreed that the extension would provide comfort to employees during uncertain times. It would also provide continuity in leadership and knowledge through the initial transactional phases in 2021.

Performance Evaluations

Board and Committee Evaluation

The board and committees undertook internally facilitated reviews for 2020. It was agreed that the same questionnaires as used the previous year would be used to ensure a consistent approach and provide any trends and an assessment of progress against areas of development. Each questionnaire was tailored to the relevant committee and covered topics such as leadership and decision making, strategy, risk and culture. Each questionnaire was circulated to, and completed by, each member and regular attendees.

The findings and recommendations from the review were presented to the board and committees in early 2021 and tracked against the 2019 findings. The results showed that positive improvements had been observed in all areas and evidenced that the board and committees understood their scope and remit and were effective in discharging their responsibilities. It was agreed that the balance of skills and experience on the board and committees were appropriate and the support provided by the business met or exceeded expectations. The frequency of meetings satisfied the requirements of the board and committees to have sufficient oversight to make informed and timely decisions. A small number of individual actions were agreed to ensure continuous improvements throughout the year.

The key focus areas and actions agreed by the board are summarised below:

Meeting effectiveness	• Continue to improve the quality of the papers presented in the meeting to ensure each decision or action required from the board is clear, with evidence to support the recommendation from management • Consider ways to improve and simplify the MI presented at the meeting
Culture and stakeholders	• Facilitate greater employee engagement and visibility of the views of the workforce at the board level • Coordinate thematic reviews and training for the board
Cohesive decision making	• Facilitate increased engagement with the board and executives • Arrange informal engagement with the non-executive directors outside of the scheduled board meeting cycle.

Committees

The collective actions from the reviews included the continuous development of the quality and range of management information provided to the committees.

Progress will be monitored throughout 2021 by the board and each of the committees to ensure that the actions and recommendations are effectively addressed and completed.

Chair

The senior independent director, David Barral, conducted the evaluation of the chair's performance through a series of individual and group discussions with the non-executive directors and senior executives. The results were unanimous that the chair was highly respected, provided focused, collaborative and balanced leadership and dedicated commitment, through a period of strategic and transformational change. There were minimal areas of consideration raised by the directors which were discussed and noted by the chair.

Non-executives

The chair held individual meetings with each non-executive director to discuss their contribution and performance over the year. Following these meetings, the chair confirmed that each director continued to make an effective contribution to the board and identified training and development areas both individually and collectively for the board.

Re-election and retirement

All current directors stood for re-election at the AGM in September 2020. In accordance with the Code, to maintain the independence of the board, directors must retire after a nine-year term. However, the board adopts a best practice approach and directors typically resign after a shorter term of six years. David Neave voluntarily stepped down in June 2020, having completed a full six-year term on the board. Tanya Lawler also retired from the Board in January 2020, as reported in the 2019 Annual Report.

Member engagement

The board uses its AGM and member panels to communicate with members and other stakeholders. The two member panel meetings scheduled for 2020 were cancelled due to Covid-19 and effort was made to communicate with members via the Member Hub and the website. A Member Panel was subsequently held virtually in January 2021 to give members an opportunity to speak with the chair, With-Profits Committee chair, Remuneration Committee chair and company secretary about the transaction with Bain Capital. 24 members attended and found the session very informative.

A communication was issued to all members in December explaining the board's decision to pursue a transaction with Bain Capital. As part of the mailing, members were invited to attend a webinar which was held in February. Members were able to submit questions in advance and the key areas discussed included the background to the transaction and insight into the deal processes. Over 200 members attended the webinar with many members participating by submitting questions ahead. All eligible members will be invited to vote on the transaction at a Special General Meeting which is expected to be scheduled for later in 2021.

In line with Government guidance and due to the restrictions on public gatherings, the board agreed to delay the AGM which was originally scheduled for July 2020. The AGM was postponed until 30 September in the hope of maximising the possibility of members being able to attend. Unfortunately, the restrictions on social gatherings continued and the meeting was closed to members and held virtually with only the board and two members present (to enable the necessary quorum). Although only two members were in attendance, a thorough engagement process was followed. Members were asked to submit their vote by proxy together with any questions for the board. These were considered at the meeting and the questions and answers were published on the LV= website alongside the meeting minutes.

The board's activities during the year – s.172 statement

In addition to the 11 formal board meetings held during 2020, the board also met regularly to discuss and consider the strategic options and process

[illegible]	[illegible]	[illegible]	[illegible]
Alan Cook	17	17	100%
David Barral	17	17	100%
Alison Hutchinson	17	17	100%
Luke Savage	17	17	100%
Colin Ledlie	17	17	100%
Wayne Snow	17	17	100%
Seamus Creedon	16	16	100%
Susan McInnes	13	12	92%
Mark Hartigan	7	7	100%
Tanya Lowler	1	1	100%
David Neave	10	10	100%

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 the performance and strategy
- The director of finance on the trading and financial performance.
- The chief risk officer on risk and regulatory matters.
- The business line directors on the trading performance of their businesses.
- The customer champion on issues relating to the customer

The remainder of the agenda focuses on member and governance matters, and matters of current interest. Employee, member and customer matters have received greater focus during the year through the strategic process to ensure that all stakeholder interests were considered and the business remains sustainable, profitable and successful for the future.

The board actively engages with its stakeholders and the following table provides a summary of how the board considered the impact on its stakeholders when making decisions throughout the year. Directors are bound by s172 of the Companies Act 2006 and the table further explains how directors discharged their duties during this process

Key stakeholder groups:

1. Our members*
2. Our customers
3. Our people
4. Regulators
5. Financial advisers and brokers
6. Suppliers
7. Pension scheme
8. Environment

* Our mutual status means we are owned by our members. Anyone can become a member by owning a member-qualifying product with us and we count these individuals as both members and customers

Business plans

- Reviewed performance against the five-year business plan.
- Considered the 2021-2025 business plan including strategic assessment and external assurance.

Strategic process and KPIs

- Discussed and set the KPIs across the business and assessed progress against strategic objectives throughout 2020.

Trading updates

- Considered the trading performance and received regular updates.
- Reviewed market analysis.
- Considered the impact of the business plan, strategy and costs on the group's trading results.

Employee engagement

- Considered the results of the employee Engage and Pulse surveys and the actions taken by management as a result.
- Received regular updates on the group's response to Covid-19 and the impact and actions being taken to support the workforce to work from home.
- Agreed a strategy of transparent and regular communications to the workforce in response to the press releases regarding the transaction with Bain Capital.

[illegible]

- Considered whether an internal transfer was in the best interest of both RNPFN and LVFS with-profits policyholders.
- Evaluated the economic impact of an internal transfer vs. external transfer.
- Ensured the correct governance process was followed for robust decision making.

Products

- Received updates on the re launch of the critical illness product and the introduction of payment break options due to vulnerability of those impacted by Covid-19.

[illegible]

- The remediation exercise continued through 2020 to return funds to members generated by past calculation or system errors and by the end of 2020, £28m had been returned to members. The project continues to progress and is expected to close in 2021.
- The board and Risk Committee received regular updates and monitored the progress throughout the year.

Strategic transaction

- Considered in depth, alongside external advisory and legal counsel, initiatives to grow, develop and sustain the business. This concluded with the transaction with Bain Capital (see pages 9 and 10 for further details).

Distributions to members

- Evaluated the best use of the proceeds from the sale of the general insurance business.
- Considered the most suitable and fair way to distribute proceeds to members.
- Determined the level of distribution.

Budget

- Considered performance against the 2019/2020 budget.
- Agreed the budget for the group for 2020/2021 having considered the impact on long term performance, member bonus and employee perception.

Costs

- Reaffirmed the commitment to have a leaner more efficient cost base.
- Reviewed the operational cost savings throughout the year relating to property rents, procurement and costs associated with the employee base.

Capital management

- Evaluated the benefits of a matching adjustment application to enhance the matching adjustment portfolio and the change to risk exposure.
- Considered the impact of the distribution of the proceeds from the sale of the general insurance business.

Interim reporting

- Agreed to remove public interim reporting having considered the level of performance information available to members, customers and bondholders.

Pension scheme

- Worked with the trustees of the employee pension schemes to agree a method for de risking the schemes while maintaining protection to employees.

Board training programme

- Received training at both board and board committee level covering a range of topics
- Undertook deep-dives into specific subject matters at board and committee level to ensure understanding and rectification action where required.

Board effectiveness action plan and evaluation

- Reviewed the progress made against the 2019/2020 effectiveness action plan.
- Undertook a thorough internally facilitated effectiveness review for 2020.

Annual General Meeting

- Navigated the Covid-19 meeting restrictions to hold the AGM and engage with members.
- Received approval for a change to the Company's Articles (rules) to enable greater flexibility for the company to use electronic communication and for meetings to be held in alternative ways

Chair/CEO independence

- Agreed a rigorous and transparent governance structure to ensure independence.
- Mapped responsibilities and aligned delegated responsibilities

Committee composition

- Completed a skills assessment for the board and each committee
- Refreshed membership to ensure effective decision making and a balance of skills and experience

Case study – Our response to the COVID-19 pandemic

The board, guided by the executive team, were responsible for making quick decisions in unprecedented times to ensure and promote the long term success of the group during the Covid-19 pandemic. Due to our role paying pensions and death claims our business was considered critical during lockdown. The board had to ensure the safety and wellbeing of its workforce, maintain reliable and high 'business as usual' standards for customers, and continue to assist vulnerable customers.

Employees

Working from home: All services were maintained throughout the pandemic. Key workers were quickly identified. All staff were set up to work from home and additional equipment was provided across the business to ensure employees could work safely and effectively remotely. No employees were furloughed as a result of the pandemic measures. Customer service remained the primary priority and equipment for front-line staff was prioritised and systems adapted to ensure the commitment to customers continued as best as possible.

We developed on-line content for our people and their managers to assist in working effectively at home and juggling work with childcare responsibilities. This included 'top tips' for working at home, coaching modules and performance management support for remote working (see page 30 for more information).

Wellbeing: Teams across the business arranged virtual quizzes and games to keep in touch and boost morale. We put in place processes for line managers to provide support to any employees who were experiencing challenges as a result of isolation and lockdown.

Returning to work: Government guidelines were strictly followed during 2020. Some employees chose and were allowed to return to work due to unsuitable working conditions at home or for well-being reasons. The office was adapted to accommodate social distancing requirements and safeguarding measures were put in place, including on-line training sessions, to maintain employee safety.

Members and customers

Covid-19 impacted many, if not all, of our customers with a significant number either becoming vulnerable or experiencing worsening vulnerabilities. Our response was customer driven with activity prioritised to support existing members and customers.

For our members and customers, we:

- Created a dedicated area on the LV= website for Covid-19 and how to make contact with LV=, including a special section for vulnerability.
- Raised awareness of increased financial scams and frauds.
- Created specific financial vulnerability training to encourage members and customers to 'pause-for-thought' and to always seek financial advice, especially in times of market volatility, prior to making big decisions.
- Worked in partnership with the specialist financial welfare charity Turn2us, to signpost customers who were in need of financial assistance and support.
- Launched 'Green Heart Friends', which enabled our people to 'check in' with members or customers who were vulnerable or who may be feeling isolated, lonely or simply in need of someone to talk to.

For our vulnerable customers we put measures in place, including:

- Support services such as member benefits, support line, LV= Doctor Services and Care Navigator.
- Options to reduce premiums or payment holidays for various products.
- Covid-19 payment breaks which were funded by the LV= Member Support Fund.

Our customer committee undertook a 'deep-dive' of the responses to our customer surveys to ensure the highest level of service continued to be provided. Responses showed a positive outcome of 92%.

Product offering

Our approach of updating existing products, rather than launching completely new offerings, was award-winning. We were delighted to receive a number of 'gold ratings' across our product range from Protection Guru and to win our first award for our new Critical Illness Proposition.

The terms and conditions of our products, and the processes and procedures in place to administer them, were thoroughly reviewed. The terms and conditions of many products were relaxed to offer additional support to customers and members, such as offering shorter waiting periods for those who lost income due to self-isolation. We took a pragmatic approach to receiving evidence for claims when the normal methods were no longer viable. Our Savings and Retirement customers were allowed cash on account due to market volatility over the period and we launched three and four year fixed-term annuities. We also led the market in re-pricing certain products to manage volumes due to their increased demand.

These changes helped our customers to feel positive about the brand and products they had invested in.

Suppliers

We monitored our critical and important suppliers on a daily basis to ensure that they were providing service in line with service level agreements and we were not at risk of service disruption for our customers.

Advisers

We were praised by advisers as the only provider to publish regular bulletins, highlighting the changes to our products and our response to Covid-19, so that our advisers could communicate with their customers confidently about our product offerings and services during a time of uncertainty.

Governance

Member meetings: The board delayed the company's Annual General Meeting in the hope that members would be able to attend. Following government guidelines the AGM was held on 30 September as a closed meeting with only two members and the board present. Members were able to vote by proxy in advance, either by post or online and submit questions to the meeting. The questions and answers, and the minutes from the meeting were made available on the LV= website after the meeting.

Board meetings: All board and committee meetings were held virtually using a secure virtual platform. The strong procedures already in place resulted in minimal disruption to the board and committee meeting schedule and their oversight and decision making responsibilities.

Management meetings: The governance framework was quickly reviewed to determine which internal management committees were decision-making or advisory to ensure that the correct approval processes were followed and documented, thereby allowing efficient, robust and transparent decision making to continue.

This provides members with the assurance that the board continued to uphold their responsibilities and accountabilities despite not being able to meet collectively in person. The processes remained rigorous and robust to ensure that decisions were made in line with the appropriate authority and with consideration to all stakeholders.

Regulators

We remained in regular contact with our regulators to keep them up to date with our response to the pandemic and the actions we were taking as a business. We ensured we met, and where possible exceeded, best practice. We prioritised and protected delivery of our critical services such as claims, income payments, investments and adviser guidance and were the only firm in the market publishing our claims approach. The regulators were complimentary of our approach to the pandemic.

Long-term practices

We were forced to change some of our processes and systems quickly which resulted in the requirement for risk acceptances and waivers. These were all considered carefully and once the initial impact of the lockdown restrictions had settled, a series of workshops were run to review the new operations to provide assurance that all impacts and changes had been considered and to strengthen controls where required.

The business strengthened its work on operational resilience, incorporating lessons learnt from this pandemic, to guard against future events. We are continuing to investigate how to incorporate the new ways of working into our long-term strategy to take the efficient changes (such as home valuations for equity release and productive remote working) into the 'new normal'.

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. In 2020, the board relied on alternative arrangements to consider the interests of employees during the strategic decision making process due to the sensitive and confidential nature of the discussions. To ensure a strong focus remained on our employees through the decision making process, the impact of each strategic option on employees was evaluated in depth and was a key factor in the strategic discussions and decision making.

The board fully supports initiatives to engage and empower our employees. The views of the employees are reported regularly to the board via the chief administration officer (responsible for HR) and the customer champion. This is one of the methods the board uses to assess and monitor the culture within LV=. Our customer charter is outlined on page 5.

The results of the employee engage and pulse surveys were reviewed by the board. The completion rates for the surveys were very high and allowed the board to understand how changes in leadership and organisational design, working practices and well being and the general concerns of the workforce were viewed throughout the business. The primary focus of the pulse surveys during the year was on well being to gauge employees' views and opinions following implementation of the working from-home restrictions.

The wellbeing of our employees was of the upmost importance to the board in its response to the pandemic. Wellbeing champions from within the business fed back on employee views to management and these were reported on at board level.

Board committees

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

Audit Committee

[illegible]	[illegible]
Luke Savage (Chair)	9/9
Colin Ledlie	9/9
David Barral	9/9

Note from the chair

Dear Members,

As chair of the Audit Committee, I am pleased to provide an overview of the work undertaken throughout 2020 and our focus for 2021. In this regard the challenges we have all faced in 2020 also impacted the work of the committee, with increased focus on areas such as the consequences of the pandemic on our reserving and business projections, and the implications, if any, on our viability statement. I'm pleased to say that the committee received all the assurances required from management to conclude satisfactorily on the robustness of the report and accounts and I would like to thank the team for their outstanding work in very difficult circumstances.

The role of the committee is to oversee and challenge the integrity of the group's financial reports and the robustness of our financial internal controls. We also have oversight of the external and internal auditors, and monitor their objectivity, independence and operation. The significant issues considered by the committee in relation to the 2020 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.

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. An area of significant judgement that was considered by the committee was the derivation of the unit costs, where a number of changes to the methodology had been made to improve the process of allocation.

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. In addition, during the year a pension scheme buy-in was entered into in order to reduce the exposure to longevity risk. The buy-in insurance policy is recognised as a scheme asset. The committee reviewed reports from management and the external pensions valuation experts. The committee is satisfied that the assumptions and measurement of the buy-in impact are appropriate.

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 the £8m goodwill associated with the Wealth Wizards investment should be written-off based on the measurement of the value in use. 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, and the 2019 Solvency and Financial Condition Report, which was released in May 2020. 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 2020 year-end included the appropriateness of disclosures relating to the proposed transaction with Bain Capital and also the impacts of the Covid-19 pandemic, including how the impacts have been incorporated into significant judgements and accounting estimates.

In addition to matters relating to the year-end 2020 reporting the committee is also overseeing the group's approach to external reporting in future years. Matters discussed included the appropriateness of adopting UK GAAP and the impact that this has on the requirements for IFRS 17 'Insurance contracts' preparation.

Adoption of the Companies Act

The parent company converted to a company limited by guarantee at the start of year. The 2020 Annual Report has been prepared in compliance with the provisions of the Companies Act 2006. The committee noted that the group has previously voluntarily complied with the majority of the Companies Act disclosure requirements. Having reviewed the 2020 Annual Report, the committee is satisfied that it is fully compliant with the Companies Act 2006.

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.

Effectiveness

At the start of 2020, the FRC's Audit Quality Review team (AQR) carried out a review of the external audit of our financial reporting for the 31 December 2018 financial year as part of their routine sampling activity. The FRC has provided a copy of their confidential report to the chairman of the committee which has been reviewed and discussed by the committee and with PwC. The committee is satisfied with the responses to the report implemented by PwC for the audit of the group's financial statements for the year ended 31 December 2020 and the committee is content that the matters raised do not give it concerns over the quality, objectivity or independence of the 2020 audit.

The committee reviewed a report detailing the views of key stakeholders involved in the 2019 year-end audit process 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. However, it was concluded that the audit would not offer value for money at the proposed fee for 2020.

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 2020 were negligible. See Note 13 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 auditors.

Audit tender

The Audit Committee considers the need to re-tender the external audit on an annual basis in order to ensure continued effective performance and value for money. PwC have been the group's external auditors since 2008. Following a competitive tender to comply with legislation regarding audit firm rotation PwC were re-appointed in 2018.

In June 2020, the committee initiated an audit tender for external audit services in order to ensure that we had an audit appropriate to the new size and shape of the group following the sale of the general insurance business at the end of 2019. The committee had oversight and responsibility for carrying out the tender.

The process

A selection panel was created, made up of the three members of the Audit Committee and led by the committee chair. The director of finance and the financial controller were also in attendance. Three audit firms reached the final stage of the tender process, including PwC. There was an opportunity for the tendering firms to meet with key LV= executives relevant to the audit and the chair of the Audit Committee, who were available to answer questions relating to the audit itself and matters arising from the data room. Selection panel members received detailed responses from each firm to a formal request for proposal. Each firm delivered a presentation to the selection panel during which questions were raised by the panel and each presentation was debated and evaluated immediately afterwards and scored against a pre-defined selection criteria which included:

- Approach to ensuring audit quality
- Understanding of our business and risks
- Experience and fit of the lead partner
- Senior audit team capability
- Transition approach
- Value provided from the audit

The outcome

Having taken into account each of the selection criteria and the quality of the presentations, the selection panel unanimously agreed to propose to the Audit Committee and in turn the committee agreed to propose to the board, that Mazars be appointed as statutory auditors following completion of the 2020 year-end process and that this appointment would be subject to member approval at the 2021 AGM. The committee would like to thank each firm for their participation in the tender process.

Transition

We are now working closely with both PwC and Mazars to ensure an efficient transition of the external audit. Mazars are shadowing key meetings and regular reports on transition are provided to the committee.

Looking ahead

Over 2021 the committee intends to focus on significant matters impacting financial reporting including valuation of long term insurance and investment contract liabilities, the impacts on financial reporting of the Bain Capital transaction and the planned future conversion to UK GAAP. 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.

Corporate Governance and Nomination Committee

Alan Cook (Chair)	3/3
Luke Savage	2/3
Alison Hutchinson	3/3
David Barral	3/3
David Neave^	1/1

^resigned from the board on 30 June 2020

Dear Members,

It is customary for the chair of the board to chair this committee and I am pleased to report the work we have done during 2020

It is our responsibility to review and evaluate the size, structure and composition of the board and its committees and ensure succession plans are in place for the board, the executive committee and the company secretary

We identify and recommend candidates for appointment to the board, based on merit and against objective criteria, for approval by the board. We also have oversight of LV='s governance arrangements to ensure alignment with our strategic priorities and compliance with applicable laws, rules and regulations. We advise the board of any governance issues to enable the board to operate effectively and efficiently.

During the year, we led and completed the appointment process (that was started in 2019), of the three new board directors. The committee also undertook a skills assessment of the board directors and reviewed the succession plans for the board and senior management.

We reviewed the directors' conflicts of interest and approved the mitigating action, as well as assessing 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

The committee assessed whether the high governance standards of the Code remained appropriate as the business was now smaller following the sale of the general insurance business. We agreed to continue to adopt the Code and maintain our robust governance framework. We were fully compliant with the Code throughout the year

The composition of the committee changed during the year. In accordance with the practices of good corporate governance, David Neave resigned having served a full six-year term as a board director

Over 2021, the committee intends to focus on reviewing the governance framework including the composition of the board and committees to ensure that the right balance of skills and experience is suitable for the business going forward

Risk Committee

David Barral (Chair)	5/5
Colin Ledlie	5/5
Alan Cook	5/5
Seamus Creedon*	3/4
David Neave^	1/2
Tanya Lawler+	0/0

*joined 6 May 2020
^resigned from the board on 30 June 2020
+ resigned from the board on 29 January 2020

Dear Members,

As chair of the committee, I am pleased to present our key activities during 2020 and focus for 2021

During the year, we welcomed Seamus to the Committee and said farewell to David Neave and Tanya Lawler.

Throughout the year, we gave regular consideration to our group risk profile including the principal and emerging risks. We considered the risk strategy at the beginning of the year and updated risk appetite statements were reviewed and recommended to the board throughout the year

We continued to focus on customer outcomes and had regular oversight of the risk maturity and risk event remediation projects to ensure that adequate progress was being made across the business and the appropriate controls were in place. The committee also reviewed the updated product governance framework and considered the controls and mitigation.

We contributed to the ORSA and related processes including stress and scenario testing and in particular, considered the impact of Covid-19 and Brexit. The committee spent time considering liquidity and climate-related risks as well as the requirements and progress made against relevant regulatory supervisory statements

Business sustainability and operational resilience were key focus areas for the committee over the year. We received regular updates on the group's response to Covid-19 and the progress being made in response to the regulatory requirements on operational resilience. Business sustainability, particularly relating to the IT estate, was discussed and the committee had oversight of the progress made in addressing the ongoing sustainability needs of the organisation

We have also spent considerable time as a board debating the strategic options and sustainability of the business which is covered more fully on pages 9 and 10

More details of the risk management framework, appetite and strategy are set out in the Risk Management section on pages 18 to 22

Remuneration Committee

Alison Hutchinson (Chair)	**6/6**
Luke Savage*	**2/2**
Susan McInnes*	**4/4**
Alan Cook^	**4/4**
Tanya Lawler^	**1/1**

*Susan joined 1 April 2020 and Luke joined 23 July 2020
^Tanya left 29 January 2020 and Alan left 23 July 2020

Dear Members,

As chair of the committee, I am pleased to present the key activities of the committee during 2020. This year more than ever we have been focused on aligning remuneration with the interests of our members and ensuring a strong strategic direction.

The main role of the committee is to review salary and bonus levels and consider gender pay reporting and wider workforce pay trends and policies. The committee also ensures that the highest levels of governance are followed and that these are compliant with remuneration regulations in the UK Corporate Governance Code and the SII regulations.

During 2020 we determined the remuneration packages for joiners, promotions and leavers and reviewed the annual bonus and LTIP measures for the group. Further information in relation to the group's policy on executive and senior management remuneration, and the activities of the committee during 2020, is set out in the *Report on Director's Remuneration* on pages 54 to 64.

The membership of the committee was refreshed during the year to ensure effective decision making and a balance of skills and experience. In accordance with best practice, Alan left the committee in July but remains a regular attendee to provide valued input into the meeting. Luke, as chair of the Audit Committee, was agreed as the most suitable candidate to fill the vacancy. Susan joined the committee in April 2020 and brings a wealth of experience and understanding to the role.

Investment Committee

Colin Ledlie* (Chair)	**4/4**
David Barral*	**4/4**
Alan Cook*	**4/4**
Mark Hartigan^	**1/1**
Chris Walker^	**1/1**

*Independent NED
^Executive members – joined 9 December 2020

Dear Members,

I am pleased to provide you with an overview of the work of the committee during what has been a very turbulent year. We have benefited from a diversified portfolio and long-term approach that has enabled us to weather these difficult conditions well.

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

The committee's composition changed during the year. Following the results of the committee's effectiveness review, and in line with best practice, it was agreed that Mark Hartigan and Chris Walker would join the committee as executive members.

During 2020, the committee monitored the investment portfolio performance through a period of uncertainty caused by the Covid-19 pandemic and considered the investment strategy in light of the global market conditions. 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. During the year we also reviewed the strategic asset allocation for the with-profits funds and we spent time considering our approach to responsible investing. We also approved a new Responsible Investment Framework.

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.

David Hare (Chair)	**5/5**
Colin Ledlie	**5/5**
Ian Blanchard	**5/5**
Steve Sarjant*	**5/5**
Mike Kipling**	**3/3**
Susan McInnes***	**2/2**
Graham Berville****	**3/3**

* resigned 31 December 2020
** joined 23 June 2020
*** joined 8 September 2020
**** Resigned 30 September 2020

Dear Members,

As chair of the committee, I am pleased to present our key activities during 2020 and focus for 2021. 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.

Our Terms of Reference (ToR) cover all the minimum regulatory requirements of a with-profits committee. In addition, the ToR contain 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 ToR are subject to annual review by both the WPC and the board.

The WPC met five times in 2020 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). Specific topics discussed included the ongoing review of LV='s legacy review programme and the fair treatment of with-profits customers in line with the FCA guidance under TR19/3. In addition, it met a further 16 times to consider matters relating to the strategic review and the proposed transaction with Bain Capital.

The WPC was fully engaged in the strategic review that LV= undertook, culminating in the board's decision to propose the transaction with Bain Capital. The committee saw all the relevant board papers and had opportunities to feed their comments and advice into the board discussions and decisions. In all cases, the board carefully considered the views of the committee and took them into account in the decisions made. No decision of the board concerning the strategic review and its outcome was in conflict with the advice and recommendations of the committee.

The WPC unanimously agreed with the board that the proposed transaction with Bain Capital represents an excellent financial outcome for LV='s with-profits policyholders.

The WPC membership comprises an independent chair (David Hare), two other independent members (Ian Blanchard and Mike Kipling), and two non-executive directors on the LV= board (Susan McInnes and Colin Ledlie). All five members are experienced financial services professionals with considerable experience of with-profits business and also insurance business transfers of the sort envisaged for the proposed transaction with Bain Capital.

During the year, the composition of the committee changed with the resignation of Mr Berville after nine years of service as the chair of the committee and Mr Sarjant following a six year term on the committee. The changes to the composition of the committee aligned with best practice to ensure the committee's continued independence. We also welcomed two new members, Mr Kipling and Ms McInnes, who bring a wealth of knowledge and experience to the committee.

A key focus for 2021 will be playing our part in the preparations for the member vote on the proposed transaction with Bain Capital and, if members vote in favour, the implementation of the transfer scheme. Specific areas where our input is already anticipated include commenting on the communications to with-profits policyholders about the proposals, reviewing the governance documents that will apply to the management of the with-profits fund assuming the transfer goes ahead and advising the board on the fair distribution of the additional capital that the sale to Bain Capital will facilitate.

RNPFN Supervisory Board

Peter Nowell	**4/4**
Rodney Baker Bates	**4/4**
Mike Kipling	**4/4**
David Hare*	**3/3**
Ian Blanchard*	**3/3**
Andy Young**	**1/1**
Paul Downey**	**1/1**

*joined 9 June 2020
**Resigned 2 March 2020

Dear Members,

As chair of the committee, I am pleased to report on the work of the supervisory board during 2020.

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 is 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 chairman, and two LV= nominated members. In the middle of the year, LV= changed their appointed members and David Hare and Ian Blanchard replaced Paul Downey and Andy Young. I thank the retiring members for their valuable contributions and welcome the new members.

During 2020, the supervisory board considered and commented on the strategic proposals particularly relating to the impact for RNPFN members. We also 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 policy holders and brought independent judgement of the assessment of compliance with the statement of Principles and Practices of Financial Management (PPFM).

Our focus for 2021 will include continuing to monitor the progress of the Bain transaction, ensuring that RNPFN policyholders receive clear and concise communications, and that their interests are adequately addressed.

Directors' Report

Michael Jones
Company Secretary

Business activities and future prospects

We are a mutual financial services business offering protection, savings and retirement products and services in the United Kingdom (UK). 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 pages 8 to 10. 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 1 to 31.*

Basis of accounting

The audited financial statements of the group have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and also with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, drawn up on a going concern basis. Further details about the directors' responsibilities for the financial statements are described on page 53.

Going concern and 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 of a deeper than expected Covid-19 impact.
- The board have considered whether the business is a going concern under the expected scenario that the proposed Bain Capital deal is concluded by the end of March 2022 and for the unlikely scenario that the Bain Capital deal does not proceed.

Having due regard to these matters and after making appropriate enquiries, the directors confirm that they consider it appropriate to prepare the financial statements on a going concern basis.

Viability statement

Our members rely on the sustainability of the group over the longer term and this is reflected in our 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 21 and 22.

Strategic review impact

In December 2020 we announced that we had agreed a transaction which, subject to member and regulator approval, will see Bain Capital purchase the LV= business. This transaction is the culmination of an extremely thorough and robust strategic review followed by a structured sale process to secure the best long-term future for our members, employees, other stakeholders and the business

The transaction will be carried out in two stages with Bain Capital initially acquiring LV='s subsidiary LVLC together with the administration and new business infrastructure. All eligible members will be invited to vote on the transaction at a Special General Meeting which is expected to be scheduled for later in 2021 Subject to progressing as currently planned, the transaction is expected to complete by the end of March 2022 with a transfer of the in-force non-profit business to LVLC (which will then be owned by Bain Capital) and a transfer of the with-profits business to a ring-fenced sub-fund of LVLC which will be run-off for the benefit of with-profits members. The transfer will be affected by way of a Part VII transfer under the Financial Services and Markets Act 2000

The directors are confident that the transaction will proceed as intended and will enhance the long term future of the business However, should the transaction with Bain Capital not proceed, the planning process outlined below indicates that LV= will still have sufficient capital at the end of the period of assessment to remain viable

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 outer two years of the plan 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 and also other changes in the economic, political and regulatory environment in which we operate.

Summary of capital position

At the start of the year the capital coverage ratio at 244% exceeded the upper threshold of our risk appetite (CCR 140% - 200%) as a result of the sale of LVGIG at the end of 2019. During the year we have completed a strategic review which considered both the long-term strategy for the business and how best to ensure members can benefit from the capital generated from the sale of LVGIG At the end of 2020 the capital position was within risk appetite with a CCR of 198%. The capital position and ongoing operating capital generation are a priority for the group and are monitored as key performance indicators (see page 7), 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 pages 8 to 10. 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 board have considered the future viability of the group assuming the Bain Capital deal completes as expected and also for the unlikely scenario that the Bain Capital deal does not proceed This included reviewing a plan version produced on the basis that the deal does not proceed in order to ensure that the business also remains viable under this outcome.

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 a reverse stress test 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 £282m at 31 December 2020 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 for the plan assumed a second wave Covid-19 slowdown of new business sales volumes during the first half of 2021, not fully recovering until the third quarter. Where the pandemic has impacted new business income margins achievable in the market we reflected that, with limited recovery assumed over the planning horizon Drivers for the income impacts include reinsurance rates and changes in consumer demand for a different mix of products In addition to this a scenario was tested which assumed the market impact of the pandemic continued to progress to a greater extent than assumed in the base case. This scenario assumes that as the rates of infection increase in late 2020 and early 2021, further extensive governmental measures and constraints are initiated to mitigate the effects but have a detrimental effect on economic activity and forecast GDP This in turn has an adverse effect on financial markets which suffer significant falls (similar to those experienced in early 2020) In order to support the economy, UK interest rates are cut to zero. Rates of infection and Covid-19 deaths start to fall over the second half of 2021 due to improved testing and treatments, access to vaccines and warmer weather. This gives rise to the removal of significant restrictive measures, an improved economic outlook and market recovery. Under this Covid-19 downturn scenario, solvency is not projected to breach risk appetite, reflecting the strong starting surplus position and the general recovery of the financial markets over the next two years.

As part of monitoring our capital position we continue to seek areas to de-risk and optimise the Solvency II balance sheet In the past this has included entering into reinsurance arrangements and sale of the general insurance business In 2020 we entered into a buy in transaction to reduce our exposure to changes in the liability associated with the LVFS staff pension scheme These actions seek to minimise the group's sensitivity to non market stresses and scenarios. In the scenarios tested, sufficient mitigating actions have been identified to enable the directors to have a reasonable expectation that the group would remain viable over the three-year period of assessment

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 2023

Margin of solvency

Throughout the year and at 31 December 2020 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 18 to 22. In the Audit Committee report on pages 45 and 46 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 on pages 93 to 110 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 pages 45 and 46 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 benefits 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 that there were no significant failings or weaknesses to report

Independent auditors

At the 2021 Annual General Meeting (AGM) we will propose a resolution for the appointment of Mazars LLP (Mazars) as auditors of LV=, replacing PricewaterhouseCoopers LLP (PwC) who have been our auditors since 2008 and who were reappointed following a competitive tender in 2017. Further detail relating to the selection of Mazars LLP as our future auditors can be found on page 46

Board directors and interests

The current members of the board and details of its various committees are shown on pages 35 to 37

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 employees

Our people are key to the success of our business. You can find out more about our policies and action taken on employment, development and incentivisation of our employees, including disabled persons, in the Corporate Responsibility Report on pages 29 to 31. Employees have the opportunity to share their views on matters important to them in our annual engagement survey. We regularly communicate and engage with employees on matters affecting the group, most notably the impact of the Covid-19 pandemic as described in the S172 statement on pages 43 and 44 and also the announcement that we had agreed a transaction with Bain Capital

Customers, suppliers and others

Our directors engage with, and consider the needs of, wider stakeholders when making principal business decisions as described in the S172 statement on pages 40 to 44. The responsible business practices employed in the manner in which we work with customers, suppliers and others is part of our culture. You can find out more about this in our Corporate Responsibility Report on pages 27 and 28

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 16, there are no designated hedging relationships within the group

Political donations

The group made no political donations in 2020

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 2020 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 and accounts, 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the Annual Report and accounts 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 and accounts, 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.
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's and the group's financial position and financial performance.
- State that the company and the group have complied with applicable IFRSs, 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 35 to 37, confirm that to the best of their knowledge and belief:

- The company and the group financial statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and also with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and the group.
- The Overview of performance and Financial review on pages 11 to 17 of the Strategic Report include 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 2020.
- A description of the group's principal risks and details of the group's risk governance structure are provided on pages 18 to 22

The directors are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for our 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
Company Secretary
25 March 2021

Report on Directors' Remuneration

Alison Hutchinson
Chair of the Remuneration Committee

Annual statement

Dear member,

I am pleased to present the 2020 Directors' Remuneration Report for the year ending 31 December 2020, including details of directors' pay and rationale for decisions made during the year. Our role as a committee is to ensure that LV's remuneration policy aligns with the board approved strategy and performance, and that the creation of value for our members is fairly rewarded

We acknowledge that it has been an unprecedented year in terms of the Covid-19 pandemic. The group responded well in the face of these challenges and I am pleased we have been able to support customers and staff in a difficult year further detail of which is provided later in this statement as well as on pages 43 and 44 earlier in the Annual Report. This has been reflected in the outturns which are discussed further below

Remuneration policy and the link to long-term business performance

Our remuneration policy, consistent with previous years and as approved by members, is designed to align remuneration with our purpose and values while also supporting the strategy and promoting the long-term success of the business

The annual bonus scheme is available to all employees including executive directors and is calculated based on performance which is determined using a balanced scorecard approach with a mix of financial and non-financial performance conditions.

In order to ensure that any outcome driven by the scorecard is robust and considers the longer-term sustainability of the business a formal risk overlay is prepared by our second line Risk function and considered by the committee

Each individual's bonus award is then determined based on their performance throughout that year. For our more senior employees, a proportion of any bonus award may be deferred and paid out in later years as required by regulations, thereby ensuring our executives remain focused on both the short and long term future of the company.

Senior employees may also participate in the group Long Term Incentive Plan (LTIP). The final value of LTIP awards is determined based on long term financial and non-financial performance conditions measured over a three year timeframe. For the executive directors, there is also a two-year holding period following the vesting of the award. The LTIP therefore incentivises our senior employees to deliver our strategic priorities and strong business performance over the long term

The Remuneration Committee's year-end decision making is focused on ensuring fair remuneration outcomes for all employees while supporting the delivery of the organisation strategy. In the context of the Covid 19 pandemic LV has actively chosen to not take advantage of the Government's Furlough schemes or any other Governmental support. It remains important therefore, to strike a balance taking into account the impact of the pandemic on business performance, and acknowledging the significant efforts of the workforce during this time and the need to retain and incentivise these employees going forward

2020 performance and remuneration outcomes

Annual bonus

The 2020 balanced scorecard has been used to measure performance and determine the size of the bonus pool. The scorecard structure can be seen on page 59

LV= has delivered a good financial performance notwithstanding the impacts of the Covid 19 pandemic on the company and the broader economic environment. Both the Protection and Savings and Retirement businesses have increased their market share while making substantial progress on the change agenda. We responded quickly to the challenges presented by Covid-19, mobilising a remote working environment while maintaining customer service during this time, with positive feedback from employees and customers on how the process was undertaken. Continuing to offer an excellent service while ensuring the safety and support of our colleagues was key at this time. Listening and responding to the needs of colleagues and customers was essential to ensuring both critical groups were supported during this challenging year. In addition, the senior management team have remained focused on the completion of the strategic review and its implementation, where we have ensured a great outcome for our members while also securing our employees future, has meant it has certainly been a challenging, but successful year for management and our people. This has resulted in a broadly plan outcome for the bonus pool award for our employees

Commentary on the personal performance of each individual executive director against their objectives and the 2020 bonus awards are shown on page 60

Long-term incentive plan (LTIP)

Our 2018-2020 LTIP award reached the end of its performance period this year and vested. It was based on a scorecard of financial and non-financial measures with stretching targets set by the committee at the beginning of the performance period. The structure and further detail of performance outcomes can be seen on page 61

The performance outcomes for the 2018-2020 LTIP resulted in a [illegible] multiplier (32.5% of maximum of the original award). In determining this outcome, the committee undertook a robust approach to assessing performance against the targets as set out on page 61 and considered this to be a reasonable outturn in the round

When assessing the formulaic bonus and LTIP outcomes, the committee undertook an assessment in the round against wider company performance, the employee experience, the customer experience and the impact of, and response to, Covid 19. The [illegible] of overall performance and determined that no discretion would be applied

Board changes

In June 2020, David Neave had completed his six-year term as a non-executive director and so stepped down from his role on the board and the Remuneration Committee. I would like to take this opportunity to thank David for his contribution. I am pleased to announce the appointment of Susan McInnes and Luke Savage as members of the Remuneration Committee. Luke is also chair of the Audit Committee, which will add to the strength of the governance employed by the committee in its decision making.

Mark Hartigan was appointed as interim chief executive officer on 1 January 2020, at which point he was not a board member. Upon appointment, his salary was set below that of his predecessor at £435,000. Due to the interim nature of the role, the committee did not think it was appropriate to award an LTIP which is measured over three years. His maximum group annual bonus opportunity was set at 100% of salary (again below that of his predecessor), which is measured against the group balanced scorecard and individual performance. In place of the LTIP, there is an additional 70% of salary opportunity measured against specific objectives set by the chair of the board. Both of these elements are subject to deferral with 50% being deferred over three years. The total variable opportunity of 170% of salary is significantly below the maximum permissible under the remuneration policy of 300% of salary, and significantly below his predecessor

Upon the CEO being appointed to the board in June 2020, the Remuneration Committee made no changes to the remuneration package. Given the timing of the recent announcement around the company's future and the transaction, Mark will remain with the group as CEO on the same remuneration structure for 2021.

For this purpose the Remuneration Committee have used the flexibility afforded to it within the full remuneration policy on the basis that these were exceptional circumstances and this is in the interest of members to do so

2021 remuneration decisions

As set out in the 2019 Directors' Remuneration Report, a new remuneration policy was due to be put forward to a member vote at the 2021 AGM. The committee reviewed the remuneration policy, including the timing of developing a new policy, in light of the recent announcement around the group's future and the potential Bain Capital transaction. Following this review, the committee determined that no changes would be appropriate at this time to the current policy as approved by members at the 2018 AGM, and therefore there will not be a separate vote on the policy at the 2021 AGM. In reaching this decision it was felt that the existing policy remained largely fit for purpose and that the committee continued to believe that the structure and remuneration outcomes could be robustly operated with the flexibility to operate discretion it considered appropriate, allowing the committee to ensure remuneration outcomes are fair for both members and employees

Base salary

To ensure pay remains competitive and fair, we have continued to increase salary levels for our core employees, especially those in lower graded roles, while freezing salaries at more senior levels. In 2021 the average employee salary increase will be 2.25%.

There is no proposed change to the base salary for executive directors in 2021. Wayne Snow's salary will reduce back to £350,000 in July 2021, in line with the commitment made in the 2019 Directors' Remuneration Report

The changes in total across all employees are a reduction in spend year-on-year

Annual bonus

There is no proposed change to the bonus opportunity for executive directors for 2021 save for the CEO interim arrangements covered above. The measures for 2021 will continue to be based on a scorecard of financial and non-financial measures. The committee will consider the size of the mutual bonus allocated to members' policies, as well as performance in the round, when determining the size of any bonus pool and individual bonus awards.

LTIP

There is also no proposed change to the LTIP structure for executive directors for 2021. The LTIP will continue to be based on a mixture of financial measures (75% weighting) and non-financial measures (25% weighting). For executive directors, LTIP awards are subject to a two-year holding period following the end of the performance period. In 2021 no award will be made to the chief executive officer, and the chief risk officer will receive an LTIP award of 80% of his 2019 salary, below the maximum level permissible under the remuneration policy. Further information on the 2021-23 LTIP award is shown on page 64.

The structure for 2021 remains the same as for 2020 and there are no additional incentives in respect of the potential Bain Capital transaction in 2021. The treatment of in-flight awards will be determined by the committee at the point any transaction takes place and will be in line with the treatment as set out in the relevant plan rules and taking into account market practice in similar situations.

Other disclosures

Our 2020 Report on Directors' Remuneration is prepared in line with best practice and the reporting requirements which apply to listed companies where possible, except for the fact that we are not holding a separate member vote on a new remuneration policy at the 2021 AGM due to the reasons set out earlier in this statement. In order to comply in full with the requirements of the Enterprise & Regulatory Reform Act (2013), the remuneration policy should be put to a member vote at least every three years. Our remuneration policy was approved by members at the AGM held on 7 June 2018. LVFS is not obliged to comply with these regulations and has previously done so on a voluntary basis. The reasons for not choosing to comply with these regulations in full this year are explained above

We have published our 2020 gender pay gap report which has shown an improvement in the position. Compared to the 2019 result, our gender pay gap has decreased by 1.4% to 26.6%. Our gender pay gap is driven by the structure of our workforce, where we have a lower representation of females in senior leadership roles. This will continue to be a focus for LV= as with many other companies. We have again this year reported the chief executive officer (CEO) pay ratio in line with best practice. This has shown a reduction in the ratio between our CEO and employees. I hope that as members you will support the resolution at this year's AGM to approve the 2020 Report on Directors' Remuneration, which I believe reflects and aligns to the challenging backdrop and performance that has been seen within the UK during 2020. As always, the committee and I are keen to receive feedback so we can take on board your views in the future

On behalf of the Remuneration Committee I recommend you endorse the report

Yours sincerely

Alison E Hutchinson

Alison Hutchinson,
Chair of the Remuneration Committee

Remuneration policy

Our remuneration policy was approved by members at the AGM held on 7 June 2018. The full remuneration policy can be seen in our 2017 *Annual Report*. *The policy would have normally been reviewed in 2020 with a members' vote at the 2021 AGM.* *During 2020,* the committee reviewed the remuneration policy, including the timing of developing a new policy, in light of the recent announcement around the group's future and the potential transaction during 2021. Following this review, the committee determined that no changes would be appropriate at this time to the current policy as approved by members at the 2018 AGM, and therefore there will not be a separate vote on the policy at the 2021 AGM. The key elements of our current remuneration framework are set out below

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]
Salary	Salaries are reviewed annually (but not necessarily increased) taking into account several factors including individual *experience, responsibilities, function and* sector, along with individual and group *performance.*	No prescribed maximum	No salary increases for executive directors. The CRO's salary will reduce back to £350,000 in July 2021, as set out in the 2019 Directors' Remuneration Report.
Benefits	Includes temporary living costs, car allowance, taxable travel and subsistence, medical insurance, income protection and life assurance, which are available to all staff and directors on equal terms.	No prescribed maximum.[1]	No changes
Pensions	Directors can elect to join a defined *contribution pension scheme or receive a* cash sum in lieu of pension contributions.	Maximum of 14% base salary. *In line with the maximum* opportunity for the rest of the *workforce*	No changes: maximum of 14% base salary
***Annual* Bonus**	*The annual bonus pot is measured* against annual group financial measures, accounting for 50% of the assessment, and a balanced scorecard of non-financial measures accounting for the remaining 50%. Specific measures for the 2020 annual bonus can be found on page 59. There is overriding discretion linked to wider performance and the member bonus	*Chief executive: maximum* payment of 150% of bonus-able earnings.[2] Other directors: maximum payment of 120% of bonus-able earnings[2]	***CEO variable pay*** Maximum payment of 100% of bonus-able earnings based on the group balanced scorecard and individual performance set by the Remuneration Committee (see below) and, in place of an LTIP, *a maximum payment of 70% of* bonus-able earnings based on *specific objectives set by the chair* of the board (see below) The CEO does not participate in the LTIP. **CRO variable pay** Annual bonus: maximum payment of 120% of bonus-able earnings. LTIP award value: 80% of salary.
Long-term *incentive* plan (LTIP)	Performance is measured over a three-year *period, which is then followed by a two-*year holding period. Performance is based *on financial measures, accounting for* 75% of the assessment, and non-financial measures, accounting for the remaining 25%. Specific measures for the 2018-2020 scheme which vested in the year can be found on page 61. There is overriding discretion linked to wider performance and the member bonus.	Maximum payout is capped at *two times the initial award, the* value of which is up to: Chief executive: *150% of salary.* Other board executive directors: 125% of salary.	
Deferral	Between 40%-60% of the variable remuneration paid to executive directors is deferred, initially through the LTIP. If this ratio is not met, then a portion of the annual bonus payment for that year will be deferred		
Malus/ Clawback	The committee may apply malus and/or clawback in respect of deferred awards and/or LTIP in any circumstances in which the committee, in its absolute discretion, considers that the group is required to do so by any Remuneration Code		

[illegible]

CEO arrangements

Mark Harrigan was appointed as interim chief executive officer on 1 January 2020, at which point he was not on the board. Upon appointment, his salary was set below that of his predecessor at £435,000. Due to the [illegible] nature of the role, the committee did not think it was appropriate to award an LTIP which is measured over three years. His maximum group annual bonus opportunity was set at 100% of salary, equivalent to that of his predecessor, which is measured against the group balanced scorecard and personal performance. In place of the LTIP, there is an additional 70% of salary opportunity, measured against specific objectives set by the chair of the board and the Remuneration Committee. Both of these elements are subject to deferral with 50% being deferred over three years. The total variable opportunity of 170% of salary is significantly below the maximum permissible under the remuneration policy of 300% of salary and significantly below that of his predecessor.

Upon the CEO being appointed to the board in June 2020, the Remuneration Committee made no changes to the remuneration package. *Given the timing of the recent announcement around the company's future and the Bain Capital transaction, Mark will* remain with the group as CEO on the same remuneration structure for 2021

For this purpose the Remuneration Committee have used the flexibility afforded to it within the full remuneration policy on the basis that these were exceptional circumstances and in the interest of members to do so.

Details of our policy on recruitment and promotions, service contracts, payments for loss of office and non-executive directors can be found in our remuneration policy as set out in the 2017 LV=Annual Report.

A table summarising how the remuneration policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code can be found in the 2019 LV=Annual Report

Annual report on remuneration

The Remuneration Committee

The Remuneration 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.

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.

The membership and key activities of the committee are described in the Corporate Governance Statement on page 48.

In June 2020 David Neave had completed his six-year term as a non-executive director so stepped down from his role on the board and the Remuneration Committee. Alan Cook also stepped down as a member of the Committee but will continue to attend meetings as required. Susan McInnes and Luke Savage were appointed as members to the Remuneration Committee during the year

Advisors to the committee

Following appointment in 2015 as an external advisor, Deloitte LLP have provided advice to the committee on remuneration practices and structures and attended committee meetings by invitation

The committee undertakes due diligence periodically to ensure that our committee advisor remains independent and that the advice provided is impartial and objective. Deloitte LLP 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 in respect of services that materially assisted the committee during the year were £73,950 for LVFS During the year Deloitte also provided the group with other consulting and tax services Fees for these additional services are not included in the figure above.

All-employee remuneration

The committee takes an active role in overseeing remuneration arrangements for the wider employee population LV= has committed to paying at least the Living Wage Foundation's minimum hourly rates of pay to all employees, with employees paid a minimum of £9.50 per hour outside of London and £10 85 within London during 2020.

LV= has actively chosen to not take advantage of the Government's furlough schemes or any other Governmental support

We responded quickly to the challenges presented by Covid 19, mobilising a remote working environment while maintaining customer service during this time, with positive feedback from employees and customers on how the process was undertaken Continuing to offer an excellent service while ensuring the safety and support of our colleagues was key at this time. Listening and responding to the needs of colleagues and customers was essential to ensuring both critical groups were supported during this challenging year

During 2020 the chair of the Remuneration Committee has engaged with the chair of LV's Employee Consultative Forum (ECF) to discuss the future structure and plans for the ECF and to more generally engage with our colleagues The committee does not consult directly with employees specifically when setting the remuneration policy for directors, but 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' pay outcomes the committee also approves the overall pay and bonus outcomes for all colleagues

Remuneration for the past year (year ended 31 December 2020)

Summary table of executive directors' remuneration – audited

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

Mark Hartigan[5]	2020	435	31	50	694	n/a	**1,210**	**516**	**694**
	2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wayne Snow[6]	2020	420	19	40	258	313	**1,050**	**479**	**571**
	2019	344	32	39	207	n/a	622	415	207

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 35 to 37 for details of committee membership

Alan Cook (chairman)[2]	2020	200	0	5	205
	2019	200	50	11	261
Alison Hutchinson	2020	53	13	1	67
	2019	53	13	2	68
David Barral[3]	2020	53	29	5	87
	2019	53	47	17	117
Colin Ledlie	2020	53	24	5	82
	2019	53	24	9	86
Luke Savage	2020	53	15	-	68
	2019	53	13	1	67
Seamus Creedon	2020	51	5		56
	2019	n/a	n/a	n/a	n/a
Susan McInnes	2020	40	5		45
	2019	n/a	n/a	n/a	n/a
David Neave[1,2]	2020	27	5	3	35
	2019	53	37	6	96
Tanya Lawler[1]	2020	5	-		5
	2019	53	11	2	66
Total	**2020**	**535**	**96**	**19**	**650**
	2019	518	195	48	761

Annual bonus for the year ended 31 December 2020 – 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:

Operating capital surplus generation/(consumption)[1]	16.7%	£(55)m	£(30)m	£(5)m	£(14)m	17.6%
Total expenses[2]	16.7%	£165m	£157m	£149m	£149m	20.0%
EVNB[3]	16.7%	Remuneration Committee discretion	£(15)m	Remuneration Committee discretion	£(15)m	16.7%

Strategy and member interests	20%	16%	24%	- Progress towards the long term strategic options including the recent announcement of the future for the group. - Completion of the member distribution of the general insurance business sale proceeds during the year.	Plan	20.0%
Customer[4]	10%	8%	12%	- NPS score based on NMG survey ranked 6th out of 18 providers - FOS upheld rates at over 90% at the end of year. Customer satisfaction score above 52	Threshold	8.0%
Risk	10%	8%	12%	- Developed and embedded the Risk Management Framework while working pro-actively with the regulator. - No breaches of risk appetite	Plan	10.0%
Leadership and diversity	10%	8%	12%	- Improved employee engagement and focus on diversity and inclusion. - 51% female successors identified in succession plans.	Plan	10.0%

Total bonus pool as a percentage of plan: 102.3%

The financial performance of the group accounts for 50% of the annual bonus target, which is made up of three measures, each with equal weighting. 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, which for this year also included consideration of the impact of Covid-19 (further details of which is set out in the Annual Statement from the Chair of the Remuneration Committee) and determined that 102.3% was a fair reflection of wider company performance.

Individual

The table below gives a broad indicator of how each executive director performed against their individual and strategic objectives along with a description of those objectives. The CEO's individual objectives include the objectives set by the chair and the Remuneration Committee. The total bonus awarded to each director and the percentage deferred is set out in the next table.

Mark Hartigan	• **Financial performance** – Deliver economic value of new business (EVNB), operating capital surplus generation (OCSG) and total costs in line with the 2020 plan. – Taking strong and successful action on cost reduction with minimal impact on effectiveness. – Facilitate re-design of operating model and delivery of trading initiatives in pursuit of these financial outcomes. Providing much greater focus on trading performance and the associated product and service developments required. • **Strategic Options Review** – Run a thorough and comprehensive review process to facilitate the board in making a decision on strategic direction in the best interests of with-profits policyholders while also taking other stakeholders into account. – Execute on the option selected by the board. • **Member and customer interests** – Complete work to distribute proceeds from the general insurance business sale appropriately. – Ensure good member/customer outcomes on a business-as-usual basis and through remediation activity where required. – Lead an outstanding response to the Covid-19 challenge. • **Risk and regulatory confidence** – Work pro-actively with the regulator particularly in its oversight of the strategic options review. • **Leadership and culture** – Ensure employee engagement and support diversity and inclusion initiatives. – Provide strong and decisive leadership to the executive team specifically but also to the group as a whole.	Star performer
Wayne Snow	• **Risk** – Provide Line 2 oversight over all key activity including the strategic options review and other change initiatives. – Develop and embed the Risk Management Framework across the business. – Further develop the data protection function. – Maintain open, positive and proactive relationships with regulators in oversight of the strategic options review and more broadly • **Financial Measures** – Deliver the 2020 risk function plan within agreed budget and headcount • **Provide effective leadership as both chief risk officer and director of the board** – Ensure employee engagement and support diversity and inclusion initiatives	Perform

Risk is taken into account when appraising all performance measures and the committee may reduce (including to nil) any bonus payment if it considers that risk exceeded acceptable levels.

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. For this year, this also included consideration of the impact of Covid 19. As set out below, 50% of the CEO's [illegible] will be deferred over the following three years.

Mark Hartigan	170%	91%	69%	160%	50%	317
- Group and individual	100%	90%	390	90%	50%	195
- Specific objectives	70%	100%	304	70%	50%	152
Wayne Snow	120%	51%	258	61%	0%	0

Group LTIP payments made in the year (2018 – 2020 plan) – audited

The 2018-20 LTIP is for the performance period from 1 January 2018 to 31 December 2020, 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:

Growth in Own Funds	35.00%	5% per annum	7% per annum	10% per annum	5.2%	0.19x
Total Life BAU Expenses	20.00%	£420m	£385m	£350m	£353m	0.39x
Total Economic Value of New Business Written	20.00%	£20m	£41m	£80m	£(19)m	0.00x

Member	6.25%	While the recent announcement on the group's future and the transaction delivers an excellent financial outcome for members with greater security and enhanced distributions for with-profits members, the targets set three years ago related to a different approach to achieving the strategic priorities which has been superseded	Threshold	0.03x
Customer	6.25%	NPS score of 6th in 2020 survey. While this was just above the threshold target set of 7th position, a conservative approach has been taken and this has been scored at threshold.	Threshold	0.03x
Employee engagement	6.25%	Employee engagement scores (at 68) were lower than threshold.	Below Threshold	0.00x
Diversity and inclusion	6.25%	Female representation at senior level of 42.9% against a stretching maximum target of 42%	Maximum	0.13x
		Overall multiplier		**0.77x**
		Outturn as a percentage of maximum		**38.5%**

The amounts vested under the 2018-20 LTIP for executive directors participating in this LTIP is disclosed in the single figure table on page 58. The current CEO is not a participant in this LTIP scheme (or any other in-flight LTIP schemes).

The committee considered performance in the round, which for this year also included consideration of the impact of Covid 19 (further details of which is set out in the Annual Statement from the chair of the Remuneration Committee) and determined that 0.77x (38.5% of maximum) was a fair reflection of wider company performance.

2018-20 LTIP awards are subject to a holding period following the end of the performance period, with one third paid when the award vests, one-third after one year, and one-third after two years.

The unvested awards are subject to malus and the vested awards paid are subject to claw back provisions, which can apply in scenarios where events later come to light that would have meant the award was inappropriate (such as a material restatement of the group's financial results, an error was made in determining the amount, the recipient committed an act of gross misconduct or a material failure in risk management).

Group LTIP summary of awards and amounts vested during 2020 – audited

Wayne Snow	2018-2020	406		313	209	–
	2019-2021	325				325
	2020-2022		285			285

1 [illegible] 1 January 2020 [illegible] 2018 and 2020

2 Unvested [illegible] 31 December 2020 are in respect of [illegible] March 2019 and 2020

Group LTIP awards made in the year (2020 – 2022 scheme) – audited

Wayne Snow	Cash	285	50%	200%	3 years to 31 December 2022

[illegible]

The LTIP award for Wayne Snow was based on a salary of £350 000 rather than his temporarily increased salary of £420 000.

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 2020 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 employees.

Mark Hartigan - Chief executive officer	n/a	n/a	n/a
Wayne Snow - Chief risk officer[3]	22%	(41%)	25%
Alan Cook - Chairman	(20%)	(55%)	n/a
Alison Hutchinson – NED	0%	(50%)	n/a
David Barral – NED	(18%)	(71%)	n/a
Colin Ledlie – NED	0%	(44%)	n/a
Luke Savage – NED	3%	(100%)	n/a
David Neave[4] - NED	(64%)	(50%)	n/a
Tanya Lawler[4] – NED	(92%)	(100%)	n/a
Susan McInnes - NED	n/a	n/a	n/a
Seamus Creedon – NED	n/a	n/a	n/a
% change based on a static population excluding the chief executive	2.7%[5]	1%	8.8%

1 Salary for non-executive directors includes base fee [illegible] membership fees and subsidiary board fee
2 [illegible]
3 The salary increase for Wayne Snow include [illegible] the 2019 report [illegible] bonusable but not pensionable [illegible] LTIP allocation
4 [illegible] 2020 [illegible]
5 [illegible]

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

2019	Option A	77:1	51:1	32:1
2020	Option A	49:1	34:1	21:1
Salary	CEO £435,000	£22 188	£31,226	£47 [illegible]
Total Remuneration	CEO £1,210,000	£24 418	£36 089	£56 539

The median pay ratio as at 31 December has decreased from 51:1 in 2019 to 34:1 in 2020. This has resulted primarily from a reduction in CEO total remuneration in 2020. The CEO pay ratio as at 31 December 2020 reflects the fact that a large proportion of the CEO's remuneration package is made up of performance related variable pay, the ratio can therefore vary year on year depending on the performance of the group, for example the ratio would typically be higher in a year when the business performs well. 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.

	2020 £m	2019 £m	% change
Staff costs	90	111	(19%)
Mutual bonus	28	27	4%

Chief executive's remuneration over ten financial years

The total remuneration figures for the chief executive 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.

	Mike Rogers	Mike Rogers	Mike Rogers	Mike Rogers	Mike Rogers	Mike Rogers	Richard Rowney	Richard Rowney	Richard Rowney	Richard Rowney	Mark Hartigan
Total remuneration (£'000)	2,177	2,622	2,364	1,666	1,970	891	610	1,719	1,029	1,911	1,210
Bonus % of maximum awarded %	95%	100%	74%	80%	86%	13%	79%	80%	44%	40%	94%
LTIP % of maximum vesting %	100%	100%	90%	25%	59%	49%	50%	100%	0%	92%	n/a

Payments to past directors – audited

The leaving arrangements for Richard Rowney were disclosed in the 2019 Directors' Remuneration Report. He has since taken up employment elsewhere and the committee has reduced his PILON payment by a commensurate amount accordingly.

Directors' loans

As at 31 December 2020 there were no loans outstanding to directors.

Results of members' votes on remuneration resolutions at 2020 AGM

At the Company's AGM in September 2020 the members approved the 2019 Remuneration Report, with 96% of the 50,249 total votes cast in favour. The Directors' Remuneration Policy was put forward and approved by members at the 2018 AGM with 95% of the 47,344 votes in favour.

Remuneration decisions taken in respect of the coming year (year ending 31 December 2021)

Chief Executive Officer arrangements

Mark Hartigan has been asked to continue in his post until the future strategy of the business is secured. The Remuneration Committee have used the flexibility available to them in the remuneration policy to allow Mark's remuneration terms to be continued for 2021, further detail of which is set out on pages 56 and 57.

Base salaries

There are no increases to salary levels for executive directors. The CRO's salary will revert back to £350,000 in July 2021, in line with the commitment made in the 2019 Directors' Remuneration Report.

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 56. The specific measures and actual targets associated with the annual bonus are considered commercially sensitive at this time.

LTIP

The LTIP award level for Wayne Snow will be 80% of his 2019 salary and not include his temporary increased salary and no award is being made in respect of the chief executive officer. The LTIP will continue to be based on a mixture of financial measures (75% weighting) and strategic goals (25% weighting).

Financial	75%	25%	Operating capital surplus generation
		25%	Total costs (including strategic investment and group central costs)
		25%	EVNB written over 2021-23
Strategic	25%	12.5%	Creating a sustainable business fit for the future
		12.5%	Employee engagement
Hurdle	Y/N		Overall Remuneration Committee discretion linked to performance and member bonus

The actual targets associated with the LTIP are considered commercially sensitive at this time.

Non-executive directors' fees

Fees for the 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. Fees are reviewed annually and any changes are implemented from 1 June each year. No fee increase was made during 2020 and therefore the fees that have been effective from 1 June 2016 continue to apply from 1 June 2020, as set out below.

Chair	£200,000
Non-executive director base fee	£53,000
Senior independent director	£6,500
Committee chair (various)	£8,700-£13,000
Committee membership (various)	£3,650-£5,500

Fees effective from 1 June 2021 will be approved in June 2021.

The directors approved the Report on Directors' Remuneration on 25 March 2021.

Alison E. Hutchinson

Alison Hutchinson
Chair of the Remuneration Committee

Glossary

ABI: Association of British Insurers.

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

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.

LVLC: Liverpool Victoria Life Company Limited

LVFS: Liverpool Victoria Financial Services Limited.

LVGIG: Liverpool Victoria General Insurance Group Limited

Minimum Capital Requirement (MCR): A lower threshold than the SCR, the MCR represents the minimum amount of capital that an insurer is required to hold to cover its risks. If the MCR is breached authorisation of insurance activities should be withdrawn

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

Open-Ended Investment Companies (OEICs): Investment funds that constantly change in size as investors add or withdraw funds. OEICs give the investor access to a number of sub funds with different objectives.

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

Risk Margin: The opportunity cost of holding regulatory capital for existing business. This is an amount of capital that is held above the best estimate liabilities against non-hedgeable risks associated with supporting the business

RNPFN: Royal National Pension Fund for Nurses.

Self-Invested Personal Pension (SIPP): A personal pension plan that allows investors to make their own investment decisions.

Short-term Investment Fluctuations (STIF): 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

Small Self Administered Scheme (SSAS): a type of defined contribution pension that an employer can self-manage for less than 12 members. Typically a SSAS pension scheme is set up by the directors of a business to gain more control over how their pensions are invested.

Smooth Managed Funds (SMF): We are now marketing our Flexible Guarantee products under the Smooth Managed Funds proposition

Solvency II (SII): 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 SII 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 sets out standards of good governance practice. It covers, amongst other things, the board composition and its accountability and relations with business owners

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

Wealth Wizards: Wealth Wizards Group Limited and subsidiaries.

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, we use 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

New business contribution/(loss)	New business contribution/(loss) is used to monitor the contribution to the IFRS result from new business written in the year. New business contribution/(loss) is reconciled to the IFRS Result for the year of £nil 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 result is reconciled to the IFRS Result for the year of £nil 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 Result for the year of £nil in the table below
Profit before tax	Because LV= is a mutual, any remaining profit is transferred to the Unallocated divisible surplus, leaving a final balance for profit each year of £nil. This would mean that if we applied the strict GAAP definition our profit before tax would simply be equal and opposite to our tax charge. This is not a useful presentation for users and we therefore provide an alternative measure for profit before tax which allows meaningful comparisons with the profit before tax disclosed by other proprietary companies. Profit before tax is reported prior to discretionary mutual and exit bonuses and the transfer to or from Unallocated divisible surplus. Mutual and exit bonuses are excluded as they are a discretionary distribution as a result of profits generated, in a similar way to dividends in proprietary companies. Our APM for profit before tax is reconciled to the IFRS Result for the year of £nil 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 £100m. 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. Operating expenses are reconciled to IFRS Operating and administrative expenses in the Financial Review on page 17.
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 17

Reconciliation of Trading APMs to IFRS Result for the year £m	2020	2019
New business (loss)/contribution	**(6)**	14
Existing business	**15**	29
Trading profit generation	**9**	43
Estate investment income	**15**	8
Experience variances	**(21)**	(21)
Model and basis changes	**37**	(46)
Operating profit/(loss) generation	**40**	(16)
Strategic investment, debt interest and other items	**(96)**	(98)
Short-term investment fluctuations and related items	**93**	129
Profit before tax	**37**	15
Mutual and exit bonus	**(73)**	(27)
Income tax expense	**(41)**	(60)
Loss/profit from discontinued operations	**(2)**	234
Non controlling interest	**(6)**	(38)
Transfer from/(to) the Unallocated divisible surplus	**85**	(124)
IFRS Result for the year	**-**	-

Capital APMs

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

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 15 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 15.

Our Accounts

Independent auditors' report to the members of Liverpool Victoria Financial Services Limited
Year ended 31 December 2020

Report on the audit of the financial statements

Opinion

In our opinion, Liverpool Victoria Financial Services Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's and company's result and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statements of Financial Position as at 31 December 2020; the Statements of Comprehensive Income and Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the group and company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the group in the period under audit.

Our audit approach

Context

Liverpool Victoria Financial Services Limited (the "company") is a company limited by guarantee incorporated on 2 January 2020. As transactions dated 1 January 2020 are immaterial, the financial statements have been prepared as if this transaction took effect from 1 January 2020. The company, together with various subsidiaries, carries out life insurance and financial services business in the UK, with an immaterial amount of general insurance business being written in two subsidiaries. The audit for the year ended 31 December 2020 has been carried out fully remotely as a result of the Covid-19 pandemic; we have utilised virtual technologies and collaborative workflow tools to obtain sufficient, appropriate audit evidence whilst working in this environment. Management has been heavily focused this year on both the future strategy of the business and implementing cost savings through their cost efficiency programme, and therefore these are two areas we have given particular attention to through our risk assessment and associated procedures. A transaction was signed with Bain Capital on 15 December 2020 and we have considered the impact of this both on the financial statement disclosures and on the going concern assumption.

Overview

Audit scope

- *Our audit scope has been determined to provide coverage of all material financial statement line items.*
- Two reporting components were subject to full scope audits and we performed a limited scope audit covering specific financial statement line items for one further component.

Key audit matters

- Valuation of insurance contract liabilities - annuitant mortality assumptions (group and company)
- Valuation of insurance contract liabilities - expense assumptions (group and company)
- Impact of uncertainties related to COVID-19 (group and company)

Materiality

- Overall group materiality: £33,400,000 (2019: £37,600,000) based on 3% of Unallocated Divisible Surplus ('UDS').
- Overall company materiality: £31,000,000 (2019: £25,700,000) based on 3% of Unallocated Divisible Surplus ('UDS').
- Performance materiality: £25,050,000 (group) and £23,250,000 (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's *incentives and opportunities for fraudulent manipulation of the* financial statements (including the risk of override of controls), *and determined that the principal risks were related to posting* inappropriate journal entries to either inflate gross earned premiums or reduce expenditure of the group and company and management bias in accounting estimates or judgemental areas as shown in our Key audit matters. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, Internal Audit, senior management involved in the Risk and Compliance function and the group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Attending all Audit Committee meetings.
- Assessment of matters reported on the group's whistleblowing register and the results of management's investigation of such matters where applicable.
- *Reviewing correspondence with the PRA and FCA in relation* to compliance with laws and regulations. We also met with the PRA to discuss matters in relation to compliance with laws and regulations during the course of our audit.
- Reviewing Board minutes as well as relevant meeting minutes, including those of the With-profits Committee, Risk Committee and the Investment Committee.
- Reviewing *data regarding policyholder complaints*, the group's register of litigation and claims, Internal Audit *reports and Compliance reports in so far as they related* to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of long-term insurance contract liabilities, in particular annuitant mortality assumptions and expense assumptions as described in the related key audit matters below.
- Validating the appropriateness of journal entries identified based on our fraud risk criteria.
- *Designing audit procedures to incorporate unpredictability* around the nature, timing or extent of our testing.
- Assessing the impact of COVID-19 on the inherent risk of fraud, including potential opportunities for fraud with more remote working and where internal controls may not be operating the way they usually do.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

We have separated the previous 'Specific elements of the valuation of long-term insurance contract liabilities' key audit matter into two key audit matters for the current year audit. In addition, we have included a new key audit matter in relation to the impact of uncertainties related to COVID-19 (group and company). The accounting for the discontinued operations and the sale of the 51% remaining stake to Allianz on 31 December 2019 (group), which was a key audit matter last year, is no longer included because only immaterial amounts relating to the transaction have been recorded in the financial statements for the year ended 31 December 2020. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of insurance contract liabilities – annuitant mortality assumptions (group and company) *Refer to notes 21, 23, 26 and 27 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 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.	We performed the following to test the annuitant mortality assumptions (including base mortality assumptions, future mortality improvements and IFRS prudent margins): • Validated the appropriateness of the methodology used to perform the annual experience studies. This involved the assessment of key judgements with reference to relevant rules, actuarial guidance and by applying our industry knowledge and experience; • Tested 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, including the selection and parameterisation of the CMI model including the choice of the smoothing parameter, initial rate, initial additions to improvement rates ('A' parameter, which was updated in the year), long term rate and tapering at older ages; • Assessed the appropriateness of the IFRS prudence margin and its consistency over time; • Compared the annuitant mortality assumptions selected by management against those used by peers using our annual survey of the market; • In respect of COVID-19, 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 and the commentary to support the profit arising, if any, from changes in these assumptions over 2020. Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be appropriate.
Valuation of insurance contract liabilities – expense assumptions (group and company) *Refer to notes 21, 23, 26 and 27 to the financial* **statements** The group and company financial statements include liabilities for the estimated future expenses that would be incurred in continuing to maintain the existing policies over their duration. Such liabilities are included within the insurance contract liabilities for both the group and company of £10.3bn (2019: £9.9bn).	We performed the following to test the expense assumptions: • Validated the completeness and accuracy of the total expense base and the allocation of expenses to the appropriate cost centre; • 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; • Assessed the appropriateness of significant judgements made in application of the methodology, including excluded costs (for example, due to costs either not relating to the insurance business or being non-recurring in nature), the allocation of expenses between acquisition and maintenance costs, the allocation between products and the capitalisation factors.

The expense assumptions are calculated using significant judgement, in particular over removal of designated 'one-off' costs and achieved cost savings, together with the cost allocations between acquisition and maintenance and then between products. Products have different expected durations ('capitalisation factors'), and therefore the allocation of costs impacts the insurance contract liabilities.

Maintenance unit costs are calculated per policy which, along with expense inflation assumptions the number of policies in force and their expected duration, is used to estimate the future expenses that will be incurred and to calculate an appropriate liability for these expenses.

The most significant areas of risk with expense assumptions lie in the methodology used to categorise expenses as one-off, to split amounts between acquisition and maintenance and to then split by product (as different products have different expected durations). Any change in methodology applied could have a significant impact on the quantum of the expense liabilities.

- Assessed the appropriateness of the IFRS prudence margin and its consistency over time
- Performed data testing over the policies-in-force numbers and validated the appropriateness of capitalisation factors used for each product to generate the expense liabilities;
- Considered whether any adjustments are required to reflect changes in future expected policy volumes, for example to allow for diseconomies of scale;
- Recalculated the per-policy expense 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,
- As the expense liabilities are assessed mid-year, performed analysis at the year end to ensure that actual results were not materially different to expected results; and
- Assessed the disclosure of the maintenance assumptions and the commentary to support the profit arising, if any, from changes in these assumptions over 2020

Based on the work performed and the evidence obtained, we consider the expense assumptions to be appropriate.

Impact of uncertainties related to COVID-19 (group and company)

Refer to notes 1, 4, 15, 21, 23, 26 and 27 to the financial statements

The impacts of the global pandemic due to the Coronavirus COVID-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of COVID-19:

Ability of the entity to continue as a going concern: There are a number of potential matters in relation to COVID-19 which could impact on the going concern status of the group and company. Using downside scenarios driven by the required Own Risk and Solvency Assessment (ORSA) process, the Directors have considered the ability of the group and the company to remain solvent with sufficient liquidity to meet future obligations. The Directors have also considered its requirements in respect of regulatory capital under Solvency II. The Directors' have concluded that the group and company is a going concern.

Impact on estimation uncertainty in the financial statements. The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how COVID-19 has impacted the key estimates that determine the valuation of material balances, particularly insurance contract liabilities and financial investments.

Qualitative disclosures in the Annual Report
In addition, the Directors have considered the qualitative disclosures included in the Annual Report in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on the group and company.

In assessing management's consideration of the impact of COVID-19 on the group and company, we have performed the following procedures:

- Obtained management's updated going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of performance, review of regulatory correspondence and obtaining further corroborating evidence.
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the impact of COVID-19.
- Inquired and understood the actions taken by management to mitigate the impacts of COVID-19, including attendance at all Audit Committee meetings and reviewing minutes of Risk Committee meetings;
- Assessed the impact of COVID-19 on the design and operating effectiveness of the control environment,
- Challenged management's judgements in the valuation of the insurance contract liabilities, including annuitant mortality and expense assumptions in light of the emerging COVID-19 experience and by comparing these relative to industry peers, and
- Reviewed the appropriateness of disclosures within the Annual Report with respect to COVID-19 and, where relevant, considered the material consistency of this information to the audited financial statements and the information obtained in the audit.

Based on the work performed, we consider the impact of COVID-19 has been appropriately reflected in the Annual Report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

During the year ended 31 December 2020, the group was structured along three business units being Savings & Retirement, Protection, and Heritage. The group consolidation consists of sixteen active statutory entities but primarily operated during the year through one main trading entity being Liverpool Victoria Financial Services Limited, at three locations across the UK. This trading entity is significantly material to the group as a whole at 31 December 2020.

Liverpool Victoria Financial Services Limited therefore required a full scope audit of its complete financial information due to its size and risk characteristics. One further subsidiary, LV Capital Limited, also required a full scope audit due to its contribution to the group Unallocated Divisible Surplus ('UDS').

Taken together, the procedures we performed over the two entities included in full audit scope above, balances in a further one reporting unit and the group consolidation entries accounted for over 95% of the group's UDS and over 99% of the group's net earned premiums.

In addition to the group's head offices in Bournemouth, we 'virtually' engaged with teams in two other locations. Our procedures performed in reference to these other locations primarily focused on understanding the systems and controls in place over the recording and processing of new and renewal business and claims.

All audit procedures across all entities were performed by the group engagement team.

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.

Materiality

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 in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£33,400,000 (2019: £37,600,000).	£31,000,000 (2019: £25,700,000).
How we determined it	3% of Unallocated Divisible Surplus ('UDS')	3% of Unallocated Divisible Surplus ('UDS')
Rationale for benchmark applied	In arriving at this judgement we considered the financial measures which we believe to be most relevant to the members of the group as a body. Members' interests in the group are represented primarily by the UDS and, consequently, the UDS was considered to be the primary metric to use to determine materiality. We have also had regard to other measures such as the group's regulatory capital surplus and other performance metrics such as operating profit and have compared the level of audit work required to be performed over the group statement of comprehensive income using these alternative benchmarks.	Consistent with the group we considered the financial measures, which we believe to be most relevant to the members of the company as a body. Members' interests in the company are represented primarily by the UDS and, consequently the UDS was considered to be the primary metric to use to determine materiality. We have also had regard to other measures such as the company's regulatory capital surplus and other performance metrics such as operating profit and have compared the level of audit work required to be performed over the statement of comprehensive income using these alternative benchmarks.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £24,400,000 and £31,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £25,050,000 for the group financial statements and £23,250,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1,670,000 (group audit) (2019: £1,900,000) and £1,550,000 (company audit) (2019: £1,300,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained an understanding of the inputs and assumptions used in deriving the assessment and where applicable, testing these to relevant supporting evidence, including looking back to past forecasts and comparing these to actuals to assess the accuracy of management's forecasts;
- Performed sensitivity analysis by stressing key inputs and assumptions. We considered the sensitivities performed by management as part of this, noting they considered severe but plausible scenarios;
- Considered management's assessment of the regulatory solvency coverage and liquidity position in the forward-looking scenarios considered;
- Assessed scenarios under which the transaction with Bain Capital goes ahead as well as scenarios under which it does not complete;
- Considered the various outcomes of the proposed transaction with Bain Capital and the resultant group structure to support, in particular, the going concern assumption in relation to the company;
- Enquired and understood the actions taken by management to mitigate the impacts of COVID-19, including attendance at Audit Committee meetings and reviewing minutes of Risk Committee meetings; and
- Reviewed the disclosures included in the financial statements, including the Basis of presentation.

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 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have 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.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' remuneration

The company voluntarily prepares a Report on Directors' Remuneration in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Report on Directors' Remuneration specified by the Companies Act 2006 to be audited as if the company were 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.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

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 and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, 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 and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report taken as a whole is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' statement of responsibility, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 29 May 2008 to audit the financial statements for the year ended 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2008 to 31 December 2020.

Lee Clarke

Lee Clarke (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 March 2021

Statements of Comprehensive Income

Year ended 31 December 2020

		Group		Company	
		2020	2019	2020	2019
				Note (*)	Re presented see Note 1
	Notes	£m	£m	£m	£m
Gross earned premiums	5	**613**	656	**612**	655
Premiums ceded to reinsurers	5	**(273)**	(266)	**(273)**	(266)
Net earned premiums	5	**340**	390	**339**	389
Investment income	6	**237**	292	**632**	335
Net gains on investments	7	**786**	1,068	**724**	1,065
Other income	8	**45**	45	**23**	25
Total income		**1,408**	1,795	**1,718**	1,814
Gross benefits and claims, excluding exit bonus	9	**(1,048)**	(1,019)	**(1,047)**	(1,018)
Claims ceded to reinsurers	9	**266**	263	**266**	263
Net benefits and claims, excluding exit bonus	9	**(782)**	(756)	**(781)**	(755)
Gross change in long-term contract liabilities, excluding mutual/exit bonus	24	**(557)**	(736)	**(557)**	(737)
Change in long-term contract liabilities ceded to reinsurers	24	**190**	(30)	**190**	(30)
Change in non-participating value of in-force business	24	**48**	6	**48**	6
Net change in contract liabilities, excluding mutual/exit bonus	24	**(319)**	(760)	**(319)**	(761)
Finance costs	10	**(24)**	(24)	**(23)**	(23)
Other operating and administrative expenses	11	**(246)**	(240)	**(214)**	(245)
Total other expenses		**(270)**	(264)	**(237)**	(268)
Total benefits, claims and expenses, excluding mutual/exit bonus		**(1,371)**	(1,780)	**(1,337)**	(1,784)
Profit before tax and mutual/exit bonus from continuing operations (Group) and discontinued operations (Company)		**37**	15	**381**	30
Mutual bonus		**(28)**	(27)	**(28)**	(27)
Exit bonus		**(45)**		**(45)**	-
Income tax expense	36	**(41)**	(60)	**(40)**	(61)
(Loss)/profit after tax and mutual/exit bonus from continuing operations (Group) and discontinued operations (Company)		**(77)**	(72)	**268**	(58)
(Loss)/profit from discontinued operations	12	**(2)**	234	**-**	-
Non-controlling interest	15	**(6)**	(38)	**-**	-
Transfer from/(to) the Unallocated divisible surplus	47	**85**	(124)	**(268)**	58
Result for the year		**-**	-	**-**	-
Other comprehensive income					
Items that will be reclassified to profit or loss – discontinued operations					
Net gain on available-for-sale financial assets, net of tax	12	**-**	24	**-**	-
AFS reserve recycled through profit and loss on sale of LVGIG	12	**-**	(14)	**-**	-
Items that will not be reclassified to profit or loss from continuing operations (Group) and discontinued operations (Company)					
Re-measurements of defined benefit pension schemes, net of tax	39	**(54)**	5	**(54)**	(2)
Other comprehensive income, net of tax		**(54)**	15	**(54)**	(2)
Non-controlling interest	15	**-**	(12)	**-**	-
Transfer from/(to) the Unallocated divisible surplus	47	**54**	(3)	**54**	2
Total comprehensive income for the year		**-**	-	**-**	-

Note (*) – The entire assets and liabilities of the Company have been presented as a discontinued operation at 31 December 2020 ahead of a proposed Part VII transfer which is expected to complete by the end of March 2022. Results relating to this discontinued operation are equivalent to the full results of the Company for 2020. Comparative results have been re-presented accordingly – see Note 1 for further details.

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

As at 31 December 2020

		Group			Company		
		2020	2019 Restated - see Note 1	2018 Restated - see Note 1	**2020** Note (*)	2019 Restated - see Note 1	2018 Restated - see Note 1
	Notes	**£m**	£m	£m	**£m**	£m	£m
Assets							
Pension benefit asset	39	**148**	214	199	**-**	214	199
Intangible assets	29	**55**	64	47	**-**	8	8
Investments in group undertakings	30	**-**	-	-	**-**	816	813
Property and equipment	28	**29**	28	29	**-**	8	9
Reinsurance assets	25	**1,898**	1,708	1,738	**-**	1,708	1,738
Prepayments and accrued interest	32	**67**	73	77	**-**	68	70
Loans and other receivables	17	**36**	303	407	**-**	80	84
Insurance receivables	31	**81**	63	41	**-**	62	40
Corporation tax asset		**-**	-	5	**-**	-	5
Financial assets at fair value through income	15	**13,740**	13,325	11,776	**-**	12,397	11,570
Derivative financial instruments	16	**131**	92	65	**-**	92	65
Cash and cash equivalents (excluding bank overdrafts)		**359**	155	174	**-**	144	156
Assets held for distribution	1	**-**	-	3,367	**16,455**	-	-
Total assets		**16,544**	16,025	17,925	**16,455**	15,597	14,757
Liabilities							
Unallocated divisible surplus	47	**1,115**	1,254	1,127	**-**	556	916
Participating insurance contract liabilities	21	**5,489**	5,331	5,092	**-**	5,331	5,092
Participating investment contract liabilities	22	**781**	756	691	**-**	756	691
Non-participating value of in-force business	23	**(357)**	(309)	(303)	**-**	(309)	(303)
		7,028	7,032	6,607	**-**	6,334	6,396
Non-participating insurance contract liabilities	21	**4,817**	4,586	4,522	**-**	4,573	4,505
Non-participating investment contract liabilities	18	**3,780**	3,479	3,017	**-**	3,479	3,017
		8,597	8,065	7,539	**-**	8,052	7,525
Non-controlling interest	45	**-**	(6)	404	**-**		
Pension benefit obligation		**-**	-	2	**-**	-	-
Deferred tax liability	37	**91**	102	78	**-**	103	78
Provisions	40	**3**	10	8	**-**	9	7
Subordinated liabilities	19	**349**	348	342	**-**	348	342
Derivative financial instruments	16	**196**	226	190	**-**	226	190
Other financial liabilities	20	**113**	69	59	**-**	69	59
Corporation tax liability		**3**	12	-	**-**	12	-
Insurance payables	33	**42**	28	28	**-**	27	29
Trade and other payables	34	**122**	139	146	**-**	137	126
Liabilities directly associated with assets held for distribution	1	**-**		2,516	**16,455**		-
Total liabilities		**16,544**	16,025	17,925	**16,455**	15,597	14,757

Note (*) – The entire assets and liabilities of the Company have been presented as held for distribution at 31 December 2020 ahead of a proposed Part VII transfer which is expected to complete by the end of March 2021 - see Note 1 for further details.

A Company Statement of Financial Position for comparison purposes has been provided on page 81.

The financial statements on pages 77 to 167 were approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

M Hartigan

Mark Hartigan
Director

25 March 2021

Statements of Cash Flows

Year ended 31 December 2020

	Notes	Group 2020 £m	Group 2019 Restated - see Note 1 £m	Company 2020 Note (*) £m	Company 2019 Restated and Re-presented see Note 1 £m
Cash and cash equivalents at 1 January		**142**	464	**131**	145
Cash flows arising from:					
Operating activities					
Cash used in operating activities before movements in investments held at fair value through income or OCI	50	**(297)**	(368)	**(485)**	(509)
Net decrease/(increase) in investments held at fair value through income		**288**	(34)	**11**	218
Net increase in AFS financial assets at fair value through OCI		**-**	(289)	**-**	-
Cash used in operating activities		**(9)**	(691)	**(474)**	(290)
Dividend income received		**70**	117	**70**	112
Interest income received		**170**	245	**165**	173
Dividend paid to Non-controlling interest		**-**	(39)	**-**	-
Utilisation of provisions		**(8)**	(6)	**(7)**	(5)
Finance cost paid		**-**	(1)	**-**	
Income tax paid		**(38)**	(45)	**(38)**	(24)
Net cash flows generated from/(used in) operating activities		**185**	(420)	**(284)**	(34)
Investing activities					
Proceeds from the sale of LVGIG, net of cash disposed		**54**	133	**-**	-
Increase in investment in group undertakings		**-**	-	**(3)**	(5)
Dividend income received from group undertakings		**-**	-	**399**	50
Interest income received from group undertakings		**-**	-	**1**	-
Purchase of property, equipment and intangibles		**(3)**	(8)	**(2)**	(1)
Net cash flows generated from investing activities		**51**	125	**395**	41
Financing activities					
Payment of lease liabilities		**(3)**	(4)	**(1)**	(1)
Interest paid on subordinated debt	10	**(23)**	(23)	**(23)**	(23)
Net cash flows used in financing activities		**(26)**	(27)	**(24)**	(24)
Net increase/(decrease) in cash and cash equivalents		**210**	(322)	**87**	(14)
Cash and cash equivalents at 31 December		**352**	142	**218**	131

Cash and cash equivalents comprise:

	Notes	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Bank balances		**121**	91	**112**	82
Short-term bank deposits		**238**	64	**113**	[illegible]
Cash and cash equivalents per the Statement of Financial Position		**359**	155	**225**	144
Bank overdrafts	34	**(7)**	(13)	**(7)**	(13)
Cash and cash equivalents per the Statement of Cash Flows		**352**	142	**218**	131

Note (*) – The entire assets and liabilities of the Company have been presented as a discontinued operation at 31 December 2020 ahead of a proposed Part VII transfer which is expected to complete by the end of March 2022. Cash flows relating to this discontinued operation are equivalent to the full cash flows of the Company for 2020. Comparative cash flows have been re-presented accordingly - see Note 1 for further details.

The Group and the Company classifies the cash flows for the acquisition and disposal of financial assets and the net purchases/sales of investment properties as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts.

Cash flows from discontinued operations in 2019 are disclosed separately within Note 12.

Notes to the Financial Statements

Year ended 31 December 2020

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006 ('IFRS'). The financial statements have also been prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 O below.

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 in which the Group operates is the United Kingdom. The consolidated financial statements are presented in millions of pounds sterling, which is the Group's presentation and functional currency.

Within the financial statements the Group uses the term Profit before tax to refer to Profit before tax, mutual/exit bonus and UDS transfer as disclosed on the Statement of Comprehensive Income. This is to provide a more representative Profit before tax figure as described in the Use of Non-GAAP measures disclosed on page 66.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors have considered whether the business is a going concern under the expected scenario that the proposed Bain deal is concluded by the end of March 2022 and for the unlikely scenario that the Bain deal does not proceed. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

When concluding on the going concern status of the Group the directors have considered 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 of a deeper than expected Covid-19 impact. Under this Covid-19 Downturn scenario, solvency is not projected to breach risk appetite.

Restatements and re-presentations

Transaction with Bain Capital

On 15 December 2020, the board announced that it had reached an agreement whereby Bain Capital will pay £530m to acquire LV='s Savings and Retirement and Protection businesses. The transaction is subject to regulatory approval and approval from LV= members. It is expected to complete by the end of March 2022, subject to the conclusion of the legal process.

The transaction will be carried out in two stages with Bain Capital initially acquiring LV='s subsidiary LVLC together with the administration and new business infrastructure. All eligible members will be invited to vote on the transaction at a Special General Meeting which is expected to be scheduled for later in 2021. Subject to progressing as currently planned, the transaction is expected to complete by the end of March 2022 with a transfer of the in-force non-profit business to LVLC (which will then be owned by Bain Capital) and a transfer of the with-profits business to a ring-fenced sub-fund of LVLC which will be run-off for the benefit of with-profits members. The transfer will be affected by way of a Part VII transfer under the Financial Services Markets Act 2000.

Although member and regulatory approval is still required before the transaction can complete, the directors consider it highly probable that this will be the case. The nature of the Part VII transfer means that LVFS will transfer its entire assets and liabilities to LVLC, resulting in a loss of control of this separate major line of business. In exchange for this loss of control, LV= members will receive consideration from the new owners Bain Capital. As such, the entire assets and liabilities of LVFS constitute a disposal group that is classified as held for distribution to owners in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations'. This disposal group is presented as a discontinued operation and as a result the comparative Statement of Comprehensive Income and Statement of Cash Flows are re-presented as if the results of the disposal group comprising the entire assets and liabilities of LVFS had been discontinued from 1 January 2019. Due to the fact that the held for distribution classification applies to the entire assets and liabilities of LVFS, comparative results disclosed remain unchanged.

All LVFS assets and liabilities as at 31 December 2020 are presented as held for distribution in the primary Statement of Financial Position. However, in accordance with IFRS 5, the comparative assets and liabilities have not been re-presented on this basis. In order to assist with year on year comparisons and to make the financial statements more understandable, a supplementary Statement of Financial Position has been presented on the following page presenting the year end 2020 LVFS assets and liabilities as if they had not been classified as held for distribution. In order to assist with year-on-year comparisons the Notes to the financial statements have been presented based on this supplementary Statement of Financial Position.

LVLC is immaterial to the Group as a whole and therefore has not been presented as a discontinued operation held for sale.

1 Significant accounting policies

Reclassification of Certificates of Deposit

Within the Group and Company the Statement of Financial Position and Statement of Cashflows have been restated to reflect the reclassification of certain Certificates of Deposit. Certificates of deposit with an original maturity of three months or more were incorrectly classified as cash equivalents in prior years. This has reduced Short term cash deposits within Cash and cash equivalents by £417m (2019 opening balance £238m) for the Group and £414m (2019 opening balance £236m) for the Company with a corresponding increase in Debt and other fixed interest securities within Financial assets at fair value through income. The restatement has no impact on the Statement of Comprehensive Income.

Supplementary Statement of Financial Position for the Company presented for comparison purposes

		Company	
		2020	2019 Restated - see Note 1
	Notes	£m	£m
Assets			
Pension benefit asset	39	**148**	214
Intangible assets	29	**7**	8
Investments in group undertakings	30	**758**	816
Property and equipment	28	**7**	9
Reinsurance assets	25	**1,898**	1,708
Prepayments and accrued interest	32	**62**	68
Loans and other receivables	17	**50**	80
Insurance receivables	31	**81**	62
Financial assets at fair value through income	15	**13,088**	12,397
Derivative financial instruments	16	**131**	92
Cash and cash equivalents (excluding bank overdrafts)		**225**	144
Total assets		**16,455**	15,597
Liabilities			
Unallocated divisible surplus	47	**1,070**	856
Participating insurance contract liabilities	21	**5,489**	5,331
Participating investment contract liabilities	22	**781**	756
Non-participating value of in-force business	23	**(357)**	(309)
		6,983	6,634
Non-participating insurance contract liabilities	21	**4,804**	4,573
Non-participating investment contract liabilities	18	**3,780**	3,479
		8,584	8,052
Deferred tax liability	37	**91**	103
Provisions	40	**3**	9
Subordinated liabilities	19	**349**	348
Derivative financial instruments	16	**196**	226
Other financial liabilities	20	**113**	69
Corporation tax liability		**3**	12
Insurance payables	33	**36**	27
Trade and other payables	34	**97**	117
Total liabilities		**16,455**	15,597

The Notes to the Financial Statements for the Company have been prepared based on the figures disclosed above for 2020 and 2019.

1. Significant accounting policies

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 include significant estimates and assumptions, including the exercise of management judgement:

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)).*	15.16
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.*	21
Intangibles	Estimation of recoverable amount of each Cash Generating Unit.	29
Pension benefit asset	Assumptions used to measure the pension benefit obligation.	39

The following areas involve significant judgement by management on policy application

Area	Significant accounting judgements	Note
Reinsurance assets	Transfer of significant insurance risk for reinsurance arrangements entered into.	25

Additional considerations impacting significant accounting estimates and judgements due to increased market uncertainty and volatility driven by the Covid-19 pandemic are outlined within these notes as required.

1. Significant accounting policies

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 or a contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority 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.

Non-controlling interests are initially measured as the proportionate share of the subsidiary's identifiable net assets. The balance is subsequently increased by the amount of profit after tax attributable to the non-controlling interest during the period net of any dividends paid. As the company is a mutual it has no equity, therefore non-controlling interests are presented within liabilities.

Details of the company's subsidiaries are given in Note 43.

(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) Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale in accordance with IFRS 5 if their carrying amount will be recovered principally through sale rather than through continuing use and a sale is considered highly probable. A discontinued operation is a component of the business that has been disposed of or is classified as held for sale and that represents a separate major line of business, or is part of a single co-ordinated plan to dispose of such a line of business.

A disposal group that is classified as held for sale is measured at the lower of carrying value and fair value less costs to sell. The assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets and liabilities in the Statement of Financial Position.

The results of discontinued operations are presented separately in the Statement of Comprehensive Income. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on disposal. Other comprehensive income attributable to discontinued operations is also presented separately.

1. Significant accounting policies

Accounting policies (continued)

c) 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. 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.

Product classification

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Savings & Retirement	**Flexible Guarantee Bond (FGB)** FGB 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.		

1. Significant accounting policies

Accounting policies (continued)

Business area	Product classification			
	Insurance (participating)	Insurance (non-participating)	Investment (participating)	Investment (non-participating)
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.

d) Foreign currencies

Investment assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the transactions. Exchange gains and losses are dealt with in that part of the Statement of Comprehensive Income in which the underlying transaction is reported.

e) 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

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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).

3. Significant accounting policies

Accounting policies (continued)

Category	Financial Instrument	Basis of classification	Subsequent measurement	Recognition of changes in value
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.	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.

f) 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.

g) 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.

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.

h) Collateral

Collateral is received or pledged in the form of cash collateral and non-cash collateral.

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

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.

i) Mutual and Exit bonus

The Mutual and Exit bonuses allocated by LVFS are presented on the Statement of Comprehensive Income below Profit before tax and not within Gross change in long-term contract liabilities or Gross benefits and claims. This is to provide a more representative Profit before tax figure as described in the Use of Non-GAAP measures disclosed on page 80. The impact on Gross change in long-term contract liabilities is disclosed separately within Note 24 and the impact on Gross benefits and claims is disclosed separately within Note 9.

1. Significant accounting policies

Changes and future developments in accounting policies

a) New and amended standards adopted in the year

With effect from 1 January 2020, the following changes have been made to accounting standards that are applied by the Group.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest rate benchmark reform phase 1

The amendments to IFRS 9 and IAS 39 Financial instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The Group does not perform hedge accounting and therefore these amendments have no impact on financial reporting within the Group.

Amendment to IFRS 3 business combinations

The amendment narrows and clarifies the definition of a "business" for which transactions relating to acquisition of a business are accounted for in accordance with IFRS 3. Where a transaction is deemed an acquisition of assets and liabilities, rather than a business, this would not be accounted for by IFRS 3 and accordingly no goodwill would be recognised. There are no transactions in the current year that are within the scope of this amendment, therefore this amendment has not currently had any effect on accounting within the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

IAS 1 and IAS 8 are amended to alleviate areas of potential misinterpretation of the definition of materiality. The new definition is 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' This definition is consistent with the Group's existing application of materiality and has not therefore impacted financial reporting within the Group.

Conceptual framework for financial reporting

A revised conceptual framework has been implemented by the International Accounting Standards Board. The conceptual framework assists preparers to develop consistent accounting policies for transactions or other events when no standard applies or a standard allows a choice of accounting policies. The conceptual framework is also used to assist with understanding and interpretation of accounting standards. The revised conceptual framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on financial reporting within the Group.

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 2020, 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. The Audit Committee have considered the merits of both IFRS and UK GAAP and have concluded that transitioning to UK GAAP would be in the best interests of the business and will not impair the usefulness and quality of our financial reporting. The Group intends to transition to UK GAAP in advance of the IFRS 17 effective date.

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 until adoption of IFRS 17.

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 at 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 are included.

Relevant disclosures to facilitate comparison with companies which have adopted IFRS 9 are included in Note 14. 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.

1 Significant accounting policies

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.

Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16: Interest rate benchmark reform phase 2

Ahead of the planned withdrawal of the London Inter-bank offered rate (LIBOR) various amendments have been made to financial instruments accounting standards in order to avoid unintended accounting consequences that may be triggered by a modification of financial instrument cashflows. These changes are effective from 1 January 2021. LV= does not perform hedge accounting and holds the majority of its investment assets at Fair value through income, as a result there will be limited areas of the Group's balance sheet that will be impacted by the withdrawal of LIBOR. The subordinated debt is the primary financial instrument that will benefit from the reliefs introduced and it is expected that these amendments will mean that accounting for the subordinated debt is not adversely affected by the withdrawal of LIBOR.

There are no other new or amended standards yet to be adopted by the Group that are 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 7. IFRS segmental information reported to the board is limited to IFRS based Trading result, with reconciliation to the Statement of Comprehensive Income. Following the sale of the general insurance business, the Life operating segment has been segmented at a lower level as described below. 2019 comparatives have been restated accordingly. 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 8. 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 66 and is calculated as continuing business profit before tax, mutual/exit bonus and UDS transfer adjusted for the following items:

- Estate investment income.
- Experience variances and model and basis changes.
- Strategic investment, debt interest and other.
- 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 Profit before tax from continuing operations.

	2020 £m	2019 £m
Savings and retirement	**8**	25
Protection	**2**	15
Heritage	**(1)**	3
Trading profit	**9**	43
Estate investment income	**15**	8
Experience variances	**(21)**	(21)
Model and basis changes	**37**	(46)
Operating profit/(loss)	**40**	(16)
Strategic investment, debt interest, group items and other	**(96)**	(98)
Short-term investment fluctuations and related items	**93**	129
Profit before tax and mutual/exit bonus from continuing operations	**37**	15

Definitions of the line items in the segment profit statement can be found in the Use of non-GAAP measures on page 66.

2. Segmental information

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.

	2020 £m	2019 £m
Savings and retirement sales (PVNBP)	**1,039**	1,143
Protection sales (PVNBP)	**252**	263
Group sales (PVNBP)	**1,291**	1,406
Equity release mortgage advances	**(148)**	(179)
Gross written premiums for non-participating investment contracts which are deposit accounted	**(435)**	(416)
SIPP deposits	**(107)**	(156)
Effect of capitalisation factor on regular premium long-term business	**(221)**	(231)
New business gross earned premiums	380	424
Gross premiums from existing in-force business	233	232
IFRS Gross earned premiums	613	656

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.

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) Risk exposures will be managed to ensure our risk profile does not deviate materially from that projected in our agreed business plans;

(iii) Policyholder protection is not materially or inadvertently reduced as a result of where capital is held across LVFS; and

(iv) Expected surplus generation is not less than that required to restore LV= to target solvency following a breach in the Board agreed limit over a period of 5 years.

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 £1,397m for the Group and the Company (2019: £1,600m). Including RNPFN and Teachers ring-fenced funds, Eligible own funds were £1,477m for the Group and the Company (2019: £1,678m). The inclusion of the ring fenced funds does not change the Group capital surplus.

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 2021.

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 2020, the capital risk appetite was set to target a Capital Coverage Ratio of 140%. See further details on risk management on pages 18 to 22.

Measurement and monitoring of capital

The capital position of the Group is monitored on a regular basis and reviewed formally on a monthly basis by the Asset and Liability Committee (ALCO). These 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 minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also 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 reassurers' 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 new 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 the 1 in 200 worst projected future outcome in the year following the valuation, allowing for realistic 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.

3. Capital management

All non-insurance regulated businesses are included using their 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.

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, with the former including anticipated impacts from COVID-19 and the linked economic disruption – see Note 21. The medium to long-term impacts of COVID-19 are uncertain, and correspondingly, no allowance is made for such potential impacts. 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 swap rates, with a 10 basis point deduction to allow for credit risk. 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 key 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.

Brexit

The Group has substantially written all of its business in the UK. Going forwards, the Group will continue to monitor regulatory and other developments following the UK's departure from the European Union to ensure it is compliant with and well positioned *regarding any future changes to the regulatory environment.*

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 estimate of the results at the Annual Report signing date. It is possible that the Solvency II results will be updated prior to final publication of the group Solvency Financial Condition Report later in 2021.

	2020 £m	[illegible]
IFRS Unallocated divisible surplus	**1,115**	[illegible]
Remove DAC, goodwill and other intangible assets and related liabilities	(55)	[illegible]
Add subordinated debt treated as available capital	361	[illegible]
Insurance contract valuation differences	70	[illegible]
Difference in non-controlling interests valuation methods	-	[illegible]
Other	4	[illegible]
Less net eligible own funds relating to ring-fenced funds	(98)	[illegible]
Estimated eligible own funds (excluding ring-fenced funds)	**1,397**	[illegible]
RNPFN - eligible own funds	75	[illegible]
Restriction of own funds in respect of RNPFN	(2)	[illegible]
Teachers - eligible own funds	23	[illegible]
Restriction of own funds in respect of Teachers	(16)	[illegible]
Group estimated eligible own funds	**1,477**	[illegible]

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 pages 18 to 22.

As part of its risk management programme, 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. This section includes the impact on the three measures of a sensitivity test that calibrates to a reasonably possible change in a single risk type.

Coronavirus

The emergence of the Coronavirus represented a new uncertainty in 2020. The business has successfully transitioned so a majority of the staff have worked from home during the pandemic with no detriment to the service provided to customers. The balance sheet has proved resilient to the volatility present in the markets over the year and remains strong, with no management actions being needed to support solvency. The risk management function continue to assess the additional risks presented by the pandemic and ensure the additional operational risks arising from remote working are understood and managed, while the business plans for a gradual safe return to the office when the situation stabilises.

The long-term implications for mortality, morbidity and persistency experience and the UK's economic prospects will be assessed based on company and industry experience as the coronavirus pandemic and vaccine mitigation continues to develop.

Principal risks and categories

The Risk Management section of the Strategic Report on pages 18 to 22 sets out the principal risks and uncertainties that the Group faces. In addition, the Group uses a standard categorisation to group together 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 categories of risks and how they impact the Group.

a) Insurance risk

Insurance risk arises both from the claims commitment that the Group has made to its policyholders and the pricing assumptions made in respect of the policy of insurance. 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 policy 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 that assumed when the product is priced. 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, how much insurance contract administration costs will increase, growth in the value of investments, interest rates and tax rates.

Details of insurance contract liabilities and associated valuation assumptions are disclosed in Notes 21 and 26 respectively.

Differences in actual experience versus the original key assumptions will give rise to liabilities that differ from those originally 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 are exposed to mortality and morbidity risks whereby higher mortality rates and adverse morbidity will lead to increases in contract liabilities. 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 (as 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 reinsurance.

4 Risk management and control

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 is 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.

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 level of cash take-up influences the future cost of the product, as the cost of buying 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 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 these assumptions on cost and duration varying from the 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.

Climate Change risk

The financial performance of the Group may be adversely affected by harmful environmental events and developments including those related to (i) physical risk, and (ii) asset transition risk.

In the short term, the Group is exposed to physical risk through potential adverse impacts to property values arising from the investment in commercial property and residential property from equity release loans. Longer-term changes to the climate are likely to also affect the longevity, morbidity and mortality risks to which the Group is exposed, although the scale and direction attributed to climate change is not yet known.

Asset transition risks can arise from the process of adjustment towards a low-carbon economy. The Group is 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. The Group has developed a Responsible Investment Framework and are working with our asset managers to understand and manage the asset transition risk.

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, longevity and morbidity risk is transferred via reinsuring policy commitments through agreements with reinsurance companies.

The most significant reinsurance arrangements cover mortality and morbidity risks on Protection business and longevity risk on annuity business. The counterparties to these arrangements are leading global reinsurers Gen Re, Pacific Life Re and RGA.

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 and investment products. The Company's exposure to life insurance risk is consistent with that of the Group.

4. Risk management and control

Group	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Whole life	3,659	(16)	3,643	3,496	(37)	3,459
Endowment	273	-	273	310	-	310
Term Assurance	523	(590)	(67)	426	(478)	(52)
Immediate and deferred annuity contracts	4,432	(957)	3,475	4,338	(895)	3,443
UWP pensions and protected retirement plans	1,490	-	1,490	1,478	-	1,478
Critical illness	112	(93)	19	97	(83)	14
Income protection	200	(242)	(42)	180	(215)	(35)
Legacy WP ISA	140	-	140	103	-	103
Other	147	-	147	168	-	168
	10,976	(1,898)	9,078	10,596	(1,708)	8,888
Long-term claims liabilities	111	-	111	77	-	77
Unit linked	3,780	-	3,780	3,479	-	3,479
	14,867	(1,898)	12,969	14,152	(1,708)	12,444

Life insurance risk sensitivities

The table below sets out the impact on Profit before tax 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, mutual bonus and UDS transfer 2020 £m	2019 £m	Impact on the Unallocated divisible surplus 2020 £m	2019 £m
Increase in mortality rates by 5% - Non annuity products	(3)	(3)	(3)	(3)
Decrease in mortality rates by 5% - Annuity products	(15)	(13)	(15)	(13)
Increase in morbidity rates by 5%	(12)	(12)	(12)	(12)
Increase in persistency by 10%	5	5	5	5
Decrease in OB pensions cash take-up rates by 50%	(91)	(72)	(91)	(72)
Increase in expenses by 10%	(50)	(46)	(50)	(46)

The sensitivities above are performed on our insurance and investment contract liabilities net of reinsurance. They do not include the potential impacts on financial assets (including equity release) 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.

4. Risk management and control

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 the capital available to ensure the Group is able to meet policyholder commitments when they fall due and to achieve a sufficient return for members.

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 13 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 ALCO and the Investment Committee.

The Group is not exposed to 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. 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 98.

(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. 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.

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 15 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 geographical 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 fluctuations 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 in that 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 credit by sector (e.g. financial or non-financial), credit rating and duration and through its asset and liability matching tools.

4. Risk management and control

(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, 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. The Group manages its exposure on both an IFRS basis and a regulatory capital basis under Solvency II, and currently focuses on regulatory capital. These derivatives are principally interest rate swaps and gilt forward contracts.

Exposure to interest rate risk is monitored using several techniques, including scenario testing, stress testing and asset liability duration control.

The publication of Libor is due to cease at the end of 2021 and the PRA are consulting on changing the Solvency II risk free rate to Sonia from 31 July 2021. This has the potential to introduce basis risk where Libor hedging instruments are used. This risk is being monitored and managed via a gradual transition of derivative positions to Sonia based instruments.

The potential for negative interest rates does not pose an increased risk from an asset and liability management perspective, but there are a number of operational considerations which are being discussed with the PRA and the wider industry.

(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.

	2020			2019		
	Euro	US Dollar	Total	Euro	US Dollar	Total
	£m	£m	£m	£m	£m	£m
Derivatives	(175)	(717)	(892)	(188)	(604)	(792)
Equity securities	1	216	217	3	224	227
Debt securities	175	531	706	185	353	538
Cash and cash equivalents	-	12	12	-	1	1
	1	42	43	-	(26)	(26)

4. Risk management and control (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 £nil (2019: £nil) and £4m (2019: £3m) respectively. In determining the percentage rates to use in this sensitivity the movements in the actual market rates of Euro and US Dollars during 2020 were taken into account. The previous 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 £4m (2019: £3m).

Some foreign debt securities are denominated in sterling so bear no direct currency risk and have not been included within the above table.

(v) Summary of market risk sensitivities

The table below sets out the impact on Profit before tax 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.

Sensitivity analysis to movements in key market sectors	2020 Impact on Profit before tax, mutual bonus and UDS transfer £m	2020 Impact on the Unallocated divisible surplus £m	2019 Impact on Profit before tax, mutual bonus and UDS transfer £m	2019 Impact on the Unallocated divisible surplus £m
Equity values fall by 20%	**(82)**	**(40)**	(59)	(21)
Property values fall by 12.5%	**(5)**	**(2)**	(7)	(4)
Credit spreads increase by 100bps relative to swap yields	**(85)**	**(77)**	(77)	(69)
Government Bond spreads increase by 50bps relative to swap yields	**(39)**	**(32)**	(24)	(17)
Fixed interest yields fall by 50bps*	**40**	**25**	33	19
Fixed interest yields increase by 100bps	**(68)**	**(42)**	(55)	(30)

* [illegible]

The table demonstrates the effect of a change in a key assumption whilst 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. Larger or smaller impacts should not be interpolated or extrapolated from these results.

Consistent with last year, the aim of the Group interest rate hedging strategy is to stabilise Solvency II post-TMTP surplus, including 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. The level of equity exposure has risen following investment into asset shares to stabilise the cost of future Mutual Bonus declarations. There has been a rise in sensitivity to credit spreads and fixed interest changes from the fall in interest rates and credit spreads over the year increasing asset and liability values. The gilt spread sensitivity has risen due to increased investment into gilt assets.

Asset values and, where appropriate, asset share changes are reflected in each sensitivity. For 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.

(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 2020.

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 on a monthly basis by group treasury 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 are 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. 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 asset reporting team and reviewed by the Actuarial Asset Reporting Manager. 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.

Loans secured on commercial property totalling £229m transferred from Level 2 to Level 3 during the year. Increased risk and uncertainty driven by the Covid-19 pandemic mean that the discount spreads and debt margins are now classified as a significant unobservable input.

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 24 respectively.

4. Risk management and control

Group	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total fair value £m	2019 Level 1 £m	2019 Level 2 Restated see Note 1 £m	2019 Level 3 £m	2019 Total fair value Restated see Note 1 £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	111	-	111	-	85	-	85
Cash flow swaps	-	2	-	2	-	-	-	-
Forward exchange contracts	-	10	-	10	-	3	-	3
Equity/index derivatives	1	7	-	8	-	4	-	4
	1	130	-	131	-	92	-	92
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	403	7,360	-	7,763	1,320	6,271		7,591
– UK unlisted	-	-	67	67		-	60	60
– Overseas listed	210	-	-	210	210		-	210
– Overseas unlisted	-	-	19	19		-	26	26
Debt and other fixed income securities								
– UK listed	917	2,026	-	2,943	858	2,027	-	2,885
– Overseas listed	32	1,847	-	1,879	28	1,671	-	1,699
Loans secured on residential property	-	-	630	630			645	645
Loans secured on commercial property	-	-	229	229	-	209	-	209
	1,562	11,233	945	13,740	2,416	10,178	731	13,325
	1,563	11,363	945	13,871	2,416	10,270	731	13,417
Financial liabilities								
Non-participating investment contract liabilities	-	3,780	-	3,780	-	3,479	-	3,479
Derivative financial instruments								
Cash flow swaps	-	195	-	195	-	199	-	199
Interest rate swaps	-	-	-	-	-	10	-	10
Gilt forwards	-	1	-	1	-	16	-	16
Equity/index derivatives	-	-	-	-	1			1
	-	196	-	196	1	225	-	226
	-	3,976	-	3,976	1	3,704	-	3,705

4. Risk management and control

Company	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total fair value £m	2019 Level 1 £m	2019 Level 2 Restated - see Note 1 £m	2019 Level 3 £m	2019 Total fair value Restated see Note 1 £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	111	-	111	-	85	-	85
Cash flow swaps	-	2	-	2	-	-	-	-
Forward exchange contracts	-	10	-	10	-	3	-	3
Equity/index derivatives	1	7	-	8	-	4	-	4
	1	130	-	131	-	92	-	92
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	380	7,085	-	7,465	410	6,271	-	6,681
– UK unlisted	-	-	67	67	-	-	60	60
– Overseas listed	210	-	-	210	210		-	210
– Overseas unlisted	-	-	19	19	-	-	26	26
Debt and other fixed income securities								
– UK listed	903	1,686	-	2,589	845	2,022	-	2,867
– Overseas listed	32	1,847	-	1,879	28	1,671	-	1,699
Loans secured on residential property	-	-	630	630	-	-	645	645
Loans secured on commercial property	-	-	229	229	-	209	-	209
	1,525	10,618	945	13,088	1,493	10,173	731	12,397
	1,526	10,748	945	13,219	1,493	10,265	731	12,489
Financial liabilities								
Non-participating investment contract liabilities	-	3,780	-	3,780	-	3,479		3,479
Derivative financial instruments								
Cash flow swaps	-	195	-	195		199	-	199
Interest rate swaps	-	-	-	-	-	10	-	10
Gilt forwards	-	1	-	1	-	16	-	16
Equity/index derivatives	-	-	-	-	1	-	-	1
	-	196	-	196	1	225	-	226
	-	3,976	-	3,976	1	3,704	-	3,705

4. Risk management and control

The table below presents the movements in Level 3 financial instruments for the year ended 31 December 2020.

Group and Company	At 1 January 2020 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	Transfer from Level 2 to Level 3 £m	At 31 December 2020 £m	Unrealised gains/(losses) recognised through income in 2020 £m
Financial assets held at fair value through income							
Shares, other variable yield securities and units in unit trusts							
- UK unlisted	60	(35)	42	-	-	67	(35)
- Overseas unlisted	26	(4)	-	(3)	-	19	2
Loans secured on residential property^	645	12	14	(41)	-	630	12
Loans secured on commercial property	-	-	-	-	229	229	-
	731	(27)	56	(44)	229	945	(21)

Group and Company	At 1 January 2019 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	Transfer from Level 2 to Level 3 £m	At 31 December 2019 £m	Unrealised gains/(losses) recognised through income in 2019 £m
Financial assets held at fair value through income							
Shares, other variable yield securities and units in unit trusts							
- UK unlisted	78	(18)	-	-	-	60	(18)
– Overseas unlisted	33	(2)	-	(5)	-	26	(2)
Loans secured on residential property^	648	23	22	(48)	-	645	23
	759	3	22	(53)	-	731	3

^ In relation to Loans secured on residential property, purchases represent loans advanced plus accrued interest and sales represent loans repaid.

4 Risk management and control

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 2020 £m	Fair value at 31 December 2019 £m	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs (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	**67**	60	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	**19**	26	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	**630**	645	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 13.4%	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	**229**	-	Discounted cash flow	At 31 December 2020 the loans secured on commercial property were transferred from Level 2 to Level 3 due to the discount spreads and debt margins now being deemed significant unobservable inputs. A movement in the discount rate of 1% would have an immaterial impact on the valuation of these assets.		
	945	731				

4. Risk management and control

Sensitivity to changes in unobservable inputs (Level 3)

The only financial instrument which is significantly impacted by reasonably possible changes in unobservable inputs is the loans secured on residential property. The loans secured on residential property 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. 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.

		2020			2019		
		Reasonably possible alternative assumptions			Reasonably possible alternative assumptions		
	Unobservable input	Current fair value	Increase in fair value	Decrease in fair value	Current fair value	Increase in fair value	Decrease in fair value
Description		£m	£m	£m	£m	£m	£m
Loans secured on residential property	Discount rate +/- 50bps	630	27	(25)	615	29	(26)

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 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 encounters 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. 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 risk the Group invests mainly in higher graded assets, rated BBB and above. The main exception to this is in the high yield bond portfolios [illegible]

In addition, the Group uses derivatives to transfer elements of [illegible] risk exposures. Counterparty exposures from over-the-counter derivatives are mitigated by the use of collateral. The [illegible] 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 106.

Loans secured on residential and commercial property

Residential (equity release) mortgage loans and commercial mortgage loans are held to match certain insurance obligations. This 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 crisis has 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 whilst the performance of existing loans are closely monitored such that covenants can be enacted at appropriate times if required.

Aberdeen Standard Investments are the Group's mandated originator and asset manager for new commercial mortgages and provides expertise to source and underwrite loan prospects within an agreed mandate. AgFe continue to work with LV= on the ongoing management of the existing commercial mortgages which they have sourced.

Exposure to 'No Negative Equity Guarantees' 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 15 provides further disclosure and provisions for 'No Negative Equity Guarantees' on equity release mortgages.

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 the reinsurer fails to pay a 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. [illegible] regularly reviewed. In addition, [illegible] contract collateral is held [illegible] At 31 December 2020 £[illegible] collateral was held [illegible] 2019 [illegible]

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 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 LVFS is materially consistent with that of the Group.

Credit risk exposure 2020	Neither past due nor impaired								
	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	565	1,836	1,442	946	33	-	4,822	n/a	4,822
Loans secured on residential and commercial property	-	20	138	58	8	635	859	n/a	859
Derivative assets	-	-	122	9	-	-	131	n/a	131
Loans and other receivables	-	3	5	-	-	28	36	-	36
Reinsurance assets	-	1,891	1	-	-	6	1,898	-	1,898
Insurance receivables	-	63	-	-	-	15	78	3	81
Cash and cash equivalents	-	49	310	-	-	-	359	n/a	359
	565	3,862	2,018	1,013	41	684	8,183	3	8,186

Credit risk exposure 2019	Neither past due nor impaired								
	AAA £m	AA Restated - see Note 1 £m	A Restated - see Note 1 £m	BBB Restated (1) £m	Below BBB Restated (1) £m	Not rated Restated (1) £m	Total Restated - see Note 1 £m	Past due but not impaired £m	Total Restated - see Note 1 £m
Debt and other fixed income securities	574	1,705	1,377	927	1	-	4,584	n/a	4,584
Loans secured on residential and commercial property	-	-	152	17	40	645	854	n/a	854
Derivative assets	-	2	90	-	-	-	92	n/a	92
Loans and other receivables	-	-	201	-		102	303	-	303
Reinsurance assets	-	1,700	1	-	-	7	1,708	-	1,708
Insurance receivables	-	53	-	-	-	7	60	3	63
Cash and cash equivalents	-	66	89	-	-	-	155	n/a	155
	574	3,526	1,910	944	41	751	7,756	3	7,759

(1) Loans secured on commercial properties and derivative assets were incorrectly classed as non-rated but now these financial instrument have been given appropriate rating i.e A, AA, BBB as per their existing credit rating profile.

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.

(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 2020	Gross amount £m	Amounts offset £m	Net amount £m	Financial Instruments* £m	Collateral pledged/ (received) £m	Net amount £m
Financial assets						
Derivative financial assets	1,023	(892)	131	-	(112)	19
	1,023	(892)	131	-	(112)	19
Financial liabilities						
Derivative financial liabilities	(1,088)	892	(196)	-	194	(2)
Bank overdrafts	(28)	21	(7)	-	-	(7)
	(1,116)	913	(203)	-	194	(9)

	Amounts recognised in the Statement of Financial Position			*Related amounts not set off in the Statement of Financial Position*		
As at 31 December 2019	Gross amount £m	Amounts offset £m	Net amount £m	Financial Instruments* £m	Collateral pledged/ (received) £m	Net amount £m
Financial assets						
Derivative financial assets	901	(809)	92	(12)	(69)	11
	901	(809)	92	(12)	(69)	11
Financial liabilities						
Derivative financial liabilities	(1,035)	809	(226)	12	211	(3)
Bank overdrafts	(30)	17	(13)	-	-	(13)
	(1,065)	826	(239)	12	211	(16)

* *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 £113m (2019: £69m) and is all cash collateral received. No collateral received from the counterparty has been sold or repledged (2019: £nil).

Total collateral pledged by the Group is £203m (2019: £215m) and is split between corporate bonds pledged in relation to cash flow swaps of £194m (2019: £199m), future margin of cash of £6m (2019: £3m) and cash collateral paid of £3m (2019: £13m).

Collateral posted to LVFS 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

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. In the life business increased demands for cash can also arise from events such as higher instances of death/sickness claims or mass surrenders/lapses of policies. In addition, the Group uses derivatives to transfer potential exposures on financial markets risks and certain derivative contracts, for example, interest rate swaps can result in additional collateral calls which must be met from liquid assets at short notice.

Liquidity is maintained at a prudent level, with a buffer to cover contingencies including the provision of temporary liquidity to subsidiary companies. A Group Liquidity Risk Policy and associated standards have been set to maintain sufficient liquid assets. At Group level there is a liquidity risk appetite statement which requires that sufficient liquid resources are maintained to cover net cash outflows under stressed conditions. This is monitored monthly by ALCO. During 2020 the Covid-19 pandemic has led to increased volatility within both markets and claims. However, liquidity management has ensured the increased volatility has not caused a liquidity strain to the Group.

The risk exposure is managed using several methods and techniques, which include:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- Forecasting additional cash demands under stressed conditions, including demands for collateral, and management actions to be taken to liquidate sufficient assets to meet the increased demands; and
- Appropriate matching of the maturities of assets and liabilities. The Group undertakes asset and liability management to ensure that the duration of liabilities is matched by assets.

4. Risk management and control

The table below summarises the maturity profile of the assets of the Group and the Company on the expected recovery timing.

Maturity profile of assets 2020	Group Within 1 year £m	Group Over 1 year £m	Group Total £m	Company Within 1 year £m	Company Over 1 year £m	Company Total £m
Pension benefit asset	-	148	148	-	-	-
Intangible assets	-	55	55	-	-	-
Investments in group undertakings	-	-	-	-	-	-
Property and equipment	-	29	29	-	-	-
Reinsurance assets	7	1,891	1,898	-	-	-
Prepayments and accrued interest	67	-	67	-	-	-
Loans and other receivables	35	1	36	-	-	-
Insurance receivables	56	25	81	-	-	-
Financial assets at fair value through income	8,604	5,136	13,740	-	-	-
Derivative financial instruments	18	113	131	-	-	-
Cash and cash equivalents	359	-	359	-	-	-
Assets held for distribution	-	-	-	16,455	-	16,455
	9,146	7,398	16,544	16,455	-	16,455

Maturity profile of assets 2019	Group Within 1 year Restated see Note 1 £m	Group Over 1 year £m	Group Total Restated see Note 1 £m	Company Within 1 year Restated see Note 1 £m	Company Over 1 year £m	Company Total Restated see Note 1 £m
Pension benefit asset	-	214	214	-	214	214
Intangible assets		64	64	-	8	8
Investments in group undertakings	-	-	-	-	816	816
Property and equipment	-	28	28	-	8	8
Reinsurance assets	11	1,697	1,708	11	1,697	1,708
Prepayments and accrued interest	73	-	73	68	-	68
Loans and other receivables	302	1	303	79	1	80
Insurance receivables	48	15	63	47	15	62
Financial assets at fair value through income	8,280	5,045	13,325	7,365	5,032	12,397
Derivative financial instruments	3	89	92	3	89	92
Cash and cash equivalents	155	-	155	144	-	144
	8,872	7,153	16,025	7,717	7,880	15,597

4. Risk management and control

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 2020**	**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	-	498	782	702	3,507	5,489
Participating investment contract liabilities	-	63	77	86	555	781
Non-participating value of in-force business	(66)	(19)	(33)	(28)	(211)	(357)
Non-participating insurance contract liabilities	-	382	502	524	3,409	4,817
Non-participating investment contract liabilities	3,780	-	-	-	-	3,780
Total insurance and investment contract liabilities	3,714	924	1,328	1,284	7,260	14,510
Financial liabilities						
– Derivative financial instruments	-	4	15	21	158	198
– Subordinated liabilities	-	-	350	-	-	350
– Other financial liabilities	-	1	-	-	116	117
Insurance payables	-	42	-	-	-	42
Trade and other payables						
– Finance lease liabilities	-	3	5	4	22	34
– Other trade and other payables	-	90	-	-	-	90
	3,714	1,064	1,698	1,309	7,556	15,341

Group Maturity profile of financial, insurance and investment contract liabilities 2019	Unit-linked (on demand)	Within 1 year Restated (*)	1-3 years Restated (*)	3-5 years Restated (*)	Over 5 years Restated (*)	Total Restated (*)
	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities	-	454	730	672	3,475	5,331
Participating investment contract liabilities	-	56	72	85	543	756
Non-participating value of in-force business	(45)	(17)	(30)	(26)	(191)	(309)
Non-participating insurance contract liabilities	-	329	507	520	3,230	4,586
Non-participating investment contract liabilities	3,479	-	-	-		3,479
Total insurance and investment contract liabilities	3,434	822	1,279	1,251	7,057	13,843
Financial liabilities						
– Derivative financial instruments	-	35	10	36	162	243
– Subordinated liabilities	-	-	-	350	-	350
– Other financial liabilities	-	(12)	-	-	95	83
Insurance payables	-	26	-			28
Trade and other payables						
– Finance lease liabilities	-	2	5	4	23	34
– Other trade and other payables		107	-			107
	3,434	982	1,294	1,641	7,337	14,682

(*) Derivative financial instruments and Other financial liabilities have been restated to show the undiscounted contractual obligations, which resulted in a £17m and £14m increase in Derivative financial instruments and Other financial liabilities line item respectively.

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

For 2020 reporting all the Company's liabilities are classed as 'Liabilities directly associated with Assets held for distribution' and as such a maturity profile of financial, insurance and investment contract liabilities has not been disclosed. The 2019 comparative table is shown below for reference.

Company *Maturity profile of financial, insurance and investment contract liabilities 2019*	Unit linked (no maturity) £m	Within 1 year Restated (*) £m	1-2 years Restated (*) £m	2-5 years Restated (*) £m	Over 5 years Restated (*) £m	Total Restated (*) £m
Participating insurance contract liabilities	-	454	730	672	3,475	5,331
Participating investment contract liabilities	-	56	72	85	543	756
Non-participating value of in-force business	(45)	(17)	(30)	(26)	(191)	(309)
Non-participating insurance contract liabilities	-	328	506	519	3,220	4,573
Non-participating investment contract liabilities	3,479	-	-	-	-	3,479
Total insurance and investment contract liabilities	3,434	821	1,278	1,250	7,047	13,830
Financial liabilities						
– Derivative financial instruments	-	35	10	36	162	243
– Subordinated liabilities	-	-	-	350	-	350
– Other financial liabilities	-	(12)	-	-	95	83
Insurance payables	-	27	-	-	-	27
Trade and other payables						
– Finance lease liabilities	-	1	2	2	1	6
– Other trade and other payables	-	106	-	-	-	108
	3,434	978	1,290	1,638	7,305	14,645

(*) Derivative financial instruments and Other financial liabilities have been restated to show the undiscounted contractual obligations, which resulted in a £17m and £14m increase in Derivative financial instruments and Other financial liabilities line item respectively.

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, and emerging areas of operational risk such as cyber risk. 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 attestation process provides assurance about the effectiveness of the overall control environment and reports on any material exceptions.

During 2020, the Covid-19 crisis has required the business to swiftly respond to a significant number of new or increased operational challenges, for example those associated with the transition to the majority of employees working from home, allowing us to continue to service and support our Customers and Members throughout this period. Risk management continue to assess and oversee Operational risks.

Operational risk is unrewarded and is therefore inherently unattractive. LV= is highly exposed to operational failures because of the high level of customer service inherent in its business model and reliance on third parties, for example reinsurers, asset managers and other suppliers. It therefore looks to limit and maintain its exposure to operational risk and do so by establishing a robust control environment using a combination of assessment, testing and audit. LV= will always seek to uphold its brand image with customers, employees and other external parties and the 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. Furthermore an estimate is included for premiums due from intermediaries. Net earned premiums are arrived at following deduction for premiums ceded to reinsurers.

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.

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	
	2020	2019	2020	2019
Gross earned premiums	£m	£m	£m	£m
Long-term insurance and participating investment contracts				
Single premium				
Investments and savings	**192**	169	**192**	169
Pensions and annuities	**157**	223	**157**	223
Regular premium				
Investments and savings	**20**	24	**20**	24
Pensions and annuities	**6**	7	**6**	7
Life and health protection	**238**	233	**237**	232
Gross earned premiums	**613**	656	**612**	655
Premiums ceded to reinsurers				
Long-term insurance premiums	**(273)**	(266)	**(273)**	(266)
Net earned premiums	**340**	390	**339**	389
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 19)	**435**	416	**435**	416

All contracts are written in the UK.

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.

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 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Income from investments at fair value through income				
– Dividend income	70	112	70	112
– *Interest income from debt and fixed interest securities*	123	131	122	131
– Interest on loans secured on residential property	32	33	32	33
– Interest on loans secured on commercial property	8	9	8	9
Interest on loans and receivables	4	7	-	-
Interest income from group undertakings	-	-	1	
Dividend income from group undertakings	-	-	399	50
	237	292	632	335

7. Net 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 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Investment properties	-	-	-	-
Investments at fair value through income				
– Debt securities	250	211	249	210
– Equity securities	442	812	442	812
Loans and mortgages	11	23	11	23
Derivative financial instruments	83	22	83	22
Investments in group undertakings	-		(61)	(2)
	786	1,068	724	1,065

Included within net gains on investments are realised gains of £289m (2019: £384m) 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		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Revenue from contracts with customers				
Asset management charges	**20**	22	**20**	22
Commission	**14**	16	**-**	-
Other fee income	**11**	7	**3**	3
	45	45	**23**	25

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.

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.

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group	£m	£m	£m	£m	£m	£m
Long-term insurance and participating investment contracts						
Benefits and claims paid	**1,047**	**(256)**	**791**	1,000	(254)	746
Change in the provision for claims	**34**	**-**	**34**	19	-	19
Fair value adjustment to reinsurance receivable	**-**	**(10)**	**(10)**	-	(9)	(9)
Exit bonus (disclosed separately on the Statement of Comprehensive Income)	**(33)**	**-**	**(33)**	-	-	-
	1,048	**(266)**	**782**	1,019	(263)	756
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 18).	**351**	**-**	**351**	368	-	368

9. Net benefits and claims

Company	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Long-term insurance and participating investment contracts						
Benefits and claims paid	**1,046**	**(256)**	**790**	999	(254)	745
Change in the provision for claims	**34**	**-**	**34**	19	-	19
Fair value adjustment to reinsurance receivable	**-**	**(10)**	**(10)**	-	(9)	(9)
Exit bonus (disclosed separately on the Statement of Comprehensive Income)	**(33)**	**-**	**(33)**	-	-	-
	1,047	**(266)**	**781**	1,018	(263)	755
Net benefits and claims for non participating investment contracts which are deposit accounted for and not included above (refer to Note 18)	**351**	**-**	**351**	368	-	368

10. Finance costs

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Interest expense on subordinated liabilities (see Note 19)	**23**	23	**23**	23
Interest expense on lease liabilities	**1**	1	**-**	-
	24	24	**23**	23

11. Other operating and administrative expenses

Accounting for other operating and administrative expenses

Other operating and administrative expenses are accounted for as incurred. Acquisition costs relate to the costs of acquiring new business and include commission and incentive payments to sales staff and third parties.

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Commission paid on acquisition of business	**59**	58	**54**	52
Amortisation and impairment of intangible assets	**10**	5	**2**	3
Depreciation on property and equipment	**3**	5	**2**	3
Loss/(profit) on disposal of property and equipment	**-**	2	**-**	1
Investment management expenses and charges	**15**	12	**15**	13
Auditors' remuneration (see Note 13)	**2**	1	**2**	1
Employee benefits expense (see Note 35)	**90**	111	**85**	96
Impairment of financial assets	**-**	-	**2**	
Management charge allocated to group undertakings	**-**	(44)	**(13)**	(57)
Facilities expense	**5**	10	**5**	10
Marketing and advertising	**5**	7	**4**	[illegible]
Other staff costs	**12**	34	**12**	34
IT costs	**26**	59	**26**	39
Legal, consultancy and other fees	**24**	39	**23**	28
Other expenses	**6**	11	**6**	10
Costs transferred to Discontinued operations	**-**	(40)	**-**	
Claims handling cost recognised in Gross benefits and claims	**(11)**	(4)	**(11)**	[illegible]
	246	240	**214**	[illegible]

The £(44)m management charge allocated to group undertakings reported by the Group in 2019 represented the amounts recharged to discontinued operations during the year.

Costs transferred to Discontinued operations of £[illegible]m in 2019 represented costs directly incurred by the Company in relation to the sale of the LVGIG Group.

3.2. Discontinued operations

a) Description

The discontinued operations relate to the sale of the Liverpool Victoria General Insurance Group Limited group of companies on 31 December 2019. The loss after tax from discontinued operations of £2m reported in 2020 relates to a reduction in the deferred consideration received, see Note 17.

Financial information relating to the discontinued operation for the period to the date of disposal on 31 December 2019 is set out below.

b) Financial performance and cash flow information

The financial performance and cashflow information presented below are for the twelve months ended 31 December 2019:

	2019
Financial performance	£m
Gross earned premiums	1,549
Premiums ceded to reinsurers	(363)
Net earned premiums	1,186
Investment income	37
Net losses on investments	(20)
Other income	60
Total income	1,263
Insurance claims and loss adjustment expenses	(1,084)
Insurance claims and loss adjustment expenses recoverable from reinsurers	215
Net insurance claims	(869)
Gross operating and administrative expenses	(432)
Expenses recoverable from reinsurers	73
Net operating and administrative expenses	(359)
Finance costs	(1)
Total claims and expenses	(1,229)
Profit before tax from discontinued operations	34
Income tax expense	(16)
Profit after tax from discontinued operations	18
Gain on sale of LVGIG group (see (c) below)	216
Profit from discontinued operations	234
Net gain on available for sale financial assets, net of tax	24
AFS reserve recycled through profit and loss on sale of LVGIG group	(14)
Other comprehensive gain for the year from discontinued operations, net of tax	10

Included within Gross operating and administrative expenses are £46m of additional costs directly incurred by the Company in relation to the disposal of the LVGIG group.

	2019
Cashflows	£m
Net cash inflow from operating activities	186
Net cash inflow from investing activities (includes an inflow of £563m from the sale of the LVGIG group)	541
Net cash outflow from financing activities	(80)
Net cash inflow generated from discontinued operations	647

17. Discontinued operations (continued)

c) Details of the sale of the LVGIG group

	2019 £m
Consideration received or receivable	
Cash received	563
Deferred consideration	56
Total disposal consideration	619
Less: Carrying amount of net assets disposed	(417)
Gain on sale before reclassification of available for sale reserve	202
Reclassification of available for sale reserve	14
Gain arising on sale of LVGIG group	216

18. Auditors' remuneration

	2020 £000	2019 £000
Audit of LVFS	**1,270**	932
Fees payable to the company's auditors and its associates for other services:		
– Audit of subsidiaries	**130**	871
– Audit-related assurance services	**254**	402
– Other tax services	**9**	9
– Other non-audit services not covered above	**26**	-
	1,689	2,214

Included in the table above are costs of £nil (2019: £917,000) relating to the discontinued operations of the Group.

Audit-related assurance services include the audit of the Solvency II regulatory return for LVFS Group and LVFS Solo (2019: Solvency II regulatory return for LVFS Group, LVFS Solo, LV General Insurance Group Limited and the half-year review).

In addition to the amounts disclosed above, expenses relating to audit work of £3,000 (2019: £[illegible]5,000) 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.

14 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 until adoption of IFRS 17. 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 2020 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	
	2020	2019 Restated (see Note 1)	2020	2019 Restated (see Note 1)
Financial assets	£m	£m	£m	£m
Financial assets that meet the SPPI criteria and are not valued as FVTI				
Loans and other receivables	**36**	303	**50**	80
Short-term insurance receivables *	**56**	48	**56**	47
	92	351	**106**	127
All other financial assets				
Insurance receivables relating to DB pensions annuities held at FVTI	**25**	15	**25**	15
Financial assets at fair value through income	**13,740**	13,325	**13,088**	12,397
Derivative financial instruments (assets net of liabilities)	**(65)**	(134)	**(65)**	(134)
	13,700	13,206	**13,048**	12,278

* [illegible]

The fair value of Financial assets that meet the SPPI criteria and are not valued as FVTI has decreased by £259m for the Group and decreased by £21m for the Company during the reporting period. The fair value of All other financial assets has increased by £494m for the Group and increased by £770m for the Company during the reporting period.

Credit risk information for SPPI financial assets

At 31 December 2020 the Group and Company held £8m (2019: £201m) and £8m (2019: £16m) of AAA rated Loans and receivables respectively with the remaining balances all unrated. Insurance receivables include AA rated assets with a carrying value of £63m (2019: £53m) for both the Group and the Company, the remainder were unrated of which £3m (2019: £3m) were past due but not impaired for both Group and Company.

15. 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 16). 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 16 and 18 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 stochastic model and is included in the fair value of the loans through adjusting the discount rate.

The loans secured on residential property within LVFS are purchased from a subsidiary company that is authorised to initiate these loans. The purchase by LVFS is at origination value plus 7% (which is 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, including any Covid-19 impacts on these assumptions, are contained in the fair value estimation tables disclosed in Note 4 below.

15. Financial assets – Fair value through income

	Group 2020	Group 2019 Restated see Note 1	Company 2020	Company 2019 Restated see Note 1
	£m	£m	£m	£m
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
– UK listed	**7,763**	7,591	**7,465**	6,681
– UK unlisted	**67**	60	**67**	60
– Overseas listed	**210**	210	**210**	210
– Overseas unlisted	**19**	26	**19**	26
Debt and other fixed income securities				
– UK listed	**2,943**	2,885	**2,589**	2,867
– Overseas listed	**1,879**	1,699	**1,879**	1,699
Loans secured on residential property	**630**	645	**630**	645
Loans secured on commercial property	**229**	209	**229**	209
	13,740	13,325	**13,088**	12,397
Assets held to cover linked liabilities included above	**3,851**	3,530	**3,851**	3,530

16. 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	2020 Contract/ notional amount	2020 Fair value – asset	2020 Fair value – liability	2019 Contract/ notional amount	2019 Fair value – asset	2019 Fair value – liability
	£m	£m	£m	£m	£m	£m
Interest rate swaps	**397**	**111**	**-**	456	85	(10)
Gilt forwards	**200**	**-**	**(1)**	204	-	(16)
Cash flow swaps	**992**	**2**	**(195)**	966	-	(199)
Forward exchange contracts	**875**	**10**	**-**	541	3	-
Equity/index derivatives	**102**	**8**	**-**	155	4	(1)
	2,566	**131**	**(196)**	2,322	92	(226)

In addition to the above, the Group and Company makes use of futures contracts. At 31 December 2020, the Group and Company had entered into bond futures trades giving exposure to bonds prices/interest rates with a notional value of £103m (2019: £nil). The bond futures had no market value at the balance sheet date because all variation margin on these contracts is settled on a daily basis.

17. 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. Loans include secured notes and reverse repurchase agreements which represent the consideration paid to the borrower and are recognised on the transaction date. 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	
	2020	2019	2020	2019
	£m	£m	£m	£m
Secured loan notes	-	185	-	-
Deferred consideration	-	56	-	-
Cash collateral pledged	10	16	10	16
Amounts due from group undertakings	-	-	16	22
Investments receivable	8	20	8	20
Other receivables	18	26	16	22
	36	303	50	80

The Group's holdings in secured loans matured in June 2020.

Deferred consideration in 2019 related to amounts due from Allianz in relation to the sale of the remaining stake in the general insurance business – see Note 12. Amounts totalling £54m were received in 2020 resulting in a loss of £2m being recognised within Discontinued operations in the year.

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.

18. 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 24). 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.

18. Non-participating investment contract liabilities

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Balance at 1 January	**3,479**	3,017	**3,479**	3,017
Deposits received from policyholders	**435**	416	**435**	416
Payments made to policyholders	**(351)**	(368)	**(351)**	(368)
Change in contract liabilities included in the Statement of Comprehensive Income	**217**	414	**217**	414
Balance at 31 December	**3,780**	3,479	**3,780**	3,479

19. 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	
	2020	2019	2020	2019
	£m	£m	£m	£m
Subordinated notes (GBP 350m)	**349**	348	**349**	348
	349	348	**349**	348

All the subordinated liabilities are expected to be settled more than 12 months after the balance sheet date.

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 at five yearly intervals thereafter up to the maturity date.

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 453 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 2020 was £385m (2019: £392m). The valuation of the subordinated notes was determined by reference to the bid price obtained from the markets as at 31 December 2020. Management consider this to be representative of fair value.

20. Other financial liabilities

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Cash collateral received	**113**	69	**113**	69
	113	69	**113**	69

* 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 26 with sensitivities to these assumptions disclosed separately within Note 4.

21. 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 25.

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 22.

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 23) 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.

31. Insurance contract liabilities

Significant accounting estimates

The valuation of insurance contract liabilities is a significant accounting estimate which requires the use of management judgement.

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 26 and 27.

Notable changes to assumptions in the year include:

- A change in modelled management actions that are expected to be taken in the event of a significant fall in the value of equities. This management action was reviewed following the fall in global stock markets in the wake of the COVID-19 pandemic and as a result the action was discontinued. This change increased liabilities by £8m.
- The unit cost allocations have been revised to reflect the changes in our cost base following the disposal of the general insurance business at the end of 2019 and cost efficiency activity undertaken during 2020. This change reduced liabilities by £36m. Within this there were some relatively large changes between different classes of business that largely offset in aggregate, with the main impact coming from the release of short-term additional expense reserves.
- The future impact of the COVID-19 pandemic both on insurance claims and on the wider economy is highly uncertain. High levels of reinsurance provide significant protection against adverse experience. There is no explicit adjustment to long term assumptions for the impact of COVID-19. An allowance has been made in reserves of £8m for anticipated short-term adverse mortality, persistency and unemployment experience on non-profit business. The medium to long-term impacts of COVID-19 are uncertain, and correspondingly, no allowance has been made for such potential impacts.
- The OB Pensions cash take-up rates have been updated to reflect recent experience reducing liabilities by £13m.
- The gone away allowance has been redefined relative to fixed groups of policies rather than by current policy status (premium-paying, free-paid or paid up). This removes the distortion in reserves when policies change status. The assumptions have also been updated in line with recent experience. These changes increased liabilities by £10m.

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".

The same convention applies to the prior year basis, where "CMI_2018 Adjusted" refers to:

- CMI_2018_M [1.5%, S=7; A=0.15%] for males
- CMI_2018_F [1.25%; S=7, A=0.1%] for females

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 di.

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 26 and 27 respectively.

21. Insurance contract liabilities

a) Analysis of insurance contract liabilities and reinsurance assets

Group	Note	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	21b(i)	**5,489**	**-**	**5,489**	5,331	-	5,331
Non-participating insurance contract liabilities							
Reinsurance relating to participating contracts *	21b(ii)	**-**	**(1,053)**	**(1,053)**	-	(957)	(957)
Long-term insurance contract liabilities	21 c	**4,467**	**(677)**	**3,790**	4,313	(606)	3,707
Long-term linked insurance contract liabilities	21 d	**239**	**(168)**	**71**	196	(145)	51
Long-term claims liabilities	21 e	**111**	**-**	**111**	77	-	77
		4,817	**(1,898)**	**2,919**	4,586	(1,708)	2,878

Company	Note	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Participating insurance contract liabilities							
Long-term insurance contract liabilities	21b(i)	**5,489**	**-**	**5,489**	5,331	-	5,331
Non-participating insurance contract liabilities							
Reinsurance relating to participating contracts *	21b(ii)	**-**	**(1,053)**	**(1,053)**	-	(957)	(957)
Long-term insurance contract liabilities	21c	**4,454**	**(677)**	**3,777**	4,300	(606)	3,694
Long-term linked insurance contract liabilities	21d	**239**	**(168)**	**71**	196	(145)	51
Long-term claims liabilities	21e	**111**	**-**	**111**	77	-	77
		4,804	**(1,898)**	**2,906**	4,573	(1,708)	2,865

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.

21. Insurance contract liabilities

b) (i) Movement in long-term insurance contract liabilities – participating

Group and Company	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Balance at 1 January	5,331	-	5,331	5,092	-	5,092
Premiums received	19	-	19	23	-	23
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(450)	-	(450)	(446)	-	(446)
New business	169	-	169	167	-	167
Benefits and claims variation	(37)	-	(37)	(4)	-	(4)
Fees deducted	(22)	-	(22)	(23)	-	(23)
Accretion of investment income or change in unit prices	296	-	296	422	-	422
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	-	-	-	(19)	-	(19)
– Investment return	164	-	164	105	-	105
– Expense	30	-	30	(1)	-	(1)
– Lapse and surrender rates	7	-	7	19	-	19
– Other basis changes	(17)	-	(17)	(32)	-	(32)
Model changes	(2)	-	(2)	33	-	33
Other	(14)	-	(14)	(17)	-	(17)
Teachers Assurance (TA) fund special bonus	(7)	-	(7)	(9)	-	(9)
Mutual bonus	22	-	22	21	-	21
Balance at 31 December	5,489	-	5,489	5,331	-	5,331

b) (ii) Movement in non-participating reinsurance assets relating to long-term participating insurance contract liabilities

Group and Company	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Balance at 1 January	-	(957)	(957)		(897)	(897)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	-	12	12	-	10	10
Benefits and claims variation	-	9	9		9	9
Accretion of investment income or change in unit prices	-	(7)	(7)	-	(9)	(9)
Adjustment due to changes in assumptions:						
– Mortality/morbidity/longevity	-	5	5		15	15
– Investment return	-	(115)	(115)	-	(88)	(88)
– Lapse and surrender rates	-	-	-	-	2	2
– Other basis changes	-	(1)	(1)	-	-	-
Other	-	1	1	-	1	1
Balance at 31 December	-	(1,053)	(1,053)	-	(957)	(957)

21. Insurance contract liabilities (continued)

c) Movement in long-term insurance contract liabilities – non-participating

Group	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Balance at 1 January	**4,313**	**(606)**	**3,707**	4,269	(695)	3,574
Premiums received	**187**	**(83)**	**104**	185	(78)	107
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(492)**	**126**	**(366)**	(473)	121	(352)
New business	**145**	**(76)**	**69**	214	(108)	106
Benefits and claims variation	**45**	**(31)**	**14**	18	(5)	13
Fees deducted	**(12)**	**-**	**(12)**	(12)	-	(12)
Accretion of investment income or change in unit prices	**57**	**1**	**58**	73	(1)	72
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(70)**	**62**	**(8)**	(144)	131	(13)
– Investment return	**292**	**(48)**	**244**	262	(41)	221
– Expense	**(24)**	**-**	**(24)**	(30)	-	(30)
– Lapse and surrender rates	**18**	**(17)**	**1**	(7)	29	22
– Other basis changes	**9**	**-**	**9**	-	-	-
Model changes	**1**	**(4)**	**(3)**	(39)	39	-
Other	**(2)**	**(1)**	**(3)**	3	2	5
Balance at 31 December	**4,467**	**(677)**	**3,790**	4,313	(606)	3,707

Company	2020 Gross £m	2020 Reinsurance £m	2020 Net £m	2019 Gross £m	2019 Reinsurance £m	2019 Net £m
Balance at 1 January	**4,300**	**(606)**	**3,694**	4,255	(695)	3,560
Premiums received	**187**	**(83)**	**104**	185	(78)	107
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(491)**	**126**	**(365)**	(472)	121	(351)
New business	**145**	**(76)**	**69**	214	(108)	106
Benefits and claims variation	**45**	**(31)**	**14**	18	(5)	13
Fees deducted	**(12)**	**-**	**(12)**	(12)	-	(12)
Accretion of investment income or change in unit prices	**57**	**1**	**58**	73	(1)	72
Adjustment due to changes in assumptions						
– Mortality/morbidity/longevity	**(70)**	**62**	**(8)**	(144)	131	(13)
– Investment return	**291**	**(48)**	**243**	262	(41)	221
– Expense	**(24)**	**-**	**(24)**	(30)	-	(30)
– Lapse and surrender rates	**18**	**(17)**	**1**	(7)	29	22
– Other basis changes	**9**	**-**	**9**		-	-
Model changes	**1**	**(4)**	**(3)**	(39)	39	-
Other	**(2)**	**(1)**	**(3)**	3	2	5
Balance at 31 December	**4,454**	**(677)**	**3,777**	4,300	(606)	3,694

21. Insurance contract liabilities

d) Movement in long-term linked insurance contract liabilities

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group and Company	£m	£m	£m	£m	£m	£m
Balance at 1 January	**196**	**(145)**	**51**	195	(146)	49
Premiums received	**36**	**(13)**	**23**	35	(12)	23
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(29)**	**17**	**(12)**	(29)	17	(12)
New business	**28**	**(27)**	**1**	17	(29)	(12)
Benefits and claims variation	**(11)**	**10**	**(1)**	2	(1)	1
Fees deducted	**(2)**	**-**	**(2)**	(3)	-	(3)
Accretion of investment income or change in unit prices	**3**	**-**	**3**	1	-	1
Adjustment due to changes in assumptions:						
- Mortality/morbidity/longevity	**(2)**	**1**	**(1)**	(34)	29	(5)
- Investment return	**31**	**(19)**	**12**	10	(6)	4
- Expense	**(6)**	**-**	**(6)**	3	-	3
- Lapse and surrender rates	**(3)**	**5**	**2**	(2)	3	1
- Other basis changes	**1**	**-**	**1**			
Model changes	**(4)**	**3**	**(1)**	1	1	2
Other	**1**	**-**	**1**	-	(1)	(1)
Balance at 31 December	**239**	**(168)**	**71**	196	(145)	51

e) Movement in long-term claims liabilities

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group	£m	£m	£m	£m	£m	£m
Balance at 1 January	**77**	**-**	**77**	58	-	58
Claims notified	**1,081**	**(256)**	**825**	1,019	(254)	765
Claims paid during the year	**(1,047)**	**256**	**(791)**	(1,000)	254	(746)
Balance at 31 December	**111**	**-**	**111**	77	-	77

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Company	£m	£m	£m	£m	£m	£m
Balance at 1 January	**77**	**-**	**77**	58	-	58
Claims notified	**1,080**	**(256)**	**824**	1,018	(254)	764
Claims paid during the year	**(1,046)**	**256**	**(790)**	(999)	254	(745)
Balance at 31 December	**111**	**-**	**111**	77	-	77

22. 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 21.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 January	756	691	756	691
Premiums received	6	7	6	7
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(52)	(46)	(52)	(46)
Benefits and claim variation	13	5	13	5
Fees deducted	(4)	(6)	(4)	(6)
Accretion of investment income or change in unit prices	55	89	55	89
Adjustment due to changes in assumptions				
– Investment return	3	3	3	3
– Expenses	1	-	1	-
– Lapse and surrender rates	(1)	(1)	(1)	(1)
– Other basis changes	3	1	3	1
Model changes	1	1	1	1
Other	(6)	6	(6)	6
Mutual bonus	6	6	6	6
Balance at 31 December	781	756	781	756

23. 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 21, 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 27.

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 January	309	303	309	303
Premiums received	(1)	(1)	(1)	(1)
Liabilities paid for deaths, maturities, surrenders, benefits and claims	(13)	(13)	(13)	(13)
New business	21	21	21	21
Benefits and claim variation	-	(1)	-	(1)
Fees deducted	(10)	(9)	(10)	(9)
Accretion of investment income or change in unit prices	9	15	9	15
Adjustment due to changes in assumptions				
– Mortality/morbidity/longevity	1	(2)	1	(8)
– Investment return	23	11	23	11
– Expenses	23	(2)	23	(5)
– Lapse and surrender rates	1	(1)	1	1
– Other basis changes	(3)	1	(3)	
Model changes	(4)	-	(4)	-
Other	1	(1)	1	(1)
Balance at 31 December	357	309	357	309

24. Net change in long-term contract liabilities and non-participating value of in-force business

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Gross increase in long-term contract liabilities				
Increase in long-term insurance contract liabilities - participating	**(158)**	(239)	**(158)**	(239)
Increase in investment contract liabilities - participating	**(25)**	(65)	**(25)**	(65)
Increase in long-term insurance contract liabilities - non participating	**(154)**	(44)	**(154)**	(45)
Increase in investment contract liabilities - non-participating	**(217)**	(414)	**(217)**	(414)
Increase in long-term linked insurance contract liabilities	**(43)**	(1)	**(43)**	(1)
	(597)	(763)	**(597)**	(764)
Mutual bonus (disclosed separately on the Statement of Comprehensive Income)	**28**	27	**28**	27
Exit bonus (disclosed separately on the Statement of Comprehensive Income)	**12**		**12**	-
	(557)	(736)	**(557)**	(737)
Increase/(decrease) in long-term contract liabilities ceded to reinsurers				
Increase/(decrease) in long-term insurance contract liabilities relating to non participating contracts	**71**	(89)	**71**	(89)
Increase in long-term insurance contract liabilities relating to participating contracts	**96**	60	**96**	60
Increase/(decrease) in long-term linked insurance contract liabilities	**23**	(1)	**23**	(1)
	190	(30)	**190**	(30)
Increase in non-participating value of in-force business	**48**	6	**48**	6
Net change in contract liabilities	**(319)**	(760)	**(319)**	(761)

25. 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 both be met:

- 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 new reinsurance contracts entered into in 2020.

	Note	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Reinsurers' share of long-term insurance contract liabilities - non participating	21 a	**677**	606	**677**	606
Reinsurers' share of long-term insurance contract liabilities - participating	21 a	**1,053**	957	**1,053**	957
Reinsurers' share of long-term linked insurance contract liabilities	21 a	**168**	145	**168**	145
		1,898	1,708	**1,898**	1,708

26. Long-term insurance and investment contract liabilities valuation assumptions

As explained within the accounting policy in Note 21, 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 (2019: Moody's Market-Consistent Asset 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 assumptions):*

- 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	2020	2019
5	**0.08%**	0.78%
15	**0.41%**	1.00%
25	**0.48%**	1.02%
35	**0.46%**	0.99%

These interest rates are gross of tax and investment expenses.

26. Long-term insurance and investment contract liabilities valuation assumptions

(i) Participating insurance contracts (continued)

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% (2019: RPI plus 0.1%) and RPI plus 1% (2019: RPI plus 1%) for business in the Teachers ring-fenced fund, where RPI in both 2020 and 2019 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	2020 Cash	2020 Fixed interest	2020 Equities	2020 Property	2019 Cash	2019 Fixed interest	2019 Equities	2019 Property
Flexible Guarantee Funds Cautious	**2%**	**66%**	**29%**	**3%**	2%	66%	29%	3%
Flexible Guarantee Funds Balanced	**2%**	**46%**	**47%**	**5%**	2%	46%	47%	5%
Flexible Guarantee Funds Managed	**2%**	**31%**	**60%**	**7%**	2%	31%	60%	7%
All in One Bond Cautious Fund	**0%**	**80%**	**10%**	**10%**	0%	80%	10%	10%
All in One Bond Balanced Fund	**0%**	**30%**	**35%**	**35%**	0%	30%	35%	35%
All in One Bond Managed Fund	**0%**	**5%**	**85%**	**10%**	0%	5%	85%	10%
Other With-Profit	**3%**	**39%**	**49%**	**9%**	3%	39%	49%	9%

Mortality rate tables	2020	2019
Conventional Life Business	**89% AMC00 / 93% AFC00**	85% AMC00 / 90% AFC00
Conventional Pensions Business	**106% AMC00 / AFC00 CMI_2019 Adjusted**	105% AMC00 / AFC00 CMI_2018 Adjusted
Conventional Industrial Branch Business	**112% up to age 80, falling linearly to 100% at age 100, of ELT17**	80% up to age 80, rising linearly to 100% at age 100, of ELT16
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**	85% AMC00 / AFC00
Unitised Accumulating Life ISA Business	**85% AMC00 / AFC00**	85% AMC00 / AFC00
Heritage Annuities in Payment	**112% PML08 / 95% PFL08 CMI_2019 Adjusted**	108% PML08 / 99% PFL08 CMI_2018 Adjusted

Per policy expenses – regular premiums	2020	2019
Conventional Life Business	**£48.45**	£27.89
Conventional Pensions Business	**£51.68**	£49.12
Conventional Industrial Branch Business*	**£20.61**	£14.24
Non-Unitised Accumulating Pensions Business	**£51.68**	£49.12
Unitised Accumulating Life Business	**£48.45**	£27.89
Unitised Accumulating Pensions Business	**£51.68**	£49.12
Unitised Accumulating Bond Business	**£48.45**	£27.89
Unitised Accumulating Life ISA Business	**£48.45**	£27.89
Heritage Annuities in Payment	**£51.57**	£52.69

* 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.

28 Long-term insurance and investment contract liabilities valuation assumptions

(ii) Non-participating insurance contracts

Interest rate	2020	2019
Non-profit temporary assurances*	**0.35%**	0.95%
Whole of life assurances*	**0.35%**	0.95%
Permanent health insurance		
a) active lives	**0.35%**	0.95%
b) claims reserves	**0.10%**	0.90%
Critical illness	**0.35%**	0.95%
Retirement Solutions annuities in payment MAP	**1.12%**	1.74%
Retirement Solutions annuities in payment non-MAP	**2.09%**	2.63%

* These interest rates are netted down at 20% tax for life contracts written before 1 January 2013.

Investment expenses	2020	2019
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	**0.11%**	0.11%
Retirement Solutions annuities in payment non-MAP	**0.02%**	0.03%

* These expenses are netted down at 20% tax for life contracts written before 1 January 2013

28. Long-term insurance and investment contract liabilities valuation assumptions (continued)

(ii) Non-participating insurance contracts (continued)

Mortality rate tables	2020	2019
Non-profit temporary assurances*	**TMN00,TMS00 / TFN00,TFS00**	TMN00,TMS00/TFN00,TFS00
Whole of life assurances (50+)*	**AMC00 / AFC00 CMI_2019 Adjusted**	AMC00 / AFC00 CMI_2018 Adjusted
Whole of life assurances (Lifetime+)*	**TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted**	TMN00,TMS00 / TFN00,TFS00 CMI_2018 Adjusted
Retirement Solutions annuities in payment**	**PMA08 / PFA08 CMI_2019 Adjusted**	PMA08 / PFA08 CMI_2018 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	2020	2019
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	2020	2019
Non-profit temporary assurances*	**£18.07**	£18.58
Whole of life assurances*	**£18.07**	£18.58
Permanent health insurance:		
a) active lives	**£18.07**	£18.58
b) claims reserves (per policy in claim)	**£864.95**	£1,064.51
Critical illness	**£18.07**	£18.58
Retirement Solutions annuities in payment (life annuity)	**£56.73**	£57.96
Retirement Solutions annuities in payment (fixed term)	**£56.73**	£57.96

* 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 2020 and 2019.

26 Long-term insurance and investment contract liabilities valuation assumptions

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 e).

(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	2020	2019
Teachers annuities in payment	**46.8% PMA08 / 57.8% PFA08 CMI_2019 Adjusted**	46.8% PMA08 / 57.8% PFA08 CMI_2018 Adjusted

Per policy expenses	2020	2019
Teachers annuities in payment	**£56.73**	£57.96

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) 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	2020	2019
Non-profit temporary assurances[1]	**0.35%**	0.95%
Other assurances[1]	**0.39%**	0.93%

Investment expenses	2020	2019
Non-profit temporary assurances[1]	**0.06%**	0.06%
Other assurances[1]	**0.07%**	0.09%

[1] These rates are netted down at 20% tax for life contracts written before 1 January 2013

Mortality rate tables	2020	2019
Non-profit temporary assurances[2]	**TMN00,TMS00 / TFN00,TFS00**	TMN00,TMS00 / TFN00,TFS00
Other assurances	**AMC00/AFC00**	AMC00/AFC00

[2] A series of duration and age-related adjustment factors are applied to the base mortality rates. These adjustments vary by product type and smoking status.

Per policy expenses – regular premiums	2020	2019
Non-profit temporary assurances	**£18.07**	£15.55
Other assurances	**£24.00**	£24.00

26. Long-term insurance and investment contract liabilities valuation assumptions

d) 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 d)

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% (2019: RPI plus 0.1%), where RPI in both 2020 and 2019 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	2020	2019
Cash	**2%**	4%
Fixed interest	**63%**	65%
UK Equities	**35%**	31%

Mortality rate tables	2020	2019
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	2020	2019
Conventional Life Business	**£48.45**	£27.89
Pensions Deferred Annuities	**£51.68**	£49.12
Life Deferred Annuities	**£48.45**	£27.89
Unitised With-profits ISA	**£48.45**	£27.89
Unitised With-profits Bond	**£48.45**	£27.89

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 £70m (2019: £69m).

26. Long-term insurance and investment contract liabilities valuation assumptions

(ii) Non-participating business

Interest rate	2020	2019
Annuities in Payment (Life)*	**0.55%**	1.14%
Annuities in Payment (Pension)	**0.55%**	1.14%
Pension Deferred Annuities	**0.55%**	1.14%

* *These interest rates are netted down at 20% tax for life contracts written before 1 January 2013.*

Investment expenses	2020	2019
Annuities in Payment (Life)*	**0.06%**	0.06%
Annuities in Payment (Pension)	**0.06%**	0.06%
Pension Deferred Annuities	**0.06%**	0.06%

* *These expenses are netted down at 20% tax for life contracts written before 1 January 2013.*

Mortality rate tables	2020	2019
Annuities in Payment (Male)	**70.6% PMA08 CMI_2019 Adjusted**	76.5% PMA08 CMI_2018 Adjusted
Annuities in Payment (Female)	**86.7% PFA08 CMI_2019 Adjusted**	90.8% PFA08 CMI_2018 Adjusted

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data.

Per policy expenses	2020	2019
Annuities in Payment (Life)	**£56.73**	£57.96
Annuities in Payment (Pensions)	**£56.73**	£57.96

(iii) Linked fund

There are two main classes of contract included within the linked fund, one is classified as an insurance contract and the liability is included within the long-term unit linked insurance contract liabilities, the other is classified as an investment product and the liability is included within the investment contract liabilities. The provision for unit linked contracts is equal to the value of the units. A non-unit liability consisting mainly of a sterling reserve calculated by carrying out cash flow projections on appropriate bases is included within the liability for insurance contracts only.

Interest rate	2020	2019
Unit linked assurances*	**0.55%**	1.14%

* This interest rate is netted down at 20% tax for life contracts written before 1 January 2013.

Investment expenses	2020	2019
Unit linked assurances*	**0.06%**	0.06%

* This expense is netted down at 20% tax for life contracts written before 1 January 2013.

Mortality rate tables	2020	2019
Unit linked assurances	**72% AMC00 / AFC00**	72% AMC00 / AFC00

26. Long-term insurance and investment contract liabilities valuation assumptions (continued)

e) 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(i).

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency. The future expense inflation assumption is modelled as RPI, where RPI in both 2020 and 2019 is modelled stochastically.

Benchmark asset mix for assets backing asset shares	**2020**	2019
Cash	**2%**	3%
Fixed interest	**36%**	37%
Equities	**62%**	60%

Mortality rate tables	**2020**	2019
Conventional Life Business	**39% AM92 / 50% AF92**	39% AM92 / 50% AF92
Unitised Accumulating Life Business	**39% AM92 / 50% AF92**	39% AM92 / 50% AF92
Unitised Accumulating Bond Business	**39% AM92 / 50% AF92**	39% AM92 / 50% AF92
Unitised Accumulating Life ISA Business	**39% AM92 / 50% AF92**	39% AM92 / 50% AF92

Per policy expenses	**2020**	2019
Conventional Life Business	**£42.29**	£41.52
Unitised Accumulating Life Business	**£42.29**	£41.52
Unitised Accumulating Bond Business	**£42.29**	£41.52
Unitised Accumulating Life ISA Business	**£42.29**	£41.52

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.

37. 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	100
Critical Illness	275
Income Protection	200

Mortality rate tables	2020	[illegible]
Non-profit temporary assurances*	TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted	TMN00,TMS00 / TFN00,TFS00 CMI_2018 Adjusted
Whole of Life Assurances (50+)*	AMC00 / AFC00 CMI_2019 Adjusted	AMC00 / AFC00 CMI_2018 Adjusted
Whole of Life Assurances (Lifetime+)	TMN00,TMS00 / TFN00,TFS00 CMI_2019 Adjusted	TMN00,TMS00 / TFN00,TFS00 CMI_2018 Adjusted
Retirement Solutions annuities in payment**	PMA08 / PFA08 CMI_2019 Adjusted	PMA08 / PFA08 CMI_2018 Adjusted
Unit linked pensions (original LVFS)	80% AX92C20	80% AX92C20
Teachers annuities in payment	55% PMA08 / 68% PFA08 CMI_2019 Adjusted	55% PMA08 / 68% PFA08 CMI_2018 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	2020	[illegible]
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 lines, age, sex, occupation, sickness duration, deferred periods and occupations.

Persistency and unit costs

Persistency and unit cost 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.

28. 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 2020	5	26	7	10	48
Additions	-	2	1	1	4
Disposals	-	-	-	-	-
At 31 December 2020	**5**	**28**	**8**	**11**	**52**
Accumulated depreciation:					
At 1 January 2020	4	5	4	7	20
Provided in the year	-	2	-	1	3
At 31 December 2020	**4**	**7**	**4**	**8**	**23**
Net book value at 31 December 2020	**1**	**21**	**4**	**3**	**29**
Cost:					
At 1 January 2019	5	20	8	17	50
Opening adjustment on adoption of IFRS 16	-	6		-	6
Additions	-	2			2
Disposals		(2)	(1)	(7)	(10)
At 31 December 2019	5	26	7	10	48
Accumulated depreciation:					
At 1 January 2019	4	3	4	10	21
Provided in the year	-	2	1	2	5
Disposals	-		(1)	(5)	(6)
At 31 December 2019	4	5	4	7	20
Net book value at 31 December 2019	1	21	3	3	28

29. 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 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.

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.

29. Intangible assets

Group	Goodwill £m	Other intangible assets £m	PVIF £m	IT software £m	Total £m
Cost:					
At 1 January 2020	**76**	**27**	**3**	**11**	**117**
Additions	**-**	**-**	**-**	**1**	**1**
Written off	**(21)**	**(4)**	**-**	**-**	**(25)**
At 31 December 2020	**55**	**23**	**3**	**12**	**93**
Accumulated amortisation and impairment:					
At 1 January 2020	**21**	**24**	**1**	**7**	**53**
Charge for the year	**-**	**1**	**-**	**1**	**2**
Impairment in the year	**8**	**-**	**-**	**-**	**8**
Written off	**(21)**	**(4)**	**-**	**-**	**(25)**
At 31 December 2020	**8**	**21**	**1**	**8**	**38**
Net book value at 31 December 2020	**47**	**2**	**2**	**4**	**55**
Cost:					
At 1 January 2019	55	27	3	10	95
Additions	-	-	-	1	1
Disposals	21	-			21
At 31 December 2019	76	27	3	11	117
Accumulated amortisation and impairment					
At 1 January 2019	21	20	1	6	48
Charge for the year	-	1	-	1	2
Impairment in the year	-	3	-	-	3
At 31 December 2019	21	24	1	7	53
Net book value at 31 December 2019	55	3	2	4	64

The Wealth Wizards group of companies is a separate cash generating unit. During the year the £8m of goodwill associated with the Wealth Wizards cash generating unit has been fully impaired.

29. Intangible assets

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. These financial plans incorporate management's best estimate of the impacts of the on-going Covid-19 situation.

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 1.3% per annum (2019: 1.3% per annum).

Discount rate – the cash flows have been discounted using a risk-adjusted discount rate of 9% (2019: 8%). The increase in the discount rate compared to 2019 reflects increased risk in variation of cash flows due to inherently uncertain market conditions as a result of Covid-19.

Both the growth rates and the discount rates used are consistent with the ranges observed in the market place.

	2020 Group	2019 Group
Assumptions		
Terminal growth rate	1.3%	1.3%
Pre-tax discount rate	9%	8%
Recoverable amount in excess of carrying value	£267m	£251m
Sensitivities		
Impact on recoverable amount of a 2% increase in the pre-tax discount rate	£83m	£97m
Pre-tax discount rate required to eliminate headroom	24%	18%
Impact on recoverable amount of a 10% annual reduction in forecast cashflows	£46m	£48m
Reduction required in annual forecast cashflows to eliminate headroom	58%	53%

30. 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.

Loan stock in subsidiaries

Loan stock in subsidiaries is initially measured at fair value. Subsequent to initial recognition it is measured at amortised cost.

Company	2020 £m	2019 £m
Shares in subsidiaries		
Cost less provision at 1 January	**796**	798
Additions	**1**	
Reduction in carrying value including impairment	**(39)**	(2)
	758	796
Loan stock in subsidiaries		
Cost at 1 January	**20**	15
Additions	**2**	5
Impairment	**(22)**	-
	-	20
Shares and loan stock in subsidiaries at 31 December	**758**	816

The Company has examined the carrying value of its subsidiaries and concluded that an impairment of £8m (2019: £2m) was required in regard to these investments; the remaining £31m 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 loan stock are given in Note 48 and the Group's investments in Notes 43 and 44. The loan stock was impaired in full at 31 December 2020.

Other assets and liabilities

This section includes information on the other assets and liabilities arising within the Group.

31. Insurance receivables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Due from policyholders	**16**	12	**16**	11
Due from agents, brokers and intermediaries	**1**	-	**1**	-
Due from reinsurers	**64**	51	**64**	51
	81	63	**81**	62

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

32. Prepayments and accrued interest

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Accrued interest	**58**	61	**53**	50
Prepayments	**9**	12	**9**	12
	67	73	**62**	62

33. Insurance payables

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Due to policyholders	**33**	21	**27**	20
Due to brokers and intermediaries	**1**	1	**1**	1
Due to reinsurers	**8**	6	**8**	6
	42	28	**36**	27

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

34. 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 finance leases is disclosed in Note 35.

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Trade payables	**6**	5	**6**	5
Other taxes and social security costs	**7**	7	**7**	[illegible]
Other creditors	**15**	22	**14**	21
Accruals	**62**	67	**59**	65
Bank overdrafts	**7**	13	**7**	13
Finance lease liabilities (see Note 35)	**25**	25	**4**	5
Amounts owed to group undertakings	**-**	-	**-**	2
	122	139	**97**	117

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date.

35. 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 2020, right of use assets held by the Group are £21m (2019: £21m) and lease liabilities are £25m (2019: £25m). Right of use assets and lease liabilities are unwound over the lease terms. The remaining lease terms, average 3 years for regional offices and 20 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 28. The lease liability has experienced a net movement of nil in the year and remains at £25m (2019: lease liability increase of £0m to £25m). The movements include:

- additions of £2m relating to a market rent review of the head office lease (2019: opening balance additions of £27m and other additions of £1m)
- interest expense of £1m (2019: £1m)
- offset by rental payments of £3m (2019: £3m)

Cash spent on leases reported within the Cash flow statement is £3m (2019: £4m of which £3m related to continuing operations). 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 £59m (2019: £64m); 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.

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.

36. Income tax 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 remeasurements of the defined benefit pension scheme and, in 2019, available for sale financial assets.

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 tax balances on a net basis.

a) Current year tax charge	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Current tax				
Current year	29	57	29	40
Adjustment in respect of prior years	-	-	-	1
Total current tax	29	57	29	41
Deferred tax				
Temporary differences	12	21	11	22
Adjustment in respect of prior years	-	(2)	-	(2)
Total deferred tax	12	19	11	20
Total income tax expense	41	76	40	61
Income tax expense attributable to:				
Profit from continuing operations	41	60	-	-
Profit from discontinued operations	-	16	40	61
	41	76	40	61

b) Reconciliation of tax charge	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Profit before tax, mutual/exit bonus and UDS transfer from continuing operations	37	15	-	-
(Loss)/profit before tax, mutual/exit bonus and UDS transfer from discontinued operations	(2)	250	381	[illegible]
Profit before tax, mutual/exit bonus and UDS transfer	35	265	381	[illegible]
Tax calculated at the average standard rate of corporation tax in the UK at 19% (2019: 19%)	7	50	72	6
Permanent differences				
Income and expenses not subject to tax	66	(28)	-	-
Mutual profit not subject to tax	(72)	[illegible]	(72)	[illegible]
Policyholder I-E tax	40	62	40	62
Adjustment to current tax charge in respect of prior years	-		-	1
Adjustment to deferred tax charge in respect of prior years	-	(2)	-	(2)
Total charge	41	76	40	61

36. Income tax expense (continued)

* As a mutual all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus (UDS) resulting in the profit for each financial year being zero. Therefore, the resulting profit before tax required to be disclosed under IAS 12 will always be equal to the tax charge being £41m profit (2019: £76m profit) and £10m profit (2019: £61m profit) for the Group and Company respectively. In order to present a more meaningful disclosure the Profit before tax, mutual/exit bonus and UDS transfer is disclosed in the tables above.

37. Deferred tax liability

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 January	**(102)**	(78)	**(103)**	(78)
Amounts recorded in the Statement of Comprehensive Income within profit for the year	**(12)**	(19)	**(11)**	(20)
Amounts recorded within Other Comprehensive Income	**23**	(5)	**23**	(5)
Balance at 31 December	**(91)**	(102)	**(91)**	(103)

	Group		Company	
a) Analysis of deferred taxation temporary differences	2020 £m	2019 £m	2020 £m	2019 £m
Temporary differences on expenses	**2**	2	**2**	2
Temporary differences on unrealised gains	**(41)**	(30)	**(41)**	(30)
Temporary difference on re-measurement of defined benefit pension scheme	**(52)**	(75)	**(52)**	(75)
Tax losses	**-**	1	**-**	-
Deferred tax liability	**(91)**	(102)	**(91)**	(103)

b) Deferred taxation asset not recognised				
Tax losses unrecognised	**4**	7	**-**	-
	4	7	**-**	-

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.

The rate change would have had no material impact on the tax results of the LV Group for year ended 31 December 2020.

The valuation and recoverability of deferred tax assets relating to depreciation in excess of capital allowances, temporary differences on expenses and taxable losses carried forward is dependent on the availability of future taxable profits within the Company and Group. Deferred tax assets are recognised where recoverability is supported by management forecasts.

Employee benefits

This section includes information relating to the short-term and long-term employee benefits within the Company and the Group.

38. 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	
	2020	2019	2020	2019
	£m	£m	£m	£m
Wages and salaries	**78**	89	**73**	83
Social security costs	**7**	8	**7**	8
Pension costs	**5**	14	**5**	5
	90	111	**85**	96

Of the £85m (2019: £96m) employee benefit expense in LVFS, £8m (2019: £36m) is recharged to other Group companies, leaving £77m (2019: £60m) of staff costs directly relating to LVFS.

Wages and salaries include charges for in-flight, long-term incentive plans (LTIPs) of £0.7m in 2020 (2019: £1.0m). The LTIP plan terms are described in the Report on Directors' Remuneration on page 56.

For the 2018-20 scheme, £1.6m will be paid to eligible employees in 2021 (2020: £3.3m pay-out for the 2017-19 scheme). The amounts vested represent a below plan outcome with all measures below plan except for Total Expenses, Member and Female representation. This results in an overall multiplier of 0.77x.

The number of employees during the year including executive directors, calculated on a monthly average basis, was as follows.

	Group		Company	
	2020	2019	2020	2019
	Number	Number	Number	Number
Member and customer contact	**725**	870	**709**	850
Administration	**897**	1,031	**844**	976
	1,622	1,901	**1,553**	1,826

39. 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 pensions 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 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.

Pension costs are recognised in Other operating and administrative expenses in the Statement of Comprehensive 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.

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

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. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

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 operated three pension schemes with defined benefit sections, the LVFS Employee Pension Scheme ("LV Scheme"), the Ockham Pension Scheme and the Teachers Assurance Group 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. Teachers Management Services Limited, a subsidiary of LVFS, is the principal employer for the Teachers Assurance Group Pension Scheme. Following the purchase by the Trustee in 2019 of a bulk annuity policy from Rothesay Life, the Teachers Assurance Group Pension Scheme is in the process of being wound up. The transfer to Rothesay Life was completed on 6 August 2020.

Defined contribution pension schemes

All LVFS employees are eligible to join the defined contribution section of the LV Scheme. 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 £7m (2019: £8m).

39. Pension benefit asset

a) Summary of defined benefit schemes

	2020				2019			
	LV Scheme	Ockham	Teachers	Total	LV Scheme	Ockham	Teachers	Total
Pension benefit asset	£m	£m	£m	£m	£m	£m	£m	£m
Asset	129	19	-	148	196	18	-	214
	129	19	-	148	196	18	-	214

	2020				2019			
	LV Scheme	Ockham	Teachers	Total	LV Scheme	Ockham	Teachers	Total
Re-measurements	£m	£m	£m	£m	£m	£m	£m	£m
Re-measurements	(76)	(1)	-	(77)	-	3	7	10
Income tax expense	23	-	-	23	(3)	(2)	-	(5)
Amount charged to Comprehensive Income	(53)	(1)	-	(54)	(3)	1	7	5
Cumulative re-measurements recognised in the Statement of Comprehensive Income	100	(11)	5	94	176	(10)	5	171

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.

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.

The defined benefit section is closed to new entrants and future accrual.

(ii) Net Statement of Financial Position	2020 £m	2019 £m
Present value of defined benefit obligation	(1,580)	(1,388)
Fair value of plan assets	1,709	1,584
Pension benefit asset at the end of the year	129	196

30. Pension benefit asset

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 2020	(1,388)	1,584	196
Pension costs:			
Current service cost	(1)	-	(1)
Interest (expense)/income	(28)	32	4
Past service cost	(1)	-	(1)
	(30)	32	2
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	145	145
– Loss from changes in demographic assumptions	(6)	-	(6)
– Loss from changes in financial assumptions	(200)	-	(200)
– Experience loss	(15)	-	(15)
	(221)	145	(76)
Other movements:			
– Contributions by employer	-	7	7
– Benefits paid	59	(59)	-
	59	(52)	7
At 31 December 2020	(1,580)	1,709	129
At 1 January 2019	(1,254)	1,440	186
Pension costs:			
Current service cost	(2)	-	(2)
Interest (expense)/income	(36)	41	5
	(38)	41	3
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	156	156
– Loss from changes in financial assumptions	(162)	-	(162)
– Experience gain	6	-	6
	(156)	156	-
Other movements:			
– Contributions by employer	-	7	7
– Benefits paid	60	(60)	-
	60	(53)	7
At 31 December 2019	(1,388)	1,584	196

39. Pension benefit asset

b) LV Scheme (continued)

(iv) Principal assumptions used	Buy-in policy 2020	Whole scheme 2020	2019
Discount rate	**1.14%**	**1.30%**	2.05%
RPI inflation	**3.00%**	**2.90%**	3.30%
CPI inflation	**2.00%**	**2.20%**	2.00%
Pension increases for in-payment benefits			
– RPI price inflation capped at 5% pa, floor at 3% pa	**3.55%**	**3.50%**	3.55%
– RPI price inflation capped at 5% pa	**2.95%**	**2.85%**	2.95%
– RPI price inflation capped at 2.5% pa	**2.10%**	**2.10%**	2.10%
– CPI price inflation capped at 3.0% pa	**2.00%**	**1.90%**	1.80%

The discount rate and inflation rate assumptions for 2020 and 2019 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 2020, mortality for members is assumed to follow LV specific Club Vita individual base tables, based on pooled experience during the period 2014 to 2016 (2019: LV specific Club Vita tables 2014 – 2016).

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	2020	2019
Pensioner (currently aged 65)		
– Male	**22.6**	22.5
– Female	**24.4**	24.3
Non-pensioner at age 65, currently aged 45:		
– Male	**23.6**	23.5
– Female	**25.8**	25.6

In all cases, as at 31 December 2020 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 2019: CMI Core 2018 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 medium to long-term impacts of COVID-19 are uncertain on the longevity assumptions, and correspondingly no allowance has been made for such potential impacts.

(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 0.5%**	**Increase by £159m (10%)**
Discount rate	**Increase by 0.5%**	**Decrease by £138m (9%)**
Inflation rate (both RPI and CPI)	**Increase by 0.5%**	**Increase by £79m (5%)**
Inflation rate (CPI)	**Increase by 0.1%**	**Increase by £6m (0%)**
Life expectancy	**Increase by 1 year**	**Increase by £74m (5%)**

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.

39. Pension benefit asset

b) LV Scheme (continued)

(vi) Plan asset information

The following table shows a breakdown of the plan assets:

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	**113**	**3**	**116**	**7**	105	4	109	7
Debt securities	**1,307**	**-**	**1,307**	**76**	1,837	-	1,837	116
Cash and cash equivalents	**50**	**-**	**50**	**3**	124	-	124	8
Real estate/property	**-**	**2**	**2**	**-**	-	4	4	-
Derivatives	**14**	**(482)**	**(468)**	**(27)**	11	(535)	(524)	(33)
Buy-in	**-**	**655**	**655**	**38**	-	-	-	-
Other	**11**	**36**	**47**	**3**	-	34	34	2
	1,495	**214**	**1,709**	**100**	2,077	(493)	1,584	100

The reduction in debt securities during the year reflects the buy-in transaction executed in May 2020 as this transaction was primarily funded by the sale/transfer of debt securities. The use of derivatives is predominantly gilt repos, swaps and currency derivatives to hedge the interest, inflation and currency exposures. In addition a proportion of the derivative exposure relates to a synthetic equity strategy 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 2018, LVFS as principal employer agreed, on behalf of participating employees, to make a one-off payment of £35,400,000 and to continue to pay monthly deficit reduction contributions of £416,667 until 31 March 2028 to meet the statutory funding objective*. In addition to these funding contributions, LVFS continues to make payments of £193,252 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. The next formal valuation of the Scheme is due no later than 31 March 2021.

* 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. In 2012 the trustees of the LV Scheme entered into a longevity swap which mitigated the majority of this risk for the LV scheme. On 29 May 2020 the Trustee closed out the longevity swap and purchased a bulk annuity policy with Phoenix Life, which provides an income to the Scheme that exactly matches some of the benefit obligations of the Scheme.

39. Pension benefit asset

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 2020	45	47	149	1,809	2,050

The weighted average duration of the gross defined benefit obligation is 18 years.

The expected contributions to the scheme for the year ending 31 December 2021 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

	2020 £m	2019 £m
Present value of defined benefit obligation	(162)	(150)
Fair value of plan assets	181	168
Pension benefit asset at the end of the year	19	18

30 Pension benefit asset

c) Ockham 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 2020	**(150)**	**168**	**18**
Pension costs:			
Interest (expense)/income	(3)	3	-
	(3)	3	-
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	16	16
– Loss from changes in demographic assumptions	(1)	-	(1)
– Loss from changes in financial assumptions	(16)	-	(16)
	(17)	16	(1)
Other movements:			
– Contributions by employer	-	2	2
– Benefits paid	8	(8)	-
	8	(6)	2
At 31 December 2020	**(162)**	**181**	**19**
At 1 January 2019	(141)	154	13
Pension costs:			
Interest (expense)/income	(4)	4	-
	(4)	4	-
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	-	14	14
– Gain from changes in demographic assumptions	2	-	2
– Loss from changes in financial assumptions	(14)	-	(14)
– Experience gains	1	-	1
	(11)	14	3
Other movements:			
– Contributions by employer	-	2	2
– Benefits paid	6	(6)	-
	6	(4)	2
At 31 December 2019	(150)	168	18

39. Pension benefit asset (continued)

c) Ockham Scheme (continued)

(iv) Principal assumptions used	2020	2019
Discount rate	**1.30%**	2.00%
RPI inflation	**2.95%**	3.05%
CPI inflation	**2.25%**	2.05%
Pension increases for in-payment benefits		
– RPI price inflation capped at 5% pa	**2.90%**	2.95%
– Linked to RPI inflation	**2.95%**	3.05%

The discount rate and inflation rate assumptions for 2020 and 2019 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	2020	2019
Pensioner (currently aged 65)		
– Male	**23.4**	23.3
– Female	**24.4**	24.2
Non-pensioner (at age 65, currently aged 45)		
– Male	**24.2**	24.1
– Female	**26.3**	26.1

The medium to long term impacts of COVID-19 are uncertain on the longevity assumptions and correspondingly, no allowance has been made for such potential impacts.

(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 0.5%**	**Increase by £13m (8%)**
RPI rate	**Increase by 0.5%**	**Increase by £7m (4%)**
Life expectancy	**Increase by 1 year**	**Increase by £7m (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:

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities and unit trusts	**42**	**-**	**42**	**23**	36		36	22
Debt securities	**113**	**-**	**113**	**62**	126		126	75
Derivative swaps	**-**	**-**	**-**	**-**	-	(1)	(1)	(1)
Cash and cash equivalents	**26**	**-**	**26**	**15**	7	-	7	4
	181	**-**	**181**	**100**	169	(1)	168	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

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;
- 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 of 31 March 2018, LVFS as principal employer agreed, on behalf of participating employees, to make annual deficit reduction contributions of £2,000,000, commencing 31 March 2019 until 31 March 2028, to meet the statutory funding objective. In addition to these funding contributions, LVFS continues to make payments of £31,516 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.

The next formal valuation of the Scheme is due no later than 31 March 2021.

(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 2020	**6**	**6**	**18**	**170**	**200**

The weighted average duration of the defined benefit obligation is 16 years.

The expected contributions to the Ockham pension scheme for the year ending 31 December 2021 are £2m.

d) Teachers Assurance Group Pension Scheme

The Trustee of the Teachers Assurance Group Pension Scheme is in the process of winding up the Scheme.

Following the purchase by the Trustee in 2019 of a bulk annuity policy as an investment of the Scheme from an insurance company, Rothesay Life, the Trustee agreed that the Scheme should cease and be wound up. Until the transfer process to Rothesay Life was finalised, Rothesay Life made monthly payments to the Scheme to cover the pension payroll. The transfer to Rothesay Life was completed on 6 August 2020.

During the year, employer contributions of £31,021 were made by the Group.

The fair value of the plan assets as at December 2020 was £nil (2019: £31m) and the present value of the obligations was £nil (2019: £31m).

Due to the immaterial nature of the Teachers scheme no detailed disclosures have been made.

Provisions, contingent liabilities and commitments

This section describes the provisions, contingent liabilities and commitments of the Company and Group arising from the ongoing life business and the exit from the banking and asset management businesses in prior years.

40. 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 2020	10	9
Provided during the year	2	2
Released during the year	(1)	(1)
Utilised during the year	(8)	(7)
Balance at 31 December 2020	3	3

Provisions relate to:	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Payment protection insurance	1	3	1	3
Onerous contracts	-	3	-	3
Compensation payable on customer complaints	1	1	1	-
Other	1	3	1	3
	3	10	3	9

The payment protection insurance (PPI) provision is held to cover future payments in respect of claims relating to PPI policies potentially mis-sold to customers. The final deadline for lodging a PPI claim was 29 August 2019, therefore no further claims will be received. Due to the high volume of claims received prior to the final deadline, as at 31 December there were still claims, which had been received prior to the deadline, which have not yet been settled. Given the assumptions made it is expected that all remaining claims will be processed resulting in estimated payments of £1m within the next twelve months.

41. 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 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 2020 was £50.6m). 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.

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 any amount in connection with the agreements, LVFS would cover the payment and any loss incurred by the counterparty as a result.

42. 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 2020 is £6m (2019: £9m).

Other financial commitments

The Group has entered into several long-term contracts following service outsourcing which will end no later than 2025. These amount to £77m (2019: £83m) 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 2020.

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.

43. 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 with the exception of the Wealth Wizard Group of companies whose registered address is 8 Athena Court, Tachbrook Park, Leamington Spa, CV34 6RT.

Name	Principal activity	Percentage held by Group	Percentage held by non-controlling interests
Subsidiaries directly owned by LVFS			
Frizzell Financial Services Limited (Note 1)	Property management	100%	0%
LV Life Services Limited (Note 1)	Management services	100%	0%
LV Commercial Mortgages Limited (Note 1)	Commercial mortgages	100%	0%
NM Pensions Trustees Limited (Note 1)	Self-invested personal pension (SIPP) administrator	100%	0%
Liverpool Victoria Financial Advice Services Limited (Note 1)	Financial advice services	100%	0%
Liverpool Victoria Life Company Limited	Life insurance	100%	0%
LV Protection Limited	Insurance	100%	0%
LV Capital Limited (Note 1)	Holding company	100%	0%
LV Equity Release Limited (Note 1)	Origination of equity release lifetime mortgages	100%	0%
Teachers Financial Services Limited (Note 1)	Insurance and financial intermediary	100%	0%
Teachers Assurance Company Limited	General insurance	100%	0%
Teachers Management Services Limited (Note 1)	Management services	100%	0%
Teachers Property Limited (Note 2)	Dormant	100%	0%
Sovereign Unit Trust Managers Limited (Note 2)	Dormant	100%	0%
Liverpool Victoria Banking Services Limited (Note 2)	Dormant	100%	0%
Aylesbrook Limited (Note 2)	Dormant	100%	0%
Liverpool Victoria Asset Management Limited (Note 2)	Dormant	100%	0%
Highway Corporate Capital Limited (Note 2)	Dormant	100%	0%
Ockham Corporate Limited (Note 2)	Dormant	100%	0%
NLC Name No. 1 Limited (Note 2)	Dormant	100%	0%
NLC Name No. 2 Limited (Note 2)	Dormant	100%	0%
NLC Name No. 3 Limited (Note 2)	Dormant	100%	0%
NLC Name No. 4 Limited (Note 2)	Dormant	100%	0%
NLC Name No. 5 Limited (Note 2)	Dormant	100%	0%
NLC Name No. 7 Limited (Note 2)	Dormant	100%	0%
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	
Liverpool Victoria Incentive Limited (Note 2)	Dormant	Note 3	
Wealth Wizards Limited Group of Companies		70%	30%
Wealth Wizards Limited	IT software		
Wealth Wizards Benefits Limited * (Note 1)	Financial intermediary		
Wealth Wizards Advisers Limited * (Note 1)	Financial intermediary		

* Owned by a subsidiary undertaking of LVFS

Note 1 – The financial statements of these subsidiary undertakings have not been audited for the year ended 31 December 2020. 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 2020. 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.

Non-controlling interest

Further details on the non-controlling interest held by the Group are disclosed in Note 45.

44. Associates and joint ventures

The associates and joint ventures of the Company at 31 December 2020 are shown below. They are incorporated and domiciled in England and Wales. The registered office is 33 Cavendish Square, London, W1G 0PW.

Name	Class of shares	Year end	Principal activity	Percentage held
Joint ventures				
Great Victoria Partnership	-	31/03/2020	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 2020.

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 (2019: £1m).

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 2020.

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. As such are included within the Risk Management disclosures for financial instruments in Note 4.

Summarised Statement of Financial Position	31 March 2020 £m	31 March 2019 £m
Assets		
Non-current		
– Investment properties	**147**	199
Current		
Trade and other receivables	**12**	11
Cash and cash equivalents	**10**	5
	169	215
Liabilities		
Non current		
– Financial liabilities	**(80)**	(80)
Current		
– Other liabilities	**(3)**	(4)
	(83)	(84)
Net assets	**86**	131
Partners' capital	**5**	5
Retained earnings	**81**	126
Total partners' funds	**86**	131

Summarised Statement of Comprehensive Income	31 March 2020 £m	31 March 2019 £m
Net rental income	**11**	12
Revaluation deficit on investment properties	**(52)**	(33)
Operating loss	**(41)**	(21)
Finance costs	**(3)**	(3)
Loss for the year	**(44)**	(24)

45. Non-controlling interest

The table below details the movement in the non-controlling interests held in subsidiaries of the Group as at 31 December:

	LVGIG Group £m	Wealth Wizards Group £m	Total £m
Balance at 1 January 2020	-	**(6)**	**(6)**
Share of loss after tax	-	**(1)**	**(1)**
Impairment of Group Non-controlling interest	-	**7**	**7**
Balance at 31 December 2020	**-**	**-**	**-**
Balance at 1 January 2019	409	(5)	404
Share of profit/(loss) after tax	39	(1)	38
Dividend paid to Non-controlling interest	(39)	-	(39)
Share of movement in other comprehensive income	12	-	12
Sale of remaining stake in LVGIG Group	(421)	-	(421)
Balance at 31 December 2019	-	(6)	(6)

The non-controlling interest relating to the LVGIG Group of companies was established on 28 December 2017 when a 49% equity stake was sold. The remaining equity stake was sold on 31 December 2019, at which point the LVGIG Group and associated non-controlling interest was disposed of.

Summarised financial information on subsidiaries with material non-controlling interests

At 31 December 2020 there are no subsidiaries with material non-controlling interests. Therefore no summarised financial information is disclosed.

Further information relating to the LVGIG group in 2019 is included in Note 12

46. 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 2020 the Group's interest in unconsolidated structured entities, which are classified as investments held at fair value through income, are shown below.

Investment	2020 £m	2019 £m
Open Ended Investment Companies	**6,726**	5,994
Unit trusts	**167**	179
Liquidity funds	**603**	1,051
	7,496	7,224

Included within the above are £3,733m (2019: £3,405m) 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.

47. 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	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 January	**1,254**	1,127	**856**	916
Transfer included within profit for the year	**(85)**	124	**268**	(59)
Transfer included within other comprehensive income	**(54)**	3	**(54)**	(2)
Balance at 31 December	**1,115**	1,254	**1,070**	856

Other disclosures

This section includes information on other disclosure matters, comprising related party transactions, directors' emoluments and other relevant LVFS information.

48. 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	
	2020	2019
	£000	£000
Short-term employment benefits	**4,780**	5,956
Other long-term benefits	**403**	1,506
Post-employment benefits	**56**	16
Termination benefits	**-**	652
Total compensation of key management personnel	**5,239**	8,130

The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £nil (2019: £16,139).

b) Transactions between LVFS and other Group companies

	2020	2019
	£m	£m
Management charge by LVFS (see note 11)	**13**	57
Beneficial interest in loans sold to LVFS	**59**	69
Investment expenses charged to LVFS	**(2)**	(3)
Interest income from group undertakings	**1**	-
Dividend income from group undertakings	**399**	50

Balances outstanding between LVFS and other Group companies:

	2020	2019
	£m	£m
Payable by LVFS	**-**	(2)
Receivable by LVFS	**16**	22
Loans owed to LVFS	**22**	20

c) Loans to related parties

Loans owed to LVFS represents a fully drawn down £22m loan agreement with Wealth Wizards. LVFS has examined the carrying value of this loan and concluded that an impairment of £22m was required in regard to this investment.

d) Other related party disclosures

LVFS has granted a contingent loan facility to the RNPFN fund, a closed fund within the Group. Further details of this, and other guarantees issued on behalf of subsidiaries, are disclosed in Note 41.

40. Directors' emoluments

a) Emoluments

Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows

	Annual remuneration £000							Total remuneration £000		
	2020						2019	2020		2019
	Salary and fees	Bonus	Deferred Bonus	Pension related benefits	Other benefits	Total	Total	LTIP 2018-20	Total	Total
M. Hartigan (appointed 15 June 2020)(1)	**435**	**347**	**347**	**50**	**31**	**1,210**	-	-	**1,210**	-
W. Snow	**420**	**258**	-	**40**	**19**	**737**	622	**313**	**1,050**	622
A. Cook	**200**	-	-	-	**5**	**205**	261	-	**205**	261
D. Barral	**82**	-	-	-	**5**	**87**	117	-	**87**	117
C. Leslie	**77**	-	-	-	**5**	**82**	86	-	**82**	86
L. Savage	**68**	-	-	-	-	**68**	67	-	**68**	67
A. Hutchinson	**66**	-	-	-	**1**	**67**	68	-	**67**	68
S. Creedon (appointed 16 January 2020)	**56**	-	-	-	-	**56**	-	-	**56**	-
S. McInnes (appointed 1 April 2020)	**45**	-	-	-	-	**45**	-	-	**45**	-
D. Neave (resigned 30 June 2020)	**32**	-	-	-	**3**	**35**	90	-	**35**	90
T. Lawler (resigned 29 January 2020)	**5**	-	-	-	-	**5**	66	-	**5**	66
R. Rowney (resigned 31 December 2019)	-	-	-	-	-	-	1,005	-	-	1,911
A. Parsons (resigned 17 October 2019)	-	-	-	-	-	-	389	-	-	389
	1,486	**605**	**347**	**90**	**69**	**2,597**	2,777	**313**	**2,910**	3,683

(1) Mark Hartigan performed the role of Chief Executive with effect from 1 January 2020. Formal appointment to the board took place on 15 June 2020, however his full remuneration since commencing appointment has been included in the table above.

Further details of the directors' emoluments for the year ended 31 December 2020 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 2020 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.

The company has made no contributions to personal pension arrangements during 2020 (2019: £nil). There were no contributions to the defined contribution section in 2020 (2019: £nil).

No directors were deferred members of the defined benefit section during the year.

Deferred pension at end of year	2020 £000	2019 £000
R. Rowney (resigned 31 December 2019)	-	33

50. Cash used in operating activities

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Profit before tax, mutual/exit bonus and UDS transfer from continuing operations	37	15	-	-
(Loss)/profit before tax, mutual/exit bonus and UDS transfer from discontinued operations	(2)	250	381	30
Profit before tax, mutual/exit bonus and UDS transfer	35	265	381	30
Investment income	(237)	(329)	(632)	(335)
Other interest income	-	(31)	-	-
Net gains on investments	(786)	(1,048)	(785)	(1,067)
Finance costs	24	25	23	23
Gain on sale of LVGIG group	2	(216)	-	-
Net decrease in derivatives	14	19	14	31
Non-cash items				
Movement in deferred acquisition costs	-	5	-	-
Amortisation of intangible assets	2	2	2	2
Depreciation of property and equipment	3	5	2	3
Loss on disposal of property and equipment	-	2	-	1
Impairment of intangible assets	8	3	-	1
Increase in provisions	1	7	1	7
Increase in pension benefit asset	(11)	(7)	(11)	(12)
Impairment write-offs in subsidiaries	-	-	61	2
Mutual and exit bonus	(73)	(27)	(73)	(27)
Changes in working capital				
Decrease in loans and receivables	211	175	30	5
(Increase)/decrease in reinsurance assets	(190)	65	(190)	30
Increase in insurance receivables	(18)	(45)	(19)	(21)
Decrease/(increase) in prepayments	3	(2)	3	2
Increase in participating insurance contract liabilities	158	239	158	239
Increase/(decrease) in non-participating insurance contract liabilities	231	(3)	231	65
Increase in non-participating value of in-force business	(48)	(6)	(48)	(6)
Increase in participating investment contract liabilities	25	65	25	65
Increase in non-participating investment contract liabilities	301	462	301	452
Increase/(decrease) in subordinated liabilities	1	(1)	1	-
Increase in other financial liabilities	44	10	44	10
Increase/(decrease) in insurance payables	14	(18)	9	(1)
(Decrease)/increase in trade and other payables	(11)	16	(13)	(16)
Cash used in operating activities	(297)	(368)	(485)	(508)

51. Solvency and Financial Condition Report

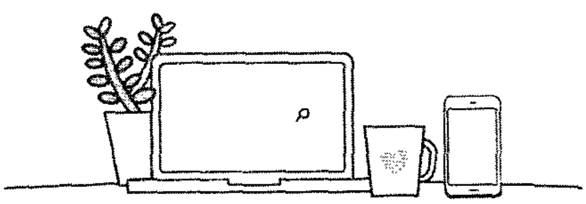
The Solvency and Financial Condition Report of the Group and the Company as at 31 December 2020 will be available on LV.com after they have been submitted to the Prudential Regulation Authority or on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF.

52. Company information

On 2 January 2020, Liverpool Victoria Friendly Society Limited was converted to a private company limited by guarantee registered under the Companies Act 2006, under the name Liverpool Victoria Financial Services Limited.

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
Telephone: 01202 292333



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Liverpool Victoria Financial Services Limited: County Gates. Bournemouth BH1 2NF.