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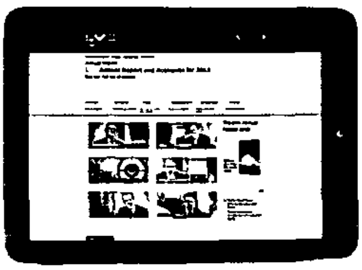

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LV com/annual-report

£1.3bn
Capital resources

£81m
General insurance operating profit

£105m
Group operating profit

£22m
Mutual bonus

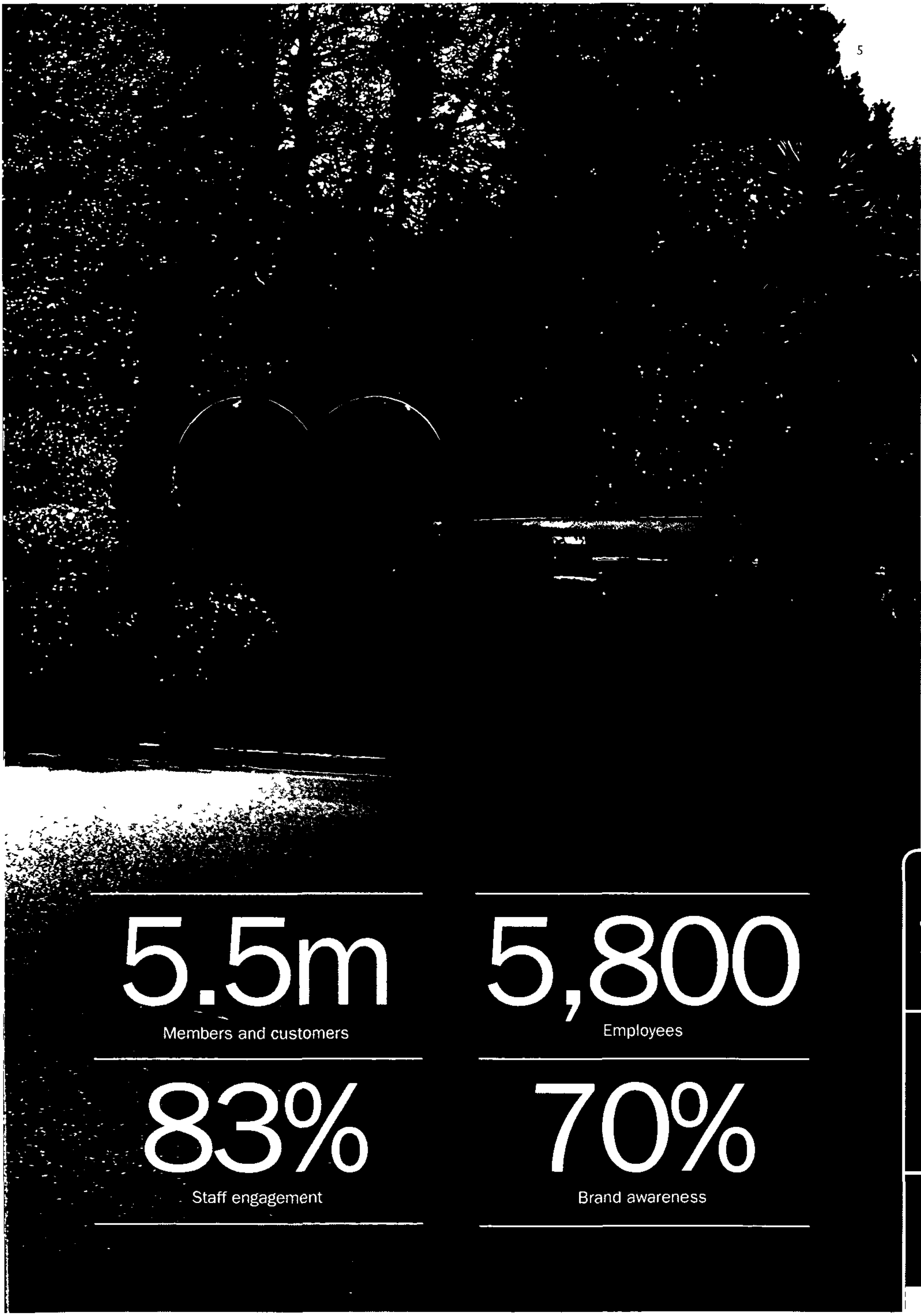
£156m
Group profit before tax

£29m
Life underlying operating profit

11.1%
With-profits investment performance

12%
Enterprise Value growth

LV= Head office, Bournemouth, BH1 2NF



5.5m
Members and customers

5,800
Employees

83%
Staff engagement

70%
Brand awareness

Who we are

LV= is a leading mutual offering a range of insurance, investment and retirement products. We are the UK's largest friendly society, with more than five million members and customers. We exist to grow the value of our business for the benefit of our members.

Throughout our 170 year history, our focus on the customer has been key to the products and services we have offered and is the guiding principle behind the on-going success of the Society today To achieve this we aim to put the customer at the centre of everything we do and live by our three brand promises

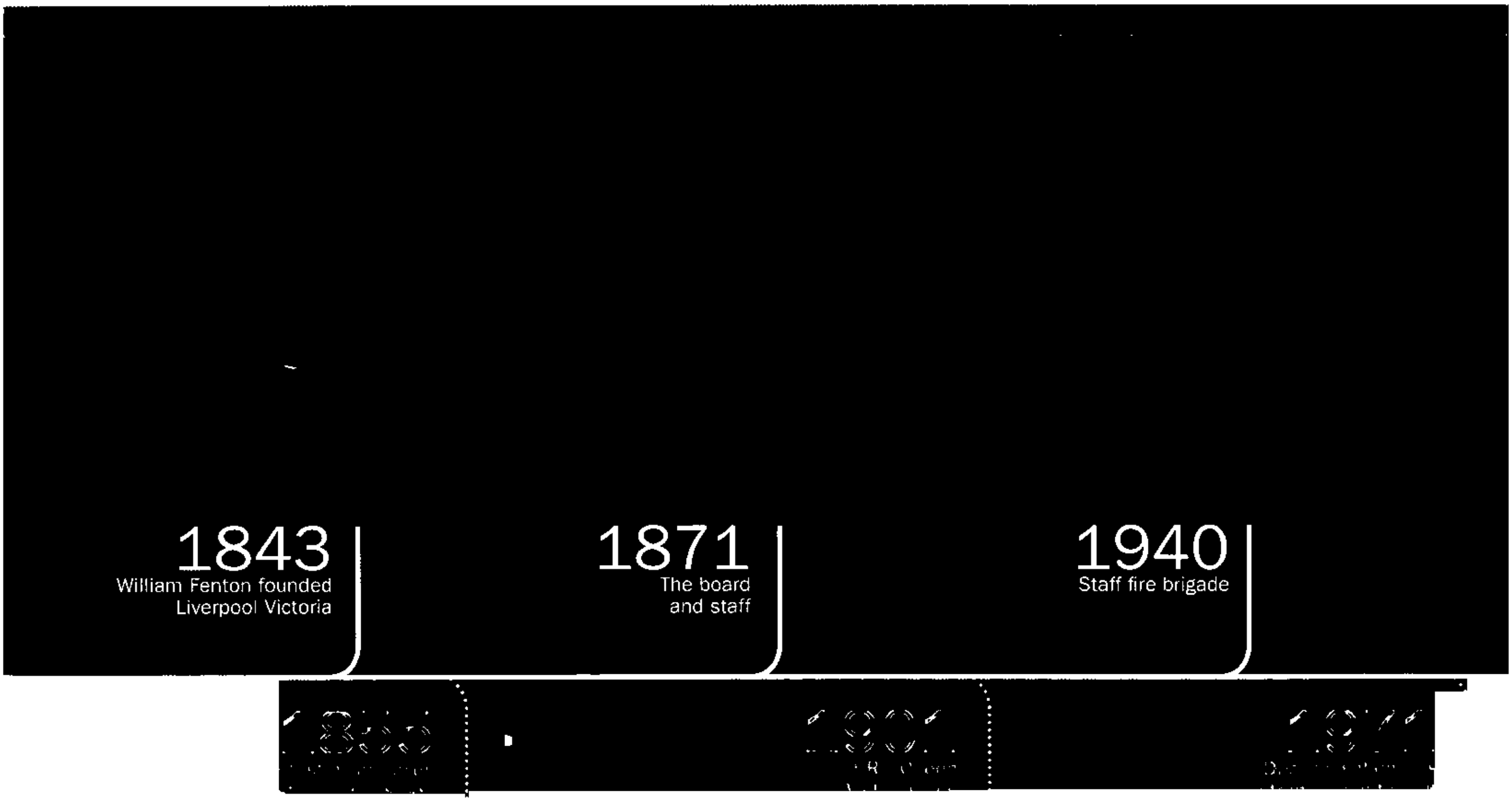
Easy to do business with

Great value

A caring approach

Liverpool Victoria was founded in 1843 and the guiding principles left by our founders can still be recognised in our business today Our goal then was to give financial security to more than just a privileged few and for many decades we were most commonly associated with providing a method of saving to people of modest means Today we follow a similar principle, helping people to protect and provide for the things they love, although on a much larger scale and through a wide range of financial services including insurance, investment and retirement products

We offer our services direct to consumers, as well as through independent financial advisors and brokers, and through strategic partnerships with a wide range of organisations We also own a number of other financial brands including Britannia Rescue, Highway Insurance and Frizzell



Founded in 1843

Helping people look after what they love in life

Leading mutual

UK's 3rd largest private motor insurer

Market leader for income protection in the advised market

5.5m members and customers

Liverpool Victoria
The benefits are mutual

FRIZZELL

LIVERPOOL VICTORIA

1980
The mainframe computer

1996
Liverpool Victoria and Frizzell merge

2007
Liverpool Victoria rebrand to LV=

2013
Brand awareness +70%

Strategic Report
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We choose to observe the requirements of the Department for Business Innovation and Skills (BIS) narrative reporting regulations, which require the preparation of a strategic report, even though we are not formally required to do this.

Chairman's Statement

Mark Austen
Chairman

I am pleased to be part of a business that has its members and customers at its heart.

I am reporting on my first year as LV= chairman and I am as proud as ever to be part of a business that has its members and customers at its heart

The regulatory backdrop for the last 12 months has been one of significant change We started the year dealing with the introduction of the gender directive and retail distribution review which drove a change in customer buying habits in our life business In April we saw the introduction of the Legal Aid, Sentencing and Punishing of Offenders (LASPO) legislation which was implemented to stop spiralling personal injury costs in car insurance claims In anticipation of the impact of this, car premiums across the market reduced, however the full impact of the legislation has been slower in changing claims costs than initially expected Furthermore within our main markets there have also been a number of competitors choosing to take advantage of the more positive financial climate and have floated all or part of their business This has increased volatility in some business lines Finally, we have had the floods in the last two weeks of 2013 and into the New Year of 2014

Despite the above, LV= has now grown to become a major player in its chosen fields We are a leading motor insurer with a top three position, the top provider of adviser-sold income protection and have strong market positions in home insurance, SME insurance, enhanced annuities, pensions drawdown, and equity release I am pleased to report that from this strengthening position in 2013 the group has made a pre-tax profit of £156 million, an increase of 51% compared to 2012 This is a particularly good achievement in the environment we were faced with

Our goal, as always, is to increase value in the business for the benefit of our members.

Profit before tax
£156m

Mutual bonus paid over the last three years
£62m

Employees
5,800

Our goal, as always, is to increase value in the business for the benefit of our members and I am delighted to be able to confirm that we shall be paying a mutual bonus for the third year running The bonus of £22 million for 2013 brings the total bonuses paid or allocated to eligible members during the year to over £100 million We have achieved this by focusing our business on doing the right thing for the people that buy our products and services, our customers and members Companies like LV= can only achieve success by putting themselves in the shoes of their customers and ensuring that the people serving them, our employees, are empowered to do the right thing

When floods were forecast in December, our claims team proactively contacted all our customers in areas where floods were predicted and advised them of what to do to mitigate any possible damage We then called them once the weather had hit to see if their property was damaged so we could quickly deal with the claim and arrange alternative accommodation if required Each customer who was affected was assigned a claims handler who was empowered to agree settlement straight away

Since 2007, and the introduction of a new brand, we have trebled in size from 1,700 employees to 5,800 people across 17 locations throughout the UK We have centres of excellence including offices in Bristol, Bournemouth and Ipswich ensuring the very best people can join LV= in their career of choice Every year we interview all our staff to get their views on how the company is run and what we can do better both for them and our customers In 2013, and for the second year running, we have been externally recognised by Towers Watson as a high performing organisation reflecting the positive culture we have created

In my role as chair of the board I am committed to ensuring the highest levels of governance and I try to ensure that we at least match, if not exceed, the governance standards that would be expected in a proprietary company Board changes during the year included welcoming David Neave as a new non-executive director and some changes to the Nomination and Remuneration Committees Dennis Holt, my predecessor, stood down as chairman at the AGM in May 2013 I would like to take this opportunity to thank Dennis for his great stewardship over his tenure

2013 also saw us raise capital in the bond markets for the first time in our history, which was a great success and was five times oversubscribed and means we are in a very strong position for the future

To date financial services reform has focused almost exclusively on financial stability I hope that the reform agenda will soon change such that reform is more outward looking and geared towards ensuring that the wider needs of society are adequately served by the financial sector There has unfortunately been little progress in our Government supporting further measures to create an environment where mutuals can flourish as they are encouraged to do in several other major economies We are fully committed to mutuality but we continue to face challenges in mapping our future with some certainty

Particularly in a recovering economy LV= is well placed to help customers with our focus on offering good value, relevant products, backed up by award-winning customer service Our vision is to be Britain's best loved insurer and in so doing, I am confident that we shall continue to create value for the benefit of our members I would like to thank all our current members and customers for their continuing loyalty to LV= and our great employees for their commitment and hard work

Chief Executive's Statement

Chief Executive

We focus on delivering strong returns for members, while managing and protecting our capital position.

I am pleased to report that LV= performed well in 2013 Our continued growth is encouraging and our increase in operating profit to £105 million (2012 £88 million) has been achieved despite challenging market conditions As a mutual our efforts are focused on driving increased member value and our vision to be Britain's best loved insurer

During the first half of 2013 we went to the capital markets for the first time in the Society's history and successfully raised £350 million of capital This has helped increase the solvency of the group, which at the end of 2013 was £720 million on a regulatory reported basis compared to £186 million at year end 2012

I am delighted that both our general insurance and life businesses have generated cash during the year

As LV= is a mutual and not quoted on the stock market, Enterprise Value is our measure of the financial value of the business We also use Enterprise Value to tell us if we are growing long-term value for the benefit of our members

The methodology and approach we use is independently verified every three years to ensure it continues to be relevant in terms of best practice and management and member alignment

A triennial review was carried out in 2013, and the methodology was updated to reference market based valuations and trends that are appropriate and relevant to our businesses

The group's Enterprise Value for 2013 represents an increase of 12% on 2012 We have also maintained strong cost disciplines

Our focus for 2013 has been on achieving steady profitable sales in our chosen market lines There has been considerable pressure on rates on some of our product lines, particularly notable in motor insurance and in annuities in the first half of the year We therefore took the decision to focus our business on the most profitable segments This meant that in some lines we saw premium decreases but we are confident this was the right strategy given the market conditions at the time

Our customer and member numbers now stand at 5 5 million across a diverse number of products

Our brand continues to go from strength to strength with over 70% awareness, and our focus on excellent customer service gives us a clear differentiation from our competitors in what is a crowded market

General insurance

The general insurance business is now capital generating and returned £36 million back to group in 2013 It achieved an operating profit of £81 million in 2013 of which £15 million was underwriting profit (2012 £5 million) which includes a positive run-off from prior years We continue to grow our customer base and we now have over 4 4 million general insurance policies in-force Our road rescue business grew by 44% during 2013 Also, we now insure over 650,000 homes Further complementary product lines were launched during 2013 in motorcycle, classic car and caravan

Looking at our commercial lines business we now insure over 190,000 commercial properties and 107,000 commercial vehicles Commercial premium income is performing strongly and is up 23% compared to 2012, with our SME business up 27% year-on-year

During the year we saw motor premiums reduce across the whole market in anticipation of a reduction in personal injury costs as a result of the new LASPO legislation As a result gross written premiums remained relatively static at £1 45 billion However we believe that premiums are likely to readjust to more sustainable levels in 2014

We continue to focus on offering an excellent level of customer care and this is borne out in our customer satisfaction rate, with 77% of customers who were surveyed saying they are very or extremely satisfied This strategy has also helped us achieve our excellent renewal rates of 79% on car insurance and 77% on home insurance

Active, but conservative management of the investment portfolio during 2013 produced a total return of 3 2%

Life

In the life business we are reporting an increase in underlying operating profits compared to 2012, despite slower sales, which were partly as a result of legislation changes impacting the market place

Within retirement solutions we've seen strong growth in pensions of 14% compared to 2012 which helped contribute to an improved underlying operating profit of £18 million Annuity sales dipped in the first half of the year, however in the latter half sales improved The annuities market is very competitive and we are pleased that during the year we maintained our profit margins LV= offers a range of at retirement' products including pension drawdown, enhanced annuities and equity release

In March 2014 the Chancellor announced a number of changes to the way retirees access their pension savings We believe that annuities will continue to have a place within the new retirement income landscape although we anticipate that other options will now be given more consideration LV= offers a wide range of 'at retirement' products and is well positioned to respond to these changes However, we anticipate significant 'planning blight' over the next year as consumers defer decisions until the new regime takes effect, and this could lead to a significant reduction in annuity sales

Our protection business has seen a slight decrease in sales, but given market conditions we are pleased with our performance and underlying operating profits of £11 million (2012 £15 million) We are the market leader for advised income protection and during the year launched a new sick pay direct product which we hope will open up the protection market to a new segment of customers

Heritage

Strong investment performance in the second half of 2013 has resulted in the with profits fund achieving an investment return of 11 1%, out-performing market benchmarks by 2 5% Operating profit of £18 million compared with a loss of £64 million in 2012 is principally the result of the non-recurrence of adverse model and valuation changes experienced in 2012 With-profits investments remain an attractive long term plan for certain customer demographics and we are committed to maintaining this part of our business and ensuring our products are relevant for both today's and tomorrow s consumers

We regard managing the business on a cost effective basis to be a strategic priority, and whilst our costs are competitive we continue to undertake initiatives to improve productivity

Our people and awards

We believe that excellent customer service can only be achieved by happy employees and in 2013 staff engagement at LV= was 83% compared to the benchmark for high performing organisations of 80% These standards mean LV= is once again above the high-performing standard set by Towers Watson

2013 was another excellent year for market recognition with a number of our products winning awards including a Moneywise Award for most trusted life insurer and a Consumer Moneyfacts award for home insurance

We continued to receive accolades for customer service including best customer experience in the UK Customer Experience Awards, the great place to work award in the CCA Excellence Awards and best return on customer investment in the ICS Customer Services Awards

Looking ahead

In a competitive market LV= has been able to deliver improved profits due to the quality of our customer service and the value of our products Our general insurance business continues to trade satisfactorily in 2014 and we believe that motor rates will enter a period of modest hardening over the next 12 months as the benefits to claims costs from LASPO changes have been over anticipated by many players Prospects for our life business in 2014 have an unusually high degree of uncertainty following the recent budget changes to the retirement market Over the longer-term we believe that our broad product range, strong brand and financial strength will allow us to prosper in a retirement income market that offers consumers greater choice

Despite the challenging market conditions, I am confident that our successful business model and strong competitive position in our chosen markets leaves us well placed for continued growth in 2014

The LV= Strategic Report on pages 8 to 51 was approved by the Board of Directors on 28 March 2014 and signed on its behalf by

Mike Rogers, Chief Executive

Enterprise Value growth

+12%

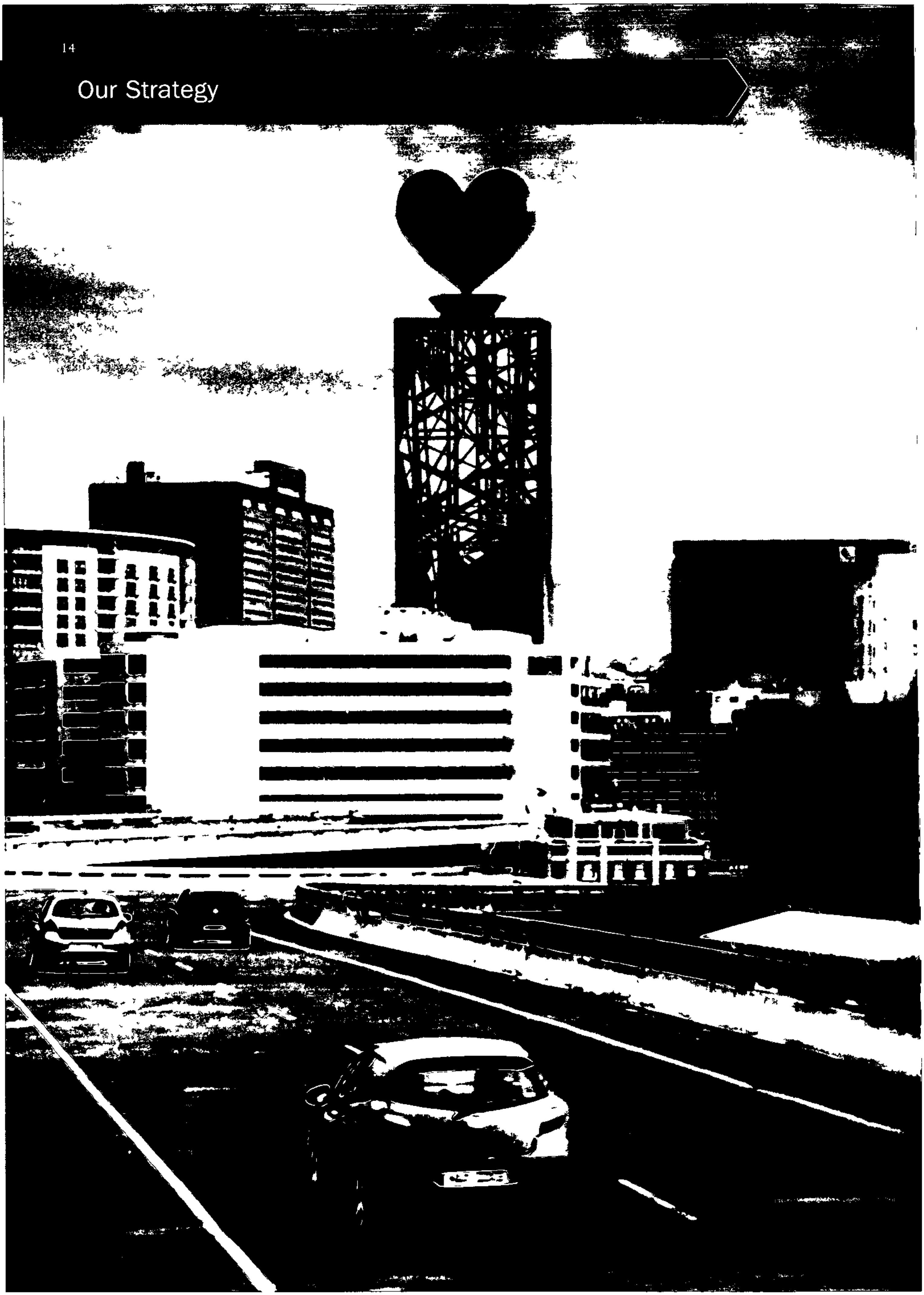
Brand awareness

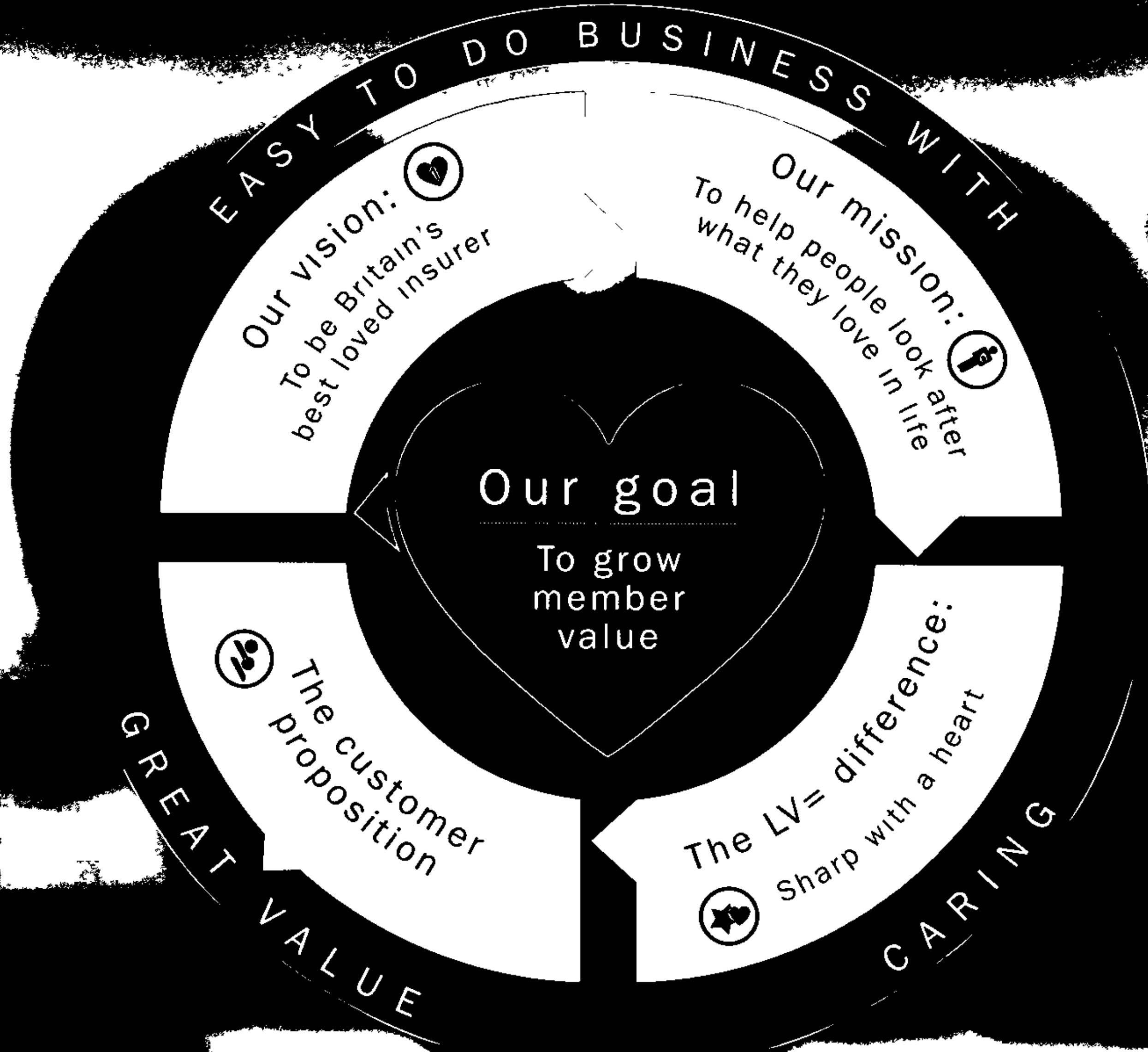
70%

83%

Staff engagement

Our Strategy





As a mutual organisation we exist for the benefit of our members

Our goal of growing member value is underpinned by our vision to be Britain's best loved insurer. We believe that developing products of benefit for our customers and offering a high quality of service will translate into enhanced profitability for our members.

We approach business in a way that combines the trusted behaviours of a mutual with the competitiveness you would expect from a successful plc. Our 5,800 employees are core to our business and we have created a positive, motivated workforce to ensure they offer the best possible service to our members and customers. We call this being 'Sharp with a Heart'.

We live by three core brand promises

Great value	Offering affordable well designed products with the highest quality of service.
Easy to do business with	Providing everyone we deal with with timely, clear and accurate information and advice, and making sure they can contact us quickly and easily.
Caring	Treating everyone with respect and empathy.

Product set and corporate structure

General Insurance

Personal

- Home
- Motor
- Travel
- Pet
- Britannia Rescue
- Motorcycle
- Specialist Vehicles

Commercial

- Business Insurance
- Motor
- Truck
- Motor Trade
- Hire & Reward
- Fleet
- Van

Distributed directly and via brokers

Life

Retirement

- Annuities
- Equity Release
- SIPP
- Income Drawdown

Protection

- 50+
- Term/Life Assurance
- Income Protection
- Critical Illness
- Whole of Life

Distributed directly and via intermediaries

Heritage

- Flexible Guarantee Bond
- Pension Income Plus Annuity

Distributed directly and via intermediaries

Finance

Human Resources

Group Risk

IT

Internal Audit

The diagram represents the major product lines we currently sell
We have a significant number of additional product lines that are closed to new business including our Industrial Branch whole of life policies Ordinary Branch pensions and products sold by RNPFN

Our mission is to help people look after what they love in life

The products we sell fall into three broad categories

- protection and retirement products covering people's lives and incomes,
- insurance for those more tangible items people love their vehicles, their home, their business, their pets and their holidays, and
- savings and investment products

We have structured our business around three core business lines, with support functions such as finance and HR in the centre

The mix of products we offer enables us to benefit from diversification of risks, achieve economies of scale, and helps mitigate against the impact of adverse market conditions which emerge from time to time within specific products or distribution channels We believe that our mutual business model positions us well as a provider of choice for consumers as we are able to focus on putting the customer at the heart of everything we do We are focused on building the LV= brand further and increasing its appeal to our core customer base, consumers aged over 45

Strategically LV='s goal is to grow member value This allows us not only to provide security to our members' investments but has also enabled us to pay a mutual bonus, rewarding with-profits members for their ownership of LV= and the risk taken in supporting the establishment and growth of the group's trading businesses

Our strategy has remained consistent during 2013, however to support the execution of the strategy we raised £350m of capital in the form of tier two debt, which we raised at a very competitive rate of 6 5% pa We raised the capital for two purposes firstly to ensure that we are able to maintain a strong and efficient capital structure and secondly to support our continued business growth We have no plans for transformational mergers or acquisitions, however should an appropriate opportunity present itself to accelerate delivery of our strategy we would consider using some of the debt proceeds to fund this

Like all insurers LV= invests the premiums we receive to generate an investment return In 2011 we outsourced our asset management business to Threadneedle Asset Management, to enable us to focus on our core risk based insurance businesses Threadneedle Asset Management manages our investments under a mandate that is regularly reviewed to ensure that we strike the right balance between risk and return Details on our risk appetite can be found on page 39 and our investment mix on page 24

Mutual bonus of
£22m
announced for 2013

We have
5.5m
Members and customers

We received
27,000
job applications in 2013

The group uses reinsurance to transfer the risk of insurance losses that are outside our risk appetite, reduce our regulatory capital requirements, improve pricing competitiveness, improve the quality of our earnings by reducing volatility and benefit from the expertise and knowledge of the reinsurers

Our General Insurance business

Our general insurance business operates in both personal and commercial lines and operates a multi-product, multi-channel strategy in the UK Our core strengths in risk pricing and claims handling, and our multi channel model enables us to access a broad range of customer segments

We have a high level of expertise in pricing and underwriting and this has allowed us to gain significant market share in the UK personal motor market where we are now the third largest provider Our strategy going forward is to build on our success in motor and increase our footprint to top five positions in home and SME business insurance

The general insurance business provides one of the key platforms for building the LV= brand We make significant, ongoing investments in promoting the brand through the main media channels and believe that strong brand awareness is key to our success The role of our fresh and vibrant brand is not simply to stimulate sales and renewal activity but also to reflect the values which underpin our relationships with our customers and our people

Our direct business is in personal lines only, where our strategy is to lead with a high quality (5 Star Defaqto-rated), competitively priced car product and then extend our relationship with customers by offering them home, travel, pet and other personal lines insurance products which provide the same great value as our motor insurance and provide us with diversification benefits Our pricing strategy is underpinned by a commitment to fairness which means that we limit the use of new business discounts in order to ensure that existing customers are not disadvantaged

This focus on treating the customer fairly runs through all of our customer propositions, including the sale of add-on products (such as home emergency and legal expenses cover) which are always sold on an opt-in, rather than opt-out basis This approach, combined with fast and fair claims settlement, resulted in 77% of customers saying they are 'very' or 'extremely' satisfied and we are routinely rated as an insurance 'best buy' by leading consumer organisations

In the broker channel we are active in both personal and commercial lines In personal lines, the broker channel enables us to reach customers through intermediaries and their affinity partners This not only generates profitable underwriting income but also allows us to achieve scale benefits in our core motor and home segments

Our commercial lines business provides us with valuable diversification as the personal and commercial underwriting cycles tend to be asynchronous Our commercial lines products include small to medium sized business insurance covering property and motor risks Our high levels of customer service together with a consistent underwriting and pricing strategy have enabled us to build a respected commercial lines business from a standing start in 2007 and we see attractive opportunities to develop this business to become a much more significant part of the general insurance business over the medium-term

Detail on the performance of the general insurance business can be found on page 28

Our Life Insurance business

Our life insurance business is a UK-focused protection and retirement income specialist We use our expertise in assessing risks to protect customer incomes in the event that they are unable to work due to illness or accident, to provide funds following death and to provide incomes for customers in retirement We target areas of the market where our core strengths allow us to offer strong customer propositions, generally in markets with good growth potential with attractive margins and where we can achieve relevant scale The combination of the retirement and protection businesses provides capital, distribution and strategic synergies

The UK is experiencing a number of clear trends for its retiring and retired population people are living longer, there is a shift from defined benefit to defined contribution pension schemes and retirees are demanding greater value and flexibility in their income options These trends are resulting in a need to offer a better range of choices in how and when retirement incomes are accessed

Our retirement business is strategically positioned to benefit from these trends through our retirement income proposition, a range of decumulation products that offer solutions individually or blended to provide flexible solutions for retirement We are well positioned in income drawdown and the enhanced annuity market, which can offer better value than a standard annuity to customers with lifestyle or medical conditions This product set is supported by our well regarded personal pension and SIPP products Our equity release products allow customers to benefit from the value in their home These work synergistically with our annuity business, allowing us to utilise equity release mortgages as an asset to back our annuity liabilities

The overall protection market has lower growth opportunities than the retirement market and although there is an identified 'protection gap' where customers have insufficient protection, customer demand is relatively limited However, moves to simplify protection products and increase the direct market are expected to continue, as are on-going initiatives by the government and ABI to raise awareness of the need for protection products Rather than aiming at the whole protection market, we focus our efforts on areas where we have strong capabilities, particularly in income protection where our expertise has led to a market leading position We are also leading development in simplified propositions, with the launch in June of our Sick Pay income protection product which has been well received by the market

Our life insurance business operates a multi-channel distribution model, including a range of intermediary networks, panel positions, portals, corporate partners and direct distribution A significant proportion of both retirement and protection sales come from intermediaries, particularly the larger networks and panel distributors In protection, direct distribution is also an important channel including both our corporate partners and our in-house sales capability, notably for our 50+ product

In March 2014 the Chancellor announced a number of changes to the way retirees' access their pension savings We believe that annuities will continue to have a place within the new retirement income landscape although we anticipate that other options will now be given more consideration LV= offers a wide range of 'at retirement' products and is well positioned to respond to these changes

Both our retirement and protection businesses are complemented by our Financial Advisory Service which offers an advised retirement panel to customers as well as LV= protection product sales

The retirement and protection businesses are underpinned by core strengths in product innovation, risk expertise, high quality sales and service teams and the ability to react quickly and knowledgeably to changes in the external market Our 'best loved' vision complements both business areas, providing a clear view of how we wish to be viewed by our customers and in itself provides a point of differentiation based on our ingrained mutual ethos

Detail on the performance of the life insurance business can be found on page 32

Our Heritage business

Whilst growing our successful general and life insurance businesses, we also maintain a keen focus on our heritage business which is the traditional heart of the Society Our heritage business comprises

- With-profits policies, including new with-profits sales
- Other policies originally written by the Royal National Pension Fund for Nurses (RNPFN) before its transfer to LV= in 2001

Many of our in-force heritage products are no longer actively marketed However, we have developed newer with-profits products including a with-profits bond and a with-profits pension annuity which we sell through our life distribution network

The heritage business has a number of strategic priorities We look to provide superior returns on our members' asset shares by making investment decisions which optimise their returns for an appropriate risk profile Over the last few years, we have had a strong track record of returns

We also believe that with-profits products have a role to play addressing needs of consumers who require both return and security and therefore we focus on continuing to write material volumes of new with-profits business which has the added advantages of enabling our members to benefit from scale while maintaining one of our core strategic principles of sustainable mutuality

We are aware that, despite our success in writing new business, the with-profits industry as a whole has been declining over the last decade and, as a result, we have instituted very robust cost management to ensure that the cost to our members of administering their policies is kept at an acceptable level To this end, we also consider acquisition opportunities to bolster the scale of the with-profits business as they arise While our members' interests obviously come first in determining the attractiveness of any transaction, we believe that we are able to offer other mutual and proprietary with-profits books a good home in a Society that is well-capitalised, has robust new business flows and has strong operational capabilities in administering policies and providing top customer service at a competitive cost

Detail on the performance of the heritage business can be found on page 36

Key performance indicators

Our key performance indicators are chosen to measure performance against our goal of growing member value, and our vision of being Britain's best loved insurer

	Explanation of measure	Performance
Grow member value		
Enterprise Value	As LV= is not quoted on the stock market, Enterprise Value is our measure of the value of the business Any rise or fall in Enterprise Value will tell us if we are growing member value A formula is used to calculate our Enterprise Value and the methodology is independently reviewed every three years The formula is the sum of the value of our general insurance business, our life business value plus the value of the remainder of the group The general insurance business is valued based on the average of market comparable multiples of net tangible assets and IFRS earnings The life business is valued based on the average of market comparable multiples of our embedded value estimate and new business value add adjusted for any expense overruns The Long Term Incentive Plan for senior employees is based on growth in Enterprise Value Further detail on this can be found in the Directors' Report on Remuneration on page 72	Enterprise Value growth between 2012 and 2013 was 12%
Heritage with-profits fund performance	This is measured with reference to the return made on the main LV= with-profits fund, which is an investment fund where we combine our with-profits investors' money and manage it on their behalf The fund normally invests in UK and overseas shares, fixed interest securities including Government stocks and bonds, property and cash We compare our performance to a benchmark which is a composite measure of how the fund or asset types might have been expected to perform For instance, the benchmark for UK equities is the FTSE All Share Total Return Index See page 24	The return on the with-profits fund in 2013 was 11 1% This compares to the benchmark return of 8 6%
Operating profit	Operating profit for the group represents profit before investment fluctuations, centrally managed costs, amortisation of intangibles and finance costs A full definition of operating profit is provided on page 90	2013 operating profit was £105m compared to £88m in 2012
Capital strength	To ensure the sustainability of the Society we monitor our regulatory capital cover ratio This is the ratio of our capital resources to our capital resources requirement We also monitor our capital coverage on a realistic basis	At the end of 2013 our regulatory capital cover ratio was 178% as compared to our 2012 year end ratio of 121% This follows our successful capital raise
Britain's best loved insurer		
Best loved insurer	Our vision is to be Britain's best loved insurer We use an independent market research agency to undertake a regular survey of general consumers which includes customers of LV= and other competitors and ask them which insurer they love the most We also monitor various other metrics including customer satisfaction levels, whether we treat customers fairly under the FCA guidelines, positive press coverage, and prestigious business awards achieved throughout the year We use a combination of these to assess our performance against our vision to be Britain's best loved insurer	The independent survey of consumers reported that as at Q4 2013 we were the 4th best loved insurer in the UK Within general insurance 77% of our customers report that they are very or extremely satisfied When we ask our life customers 'how did your call leave you feeling?' the answer was, on average, 9 3 with 1 being disappointed and 10 being delighted
Staff engagement	Our staff are key to us delivering our best loved vision so we look to achieve a level of staff engagement which is above that of high performing organisations (as defined by Towers Watson – a global HR consultancy firm) In order to assess how our staff feel about working for LV= we ask all staff to complete an annual survey	At the end of 2013 the engagement level of our staff was 83% compared to the benchmark for high performing organisations of 80%

Our board also assesses the progress against our strategic agenda, the way we manage risks plus a range of other financial and qualitative measures covering the significant aspects of our business Additional performance indicators are reported in the individual business sections of this report

Achieved target Progressing towards target Missed target

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Group Finance Director's Review

Philip Moore
Group Finance Director

We focus on delivering strong returns for members, while managing and protecting our capital position.

Overview

Following a sustained period of market volatility, 2013 has seen significant stability return to the markets reflecting growing confidence in the UK economy and the future of Europe, the FTSE 100 index has grown 14 4% finishing the year at 6,749 and credit spreads have narrowed significantly

In the first half of the year we were therefore able to take advantage of our continued growth and the improving market conditions to raise capital in the form of subordinated debt of £350 million to strengthen our balance sheet and to support future growth opportunities

Whilst economic conditions have proved positive, the trading environment has remained highly competitive for both the life and general insurance businesses Nevertheless, we can once again report an improved financial performance this year with the group continuing to perform well and the investment returns of our with-profits members' assets outperforming market benchmarks

LV= therefore continues to meet its financial aims of delivering good returns to members, while ensuring a strong capital position on which to base future growth

Operating profit in 2013 of £105 million (2012 £88 million) reflects another year of profitable growth from the group as a whole

The £53 million improvement in profit before tax to £156 million (2012 £103 million) reflects the growth in operating profit and also positive short-term investment fluctuations in our life and heritage businesses, which accounted for £43 million of the improvement year on year

Results for 2013

The table opposite summarises the operating profit contribution from our businesses Operating profit for the general insurance business comprises the trading results from insurance activity (underwriting profit) and investment returns For the life and heritage businesses, operating profit includes the trading performance of new and existing insurance business (underlying operating profit), the impact of actuarial model and valuation changes, and also a margin for prudence in the life valuation assumptions (such as credit default allowance) However, the difference between actual investment returns and those expected are shown below operating profit in short-term investment fluctuations

Results for 2013

£m	2013	2012 restated*
General insurance	**81**	117
Life	**18**	48
Heritage	**18**	(64)
Group	**(12)**	(13)
Operating profit**	**105**	88
Accounting policy differences	**(2)**	(12)
Short-term investment fluctuations	**105**	62
Centrally managed costs	**(19)**	(22)
Finance costs	**(15)**	(1)
Amortisation and impairment of intangibles	**(18)**	(12)
Profit before tax**	**156**	103
Mutual bonus	**(22)**	(21)
Income tax expense	**(10)**	(34)
Pension scheme actuarial loss net of tax	**(9)**	(145)
Transfer to/(from) the Unallocated divisible surplus	**115**	(97)

Life operating profit has been restated to reflect the change in methodology applied for credit default experience reporting Previously favourable experience emerging in the reporting period in respect of credit default was reported in short term investment fluctuations This is now reported as additional margin for credit default risk within operating profit 2012 operating profit has been restated accordingly (£4m increase)

A definition of the measures we use to review our business performance is provided in the glossary section on page 90

Operating profit

£105m

[illegible]

Surplus capital

£720m

[illegible]

With-profits investments performance

11.1%

[illegible] above benchmark

The general insurance business has continued to perform strongly delivering an operating profit in 2013 of £81 million Growth in underwriting profit (from £5 million to £15 million) benefited from both favourable claims experience and also profitable expansion in chosen market segments, notably motor, which saw an increase in the number of policies underwritten Investment returns, however, have fallen from £112 million to £66 million reflecting the return to more sustainable levels after a particularly strong result in 2012

The life business saw an increase in underlying operating profit of 12% to £29 million primarily driven by the product lines of enhanced annuities, equity release and pensions This is particularly notable given the increased competition in certain markets in which we operate

The overall decrease in life operating profit reflects the non recurrence of the significant beneficial impact of changes in actuarial models and valuation assumptions seen in 2012

The heritage operating profit reflects the net trading profit or loss of the with-profits business The growth in operating profit is principally the result of both the non-recurrence of adverse model and valuation changes in 2012 and improved cost efficiencies

Group operating profit includes unallocated group overheads and also the return on the group's free capital The loss in 2013 reflects recurring group overheads

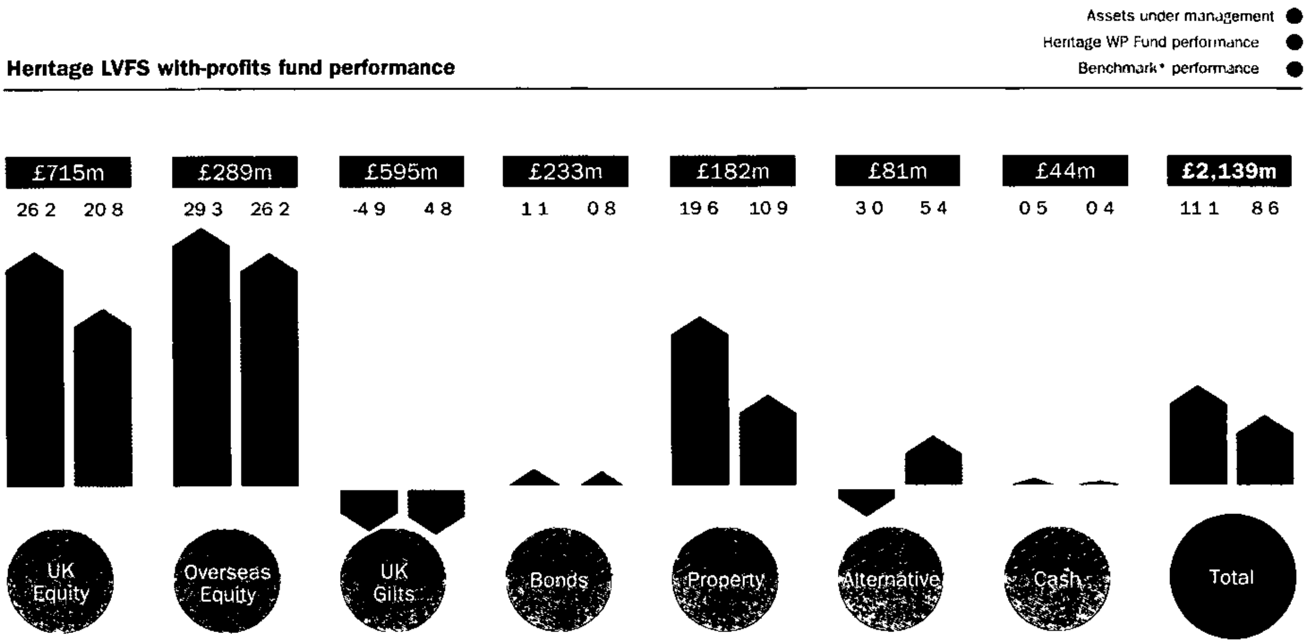
Our profit before tax of £156 million shows growth of £53 million reflecting

- Growth in operating profit,
- Strong short-term investment performance reflecting market value gains, in particular benefiting from improved equity performance and narrower credit spreads in the annuity business bond portfolio, offset by
- Finance costs relating to the newly raised £350 million of subordinated debt at a coupon rate of 6 5%

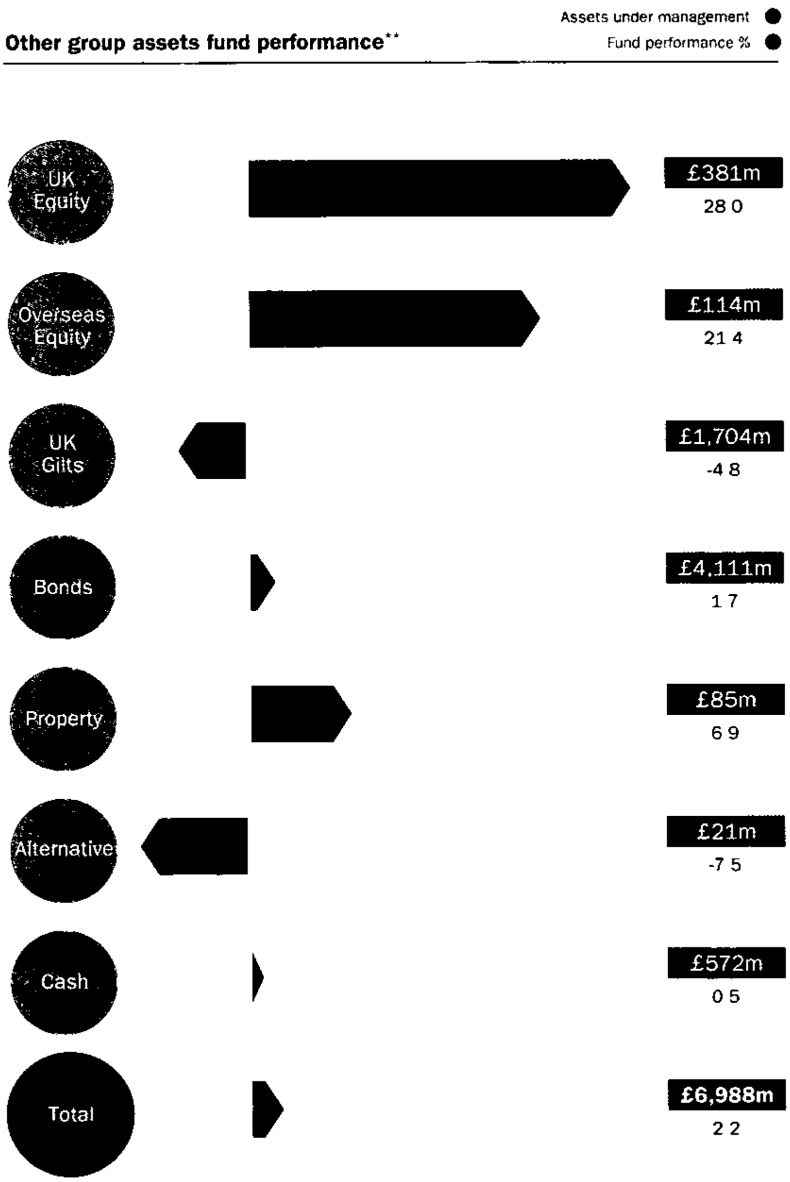
The pension scheme actuarial loss of £9 million in 2013 (2012 £145 million loss) calculated under IAS 19, is the net movement on the scheme's invested assets (predominantly debt securities) and changes in financial assumptions used to value the scheme's liabilities As at 31 December 2013 the scheme reported a deficit of £16 million (2012 £10 million deficit) calculated under IAS 19 As the scheme is adequately funded, deficit contributions ceased in March 2013

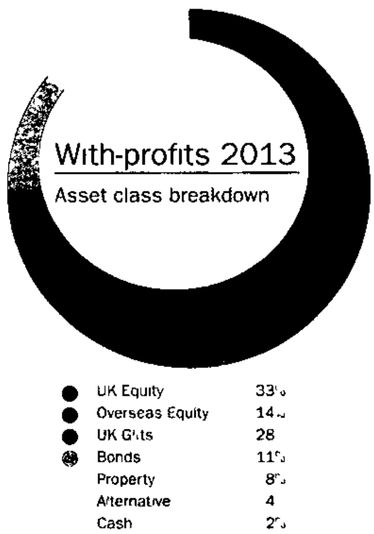
The general insurance, life and heritage performance is explained in more detail in the relevant business review sections

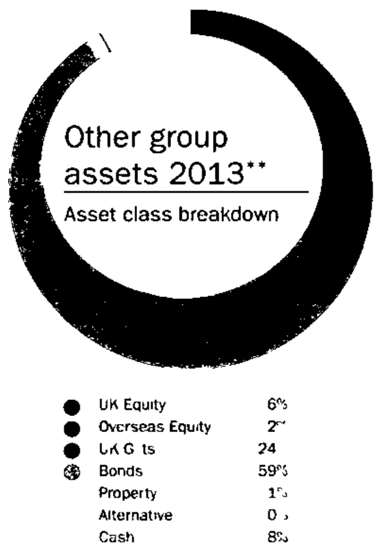
Heritage LVFS with-profits fund performance



Other group assets fund performance**







* Benchmark performance is calculated using a blend of recognised metrics which reasonably represent the market level performance for the mix of assets included in the Heritage WP fund

** Other group assets are assets invested by the general insurance and life business

Investment performance

Threadneedle Asset Management – 2013 was the second full calendar year with Threadneedle managing LV='s investments and this strategic partnership continues to prove very successful with five of the seven asset classes for the LVFS With-Profits Fund achieving or exceeding their market standard benchmark

With-profits – The Liverpool Victoria Friendly Society (LVFS) With-Profits Fund returned an absolute performance of 11 1% Outperformance has mainly been driven by the fund s exposure to UK and overseas equity markets Property assets also produced strong relative gains Threadneedle delivered good relative performance for our with-profits members, which was some 2 5% points above a market-defined benchmark

Other group assets – Outside of the LVFS with-profits fund the majority of assets are invested in UK gilts and UK corporate bonds 2013 has been a tougher year for fixed income investments with markets anticipating the scaling back of central bank accommodative monetary policy in the UK and US

Capital management

Capital is managed on both economic and regulatory bases to ensure we have sufficient funds to meet our business objectives, the promises we have made to our members and policyholders and regulatory requirements Capital is monitored and managed both at a group and entity level

We operate through three main companies

- LVFS is the parent company of the group and the company where we write the majority of our life insurance business LVFS is also the sponsor of our staff pension funds
- Liverpool Victoria Insurance Company (LVIC) and Highway Insurance Company (HICO) – these are the companies which write our general insurance business

We seek to deploy capital where we believe the risk is properly rewarded Asset and liability matching is extensively used and risks are hedged where we believe we would otherwise receive insufficient return for the risk taken or to reduce volatility

We report our capital position on a regulatory basis using current European legislation which defines the capital requirements an organisation must meet The two different bases reported below are

- Peak 1 (a traditional valuation basis), and
- Peak 2 (more realistic for with-profits business)

Capital resources

£m	2013	2012
Admissible assets*	**8,835**	7,866
Add capital requirements of regulatory related undertakings	**253**	254
Mathematical reserves (after distribution of surplus)	**(7,121)**	(6,686)
Regulatory current liabilities	**(663)**	(354)
Available capital resources	**1,304**	1,080
Capital requirements of regulatory related undertakings	**(253)**	(254)
Capital resources within RNPFN fund**	**(194)**	(180)
Peak 1 capital requirement	**(253)**	(239)
Peak 1 excess regulatory capital (excluding RNPFN)**	**604**	407
With-profits insurance capital component	**(230)**	(221)
Peak 2 excess regulatory capital (excludng RNPFN)**	**374**	186
Subordinated debt (after costs)	**346**	–
Pillar 1 excess regulatory capital including subordinated debt	**720**	186

* The admissible assets shown above are calculated on a regulatory basis and therefore differ from the total assets under management

** RNPFN denotes Royal National Pension for Nurses which is a ring fenced fund The free assets attributable to this fund are reported as insurance contract liabilities of the Society

During 2013 the main movements in Pillar 1 regulatory capital were

£m	Pillar 1
Excess capital at 31 December 2012	**186**
Opening adjustments	10
Economic variances	105
Claims variances	4
Expense variances	(18)
New business	(7)
Impact of changes to valuation assumptions	(16)
Movement in group undertakings*	110
Interest on subordinated debt	(14)
Mutual bonus	(22)
Subordinated debt (after costs)	346
Change in Risk Capital Margin	21
Other	15
Excess capital at 31 December 2013	**720**

* Movement in group undertakings relates to the change in the net asset value of the subsidiaries due mainly to profits generated and movements between admissible and inadmissible assets

Risk appetite

We have embedded our approach to risk management through our risk appetite This defines a corridor of capital we wish to maintain by risk and entity and we regularly monitor and report our position against our risk appetite If capital moves outside of our defined risk appetite we have a pre-determined and documented series of management actions which we will take to restore the position

Capital management actions 2013

During 2013 we have taken a number of actions to improve our capital position and to reduce the sensitivity of our capital position to market movements Examples of actions taken

- Increasing capital through the raising of subordinated debt,
- Hedging the equity element of management charges on our unit linked business

Stress and scenario testing

In addition to calculating capital on the required regulatory regime, we undertake a series of stress and scenario tests to ensure the robustness of our 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 we consider a number of single stresses (e g equities falling by 40%) but more importantly because investment markets are highly correlated we consider how they will move together in stressed conditions For example falls in equity markets will generally also see rises in credit spreads on corporate bonds We build a distribution of expected market events and we test a number of points on the distribution i e 1 in 10 year events, 1 in 100 year events, 1 in 200 year events In addition we run a number of 'real world' scenarios such as a repeat of the credit crunch of 2008 and 2009, where we know the exact economic conditions which affected the investment markets, and this enables us to test the robustness of our business model should these conditions be repeated

We use the outcomes of the stress and scenario testing to develop the management actions we would undertake if our capital or other performance measures move outside of our defined risk appetite The impact of some of these stresses is given in note 4 of these accounts

Liquidity management

Liquidity management is required to ensure that the group has sufficient financial resources available to meet its obligations when they fall due

The group generates cash from profitable trading in the general insurance business and from realised margins on in-force long-term insurance policies Surplus cash is used to fund new business growth and central costs Investment fluctuations will also affect the liquidity of long-term insurance funds

When reserves are strengthened or released at a fund level, assets are either transferred from or paid to the LVFS Estate Fund The transfer of assets into or out of the funds will reduce or release assets to be used as surplus cash In addition, surplus capital is held at subsidiary level to ensure that individual entities are adequately capitalised and have sufficient liquidity to meet their obligations as they fall due

The group manages liquidity primarily through its asset and liability management process which ensures that, on a fund by fund basis and also at legal entity level, assets are held to match liabilities by amount and by maturity

Operational liquidity optimisation

The table below summarises the operational liquidity generated for LVFS on a stand-alone basis Operational liquidity is generated from movements in free assets in the year (including cash and cash equivalents and surplus assets within funds in excess of matched liabilities) Operational liquidity excludes amounts attributable to RNPFN and also intra-group capital investments and repayments

LVFS operational liquidity optimisation

£m	2013	2012
Life	**24**	(22)
General insurance surplus cash remitted in the year	**36**	38
Group items(1)	**(18)**	(16)
Tax paid	**(4)**	(13)
LVFS inflow/(outflow) before non-recurring items and mutual bonus	**38**	(13)
Subordinated debt raise (2)	**346**	–
Non-recurring items(3)	**174**	22
LVFS net inflow before mutual bonus	**558**	9
Mutual bonus	**(22)**	(21)
LVFS net inflow/(outflow)(4)	**536**	(12)

(1) Group items comprise centrally managed costs and also the net impact of the heritage with-profits business
(2) Cash generated by subordinated debt raise is disclosed net of £4m attributable transaction costs
(3) Includes net impact of assumption changes and investment gains of £114m buy out payments of £(35)m and £86m of dividends and capital repayments from non-general insurance subsidiaries
(4) Excludes intra group capital investments and repayments

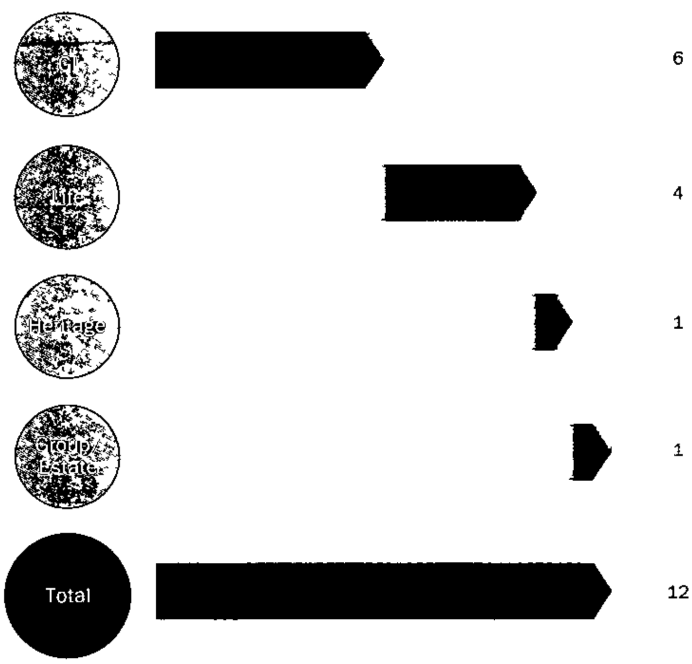
Following continued growth in profits the general insurance business returned funds of £36 million to the group

In 2013, as a result of improved margins and lower than anticipated volumes, the Life business has generated sufficient cash to fund new business and generate additional available liquidity within LVFS

Enterprise Value

Enterprise Value is an internal valuation measure It provides one way of measuring progress against our goal to grow member value for the benefit of members and also the value created by the trading businesses The chart below shows the growth in the group's Enterprise Value in 2013

Enterprise Value growth in 2013 **%**



Overall growth of 12% has been driven by both the general insurance and life business units General insurance growth is driven by positive trading profits and hence higher net tangible assets Similarly, life's continued profitable growth has translated into a further rise in embedded value Enterprise Value growth for heritage and group is the result of improving heritage profitability and a reduction in group costs

Conclusion

Overall 2013 has proved to be another successful year for LV=, increasing operating profit and continuing to compete strongly in challenging markets We have been proactive in strengthening our capital base, continue to manage risk actively, and have focused on maintaining a robust business model We feel confident that we are therefore well placed to continue growing profitably in our target markets

General Insurance

Managing Director of General Insurance

We now have 4.4 million in-force policies across an increasingly broad range of product lines.

2013 was a challenging year for UK general insurers as motor rates continued to weaken and investment returns remained subdued in line with low interest rates Despite these conditions, our general insurance business delivered continued growth in target market segments and we now have 4 4 million in-force policies across an increasingly broad range of product lines Our most significant business line remains car insurance and we are the third largest private motor insurer in the UK with around 13% market share, based on the number of vehicles insured In this line of business, our improved pricing capability and claims management enabled us to reduce average premiums for customers by 9% during 2013, allowing us to remain competitive in a price-pressured market We are also becoming an increasingly significant player in other lines, particularly home insurance and business insurance for SMEs During the year we added over 273,000 new policies across our product range

The two core businesses of direct and broker now underwrite 3 0 million and 1 4 million policies respectively Both businesses contributed to operating profit at £46 million and £35 million respectively Our underwriting profit of £15 million reflects a relatively benign year overall for home insurance claims, despite adverse weather in December, positive prior-year claims run-off and tight cost control on the motor account as margins came under pressure

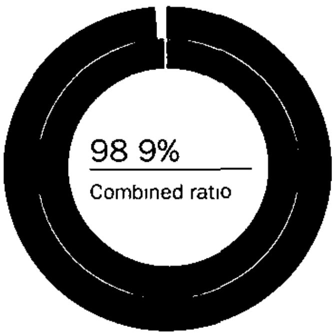
2013 was a year of significant regulatory activity and the most important change was the enactment of the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) which took effect from April This act contained legislation to ban the payment of referral fees in relation to personal injury claims and was intended to reduce the frequency and cost of spurious claims Many insurers were early to anticipate the benefit of these changes and premium rates in motor decreased sharply across the market The benefits of the legislation have however been slow to materialise and it now appears that the market has over-estimated the level of price reductions that might be justified As a result of these unduly competitive market conditions, we chose not to chase unprofitable business and are therefore reporting a small reduction in motor premium income We believe market rates are likely to readjust to more sustainable levels in 2014

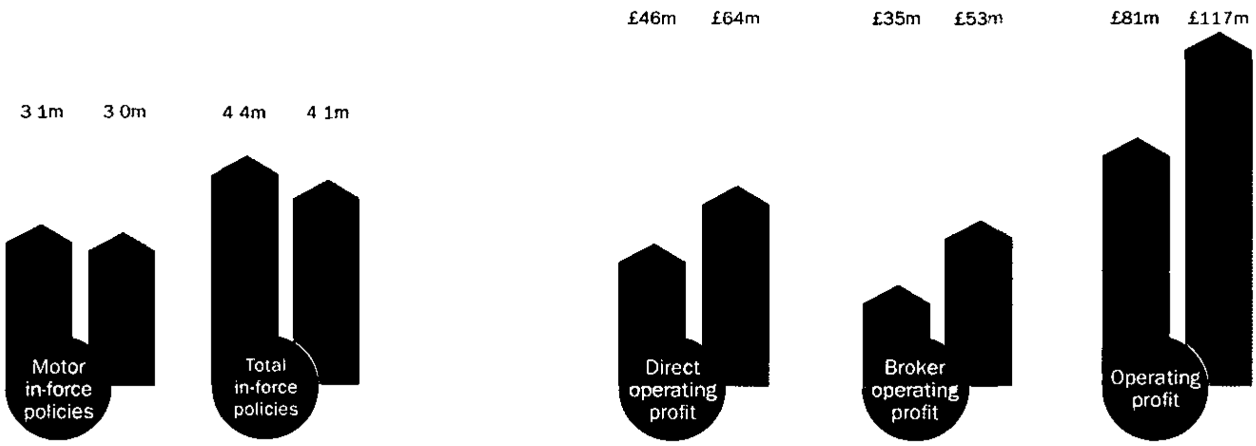
In recognition of the challenging motor market we maintained strong cost disciplines through controlling acquisition costs and operating expenses, which contributed to an improved combined ratio of 98 9% (2012 99 7%) Even though overall expenditure has gone up at a rate lower than that of the increasing policy volumes, the lower earned premiums have led to a slightly higher expense ratio in 2013 compared to 2012 2013 combined operating ratio benefited from a favourable prior-year reserves run-off of £41 million, which contributed 2 8% to the overall combined ratio improvement In contrast, during 2012 prior-year reserves increases of £18 million had an adverse impact on the ratio of 1 2%

Active but conservative management of the investment portfolio during 2013 produced a total return of 3 2% which is lower than reported in 2012 (5 8%) but a satisfactory result in light of investment market benchmarks

Results for 2013

£m	2013	2012
Underwriting result	**15**	5
Investment return	**66**	112
Operating profit	**81**	117
Centrally managed costs	**(2)**	(6)
Amortisation of intangibles	**(2)**	(2)
Profit before tax	**77**	109





	2013	2012
Direct operating profit	**£46m**	£64m
Broker operating profit	**£35m**	£53m
Loss ratio	**75 1%**	77 0%
Expense ratio	**23 8%**	22 7%
Combined ratio	**98 9%**	99 7%
Investment returns*	**3 2%**	5 8%
Direct premium income	**£824m**	£830m
Broker premium income	**£621m**	£655m
Pre-tax return on capital	**10 6%**	17 7%
Motor in-force policies	**3 1m**	3 0m
Total in-force policies	**4.4m**	4 1m

* Quoted gross of expenses

Direct
The direct business continued to grow, increasing the overall number of in-force policies by 11 3% to 3 0 million, despite gross written premiums being marginally lower than in 2012 Within home insurance, where customers are less inclined to shop around and there is a high level of price competition, the direct business grew by 5 7% to 560,000 in-force policies and premium income rose by 2 3% to £139 million

Within our other lines of business, including travel and pet insurance, we increased our in-force policies to 95,000 from 77,000 at the end of 2012

Our road rescue business Britannia Rescue saw particularly strong growth in policy count, up 44% during 2013 This was primarily due to strong corporate partnership sales During the course of the year, we took the decision to update the name of the business to LV= Britannia Rescue, leveraging the increasing strength of the LV= brand

2013 also saw the launch of three additional direct personal lines products in the form of classic car, motorcycle and caravan/motorhome insurance policies Although we have previously offered all of these via our broker business this is the first time they have been offered direct under the LV= brand Early sales indications have been very positive and we are confident that these will prove profitable lines of business for us in the years to come

Broker
The broker business wrote £621 million of premiums in total, with both commercial and personal lines contributing to operating profit

Our commercial business continued to grow strongly and we now insure over 190,000 commercial properties and 107,000 commercial vehicles Commercial premium income overall was up 23% compared to 2012, and within that our SME premiums grew by 27% year-on-year

We see excellent opportunities for continued profitable growth in SME insurance in 2014 and thereafter This is a market where our proposition of personal service, combined with an empowered and responsive regional network and first class claims support really makes a difference to our broker partners

In personal lines, 2013 was a year where we majored on rolling out our home product to a wider range of brokers and IFAs Home insurance sales through the broker channel were exceptionally strong and 15 2% up overall relative to 2012 In broker motor, we found that price competition rendered certain segments unprofitable and we allowed a degree of portfolio attrition to take place in order not to write at an inadequate margin

We launched a number of new technology initiatives, serving both personal and commercial lines partners, ensuring that those brokers that want to trade with us electronically are able to do so effectively and efficiently Our firm belief is that brokers will be best served by us offering a full range of channels and allowing brokers to choose their preferred method of interacting with us

Our service proposition
Customer service remains a key differentiator for LV= Our customer satisfaction levels remained amongst the best in the market, averaging 77% for the year as a whole (these scores exclude responses where customers were merely 'satisfied' and reflect only those who were 'very' or 'extremely' satisfied) Underpinning these satisfaction scores we continued to experience high levels of customer retention – benefiting from retention rates of 79% on car insurance and 77% on home insurance

Recognition of our service commitments continued in the form of a multitude of industry awards, including the European Call Centre Awards, the Claims Excellence Awards and the UK Customer Satisfaction Awards We also continue to be one of Which? magazine's recommended providers for car insurance

The insurance industry also recognised LV= with award wins in the British Insurance Awards, the Insurance Times Awards and the Insurance Fraud Awards

Looking ahead
Our focus on putting the customer at the heart of our business and ensuring our products, service and claims experience are market-leading has built a loyal customer base and a strong reputation

The insurance industry continued to attract regulatory attention during 2013, with the pace of change requiring our sustained focus We continue to work closely with our regulators and in-house risk team to ensure that LV= is well positioned to deal with any forthcoming legislative and regulatory changes that may impact our business I am confident that these capabilities will position us well to secure continued profitable growth in 2014 and thereafter

Premium income

£1.45bn

Cash returned to the group

£36m

Total in-force policies

4.4m

Life

Richard Rowney
Managing Director
of Life and Pensions

We are the market leader in advised income protection and a top five provider for pension drawdown, enhanced annuities and equity release.

Results for 2013

Underlying operating profit of £29 million, a 12% increase on 2012, has been driven by sales momentum which built into the second half of the year, margin initiatives and a focus on strong cost control Over the last three years we have delivered underlying operating profit growth of 15% (compound annual growth rate)

+12%
underlying
operating profit

Life underlying operating profit is calculated before adjusting for the impact of additional margin for credit default and other risks and model and valuation changes to get to operating profit This is the key profit metric used by life management to measure the performance of the life business See non-GAAP glossary on page 90

Underlying operating profit

£m	2013	2012 restated*
Operating profit	**18**	48
Accounting policy differences	**(2)**	(12)
Short-term investment fluctuations	**49**	40
Centrally managed costs	**(1)**	(2)
Amortisation and impairment of intangibles	**(16)**	(6)
Profit before tax	**48**	68

* Life operating profit has been restated to reflect the change in methodology applied for credit default experience reporting Previously experience emerging in the reporting period in respect of credit default was reported in short term investment fluctuations This is now reported as additional margin for credit default risk within operating profit 2012 operating profit has been restated accordingly (£4m increase)

Operating profit of £18 million (2012 £48 million) fell as a result of a smaller credit from model and valuation changes Operating profit in 2012 contained a number of one-off items including a £23 million release of tax reserve and a move to duration dependent discount rates, which resulted in a £17 million credit to profit

Favourable short-term investment fluctuations of £49 million reflected the further narrowing of credit spreads during 2013

This results in a reduction in profit before tax from £68 million to £48 million

The life business continued to progress delivery against its strategic objectives during 2013 It has been a challenging year for the UK life insurance sector with lower sales volumes in some areas reflecting the pull forward of 2013 business into 2012 due to the Retail Distribution Review and the gender directive We are pleased with the performance of our life business in this context

Retirement

Our retirement business is well positioned to take advantage of evolving demographic trends and the changing needs of retirees

During 2013 we continued to evolve our product set in response to these trends and in line with our customer's needs For example, for our Protected Retirement Plan product we replaced the break clause with a conversion option that gives the customer the opportunity to exit at fair value at any time during the term, provided they are advised that this is the right thing to do In Equity Release we launched our high value loan proposition that offers a bespoke service for advisers where the customer is borrowing more than £250,000 and with properties worth more than £1 million

As stated above, the retirement market in 2013 experienced headwinds which impacted some product areas This was notable particularly in the enhanced annuity market which accounts for a large percentage of our annuity sales In this context we took the strategic decision to manage capital consumption in the first half of the year by controlling sales volumes and then built volumes in the second half This strong second half resulted in sales 17% higher than the same period in 2012 and 59% higher than in the first half of 2013

In pensions, we were pleased to see a strong performance in new business with sales, on an annual premium equivalent basis, breaking through the £60 million barrier for the first time This excellent performance reflected the strength of our drawdown and fixed term annuity products, key elements of our broad retirement income offering

Protection

In protection we aim to be a top five provider competing on quality of proposition to customers We focus on market segments where we can clearly demonstrate value to our customers rather than commoditised volume based segments

Our ability to innovate in new product propositions was highlighted with the development of Sick Pay Insurance, a new direct product that has attracted the attention of several corporate partners The simplicity and clarity of the proposition makes it particularly consumer-friendly Furthermore, we continue to be the number one income protection provider of choice for independent financial advisers

Although overall sales in protection are down, we are pleased with performance, taking into account the adverse market conditions as a result of the tax changes and gender rules In this difficult context we demonstrated the strength of our protection business by increasing our market share

Our service proposition

Customer service is key to the life business and is driven by the LV= vision to be Britain's best loved insurer Our impact on our customers is demonstrated by a survey of life customers, when we asked, 'how did your call leave you feeling?' the answer was, on average 9 3 with 1 being disappointed and 10 being delighted

Our life business had a very successful year in terms of external recognition in 2013, winning in total 26 awards These included notably a five star rating in the Life and Pensions category at the Financial Adviser Services Awards, our Protection business winning the Gold Standard Award for Individual Protection for a sixth successive year and Retirement Solutions winning the Gold Standard Award for Individual Pensions for the third year in a row

Looking ahead

After a challenging year for some of the markets we operate in during 2013, our view is that the impacts of the Retail Distribution Review and the gender directive will reduce in 2014 We expect further changes in the retirement solutions market following the Chancellor announcing a number of changes to the way retirees access their pension savings in the March 2014 budget

We believe that there are trends in the retirement market, such as a growing number of retirees of whom many will continue to demand flexible retirement income solutions LV= offers a wide range of 'at retirement' products and is well positioned to respond to these changes

In the protection market we see a steady market growth outlook, partly driven by product innovation and a recovering mortgage market Overall we believe that with a clear focus on our customers, our Life business is well positioned for continued growth

New business

	Annual Premium Equivalent		New business margin		New business contribution	
	2013	2012	**2013**	2012	**2013**	2012
	£m	£m	**%**	%	**£m**	£m
Annuities	**55**	69	**32%**	28%	**18**	19
Pensions	**64**	56	**3%**	-4%	**2**	(2)
Protection	**29**	32	**8%**	23%	**2**	8
Total life	**148**	157	**15%**	16%	**22**	25

New business margin

Annuities and pensions margins improved from 2012, reflecting our strategy of a balanced focus on both market share growth and also acceptable returns

Protection new business margin fell from 2012 driven by lower volumes and price competition following the regulatory and tax changes introduced at the start of 2013, partially offset by strong cost control

Internal rate of return and payback period

	Internal rate of return		Payback period	
	2013	2012	**2013**	2012
	%	%	**years**	years
Annuities	**15%**	9%	**7**	10
Pensions	**13%**	9%	**7**	7
Protection	**17%**	15%	**6**	5
Total life	**15%**	10%	**7**	8

Our improved internal rates of return and payback periods reflect our strategy balancing a focus on acceptable returns alongside market growth

Definitions

Annual Premium Equivalent
The value of annualised regular premiums from new business plus 10% of single premiums on new business written during the period

New business contribution
The contribution to underlying operating profit as a result of new business written

New business margin
The new business contribution as a percentage of sales on an Annual Premium Equivalent basis

Internal rate of return (IRR)
The discount rate at which the present value of all expected future revenue is equal to the expected initial investment to write the business

Payback period
The length of time required for the expected cash flows from new business to equal the amount of cash required to write the business

Underlying operating profit
£29m

Annual Premium Equivalent
£148m

New business internal rate of return
15%

Heritage

Current heritage policies in-force total 770,193, of which 724,685 are with-profits policies.

Heritage with-profits investment return	11.1%
Market benchmark return	8.6%

+2.5% > benchmark

Our heritage business comprises LVFS's with-profits business (both ordinary branch and industrial branch) along with some non-profit business and unit-linked business, most of which was acquired from the Royal National Pension Fund for Nurses ('RNPFN') Most of the group's heritage products are no longer actively marketed, although we continue to sell with-profits products including a unitised with-profits bond and a with-profits pension annuity Current heritage policies in-force total 770,000, of which 725,000 are with-profits policies

Results for 2013

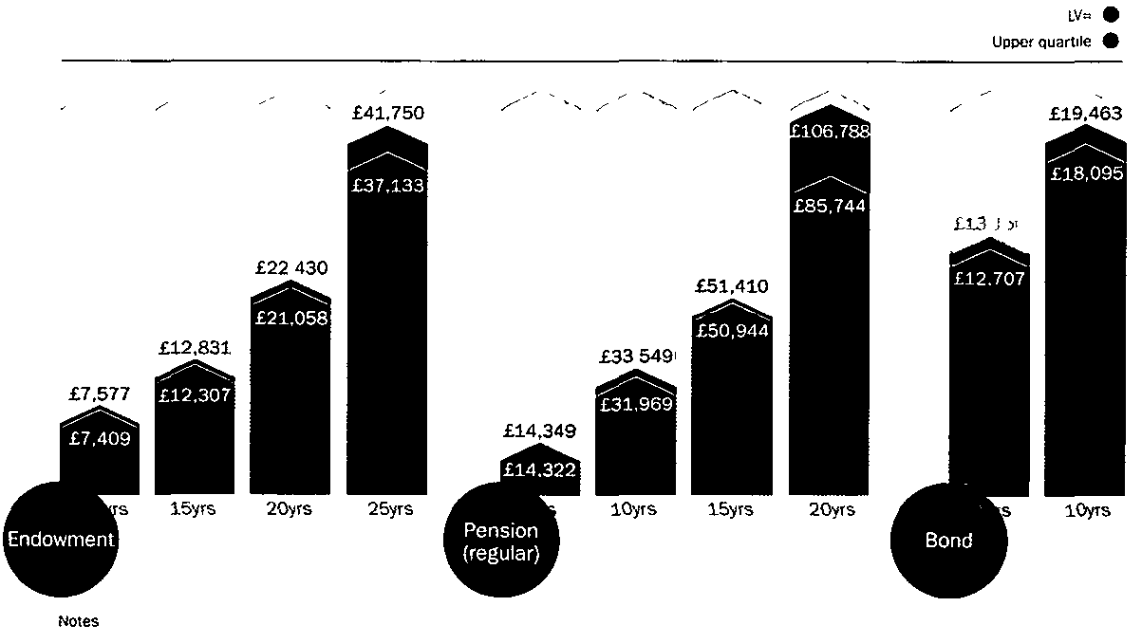
£m	2013	2012
Operating profit/(loss)	**18**	(64)
Short-term investment fluctuations	**38**	35
Centrally managed costs	**–**	(5)
Profit/(loss) before tax	**56**	(34)

2013 was a positive year for the heritage business with sales in our unitised with-profits bonds, marketed as Flexible Guarantee Bonds, up 38% on last year, exceeding expectations at £85 million (APE £8 5 million) and the with-profits pension annuities achieving in excess of £10 million (APE £1 0 million) Total new business sales were £96 million (2012 £62 million) Improved sales and good cost control contributed to an improved underlying operating loss of £1 million (2012 loss of £4 million) Operating profit of £18 million was mainly due to favourable model and valuation changes

Strong investment performance in the second half of 2013 has resulted in the with-profits fund achieving an investment return of 11 1%, out-performing market benchmarks by 2 5% and also leading to a favourable short-term investment fluctuations balance of £38 million and overall profit before tax of £56 million

Heritage with-profits pay-outs and industry comparison

Recent maturity and surrender values for LVFS with-profits policies show that LV= continues to perform in the top quartile when compared against industry pay-outs



Notes

1 The payouts are based on the following policies
Endowment – Policyholder aged 30 at entry, monthly premium of £50 maturing 1 February 2013
Pension (regular) – Policyholder retiring at age 65 monthly premium of £200 maturing 1 January 2013
Bond – An investment of £10,000 as at 1 November 2013

2 The industry payouts are taken from the most recent past performance surveys and relate to maturities during 2013 and 2014 The sources are
Endowment – Money Management survey published 28 March 2013
Pension (regular) – Money Management survey published 6 March 2013
Bond – Money Management survey published January 2014

Strategic Report
Governance
Our Accounts

Risk Management

Steve Haynes
Chief Risk Officer

The role of risk management

The effective management of risk supports the delivery of our strategy, protects the value that we create for members, and helps us to identify opportunities where we can make better use of our capital

Our risk management approach is based on the group's enterprise risk management framework and has the following core objectives

- To set out the risks that the group is able and wishes to accept,
- To maintain a risk management and governance framework that in particular assesses and manages the risk-return trade-off, and
- To measure and monitor the group s risk exposures against the board's approved risk appetite statements and risk limits

LV='s approach to risk

The board has established through a set of statements the risk principles and practices the business is expected to adhere to These statements are reviewed at least annually and reflect both the group's strategic plans and the risk strategy The statements approved by the board in 2013 are set out below

In conducting its business LV= adopts a group-wide perspective on risk, and aims to avoid undue concentration, operate within its risk appetite, ensure fair treatment of customers and be competitive in our chosen markets

LV= will take on risks that it has the capability to understand and manage and which support the group's aim of optimising value for its members, delivering expected policyholder benefits and ensuring it manages the with-profits business in line with the Principles and Practices of Financial Management

LV= has an appetite for insurance risk in the life and non-life sectors As LV= has long term liabilities, it also retains illiquidity premium through its investment strategy

LV= takes on market risk in our non-life business, in its with-profits funds in line with Policyholder Reasonable Expectations (PRE), and in its pension funds If risk free rates are low, LV= may seek market risk with its mutual capital to earn a higher return

As an insurer LV= is exposed to other risks (such as persistency, expense, operational, etc) and it manages these to optimise the risk-adjusted return

The effective management of risk supports the delivery of our strategy, protects the value that we create for members, and helps us to identify opportunities where we can make better use of our capital.

LV='s risk management and governance framework

The group has a strong risk culture which is based on the risk management and governance framework The key goals of the framework are

- To ensure a consistent measurement of risk and capital that enables the group to optimise the risk return trade-off,
- To minimise ambiguity by defining the roles, responsibilities and reporting procedures of the risk and capital decision makers in the group, and
- To identify, assess, and manage the material risks to which LV= is exposed and to operate a robust control framework to maintain these risks within risk appetite

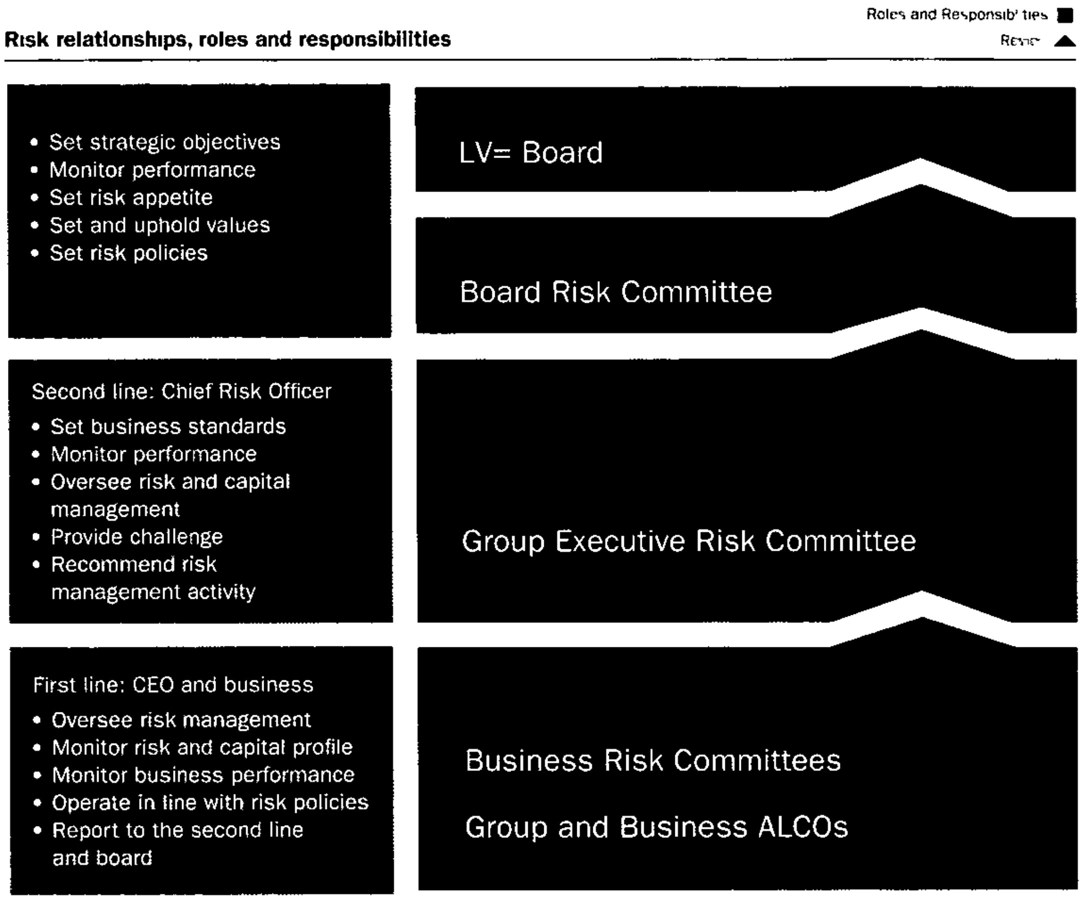
Risk appetite

The amount of risk that the group is willing and able to accept is measured and monitored by the board establishing a risk appetite statement and an associated risk tolerance and limit for each major risk dimension

The board approved the following risk appetite statements in 2013

Dimension	Risk appetite statement
Capital and liquidity	LV= will hold sufficient solvency capital and liquidity to ensure that the group can continue to trade following a significant adverse movement in markets.
Earnings	The volatility of LV='s earnings is consistent with the reasonable expectations of with-profits policyholders and other stakeholders.
Brand	The group will always seek to uphold its brand image to be 'Britain's best loved insurer'.
Regulatory	LV= has no appetite for regulatory weaknesses or failings that lead to censure actions.
Operational and capability	The group seeks to minimise operational risk events across the business.
Conduct	LV= will seek to ensure that our treatment of customers and our behaviours are designed to deliver fair customer outcomes.

Risk relationships, roles and responsibilities



Risk governance

The roles and responsibilities for risk management are based on the three lines of defence model The business units and support functions are responsible for risk taking, implementing the risk management framework and embedding the risk culture (first line of defence) The risk function is accountable for overseeing and challenging the identification, measurement, management, monitoring and reporting of key risks and for developing the risk management framework (second line of defence) The internal audit team provides an independent assessment of the risk framework and the internal control processes (third line of defence)

The business units and support functions are responsible for ensuring that the controls are effective and reporting to the board on any control weaknesses

The Board Risk Committee helps the board to oversee risk and risk management across the group The business units and support functions have established Asset and Liability Committees (ALCOs) and Risk Committees to assist them in the execution of their first line of defence responsibilities To support the execution of the second line of defence responsibilities the chief risk officer chairs the Group Executive Risk Committee and is a member of the Group ALCO These relationships are summarised in the diagram above

To help ensure a consistent and rigorous approach to risk management across the group, the risk function has established a set of formal risk policies and risk standards These policies and standards detail the management and control requirements for the group and are reviewed regularly to ensure they align with any changes in the external environment or in the business strategy

As part of this approach the business units and support functions are required to regularly identify and review their risk exposures and risk controls Where any risks are outside of appetite action plans are put in place which are reviewed and monitored by the Group Executive Risk Committee

The risk function then aggregates and reports the group's risks along with an assessment against the risk appetite and risk limits to the Board Risk Committee This reporting also assesses emerging risks and the results of the thematic reviews performed in respect of the group's products and processes

Principal risks and uncertainties

A common risk categorisation basis is used across the LV= group to ensure a consistent record of the names, descriptions and structure of the group's risks The principal risks to which LV= is exposed are shown below

Risk type	Definition	Management and mitigation examples
Financial markets risk	The risk that arises from adverse fluctuations or increased volatility in asset values, asset income or interest rates This includes credit spread widening	• Active asset management and hedging • Pension fund de risking • Asset and liability duration matching
Credit counterparty risk	The risk of financial loss as a result of the default or failure of third parties to meet their payment obligations	• Investment restrictions on sovereign and corporate exposure to some Eurozone countries • Investment restrictions on aggregate and fund credit quality • Counterparty limits and monitoring
Life insurance risk	The risk that arises from the inherent uncertainties as to the occurrence, amount and timing of life insurance liabilities (for example adverse movements in mortality, longevity, and persistency)	• Clearly controlled and defined pricing criteria • Product mix management to optimise capital strain versus return • Use of reinsurance to mitigate mortality/ morbidity/longevity risks
General insurance risk	The risk that experience is adverse compared to current best-estimate assumptions underlying the underwriting result (for example adverse movements in claims, or catastrophe experience)	• Use of reinsurance to reduce the impact of catastrophe and large claims risks • Use of data, models and analysis to control pricing and risk selection • Review and analysis of claims and reserve development
Liquidity risk	The risk that LV= and/or its subsidiaries, though solvent, do not have sufficient financial resources available to meet their obligations when they fall due	• Asset liability matching • Cash flow reporting and forecasting • Active asset mix management
Operational risk	The risk of financial loss resulting from inadequate or failed internal processes, people and systems, or from external events	• Attestation process that reports to the board on the effectiveness of controls • Risk event reporting and root cause analysis processes
Conduct risk	The risk that LV='s actions and behaviour may result in poor outcomes for customers	• Customer centric strategic goals • Robust metrics and controls to achieve customer service targets • Annual review of product governance, pricing and service processes
Strategic risk	Risk of not achieving the group's strategic plan as a result of internal (e g ineffective, inefficient or inadequate senior management processes) or external factors (e g economic, legal, political changes) that serve to undermine either the strategy itself or its execution	• Annual planning process (5 year business plans produced) • Regular tracking and reporting of key strategic risks to the board • Annual strategy review with the board and external input and challenge

Risk management during 2013

Risk environment and profile

A central theme in the UK financial market over the last year has been the transition to riskier assets by investors, driven by increased confidence that the Euro will survive the financial crisis and that central banks and governments will continue to support the global economy This confidence resulted in a 19% increase in UK equities, a 4% fall in the value of UK government bonds and a 12% return from high yield corporate bonds

The UK insurance market remained extremely competitive with the public issue of shares in Partnership, Just Retirement, Esure and Direct Line Group ensuring a strong focus on market share In addition the UK pensions and annuities markets have had to adjust to the new post Retail Distribution Review world and all insurance products to the loss of gender as a rating factor The prevalence and uncertainty of Periodical Payment Orders in the UK motor insurance market also continues to drive uncertainty into the reserves of general insurers

From a regulatory perspective, the UK insurance industry is undergoing a period of unprecedented change which includes

- an increased focus on corporate and customer conduct from the newly-created Financial Conduct Authority (FCA),
- the ongoing review of the motor insurance market by the Competition Commission and the change in practice driven by the Legal Aid Sentencing and Punishment of Offenders Act (LASPO),
- the thematic reviews undertaken by the FCA into the annuity and pensions markets, and
- the return of Solvency II, which is now very likely to impact the solvency of European insurers from 1 January 2016
- The proposed changes to the UK pension regime announced by the Chancellor in the 2014 Budget Statement

LV= believes its products, service standards, and behaviours are designed to achieve good customer outcomes but there is the risk that industry-wide guidance, the proposed changes to the UK pension regime, or rulings from the FCA may adversely impact on sales, product design, and pricing

The risk profile of the group did not change significantly during 2013 and the biggest risks LV= faces continue to arise from adverse movements in financial markets and adverse trends in general insurance underwriting and claims

During the year the group completed a number of actions to improve the management of its risks including

- a detailed review of the use of reinsurance to manage general insurance reserving risks,
- an extensive programme of control improvements to further reduce the risk of material data loss, and
- an overhaul of the risk governance framework covering all boards and committees

Performance of the Board Risk Committee

The principal role of the committee is to consider the risks faced by LV= and advise the board

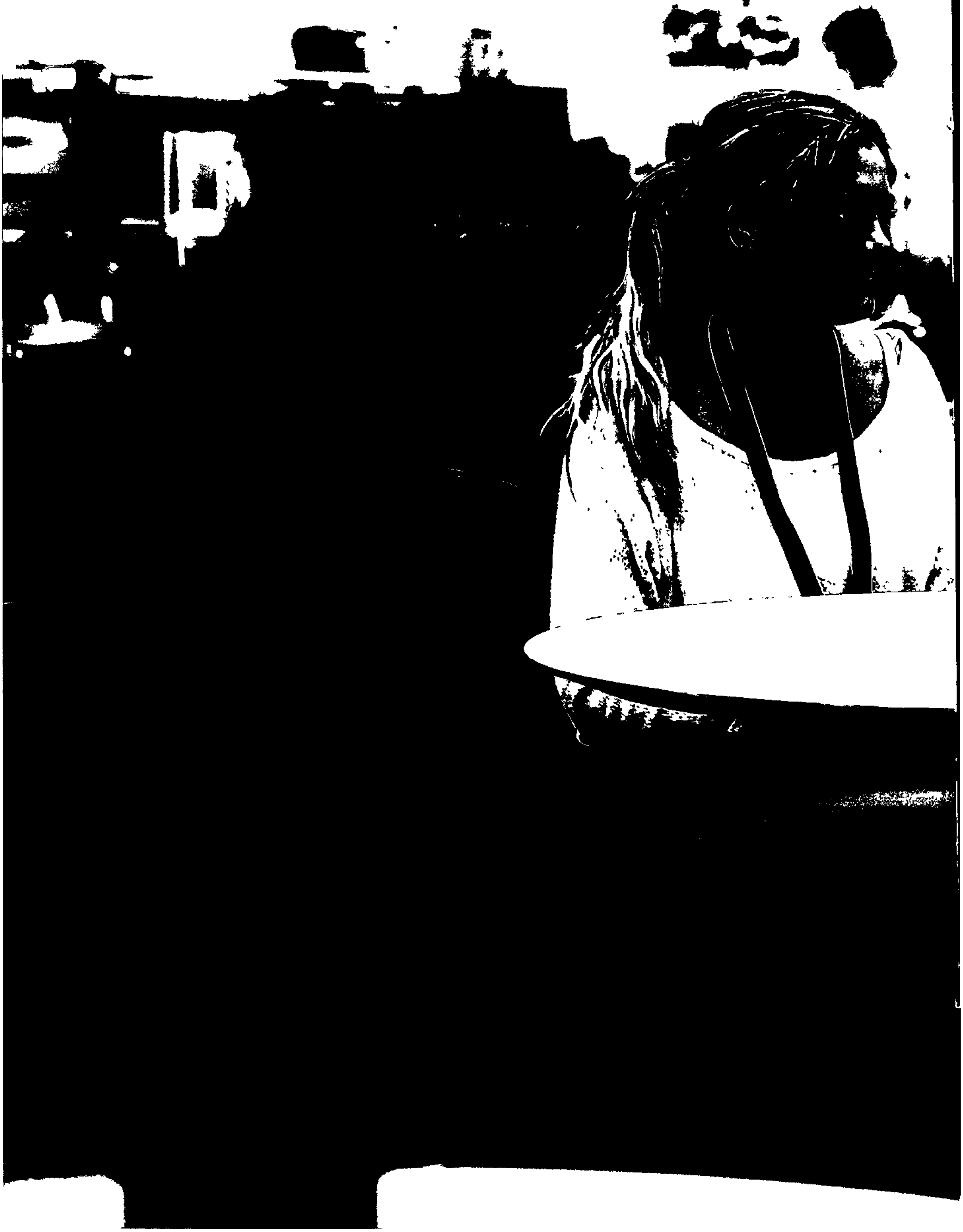
The committee met four times in the year and it was the chairman's practice to meet separately with the chief risk officer ahead of meetings

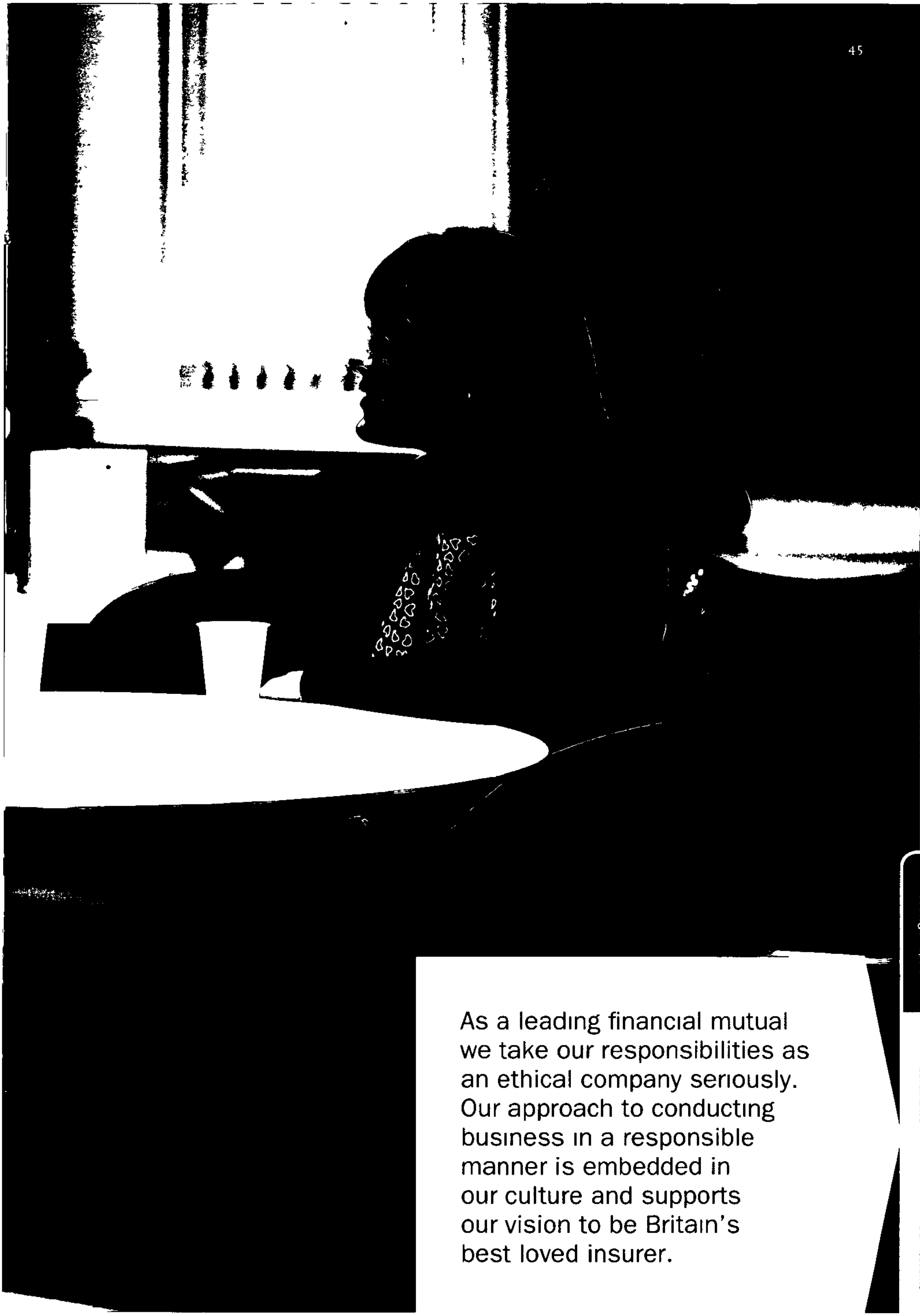
Its main activities during 2013 included

- Agreeing and monitoring risk strategy, risk appetite and individual limits for specific types of risk (e g financial markets risk and credit risk)
- Reviewing and assessing the risk oversight provided by management in connection with current and emerging risk exposures
- Assessing the impact of management's strategic plans on the risk profile of the group
- Monitoring the effectiveness of management in identifying and recording the principal risks, and the extent and effectiveness of the stress tests and scenario analysis performed on these principal risks
- Gaining assurance that an appropriate culture in relation to the management of risk continued to be maintained, with particular focus on performance measurement
- Overseeing the group's regulatory compliance
- Assessing and advising on the conduct risk framework and on the extent to which the group was minimising the risk of adverse customer outcomes
- Overseeing the risk elements of the group's Asset and Liability Committee (ALCO)
- Receiving reports from the chief risk officer and the head of compliance on a wide range of issues, including regulatory change
- Reviewing and challenging the progress of improvement in information security controls

In line with the Combined Code requirement, the committee reviewed its effectiveness during 2013 During 2014, the committee will focus on the continued implementation of an own risk and solvency assessment, the internal model validation process, the use of risk-based performance measures and reporting, and the operation of LV='s conduct risk framework

Our Corporate Responsibilities





As a leading financial mutual we take our responsibilities as an ethical company seriously. Our approach to conducting business in a responsible manner is embedded in our culture and supports our vision to be Britain's best loved insurer.

Treating customers fairly

We put customers' interests at the heart of how we do business, and adhere to the Financial Conduct Authority's (FCA) principles of Treating Customers Fairly (TCF) This informs six key inputs in support of our commitment to treat our customers fairly at all times

1 right culture
2 right targeting
3 right information
4 right advice
5 right delivery
6 right post-sale treatment

Each year all our employees undertake compulsory training to understand the principles of TCF and how to ensure the outcomes are met

We regularly ask our customers whether our products and services meet their expectations At the end of last year our research told us that we had achieved top five status for 'best loved', 'caring', 'easy to do business with' and great value'

Complaints

We aim to provide an excellent standard of service to our members and customers, but recognise from time to time that there may be occasions where service falls below expectations Our policy is to deal with any complaints promptly, fairly and honestly This includes root cause analysis, identifying actions we can take to prevent complaints of the same or similar nature occurring again

If we are unable to resolve the matter satisfactorily, the complainant will be advised to refer the matter to the Financial Ombudsman Service (FOS)

FCA and non-FCA complaints received in the year are summarised in the table below

	Complaints received	Complaints referred to FOS	Outcome in LV='s favour
General insurance	48,441	689	65%
Life*	1,856	65	87%
Heritage	873	26	97%
Legacy businesses**	3,019	78	63%

Includes protection retirement solutions tied adviser whole of market
Includes bank

Member relations

We take a proactive approach to member relations and run a programme of regular communications with our members

We mail all our 1 1 million members in the run up to our AGM to invite them to the meeting and to ask them to vote on the resolutions being presented Members can vote by post, in person, or online We also send our with-profits members a business update each autumn to inform them about company developments

We operate the online LV= Community through which we send regular emails to over 11,800 users with the latest LV= news, offers and the opportunity to take part in research Participants give us valuable input and comments on new developments, such as product design or customer service processes

We also operate a Member Panel, currently comprising of 32 members This group meets with our chairman, the executive team and other senior managers to learn about our recent performance, strategy, and future plans and to provide input and challenge The board will continue to monitor the effectiveness of this interaction and make further changes as appropriate

We offer a range of free and exclusive benefits which our members can take advantage of

The Member Care Line handled over 1,700 phone calls in 2013 from members seeking medical, counselling or legal advice

We also provide a Member Support Fund which offers financial grants to members who find themselves, through no fault of their own, in financial difficulties Requests for help are assessed by a small independent committee of members 64 grants were awarded during the year which amounted to over £61,000

A new development in 2013 was the introduction of a Member Community Fund A small group of LV= members – the Member Community Fund Committee – review nominations from members who wish to nominate a good cause, charity or individual to benefit from funding The committee recommend good causes to receive £10,000 each quarter where this support will make a positive impact on the community For more details please see our charitable donations on page 50

Members are also entitled to discounts on a range of our products, such as 10% off car and home insurance

"I would like to thank you for the grant to enable me to purchase a new washing machine. It proves to me that there are some wonderful people who are willing to help people who are in need of a helping hand sometime in their life"

Supplier management

Our commercial partnerships are a key factor for us in achieving competitive excellence so we expect suppliers to support our ethical approach to the way we do business

We therefore ask all suppliers to follow our 'ethical supplier policy', which among other things asks them to comply with all laws and regulations, not to exploit child labour and not to discriminate against their workforce In order to make sure this happens, a number of steps are taken These include (but are not limited to) due diligence of potential suppliers during the tender process and business assurance audits with suppliers to monitor compliance

Responsible investment

LV= is committed to investing responsibly This commitment is shared by Threadneedle Asset Management (TAM), our partner who is responsible for managing our investments TAM follow governance and responsible investment principles and procedures based on the United Nations backed Principles for Responsible Investment and the UK Stewardship Code as well as best practice corporate governance guidelines

It is our joint belief that well-governed companies are likely to outperform in the long run and therefore TAM considers a holistic understanding of risks and opportunities associated with certain companies, sectors or themes, as part of generating sustainable returns for their clients

TAM's governance and responsible investment team has worked alongside their investment professionals since 1998, facilitating integration of material environmental, social and governance analysis into the investment process

£61,000
Member Support Fund grants

£40m
of potential losses protected through financial crime management

Financial crime

We take a no tolerance approach to financial crime and have a specialist team whose sole aim is to protect LV=, our customers, members and employees against its harmful effects We have invested significantly in establishing our expertise in this area and our systems and controls allow us to ensure LV= is protected against all aspects of financial crime Our efforts include, but are not limited to, the creation of dedicated investigations teams to respond to claims and policy fraud, the capture and processing of intelligence to prevent and detect fraud, and working closely with external organisations like the Insurance Fraud Bureau, the Insurance Fraud Enforcement Department and CIFAS We have also set an example to would-be fraudsters by pursuing and winning ground-breaking cases in the High Court when we believe people have tried to defraud us Overall, our robust and careful management of financial crime protected LV= from potential fraud losses of £40 million in 2013

Environment and emissions

We are committed to the continuous protection of the environment and LV= takes its environmental responsibility seriously in order to protect our environment for future generations to enjoy

Some of the ways we do this are

- Actively promoting and investing in efficiency measures in our offices
- Ensuring all offices are 'binless' with recycling facilities available to staff
- Effectively reducing the use of water by using water savers
- Placing energy efficiency as a significant factor in the purchase, lease or refurbishment of any LV= office
- Minimising waste and promoting recycling wherever possible
- Monitoring our environmental performance
- Adhering to a code of conduct and ethical standards
- Encouraging our people to use online conferencing technology to minimise travel between our offices
- Supporting national events like Walk to Work Week and National Bike Week

As a responsible employer we aim to support our employees and provide a safe and motivating environment for them to work in and progress their careers.

Our people

The average number of people we employ within the group and its subsidiaries and our total employee costs are shown in note 42 of the accounts

We pride ourselves on being an employer of choice and we ask our people to live by our values including treating people like family' and don't wait to be asked As a responsible employer we aim to support our employees and provide a safe and motivating environment for them to work in and progress their careers

Attracting and retaining people with the right skills and behaviours is paramount to our future and we received around 27,000 applications for roles during 2013 In turn we are committed to supporting our people in achieving their potential and ambitions

This includes providing them with the tools and resources to do their job and creating a culture of continuous improvement On offer are internal and external training courses, and coaching and role progression programmes such as our in-house academies, all of which are designed to enhance our people s abilities and the potential to further their careers, wherever that may be Our employee turnover is 12% compared to the industry norm of around 30% and in 2013 751 people moved into alternative roles within the business

We recognise that our employees have different requirements and goals and we are committed to supporting them in balancing their work responsibilities and personal life The LV= benefits package encompasses contractual benefits, as well as flexible and additional benefits Our 'My Choice scheme offers employees the choice of up to 14 additional benefits, such as dental cover, critical illness insurance, buying and selling holiday and childcare vouchers

Employees are eligible for the annual performance-related bonus scheme The bonus paid is determined by individual, team, business unit and group performance This encourages the involvement of employees at all levels in the group's performance

We operate a popular staff intranet site, 'Heartbeat', that provides our employees with a wealth of information Each head of department and line manager provides updates to their teams in person or via other channels such as the intranet, so that everyone is kept informed of the factors affecting the business performance (save where prohibited by regulations on inside information)

Our chief executive, Mike Rogers, runs regular 'Open Mike sessions across all the group's offices These provide an opportunity for all employees to meet him, and find out more about what's going on around the business

The regular employee magazine, 'Live', also provides a range of articles on activities and people at LV= as well as updates from senior management and interviews with people across the businesses

We are committed to consulting with our employees and providing information to keep them up to date on any significant developments in the workplace A big part of this process includes giving them the opportunity to express their views on issues that affect their employment with us

Each year all employees are invited to participate in an online, anonymous employee opinion survey to gauge how they are feeling about working for us The results are independently collated and analysed Actions are then agreed to look at any areas of improvement

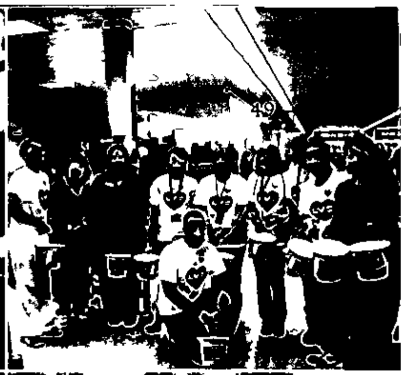
The Employee Consultative Forum (ECF) exists to help make LV= a better place to work and accords with the Information and Consultation Regulations (2004) The ECF is composed of employee elected volunteers who represent all our employees Whether it's influencing change on policies or helping employees who are going through a tough time at work, they offer help and support

We have a strong focus on diversity, which includes disability In addition to our diversity and equality policy, we operate a disability policy that includes aspects of recruitment and selection of people with disabilities as well as support, development and opportunities for existing employees with disabilities

We seek to ensure that disabled applicants receive full and fair treatment and are considered solely on their ability to do the job Disabled applicants who meet the essential criteria of the job description and person specifications are, wherever possible, interviewed and assessed for posts For all employees with a disability we look at their needs and make any adjustments where we reasonably can to help them carry out their job and provide appropriate training and support

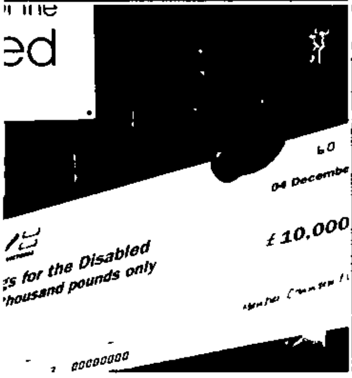
The success of our business is largely dependent on our ability to attract and retain the best people, within a culture that embraces diversity and equality Having a committed and motivated workforce is something we're immensely proud of and can be attributed to several important and continuing initiatives within LV=



Yorkshire
3 PEAKS




£10,000
for the Disabled
thousand pounds only













Equality

We pledge to treat all our employees with the dignity, respect, and the consideration they deserve This includes a promise to treat our current and potential employees equally, irrespective of their gender, racial or cultural background, disability, age, marital status, religious beliefs, sexual orientation, or involvement in trade union activity

Diversity and inclusion

Our people are as diverse as the customers we serve and we embrace their uniqueness

We believe that these differences complement our vibrant culture We have therefore launched a project specifically looking at diversity and inclusion across our workforce

Led by our executive team, our diversity and inclusion programme involves our people in a number of focus groups and centres around five key areas

Gender – We share the belief that gender balance is vital to our success We understand the need to address the gender balance at both a senior and board level

Sexual orientation – We want LV= to be a place where our people feel comfortable being open about their sexual orientation or gender identity if they choose to

Multi-cultural – Increasing global mobility and migration is creating a rich mix of cultures, faiths and heritages within communities and LV= alike This gives us the opportunity to embrace how others see and experience the world and encourages new ways of thinking

Multi-generational – Understanding the products and services our customers want at each life stage is central to our business In a time when several generations can often be seen working side by side, understanding and respecting their differing expectations is crucial

Disability – Simple adjustments make sure that our workplaces and services are fully accessible to everyone Inclusive attitudes are just as important and ensure we focus on 'ability' first and foremost

91%
of our people believe we are caring towards our local communities

89%
of our people believe they can demonstrate our values on an everyday basis

Community work and charity donations

Our commitment to making a real difference within the communities where we live and work continued during 2013, and with the support of our employees we made a positive impact through our community fundraising, sponsorship and investment programmes

Community investment

Our community investment approach focuses on providing financial and volunteering support to the communities surrounding our 17 offices Two years ago we established a network of regional community committees run by our own people, giving them the empowerment and accountability to decide where we can lend our support most effectively Throughout the year they assess requests from good causes in their local communities and decide if and how to help them Last year they distributed £165,000 helping over 280 local charities, good causes and projects

We also invested £60,000 in our schools programme mentoring more than 760 students about the world of business, financial affairs and helping them with interview skills

Also this year we donated two minibuses to charities near our Brentwood and Ipswich offices

Investing time and skills locally is just as important as funding Last year we supported our people in matching more than 800 hours of their own time to volunteer in the community

Over the last three years AGM votes have raised £55,000 for charities with the money donated based on the number of votes we received In 2013, Rainbow Children s Trust received £20,000 after a nomination from one of our voting members

New for 2013, our Member Community Fund is designed to help good causes close to our members hearts Four times a year we'll give away £10,000 to something or someone nominated by one of our members

> "Dogs for the Disabled is delighted to be the first recipient of an LV= Member Community Fund grant and we're very grateful for this amazing gift of £10,000."

Corporate Partnership Manager Cathryn Simpson at Dogs for the Disabled

Community sponsorships

We have a number of community partners which help broaden the reach of our support For the last 15 years we've supported LV= Streetwise, an interactive safety centre which helps children learn about dangers in and outside the home Last year around 13,000 children visited the centre LV= KidZone our beach safety scheme, helped reunite 148 lost children with their families in Bournemouth over the summer

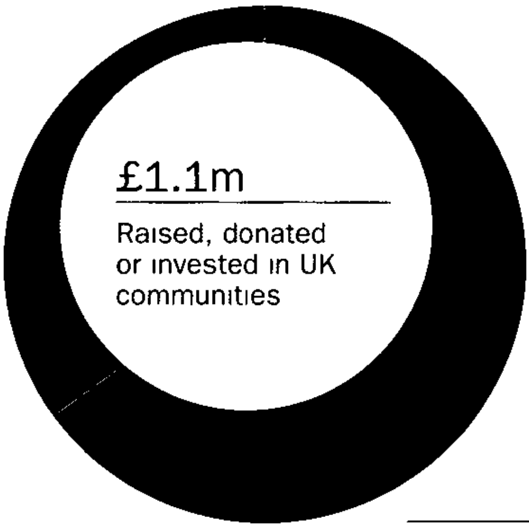
As a sponsor of the entrance pavilion at the Mary Rose Museum on Portsmouth s Historic Dockyard we're helping to preserve the iconic ship and her artefacts for future generations Our support for Fields in Trust is helping to safeguard outdoor recreational spaces across the UK, 12 of which have been secured near our larger offices

LV= SOS Kit Aid is a one-of-a-kind scheme which provides underprivileged youngsters with sports kit and equipment so they can enjoy games like cricket and rugby In 2013 35,000 youngsters benefited from recycled goods

Community fundraising

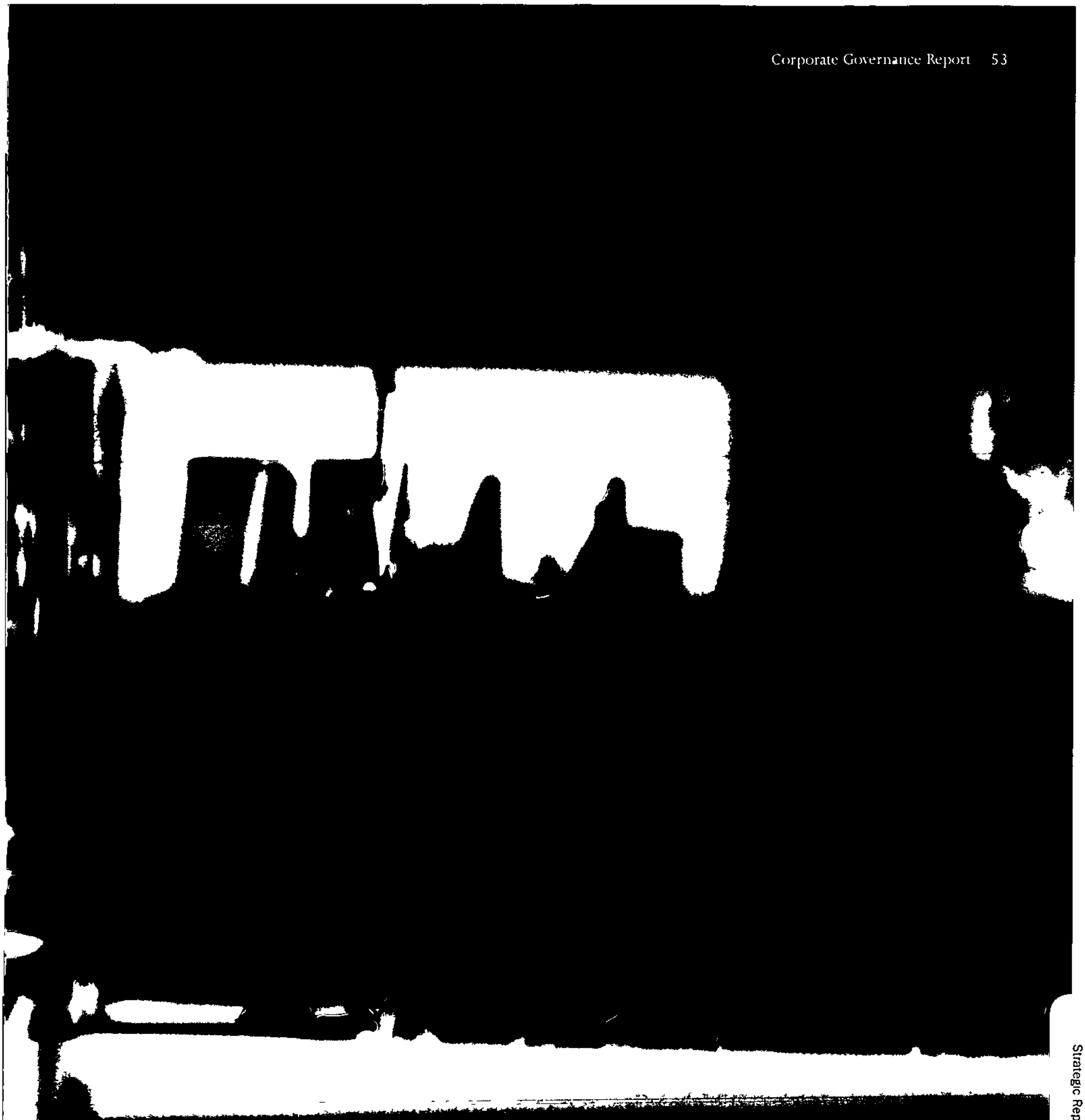
Getting behind causes that are close to our people is a major part of our community fundraising strategy Our charity matching scheme was used by more than 370 employees which meant we topped up their own fundraising totals by an additional £78,000 We donated over £37,000 to fundraising events like Comic Relief, Movember and Children in Need – and since 2008 we ve opened up our offices as a call centre for Children in Need, where hundreds of our people volunteer their evening to take pledges from callers

Employees who want to donate to charity straight from their salary can do this in two ways We offer a mechanism whereby we'll automatically deduct the pennies in their net pay to charity and a direct donation to a charity of their choice These options meant that a further £128,000 was raised for charities in 2013



- **Community investment** £498,000 45%
- **Community sponsorship** £229,000 20%
- **Community fundraising** £390,000 35%

Corporate Governance Report



Corporate Governance Report

Our approach to Corporate Governance

We choose to observe the requirements of the annotated version of the UK Corporate Governance Code, even though we are not formally bound by it[1].

Compliance with the Annotated Code for the year ended 31 December 2013

The board considers that we fully comply with the applicable principles and provisions of the Annotated Code with the exception of a decision taken by the board that only the chairman will offer himself for annual re-election by members at the Annual General Meeting The board has determined that the annual election of the chairman provides an adequate means for members to register concern with the performance of the board directors who continue to stand for re-election at least every three years

A number of significant new regulations that impact the annual report, and how auditors report on it, took effect in September 2013 Although they cover a broad range of topics they are all related to how our directors demonstrate that they have exercised proper stewardship The table below summarises the changes which have been incorporated into this annual report

BIS narrative reporting regulations	BIS remuneration report regulations	FRC UK Corporate Governance Code	FRC Auditing Standard ISA (UK&I) 700
Creates a strategic report in place of the business review that can be sent separately to investors instead of summary financial statements	Splits the remuneration report into a forward-looking policy part and a backward looking implementation part	Implements the outcome of the FRC's Effective Company Stewardship initiative, and aims to increase users' confidence in the reliability of the annual report	Amends the audit report to provide more insight into some of the judgements made as 'inputs' to the audit process The FRC believes this will complement the audit committee's disclosures of the significant issues arising as 'outputs' from the audit under the revised UK Corporate Governance Code

1 The annotated version of the UK Corporate Governance Code and the best practice guidance was published by the Association of Financial Mutuals (the Annotated Code)

Appraising the board's performance

Every year the performance of board members is reviewed both individually and as a collective The senior independent director reviews the performance of the chairman, and the chairman reviews the performance of all other directors

Board effectiveness

The UK Corporate Governance Code recommends that FTSE 350 companies, or equivalents, (which would include LV=) commit to an externally facilitated review of board effectiveness at least every three years An external independent review of the board and its committees was undertaken by an expert consultancy in the area of board effectiveness, IDDAS, which in March 2013 concluded that the Society's board compared extremely well to its peer group of other high performing companies The board considered the recommendations and an update on progress made against some of the key recommendations is set out below

Recommendation from 2013 board evaluation	Action taken
The right skills for now and for the future Consider improvements to board induction and training programmes	The structured board training and induction programme was enriched to include regular reviews for all board members and enhanced training at regular meetings
Structures and procedures fit for the future Consider improvements to the form and focus of board papers	To help ensure that all papers submitted to the board are consistent and focused, a comprehensive corporate governance manual has been drafted to include new processes
Information evolution developing acessibility and insight Improving the provision of information to reduce information overload and allow more effective scrutiny and challenge	The board management information packs have been reviewed and refreshed to include executive summaries, supported by a dashboard of key performance indicators that will deliver the key messages for a specific board meeting
Effective engagement and communication Consider use of site visits to foster talent management and board engagement with the business	The entire board, including non-executives, undertake regular site visits (not just on induction) to see areas of interest for themselves and to meet a wider range of key stakeholders

The board

Our board is made up of six non-executive and four executive directors All the non-executive directors are regarded as independent We therefore satisfy the Annotated Code's recommendation that at least half the board should consist of independent non-executive directors

Balance of the board

The board contains an appropriate balance of expertise in management, investment, administrative and financial services, including general insurance and life insurance, to meet the requirements of our members and customers

The Board

From left to right:

Richard Rowney
Managing Director of Life and Pensions

Mike Rogers
Chief Executive

James Dean
Non-Executive Director

Mark Austen
Chairman

Cath Keers
Non-Executive Director

Philip Moore
Group Finance Director

John O'Roarke
Managing Director of General Insurance

John Edwards
Senior Independent Non-Executive Director

Caroline Burton
Non-Executive Director

David Neave
Non-Executive Director

Balance of the Board

40%
Executive Directors

60%
Non-Executive Directors

Board members

Mark Austen (64) Chairman

Mark was appointed chairman of LV= at its 2013 AGM after being a non-executive director for the Society since 2006 Mark qualified as a chartered management accountant in 1972 and spent the majority of his career at PricewaterhouseCoopers managing their global financial services consulting business His broad range of skills across several disciplines includes advising organisations on their strategies, acquisitions, operations, HR policies and technology As well as being LV='s chairman, Mark is also a non-executive director of Standard Bank plc and Mott MacDonald Group Ltd

Chairman, chair of the Nomination Committee and member of the Audit, Risk, Investment and Remuneration Committees

Mike Rogers (49) Chief Executive

Mike spent 20 years working for Barclays Bank where he carried out a variety of roles in the UK and overseas Among his senior appointments at Barclays, Mike was managing director of Small Business, Premier Banking and UK Retail Banking achieving a post-graduate Diploma in Leadership from Exeter University in 1995 In May 2006 he joined LV= as chief executive leading the business into profitability and transforming it into the vibrant and successful mutual it is today

Member of the Investment Committee and Nomination Committee

Philip Moore (54) Group Finance Director

Having held executive positions at several leading financial institutions both in the UK and abroad Philip's career in finance has spanned over 30 years He has acquired extensive knowledge in areas such as risk management, mergers and acquisitions, finance and actuarial and asset management Philip was chief executive at Friends Provident until 2007 and chief risk officer and group finance partner at Pensions Corporation LLP between 2008 and 2010 He was appointed as group finance director of LV= in 2010 As well as being part of the board and executive team at LV=, Philip is also a senior independent director and chairman of the Audit Committee of Towergate Partnership Ltd

Member of the Investment Committee

Richard Rowney (43) Managing Director of Life and Pensions

Richard spent 14 years at Barclays Bank holding a number of senior positions across corporate and retail banking including overseeing integration of the Woolwich and Barclays retail banks He joined LV= in 2007 as chief operating officer where he transformed the operational support areas to ensure they could support the fast growing trading businesses going forward Richard was appointed managing director of life and pensions in 2010 and has led the transformation of this business to create one of the UK's leading protection and retirement specialists Richard works closely with the local community and is an independent director of the Dorset Local Enterprise Partnership

John O'Roarke (56) Managing Director of General Insurance

John qualified as a chartered accountant and has spent 30 years in the insurance industry He worked for Churchill Insurance for 13 years where he was finance director and then managing director, leading the company to become one of the UK's best known insurers John was appointed chief operating officer of RBS Insurance in 2003 but left in 2005 to set up ABC Insurance, acquired by LV= in 2006 He became managing director of LV= general insurance the same year, leading the team that has quadrupled the size of the general insurance business and produced strong profit contributions

John Edwards (58) Senior Independent Non-Executive Director

John's career in the insurance and investment industry spans 35 years during which he has held chief executive positions with three successful insurance and investment groups, the most recent in International Financial Services for the Lloyds Banking Group He has also served as a non-executive director of Esure and St James's Place Capital As well as his position on the LV= board, which he joined in 2010, he is deputy chairman of Nottingham Building Society where he also chairs their Risk Committee

Chairman of the Investment Committee and member of the Risk, With-profits and Nomination Committees

Caroline Burton (64) Non-Executive Director

Caroline joined the board in 2011 She has a strong life insurance background and is a highly experienced figure in the asset management industry having spent 26 years with Guardian Royal Exchange plc, where she was in charge of investments from 1990 until 1999 She acts as a pensions and business adviser for a number of pension funds and charities and her expertise puts her in good stead to monitor the management of LV='s assets She is chairman of TR Property Investment Trust plc and a non-executive director of BlackRock Small Companies Investment Trust plc

Member of the Audit, Investment, Remuneration and Nomination Committees

Cath Keers (48) Non-Executive Director

Cath has over 20 years marketing and sales experience having worked at BskyB, Next and Avon In 2008 she won a lifetime achievement award for her outstanding impact during her career at 02, where she was customer director in charge of refocusing the organisation's customer strategy She brings a wealth of retail industry expertise to the LV= board, which she joined in 2010, and holds other non-executive positions at Telefonica 02 Europe, Royal Mail and the Home Retail Group (for Homebase and Argos)

Chairman of the Remuneration Committee and member of the With-profits and Nomination Committees

James Dean (56) Non-Executive Director

James joined the board in 2012 He is a chartered accountant and is recognised as an expert in insurance accounting having spent much of his 30 years' experience in audit and advisory roles As a senior partner at Ernst & Young he dealt with clients such as AXA, Prudential, Legal & General, RSA and Aviva, serving on boards outside the firm including as chairman of the ICAEW Insurance Committee He is also a former global IFRS leader for the insurance sector of Ernst & Young and holds non-executive director appointments at Rathbone Brothers Plc and The Stafford Railway Building Society

Chairman of the Audit Committee and member of the Risk and Nomination Committees

David Neave (54) Non-Executive Director

David has over 30 years of experience of the general insurance industry, with a particular specialism in personal lines and technical expertise in a range of functions including underwriting, claims and partnerships David started his career at Royal Insurance, which merged with Sun Alliance in 1996 to become insurance group RSA He held various roles including managing director of corporate partnerships, and claims services director for the overall UK business Most recently he was managing director of general insurance for the Co-operative Banking Group, resigning from this role in 2012 David joined the LV= board in 2013 He has also been chairman of the Insurance Fraud Bureau and the ABI Financial Crime Committee and a director of the Motor Insurers Bureau and the International Co-operative and Mutual Insurers Federation He is currently a non-executive director of Parabis Ltd and Wunelli Ltd

Chairman of the Risk Committee and member of the Audit and Nomination Committees

Board Committees

The following board committees met during 2013

Liverpool Victoria Friendly Society Board

A The Audit Committee

R The Risk Committee

I The Investment Committee

r The Remuneration Committee

N The Nomination Committee

W The With-profits Committee

The terms of reference for the board committees are reviewed each year and published on our website They can be viewed at LV com/boarddocs

Board and Committee membership and attendance in 2013

	Liverpool Victoria Friendly Society Board	A Audit Committee	R Risk Committee	I Investment Committee	r Remuneration Committee	N Nominations Committee*	W With-profits Committee
Meetings in the year	9	7	4	3	4	2	6
Dennis Holt	3/3	n/a	1/1	n/a	1/1	1/1	n/a
Mark Austen	9/9	6/7	4/4	3/3	4/4	2/2	n/a
John Edwards	9/9	n/a	3/4	3/3	n/a	1/1	2/3
Cath Keers	8/9	n/a	n/a	n/a	4/4	1/2	4/6
Caroline Burton	9/9	7/7	n/a	3/3	1/3	1/1	n/a
Mike Rogers	9/9	n/a	n/a	2/3	n/a	0/1	n/a
Philip Moore	9/9	n/a	n/a	2/3	n/a	n/a	n/a
John O Roarke	9/9	n/a	n/a	n/a	n/a	n/a	n/a
Richard Rowney	9/9	n/a	n/a	1/2	n/a	n/a	n/a
James Dean	9/9	7/7	4/4	n/a	n/a	1/1	n/a
David Neave	3/4	2/3	2/2	n/a	n/a	1/1	n/a

n/a Not applicable

* Sat independently from the Remuneration Committee on 25 October 2013

Ⓐ Audit Committee

The membership of the Audit Committee at the end of the year was

- James Dean (chairman)
- Mark Austen
- Caroline Burton
- David Neave

The company secretary acts as secretary to the committee The Audit Committee meets at least five times a year and has an agenda linked to events in the Society's financial calendar including approving any press releases to the market on financial reporting Other individuals may be invited to attend all or part of any meeting as and when appropriate including, but not limited, to the chief executive, the group finance director, the internal audit director, the chief risk officer, the group financial controller and the group chief actuary The external auditors (currently PricewaterhouseCoopers LLP (PwC)) attended all of the committee's main meetings in 2013, except when their own performance was being reviewed

The board considers that all the members of the committee are independent and bring significant and relevant skills and experience to the function of the committee All members undertake induction training and continuing professional development James Dean, in particular, as the chairman and a former senior partner at Ernst & Young, has the requisite 'recent and relevant financial experience', as recommended by the Annotated Code The terms of reference of the Audit Committee include all the matters required under the Code and follow FRC guidance

The primary purposes of the Audit Committee are to

- Review the effectiveness of the Society's internal controls and risk management systems alongside the work of the Risk Committee

- Review the financial reporting process and outputs so as to ensure the balance, transparency and integrity of published financial information and the Society s process for monitoring compliance with laws and regulations affecting financial reporting

- Review the effectiveness of the internal audit function (whose remit covers all risk classes)

- Review the effectiveness of the external audit process (the remit for which is external reporting matters) including the appointment and ensuring the independence of the external auditor and the use of the external auditor for non-audit work

- Engage independent counsel and other advisers as it deems necessary to assist in the carrying out of its duties

Significant judgements, key assumptions and estimates

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the group's results and remuneration of senior management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements The main areas of focus during the year are set out in the following significant issues table

Area of focus	Audit committee action in year	Conclusion / outcome
The longevity assumption used to estimate the value of liabilities associated with enhanced annuity products Enhanced annuities continue to be a major source of new business, increasing the exposure to longevity risk (i e the annuitants live longer than expected) Small changes in the assumption will have a material impact on the value of long-term insurance contract liabilities	The committee has reviewed management reports in relation to this assumption, considered market data and has also reviewed the findings of the external auditor who has also focused on this area	The committee agreed with the conclusions of a report commissioned by management that the mortality curves used to value the liabilities in respect of the enhanced annuities should be modified so as to reflect more appropriately the expected development of mortality over the remaining lifetime of the business
Other key life assumptions and methodology matters The calculation of the Group's long-term insurance contract liabilities requires assumptions to be made around various items of future experience relating to the underlying business, inevitably entailing a high degree of uncertainty	The committee reviewed reports from management proposing a number of changes to the calculation of the long-term insurance contract liabilities These included proposed changes to the allowance for the additional mortality expected to arise under protection policies on rated lives, the future longevity experience of annuities on standard lives, and the persistency assumptions for certain products so as to reflect more closely the emerging experience	The committee concurred with management as to the reasonableness of the proposed changes They also reviewed management's assessment of the adequacy of the allowance for the future inflation of unit costs and accepted the view that it remained appropriate
Methods and assumptions used to estimate the costs of claims for general insurance products This area is inherently subjective In addition, developments such as claims farming, the increase of settlements via periodic payment orders (PPOs) together with the Ministry of Justice claims reforms increase the uncertainty around future settlement costs and hence the valuation of general insurance contract liabilities	The committee receives a detailed report from management outlining the general insurance reserving process prior to the half-year and the year-end This report is reviewed and discussed at Audit Committee meetings The work performed by the external auditor is also considered by the committee when concluding if methods and assumptions used by management are acceptable Furthermore, an independent review of personal injury claims reserve projections was received from Towers Watson and reviewed by the committee during the year	The regular reviews of the general insurance reserving process have given the committee comfort that methods and assumptions used to estimate the cost of claims for general insurance products are reasonable
Goodwill and intangibles The appropriateness of the carrying value of goodwill and intangibles we hold on our balance sheet	The committee has reviewed the results of the annual impairment assessment which compares the recoverable amount against the carrying value for both the general insurance and life businesses as separate cash generating units Consideration has been given to the appropriateness of value in use calculations, including discount rates applied	The committee has concluded that methodologies used to measure the value of goodwill and intangibles held on the balance sheet are appropriate Results of these calculations confirmed that carrying values were appropriate and therefore no aditional impairment was required
Pension accounting The methodology used for accounting for the group pension scheme, including the impact of the changes to IAS 19 'Employee benefits'	The committee has monitored the assumptions used for calculating IAS 19 'actuarial gains and losses' An early review of the Annual Report, particularly the 'Pension benefit asset or (obligation)' note has been carried out to ensure that disclosures are in line with new IAS 19 requirements	The committee is satisfied that the pension benefit asset or (obligation), and re-measurements have been calculated using appropriate assumptions and that disclosures have been updated correctly in line with the revised requirements of IAS 19

Area of focus	Audit committee action in year	Conclusion / outcome
Buy out payments The accounting treatment of the buyback of the ABC executives' shares in Liverpool Victoria Insurance Management Limited and the creation of a replacement long term incentive scheme	The committee has reviewed management reports outlining the proposed accounting treatments and subsequent disclosures relating to these schemes Discussions with the external auditors provided additional comfort in this area, which was deemed particularly important as the schemes affected the remuneration of John O'Roarke, an Executive Director of the LV= Group	Following a detailed review of the Annual Report the committee is satisfied that reporting for this area is compliant, fair and transparent
Capital strength Appropriate capital and liquid assets are in place Following the capital raise and the resultant listed status reporting requirements for LV= have increased	Management provided the committee with regular reviews (at least six monthly) of the group's capital position, including details of the £350m capital raise during the year The committee also reviewed proposed reporting, both for the debt itself and additional requirements (reporting and governance) which have arisen due to LV='s listed status	The committee is satisfied that the capital raise was conducted appropriately and noted the consequent improvement in the group's capital position Subsequent changes to reporting and governance have ensured that LV= has remained compliant with applicable regulations
Reporting changes During the year additional reporting requirements have arisen due to regulatory change	The committee has monitored financial reporting requirement changes throughout the year This has included BIS narrative reporting regulations, BIS remuneration reporting regulations and FRC Corporate Governance code updates Early drafts of the Annual Report were considered by the committee and review points were passed back to management to ensure compliance The committee considered the structure and content of the new strategic report and also considered whether the Annual Report and accounts taken as a whole was fair, balanced and understandable	The committee has concluded that the Annual Report is compliant with the additional reporting requirements which arose during the year and is fair, balanced and understandable, providing the information necessary for stakeholders to assess the Society s performance, business model and strategy

Summary of key activities during 2013 by which the Audit Committee discharged its responsibilities

Internal controls

- Monitored the group's internal controls by considering a number of reports on the key controls and risk management functions and identified key issues, initiating actions for these to be resolved,

- Carefully considered the results of in-depth testing carried out by management and internal audit and also work carried out by the external auditor, for example analysis of journals Specifically, focus was directed towards testing for fraud in revenue recognition The results of testing led the committee to conclude that controls in this area are robust,

- Conducted a full annual review of the effectiveness of all material internal control processes including financial, actuarial, operational and compliance controls and risk management systems, which was carried out by the group risk management function The review's aim was to assess the effectiveness of the control environment and identify any areas for improvement, and

- Reviewed the arrangements through which employees can raise concerns about possible irregularities relating to financial reporting or other matters including reviewing all whistle blowing reports

Financial reporting

- Analysed and scrutinised the key accounting policies, judgements and actuarial assumptions with management, the external auditors and the actuarial function holder,

- Reviewed procedures for dealing with any complaints regarding accounting, reporting, internal control or auditing matters,

- Considered management's regular reviews of the going concern status of the group, ensuring that appropriate capital and liquid assets are in place to allow the group results to be reported on a going concern basis,

- Monitored the financial results communicated to members, including the Annual Report and Accounts,

- Reviewed and recommended all external financial reporting for the Society (including press releases and any interim announcements put onto the regulatory news service of the London Stock Exchange) to the board (or the Disclosure Committee) together with supporting narrative, ensuring estimates, judgements and reporting issues are considered so that there is appropriate balance, transparency and integrity of information contained in the Annual Report and Accounts,

- At the request of the board, the committee considered whether the 2013 Annual Report was fair, balanced and understandable and whether it provided the necessary information for stakeholders to assess LV='s performance, business model and strategy An in-depth review of the final draft Annual Report was carried out by the committee who were satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable,

- Recommended to the board the Society's PRA annual return, ICA submissions and Valuation Reports, and

- Recommended to the board the design, calibration, validation and results from the group and its subsidiaries internal capital model (including ICA and ORSA)

Internal audit

- Reviewed the effectiveness and activities of the internal audit function This review reflected the ongoing development of the function in terms of quality and impact on the group A self-assessment against the Chartered Institute of Internal Auditors (CIIA) guidance, 'Effectiveness of internal audit in financial institutions' was completed during the year The gap analysis with a high-level action plan was reported to the Audit Committee and confirmed there were no significant gaps This analysis was considered to be a fair assessment by the Audit Committee,

- Ensured that significant findings and recommendations made by the internal auditor and management s proposed response were received, discussed and appropriately acted upon, and

- Reviewed the proposed internal audit plan for the coming year to ensure that it addressed key areas of risk and that there was appropriate co-ordination with the external auditor

External audit

- Reviewed the performance of the external auditor, including the chairman meeting privately with the auditor to give feedback The committee reviewed an evaluation of the effectiveness of the external auditors, which was prepared by internal audit using input from across the group The committee concluded that the external auditor was effective and recommended the reappointment of the external auditor for a further one year term, agreeing the terms of engagement and scope of the audit fee for the forthcoming period PwC have been LV='s auditor since 2008,

- Reviewed the policy for and monitored the use of the external auditors for any non-audit related work to ensure its continued independence was not prejudiced and to ensure that the provision of such services did not impair the external auditors' objectivity,

- Reviewed and approved the external auditors proposed audit scope and approach for the current year as set out in its 2013 audit plan, in the light of the group's present circumstances and changes in regulatory and other requirements,

- Discussed with the external auditor any audit problems encountered in the normal course of audit work, including any restrictions on audit scope or access to information as part of ensuring that significant findings and recommendations made by the external auditors and management's proposed response were received, discussed and appropriately acted upon, and

- Met privately with the external auditors PwC

Committee's effectiveness
The committee reviewed and amended its terms of reference in 2013 as part of a group wide project to review and document the board's committee governance structure, including all terms of reference and delegated authorities The committee reviews its own effectiveness annually and reviews the effectiveness of each meeting prior to conclusion to ensure continuous improvement

Priorities for 2014
The committee plans to maintain its focus on the areas outlined in the significant issues table above and expects to consider the Sharman Committee report on going concern, the effects of Solvency II and IFRS 4 Phase II 'Accounting for Insurance contracts'

R The Risk Committee
The Risk Committee is made up of
- David Neave (Chairman)
- Mark Austen
- James Dean
- John Edwards

The Risk Committee meets at least four times a year with other attendees including, but not limited to
- the chief executive,
- the group finance director,
- the chief risk officer,
- the internal audit director, and
- the head of compliance

The principal role of the committee is to consider the risks faced by LV= and advise the board

More details of the group's policy on risk management, and the activities of the committee during the year are set out in the Risk Management section on page 38

r Remuneration Committee
The Remuneration Committee met four times during 2013 and is expected to meet four times in 2014

The committee is made up of three independent non-executive directors
- Cath Keers (chairman)
- Caroline Burton
- Mark Austen

Input is provided by the HR director, the chief executive and the chief risk officer, who attend by invitation On behalf of the board, the committee determines
- The group's policy on executive remuneration, and
- The specific packages for each of the executive directors and certain senior managers, including groupwide and specific divisional LTIP schemes for the life and general insurance businesses

More details of the group's policy on executive and senior management remuneration, and the activities of the committee during the year are set out in the Report on Directors Remuneration on page 72

N Nomination Committee
The Remuneration and Nomination Committees met as a combined committee until September 2013 at which point the committees divided The Nomination Committee now meets separately and is attended by all the non-executive directors This change was implemented to further enhance the transparency and independence of the nominations process for senior management roles The Nomination Committee is expected to meet at least twice in 2014

The Nomination Committee comprises the six independent non-executive directors,
- Mark Austen (chairman)
- Cath Keers
- David Neave
- Caroline Burton
- James Dean
- John Edwards

and also includes Mike Rogers as a member

The committee
- Evaluates the balance of skills, knowledge and experience on, and required by, the board for board appointments and certain senior management roles, and

- Prepares a description of the role and capabilities required for any particular appointment

Recruitment consultants will usually be instructed to help compile a shortlist of candidates for interview for board vacancies The committee will then recommend appointments to the board for approval During 2013 the Nomination Committee oversaw the recruitment of David Neave to the board

Diversity statement

The board strongly believes in the importance of its diversity, and recognises the different views, opinions and thinking brought into the boardroom as articulated in the recommendations of the Davies Report

The Society currently has a female representation of 20% on its board, who bring a broad perspective of expertise to its deliberations The board proposes to continue to ensure that it incorporates diversity considerations into its thinking when making new appointments and to ensure that the overall balance of its capabilities to be effective is retained Any executive search firm engaged will be required to place appropriate emphasis on the requirement for boardroom diversity of skills and backgrounds and produce listings that include female and other diverse candidates of appropriate merit The chairman is a member of the 30% Club which is committed to bringing more women onto boards

The board has a strong interest in the development and progression of women at all levels in the group and has encouraged a significant initiative in promoting the benefits of the diversity agenda within LV= during 2013

(I) Investment Committee

The Investment Committee comprises three non-executive directors

- John Edwards (chairman)
- Caroline Burton
- Mark Austen

and two executive directors comprising

- Mike Rogers, and
- Philip Moore

The committee meets twice a year and the group's chief investment officer, chief risk officer and representatives from the group's asset manager, Threadneedle Asset Management (TAM) usually attend by invitation

It is responsible for

- Developing, recommending and overseeing the investment strategy for the group, aligned to its business and risk strategy,

- Monitoring and reviewing the operational performance of TAM covering its relative investment performance against mandates set, service levels, contract terms and conditions including its charges compared to alternative providers, and

- Investment activity undertaken by management including the oversight of the group s Asset and Liability Committee (ALCO) delegated activities and effectiveness of decisions and actions

(W) With-profits Committee

The With profits Committee meets at least five times a year, and comprises

- Graham Berville (independent chairman)
- Cath Keers
- John Edwards
- John Perks, the managing director of our retirement solutions business

Graham Berville has extensive and relevant industry experience and was formerly CEO of Police Mutual

The role of the committee is to

- Bring independent judgement to the assessment of compliance with the statement of Principles and Practices of Financial Management, and

- Monitor how any competing or conflicting interests between different groups of policyholders are resolved

The committee can engage external professional advisers to assist in delivering its objectives effectively and draws on the expertise of the with-profits actuary Input is also provided by the chief actuary and the actuarial function holder, who attend by invitation

Executive Committee

The chief executive chairs this weekly committee meeting to monitor our business performance It also meets in order to help him meet the responsibilities which the board has delegated to him and as a pre-cursor to its monthly reporting to the board

Matters reserved for the board

There is a clear list of matters which only the board can decide on, other matters are delegated to the group chief executive Matters reserved to the Society's board are outlined in the table opposite

In 2013 the board met 7 times for formal board meetings, 5 on an additional ad hoc basis to discuss specific issues and twice for strategy and planning sessions In 2014 the board expects to meet at least 8 times and to have two strategy and planning sessions

There was one new appointment to the board in 2013 David Neave joined the board as a non-executive director in June 2013

Under the Society's rules all directors are required to stand for re-election at least once every three years, and therefore John Edwards, Philip Moore, Cath Keers and Richard Rowney will be offering themselves for re-election at the 2014 Annual General Meeting along with our new appointee David Neave Mark Austen, as chairman, voluntarily, and in line with the recommendations of the Annotated Code, offers himself for re-election each year

Matters reserved for the board

Strategy and planning	• determining and overseeing delivery of the group's strategy, • approval and monitoring of long-term strategic plans and objectives, • approval and monitoring of the group annual business plan
Appointment and removal of officers	• appointment and removal of the Society's chairman, deputy chairman (if appointed), senior independent director, company secretary, group chief executive, chief investment officer, chief risk officer, with-profits actuary and actuarial function holder and directors of the Society and its subsidiaries
Financial matters	**Approval of** • capital or revenue expenditure exceeding £5 million or greater than £2 5 million where this expenditure is over the agreed budget, or any expenditure deemed to be outside the normal course of business, • the Annual Bonus Declaration, • the Individual Capital Assessment and its submission to the PRA, • recommendations, if any, to the Financial Condition Report, • the Valuation Report and the Annual Report and Accounts
Mergers, acquisitions and disposals	• Mergers, acquisitions and disposals either by the Society or any of its subsidiaries with a value greater than £5 million, • approval of mergers, acquisitions and disposals and overseeing effective integration
Governance and compliance	**Approval of** • the Notice of AGM (including reappointment of auditors), any proposed amendments to the Memorandum & Rules and related documentation in connection with the AGM, • approval and periodic review to discuss specific policy statements as the board may determine from time to time including principal risk policies (except those delegated to the Risk Committee), • any political donations, • the membership of board committees, • the terms of reference of board committees, subsidiary company boards and the Executive Asset and Liability Matching Committee, • policy changes in pension entitlement and staff pension scheme funding

Directors' Report

Rachel Small
Company Secretary

Business activities and future prospects

LV= is an incorporated friendly society that, together with various subsidiaries, carries out insurance and financial services business in the United Kingdom, through LVFS and its subsidiaries These activities cover with profits insurance, life protection (both term and whole of life), annuities, equity release, motor, home, pet and travel insurance The directors consider that all the activities undertaken by the group during the year were within the Society's rules and relevant regulatory permissions

The board sets objectives and priorities supported by key performance indicators (KPIs) and targets, which it monitors on a regular basis throughout the year

During 2013, the key objectives and priorities were to

- Achieve the profit and enterprise value target results for each business unit
- Meet the benchmark target investment return achieved on our with-profits fund
- Raise sufficient capital to grow our business and to ensure we have sufficient capital to withstand economic and market shocks with sufficient surplus on our regulatory and economic capital cover ratios
- Share the financial returns from our trading businesses with eligible members via a mutual bonus scheme
- Make further progress towards our goal to be Britain's best loved insurer
- Continue to develop the effectiveness and maturity of our Enterprise Risk Management Framework in line with the growth of the business
- Continue to improve our financial reporting systems and processes to enhance our profit, cash and capital forecasting models and to report on a more timely basis
- Continue to maintain staff engagement levels at or above those of high performing organisations (as defined by Towers Watson)

Performance against these objectives is regularly reviewed at board meetings

Business strategy
The board has chosen to set out the group's strategic report information required under applicable law and regulations in full which can be found on pages 8 to 51 of this report headed 'Our Strategy'

Board directors and interests
The current members of the board and details of its various committees are shown on pages 56 to 67 together with their dates of appointment

John O'Roarke is a minority shareholder in LV General Insurance Group with a 22 22% shareholding in the Ordinary B Class share-class (equivalent to approximately 0 25% of the total Ordinary share capital of LV General Insurance Group) and is a party to a contract for LVFS to purchase his shareholding on 31 December 2015 Further details are given in note 51 to the Financial Statements

At 1 January 2013 John O'Roarke was a minority shareholder in LV Insurance Management Limited equivalent to approximately 1 11% of the total ordinary share capital and was a party to a contract for LVFS to acquire that shareholding This liability was settled in full in May 2013 Further details are given in note 51 to the Financial Statements

We continued to maintain liability insurance cover for our directors and officers during the year

With-profits bonus declaration
The board has declared an annual bonus for the year ending 31 December 2013 at 1% of the sum assured for industrial branch business and at 2% of the sum assured for conventional ordinary branch life business Interim bonus rates will also be at these levels Final bonus rates in 2013 maintain our competitive position

Basis of accounting
These accounts are presented using International Financial Reporting Standards (IFRS), as adopted by the European Union, drawn up on a going concern basis The directors are satisfied that the group has adequate resources to continue in business for the foreseeable future and that accordingly the going concern basis is appropriate Further details about the directors' responsibilities for the accounts are described below

Fixed assets
Changes in our fixed assets are shown in note 31 of these accounts

Margin of solvency
Throughout the year and at 31 December 2013 we held the required capital resources for each business class as prescribed by the PRA

Independent auditor
A resolution for the re-appointment of PricewaterhouseCoopers LLP as auditor will be proposed at the 2014 AGM

Managing risk and return
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

To better manage risk levels on a day-to-day basis a system of capital budgets is in place for each business Each business is expected to manage its position in line with its capital budget and risk appetite position

A full overview of our risk management can be found on page 38 Note 4 of these accounts also provides 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 effectiveness 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 takes reports from the internal audit, compliance and risk functions See Audit Committee report on pages 61 to 65, which 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

The group's internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss In assessing what constitutes reasonable assurance, the board has regard to materiality and to the relationship between the cost of, and benefit from, internal control systems

Whenever any significant control weaknesses are identified actions are taken, or agreed plans are put in place and tracked by the board to implementation The system was in place throughout the year

Our employees
Detail about our people, our people policies including the employment of disabled persons, our diversity and inclusion programme and engagement with our staff generally can be found on pages 48 to 50 of this report, headed 'Our Corporate Responsibilities'

Charitable donations
A full view of our charitable donations and corporate social responsibility activities can be found on page 46 to 51 No political donations were made in 2013

Statement of disclosure of information to the auditor

As at the date of this report each director confirms that

1) so far as (s)he is aware, there is no information relevant to the audit of the Society's financial statements for the year ending 31 December 2013 of which the auditor is unaware,

2) (s)he has taken all steps that (s)he ought to have taken in his/her duty as a director to make him/ herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information

Directors statement of responsibility

The Friendly Societies Act 1992 (1992 Act) requires a friendly society's Committee of Management to prepare accounts for each accounting period As we are incorporated under the 1992 Act our board of directors has assumed the responsibilities and duties of the Committee of Management in relation to these accounts

These accounts must comply with the relevant provisions of the 1992 Act, and present fairly the financial position, financial performance and cash flows of the society and the group at the end of the accounting period In carrying out this duty, the directors have chosen to use IFRS as adopted by the European Union

Legislation in the UK that governs the preparation and publication of accounts may differ from legislation in other jurisdictions A fair presentation of our accounts in accordance with IFRS requires our directors 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 Society 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 Society and the group s financial position and financial performance, and
- State that the Society 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 Society and the group,
- Appropriate internal control systems to safeguard our assets and to prevent and detect fraud and other irregularities, and
- 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 58 and 59 confirm that to the best of their knowledge and belief

- The group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group,
- The Business Reviews on pages 22 to 37 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 2013, and
- A description of the group's principal risks and details of the group's risk governance structure are provided on pages 40 to 41

Having taken all the matters considered by the board and brought to the attention of the board during the year into account, the directors are satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for our members and investors to assess the Society's performance, business model and strategy

By order of the Board of Directors

Rachel Small

Rachel Small, Company Secretary
28 March 2014

Report on Directors' Remuneration[1]

Cath Keers
Chairman of the Remuneration Committee

Annual statement

Dear Member,

As the chair of the Remuneration Committee I work closely with the executive team at LV= to ensure we offer a reward package that attracts and retains the best people who can continue to deliver great results on your behalf There is no doubt that 2013 has been a challenging year, yet we have continued to develop LV= as an insurer that offers great service to all our members and customers, this is something we are all very proud of

There has been a great deal of press coverage about the change to regulations governing remuneration for executives, particularly in relation to the financial services sector These changes have been made to strengthen the link between the rewards people receive for the performance they deliver and the long-term financial health and stability of the businesses they work in As a friendly society in the insurance sector we are not governed by the same regulations, yet we choose to use them as a guide for the best way to manage and govern our reward practices

The Remuneration Committee regularly reviews the Society's executive remuneration policy to ensure it achieves its objectives to recruit, motivate and retain executives of the calibre required to lead the business In broad terms, our policy on the key elements of the reward package is as follows

Salary

Basic salary is paid at a level which is around the average of that which is paid by other organisations of a similar size to our own, to people in similar roles When deciding the appropriate level of pay for our executives we take account of their performance, experience and potential for the future From 1 April 2014, salaries for our directors will increase by a maximum of 2% The 2014 average increase for our broader employee group has also been agreed at 2%

Annual bonus

The bonus outturn for 2013 was an average of 74% of the maximum opportunity which reflects a strong performance in a challenging market place

As part of a re-balancing of our remuneration package, following a reduction in the earnings potential of the long-term schemes in 2013, we have undertaken a review of our short-term annual bonus scheme for 2014 by looking at the practices of other organisations in the market The proposed increases to potential bonus awards ensure that we remain competitive, these are shown on page 75 Payments made under the annual bonus scheme will continue to focus on both the financial performance of the business as well as an array of strategic objectives to ensure our executives remain focused on both the short-term and long-term health of the Society

Long-Term Incentive Plan (LTIP)

Our LTIP is designed to reward executives for delivering high performance in business results which is sustainable over the long-term To ensure executives are rewarded appropriately, in 2013 we introduced a number of additional hurdles to the LTIP that must be met in order for LTIP payments to be received in full, as well as reducing the maximum pay-out from a multiple of three to two This provides an additional safeguard to our members, that incentives are only paid for the delivery of strong business results In addition, we use the FCA guidelines as a basis for our policy on the deferral of variable pay for executives When the policy is applied, two-thirds of any pay-out will be deferred for a further period of two years after it has been awarded These deferred payments are linked to the value of the Society's with-profits fund, ensuring a further link between the remuneration executives receive and members' interests
The performance targets for all in-flight schemes remain stretching and aligned with the group's strategic objectives

[1] This part of the Directors Remuneration Report sets out the remuneration policy for the group and seeks to follow the provisions of The Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Act) where we believe this assists with disclosure The policy has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our members and describes the policy to be applied from 2014 onwards

2013 has been a challenging year, yet we have continued to develop LV= as a leading insurer in the UK that offers great service to all our members and policyholders.

Divisional incentives

General insurance - a divisional incentive scheme was put in place in 2013 for some key individuals in that business, including John O'Roarke managing director of the general insurance business, to ensure they were incentivised to achieve a stretching performance plan beyond 2013 and to deliver continued exceptional results for members Full details of the scheme can be found on pages 76 and 77 Members of this scheme are not permitted to join the group LTIP scheme

Life - from 2014, a divisional incentive scheme has been introduced for Richard Rowney, managing director of the life and pensions business, and other vital members of the life team with skills key to driving exceptional growth for the retirement business, details can be found on pages 76 and 77 The scheme has been designed to reward participants for considerable growth in the life business, over the long-term Due to the deferred payment conditions built into this scheme, Mr Rowney will not receive any payments until 2020 Members of this scheme are also permitted to participate in the group LTIP scheme

Pension

With effect from 30 June 2013 we closed the defined benefit (DB) section of our pension scheme to future accrual Executives may participate in a defined contribution (DC) pension scheme or take a cash alternative

Performance during the year has been strong in a challenging market place and we have managed risks within our risk appetite As a result the remuneration committee has released all previously deferred payments without alteration for the misstatement of results or performance issues for individuals There have been no changes to measurements or weighting of performance measures during the year

Consistent with our aim to comply with best practice, we have sought to prepare the Directors' Remuneration Report in line with the new reporting requirements contained in the BIS remuneration report regulations which apply to listed companies The Directors' Remuneration Policy and the Annual Report on Remuneration will each be subject to an advisory vote at the forthcoming AGM so that we can take on board your views in setting our policy for the future

I hope that as members you will be supportive of both resolutions to approve the payments made in the year under review and the remuneration policy going forwards at this year's AGM

Yours sincerely

Cath Keers
Chairman of the Remuneration Committee

Directors' Remuneration Policy Report

Remuneration policy
When developing our remuneration policy we compare ourselves to other businesses, in particular financial services organisations of a similar size to our own, to ensure our policy is designed to support recruitment, motivation and retention of talented people who are able to achieve stretching targets and deliver greater benefits for our members Our aim is to provide total remuneration packages at the relevant mid-market level with a significant proportion dependent upon the delivery of strong performance with higher levels of remuneration available for exceptional performance Our remuneration policy is strongly influenced by good risk management practice to ensure that management are incentivised appropriately to support the short, medium and long-term interests of our members This policy for executive directors is described in more detail below

While we currently remain outside the scope of the Financial Conduct Authority's (FCA) remuneration code, we keep it under regular review and aspire to follow its spirit

Seeking the views of members
The committee is keen to hear members' views on the Society's remuneration policy and the remuneration decisions which the committee takes on our members' behalf To this end, the chairman of the committee has previously conducted a presentation and feedback session to the members' panel immediately before the Society's AGM, in order to provide a detailed explanation of the remuneration policy and its implementation and to give an opportunity for members to ask questions We anticipate that similar sessions will feature in future AGMs

This year, we will be holding two separate votes on the Directors' Remuneration Report one on the Society's remuneration policy for directors and a second on the implementation of the policy during the year under review and the current financial year This is in line with changes in legislation on executive pay governance that will apply to listed companies, although both of these votes will be on an advisory basis which will enable the Society to take on board the views of our members The Society will move to a binding vote for the remuneration policy in 2017, in line with the regulations

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

The committee takes into account employees' views with regard to remuneration generally when determining the design of the Society's remuneration policy It does not however consult employees generally regarding the pay arrangements for senior executives, although this position is kept under review

Summary table of the remuneration policy for executive directors
This policy is intended to apply for three years beginning on 1 January 2014

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

Notes to the policy table
The committee selected the performance conditions because these are central to the Society's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business The performance targets are determined annually by the committee following consultation with the audit and risk committees and are typically set at a level that is above the level of the Society's forecasts

The committee is of the opinion that the performance targets for the annual bonus are commercially sensitive in respect of the Society and that it would be detrimental to the interests of the Society to disclose them before the start of the financial year The targets will be disclosed after the end of the relevant financial year in that year s remuneration report

Element of pay	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To attract and retain high performing individuals to lead the Society	Salaries are reviewed annually (but not necessarily increased) taking account of several factors including individual experience, responsibilities, function and sector, along with individual and group performance The committee also reviews a range of benchmarking information on pay levels in organisations of comparable size and complexity to LV= If salaries are increased they are effective from 1 April each year Our policy is to pay salaries at the mid-market level for good individual performance, in line with the relevant market for the job	There is no prescribed maximum annual increase The committee is guided by the general increase for the LV= employee population and wage increases generally, but on occasions may need to take into account factors such as retention risk, development in the role and/ or changes in responsibility	Individual performance is taken into account when salary levels are reviewed
Benefits	To operate a competitive benefits structure that provides adequate protection to our employees and aids recruitment and retention	The Society provides • car allowance • medical insurance • income protection cover • group product discounts, which are available to all staff and directors on equal terms	Car allowance of up to £10,200 The value of other benefits is based on the cost to the group and is not pre-determined	N/A
Pension	To provide the facility for a competitive and viable retirement income	Directors can elect to join a defined contribution pension scheme or receive a cash sum in lieu of pension contributions	Up to 22% of salary may be paid as a cash sum and/or contribution to a defined contribution pension scheme	The pension scheme is benchmarked against general market practice
Annual bonus	To drive and reward delivery of near-term business objectives	A performance plan is agreed with each executive for the performance year using a balanced scorecard approach The annual bonus is not pensionable Part of the annual bonus may be deferred Any amount deferred will be paid after a period of three years During the deferral period, the value of deferred amounts will be tied to the value of investments in the with-profits fund, thereby creating a link to on going business performance and members' best interests	Chief executive maximum 150% of salary Other directors maximum 120% of salary Half of the maximum opportunity is paid for on-target performance	The annual bonus pot is measured against annual group and divisional financial objectives, accounting for 60% of the assessment and a balanced scorecard of objectives covering risk, people, strategy and customer, accounting for the remaining 40% Risk is taken into account when assessing performance against all the measures in the balanced scorecard and the committee may reduce or cancel any bonus payment if it considers that risk exceeded acceptable levels In addition, no bonus payments will be made unless the Society achieves a pre-determined level of profits

Element of pay	Purpose and link to strategy	Operation
Group long-term incentive plan (LTIP)	To drive and reward the achievement of longer-term business objectives, including the value of the Society to its members The scheme provides further alignment between the interests of executive directors and members	LTIP pay-outs will be made in cash One-third of any payment will be made after 3 years when the scheme vests, one-third will be deferred for a further year and one-third will be deferred for 2 years after vesting
Divisional long-term incentives (applies only to divisional managing directors)	To drive and reward exceptional performance against longer term business objectives of the business units	**Life** The managing director, life and pensions participates in an incentive plan implemented in 2014 to reward exceptional performance relating to value growth in the retirement business The scheme operates over a single 3 year period to the end of 2016 and awards will only be made where levels of performance are achieved that would release a maximum group LTIP award, in the year of vesting LTIP pay-outs will be made in cash, payable after a deferral period of 3 years **General Insurance** The managing director, general insurance, was part of the management team which previously owned LV Insurance Management Limited, 95% of which was acquired by LV= in 2006 and the residual 5% in 2013 The members of the team were given the opportunity to reinvest part of the 2013 sale proceeds in a new divisional share scheme (as described on page 87) under which the consideration which the team will receive for their shares in 2016 is linked to the future growth in the value of the general insurance business unit Any payments will be made in cash, without deferral
Deferred variable pay and claw-back	The FCA provides organisations with guidance on the appropriate deferral of variable pay Whilst the Society does not fall within the scope of these regulations, it seeks to adopt these principles as a matter of best practice We operate a policy of deferral that covers our annual bonus scheme, the group LTIP and any divisional LTIP in operation, this includes the option for the Remuneration Committee to claw back any deferred payments	At least 40% of the variable remuneration paid to executive directors is delivered in long-term pay, this is paid in full after a period of deferral of three years, beginning at the date the variable pay was awarded If this ratio is not met, then a portion of the annual bonus payment for that year will be deferred For employees whose variable remuneration is £500,000 or more, the requirement will be that 60% be in long-term pay Deferred payments are subject to claw-back, at the discretion of the committee, where it has come to light that awards were made in error or where new information is made available that would have changed the value of the original award

Maximum opportunity	Performance measures
Chief executive award value 100% of salary Other board executive directors 75% of salary, with the exception of John O'Roarke who is not a member of the group LTIP scheme Maximum pay-out is capped at 2x the value of the original award	The LTIP pay-out for all executive directors is subject to growth in group Enterprise Value (the benchmark by which we measure our long-term performance) and, for the chief executive and group finance director, an additional measure of Relative Investment Performance of the Society Both are measured over a three year performance period, commencing on 1 January each year The Enterprise Values of the group and divisions are assessed with reference to clearly defined valuation bases These valuation bases are reviewed every three years by independent advisers The LTIP scheme will only pay out if the growth in group Enterprise Value over the scheme period exceeds a target growth rate which is more than an appropriate return on the group's capital, taking account of prevailing interest and inflation rates and the nature of the risks which the group undertakes In determining whether Enterprise Value targets have been achieved, the committee may, where appropriate, make positive or negative adjustments for the financial impacts of any management actions which affect the calculation of the Enterprise Value, to ensure that the calculation is fully aligned to the interests of members No payment will be made unless a mutual bonus is also paid in that year and the Society is operating at least at a minimum agreed level of capital adequacy in that year Any amounts earned in a year in which no mutual bonus is paid would be deferred until such time as a bonus is paid
Maximum pay-out for the managing director, life and pensions is capped at £1 25 million	The life divisional long-term incentive plan is linked to the growth in Enterprise Value for the retirement business, using the same calculation method as is used in the group LTIP
For the managing director of general insurance the value of the award is determined as a percentage of the value created within the business unit, but subject to a cap Further details are given in the Annual Report on Remuneration on page 87	The general insurance divisional scheme is linked to the total shareholder return generated by the division based on the increase in the open market value from 31 Dec 2012 to 31 Dec 2015 plus the cumulative ordinary dividends paid

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Provisions of previous policy that will continue to apply – LTIP awards 2012 and 2013

The outstanding awards under the LTIP will continue to form part of the remuneration policy until vesting Payments are based on growth in Enterprise Value and Relative Investment Performance of the business Maximum opportunities under these awards are three times the original award for the 2012 scheme and two times the original award for the 2013 scheme

Change to remuneration policy from that operating in 2013

Pension – With effect from 30 June 2013 we closed the defined benefit (DB) section of our pension scheme to future accrual All active members of this scheme were given the option to move into the defined contribution (DC) section of our scheme from that date As before, a payment in lieu of pension contributions is made if a director chooses to cease active membership because they are approaching the lifetime allowance

Annual bonus – To rebalance the reduction in the LTIP multiplier from three to two, which was made last year, maximum awards have increased to bring the annual bonus scheme in line with the median position for the market

- Chief executive maximum 150% of salary (2013 110%), and
- Other directors maximum 120% of salary (2013 80%)

In addition, we have introduced a formal balanced scorecard approach that reflects financial metrics (60% of award) and a balanced scorecard of objectives covering risk, people, strategy and customer (40% of award)

Divisional LTIP – A scheme has been introduced for the life managing director to support the accelerated growth of the retirement business Any award made under this scheme will be based on a percentage of the growth in Enterprise Value of the retirement business, over and above 18% compound growth

Illustrations of application of remuneration policy

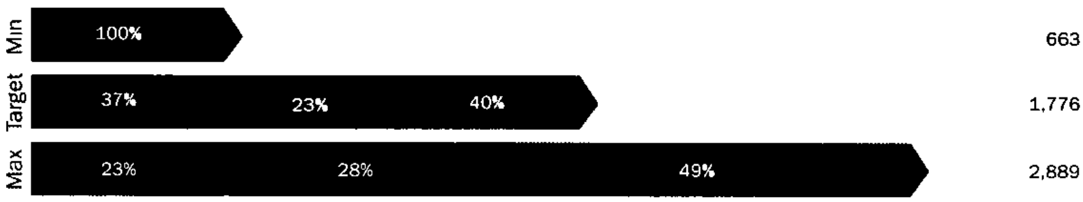
The group's policy results in a significant portion of remuneration received by executive directors being dependent on group performance The chart below illustrates how the total pay opportunities for the executive directors vary under three different performance scenarios minimum, on-target and maximum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

Indicative of remuneration packages for 2014 at different levels of performance

LTIP award (2012 - 2014 scheme
Bonus (of 2014 Salary)
Basic Salary benefits and pension

Mike Rogers
Chief Executive

Total remuneration £ 000



Philip Moore
Finance Director

Richard Rowney
Managing Director – Life and Pensions

John O'Roarke
Managing Director – General Insurance

Notes

1 Basic salary is based on salary coming into effect on 1 April 2014 Benefits and pension levels are based on 2013 amounts on the basis that these will not be significantly different from amounts expected to be paid in 2014

2 The on target level of bonus is 50% of the maximum bonus opportunity

3 The on-target level of the group LTIP is 50% of the maximum pay-out The 2012 2014 LTIP scheme was set up prior to the 2014 policy being put in place

4 The divisional LTIP for the managing director life and pensions will not start to vest until 2016 and therefore does not impact the graph above Any vesting amounts will be shown in the charts relating to remuneration received in the year 2016

5 The divisional LTIP for the managing director general insurance will not start to vest until 2015 and therefore does not impact the graph above Any vesting amounts will be shown in the charts relating to remuneration received in the year 2015

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Approach to recruitment and promotions

The remuneration package for a new executive director would normally be set in line with the remuneration policy in force at the time of appointment, for example, maximum bonus between 120% and 150% of salary, group LTIP maximum pay-out between 150% and 200% and a possible invitation to join a divisional LTIP scheme However, in order to ensure we are able to recruit the right people to our business it may be necessary at times to make an offer to a new director on terms outside the current policy, this may be to reflect a range of issues such as, but not limited to the remuneration arrangements of the industry sector the new recruit is leaving, the calibre of the individual being recruited and the appointment of new skills and expertise to the Society which may be outside our normal market practices

When it considers it to be in the best interests of the Society and its members the committee may offer additional cash payments to new appointees as compensation for the loss of bonus, LTIP or other such arrangements from their former employer Any cash payments would reflect the time horizons and performance requirements attached to the lost remuneration Members will be informed of any such payments in the next directors' remuneration report to be published In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay-out according to its terms, adjusted as appropriate to take into account the time in that position In addition, any other on-going remuneration obligations existing prior to appointment would continue, provided that they are put to members as an advisory vote at the earliest opportunity For external and internal appointments, the committee may agree that the group will meet certain relocation expenses as appropriate

Service contracts and payments for loss of office

Our executive directors are subject to a notice period of 12 months Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree The service contracts contain a provision for early termination and notice periods given by the group are limited to 12 months or less In certain circumstances, such as gross misconduct, a director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination If the Society terminates the employment of a director in other circumstances, compensation is generally limited to salary due for any unexpired notice period and any amount assessed by the Remuneration Committee as representing the value of other contractual benefits (including pension) which would have been received during the unexpired notice period, however, the committee may determine that a level of compensation above this is appropriate in individual cases Payments in lieu of notice are not pensionable

Copies of the Directors' service contracts and letters of appointment are available for inspection at the company's registered office

- **Termination payment** – base salary plus benefits (including pension), may be subject to phasing and mitigation where this is in the interests of the Society In addition, any statutory entitlements would be paid as necessary In certain circumstances, a pro rata bonus may be payable, along with the entitlement to partial LTIP awards, the treatment of which is set out below

- **LTIP** – the default treatment under the LTIP is that any outstanding awards lapse when employment ends However, the Remuneration Committee has the discretion to consider an individual a 'good leaver' (e g death, disability, retirement etc) and in these circumstances awards may not lapse immediately and the individual may retain their entitlement to a pro rata payment under the scheme, to reflect their reduced period of employment during the term of the LTIP, payments received under these circumstances will be subject to the same performance conditions and timescales as for other participants If it considers it appropriate to do so the committee may choose to remove the normal performance conditions and time pro rating, instead making payments under the scheme at the point employment ends, although it is envisaged that this would only be applied in exceptional circumstances In determining whether an executive should be treated as a good leaver or not, the committee will take into account the performance of the individual and the reasons for their departure

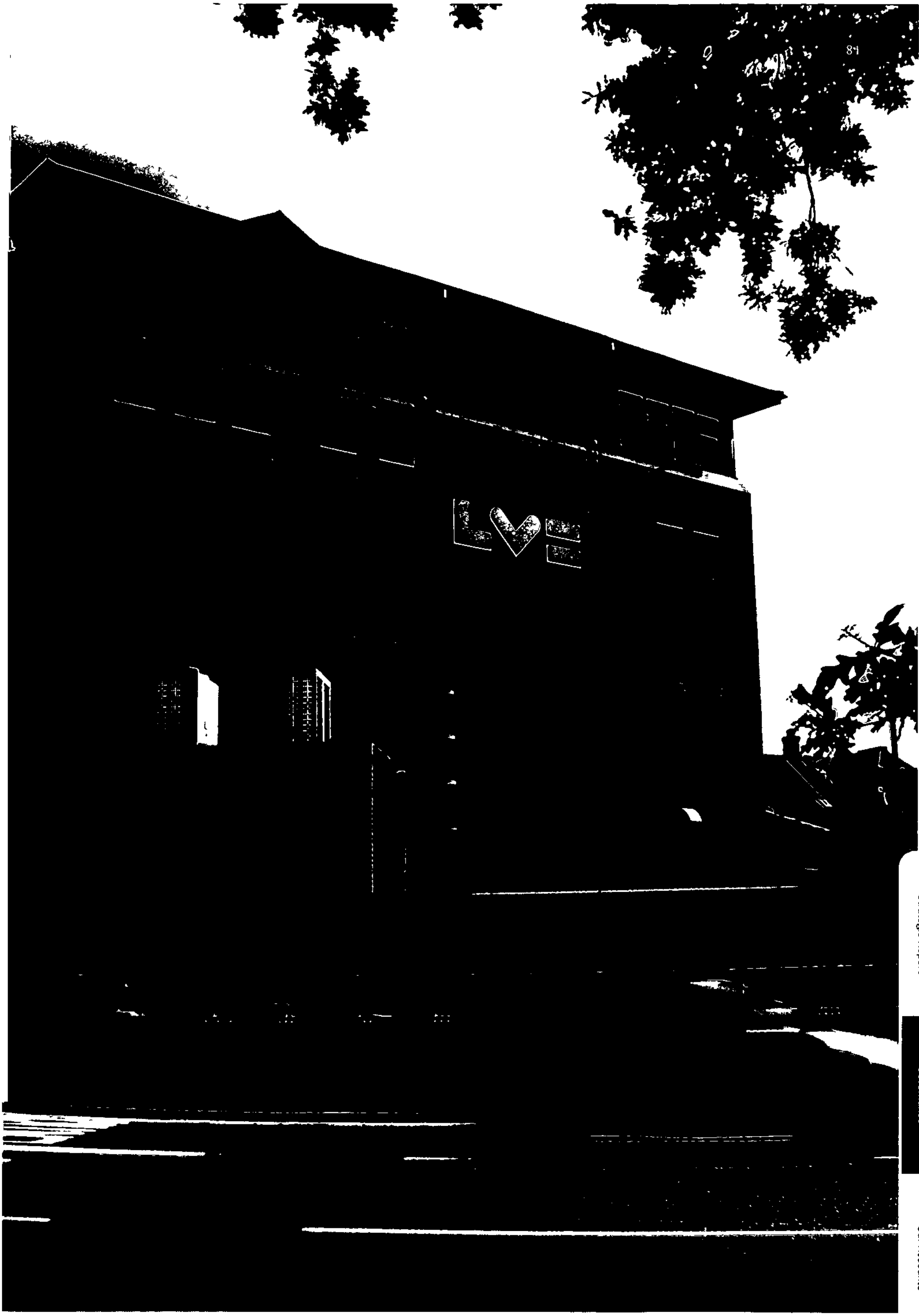
Summary of the policy for non-executive directors

The policy is intended to apply for three years beginning on 1 January 2014

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

Fees – In order to attract and retain high calibre non-executive directors to the Society we pay individuals fees for the positions they undertake for the organisation Fees are generally reviewed on an annual basis and whilst there is no prescribed maximum increase that is applied, consideration is taken of the fees paid for similar roles in other organisations, the responsibility and necessary time commitment to the group's affairs, the general increase for the broader UK employee population and on occasion the need for specific skills, changes in responsibility, or other relevant factors No other remuneration is paid apart from these non-pensionable fees and non-executive directors are not eligible to participate in any performance-related arrangements Fees for the non-executive directors are determined by the executive members of the board For the chairman fees are determined by the whole board (excluding the chairman himself)

Notice – either party may give three months' notice of termination



Annual report on remuneration

The Remuneration Committee

The Remuneration Committee determines the broad policy for remunerating the executive directors and agrees the remuneration of each executive director and other senior managers The committee reviews 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 regular training and topical briefing sessions on developments and trends in executive remuneration, particularly as this relates to the financial sector

Committee membership, attendance and advisors to the committee

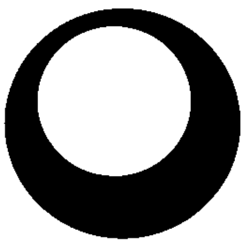
During 2013 the committee members were Cath Keers, who chaired the committee, Mark Austen, Caroline Burton (joined the committee on 1 June 2013) and Dennis Holt (stepped down from the committee on 23 May)

The chief executive is invited to meetings except when his own remuneration is being discussed Other senior employees, such as the chief risk officer, the human resources director and the head of reward, regularly provide advice to the committee and normally attend meetings by invitation

New Bridge Street (which is a part of Aon plc) was appointed by the committee and is the committee's independent external adviser During the course of the year, New Bridge Street (NBS) provided advice to the committee on remuneration levels and structures, and attended committee meetings at the invitation of the committee The committee has reviewed and discussed the objectivity and independence of the advice it receives from NBS and is satisfied that NBS continues to provide robust and professional advice In addition, the firm is a signatory to the Remuneration Consultants' Code of Conduct During the course of the year, Aon plc provided other services to the Society, however, the committee considers that adequate structures are in place to ensure the independence of the advice received from NBS The total fees paid to NBS in respect of its services to the committee during the year were £98,474

Votes cast at AGM 2013

Directors Remuneration Report



- Votes cast in favour 94 1%
- Votes cast against 5 9%

Committee activities in 2013

In 2013 the committee met four times The matters which were addressed included

- Review of the overall policy relating to directors' remuneration,
- Revisions to the structure and reduction in maximum level of the group LTIP,
- Consideration of a special LTIP within the life business,
- Reviewing salary levels and annual incentive opportunity,
- Preparation of the report on directors' remuneration, and
- Other routine matters throughout the year

Results of members' vote on remuneration resolutions at 2013 AGM

At the Society's AGM in May 2013, the Directors Remuneration Report was approved with the following votes cast by members

Votes cast in favour	49,096
Votes cast against	3,102
Abstentions	1,907
Spoilt papers	7
Total votes cast	54,112

Remuneration decisions taken in respect of the coming year (year ending 31 December 2014)

Base salary
The Remuneration Committee agreed to increase executive director base salary levels by a maximum of 2% with effect from 1 April 2014 Current base salary levels and those which will apply from 1 April 2014 are as follows

	w e f 1 April 2013	w e f 1 April 2014	Percentage increase
M Rogers	£521,000	£530,000	1 79%
P Moore	£355,000	£362,000	2%
R Rowney	£315,000	£321,000	2%
J O Roarke	£290,000	£296,000	2%

Performance targets to be applied for the annual bonus and group LTIP (2014-2016 Scheme) in 2014
For 2014, the annual bonus will continue to be based on group and divisional financial objectives accounting for 60% of the assessment and a balanced scorecard of objectives covering risk, people, strategy and customer accounting for the remaining 40% Performance targets are based on the group's business targets

The LTIP awards to be granted in 2014 will be subject to an Enterprise Value performance condition and, for the chief executive and group finance director only, a proportion of the awards will be linked to the group's investment performance

Performance condition	Weighting
Growth in group Enterprise Value	75% for chief executive and group finance director and 100% for managing director, life and pensions
Group Relative Investment Performance	25% for chief executive and group finance director only

The group LTIP scheme will only pay out if the growth in group Enterprise Value over the scheme period exceeds a target growth rate which exceeds an appropriate return on the group's capital, taking account of prevailing interest and inflation rates and the nature of the risks which the group undertakes In addition, the life and pensions division must operate within a pre-determined level of capital and the general insurance division must return a dividend of £90 million to the group over the three-year performance period for the LTIP to pay out The actual targets applying to the 2014 LTIP award will be disclosed in next year's annual report on remuneration

Group Relative Investment Performance relates to the annualised performance return of the with-profits fund The scheme will only pay out for this element if the performance return is greater than benchmark

Non-executive directors' fees
As detailed in the Directors' Remuneration Policy Report, 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 A summary of current fees is as follows

	w e f 1 April 2013	w e f 1 April 2014	Percentage change
Chairman	£155,000	£175,000	12 9%
Base fee	£46,500	£50,000	7 5%
Additional fees			
Senior independent director	£5,000	£5,125	2 5%
Investment Committee chair	£12,000	£8,200	-31 7%*
Committee chair fees	£12,000	£12,300	2 5%

* fees for the Investment Committee were reduced in 2014 after a review concluded that the workload of this committee has reduced

Remuneration for the past year (year ended 31 December 2013)

Summary table of directors' remuneration – Audited

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

£'000		Salary and fees	Other benefits[1]	Pension[2]	Annual bonus[3]	Long-term incentives[4]	Total
M Rogers	2013	518	17	114	424	1,291	2,364
	2012	505	16	111	559	1,431	2,622
P Moore	2013	353	14	49	240	661	1,317
	2012	346	14	41	260	732	1,393
R Rowney	2013	313	15	87	190	574	1,179
	2012	306	14	82	240	585	1,227
J O'Roarke	2013	288	14	80	150	–	532
	2012	281	14	78	220	–	593
M Austen[5]	2013	135	–	–	–	–	135
	2012	72	–	–	–	–	72
D Holt[6]	2013	65	–	–	–	–	65
	2012	153	–	–	–	–	153
J Edwards	2013	69	–	–	–	–	69
	2012	62	–	–	–	–	62
C Keers	2013	65	–	–	–	–	65
	2012	61	–	–	–	–	61
C Burton	2013	61	–	–	–	–	61
	2012	56	–	–	–	–	56
J Dean[7]	2013	61	–	–	–	–	61
	2012	22	–	–	–	–	22
D Neave[8]	2013	39	–	–	–	–	39
	2012	–	–	–	–	–	–
I Reynolds[9]	2013	–	–	–	–	–	–
	2012	60	–	–	–	–	60
Total	**2013**	**1,967**	**60**	**330**	**1,004**	**2,526**	**5,887**
	2012	1,924	58	312	1,279	2,748	6,321

Notes

1 Benefits include car allowance medical insurance and income protection cover

2 This comprises the value of any defined benefit pension accrued any payments by LV= into the defined contribution section of our pension scheme and any cash allowance paid in lieu of foregone contributions as appropriate A breakdown can be found in the Pensions section on page 88

3 This relates to the payment of the annual bonus for the year ended 31 December 2013 Further details of this payment are set out below For Mr Rogers and Mr Moore an element of these full year amounts will be subject to deferral

4 This relates to the vesting of the 2011 LTIP award The performance period for this award ended on 31 December 2013

5 Appointed to role of chairman on 23 May 2013

6 Resigned on 23 May 2013

7 Appointed 26 July 2012

8 Appointed 1 June 2013

9 Resigned 31 October 2012

Annual bonus for the year ended 31 December 2013 – Audited

The annual bonus for the year under review was based on performance against annual group and divisional financial objectives, risk metrics and a balanced scorecard of personal objectives Details of actual performance against targets is as follows

	Group / divisional profit (note 1)					Specific individual and strategic objectives		Total		Payable in 2014 /deferred	
	Maximum (% of salary)	Profit required for threshold bonus (£m)	Profit required for maximum bonus (£m)	Actual profit (£m)	Actual bonus (% of salary)	Maximum (% of salary)	Actual (% of salary)	Maximum (% of salary)	Actual (% of salary)	Payable in 2014 (% of salary)	Deferred (% of salary)
M Rogers	90	89	115	105	66	20	15	110	81	72	9
P Moore	60	89	115	105	51	20	17	80	68	57	11
R Rowney	60	27	35	29	45	20	15	80	60	60	0
J O Roarke	60	88	113	81	39	20	13	80	52	52	0

Note 1 Profit related bonus is linked to group operating profit for Mike Rogers and Philip Moore underlying operating profit for the life business for Richard Rowney and operating profit for the general insurance business for John O Roarke

The Society operates a performance range for profit targets (see note 1 above) which is considered to be stretching at all levels The threshold target is the level of performance that must be achieved to release 100% of the bonus pot for the business If the threshold level of performance is not achieved the Remuneration Committee looks at the performance of the business/division in the round to understand such issues as the internal and external factors that have impacted performance and the broad trajectory of the business and market conditions, for example, before determining the appropriate level of bonus to be released

The specific individual and strategic objectives for the year ended 31 December 2013 are as follows

	Description of individual and strategic objectives
M Rogers	• Ensure the capital sustainability of the group and the strategic evolution of the business • Ensure operations are within risk appetite and enhance the risk management framework to adapt to the new regulatory regime • Deliver best loved proposition • Deliver an employee proposition that engages the widest talent pool • Deliver the financial plans and targets
P Moore	• Successfully manage the debt raise for LV= and creation of an economic capital framework • Ensure finance reporting and forecasting processes are fit for future and delivered in a timely and accurate manner to support a cost efficient culture at LV= • Maintain strong employee engagement and support development of our people through the delivery of strong talent and succession frameworks • Deliver the financial plans and targets
R Rowney	• Lead the strategic growth of the life, retirement and protection business through the optimal use of capital, liquidity and improved margins • Deliver improvements in internal and external service measures • Support the long-term delivery of business success through the implementation of strong talent and succession frameworks • Ensure products delivered to market are within risk appetite, have appropriate governance frameworks and support our Treating Customers Fairly (TCF) commitments
J O'Roarke	• Promote strategic diversification of the general insurance product offering to support growth of the business • Maintain strong customer satisfaction through the delivery of fair outcomes for customers (TCF) • Maintain strong employee engagement and support development of our people through the delivery of strong talent and succession frameworks • Ensure that general insurance operates within LV= risk appetite and complies with all regulatory standards, through the delivery of appropriate governance in the design and implementation of general insurance products ensuring customer interests are protected

Risk is taken into account when appraising all performance measures and the committee may reduce or cancel any bonus payment if it considers that risk exceeded acceptable levels In addition, no bonus payments will be made unless the Society achieves a pre-determined level of profits

Any amount deferred will be paid in equal parts over the following three years During the deferral period, the value of deferred amounts will be tied to the value of members' invested funds, thereby creating a link to ongoing performance

Group LTIP payments made in the year (2011-2013 scheme) – Audited

The group LTIP scheme which started on 1 January 2011 is based on performance to 31 December 2013 For the 2011-2013 scheme, the pay-out for M Rogers, P Moore and R Rowney is based on both the growth in Enterprise Value (75% of award) and the Relative Investment Performance (25% of award) The performance condition and actual performance for the award granted is as follows

Metric	Performance condition	Threshold target	Stretch target	Actual	% Vesting
Enterprise Value growth	Annualised growth in group Enterprise Value	9%	20%	18 1%	261%
Relative Investment Performance	Annualised performance return relative to benchmark from start of scheme to 31 December 2013	0 basis points	Equal to or greater than 60 basis points	113 basis points	300%
			Total vesting percentage		**271%**

The vested awards are subject to a claw-back provision

Group LTIP awards made in the year (2013-2015 scheme) – Audited

	Type of award	Basis of award	Face value of base award (£'000)	% of face value of award that would vest at threshold performance	% of face value of award that would vest at maximum performance	Vesting determined by performance over
M Rogers	Cash	100% of salary	508	50%	200%	3 years to 31 December 2015
P Moore	Cash	75% of salary	260	50%	200%	
R Rowney	Cash	75% of salary	230	50%	200%	

Group LTIP – Performance of current schemes

	Enterprise Value growth (1)					Relative Investment Performance (2)				
LTIP Scheme	Threshold target	Base award %	Maximum	Base award %	Cumulative performance (3)	Threshold target	Base award %	Maximum	Base award %	Cumulative performance (4)
2011-2013 scheme	9%	75%	20%	300%	18 1%	0 bp	75%	≥60 bp	300%	113bp
2012-2014 scheme	9%	75%	20%	300%	16 6%	0 bp	75%	≥60 bp	300%	190bp
2013-2015 scheme	7%	50%	18%	200%	16 3%	0 bp	75%	≥60 bp	200%	244bp

For scheme participants measured on investment performance 75% of their award is based on Enterprise Value performance and 25% on Relative Investment Performance for all scheme years

(1) Annualised growth in SBU Enterprise Value

(2) Annualised investment performance return relative to benchmark return

(3) Annualised growth in Enterprise Value from start of scheme to 31 December 2013

(4) Annualised performance return relative to benchmark from start of scheme to 31 December 2013

Group LTIP summary of awards and amounts vested during 2013 – Audited

£,000	Award	Unvested awards at 1 January 2013 (1)	Awards made in the year	Additional value on vesting of 2011-2013 scheme (2)	To be paid in respect of 2011-2013 scheme	Unvested awards at 31 December 2013 (3)
M Rogers	2011-2013	477	–	814	1,291	–
	2012-2014	495	–	–	–	495
	2013-2015	–	508	–	–	508
P Moore	2011-2013	244	–	417	661	–
	2012-2014	255	–	–	–	255
	2013-2015	–	260	–	–	260
R Rowney	2011-2013	212	–	362	574	–
	2012-2014	225	–	–	–	225
	2013-2015	–	230	–	–	230

(1) Unvested awards are shown at the base award level Unvested awards at 1 January 2013 are in respect of awards granted in 2011 and 2012

(2) For the 2011 2013 LTIP scheme growth in Enterprise Value was above the target level but did not achieve the maximum level of performance investment performance exceeded the above benchmark targets

(3) Unvested awards at 31 December 2013 are in respect of awards granted in 2012 and 2013

General insurance divisional LTIP awards made during 2013 – Audited

During the year, certain key management personnel within the general insurance business subscribed for 4 5 million £1 B ordinary shares in Liverpool Victoria General Insurance Group Limited (LVGIG) Pursuant to the Articles of Association of LVGIG the Society is required to purchase these shares in 2016 for a price equal to par plus rolled-up interest plus a percentage of the increase in the market value (plus ordinary dividends paid) of the general insurance business from 1 January 2013 to 31 December 2015, as set out below

a) 0% if the growth rate is less than 9%,
b) 5% if the growth rate is 9%,
c) Between 5% and 15% on a straight line basis to the extent the growth rate is between 9% and 19%, or
d) 15% if the growth rate is greater than 19%

The purchase in 2016 is contingent on the key management personnel remaining in the employment of the Group until 31 December 2015 Any leavers prior to this date will have their shares purchased for a lesser amount based on the proportion of the three year period from 1 January 2013 to their date of leaving

The estimated total charge for the year calculated under IFRS 2 was £10 million John O'Roarke owns 22 2% of these shares, resulting in an effective unvested increase in the estimated value of the award of £2 2 million for 2013

Pensions – Audited

£,000	Accrued DB pension as at 31 December 2012	Accrued DB pension at 30 June 2013	Increase in accrued pension net of inflation	Transfer value of net increase in accrued pension	Normal retirement date	Pension value from DB scheme*	Pension value from DC scheme	Pension value from cash allowance	Total pension value
M Rogers	n/a	n/a	n/a	n/a	n/a	n/a	n/a	114	114
P Moore	n/a	n/a	n/a	n/a	n/a	n/a	n/a	49	49
R Rowney	27	30	2	24	10/11/2035	43	16	28	87
J O'Roarke	30	33	2	30	28/03/2023	40	12	28	80

* The value of the pension under the DB scheme is calculated using the HMRC Method Transfer values are included to satisfy the Listing Rules requirements

Percentage change in remuneration levels

	Salary			Taxable benefits			Bonus		
	2012 (£ 000)	2013 (£'000)	% change	2012 (£ 000)	2013 (£ 000)	% change	2012 (£'000)	2013 (£'000)	% change
Chief executive	508	521	3%	16	17	6%	559	424	-24%
% change based on a static population excluding the CEO			3%			5%			-22%

Relative importance of the spend on pay

	Total remuneration		
	2012 £m	2013 £m	% change
Staff costs	216	247	14%
Mutual bonus	21	22	5%

Group chief executive's remuneration over five financial years

	1 January – 31 December				
	2009	2010	2011	2012	2013
Total remuneration (£'000)	997	1,247	2,177	2,622	2,364
Bonus % of maximum awarded %	77%	86%	95%	100%	74%
LTIP % of maximum vesting %	0%	0%	100%	100%	90%

Pensions
With effect from 30 June 2013 we closed the defined benefit (DB) section of our pension scheme to future accrual All active DB section members were given the option to move into the defined contribution (DC) section of our scheme from that date

Up to 30 June 2013, Richard Rowney and John O'Roarke received contributions into the DB section of our scheme They subsequently moved into the DC section John O'Roarke chose to cease active membership of the scheme on 1 November 2013

Where a director asks for their pension to be limited to the Annual Allowance (AA) the difference between the AA and the total employer pension contributions due is paid as a salary supplement Where a director ceases to be an active pension scheme member because they are approaching the Lifetime Allowance (LTA) a payment in lieu of pension contributions is received, up to 22% of salary

Richard Rowney and John O'Roarke have received salary supplements Mike Rogers, Philip Moore and John O'Roarke (following his decision to cease active membership on 1 November 2013) have all received a payment in lieu of pension

Details of accrued pension for these individuals at 31 December 2013 are shown in the table opposite

Payments to past directors
No payments were made to past executive directors during the year ended 31 December 2013

Directors' loans
As at 31 December 2013 and 31 December 2012 there were no loans outstanding to directors

Additional information on directors' remuneration

Percentage change in remuneration levels
The table opposite shows the movement in the salary, benefits and annual bonus for the group chief executive between the current and previous financial year compared to that of the total bill for the same elements for all employees

Relative importance of the spend on pay
The table opposite 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

Chief executive's remuneration over five financial years
The total remuneration figures for the group chief executive during each of the last five financial years are shown in the table opposite 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 pay-out and LTIP vesting level as a percentage of the maximum opportunity are also shown for each of these years

The directors approved the Directors' Report on Remuneration on 28 March 2014

Cath Keers
Chairman of the Remuneration Committee

Glossary

LV= Use of non-GAAP* measures

Non-GAAP measure	Why we use a non-GAAP measure	Definition
Profit before tax	Because LV= is a mutual, any 'left-over profit it has 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 We believe that this would be a confusing and meaningless figure for users of our Annual Report and we therefore try to provide an alternative measure for profit before tax which people would recognise and which would allow meaningful comparisons with the profit before tax disclosed by other companies	Our measure of profit before tax is defined as profit before tax, mutual bonus allocated, and transfer to Unallocated divisible surplus
Operating profit	Our operating profit measure is the key performance measure for profitability for the LV= group and general insurance business and executive remuneration in these areas is linked to this metric For the group this measure represents the longer-term return from all its businesses and the cost of ongoing central overheads such as support functions For the general insurance business this measure represents the return from insurance activities, i e underwriting profit and investment returns	Operating profit can be defined as profit before tax adjusted for any short term investment fluctuations, which represent the difference between the long-term average return currently expected from assets and the actual investment return achieved on these assets in the current period, and also any centrally managed costs (see below) and amortisation or impairment of intangibles
Underlying operating profit	Underlying operating profit is the key performance measure for profitability for the LV= life business Executive remuneration in this area is linked to this metric For the life business this measure represents 'trading' profit i e new business contributions and the net contribution of servicing in-force policies	Underlying operating profit can be defined as operating profit adjusted for actuarial model and valuation changes and also adjusted for additional margin for credit default risk and other risks
Centrally managed costs	LV takes some of its costs below operating profit These are the costs which are not associated with running the trading businesses of the group These costs tend to be one off costs and are often connected to strategic initiatives of the group	Examples of centrally managed costs over the last two years include, PPI redress costs, Solvency II costs and closed branch provisions
Annual Premium Equivalent (APE)	Sales in the life business are measured on an APE rather than gross written premium basis This allows comparisons of the amount of new business gained in a period by insurance companies	APE is calculated as the sum of annualised regular premiums from new business plus 10% of single premiums on new business written during the period
Enterprise Value	Because LV= is a mutual business we do not have shareholders and hence we do not have share capital Therefore, we cannot measure the value of our business using a standard market value of share capital methodology Our goal is to increase member value, so to measure our performance against this goal we need an accurate proxy for the market value of the LV= business We use Enterprise Value as this measure A large proportion of long-term executive remuneration is linked to this metric	The formula is the sum of the value of our general insurance business, our life business value plus the value of the remainder of the group The general insurance business is valued based on the average of market comparable multiples of net tangible assets and IFRS earnings The life business is valued based on the average of market comparable multiples of our embedded value estimate and new business value add adjusted for any expense overruns

* GAAP means Generally Accepted Accounting Practice i e the strictly technical measure if you follow the accounting standards

ABI Association of British Insurers

AFS Association of Friendly Societies

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

Association of Financial Mutuals (AFM) The trade body that represents mutual insurers, friendly societies and other financial mutuals in the UK It was formed in January 2010 after a merger of the Association of Friendly Societies and the Association of Mutual Insurers

BIS Department for Business Innovation and Skills

Capital resources The amount of capital that we have to run our business

Friendly Society Friendly Societies were set up in the 19th century to help and encourage underprivileged people to improve their financial wellbeing As they are mutuals, friendly societies are owned by members rather than shareholders

Financial Conduct Authority (FCA) A regulatory body formed as one of the successors to the Financial Services Authority (FSA) It focuses on the regulation of conduct by both retail and wholesale financial services firms

FTSE FTSE is an independent company that provides indices to measure how stockmarkets and other financial markets perform In the UK, the FTSE 100 index is widely used by the media to report on the valuation of the largest 100 quoted companies on the UK Stock Exchange

GWP Gross written premiums

ICA Individual capital assessment is the process by which the Prudential Regulatory Authority (PRA) requires insurance companies to make an assessment of the regulated company s own capital requirements, which is then reviewed and agreed by the PRA

IFRS International Financial Reporting Standards are used to ensure a company's reported accounts are prepared to common standards across the world

ILAG Investment and Life Assurance Group

Industrial branch Part of our heritage business and typically contains small premium whole of life and endowment policies

LVFS Liverpool Victoria Friendly Society

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

Mutual bonus A discretionary enhancement to asset shares to share the results of the group's performance

OEICs Open-ended investment companies are investment funds similar to investment trusts They are open-ended because they can take money from new investors at any time Equally they can pay back investors whenever the investor chooses OEICs often adopt an umbrella structure where the investor can get access through the umbrella fund to a number of sub-funds which invest with different objectives

Ordinary branch Part of our heritage business and typically consists of traditional with-profits endowments, whole of life policies, annuities and pensions

Pension annuity An annuity uses the proceeds of a pension fund to provide an income for a fixed term or the rest of your life

Periodic payment orders (PPOs) An annuity style award paid to claimants instead of a lump sum, where indexed payments can be varied to meet likely future changes in circumstance This transfers mortality and investment risk from the claimant to the insurer

PHI Permanent Health Insurance is an insurance policy paying benefits to policyholders who are incapacitated and hence unable to work due to illness or accident

Prudential Regulatory Authority (PRA) A regulatory body formed as one of the successors to the Financial Services Authority (FSA) It is responsible for the prudential regulation and supervision of financial services firms

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

PVIF Present value of acquired in-force business occurs when a life insurance company makes an acquisition Part of the purchase price represents the value of the insurance contracts in the target company This is, in effect, the present value of the policies acquired

RCM Risk capital margin is the additional capital a firm would need to hold to cover the effects of a number of 'What if?' scenarios that have been prescribed by the PRA These scenarios assess the capital implications from combined movements in financial markets (equity, property, credit spreads, interest rates) and persistency of the business The RCM is the capital required to cover the worst case scenario

Retail Distribution Review (RDR)
A fundamental review carried out by the Financial Services Authority designed to help address insufficient trust and confidence in financial services products and services In particular, it is intended to drive increased professionalism in the tied and independent financial advice areas and changes the way that financial advice is organised and paid for

RNPFN. Royal National Pension Fund For Nurses

Risk appetite· The amount of risk that a business is prepared to accept or keep when carrying out its everyday activities

Self Invested Personal Pension (SIPP)
Unlike normal personal pension plans, where the pension company limits your choice of investments to those that it manages, SIPPs allow investors the opportunity to make their own investment decisions

SME Small, Medium Enterprises – within the commercial line of the general insurance business

Solvency II An EU-wide project that sets out to provide a comprehensive new framework for insurance supervision and regulation This aims to strengthen protection for policyholders by ensuring that companies allocate enough capital to cover all the risks in their business

Threadneedle Asset Management (TAM)
A leading international investment manager with a strong track record of outperformance across asset classes

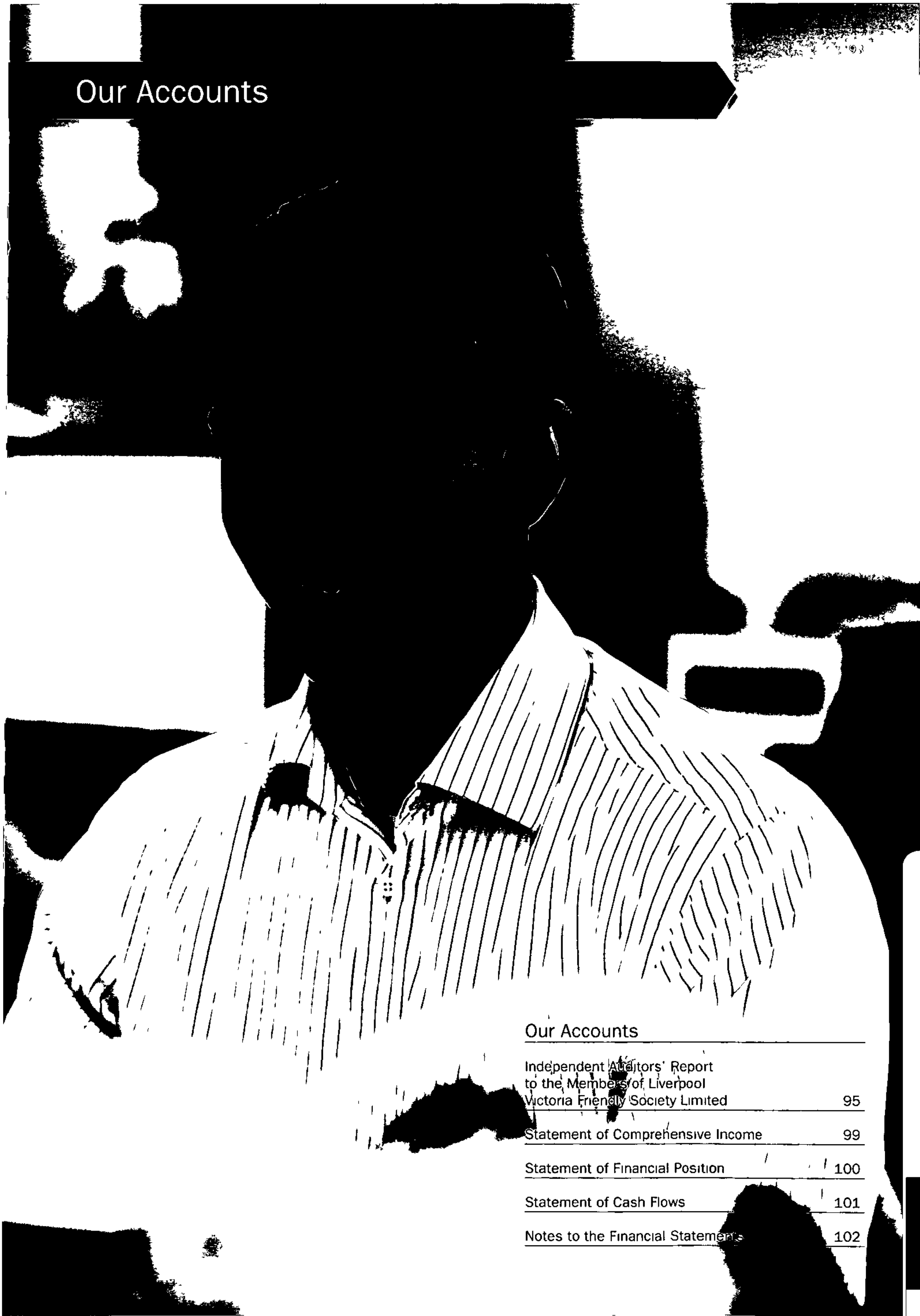
TCF Treating Customers Fairly is an industry-wide initiative designed to ensure financial providers meet basic principles of product information, suitability and performance

UK Corporate Governance Code The Code sets out standards of good practice for listed companies It covers, amongst other things, the board composition and its accountability and relations with business owners Mutual organisations such as LV= do not have to adhere to the Code, but we choose to comply with the Annotated Code as published by the AFM as we believe it is good business practice to do so

Unallocated divisible surplus (UDS)
The amounts that have yet to be formally declared as bonuses for participating policyholders together with the free assets of the group

With-profits fund An investment fund where we combine all of our with-profits investors' money and manage it on their behalf The fund normally invests in UK and overseas shares, fixed interest securities including Government stocks and bonds, property, cash, and our own business activities We regularly monitor where we invest the fund to take account of future liabilities

Our Accounts



Our Accounts

Independent Auditors' Report to the Members of Liverpool Victoria Friendly Society Limited

Report on the financial statements

Our opinion

In our opinion, the financial statements, defined below

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2013 and of the Group's and Society's profit and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The Group financial statements and Society financial statements (the 'financial statements'), which are prepared by Liverpool Victoria Friendly Society Limited (the 'Society'), comprise

- the Group and Society Statements of Financial Position as at 31 December 2013,
- the Group and Society Statements of Comprehensive Income for the year then ended,
- the Group and Society Statements of Cash Flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Overview of our audit approach

Materiality

We set certain thresholds for materiality These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £47 6 million In arriving at this judgement we have had regard to members' interests in the Group as represented by the Unallocated divisible surplus and to the Group's regulatory capital represented by the Peak 2 capital surplus

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2 4 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Overview of the scope of our audit

The Group is structured along three business lines being 'General Insurance', 'Life' and 'Heritage' The Group's consolidated financial statements consist of a consolidation of a number of reporting units across these business lines that include 21 active statutory entities, comprising the group's operating businesses and centralised functions

In establishing the overall approach to the Group audit, we determined the type of work that we needed to perform at the reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole

Accordingly, of the Group's 21 active statutory entities, we identified three which, in our view, required an audit of their complete financial information, due to their size and their risk characteristics This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

We considered the following areas to be those that required particular focus in the current year This is not a complete list of all risks or areas of focus identified by our audit We discussed these areas of focus with the Audit Committee Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 62 and 63

Area of focus	How the scope of our audit addressed the area of focus
The longevity assumption used to estimate the value of liabilities associated with enhanced annuity products We focused on this area because enhanced annuities continue to be a major source of new business for the Society, increasing its exposure to longevity risk (i e the risk that annuitants live longer than expected) The longevity assumption is considered to be a subjective assumption and small changes in the assumption will have a material impact on the value of long-term insurance contract liabilities	We considered the appropriateness of the data sets used by management to model longevity for the Society's annuity portfolio and in particular, the extent to which it is appropriate for the Society to use its own emerging experience data We also benchmarked the assumption against independent industry data We used this information to critically assess and challenge the judgements made by management and to determine whether there was any evidence of management bias
Methods and assumptions used to estimate the costs of claims for general insurance products We focused on this area because the methodology and assumptions used in the estimation of the claims cost, reflected in insurance contract liabilities are inherently subjective In addition, developments such as claims farming (i e middlemen that encourage people to make compensation claims and then sell those claims to lawyers), the increasing prevalence of settlements via Periodic Payment Orders (PPOs) together with the Ministry of Justice claims reforms, increase the uncertainty around future settlement costs and hence, uncertainty in the valuation of general insurance contract liabilities	We tested the key methodologies and challenged the assumptions used by the directors to estimate the costs of claims for general insurance products We performed sensitivity analysis and industry benchmarking of the assumptions in respect of material components of the reserves We also examined trends in loss ratios and we reviewed management's assessment of risk in light of our own understanding of the business and the industry We also have regard to independent reviews of the reserves that management obtain during the year We used this information to critically assess and challenge the judgements made by management and to determine whether there was any evidence of management bias
Fraud in revenue recognition ISA (UK & Ireland) require that we consider this In light of incentives arising from compensation linked to financial performance, we consider there to be risk of overstatement of revenue, for example through premature recognition or the recording of false revenue	We performed procedures to identify unusual or unexpected accounting entries in relation to the recognition of revenue Tests were performed to substantiate those unexpected entries We tested bank reconciliations relevant to revenue and examined the quantum and ageing of items recorded in receivables and suspense accounts in order to check that recorded revenue was supported by cash receipts We also tested manual journal entries relevant to revenue and cash to identify unusual or irregular entries
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed management and the Group's internal audit function We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud We tested manual journal entries We also varied our procedures to build an element of unpredictability into our testing

Going Concern
The directors have voluntarily complied with Listing Rule 9 8 6(R) (3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 69, required for companies with a premium listing on the London Stock Exchange

The directors have requested that we review the statement on going concern as if the Society were a premium listed company We have nothing to report having performed our review

As noted in the directors' statement, set out on page 69, the directors have concluded that it is appropriate to prepare the Group's and Society's financial statements using the going concern basis of accounting The going concern basis presumes that the Group and Society have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed As part of our audit we have concluded that the directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group s and the Society's ability to continue as a going concern

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion

- the Directors' Report has been prepared in accordance with the Friendly Societies Act 1992, and the regulations made under it, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Opinion on additional disclosure

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

Other matters on which we are required to report by exception

Propriety of accounting records and information and explanations received
Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion

- we have not received all the information and explanations and access to documents we require for our audit, or
- proper accounting records have not been kept by the Society, or
- the financial statements are not in agreement with the accounting records

We have no exceptions to report arising from this responsibility

Corporate governance statement
On page 70 of the Annual Report, as required by the UK Corporate Governance Code – An Annotated version for Mutual Insurers ('the Code) provision C 1 1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy On pages 62 and 63, as required by C 3 8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you, if in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Society acquired in the course of performing our audit, or
- is otherwise misleading

We have no exceptions to report arising from this responsibility

Matters on which we have agreed to report by exception

Corporate governance statement

The Society has chosen voluntarily to comply with the UK Corporate Governance Code – An Annotated version for Mutual Insurers ('the Code') The directors have requested that we review the statement of the Society's compliance with the nine provisions of the Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Society were a premium listed company We have nothing to report having performed our review

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 70, the directors are responsible for the preparation of the Group and Society financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the Group and Society financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 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

David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

28 March 2014

Statement of Comprehensive Income
Year ended 31 December 2013

		Group		Society	
		2013	2012 Restated – see Note 1	2013	2012 Restated – see Note 1
	Notes	£m	£m	£m	£m
Gross earned premiums	5	**2,317**	2,446	**837**	959
Premiums ceded to reinsurers	5	**(122)**	(109)	**(84)**	(76)
Net earned premiums	5	**2,195**	2,337	**753**	883
Fee and commission income	7	**14**	17	**4**	7
Investment income	8	**346**	320	**348**	337
Net gains on investments	9	**112**	375	**15**	214
Other income	10	**32**	42	**1**	6
Total income		**2,699**	3,091	**1,121**	1,447
Gross benefits and claims	11	**(1,703)**	(1,819)	**(614)**	(647)
Claims ceded to reinsurers	11	**68**	111	**64**	62
Net benefits and claims	11	**(1,635)**	(1,708)	**(550)**	(585)
Gross change in long-term contract liabilities	25	**(362)**	(725)	**(364)**	(728)
Change in long-term contract liabilities ceded to reinsurers	25	**75**	74	**75**	74
Change in non-participating value of in-force business	25	**20**	14	**20**	14
Net change in contract liabilities	25	**(267)**	(637)	**(269)**	(640)
Finance costs	12	**(15)**	(1)	**(14)**	–
Investment return allocated to external unit holders		**(23)**	(33)	**–**	–
Other operating and administrative expenses	13	**(603)**	(609)	**(184)**	(219)
Other expenses		**(641)**	(643)	**(198)**	(219)
Total benefits, claims and expenses		**(2,543)**	(2,988)	**(1,017)**	(1,444)
Profit before tax, mutual bonus and UDS transfer		**156**	103	**104**	3
Mutual bonus	15	**(22)**	(21)	**(22)**	(21)
Income tax expense	38	**(10)**	(34)	**–**	(13)
Transfer (to)/from the Unallocated divisible surplus	50	**(124)**	(48)	**(82)**	31
Profit for the year		**–**	–	**–**	–
Other comprehensive income/(losses)					
Items that will not be reclassified to profit or loss					
Re-measurements of defined benefit pension schemes	43	**(9)**	(145)	**(9)**	(145)
Transfer from the Unallocated divisible surplus	50	**9**	145	**9**	145
Total comprehensive income for the year		**–**	–	**–**	–

As a Friendly Society, 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 Society have not presented a Statement of Changes in Equity as there are no equity holders in either the Group or Society as the Society is a mutual organisation

Statement of Financial Position
Year ended 31 December 2013

		Group		Society	
		2013	2012 Restated – see Note 1	2013	2012 Restated – see Note 1
	Notes	£m	£m	£m	£m
Assets					
Intangible assets	30	**228**	252	**–**	–
Deferred acquisition costs	26	**98**	100	**–**	–
Property and equipment	31	**26**	24	**6**	7
Investment properties	32	**79**	165	**79**	132
Investments in group undertakings	33	**–**	–	**766**	902
Corporation tax asset	39	**–**	–	**–**	2
Deferred tax asset	40	**12**	14	**13**	13
Prepayments and accrued income	35	**114**	107	**70**	64
Financial assets					
– Fair value through income	16	**10,216**	9,484	**7,951**	7,059
– Derivative financial instruments	17	**47**	71	**39**	69
Loans and other receivables	20	**65**	103	**124**	128
Reinsurance assets	27	**515**	447	**372**	297
Insurance receivables	34	**223**	227	**11**	13
Cash and cash equivalents		**780**	436	**313**	123
Total assets		**12,403**	11,430	**9,744**	8,809
Liabilities					
Unallocated divisible surplus	50	**976**	861	**952**	879
Insurance contract liabilities	23	**8,707**	8,448	**6,618**	6,394
Non-participating value of in-force business	24	**(273)**	(253)	**(273)**	(253)
Investment contract liabilities	18	**1,748**	1,420	**1,748**	1,420
Net asset value attributable to external unit holders		**479**	504	**–**	–
Pension benefit obligation	43	**16**	10	**16**	10
Provisions	44	**15**	66	**12**	63
Corporation tax liability	41	**2**	8	**–**	–
Financial liabilities					
– Derivative financial instruments	17	**80**	51	**80**	51
– Subordinated liabilities	21	**356**	10	**346**	–
– Other financial liabilities	22	**46**	65	**56**	81
Insurance payables	36	**38**	45	**23**	26
Trade and other payables	37	**213**	195	**166**	138
Total liabilities		**12,403**	11,430	**9,744**	8,809

The financial statements on pages 99 to 184 were approved by the Board of Directors on 28 March 2014 and signed on its behalf by

Rachel Small

R S Small
Company Secretary

Statement of Cash Flows
Year ended 31 December 2013

	Notes	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Cash and cash equivalents at 1 January		**436**	719	**123**	283
Cash flows arising from					
Operating activities					
Cash generated from operating activities	55	**206**	412	**156**	273
Net increase in investments held at fair value through income		**(631)**	(985)	**(777)**	(721)
Purchase of investment properties		**(1)**	-	**(1)**	-
Proceeds from sale of investment properties		**105**	54	**72**	18
Dividend income received		**76**	96	**119**	165
Interest and other income received		**260**	180	**217**	151
Rental income on investment properties		**5**	6	**5**	7
Finance cost paid		**(1)**	(1)	**-**	-
Income tax paid		**(14)**	(38)	**2**	(24)
Net cash flows generated from / (used in) operating activities		**5**	(276)	**(207)**	(131)
Investing activities					
Increase in investment in group undertakings		-	-	**-**	(45)
Redemption of loans to subsidiaries		-	-	**51**	13
Repayment of long-term loan from subsidiary		-	-	**-**	7
Purchase of property and equipment	31	**(7)**	(7)	**-**	(4)
Net cash flows (used in)/generated from investing activities		**(7)**	(7)	**51**	(29)
Financing activities					
Proceeds from subordinated debt issue (net of £4m issue costs)	21	**346**	-	**346**	-
Net cash flows generated from financing activities		**346**	-	**346**	-
Net increase / (decrease) in cash and cash equivalents		**344**	(283)	**190**	(160)
Cash and cash equivalents at 31 December		**780**	436	**313**	123

Cash and cash equivalents comprise

	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Bank balances	**100**	98	**75**	22
Short-term bank deposits	**680**	338	**238**	101
	780	436	**313**	123

The Group 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

Notes to the Financial Statements

Year ended 31 December 2013

Significant accounting policies

This section describes the LV= 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

1 Significant accounting policies

1 1 Basis of presentation

The Group financial statements consolidate the results of the Society and its subsidiary companies The Group's and Society's financial statements conform to International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as published by the International Accounting Standards Board and adopted by the European Union In addition the Society's financial statements comply with the Friendly Societies (Accounts & Related Provisions) Regulations 1994 (the Regulations)

In accordance with IFRS 4 on 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 1 3b below

Insurance contracts are accounted for in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006 In certain businesses, the accounting policies or accounting estimates have been changed to measure designated insurance liabilities using current market interest rates and allowing for other changes to regulatory reporting practices The Group measures the liability on with-profits contracts in line with the 'realistic' reporting regime of the Prudential Regulation Authority (PRA) More detail on the valuation of insurance and investment contracts is given in the accounting policies disclosed within Notes 23 and 18 respectively

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and financial assets and liabilities (including derivatives) at fair value through income

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all years presented, unless otherwise stated

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 Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements

Restatements

The Statement of Financial Position and Statement of Comprehensive Income for both the Group and Society have been restated for the following two items

- To separately disclose Non-participating value of the in-force business and Change in non-participating value of in-force business on the face of the Statement of Financial Position and Statement of Comprehensive Income respectively The 2012 figures have accordingly been restated by £253m and £14m These amounts were previously included within Insurance contract liabilities and Gross change in long-term contract liabilities respectively
- To report certain products within the pensions business as Participating investment contract liabilities that were previously reported within Insurance contract liabilities This has resulted in a £461m restatement between Investment contract liabilities and Insurance contract liabilities on the 2012 Statement of Financial Position

The Pension benefit obligation disclosures have been restated to comply with the new IAS 19 employee benefits standard Re-measurements of defined benefit schemes are now disclosed within the Statement of Comprehensive Income The standard has only impacted on the disclosures made within Note 43

None of the above restatements have impacted on the Profit before tax and mutual bonus or the transfer to the Unallocated divisible surplus for the prior year

1 2 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the use of estimates It also requires management to exercise judgement in applying the accounting policies The key areas involving a high degree of judgement or complexity, or areas where assumptions are significant to the financial statements are highlighted under the relevant note

Significant accounting estimates and judgements are disclosed in

- Fair value of financial assets (Note 16)
- Insurance contract liabilities (Note 23)
- Intangible assets (Note 30)
- Pension benefit obligation (Note 43)

1 3 Accounting policies

a Consolidation

Subsidiaries

Subsidiaries are all entities, including Open Ended Investment Companies (OEICs), over which the Group (directly or indirectly) has control The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity Subsidiaries are fully consolidated from the date on which control is transferred to the Group using uniform accounting policies consistently applied across the Group They are excluded from consolidation from the date on which control ceases

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

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

Notes to the Financial Statements continued
Year ended 31 December 2013

1. Significant accounting policies (continued)
Where the Group invests in specialised investment vehicles (such as OEICs) and owns greater than 50% of the unit shareholding, they are consolidated The interests of other parties in these vehicles will be classified as liabilities and appear as 'Net asset value attributable to external unit holders' because they are puttable instruments The external unit holders' share of the net investment return on the OEICs is charged or credited to the Statement of Comprehensive Income as Investment return allocated to external unit holders

Details of the Society's principal subsidiaries are given in Note 47

Associates and joint ventures in property holding companies
The Group invests in associate companies and jointly controlled entities that hold investment properties, with holdings ranging between 25% and 50%

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights

The investments in associates and the Group's interests in jointly controlled entities have not been consolidated under the equity method but are designated as investments at fair value through income under UK unlisted investments in accordance with the exemptions permitted under IAS 28 and IAS 31 applicable to investment-linked insurance funds

b Contract classification
The Group issues contracts that transfer insurance risk, financial risk or both

Insurance contracts are those contracts that transfer significant insurance risk Such contracts may also transfer financial risk As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur

Investment contracts are those contracts that transfer financial risk with no significant insurance risk

All with-profits contracts have been classified as participating contracts as these contracts 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

c 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

d Financial assets and liabilities
Recognition
The Group classifies its financial assets and liabilities upon initial recognition into the following categories
- Financial assets and liabilities at fair value through income
- Derivative financial instruments
- Loans and receivables
- Other financial liabilities

The accounting policy for each type of financial asset or liability is included within the relevant note for the category

Derecognition
A financial asset is derecognised when
- the rights to receive cash flows from the asset have expired, or
- the Group has transferred its rights to receive cash flows from the asset and has
  - transferred the risks and rewards of the asset, or
  - transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

e Liability adequacy testing
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

General insurance
At each Statement of Financial Position date liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used Any deficiency is immediately charged to the Statement of Comprehensive Income initially by writing off deferred acquisition costs and by subsequently establishing an unexpired risk provision Any deferred acquisition cost written off as a result of this test cannot subsequently be reinstated

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)

Notes to the Financial Statements continued

Year ended 31 December 2013

1 Significant accounting policies (continued)

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

1 4 Changes and future developments in accounting policies

(i) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have an impact on the Group

Amendments to IAS 1, 'Financial statement presentation' regarding Other comprehensive income The main change resulting from these amendments is a requirement for entities to group items presented in 'Other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) There are no such reclassifiable items in the Group accounts

IAS 19, 'Employee benefits' was revised in June 2011 The changes to the Group's accounting policies are as follows to immediately recognise all past service costs, and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit obligation The Group has adopted the revised standard and the changes have been reflected in Note 43 – Pension benefit obligation

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs The amendment has had only a minor impact on some of the disclosures given in the Group financial statements

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in IAS 36 by the issue of IFRS 13 The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013

Other than as set out above, no new or amended accounting standards and interpretations were adopted for the 2013 financial year

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for the following

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities IFRS 9 was issued in November 2009 and October 2010 It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments IFRS 9 requires financial assets to be classified into two measurement categories those measured as at fair value and those measured at amortised cost, the determination of which is made at initial recognition The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument For financial liabilities, the standard retains most of the IAS 39 requirements The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in Other comprehensive income rather than the income statement, unless this creates an accounting mismatch The Group is yet to assess IFRS 9's full impact The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB

IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The standard provides additional guidance to assist in the determination of control where this is difficult to assess The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014, subject to endorsement by the EU

IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form There are two types of joint arrangements joint operations and joint ventures Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement A joint operator accounts for its share of the assets, liabilities, revenue and expenses Joint ventures arise where the investors have rights to the net assets of the arrangement, joint ventures are accounted for under the equity method Proportional consolidation of joint arrangements is no longer permitted

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles The impact on the Group is not expected to be material

There are no other IFRSs or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group

Notes to the Financial Statements continued

Year ended 31 December 2013

Segmental information

This section details the disclosures arising 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 Group board of directors

2 Segmental information

Accounting for operating profit

Operating profit is the profit earned from normal core business operations It is a non-GAAP measure and calculated as IFRS profit before tax adjusted for the following items

- short-term investment fluctuations represent the difference between the long-term average return currently expected over lifetime of the free Estate and Life assets and the actual investment return achieved on these assets in the current period,
- accounting differences between the basis upon which the results of the operations are managed and the accounting requirements of IFRS,
- centrally managed strategic costs,
- finance costs, and
- amortisation of intangibles

The activities of each operating segment are described below

General Insurance

The principal activity is to underwrite general insurance business through both direct and broker distribution channels The primary sources of premium income are from the sale of Motor and Home products The general insurance business also underwrites Road Rescue, Pet Insurance, Travel Insurance and Commercial Insurance for Small and Medium Size Enterprises

Life

The principal activity is the provision of Protection and Retirement Solution products The core products offered in Protection are Life, Critical Illness, Income Protection and Unemployment Insurance The core products offered in Retirement Solutions are Enhanced Annuities, Self-Invested Personal Pensions (SIPPs) and Equity Release Mortgages

For the purposes of this segmental disclosure, insurance and investment contract liabilities, operating profits, IFRS profit before tax and net change in contract liabilities shown for the Life business, are calculated after allocating the non-participating value of in-force business to this segment

Heritage

This segment comprises LVFS' with-profits business (both ordinary branch and industrial branch) along with some non-profit business and unit-linked business, which was acquired from the Royal National Pension Fund for Nurses ('**RNPFN**') Most of the Heritage products are no longer actively marketed, though Heritage continues to sell newer with-profits products via the Life business channels

Central items and other

This segment comprises centrally held items such as group functions

Transactions between reportable segments are on normal commercial terms, and are included within the reported segments

The profit measure used by the Group board of directors to monitor performance is Operating profit before tax Operating profit before tax by segment is shown in the table below, together with a reconciliation of the Total operating profit before tax to the IFRS result before tax The following tables give details of the Group's profit, revenue and expenses and assets and liabilities with reference to the operating segments defined above

a) Segment profit

2013	General Insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Total operating profit/(loss) before tax	**81**	**18**	**18**	**(12)**	**105**
Accounting policy differences (IFRS)	–	**(2)**	–	–	**(2)**
Short-term investment fluctuations	–	**49**	**38**	**18**	**105**
Centrally managed costs	**(2)**	**(1)**	–	**(16)**	**(19)**
Finance costs	–	–	–	**(15)**	**(15)**
Amortisation of intangibles	**(2)**	**(16)**	–	–	**(18)**
Profit/(loss) before tax, mutual bonus and UDS transfer	**77**	**48**	**56**	**(25)**	**156**

2012	General insurance £m	Life (restated) £m	Heritage £m	Central items and other £m	Total £m
Total operating profit/(loss) before tax	117	48	(64)	(13)	88
Accounting policy differences (IFRS)	–	(12)	–	–	(12)
Short-term investment fluctuations	–	40	35	(13)	62
Centrally managed costs	(6)	(2)	(5)	(9)	(22)
Finance costs	–	–	–	(1)	(1)
Amortisation of intangibles	(2)	(6)	–	(4)	(12)
Profit/(loss) before tax, mutual bonus and UDS transfer	109	68	(34)	(40)	103

Life Operating profit has been restated to reflect the change in methodology applied for credit default experience reporting Previously favourable experience emerging in the reporting period in respect of credit default was reported in Short-term investment fluctuations This is now reported as Additional margin for credit default risk within Operating profit 2012 Operating profit has been restated resulting in a £4m increase

Notes to the Financial Statements continued

Year ended 31 December 2013

2 Segmental information (continued)

b) Segment revenue and expenses

All revenues disclosed in the tables below are external

Year ending 31 December 2013	General insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Gross earned premiums	1,479	680	158	–	2,317
Premiums ceded to reinsurers	(38)	(59)	(25)	–	(122)
Net earned premiums	**1,441**	**621**	**133**	**–**	**2,195**
Investment and other income	100	153	223	28	504
Segmental income	**1,541**	**774**	**356**	**28**	**2,699**
Gross benefits and claims	(1,086)	(292)	(325)	–	(1,703)
Claims ceded to reinsurers	4	42	22	–	68
Net benefit and claims	**(1,082)**	**(250)**	**(303)**	**–**	**(1,635)**
Net change in contract liabilities	–	(318)	51	–	(267)
Other expenses	(382)	(158)	(48)	(53)	(641)
Segmental expenses	**(1,464)**	**(726)**	**(300)**	**(53)**	**(2,543)**
Profit/(loss) before tax, mutual bonus and UDS transfer (*)	**77**	**48**	**56**	**(25)**	**156**

Year ending 31 December 2012	General insurance £m	Life (restated) £m	Heritage £m	Central items and other £m	Total £m
Gross earned premiums	1,486	812	148	–	2,446
Premiums ceded to reinsurers	(33)	(53)	(23)	–	(109)
Net earned premiums	1,453	759	125	–	2,337
Investment and other income	150	287	297	20	754
Segmental income	1,603	1,046	422	20	3,091
Gross benefits and claims	(1,168)	(272)	(379)	–	(1,819)
Claims ceded to reinsurers	49	40	22	–	111
Net benefit and claims	(1,119)	(232)	(357)	–	(1,708)
Net change in contract liabilities	–	(577)	(60)	–	(637)
Other expenses	(375)	(169)	(39)	(60)	(643)
Segmental expenses	(1,494)	(978)	(456)	(60)	(2,988)
Profit/(loss) before tax, mutual bonus and UDS transfer (*)	109	68	(34)	(40)	103

Gross written premiums for investment contracts which are deposit accounted for and not included above are £342m (2012 £270m)

* As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus, resulting in the profit for each financial year being zero Therefore the resulting Profit before tax required to be disclosed under IFRS 8 will always be equal to the tax charge being £10m (2012 £34m) and £nil (2012 £13m) for the Group and Society respectively In order to present a more meaningful disclosure the Profit before tax, mutual bonus and UDS transfer is disclosed in the tables above

Notes to the Financial Statements continued
Year ended 31 December 2013

2 Segmental information (continued)
c) Segment assets and liabilities

As at 31 December 2013	**General Insurance £m**	**Life £m**	**Heritage £m**	**Central items and other £m**	**Total £m**
Assets					
Property and equipment	**13**	**–**	**–**	**13**	**26**
Investment properties	**–**	**–**	**79**	**–**	**79**
Financial assets	**1,818**	**3,453**	**4,093**	**899**	**10,263**
Reinsurance assets	**143**	**347**	**25**	**–**	**515**
Other assets	**551**	**122**	**36**	**31**	**740**
Cash and cash equivalents	**398**	**91**	**169**	**122**	**780**
Total assets	**2,923**	**4,013**	**4,402**	**1,065**	**12,403**
Liabilities					
Insurance and investment contract liabilities	**(2,070)**	**(3,625)**	**(4,377)**	**(110)**	**(10,182)**
Subordinated liabilities	**(10)**	**–**	**–**	**(346)**	**(356)**
Other liabilities	**(155)**	**(160)**	**(60)**	**(514)**	**(889)**
Total liabilities excluding UDS	**(2,235)**	**(3,785)**	**(4,437)**	**(970)**	**(11,427)**
Net Assets	**688**	**228**	**(35)**	**95**	**976**
Consolidation adjustments	**(589)**	**(273)**	**323**	**539**	**–**
Unallocated divisible surplus (UDS)	**99**	**(45)**	**288**	**634**	**976**

As at 31 December 2012	General Insurance £m	Life £m	Heritage £m	Central items and other £m	Total £m
Assets					
Property and equipment	9	–	–	15	24
Investment properties	–	–	108	57	165
Financial assets	1,967	3,025	4,054	509	9,555
Reinsurance assets	150	274	23	–	447
Other assets	570	137	29	67	803
Cash and cash equivalents	187	26	100	123	436
Total assets	2,883	3,462	4,314	771	11,430
Liabilities					
Insurance and investment contract liabilities	(2,033)	(3,056)	(4,341)	(185)	(9,615)
Subordinated liabilities	(10)	–	–	–	(10)
Other liabilities	(126)	(228)	(89)	(501)	(944)
Total liabilities excluding UDS	(2,169)	(3,284)	(4,430)	(686)	(10,569)
Net Assets	714	178	(116)	85	861
Consolidation adjustments	(704)	(253)	303	654	–
Unallocated divisible surplus (UDS)	10	(75)	187	739	861

Within the Central items and other segment, there is a balance of £471m (2012 £533m) which relates to Estate net assets The Heritage with-profits policyholders have access to the Estate assets, if required to settle guarantees and bonuses

Included within the Consolidation adjustments is £273m (2012 £253m) of non-participating value of in-force business which is generated from the non-participating policies written in the Life business Under IFRS GAAP this is required to be matched against the participating contracts which are held within Heritage

d) 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

Notes to the Financial Statements continued
Year ended 31 December 2013

Capital and risk management

This section details the capital and risk management approach of the Society 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

The Group's key capital management objectives are
(i) To ensure the Group's strategy can be implemented and is sustainable,
(ii) To ensure the Group's financial strength and to support the risks it takes on as part of its business,
(iii) To give confidence to policyholders and other stakeholders who have relationships with the Group, and
(iv) To comply with capital requirements imposed by its UK regulator, the PRA

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 In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement Potential actions include reinsurance, a reduction in business volumes or a change in investment strategy

The Group is required to hold sufficient capital to meet the PRA capital requirements based on the higher of,
a the Risk Capital Margin (RCM) determined in accordance with the PRA's regulatory rules under its realistic capital regime, or
b the Individual Capital Assessment (ICA) which takes into account certain business risks not reflected in the RCM, and which is submitted to the PRA

The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions

The capital requirement in the annual PRA return is the statutory minimum capital requirement plus an additional component for each with-profits fund The statutory minimum capital requirement is based on EU directives It is broadly equivalent to the capital needed by an 'average' life insurance company with good risk controls, to cover adverse experience likely to occur one in every two hundred years

Management intends to maintain surplus capital in excess of the RCM and ICA to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements

The Group complied with all externally imposed capital requirements to which it was subject throughout the reporting period

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 Group 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

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy

Capital statement

The following tables set out the capital available to the Group

Regulatory Capital	2013 £m	2012 £m
Admissible assets excluding lower tier 2 capital	**9,088**	8,120
Mathematical reserves and other liabilities	**(7,784)**	(7,040)
Subordinated debt capital	**346**	–
Capital resources	**1,650**	1,080
RNPFN surplus not available to Group	**(194)**	(180)
Available capital resources	**1,456**	900
Capital resource requirements,		
– Regulatory solvency requirements	**(253)**	(239)
– Regulatory related undertakings	**(253)**	(254)
Regulatory excess capital (excluding RNPFN surplus)	**950**	407
With-profits insurance capital component	**(230)**	(221)
Realistic excess capital (excluding RNPFN surplus)	**720**	186

The Group complied with all externally imposed capital requirements which it was subject to throughout the reporting period

Notes to the Financial Statements continued
Year ended 31 December 2013

3 Capital management (continued)
Available capital resources
Movements in available capital resources are analysed below

2013	Society's participating contract business £m	RNPFN participating contract business £m	Other UK non-participating £m	Total long term business £m	Other activities £m	Consolidation adjustments £m	Group total £m
Capital at 1 January	**1,080**	–	**15**	**1,095**	**2,166**	**(1,951)**	**1,310**
Effect of investment variations	**301**	–	–	**301**	–	–	**301**
Effect of changes in assumptions	**(34)**	–	–	**(34)**	–	–	**(34)**
New business	**(80)**	–	–	**(80)**	–	–	**(80)**
Effect of changes in regulatory requirements	–	**14**	–	**14**	**(3)**	**(62)**	**(51)**
Lower tier two capital	**346**	–	–	**346**	–	–	**346**
Other	**37**	–	**(1)**	**36**	**(27)**	**70**	**79**
RNPFN Fund not available to the Group	–	**(14)**	–	**(14)**	–	–	**(14)**
Capital resources as at 31 December	**1,650**	–	**14**	**1,664**	**2,136**	**(1,943)**	**1,857**

2012	Society s participating contract business £m	RNPFN participating contract business £m	Other UK non participating £m	Total long term business £m	Other activities £m	Consolidation adjustments £m	Group total £m
Capital at 1 January	924	–	103	1,027	1,779	(1,386)	1,420
Effect of investment variations	146	–	–	146	–	–	146
Effect of changes in assumptions	166	–	–	166	–	–	166
New business	(129)	–	–	(129)	–	–	(129)
Effect of changes in regulatory requirements	–	16	–	16	2	(81)	(63)
Effect of capital restructure	–	–	(90)	(90)	–	–	(90)
Other	(27)	–	2	(25)	385	(484)	(124)
RNPFN Fund not available to the Group	–	(16)	–	(16)	–	–	(16)
Capital resources as at 31 December	1,080	–	15	1,095	2,166	(1,951)	1,310

During the year LVFS' excess capital resources increased by £534m to £720m (2012 £186m) The prime reason for this increase is the additional Lower tier two capital raised during the year which is explained in Note 21, and also movements per the table below

Excess capital	2013 £m
Excess capital at 1 January	**186**
Opening adjustments	**10**
Economic variances	**105**
Claims variances	**4**
Expense variances	**(18)**
New business	**(7)**
Impact of changes to valuations assumptions	**(16)**
Movements in group undertakings*	**110**
Interest on subordinated debt	**(14)**
Mutual bonus	**(22)**
Change in risk capital margin	**21**
Subordinated debt (after costs)	**346**
Other	**15**
Excess capital at 31 December	**720**

* Movement in group undertakings relates to the change in the net asset value of the subsidiaries, due mainly to profits generated and movements between admissible and inadmissible assets

The increase in capital has enhanced our key benchmark, the Regulatory Capital Cover ratio to 178% (2012 121%) This ratio represents the value of the available capital resources compared to the capital resources required

Notes to the Financial Statements continued

Year ended 31 December 2013

3 Capital management (continued)

Reconciliation of available capital resources

The following table reconciles the Unallocated divisible surplus presented in the Statement of Financial Position to the total available capital resources calculated on a regulatory basis

2013	Society s participating contract business £m	RNPFN participating contract business £m	Other UK non participating £m	Total long term business £m	Other activities (note 4) £m	Consolidation adjustments £m	Group total £m
Unallocated divisible surplus	952	–	–	952	–	24	976
Shareholdings in related undertakings	–	–	14	14	2,160	(2,174)	–
Regulatory adjustments							
– Adjustment to reserves to realistic basis	385	194	–	579	–	–	579
– Adjustment to subsidiaries (note 1)	(212)	–	–	(212)	–	207	(5)
– Inadmissible assets (note 2)	(15)	–	–	(15)	(24)	–	(39)
	1,110	194	14	1,318	2,136	(1,943)	1,511
Lower tier two capital	346	–	–	346	–	–	346
RNPFN Fund not available to the Group (note 3)	194	(194)	–	–	–	–	–
Capital Resources	1,650	–	14	1,664	2,136	(1,943)	1,857

2012	Society s participating contract business £m	RNPFN participating contract business £m	Other UK non participating £m	Total long term business £m	Other activities (note 4) £m	Consolidation adjustments £m	Group total £m
Unallocated divisible surplus	879	–	–	879	–	(18)	861
Shareholdings in related undertakings	–	–	15	15	2,187	(2,202)	–
Regulatory adjustments							
– Adjustment to reserves to realistic basis	358	180	–	538	–	–	538
– Adjustment to subsidiaries (note 1)	(322)	–	–	(322)	–	269	(53)
– Inadmissible assets (note 2)	(15)	–	–	(15)	(21)	–	(36)
	900	180	15	1,095	2,166	(1,951)	1,310
RNPFN Fund not available to the Group (note 3)	180	(180)	–	–	–	–	–
Capital Resources	1,080	–	15	1,095	2 166	(1,951)	1,310

Notes

1 Represents the difference between the cost of investment in subsidiaries and the value for regulatory purposes net of the capital requirement
2 Inadmissible assets include pension scheme, deferred tax and goodwill
3 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 the Society
4 Other activities include the non-life insurance activities and the non-insurance activities of the Group

Available capital – Long-term insurance contracts

i) Participating insurance contracts

The liabilities in respect of the Group's participating (with-profits) business are determined in accordance with the 'realistic balance sheet' regime prescribed by the PRA Under this regime, the liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses, based in general on the asset shares for the relevant policies The expected costs of the guarantees underlying the business are included, along with the impact of smoothing policy benefits in accordance with the Group's current practice An allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates The assets are taken at market value, estimated where required, with an allowance for the future surplus expected to arise on the non-participating business written in the participating fund The whole of the available capital resources within each participating fund is available to meet the regulatory and other solvency requirements of the fund The regulatory capital requirement is the Risk Capital Margin, determined by applying a stress prescribed by the PRA to the participating liabilities and to the assets supporting them For participating contract funds, the liabilities included in the Statement of Financial Position comprise only amounts relating to policyholders

Notes to the Financial Statements continued

Year ended 31 December 2013

3 Capital management (continued)

ii) Non-participating insurance contracts

The liabilities in respect of the Group's non-participating (non-profit) business are determined by discounting the cash flows projected to arise under the relevant policies at a risk-adjusted discount rate The assumptions used to project the cash flows include prudent margins The capital requirement for the business is the long-term insurance capital requirement determined in accordance with PRA regulations

iii) Other non-insurance activities

The other activities of the Group have available capital resources which are higher than the minimum requirements set by the PRA or FCA for each of the regulated entities In principle, the excess is available to the Society In practice, higher levels of capital are held within each regulated entity to provide appropriate cover for risk and new business growth This restricts the ability of the capital resources to meet requirements that arise elsewhere in the Group

iv) RNPFN fund

The capital resources in the RNPFN fund are available to support only the business within the fund The fund benefits from a capital support facility provided by the Society However, with the capital resources of the fund being in excess of its capital requirement, no calls to date have been made on this facility

Sensitivity of long-term insurance contract liabilities

The value of the long-term insurance contract liabilities is sensitive to changes in market conditions and in the demographic assumptions used in the calculation, such as mortality and persistency rates

Market conditions – Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions These also have an effect on the value placed on the assets held to support the liabilities An adverse change in market conditions may therefore reduce the level of the available capital resources

Demographic assumptions – Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities This may increase or reduce the value placed on the liabilities The sensitivity of the liabilities to changes in the assumptions varies according to the type of business For example, a change in mortality rates has a different impact for annuity liabilities than for term assurance liabilities

Further disclosure of the impact on the Unallocated divisible surplus of changes in market conditions and demographic assumptions is provided in Note 4 Risk management and control

Financial guarantees and options

a) Participating insurance contracts

As part of its normal operating activities, the Society has given guarantees and options, including interest rate guarantees, under its participating insurance contracts

A provision is made for these guarantees and options within the realistic valuation of the Group's participating business Under the PRA's rules, the cost of the guarantees and options is measured at fair value using a market-consistent stochastic model A stochastic approach includes measuring the time value of the guarantees and options, which represents the additional cost arising from the uncertainty surrounding future economic conditions The time value is evaluated by projecting a large number of possible future outcomes under a wide range of economic scenarios (for example, possible outcomes for interest rates and equity returns)

The material guarantees and options under the participating business are shown below

i) Guaranteed annuity rates – the RNPFN fund contains a number of individual pension and other policies, where the policyholder has the option at maturity to take the benefits in the form of an annuity based on guaranteed conversion rates

ii) Maturity value guarantees – many of the Group's participating insurance contracts have minimum maturity values, in the form of either a cash payment or an annuity, reflecting the original guarantee under the policy increased by past declared bonuses

iii) Money-back guarantees – some of the policies written by the Group provide a guarantee that the value of the policy at a certain point in time will be at least equal to the total premiums paid

b) Non-participating insurance contracts

The Group has also written non-participating contracts which include guarantees and options An appropriate provision for these guarantees and options has been included within the liabilities in accordance with the PRA's rules

c) Equity release loans

The Group's assets include a number of equity release loans, the principal and accrued interest of which are due to be repaid out of the proceeds from the sale of an associated domestic property The loans include the guarantee that any shortfall of the sale proceeds to the loan will be written off The loans also include guaranteed terms under which they can be repaid early Further details are disclosed within Note 16

Notes to the Financial Statements continued

Year ended 31 December 2013

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 Groups' products is outlined below and the Group's approach to managing and controlling these risk through its risk management framework is set out on pages 38 to 43

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, Unallocated divisible surplus, and Long-term insurance contract liabilities 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 measures a reasonably possible change in a single risk type

Principal risks

The Group uses a standard categorisation to group types of 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 risks and how they impact the Group

(a) Insurance risk

Insurance risk arises from the claims commitment that the Group has made to its policyholders However, the timing and the amount of the claim is uncertain and the insurance risk is the exposure to loss arising from this claims experience being different to that anticipated

Experience shows that the larger the portfolio of similar 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 insurance business across a diverse 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 has two main types of Insurance risk, life and general insurance and these are further outlined below

(i) Life insurance

The Group's life insurance ('Life') activities primarily involve the provision of Protection, Annuity, Pension and Equity Release products These products provide key benefits to the policyholder and their dependants, either securing their income during times of illness and their retirement or providing financial support to their beneficiaries in the case of loss of life

Once an insurance contract has been accepted a commitment then arises to meet the future benefits that have been offered to the policyholder (this may include certain guarantees e g sum assured, guaranteed annuity options), which crystallises at the point that the policyholder ultimately makes a claim

Life insurance contracts are long-term in nature and provide policyholder benefits over a number of years In addition, the ultimate liabilities that arise will vary by the type of different contracts that are written For example, death claims are certain for whole of life assurance and although the sum assured is fixed there are potential product factors that can influence this (e g values are index linked), whereas other liabilities are more open ended e g annuities and enhanced annuities that are ultimately dependent on how long someone lives

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 investment returns, interest rates and tax rates

Details of life insurance contract liabilities and associated valuation assumptions are disclosed in Notes 23 and 28 respectively

Differences in actual experience versus the original key assumptions will give rise to different liabilities than originally anticipated Wherever these liabilities are higher than estimated they will give rise to potential life insurance risks exposures, the primary life insurance risks prevalent within the Group's products are described below

Mortality and morbidity

Life Protection and Annuity business is exposed to changes in life expectancy (mortality) and health expectancy (morbidity) experience

Protection product liabilities are, in the main, based on the estimated life expectancy of the policyholders The potential risk is that more policyholders die earlier than expected and this will give rise to increased liabilities resulting from increased death claims In the reverse situation, insurance contract liabilities will reduce if policyholders live longer than expected

Annuity product liabilities are also based on the estimated life expectancy of the policyholders The potential risk is that if more policyholders live longer than anticipated this will give rise to increased liabilities and reduced profits, arising from the additional regular income payments

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

Certain of the Group's protection products also have liabilities which are based on the expected health of the policyholders The risk is that more policyholders fall ill or become incapacitated than anticipated and this will give rise to increased liabilities and reduced profits In the reverse situation, insurance contract liabilities will reduce and profits increase if levels of policyholders becoming ill or injured decline

Mortality 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 includes an individual's medical history, occupation, smoking and drinking habits (i e indicators of life expectancy) The actual experience of policyholders is then regularly monitored to assess that the underwriting criteria remain appropriate and that the level of risk being assumed by the Group remains within its risk appetite Finally, a proportion of mortality and morbidity risk is transferred via reassuring policy commitments through agreements with reinsurance companies

Persistency

In pricing life insurance business, the Group makes assumptions as to how long the policyholder is likely to retain the product This is not an option for annuity policyholders where there is no option to surrender the policy

The risk is that policies do not remain in force as long as expected, whether they are lapsed, declared as paid-up, surrendered or transferred prior to maturity or expiry In addition for equity release products persistency risk arises from voluntary early redemptions prior to the end of the loan contract

The level of persistency influences the ability to recover initial costs of sale from the premiums and charges that relate to the product Experience shows that the risk of a policy being lapsed/ surrendered or a loan being redeemed is greater in the early years but reduces significantly as time passes Persistency risk arises from the actual experience being different to that assumed when pricing the product

For certain Heritage products which incorporate significant guarantees or options, the level of persistency influences the estimated cost of the guarantees and options The risk for these products is that a larger proportion of the portfolio remains inforce to avail of these guarantees and options

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 on-going assessment of the factors that will generate additional expenses in the product servicing costs and the average duration of life insurance products

Life insurance exposure

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

	2013			2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group	£m	£m	£m	£m	£m	£m
Whole life	**1,599**	**(52)**	**1,547**	1,524	(45)	1,479
Endowment	**610**	**–**	**610**	679	–	679
Term Assurance	**165**	**(144)**	**21**	145	(116)	29
Immediate and deferred annuity contracts	**3,467**	**(68)**	**3,399**	3,347	(42)	3,305
UWP pensions and protected retirement plans	**902**	**–**	**902**	787	–	787
Critical illness	**63**	**(38)**	**25**	62	(33)	29
Income protection	**99**	**(66)**	**33**	104	(56)	48
ISA	**73**	**–**	**73**	70	–	70
Other	**115**	**(4)**	**111**	110	(5)	105
	7,093	**(372)**	**6,721**	6,828	(297)	6,531
Long-term claims liabilities	**38**	**–**	**38**	42	–	42
Unit linked	**1,254**	**–**	**1,254**	965	–	965
	8,385	**(372)**	**8,013**	7,835	(297)	7,538

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

Life insurance risk sensitivities

The table below sets out the impact on the long-term contract liabilities (both investment and insurance contracts), the Unallocated divisible surplus and Profit before tax for movements in key assumptions

Sensitivity analysis for the change in assumptions used in long-term insurance and investment contract liabilities	Impact on Profit before tax	Impact on the Unallocated divisible surplus	Impact on gross long term insurance and investment contract liabilities
Increase in mortality rates by 10% – Non annuity products	**(4)**	**(4)**	**39**
Decrease in mortality rates by 10% – Annuity products	**(38)**	**(38)**	**68**
Increase in morbidity rates by 10%	**(24)**	**(24)**	**78**
Reduction in persistency by 25%	**1**	**1**	**(45)**
Increase in persistency by 25%	**(1)**	**(1)**	**54**
Increase in expenses by 10%	**(34)**	**(34)**	**37**

The persistency sensitivities are performed as multiplicative stresses to the persistency assumptions for all products and therefore implicitly allow for offsets between products exposed to different directional sensitivities

(ii) General insurance

The Group s general insurance activities primarily involve the provision of motor, household, breakdown, pet and travel products to individuals and also commercial insurance cover to small and medium sized enterprises (SME) In the sale of these products the Group is committing to paying claims and therefore the size and timing of this claim needs to be considered The risk is that the actual exposure varies from these assumptions The Group manages this risk through its underwriting strategy, reinsurance arrangements and customer focused claims handling processes

For general insurance the risk to profits is from a significantly higher level of claims in terms of frequency or value than anticipated This could arise from significant weather events, subsidence and large single claims arising from either the motor product (injury claims) or SME product (liability and/or property claims) The Group has established its risk management process to ensure actual versus expected claims experience is carefully measured, monitored and controlled to ensure the risk is both adequately reflected in the underwriting criteria and remains within risk appetite

Experience shows that the larger the portfolio of similar 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 general insurance underwriting strategy 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

Property business (domestic and commercial) is exposed to catastrophic risks such as those resulting from storms or floods as well as risks such as subsidence The Group has entered into reinsurance contracts which provide protection against catastrophic weather events There have been no recent events that have triggered the reinsurance cover and so there is currently no reinsurance claims asset held on this account

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant The Group has entered into excess of loss reinsurance contracts which reduce its exposure to large claims The Group's retention is £5m per claim with the first layer of reinsurance between £5m and £10m being 68% placed, (2012 £5m per claim, £5m-£10m layer 80% placed)

Commercial business is exposed to large individual property losses and also to liabilities arising from employment and commercial activities The Group has entered into reinsurance contracts which provide protection against these liabilities

The Group has historic Quota Share and Excess of Loss reinsurance contracts which reduce the Group's exposure to large claims

The Group's exposure to general insurance risk is captured in the insurance contract liabilities set out below

	2013			2012		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
	£m	**£m**	**£m**	£m	£m	£m
Motor	**1,115**	**(117)**	**998**	1,072	(118)	954
Commercial	**169**	**(13)**	**156**	153	(17)	136
Household	**68**	**–**	**68**	58	–	58
Other	**6**	**–**	**6**	4	–	4
	1,358	**(130)**	**1,228**	1,287	(135)	1,152

Notes to the Financial Statements continued

Year ended 31 December 2013

4. Risk management and control (continued)

These contract liabilities represent the estimated cost of outstanding claims to policyholders The liability is calculated largely from using the Group s own historic claims development data and is originally estimated based on the information provided at the point of notification and based on this historic experience However, the level of final claim payment may vary either because new information becomes available or because of limitations inherent in using past claims development patterns to forecast future claims development The factors that could cause an alternative development include

- Changes in actuarial processes and methodology,
- Changes in risk profile,
- Changes in underwriting, rating and policy conditions,
- Changes in legislation and regulation (e g Periodic Payment Orders ('PPOs'), Ministry of Justice reforms, changes to the Ogden discount rate), and
- Changes in other external factors (e g claims farming/ accident management firms)

It is therefore important that the impact of these items on claims development is understood Whilst every effort has been made to ensure the estimated liability appropriately allows for such changes, there remains uncertainty in the eventual outcome This uncertainty can change from year to year depending on the timing and magnitude of these items

The Group has identified two specific areas of uncertainty that it has explicitly allowed for within the estimated liabilities where the outcome could be worse than the amount allowed for These are

- Uncertainty in the proportion of claims identified by the Group as being likely to settle on a PPO basis, and
- Uncertainty in relation to the Ogden discount rate

The liability estimate includes a specific allowance for claims identified as having the potential to settle on a PPO basis This allowance is based on the mean cost of claims derived from a range of scenarios based on the PPO settlement rate for *all claims If all of these claims settled as PPOs*, the reserves would deteriorate by an estimated £8 6m from the position shown above

The Ogden discount rate is set by the Lord Chancellor It is currently 2 5% but a revision is under consideration with a decision possible in 2014 Whilst there are many views across the industry in terms of what the change should be, the general consensus is that a change is now unlikely Despite this, the claims provision has included an allowance for a change in the Ogden discount rate, using a scenario based approach as for PPOs The allowance is broadly equivalent to a reduction in the discount rate to 2% (2012 1 75%) If the discount rate was to reduce to 1 5%, the claims provision would deteriorate by £10m A reduction to 1% would lead to a deterioration of £19m However, it is believed that a reduction in the discount rate would reduce the propensity for claims to settle as PPOs, therefore the actual impact may be lower than the figures quoted here

LASPO was implemented in April 2013 and there are early signs that this is having a positive impact on personal injury (PI) claims *frequency and severity However, the uncertainty in PI frequency* and severity is perceived to be higher than previous year ends due to the short period of time that has elapsed since this change In addition to this, the Group has changed its claims system during 2013, which has added an additional layer of uncertainty due to further changes in claims development

The claims provision is also sensitive to the number and cost of large motor claims (defined as greater than £1m), which have been incurred but not reported and reserved A number of large claims from expired risks are typically expected to be identified in the future, either from being newly reported or from existing claims increasing in magnitude above the £1m threshold The claims provision allows for £33m of late reported/reserved large claims above £1m Therefore, if seven new claims were reported, each with £5m above the £1m threshold, for example, this would lead to a £2m deterioration in the reserves, whereas six new claims of this type would lead to a £3m improvement

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

The tables below reflect the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each Statement of Financial Position date, together with the cumulative payments to date The Group aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments

Analysis of claims development – gross of reinsurance	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Initial estimate of gross provision	501	522	551	560	540	607	771	906	1,086	1,075	
One year later	487	524	528	513	540	589	823	913	1,039		
Two years later	466	495	505	489	500	589	839	899			
Three years later	450	472	490	486	490	588	833				
Four years later	438	463	477	488	491	603					
Five years later	435	457	478	492	487						
Six years later	436	458	477	494							
Seven years later	436	455	478								
Eight years later	436	460									
Nine years later	436										
Current estimate of cumulative claims	436	460	478	494	487	603	833	899	1,039	1,075	**6,804**
Cumulative payments to date	(429)	(452)	(471)	(466)	(470)	(548)	(718)	(745)	(736)	(463)	**(5,498)**
Liability recognised in the Statement of Financial Position for 2004 to 2013 accident years	7	8	7	28	17	55	115	154	303	612	**1,306**
Liability recognised in the Statement of Financial Position in respect of prior accident years											**33**
Claims handling provision											**19**
Gross general insurance claims liabilities as at 31 December 2013											**1,358**

Analysis of claims development – net of reinsurance	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Initial estimate of net provision	446	484	513	506	507	584	762	897	1,061	1,055	
One year later	437	474	475	463	483	578	803	897	1,022		
Two years later	416	439	467	440	464	565	819	891			
Three years later	407	430	451	441	457	562	805				
Four years later	393	424	444	430	458	577					
Five years later	392	422	442	431	454						
Six years later	393	421	441	431							
Seven years later	389	420	442								
Eight years later	391	422									
Nine years later	390										
Current estimate of cumulative claims	390	422	442	431	454	577	805	891	1,022	1,055	**6,489**
Cumulative payments to date	(389)	(418)	(436)	(425)	(442)	(534)	(711)	(743)	(736)	(463)	**(5,297)**
Liability recognised in the Statement of Financial Position for 2004 to 2013 accident years	1	4	6	6	12	43	94	148	286	592	**1,192**
Liability recognised in the Statement of Financial Position in respect of prior accident years											**17**
Claims handling provision											**19**
Net general insurance claims liabilities as at 31 December 2013											**1,228**

Notes to the Financial Statements continued
Year ended 31 December 2013

4 Risk management and control (continued)

(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 Investing in these assets exposes the Group to risk, collectively described as financial markets risk Details of investment contract liabilities and the fair value estimation of current investment assets are disclosed in Notes 18 and 19 respectively

On page 41 financial markets risk was 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 principal derivatives used for this function are interest rate contracts (including interest rate swaps and options), 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 market risk exposures within its investment holdings (see Note 17 on how these are used)

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 on 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 Such assets are, however, prudently managed in order to meet policyholders' risk and reward expectations In addition, regulatory requirements prescribe the type and quality of assets that can be held to support these liabilities

The key types of financial markets risk to which the Group is exposed are set out in more detail in the following paragraphs

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 Those changes may be caused by factors specific to the asset or liability or its issuer or by factors affecting all similar assets or liabilities (i e systemic)

There is a range of assets that the Group and Society can invest in to achieve the desired levels of capital growth and income performance The performance characteristics and the associated risks vary by the different types of investment assets, and 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 For general insurance contracts, equities are held to achieve an investment return

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 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

Decreases in the market price of equities will negatively impact the profits and capital of the Group The impacts of an increase or decrease in equity prices by 20% can be found in the summary of market risk sensitivities shown below

Property price risk

The Group is subject to property price risk due to holdings of investment properties in a variety of locations in the UK (see Note 32 for investment property disclosure) and its exposure to the residential property market through its equity release products, where sustained underperformance in UK residential property prices could result in proceeds on sale being exceeded by the mortgage debt at the date of redemption (see Note 16 for disclosures relating to loans secured on residential property)

Investment property exposure is assumed primarily in connection with the investment and long-term linked insurance contracts where the exposure to the price movements assists in matching the corresponding movements in contractual obligations For participating insurance contracts the aim is to achieve growth in excess of the obligations and an exposure to property investment can help to achieve this The associated risk is mitigated by investing in a diverse portfolio of high quality properties and ensuring the level of investment remains within limits established by the Investment and Risk Committees

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

For Equity Release products the risk is managed through limits on the maximum loan to value ratio and seeking to limit concentrations in particular geographic areas In addition, monitoring of actual experience in house prices versus expected is undertaken

Decreases in the market price of properties will negatively impact the profits and capital of the Group/Society The impacts of an increase or decrease in property prices by 12 5% on the holdings of investment properties can be found in the summary of market risk sensitivities shown below

Corporate bond price risk (Credit spread risk)

The credit spread risk represents the risk of adverse fluctuation in the values of assets and liabilities due to changes in the level of corporate bond credit spreads This represents the main market risk exposure of the Group's investments in investment grade corporate bonds

A widening of corporate bond spreads over and above risk-free yields will lead to a fall in the fair value of the Group's portfolio of corporate bonds and vice versa For investment and long-term linked insurance contracts this movement is matched with corresponding movements in contractual liabilities, whereas in the general insurance business the liabilities are undiscounted and so unaffected in current value by changes in credit spreads meaning that the change in asset value will be reflected in profit The Group monitors credit spread risk by regularly reviewing its exposure to corporate bonds by sector (e g financial or non-financial), credit rating and duration and through its asset and liability matching tools

Widening in credit spreads, over and above risk-free yields, will cause bond values to decrease and negatively impact the profits and capital of the Group/Society The impacts of changes in credit spreads (widening by 100 basis points (1%) and narrowing by 50 basis points (0 5%)) can be found in the summary of market risk sensitivities shown on page 120

ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will vary as market rates of interest vary For the Group, interest rate risk primarily arises from holding assets and liabilities – actual or notional – with different maturity or repricing dates, creating exposure to change in the level of interest rates, whether real or notional It mainly arises from the Group's investments in debt and fixed-income securities, including gilts, and their relative value placed on insurance liabilities

In addition, it also arises in certain products sold by the Group and the features, including guarantees (e g surrender values, annuity options and minimum surrender and maturity values), which can lead to claim values being higher than the value of the backing assets, where interest rates change

The Group manages interest rate risk using performance benchmarks with appropriate durations and, in some instances, using derivatives to achieve a closer cash flow match

Exposure to interest rate risk is monitored using several techniques, including scenario testing, stress testing and asset liability duration control In the case of the latter, the Group monitors interest rate risk by calculating the mean duration of the investment portfolio and the associated liabilities The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations The mean duration of the assets is calculated in a consistent manner During 2013 the Group managed this risk through an active use of gilt yield hedges, in the form of contracts for differences

A reduction in interest rates increases the current market value of fixed interest assets, but reduces future reinvestment income rates The value of liabilities is also increased when interest rates fall as the discount rate used in their calculation will be reduced An increase in rates has an opposite effect

iii) Foreign currency risk

The Group only operates within the UK and is therefore not 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 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 Currency risk is managed by the use of exposure limits and authorisation controls operated with the Group's risk management framework The investment management agreement between the Group and the Group's asset manager, Threadneedle Asset Management Limited, specifies the limits for holdings in overseas investment asset categories Asset allocation limits are set, which ensure that each fund has an appropriate mix of assets and is not over or under exposed to a particular overseas asset category or specific investment The Funds Management Group within the Society monitors the actual overseas asset allocation and performance against benchmarks with oversight provided by Group ALCO and the Investment Committee

Notes to the Financial Statements continued
Year ended 31 December 2013

4 Risk management and control (continued)
The table below summarises the Group's exposure, after hedging, to foreign currency exchange risk in sterling

	2013					2012				
	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m	Euro £m	US Dollar £m	Yen £m	Other £m	Total £m
Derivatives	**(36)**	**(71)**	**–**	**(6)**	**(113)**	(35)	(47)	–	(6)	(88)
Equity securities	**85**	**200**	**45**	**66**	**396**	88	137	61	104	390
Debt securities	**20**	**69**	**–**	**–**	**89**	24	43	–	–	67
Other investments	**–**	**–**	**–**	**–**	**–**	15	–	–	–	15
Cash and cash equivalents	**19**	**1**	**–**	**–**	**20**	11	6	–	–	17
	88	**199**	**45**	**60**	**392**	103	139	61	98	401

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 £9m (2012 £10m) and £20m (2012 £14m) respectively In determining the percentage rates to use in this sensitivity analysis the movements in actual market rates of Euro and US Dollars during 2013 were taken into account The above table incorporates all material currency risk to Profit before tax Therefore, a 10% increase/decrease across all currencies could impact Profit before tax by up to £39m (2012 £40m)

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

iv) 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 Group's Chief Investment Officer and Investment Management Group, with day to day investment activities being undertaken by the Group's investment manager, Threadneedle Asset Management (TAM)

The investment management agreement between the Group and TAM specifies the limits for holdings in certain asset categories 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 or specific investment The Funds Management Group monitors the actual asset allocation and performance against benchmarks with oversight provided by Group ALCO and the Investment Committee

Eurozone exposure
The Group has some exposure to the following Eurozone countries The table below shows the Group's exposure by country of incorporation of the counterparty at 31 December 2013

	2013			2012		
	Sovereign £m	Non sovereign £m	Total £m	Sovereign £m	Non sovereign £m	Total £m
Ireland	**–**	**106**	**106**	–	333	333
Italy	**–**	**40**	**40**	–	36	36
Portugal	**–**	**2**	**2**	–	3	3
Spain	**–**	**116**	**116**	–	90	90
France	**2**	**413**	**415**	–	323	323
Other Eurozone	**19**	**895**	**914**	–	872	872
Total	**21**	**1,572**	**1,593**	–	1,657	1,657

The Group has no exposure to either Greece or Cyprus Non-sovereign exposure includes £92m (2012 £74m) of subordinated debt

Notes to the Financial Statements continued
Year ended 31 December 2013

4 Risk management and control (continued)
Summary of market risk sensitivities
The table below sets out the impact on long-term contract liabilities (both investment and insurance contracts), the Unallocated divisible surplus and Profit before tax for movements in sectors of the market that the Group is invested in, net of derivatives

Sensitivity analysis to movements in key market sectors	Impact on Profit before tax £m	Impact on the Unallocated divisible surplus £m	Impact on gross long term insurance and investment contract liabilities £m
Equity values fall by 20%	**(36)**	**(27)**	**(499)**
Equity values increase by 20%	**41**	**32**	**493**
Property values fall by 12 5%	**(20)**	**(20)**	**(2)**
Property values increase by 12 5%	**21**	**20**	**–**
Credit spreads fall by 50bps	**55**	**50**	**55**
Credit spreads increase by 100bps	**(101)**	**(92)**	**(100)**
Fixed interest yields fall by 50bps	**(1)**	**–**	**318**
Fixed interest yields increase by 100bps	**4**	**2**	**(545)**

In determining the percentage rates to use in the sensitivity analysis reference has been made to those used for internal reporting within the Group

Asset values and, where appropriate, asset shares are adjusted to reflect the change in each sensitivity 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

(c) Credit risk
Credit risk is defined as the risk of loss if another party fails to perform 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 limits Group counterparty exposures are monitored by Group ALCO, with ultimate oversight of credit counterparty risk being undertaken by the Risk Committee

The principal credit counterparty risks within the Group are as follows

Insurance sales counterparties
In the life business and general insurance broker division, sales are conducted by and premiums are collected via intermediaries (primarily IFAs and brokers) and there is a credit risk exposure to these counterparties on the outstanding premiums from the contracts that have been written through these sales channels The creditworthiness of the intermediaries is assessed and credit limits are used to manage any potential concentration risk associated with individual counterparties

In addition, general insurance policyholders who purchase motor and home insurance products directly from LV= have the option to take out premium finance, provided they meet the qualifying criteria, and there is an exposure to outstanding premiums due from these policyholders The creditworthiness is assessed at the time of sale and outstanding premiums are monitored and collected via a dedicated budget accounts function

Receivables due from policyholders, agents and brokers are shown in the credit risk exposure table on the following page under insurance receivables The concentrations of credit risk with respect to insurance receivables are limited due to the size and spread of the Group's trading base No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables

Insurance claim recoveries counterparties
Credit exposures also arise within general insurance motor and home claims, where claims expense recoveries are due from other insurers policyholders who are at fault for any repairs expense suffered by the Group's policyholders This also occurs in reverse with liabilities that the Group owes other insurers Where the net position with another general insurer results in monies being due to the Group, a credit exposure arises These exposures are managed via a dedicated recoveries team and an industry wide compensation scheme is in place to provide cover for default by an individual insurer

Reinsurance counterparties
Once insurance contracts have been written, both the life and general insurance businesses use reinsurance agreements to transfer an element of potential insurance risk exposures from contract liabilities This does not, however, discharge the Group's liability as primary insurer If a reinsurer fails to pay a reinsurance claim, the Group remains liable for the payment to the policyholder To manage this exposure the creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract, which is then regularly reviewed Group exposures are regularly monitored by Group ALCO

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

Equity release mortgage counterparties

The retirement business also provides an equity release product and hence this business is exposed to credit risk arising from mortgage loans provided This risk is managed by using the residential property as security against the loan, assessment of the risk and maintaining a low loan to value ratio Note 16 provides further disclosure on loans secured on residential property and provisions for 'No Negative Equity Guarantees' There have been no negative equity claims in the past in relation to loans secured on residential property

Investment counterparties

The remaining credit counterparty 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 (e g dividends or interest payments) 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 approved counterparties, permitted investments and geographical territories, as well as detailing specific asset class exposure limits These are implemented within the investment management agreement with TAM The policy and agreements also require that asset holdings are within regulatory limits that restrict excessive concentrations with individual counterparties or with particular asset classes

In addition, the Group uses derivatives to transfer elements of financial markets risk exposures Where possible, significant counterparty exposures are mitigated by the use of collateral For over-the-counter derivative transactions undertaken by the Group, collateral is received from the counterparty The collateral can be sold or repledged by the Group and is repayable if the contract terminates or the contract's fair value decreases At 31 December 2013, the fair value of such collateral held was £47m (2012 £65m) No collateral received from the counterparty has been sold or repledged (2012 £nil) In addition the Group has pledged £61m (2012 £67m) of corporate bonds as collateral in relation to cash flow swaps

The fair value of the derivative is matched by collateral received from the counterparty, which increases or reduces in line with the contract's fair value Subject to collateral value disputes, which we seek to resolve with minimum delay, the extent of the derivative credit risk exposure is limited to the fair value movement on a day to day basis which is below the minimum transfer amounts within the Credit Support Annex

For corporate bond holdings, exposures are also monitored by industry sector and by credit rating In order to minimise its exposure to credit risk the Group invests primarily in higher graded assets, rated BBB and above

The tables below show the credit profile of the Group's assets The credit risk profile of the Society is materially consistent with that of the Group

Credit risk exposure 2013	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Below BBB £m**	**Not rated £m**	**Total £m**
Debt and other fixed income securities	**751**	**2,237**	**1,702**	**1,221**	**90**	**586**	**6,587**
Loans secured on residential property	–	–	–	–	–	**493**	**493**
Other financial assets held at FVTPL	–	–	–	–	–	**3**	**3**
Short-term deposits	**9**	**130**	**351**	**141**	**13**	**36**	**680**
Insurance receivables	–	**9**	**1**	–	–	**213**	**223**
Other receivables	–	–	–	–	–	**65**	**65**
Derivative assets	–	–	–	–	–	**47**	**47**
	760	**2,376**	**2,054**	**1,362**	**103**	**1,443**	**8,098**
Reinsurance assets							
– non linked	–	**361**	**92**	**1**	**1**	**13**	**468**
– linked	–	**47**	–	–	–	–	**47**
	760	**2,784**	**2,146**	**1,363**	**104**	**1,456**	**8,613**

Credit risk exposure 2012	AAA £m	AA £m	A £m	BBB £m	Below BBB £m	Not rated £m	Total £m
Debt and other fixed income securities	3,006	402	1,712	1,126	34	33	6,313
Loans secured on residential property	—	–	–	–	–	415	415
Other financial assets held at FVTPL	–	–	–	–	–	5	5
Deposits with credit institutions	–	–	–	–	–	15	15
Short-term deposits	–	37	250	–	–	51	338
Insurance receivables	–	9	3	–	–	215	227
Other receivables	–	–	–	–	–	88	88
Derivative assets	–	–	–	–	–	71	71
	3,006	448	1,965	1,126	34	893	7,472
Reinsurance assets							
– non linked	–	285	90	1	–	36	412
– linked	–	35	–	–	–	–	35
	3,006	768	2,055	1,127	34	929	7,919

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Year ended 31 December 2013

4 Risk management and control (continued)

Impairment

The Group reviews the carrying value of its financial assets 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 As at 31 December 2013 £1m (2012 £1m) was impaired which primarily relates to receivables where there is no realistic prospect of recovery

The table below provides information regarding the maximum credit risk exposure to financial assets, together with the extent to which they are due, overdue and impaired The table also illustrates the ageing of financial assets that are overdue but not impaired

Age analysis of assets past due but not impaired 2013	**<30 days £m**	**31 to 60 days £m**	**61 to 90 days £m**	**>90 days £m**	**Total past due but not impaired £m**	**Past due and impaired £m**	**Neither past due nor impaired £m**	**Total £m**
Loans and other receivables	–	–	–	–	–	–	**65**	**65**
Insurance receivables	**8**	**1**	–	**1**	**10**	**1**	**212**	**223**
	8	**1**	–	**1**	**10**	**1**	**277**	**288**

Age analysis of assets past due but not impaired 2012	<30 days £m	31 to 60 days £m	61 to 90 days £m	>90 days £m	Total past due but not impaired £m	Past due and impaired £m	Neither past due nor impaired £m	Total £m
Loans and other receivables	–	–	–	–	–	–	103	103
Insurance receivables	5	4	2	6	17	1	209	227
	5	4	2	6	17	1	312	330

(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

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 general insurance business there is the potential for increased demand for cash, above normal claims expense patterns, for example to meet adverse UK weather events 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

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 there is a liquidity risk appetite statement which requires that sufficient liquid resources are maintained to cover net cash outflows both on a business as usual basis and under stressed conditions This is captured in a liquidity cover ratio and is monitored by the Group ALCO

Notes to the Financial Statements continued
Year ended 31 December 2013

4 Risk management and control (continued)
(d) Liquidity risk (continued)

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 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

The maturity of the financial and reinsurance assets of the Group has been disclosed within the individual notes to the financial statements

The table below summarises the maturity profile of the financial liabilities, insurance and investment contract liabilities and the non-participating value of in-force business of the Group The results are based on the remaining undiscounted contractual obligations, except for non-unit linked long-term insurance contracts, participating investment contracts and the non-participating value of in-force business, for these items the maturity profiles are determined based on the estimated timing of the discounted net cash flows

For investment contract liabilities, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (within one year) as these options can be exercised immediately by the policyholder

Group **Maturity profile of financial, insurance and investment contract liabilities 2013**	**Within 1 year** **£m**	**1 3 years** **£m**	**3-5 years** **£m**	**Over 5 years** **£m**	**No term** **£m**	**Unit linked** **£m**	**Total** **£m**
Insurance contract liabilities	**1,136**	**1,343**	**978**	**4,533**	–	**5**	**7,995**
Non-participating value of in-force business	**(13)**	**(25)**	**(23)**	**(190)**	–	**(22)**	**(273)**
Investment contract liabilities	**24**	**15**	**40**	**420**	–	**1,249**	**1,748**
Net asset value attributable to unit holders	**479**	–	–	–	–	–	**479**
Provisions	**8**	**6**	**2**	–	–	–	**16**
Financial liabilities							
– Derivative financial instruments	**1**	–	–	**79**	–	–	**80**
– Subordinated liabilities	–	–	–	**356**	–	–	**356**
– Other financial liabilities	**10**	–	–	**36**	–	–	**46**
Insurance payables	**38**	–	–	–	–	–	**38**
Trade and other payables	**210**	**2**	**2**	**87**	–	–	**301**
	1,893	**1,341**	**999**	**5,321**	–	**1,232**	**10,786**

Group Maturity profile of financial, insurance and investment contract liabilities 2012	Within 1 year £m	1 3 years £m	3 5 years £m	Over 5 years £m	No term £m	Unit linked £m	Total £m
Insurance contract liabilities	910	1,456	961	4,369	–	6	7,702
Non-participating value of in-force business	(7)	(18)	(17)	(178)	–	(33)	(253)
Investment contract liabilities	18	15	35	393	–	959	1,420
Net asset value attributable to unit holders	504	–	–	–	–	–	504
Provisions	60	7	–	–	–	–	67
Financial liabilities							
– Derivative financial instruments	–	–	–	51	–	–	51
– Subordinated liabilities	–	–	–	10	–	–	10
– Other financial liabilities	65	–	–	–	–	–	65
Insurance payables	45	–	–	–	–	–	45
Trade and other payables	190	2	2	89	–	–	283
	1,785	1,462	981	4,734	–	932	9,894

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

Notes to the Financial Statements continued
Year ended 31 December 2013

4. Risk management and control (continued)

Society

Maturity profile of financial, insurance and investment contract liabilities 2013	**Within 1 year £m**	**1 3 years £m**	**3 5 years £m**	**Over 5 years £m**	**No term £m**	**Unit linked £m**	**Total £m**
Insurance contract liabilities	**531**	**942**	**775**	**4,365**	**–**	**5**	**6,618**
Non-participating value of in-force business	**(13)**	**(25)**	**(23)**	**(190)**	**–**	**(22)**	**(273)**
Investment contract liabilities	**24**	**15**	**40**	**420**	**–**	**1,249**	**1,748**
Provisions	**6**	**5**	**2**	**–**	**–**	**–**	**13**
Financial liabilities							
– Derivative financial instruments	**1**	**–**	**–**	**79**	**–**	**–**	**80**
– Subordinated liabilities	**–**	**–**	**–**	**346**	**–**	**–**	**346**
– Other financial liabilities	**–**	**–**	**1**	**55**	**–**	**–**	**56**
Insurance payables	**23**	**–**	**–**	**–**	**–**	**–**	**23**
Trade and other payables	**166**	**–**	**–**	**–**	**–**	**–**	**166**
	738	**937**	**795**	**5,075**	**–**	**1,232**	**8,777**

Society

Maturity profile of financial, insurance and investment contract liabilities 2012	Within 1 year £m	1 3 years £m	3 5 years £m	Over 5 years £m	No term £m	Unit linked £m	Total £m
Insurance contract liabilities	489	915	785	4,199	–	6	6,394
Non-participating value of in-force business	(7)	(18)	(17)	(178)	–	(33)	(253)
Investment contract liabilities	18	15	35	393	–	959	1,420
Provisions	58	5	–	–	–	–	63
Financial liabilities							
– Derivative financial instruments	–	–	–	51	–	–	51
– Other financial liabilities	65	1	1	14	–	–	81
Insurance payables	26	–	–	–	–	–	26
Trade and other payables	138	–	–	–	–	–	138
	787	918	804	4,479	–	932	7,920

(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 to every part of the business and covers a wide spectrum of issues 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 Group's Enterprise Risk Management Framework A formal attestation process provides assurance about the effectiveness of the overall control environment and reports on any material exceptions

Operational risk is unrewarded and is therefore inherently unattractive Consequently, the Group seeks to minimise exposure to operational risk as far as it is cost-effective to do so The Group will always seek to uphold its brand image as 'Britain's best loved insurer' with customers, employees and other external parties and the Group has no appetite whatsoever for regulatory weaknesses or failings that lead to censure actions

The Group uses a number of categories under which operational risk and its management can be considered and these are outlined in the following paragraphs

Crime

The Group is potentially exposed to the risk of internal fraud, claims-related fraud and external fraud by third parties

The risk of internal fraud is managed through a number of controls including background checks on employees prior to recruitment, segregation of duties and effective system access controls with regular review of access rights The Group has arrangements in place by which employees may, in confidence, raise concerns about possible improprieties, together with arrangements for the proportionate and independent investigation of such matters Claims-related fraud is managed by processes designed to fully validate claims and ensure that only genuine claims are settled Systematic anti-fraud monitoring techniques are deployed to detect external fraud activity

Financial processes

The Group needs to ensure that it has robust processes governing financial reporting, planning and budgeting, asset and expense management, trading and investment activity, treasury, pricing and transaction processing The risk is managed through a number of controls which include effective budgetary control and reconciliation processes, segregation of duties, defined authority limits and effective system access controls with regular review of access rights

Change management

The Group uses robust project management disciplines to prevent mismanagement of change programmes which would otherwise impact business delivery or the control environment

Notes to the Financial Statements continued

Year ended 31 December 2013

4 Risk management and control (continued)

Business Interruption

The Group is potentially exposed to disruption of business activities arising from system and technology outages and loss of access to buildings or the normal business environment The risk is controlled by the maintenance and regular testing of business recovery plans, by effective management of the physical security of office buildings and availability of back-up systems and of contingency sites

Legal and regulatory

The Group needs to ensure it complies with its legal and contractual obligations and could potentially be exposed to losses arising from unenforceable or unfair contracts or to costs of litigation from dissatisfied customers Legal and Compliance departments help to ensure the monitoring of emerging legislative/regulatory change and compliance with existing laws/regulations The Group takes steps to ensure that contract terms applicable to customers and third-party suppliers are carefully drafted and are subject to a comprehensive sign-off procedure, including sign-off by legal experts

IT

Naturally, the Group is reliant on the integrity and performance of its IT systems to underpin its operational activities The Group protects itself from under-performance/failure of systems and from obsolescence or under-delivery of systems by robust system testing and capacity monitoring, regular review of systems capability versus business requirements and by maintenance and regular testing of business recovery plans

Employees

The Group needs to comply with employment, health and safety laws or agreements and so protect itself from litigation or claims arising from employment practices It also needs to ensure that it has adequate numbers of fit-for-purpose employees to support its operational activities and the products and services that it provides to customers The Group has detailed HR procedures, accompanied by the provision of relevant training to staff to ensure compliance with laws/agreements Employees are subject to background checks prior to recruitment and there are job descriptions and annual performance reviews for all staff There is regular review of attrition rates across the business and there are takeover procedures and succession planning for senior management roles

Sourcing/outsourcing

The Group needs to ensure that it selects wisely when appointing third parties for the delivery of specific services and supplies To ensure that the chosen suppliers are fit-for-purpose and can provide the service that both the Group and its customers would reasonably expect, there are due diligence checks on potential suppliers and resultant contracts are subject to a comprehensive review and sign-off procedure, including sign-off by legal experts Detailed service level agreements are drawn up to clearly specify the expectations for the standard of service that the Group would expect to receive and there is periodic review of the business continuity arrangements of the third party to check on its ability/speed to be able to continue to provide the desired service capability in the event of business interruption

Products and markets

The Group needs to ensure that it designs, prices and sells products that meet clear customer needs and are sold to the right target group, are priced fairly whilst allowing margin for profit and are supported by product literature that is fair, clear and not misleading and by systems that can faithfully handle the entire life cycle of the product, from new business sale right through to claim/maturity/termination

Design of new products and changes to existing products are subject to robust new product approvals and pricing procedures Product literature is subject to a comprehensive literature sign-off procedure, including sign-off by legal experts There is also a timely post-implementation review process to check that the target market is being reached Applications for insurance are subject, as appropriate, to detailed underwriting guidelines and underwriters have authority limits All resultant business is captured on systems that are subject to systems controls and quality checking

There is client/policy verification at outset and at various transactional points through to claim/maturity stage to protect against fraudulent activity

There is considerable compliance monitoring undertaken in this area to ensure that we are conduct risk compliant

Customers

To ensure that we meet our legal, regulatory and business obligations to individual and groups of customers, we need to ensure that there is adequate disclosure of information to customers both at the outset and during the lifetime of their policy We also take careful steps to ensure that we maintain appropriate and secure records and copies of documentation and that records are only retained for the necessary duration

There is considerable training of appropriate customer-facing staff to minimise any exposure to mis-selling and we ensure that we clearly segregate clients' money from the Group's money

To ensure we deal with issues in a courteous, timely and fair manner we have detailed complaints handling procedures and we undertake complaints analysis to spot any patterns of weakness and so improve aspects of our processes and procedures as and where necessary

There is considerable compliance monitoring undertaken in this area to ensure that we are conduct risk compliant

Information security

Adequate security of information is vital and the Group takes considerable steps to minimise exposure to corruption or erasure of information, to prevent abuse of systems access rights and to protect against the loss or inappropriate disclosure of data The Group has stringent information security requirements supported by effective system access controls with regular review of access rights for leavers/joiners There is also the provision of relevant training to staff to ensure that all are aware of the Group's expectations and requirements in this subject area

Notes to the Financial Statements continued

Year ended 31 December 2013

Performance

The notes included within this section focus on the performance and results of the Society and Group Information on the income generated, benefits and claims paid, expenditure incurred and mutual bonus declared are presented here

5 Net earned premiums

Accounting for net earned premiums
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 Reinsurance premiums payable are accounted for when due for payment

General insurance contracts
General insurance premiums written reflect business coming into force during the year Earned premium is written premium adjusted for unearned premium Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of Financial Position date Unearned premiums are calculated on a time apportionment basis The proportion attributable to subsequent periods is deferred as a provision for unearned premiums

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		Society	
		2013	2012	**2013**	2012
Gross earned premiums		**£m**	£m	**£m**	£m
Long-term insurance and investment contracts – participating business					
Investments and savings	– single premium	**85**	62	**85**	62
Pensions and annuities	– single premium	**11**	11	**11**	11
Investments and savings	– regular premium	**36**	44	**36**	44
Pensions and annuities	– regular premium	**13**	15	**13**	15
Long-term insurance contracts – non-participating business					
Pensions and annuities	– single premium	**532**	677	**532**	677
Pensions and annuities	– regular premium	**6**	7	**6**	7
Life and health protection	– regular premium	**145**	132	**144**	132
Long-term linked insurance contracts					
Life and health protection	– regular premium	**10**	11	**10**	11
General insurance contracts					
Motor		**1,018**	1,109	**–**	–
Commercial		**201**	164	**–**	–
Household		**149**	140	**–**	–
Other		**77**	72	**–**	–
Change in unearned premiums provision		**34**	2	**–**	–
Gross earned premiums		**2,317**	2,446	**837**	959
Premiums ceded to reinsurers					
Long-term insurance premiums		**(84)**	(76)	**(84)**	(76)
General insurance business		**(36)**	(35)	**–**	–
Change in unearned premiums provision		**(2)**	2	**–**	–
		(122)	(109)	**(84)**	(76)
Net earned premiums		**2,195**	2,337	**753**	883
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above		**342**	270	**342**	270

All contracts are written in the UK apart from Highway Insurance Company Limited which has previously written a proportion of its general insurance business in Ireland This ceased during 2012 with the Irish net earned premiums totalling £4m in that year

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6 New business premiums

Gross new business premiums – long-term contracts		Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Long-term insurance and investment contracts – participating business					
Investments and savings	– single premium	**85**	62	**85**	62
Pensions and annuities	– single premium	**11**	11	**11**	11
Investments and savings	– regular premium	**4**	1	**4**	1
Long-term insurance contracts – non-participating business					
Pensions and annuities	– single premium	**532**	677	**532**	677
Life and health protection	– regular premium	**26**	27	**26**	27
Long-term linked insurance contracts					
Life and health protection	– regular premium	**2**	4	**2**	4
		660	782	**660**	782
Non-participating investment contracts					
Pensions and annuities	– single premium	**331**	262	**331**	262
Pensions and annuities	– regular premium	**11**	8	**11**	8
		1,002	1 052	**1,002**	1,052

Gross written premiums for non-participating investment contracts are deposit accounted for and not included within net earned premiums

Recurrent single premium rebates from the Department for Works and Pensions are included as new business single premiums

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

Group gross premiums earned – general business	2013 £m	2012 £m
Motor	**1,077**	1 133
Commercial	**180**	152
Household	**146**	135
Other	**76**	66
	1,479	1,486

7 Fee and commission income

Accounting for fee and commission income
Other policy administration charges are recognised as income when earned Adviser fees earned from financial intermediary services and commission income are taken to income when earned This primarily comprises initial income receivable on services provided to clients during the year when policies have gone on risk and renewal commission received during the year as amounts fall due

	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Policy administration fees	**1**	1	**–**	7
Commission income	**13**	16	**4**	–
	14	17	**4**	7

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8 Investment income

Accounting for investment income
Investment income includes dividends, interest from investments at fair value, interest on loans and receivables, interest on loans secured on residential property and rents Dividends are included on an ex-dividend basis Interest receivable on loans and receivables is calculated on an effective interest rate basis The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability

	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Rental income from investment properties	**5**	6	**5**	6
Income from investments at fair value through income				
– Interest income	**256**	205	**184**	158
– Dividend income	**78**	96	**73**	72
Interest on loans and receivables	**1**	1	**–**	–
Interest on loans secured on residential property	**6**	12	**4**	–
Interest income from group undertakings	**–**	–	**35**	7
Dividend income from group undertakings	**–**	–	**47**	94
	346	320	**348**	337

9 Net gains/(losses) 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 on investments represent the difference between the valuation of fair value assets at the Statement of Financial Position date and their valuation at the last Statement of Financial Position date or, where purchased during the year, the purchase price An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses

	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Investment properties	**18**	(1)	**18**	(1)
Investments at fair value through income				
– Debt securities	**(262)**	109	**(226)**	86
– Equity securities	**388**	295	**341**	242
– Derivatives at fair value through income	**(32)**	(28)	**(39)**	(23)
Investments in group undertakings	**–**	–	**(79)**	(90)
	112	375	**15**	214

Included within net gains on investments are realised gains of £196m (2012 £149m) for the Group and realised gains of £108m (2012 £126m) for the Society

Notes to the Financial Statements continued

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10 Other income

Accounting for other income
Other income primarily relates to interest receivable and unit linked income

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Interest receivable	**24**	22	**–**	–
Unit linked income	**–**	6	**–**	6
Other income	**8**	14	**1**	–
	32	42	**1**	6

11 Net benefits and claims

Accounting for net benefits and claims
Long–term insurance and participating investment contracts
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 Claims values include related internal and external claims handling costs Reinsurance recoveries are accounted for in the same period as the related claim

General insurance contracts
Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years

The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries However, it is likely that the final outcome will prove to be different from the original liability established Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Gross benefits and claims				
Long-term insurance and participating investment contracts				
Benefits and claims paid	**621**	650	**618**	644
Change in the provision for claims	**(4)**	2	**(4)**	3
General insurance contracts				
Claims paid	**1,015**	910	**–**	–
Change in the provision for claims	**71**	257	**–**	–
	1,703	1,819	**614**	647
Claims ceded to reinsurers				
Long-term insurance and participating investment contracts				
Benefits and claims paid	**(64)**	(62)	**(64)**	(62)
General insurance contracts				
Claims paid	**(8)**	(15)	**–**	–
Change in the provision for claims	**4**	(34)	**–**	–
	(68)	(111)	**(64)**	(62)
	1,635	1,708	**550**	585
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above (refer to Note 18)	**172**	193	**172**	193

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12 Finance costs

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Interest payable on subordinated liabilities (see Note 21)	**15**	1	**14**	–
	15	1	**14**	–

13 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 during the financial year These include all commission and incentive payments to sales staff and third parties incurred in writing new contracts In the general insurance business, where the benefit of these costs will be recognised in future accounting periods the costs are deferred

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Commission paid on acquisition of business	**174**	196	**40**	58
Movement in deferred acquisition costs	**2**	(5)	**–**	–
Amortisation and impairment of intangible assets	**18**	12	**–**	5
Depreciation on property and equipment - owned	**4**	2	**1**	1
Depreciation on property and equipment - finance leases	**1**	1	**–**	–
Investment management expenses and charges	**24**	13	**28**	17
Auditors' remuneration	**2**	2	**2**	2
Employee benefits expense (see Note 42)	**247**	216	**247**	216
Internal staff costs capitalised as attributable costs of IT assets	**(3)**	–	**–**	–
Management charge allocated to group undertakings	**–**	–	**(216)**	(191)
Rent, rates and other facilities expense	**21**	29	**15**	21
Marketing and advertising	**43**	46	**16**	19
Other staff costs	**27**	31	**16**	13
IT costs	**39**	40	**21**	22
Fees	**57**	58	**14**	25
Other expenses	**17**	28	**5**	17
Claims handling cost recognised in Gross benefits and claims	**(70)**	(60)	**(5)**	(6)
	603	609	**184**	219

14 Auditors' remuneration

	2013	2012 Restated
	£ 000	£ 000
Audit of Society	**468**	409
Fees payable to the Society's auditors and its associates for other services		
– Audit of subsidiaries	**384**	450
– Audit-related assurance services	**274**	234
– Other assurance services	**245**	–
– Tax advisory services	**40**	181
– Services relating to corporate finance transactions not covered above	**135**	179
– Other non-audit services not covered above	**130**	285
	1,676	1,738

15 Mutual bonus
The Board declared a mutual bonus of £22m (2012 £21m) in respect of the year ended 31 December 2013

Notes to the Financial Statements continued
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Financial assets and liabilities

This section presents information relating to the financial assets and liabilities (excluding insurance contract-related assets and liabilities which are disclosed in Note 23) held by the Society and Group These financial assets and liabilities are held at either fair value or amortised cost as defined by the Group's accounting policies

16 Financial assets – Fair value through income

Accounting for financial assets and liabilities at fair value through income
Financial assets at fair value through income has two sub categories

- Financial assets held for trading, and
- Those designated at fair value through income at inception

All investments of the Group classified as fair value are designated as fair value through income at inception Such assets 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, open ended investment companies (OEICs), loans secured on residential property and other investments

Financial liabilities at fair value through income include derivative financial instruments and non-participating investment contract liabilities, see Notes 17 and 18 respectively

The IFRS fair value hierarchy' levels for financial assets and liabilities required under IFRS 13 are disclosed within Note 19

Loans secured on residential property
The fair value of the loans secured on residential property is determined using discounted cash flows which take into account the contractual interest rolled up on the loans, maturity profiles and expected future funding costs The swap rate used as an input to the discount rate is matched to the expected term of the underlying loans A 'No Negative Equity Guarantee' liability is fair valued using discounted cash flows and is netted off against the fair value of the assets

The Society provides 'No Negative Equity Guarantee' contracts to customers on equity release mortgages The contractual terms of these guarantees require the company to accept the lower of the market value of customers property and the value of the loan plus accrued interest at the date of redemption as full settlement of the mortgage

The guarantee is initially recognised at the fair value of the liability on the date the guarantee is given and is subsequently measured at fair value The fair value is calculated by applying stochastic scenario models, applying assumptions for interest rates, future house price inflation and its volatility, mortality rates and early loan repayment rates, to give management's best estimate of the discounted value of cash flows required to settle any future financial obligation arising at the Statement of Financial Position date

The guarantee is netted off against the fair value the fair value of loans secured on residential property shown as part of Financial assets – Fair value through income in the Statement of Financial Position The movement in the fair value of the guarantee is taken to the Statement of Comprehensive Income

Significant accounting estimates and judgements
Fair value of financial assets
Market observable inputs are used wherever possible 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 are contained in the fair value estimation tables, as required by IFRS 13, disclosed in Note 19

Notes to the Financial Statements continued

Year ended 31 December 2013

16 Financial assets – Fair value through income (continued)

	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Financial assets – Fair value through income				
Shares, other variable yield securities and units in unit trusts				
– UK listed	**2,434**	2,108	**3,458**	3,052
– UK unlisted	**113**	112	**112**	112
– Overseas listed	**508**	438	**132**	71
– Overseas unlisted	**78**	93	**77**	92
Debt and other fixed income securities				
– UK listed	**4,310**	4,190	**2,754**	2,596
– Overseas listed	**2,277**	2,123	**929**	765
Loans secured on residential property	**493**	415	**486**	366
Other	**3**	5	**3**	5
	10,216	9,484	**7,951**	7,059
Within one year	**3,334**	3,186	**3,806**	3,510
Over one year	**6,882**	6,298	**4,145**	3,549
	10,216	9,484	**7,951**	7,059
Assets held to cover linked liabilities included above	**1,316**	1,021	**1,316**	1,021

17 Derivative financial instruments

Accounting for derivative financial instruments
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 There are no designated hedging relationships within the Group that qualify for hedge accounting, all are classified as held for trading 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 on occurrence

The Group uses derivatives to hedge the effect of changes in variable rate borrowings on its fixed rate loan portfolio, to reduce exposure to payouts under guaranteed annuity contracts and to protect against falls in the FTSE 100 As a result of entering into gilt hedge contracts for difference in 2012, a significant proportion of the general insurance asset portfolio for 2013 and 2012 is hedged against gilt yield movements

	2013			2012		
Group	**Contract/ notional amount £m**	**Fair value – asset £m**	**Fair value – liability £m**	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	**597**	**10**	**(11)**	635	20	–
Gilt hedges	**1,468**	**8**	**–**	1,417	1	–
Cash flow swaps	**144**	**–**	**(68)**	79	–	(51)
Swaptions	**140**	**12**	**–**	152	18	–
Forward exchange contracts	**5**	**–**	**–**	3	–	–
Equity/index derivatives	**28**	**17**	**(1)**	234	32	–
	2,382	**47**	**(80)**	2,520	71	(51)

	2013			2012		
Society	**Contract/ notional amount £m**	**Fair value – asset £m**	**Fair value – liability £m**	Contract/ notional amount £m	Fair value – asset £m	Fair value – liability £m
Interest rate swaps	**597**	**10**	**(11)**	635	20	–
Cash flow swaps	**144**	**–**	**(68)**	79	–	(51)
Swaptions	**140**	**12**	**–**	152	18	–
Equity/index derivatives	**28**	**17**	**(1)**	154	31	–
	909	**39**	**(80)**	1,020	69	(51)

Notes to the Financial Statements continued

Year ended 31 December 2013

18 Investment contract liabilities

Accounting for investment contract liabilities

Non-participating contracts

Investment contract liabilities are recognised when contracts are entered into and premiums are charged These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract

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 in the Statement of Comprehensive Income 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 Statement of Financial Position 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 discounted 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 surrender value

The liability is derecognised when the contract expires, is discharged or is cancelled

Participating contracts

Insurance and participating investment contract liabilities are valued using accounting policies consistent with those adopted prior to the transition to IFRS as allowed under IFRS 4 'Insurance contracts' The accounting treatment of these contracts is described within Note 23

a) Analysis of investment contract liabilities

Group and Society	Notes	Group 2013 £m	Group 2012 Restated – see Note 1 £m	Society 2013 £m	Society 2012 Restated – see Note 1 £m
Non-participating investment contract liabilities	18b	**1,249**	959	**1,249**	959
Participating investment contract liabilities	18c	**499**	461	**499**	461
		1,748	1,420	**1,748**	1,420

b) Movement in non-participating investment contract liabilities

	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Balance at 1 January	**959**	801	**959**	801
Deposits received from policyholders	**342**	270	**342**	270
Payments made to policyholders and fees deducted	**(172)**	(193)	**(172)**	(193)
Change in contract liabilities as shown in the Statement of Comprehensive Income	**120**	81	**120**	81
Balance at 31 December	**1,249**	959	**1,249**	959

The change in contract liabilities as shown in the Statement of Comprehensive Income comprises principally the allocation of the net investment return to policyholders of investment contracts less allowances for taxes Investment contracts are not reinsured

c) Movement in participating investment contract liabilities

	Group 2013 £m	Group 2012 £m	Society 2013 £m	Society 2012 £m
Balance at 1 January	**461**	408	**461**	408
Premiums received	**3**	3	**3**	3
Liabilities paid for death maturities, surrenders, benefits and claims	**(18)**	(18)	**(18)**	(18)
Benefits and claims variation	**4**	4	**4**	4
Fees deducted	**(1)**	(2)	**(1)**	(2)
Accretion of investment income or change in unit prices	**43**	41	**43**	41
Adjustment due to changes in assumptions				
– Investment return	**(2)**	2	**(2)**	2
– Expense	**4**	4	**4**	4
Model changes	**–**	10	**–**	10
Other	**–**	5	**–**	5
Mutual bonus	**5**	4	**5**	4
Balance at 31 December	**499**	461	**499**	461

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation

The following fair value estimation tables present the Group's and Society's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at 31 December 2013

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 A market 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 financial instruments are not traded in an active market or 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 3 include

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves

- The fair value of forward exchange contracts is determined using forward exchange rates at the Statement of Financial Position date, with the resulting value discounted back to present value

- The loans secured on residential property within the Society are purchased from a subsidiary company who is authorised to initiate these loans The purchase by the Society is at market value and creates a gain within the subsidiary On consolidation this gain is eliminated 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 allowances for risk factors The full swap curve is used so each discount rate is matched to the appropriate cash flow 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 a Senior Actuarial Analyst and reviewed by the Equity Release Actuary The assumptions are set by the Equity Release Actuary and reviewed by the Actuarial Function Holder

- The fair value of Level 3 non-participating investment contract liabilities relate to the RNPFN unit linked funds The 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 Statement of Financial Position date The fund liabilities are matched to the fund assets The fund assets and liabilities 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 discounted effect of future tax, if appropriate, 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 surrender value The liabilities are calculated on a consistent basis to the underlying investments as described in Note 18

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the other financial instruments

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

There were no changes to the valuation techniques during the year

There were no transfers between Levels 1 and 2 during the year

The Group s policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer

The Group outsources the valuation of the derivatives and other investment holdings to third parties who are independent and qualified valuers As at 31 December 2013, the fair values of the derivatives and other investment holdings have been determined by SuperDerivatives Inc and individual holding private equity General Partners respectively The investment team monitors the valuation on a monthly basis and report directly to the Chief Investment Officer

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 9 and 25 respectively

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

	2013				2012			
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	**–**	**–**	**10**	**10**	–	–	20	20
Gilt hedges	**–**	**–**	**8**	**8**	–	–	1	1
Swaptions	**–**	**–**	**12**	**12**	–	–	18	18
Equity/index derivatives	**–**	**–**	**17**	**17**	1	–	31	32
	–	**–**	**47**	**47**	1	–	70	71
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	**1,362**	**1,072**	**–**	**2,434**	1,285	823	–	2,108
– UK unlisted	**–**	**–**	**113**	**113**	–	–	112	112
– Overseas listed	**506**	**2**	**–**	**508**	396	42	–	438
– Overseas unlisted	**–**	**–**	**78**	**78**	–	–	93	93
Debt and other fixed income securities								
– UK listed	**1,927**	**2,383**	**–**	**4,310**	2,155	2,035	–	4,190
– Overseas listed	**208**	**2,069**	**–**	**2,277**	3	2,120	–	2,123
Loans secured on residential property	**–**	**–**	**493**	**493**	–	–	415	415
Other	**3**	**–**	**–**	**3**	5	–	–	5
	4,006	**5,526**	**684**	**10,216**	3,844	5,020	620	9,484
	4,006	**5,526**	**731**	**10,263**	3,845	5,020	690	9,555
Financial liabilities								
Non-participating investment contract liabilities	**–**	**1,126**	**123**	**1,249**	–	844	115	959
Derivative financial instruments								
Cash flow swaps	**–**	**–**	**68**	**68**	–	–	51	51
Interest rate swaps	**–**	**–**	**11**	**11**	–	–	–	–
Equity/index derivatives	**1**	**–**	**–**	**1**	–	–	–	–
	1	**–**	**79**	**80**	–	–	51	51
	1	**1,126**	**202**	**1,329**	–	844	166	1,010

Notes to the Financial Statements continued
Year ended 31 December 2013

19. Fair value estimation (continued)

	2013				2012			
Society	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets								
Derivative financial instruments								
Interest rate swaps	**–**	**–**	**10**	**10**	–	–	20	20
Swaptions	**–**	**–**	**12**	**12**	–	–	18	18
Equity/index derivatives	**–**	**–**	**17**	**17**	–	–	31	31
	–	**–**	**39**	**39**	–	–	69	69
Financial assets held at fair value through income								
Shares, other variable yield securities and units in unit trusts								
– UK listed	**1,107**	**2,351**	**–**	**3,458**	668	2,384	–	3,052
– UK unlisted	**–**	**–**	**112**	**112**	–	–	112	112
– Overseas listed	**132**	**–**	**–**	**132**	69	2	–	71
– Overseas unlisted	**–**	**–**	**77**	**77**	–	–	92	92
Debt and other fixed income securities								
– UK listed	**1,580**	**1,174**	**–**	**2,754**	1,717	879	–	2,596
– Overseas listed	**16**	**913**	**–**	**929**	3	762	–	765
Loans secured on residential property	**–**	**–**	**486**	**486**	–	–	366	366
Other	**3**	**–**	**–**	**3**	5	–	–	5
	2,838	**4,438**	**675**	**7,951**	2,462	4,027	570	7,059
	2,838	**4,438**	**714**	**7,990**	2,462	4,027	639	7,128
Financial liabilities								
Non-participating investment contract liabilities	**–**	**1,126**	**123**	**1,249**	–	844	115	959
Derivative financial instruments								
Cash flow swaps	**–**	**–**	**68**	**68**	–	–	51	51
Interest rate swaps	**–**	**–**	**11**	**11**	–	–	–	–
Equity/index derivatives	**1**	**–**	**–**	**1**	–	–	–	–
	1	**–**	**79**	**80**	–	–	51	51
	1	**1,126**	**202**	**1,329**	–	844	166	1,010

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

The table below presents the movements in Level 3 financial instruments for the year ended 31 December 2013

Group	At 1 January 2013 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales (*) £m	At 31 December 2013 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	20	(10)	-	-	10
Gilt hedges	1	7	-	-	8
Swaptions	18	(6)	-	-	12
Equity/index derivatives	31	(14)	-	-	17
	70	(23)	-	-	47
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	112	9	4	(12)	113
– Overseas unlisted	93	12	(5)	(22)	78
Loans secured on residential property	415	(7)	113	(28)	493
	620	14	112	(62)	684
	690	(9)	112	(62)	731
Financial liabilities					
Non-participating investment contract liabilities	115	8	-	-	123
Derivative financial instruments					
Cash flow swaps	51	5	-	12	68
Swaptions	-	11	-	-	11
	51	16	-	12	79
	166	24	-	12	202

* In relation to Loans secured on residential property, purchases and sales represent loans advanced and repaid respectively

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

Group	At 1 January 2012 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales £m	Transfers to level 1 and level 2 £m	At 31 December 2012 £m
Financial assets						
Derivative financial instruments						
Interest rate swaps	64	–	–	(44)	–	20
Gilt hedges	–	1	–	–	–	1
Swaptions	30	(2)	–	(10)	–	18
Equity/index derivatives	40	(9)	–	–	–	31
	134	(10)	–	(54)	–	70
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	114	11	1	(14)	–	112
– Overseas unlisted	95	1	1	(4)	–	93
Debt and other fixed income securities						
– UK listed	1	–	–	–	(1)	–
– Overseas listed	1	–	–	–	(1)	–
Loans secured on residential property	334	11	89	(19)	–	415
	545	23	91	(37)	(2)	620
	679	13	91	(91)	(2)	690
Financial liabilities						
Non-participating investment contract liabilities	114	1	–	–	–	115
Derivative financial instruments						
Cash flow swaps	–	(4)	55	–	–	51
	–	(4)	55	–	–	51
	114	(3)	55	–	–	166

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

Society	At 1 January 2013 £m	Total gains/ (losses) recognised through income £m	Purchases £m	Sales* £m	At 31 December 2013 £m
Financial assets					
Derivative financial instruments					
Interest rate swaps	20	(10)	–	–	10
Swaptions	18	(6)	–	–	12
Equity/index derivatives	31	(14)	–	–	17
	69	(30)	–	–	39
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	112	9	3	(12)	112
– Overseas unlisted	92	12	(5)	(22)	77
Loans secured on residential property	366	(4)	152	(28)	486
	570	17	150	(62)	675
	639	(13)	150	(62)	714
Financial liabilities					
Non-participating investment contract liabilities	115	8	–	–	123
Derivative financial instruments					
Cash flow swaps	51	5	–	12	68
Swaptions	–	11	–	–	11
	51	16	–	12	79
	166	24	–	12	202

* In relation to Loans secured on residential property, purchases and sales represent loans advanced and repaid respectively

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

Society	At 1 January 2012 £m	Total gains/(losses) recognised through income £m	Purchases £m	Sales £m	Transfers to level 1 and level 2 £m	At 31 December 2012 £m
Financial assets						
Derivative financial instruments						
Interest rate swaps	64	–	–	(44)	–	20
Swaptions	30	(2)	–	(10)	–	18
Equity/index derivatives	40	(9)	–	–	–	31
	134	(11)	–	(54)	–	69
Financial assets held at fair value through income						
Shares, other variable yield securities and units in unit trusts						
– UK unlisted	114	11	1	(14)	–	112
– Overseas unlisted	92	–	1	(1)	–	92
Debt and other fixed income securities						
– UK listed	1	–	–	–	(1)	–
– Overseas listed	1	–	–	–	(1)	–
Loan to group undertaking	162	(22)	–	(140)	–	–
Loans secured on residential property (note 1)	111	43	219	(7)	–	366
	481	32	221	(162)	(2)	570
	615	21	221	(216)	(2)	639
Financial liabilities						
Non-participating investment contract liabilities	114	1	–	–	–	115
Derivative financial instruments						
Cash flow swaps	–	(4)	55	–	–	51
	–	(4)	55	–	–	51
	114	(3)	55	–	–	166

Note 1 The £219m included as purchases of Loans secured on residential properties includes amounts transferred from a subsidiary, Liverpool Victoria Equity Release Limited as part of a December 2012 loan restructure with the Society

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Group	Fair value at 31 December 2013	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Description	**£m**				
Financial assets					
Derivative financial instruments					
Interest rate swaps	**10**	Mark-to-model	Interpolation and extrapolation of specific IR tenors	Up to 2bps	If the rate goes up, the contract value will fall
Gilt hedges	**8**	Mark-to model	Gilt repo rates	The range on market gilt repo rates offered can be up to 10bps	Repo rate increases will lower the value of the contract
Swaptions	**12**	Mark-to-model	Interest rate volatility	Could be several percentage points	Higher interest rate volatility results in higher contract value
Equity/index derivatives	**17**	Mark-to-model	Equity volatility	Could be several percentage points	Higher equity rate volatility results in higher contract value
	47				
Financial assets held at fair value through income					
Shares, other variable yield securities and units in unit trusts					
– UK unlisted	**113**	Adjusted net asset method	Price per unit	Could vary significantly due to the range of holdings	The higher the price 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	**78**	Adjusted net asset method	Price per unit	Could vary significantly due to the range of holdings	The higher the price 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	**493**	Discounted cash flow	Interest swap rate	Market zero coupon swaps rate	The higher the swap rate, the lower the fair value of the assets
			Prepayments	3%-5%	A higher prepayment rate will decrease the fair value of the assets
			Mortality and long-term care assumptions	2%-5% for males 3%-13% for females	A higher mortality and long term care rate will decrease the fair value of the assets
	684				
	731				

Notes to the Financial Statements continued

Year ended 31 December 2013

19 Fair value estimation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) – continued

Description	Fair value at 31 December 2013 £m	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Financial liabilities					
Investment contract liabilities	**123**	Asset and liability matching method	Assets value	Unit price	The asset value increase will increase the fair value of the liability
Derivative financial instruments					
Cash flow swaps	**68**	Mark-to-model	Interpolation and extrapolation of specific IR tenors	Up to 2bps	If the rate goes up, the contract value will fall
Equity/index derivatives	**11**	Mark-to-model	Equity volatility	Could be several percentage points	Higher equity rate volatility results in higher contract value
	79				
	202				

20 Loans and other receivables

Accounting for loans and other receivables

Loans are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method

Receivables are recognised when due and comprise amounts due to the Society from group undertakings and other receivables They are initially recognised at fair value and then subsequently held at amortised cost

The Group assesses at each Statement of Financial Position date whether 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 For receivables, where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income

Provision for impairment of loans

Provisions for impairment of loans and receivables are based on appraisals of loans and receivables both collectively and individually Provisions are made to reflect the estimated net realisable amount, taking into account potential future recoveries and the original effective interest rate Balances are written off in full when the debt is considered irrecoverable

Specific provisions have been made in respect of all identified impaired advances In calculating the required provision an appropriate factor is applied based on the present value of expected future cash flows, which is subject to periodic review to ensure its continuing applicability based on current experience, to reflect the probability that not all such loans will result in eventual loss Collective provisions have been made in respect of losses which, although not yet specifically identified, are expected from experience to arise

	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Deposits with credit institutions	**–**	15	**–**	–
Amounts due from group undertakings	**–**	–	**97**	87
Managing agents rental receivable	**4**	12	**4**	12
Investments receivable	**15**	17	**13**	17
Other receivables	**46**	59	**10**	12
	65	103	**124**	128
Within one year	**61**	99	**122**	126
Over one year	**4**	4	**2**	2
	65	103	**124**	128

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued
Year ended 31 December 2013

21 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 earliest possible 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		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Subordinated notes (GBP 350m)	**346**	–	**346**	–
Subordinated notes (EUR 12m)	**10**	10	**–**	–
	356	10	**346**	–

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

On 22 May 2013 the Society 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%

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% per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year If the Notes are not redeemed on 22 May 2023, the interest rate is reset on that date and at five yearly intervals thereafter at a rate equal to the five year gilt rate quoted on the day before the reset date plus an initial margin of 463 basis points and a step up margin of 100 basis points There is an option of cumulative deferral of interest at the issuer's discretion and mandatory interest deferral in the event that a regulatory deficiency interest deferral event has occurred or is continuing (breach of the applicable regulatory solvency capital requirement of the issuer or group) or would occur if payment of interest on the subordinated notes were to be made Following any deferral of a principal or interest payment, the Society would be prevented from declaring any distribution to members which falls within the Mutual Bonus arrangements

The €12m subordinated notes are issued by a subsidiary undertaking and are repayable in 2034 Interest on these Notes is payable at the 3 month euro deposit rate plus a margin of 365 basis points

Subordinated liabilities are held in the Statement of Financial Position at amortised cost The fair value at 31 December 2013 was £340m (2012 £10m) This fair value would be classified as Level 2 under the fair value measurement hierarchy as defined in Note 19 The valuation of the subordinated notes was determined by reference to the bid price obtained from the markets as at 31 December 2013 Management consider this to be representative of fair value

22 Other financial liabilities

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Collateral received	**46**	65	**37**	65
Amounts due to group undertakings	**–**	–	**19**	16
	46	65	**56**	81

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued

Year ended 31 December 2013

Insurance contract-related assets and liabilities

This section presents information relating to insurance contract-related assets and liabilities held by the Society and Group The assumptions used in the valuation of the insurance contract liabilities are disclosed within Note 28 with sensitivities to these assumptions disclosed separately within Note 4

23 Insurance contract liabilities

Accounting for insurance contract liabilities
Participating business
The liability is calculated in accordance with the PRA's 'realistic' liability regime 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) The liability includes an allowance for the time and intrinsic value of options and guarantees granted to policyholders and for possible future management actions

The realistic participating liabilities are based on the aggregate value of policy 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

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 accounted for as part of the calculation The present value of future profits on the non-participating business ('Non-participating value of the in-force business') is separately determined and its value is deducted from the sum of the liabilities for participating contracts and the Unallocated divisible surplus

The non-participating value of the in-force business is separately disclosed within Note 24

Such an amount is not recognised for business written outside participating contract funds

Non-participating business
The liability is calculated to comply with the reporting requirements under the PRA's handbook using a gross premium valuation method or a method at least as prudent as the gross premium method The principal assumptions are given in the notes to the financial statements The Society and relevant subsidiaries have adopted the modified statutory solvency basis in the valuation of provisions for non-participating business

Liabilities for non-participating business are either included within the long-term insurance contract liabilities or the investment contract liabilities, depending upon the product classification

General insurance claims and insurance contract liabilities
Claims incurred comprise claims and related internal and external claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related claims handling costs, together with any other adjustments to claims from previous years Where applicable, deductions are made for recoveries from other parties

Provision is made for the estimated cost of claims incurred but not settled, including the cost of claims incurred but not reported The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of recoveries However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established Provisions are adjusted at the Statement of Financial Position date to represent a best estimate of the expected outcome

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share of the provision

Unexpired risks
For general insurance contracts, provision is made, if required, for any anticipated claims and claims handling costs that are anticipated to exceed the unearned premiums, net of deferred acquisition costs An estimate is made for future investment income arising from the unearned premiums, and used to reduce the unexpired risk provision Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises

Notes to the Financial Statements continued

Year ended 31 December 2013

23 Insurance contract liabilities (continued)

Significant accounting estimates and judgements
Valuation of investment and long-term insurance contract liabilities

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time The valuation of non-participating insurance contracts is based on prudent assumptions, a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows

The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Group's own experience In particular, for impaired annuities the mortality assumptions are based on reinsurers' tables with an individual loading applied depending on the nature of the impairment The assumptions used for investment returns, expenses, lapse and surrender rates are based on current market yields, product characteristics, and relevant claims experience The assumptions used for discount rates are based on current market risk rates, adjusted for the Group's own risk exposure Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty

Valuation of general insurance contract liabilities

For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Statement of Financial Position date and the cost of claims incurred but not yet reported (IBNR) to the Group It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided Standard actuarial claims projection techniques are used to estimate outstanding claims Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to gross benefits and claims within the Statement of Comprehensive Income in future years

a) Analysis of insurance contract liabilities and reinsurance assets

		2013			2012 Restated – see Note 1		
Group	Note	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Long-term insurance contract liabilities	23 b	**6,485**	**(325)**	**6,160**	6,276	(262)	6,014
Long-term linked insurance contract liabilities	23 c	**114**	**(47)**	**67**	97	(35)	62
Long-term claims liabilities	23 d	**38**	**–**	**38**	42	–	42
		6,637	**(372)**	**6,265**	6,415	(297)	6,118
General insurance unearned premiums	23 e	**712**	**(13)**	**699**	746	(15)	731
General insurance claims liabilities	23 f	**1,358**	**(130)**	**1,228**	1,287	(135)	1,152
		2,070	**(143)**	**1,927**	2,033	(150)	1,883
		8,707	**(515)**	**8,192**	8,448	(447)	8,001

		2013			2012 Restated – see Note 1		
Society	Note	**Gross £m**	**Reinsurance £m**	**Net £m**	Gross £m	Reinsurance £m	Net £m
Long term insurance contract liabilities	23 b	**6,466**	**(325)**	**6,141**	6,255	(262)	5,993
Long term linked insurance contract liabilities	23 c	**114**	**(47)**	**67**	97	(35)	62
Long-term claims liabilities	23 d	**38**	**–**	**38**	42	–	42
		6,618	**(372)**	**6,246**	6,394	(297)	6,097

Notes to the Financial Statements continued

Year ended 31 December 2013

23 Insurance contract liabilities (continued)

b) Movement in long-term insurance contract liabilities

Group	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Restated – see Note 1 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**6,276**	**(262)**	**6,014**	5,675	(200)	5,475
Premiums received	**160**	**(38)**	**122**	144	(32)	112
Liabilities paid for deaths maturities, surrenders, benefits and claims	**(584)**	**39**	**(545)**	(644)	29	(615)
New business	**558**	**(46)**	**512**	697	(42)	655
Benefits and claims variation	**37**	**(1)**	**36**	81	–	81
Fees deducted	**(42)**	–	**(42)**	(39)	–	(39)
Accretion of investment income or change in unit prices	**184**	**(2)**	**182**	378	(3)	375
Adjustment due to changes in assumptions						
– Mortality/morbidity	**58**	**(45)**	**13**	18	(16)	2
– Investment return	**(147)**	**14**	**(133)**	49	(1)	48
– Expense	**2**	–	**2**	(34)	2	(32)
– Lapse and surrender rates	–	**1**	**1**	(33)	–	(33)
– Other basis changes	**(27)**	**17**	**(10)**	(55)	(5)	(60)
Model changes	**(9)**	**(4)**	**(13)**	55	–	55
Other	**2**	**2**	**4**	(33)	6	(27)
Mutual bonus	**17**	–	**17**	17	–	17
Balance at 31 December	**6,485**	**(325)**	**6,160**	6,276	(262)	6,014

Society	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Restated – see Note 1 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**6,255**	**(262)**	**5,993**	5,651	(200)	5,451
Premiums received	**160**	**(38)**	**122**	143	(32)	111
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(581)**	**39**	**(542)**	(639)	29	(610)
New business	**558**	**(46)**	**512**	697	(42)	655
Benefits and claims variation	**37**	**(1)**	**36**	81	–	81
Fees deducted	**(42)**	–	**(42)**	(39)	–	(39)
Accretion of investment income or change in unit prices	**185**	**(2)**	**183**	378	(3)	375
Adjustment due to changes in assumptions						
– Mortality/morbidity	**58**	**(45)**	**13**	18	(16)	2
– Investment return	**(147)**	**14**	**(133)**	49	(1)	48
– Expense	**2**	–	**2**	(34)	2	(32)
– Lapse and surrender rates	–	**1**	**1**	(33)	–	(33)
– Other basis changes	**(27)**	**17**	**(10)**	(55)	(5)	(60)
Model changes	**(11)**	**(4)**	**(15)**	54	–	54
Other	**2**	**2**	**4**	(33)	6	(27)
Mutual bonus	**17**	–	**17**	17	–	17
Balance at 31 December	**6,466**	**(325)**	**6,141**	6,255	(262)	5,993

Notes to the Financial Statements continued

Year ended 31 December 2013

23 Insurance contract liabilities (continued)

c) Movement in long-term linked insurance contract liabilities

Group	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Restated – see Note 1 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**97**	**(35)**	**62**	86	(23)	63
Premiums received	**29**	**(10)**	**19**	40	(10)	30
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(20)**	**9**	**(11)**	(17)	9	(8)
New business	**17**	**(11)**	**6**	3	(14)	(11)
Benefits and claims variation	**(1)**	**–**	**(1)**	(4)	–	(4)
Fees deducted	**(2)**	**–**	**(2)**	(3)	–	(3)
Accretion of investment income or change in unit prices	**1**	**–**	**1**	2	(1)	1
Adjustment due to changes in assumptions						
– Mortality/morbidity	**1**	**(3)**	**(2)**	–	(5)	(5)
– Investment return	**(11)**	**4**	**(7)**	(2)	–	(2)
– Expense	**–**	**–**	**–**	(5)	1	(4)
– Lapse and surrender rates	**1**	**–**	**1**	–	–	–
– Other basis changes	**–**	**–**	**–**	3	(1)	2
Model changes	**1**	**(1)**	**–**	–	–	–
Other	**1**	**–**	**1**	(6)	9	3
Balance at 31 December	**114**	**(47)**	**67**	97	(35)	62

Society	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Restated – see Note 1 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**97**	**(35)**	**62**	86	(23)	63
Premiums received	**29**	**(10)**	**19**	40	(10)	30
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(20)**	**9**	**(11)**	(17)	9	(8)
New business	**17**	**(11)**	**6**	3	(14)	(11)
Benefits and claims variation	**(1)**	**–**	**(1)**	(4)	–	(4)
Fees deducted	**(2)**	**–**	**(2)**	(3)	–	(3)
Accretion of investment income or change in unit prices	**1**	**–**	**1**	2	(1)	1
Adjustment due to changes in assumptions						
– Mortality/morbidity	**1**	**(3)**	**(2)**	–	(5)	(5)
– Investment return	**(11)**	**4**	**(7)**	(2)	–	(2)
– Expense	**–**	**–**	**–**	(5)	1	(4)
– Lapse and surrender rates	**1**	**–**	**1**	–	–	–
– Other basis changes	**–**	**–**	**–**	3	(1)	2
Model changes	**1**	**(1)**	**–**	–	–	–
Other	**1**	**–**	**1**	(6)	9	3
Balance at 31 December	**114**	**(47)**	**67**	97	(35)	62

Notes to the Financial Statements continued
Year ended 31 December 2013

23 Insurance contract liabilities (continued)
d) Movement in long-term claims liabilities

Group	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**42**	**–**	**42**	40	–	40
Claims notified	**617**	**(64)**	**553**	652	(62)	590
Claims paid during the year	**(621)**	**64**	**(557)**	(650)	62	(588)
Balance at 31 December	**38**	**–**	**38**	42	–	42

Society	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**42**	**–**	**42**	40	–	40
Claims notified	**614**	**(64)**	**550**	646	(62)	584
Claims paid during the year	**(618)**	**64**	**(554)**	(644)	62	(582)
Balance at 31 December	**38**	**–**	**38**	42	–	42

e) Movement in general insurance unearned premiums

Group	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**746**	**(15)**	**731**	747	(13)	734
Premiums written in the year	**1,445**	**(36)**	**1,409**	1,485	(35)	1,450
Premiums earned during the year	**(1,479)**	**38**	**(1,441)**	(1,486)	33	(1,453)
Balance at 31 December	**712**	**(13)**	**699**	746	(15)	731

f) Movement in general insurance claims liabilities

Group	2013 Gross £m	2013 Reinsurance £m	2013 Net £m	2012 Gross £m	2012 Reinsurance £m	2012 Net £m
Balance at 1 January	**1,287**	**(135)**	**1,152**	1,030	(101)	929
Movement in claims incurred in prior accident years	**(56)**	**16**	**(40)**	33	(24)	9
Claims incurred in the current accident year	**1,077**	**(20)**	**1,057**	1,080	(25)	1,055
Claims paid during the year	**(950)**	**9**	**(941)**	(856)	15	(841)
Balance at 31 December	**1,358**	**(130)**	**1,228**	1,287	(135)	1,152

Notes to the Financial Statements continued

Year ended 31 December 2013

24 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 23, the value of future profits on non-participating business written in the with-profits part of the fund is accounted for as part of 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 deducted from the sum of the liabilities for participating contracts and the Unallocated divisible surplus Such an amount is not recognised for business written outside participating contract funds

The principal assumptions are disclosed separately within Note 29

	Group		Society	
	2013	2012	2013	2012
Analysis of non-participating value of in-force business	£m	£m	£m	£m
Balance at 1 January	**253**	239	**253**	239
Premiums received	**1**	–	**1**	–
Liabilities paid for deaths, maturities, surrenders, benefits and claims	**(11)**	(12)	**(11)**	(12)
New business	**44**	61	**44**	61
Benefits and claims variation	**(10)**	(9)	**(10)**	(9)
Fees deducted	**(4)**	(1)	**(4)**	(1)
Accretion of investment income or change in unit prices	**6**	12	**6**	12
Adjustment due to changes in assumptions				
– Mortality/morbidity	**16**	(3)	**16**	(3)
– Investment return	**(23)**	12	**(23)**	12
– Expense	**(1)**	(4)	**(1)**	(4)
– Lapse and surrender rates	**(17)**	(3)	**(17)**	(3)
– Other basis changes	**(10)**	(32)	**(10)**	(32)
Model changes	**27**	2	**27**	2
Other	**2**	(9)	**2**	(9)
Balance at 31 December	**273**	253	**273**	253

25 Net (increase)/decrease in long-term contract liabilities and non-participating value of in-force business

	Group		Society	
	2013	2012 Restated – see Note 1	2013	2012 Restated – see Note 1
	£m	£m	£m	£m
Gross increase in long-term contract liabilities				
Increase in long-term insurance contract liabilities	**(209)**	(601)	**(211)**	(604)
Increase in long-term linked insurance contract liabilities	**(17)**	(11)	**(17)**	(11)
Increase in investment contract liabilities – participating	**(38)**	(53)	**(38)**	(53)
Increase in investment contract liabilities – non participating	**(120)**	(81)	**(120)**	(81)
	(384)	(746)	**(386)**	(749)
Mutual bonus (disclosed separately in Note 15)	**22**	21	**22**	21
	(362)	(725)	**(364)**	(728)
Increase in long-term contract liabilities ceded to reinsurers				
Increase in long-term insurance contract liabilities	**63**	62	**63**	62
Increase in long-term linked insurance contract liabilities	**12**	12	**12**	12
	75	74	**75**	74
Increase in non-participating value of in-force business	**20**	14	**20**	14
Net change in contract liabilities	**(267)**	(637)	**(269)**	(640)

Notes to the Financial Statements continued

Year ended 31 December 2013

26 Deferred acquisition costs

Accounting for deferred acquisition costs

For business other than long-term insurance business, the costs of acquiring new business which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues

In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts Deferred acquisition costs for insurance contracts are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type

All deferred acquisition costs are tested for recoverability at each reporting date The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income

Group	£m
At 1 January 2013	**100**
Acquisition costs deferred	**199**
Amortisation and impairment	**(201)**
At 31 December 2013	**98**
At 1 January 2012	95
Acquisition costs deferred	199
Amortisation and impairment	(194)
At 31 December 2012	100

Deferred acquisition costs are all due within one year for both 2012 and 2013 They relate to general insurance contracts

Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses

There were no deferred acquisition costs held by the Society in 2013 (2012 £nil)

27 Reinsurance assets

Accounting for reinsurance assets

The Group cedes insurance risk in the normal course of business for its long-term and general insurance businesses Reinsurance assets represent balances recoverable from reinsurance companies Recoverable amounts are estimated in a manner consistent with the outstanding claims provision Reinsurance premiums are recognised in the same period as the underlying contract that they relate to

		Group		Society	
		2013	2012	**2013**	2012
	Note	**£m**	£m	**£m**	£m
Reinsurers' share of provision for unearned premiums	23 a	**13**	15	**–**	–
Reinsurers' share of long term insurance contract liabilities	23 a	**325**	262	**325**	262
Reinsurers' share of long-term linked insurance contract liabilities	23 a	**47**	35	**47**	35
Reinsurers' share of claims liabilities	23 a	**130**	135	**–**	–
		515	447	**372**	297
Within one year		**24**	28	**(6)**	(6)
Over one year		**491**	419	**378**	303
		515	447	**372**	297

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued

Year ended 31 December 2013

28 Long-term insurance and investment contract liabilities valuation assumptions

The basis of the calculation of the long-term insurance contract liabilities is described in the accounting policies The liability is calculated separately for each life operation Material judgement is required in calculating the liability In particular there is discretion over the assumptions used For participating business, the liability is calculated in accordance with the PRA's realistic capital regime Non-participating liabilities are valued using a gross premium method

In calculating the realistic liabilities, account has also been taken of future management actions consistent with those set out in the Principles and Practices of Financial Management The most significant of these are changes to bonus assumptions and level of payouts

The assumptions used to calculate the liability depend on the circumstances prevailing in each of the life operations The assumptions used in determining the liability are estimated to give a result within the normal range of 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 was the Barrie and Hibbert 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 For this valuation it was calibrated to market data as at 31 December 2013 representative of the nature and term of the guarantees inherent in participating insurance contracts within the participating insurance contract funds

The accounting policies for long-term insurance and investment contract liabilities are included within Notes 23 and 18 respectively, sensitivities to changes in assumptions are included within Note 4

a) Society

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 interest rates assumed are

Year	2013	2012
5	**1 98%**	0 91%
15	**3 69%**	2 60%
25	**3 83%**	3 39%
35	**3 75%**	3 62%

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 0 5% (2012 RPI plus 0 5%), where RPI in both 2013 and 2012 is modelled stochastically

Asset mix for assets backing asset shares at the valuation date	2013	2012
Cash	**2 04%**	2 38%
Fixed interest	**38 75%**	40 68%
Equities	**50 70%**	48 79%
Property	**8 51%**	8 15%

Notes to the Financial Statements continued

Year ended 31 December 2013

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

Mortality rate tables	2013	2012
Conventional Life Business	**75% AM80 Females -3**	75% AM80 Females -3
Conventional Pensions Business	**120% AMC00/AFC00 CMI_2013_1 5%**	60% AM80 Females -3
Conventional Industrial Branch Business	**80% up to age 80, rising linearly to 100% at age 100 ELT16**	80% up to age 80, rising linearly to 100% at age 100 ELT16
Non Unitised Accumulating Pensions Business	**65% AM80**	65% AM80
Unitised Accumulating Life Business	**80% AM80/AF80**	80% AM80/AF80
Unitised Accumulating Pensions Business	**80% AM80**	80% AM80
Unitised Accumulating Bond Business	**80% AM80**	80% AM80
Unitised Accumulating Life ISA Business	**80% AM80 select/AF80 select**	80% AM80 select/AF80 select
Annuities in Payment	**Males· RMV00 CMI_2013 1 5% LT Females RFV00 CMI_2013 1 5% LT**	Males RMV00 CMI_2009 2% LT Females RFV00 CMI_2009 1 5% LT

Per policy expenses – regular premiums	2013	2012
Conventional Life Business	**£39 10**	£34 90
Conventional Pensions Business	**£44 30**	£45 30
Conventional Industrial Branch Business	**£6 80**	£6 80
Non Unitised Accumulating Pensions Business	**£38 00**	£28 30
Unitised Accumulating Life Business	**£44 50**	£40 50
Unitised Accumulating Pensions Business	**£44 30**	£45 30
Unitised Accumulating Bond Business	**£41 00**	£42 80
Unitised Accumulating Life ISA Business	**£48 50**	£49 20
Annuities in Payment	**£53 20**	£48 20

A percentage of these amounts is used for single premium and paid up policies

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 as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events

Options and guarantees

There are no guaranteed annuity or financial options within the Society participating contract funds There is an additional reserve calculated on a market consistent basis to cover market value restricter (MVR) free guarantees on with-profits bonds

Bonuses

The cost of bonuses incurred during the year ended 31 December 2013 was £82m (2012 £96m) of which £19m (2012 £19m) was included in the long-term insurance contract liabilities and £63m (2012 £77m) was included in Gross benefits and claims paid in the Statement of Comprehensive Income

Notes to the Financial Statements continued
Year ended 31 December 2013

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)
ii) Non-participating insurance contracts

Interest rate	2013	2012
Non-profit temporary assurances (original LVFS)	**3 20%**	2 40%
Non-profit temporary assurances	**2 41%**	1 66%
Whole of life assurances	**2 41%**	1 66%
Permanent health insurance		
a) active lives	**3 01%**	2 07%
b) claims reserves	**2 31%**	1 42%
Critical illness	**3 01%**	2 07%
Other assurances	**2 41%**	1 66%
Annuities in payment	**3 73%**	3 27%
Protected retirement plan	**3 73%**	1 86%

Mortality rate tables	2013	2012
Non-profit temporary assurances (original LVFS)	**AM80/AF80**	AM80/AF80
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00**	TMN00/TMS00 TFN00/TFS00
Whole of life assurances	**AMC00/AFC00**	AMC00/AFC00
Other assurances	**AM92/AF92**	AM92/AF92
Annuities in payment	**80 75% RMV00/RFV00 CMI_2013 1 5% LT***	80% RGA 2011 tables with CMI_2009 1 25% LT males/1% females
Protected retirement plan	**80 75% RMV00/RFV00 CMI_2013 1 5% LT**	80% RGA 2011 tables with CMI_2009 1 25% LT males/1% females

* Mortality improvement rates for enhanced annuity contracts include convergence factors based on expert advice

Morbidity rate tables	2013	2012
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Reinsurer rates**	Reinsurer rates

Appropriate adjustments were made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data

Per policy expenses – regular premiums	2013	2012
Non-profit temporary assurances	**£22 55**	£19 97
Whole of life assurances	**£16 83**	£16 18
Permanent health insurance		
a) active lives	**£30 36**	£30 29
b) claims reserves (per policy in claim)	**£754 38**	£715 54
Critical illness	**£32 34**	£30 37
Other assurances	**£44 44**	£38 43
Annuities in payment	**£54 78**	£52 80
Protected retirement plan	**£54 78**	£52 80

Options and guarantees
There are no significant options and guarantees in the non-participating business

Notes to the Financial Statements continued

Year ended 31 December 2013

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

iii) Investment and long-term linked insurance contracts

The provision for unit linked pensions 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

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 2013 and 2012

b) 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	2013	2012
Non-profit temporary assurances	**2 41%**	1 66%
Other assurances	**1 53%**	1 67%

Mortality rate tables	2013	2012
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00**	TMN00/TMS00 TFN00/TFS00
Other assurances	**AM92/AF92**	AM92/AF92

Appropriate adjustments were made to the standard mortality tables to take account of actual experience

Per policy expenses – regular premiums	2013	2012
Non-profit temporary assurances	**£22 55**	£19 97
Other assurances	**£26 95**	£27 17

c) 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 the Society

i) Participating business

For participating business, 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 the Society in section a(i)

Other assumptions

Best estimate assumptions are set for inflation, mortality, expenses and persistency The future expense inflation assumption is modelled as RPI plus 0 5% (2012 RPI plus 0 5%), where RPI in both 2013 and 2012 is modelled stochastically

Asset mix for assets backing asset shares at the valuation date	2013	2012
Cash	**2 99%**	16 32%
Fixed interest	**60 49%**	57 59%
Equities	**34 71%**	23 47%
Property	**1 81%**	2 62%

Mortality rate tables	2013	2012
Conventional Life Business	**60% AM/F00 ult**	60% AM/F00 ult
Life Deferred Annuities	**50% AM/F00 ult**	50% AM/F00 ult
Pension Deferred Annuities	**50% AM/F00 ult**	50% AM/F00 ult
Unitised with-profits Business	**60% AM/F00 ult**	60% AM/F00 ult

Notes to the Financial Statements continued

Year ended 31 December 2013

28 Long-term insurance and investment contract liabilities valuation assumptions (continued)

Per policy expenses – regular premiums	2013	2012
Conventional Life Business	**£37 20**	£34 84
Pensions Deferred Annuities	**£42 10**	£45 34
Life Deferred Annuities	**£37 20**	£34 84
Unitised with-profits ISA	**£46 10**	£49 30
Unitised with-profits Bond	**£37 40**	£41 18

Persistency – lapses, surrenders and paid up rates
A review of persistency is carried out annually Assumptions are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis or to reflect expected future trends as a result of anticipated future events

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 £77m (2012 £92m)

Bonuses
The cost of bonuses incurred during the year ended 31 December 2013 was £17m (2012 £15m) of which £nil (2012 £nil) was included in the long-term insurance contract liabilities and £17m (2012 £15m) was included in gross benefits and claims paid in the Statement of Comprehensive Income

ii) Non-participating business

Interest rate	2013	2012
Non-profits assurances	**2 48%**	1 68%
Non profits general deferred annuities	**2 48%**	1 68%
Annuities in Payment (Life)	**2 48%**	1 68%
Annuities in Payment (Pension)	**3 10%**	2 10%
Pension Deferred Annuities	**3 10%**	2 10%

Mortality rate tables	2013	2012
Non-profits assurances	**72 0% AM/F00 ult**	72 0% AM/F00 ult
Non-profits general deferred annuities	**42 5% AM/F00 ult**	42 5% AM/F00 ult
Annuities in Payment (Male)	**61 2% IML00 with CMI_2009 LT 1 75%**	61 2% CMI_2009, LT 2 0%
Annuities in Payment (Female)	**72 3% IFL00 with CMI_2009 LT 1 5%**	72 3% CMI_2009, LT 1 5%
Pension Deferred Annuities	**42 5% AM/F00 ult**	42 5% AM/F00 ult

Appropriate adjustments were made to the standard mortality tables to take account of actual experience and publicly available market data

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	2013	2012
Unit linked assurances	**2 48%**	1 68%

Mortality rate tables	2013	2012
Unit linked assurances	**72% AM/F00 ult**	72% AM/F00 ult

Notes to the Financial Statements continued

Year ended 31 December 2013

29 Non-participating value of in-force business valuation assumptions

a) Society

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 appropriate adjustments for risk premium and margins for risk and uncertainty, with the exception of Annuities in payment and the Protected retirement plan where the earned rate is based on the IRR of the backing assets adjusted for risk and uncertainty

Mortality rate tables	2013	2012
Non-profit temporary assurances (original LVFS)	**AM80/AF80**	AM80/AF80
Non-profit temporary assurances	**TMN00/TMS00 TFN00/TFS00**	TMN00/TMS00 TFN00/TFS00
Whole of Life Assurances	**AMC00/AFC00**	AMC00/AFC00
Other assurances	**AM92/AF92**	AM92/AF92
Annuities in payment	**RMV00/RFV00 CMI_2013 1 5% LT***	RGA 2011 tables with CMI_2009 LT 1 25% males/1% females
Protected retirement plan	**RMV00/RFV00 CMI_2013 1 5% LT**	RGA 2011 tables with CMI_2009 LT 1 25% males/1% females
Unit linked pensions (original LVFS)	**AM92C20/AF92C20**	AM92C20/AF92C20

* Mortality improvement rates for enhanced annuity contracts include convergence factors set based on expert advice

Morbidity rate tables	2013	2012
Permanent health insurance		
a) active lives	**CMIR12**	CMIR12
b) claims reserves	**CMIR12**	CMIR12
Critical illness	**Reinsurer rates**	Reinsurer rates

Appropriate adjustments were made to the standard mortality and morbidity tables to take account of actual experience and publicly available market data

Persistency and unit costs

Persistency and unit costs assumptions are based on our best estimate of future experience

A review of persistency is carried out annually Assumptions for each product class are adjusted where necessary to reflect more recent experience as evidenced in the persistency trend analysis, or to reflect expected future trends as a result of anticipated future events

b) Liverpool Victoria Life Company Limited – Ordinary Long Term Fund

There is no non-participating value of in-force business recognised in the LVLC fund

c) RNPFN fund

There is no non-participating value of in-force business recognised in the RNPFN fund

Notes to the Financial Statements continued

Year ended 31 December 2013

Fixed assets and investments

This section gives detail on the tangible, intangible and investment assets of the Society and Group that are used to generate profit for the business

30 Intangible assets

Accounting for goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate 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 cost) of the relevant cash generating unit and carried in the Statement of Financial Position at cost less accumulated impairment losses Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

Goodwill arising on acquisitions prior to 1998 has been eliminated against the Unallocated divisible surplus This goodwill would be recognised in the Statement of Comprehensive Income should there be a subsequent disposal of the business to which it relates

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 present 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, and is assessed annually for impairment

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

Present value of acquired in-force business (PVIF)

On acquisition of a portfolio of long-term insurance contracts, the net present value of the Group's interest in the expected cash flows of the in-force business is capitalised in the Statement of Financial Position as an asset and is amortised, in line with the original expected run-off of 20 years, based on the anticipated lives of the related contracts

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

Any amortisation or impairment charge is recorded in the Statement of Comprehensive Income within Other operating and administrative expenses

Significant accounting estimates and judgements

The Group determines whether goodwill and other intangible assets are 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 The Group has allocated the goodwill to two single cash generating units based on the key operating segments of the Group

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

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

Notes to the Financial Statements continued

Year ended 31 December 2013

30 Intangible assets (continued)

Group	Goodwill £m	Other intangible assets £m	PVIF £m	Total £m
Cost				
At 1 January 2013	239	95	63	397
Decrease in buy out value (see Note 44)	(6)	–	–	(6)
At 31 December 2013	**233**	**95**	**63**	**391**
Accumulated amortisation				
At 1 January 2013	21	76	48	145
Charge for the year	–	3	4	7
Impairment in year	–	–	11	11
At 31 December 2013	**21**	**79**	**63**	**163**
Net book value at 31 December 2013	**212**	**16**	**–**	**228**
Cost				
At 1 January 2012	237	95	63	395
Increase in buy out value	2	–	–	2
At 31 December 2012	239	95	63	397
Accumulated amortisation				
At 1 January 2012	21	68	44	133
Charge for the year	–	8	4	12
At 31 December 2012	21	76	48	145
Net book value at 31 December 2012	218	19	15	252

Present Value of acquired In-Force business (PVIF) was fully written off in 2013

Other intangible assets comprise the value of the future benefit derived from the customer bases of RNPFN (in the Society) which has been fully amortised, Britannia Road Rescue, Highway and the value of the Tomorrow/Retirement Solutions distribution channel, which are being amortised over periods varying between 10 and 20 years from the original acquisition date These intangible assets will be fully amortised by 2027

Amortisation of £7m (2012 £12m) is presented within Other operating and administrative expenses in the Statement of Comprehensive Income There was an £11m impairment charge in 2013 (2012 £nil)

Goodwill has been allocated to the individual cash generating units which are based on the key segments of the Group as follows

	Group 2013 £m	Group 2012 £m
Long-term insurance business	**67**	67
General insurance business	**166**	172
	233	239

Notes to the Financial Statements continued
Year ended 31 December 2013

30 Intangible assets (continued)

Society	Other intangible assets £m
Cost	
At 1 January 2013	51
Additions	–
At 31 December 2013	**51**
Accumulated amortisation	
At 1 January 2013	51
Charge for the year	–
At 31 December 2013	**51**
Net book value at 31 December 2013	**–**
Cost	
At 1 January 2012	51
At 31 December 2012	51
Accumulated amortisation	
At 1 January 2012	46
Charge for the year	5
At 31 December 2012	51
Net book value at 31 December 2012	–

Key assumptions used in the annual impairment testing of intangible assets
The key assumptions used for impairment testing are set out below for both the long-term insurance business and the general insurance business The long-term insurance business incorporates both the Heritage and Life businesses

Long-term insurance business
The recoverable amount of the long-term insurance business has been determined using cash flow predictions based on financial plans approved by management covering a five-year period, with a terminal growth rate of 2% applied thereafter The forecast cash flows have been discounted at a pre-tax rate of 10% Both the growth rate and the discount rate are consistent with the ranges observed in the market place Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill by £286m A two percentage point increase in the discount rate would reduce the recoverable amount by £70m, the discount rate would need to be increased to 65% to reduce the excess of the recoverable amount over the carrying value to zero

A reduction in the forecast cash flows of 10% per annum would reduce the recoverable amount by £49m, the forecast cash flows would need to be reduced by 57% per annum to reduce the excess of the recoverable amount over the carrying value to zero

General insurance business
The recoverable amount of the general insurance business has been determined using cash flow predictions based on financial plans approved by management covering a five-year period, with a terminal growth rate of 2% applied thereafter The forecast cash flows have been discounted at a pre-tax rate of 10% Both the growth rate and the discount rate are consistent with the ranges observed in the market place Based on the above assumptions, the recoverable amount exceeded the carrying amount including goodwill by £1,098m A two percentage point increase in the discount rate would reduce the recoverable amount by £312m, the discount rate would need to be increased to 32% to reduce the excess of the recoverable amount over the carrying value to zero

For the general insurance business the cash flows used in the financial plans are most sensitive to changes in the loss ratio A 1% increase in the loss ratio would reduce the recoverable amount by £203m, the loss ratio would need to increase by 5 5% to reduce the excess of the recoverable amount over the carrying value to zero Key loss ratio assumptions are based on a combination of historic and current market place trends, and management judgement

Notes to the Financial Statements continued

Year ended 31 December 2013

31 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 on a straight line basis over their estimated useful lives The periods used are as follows

Freehold buildings and finance lease property*	50 years
Leasehold property enhancements*	10 years or lease term if shorter
Fixtures, fittings and motor vehicles	3 to 10 years
IT systems (typical spend over £1m)	3 years

Provision is made for any impairment in property and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date

Assets under construction represent the cost of assets under development These assets are not depreciated The total cost is transferred to the appropriate asset class on completion and then depreciated over their estimated useful lives

*These are properties used by the Group for operational purposes and are not investment properties which are dealt with in Note 32

Group	Freehold and leasehold property	Leasehold property enhancements £m	Fixtures, fittings and motor vehicles £m	IT systems £m	Assets under construction £m	Total £m
Cost						
At 1 January 2013	41	12	10	3	–	66
Additions	–	2	1	–	4	7
At 31 December 2013	**41**	**14**	**11**	**3**	**4**	**73**
Accumulated depreciation						
At 1 January 2013	33	4	4	1	–	42
Provided in the year	1	2	1	1	–	5
At 31 December 2013	**34**	**6**	**5**	**2**	–	**47**
Net book value at 31 December 2013	**7**	**8**	**6**	**1**	**4**	**26**
Cost						
At 1 January 2012	41	9	8	2	–	60
Additions	–	4	2	1	–	7
Disposals	–	(1)	–	–	–	(1)
At 31 December 2012	41	12	10	3	–	66
Accumulated depreciation						
At 1 January 2012	32	3	4	–	–	39
Provided in the year	1	1	–	1	–	3
At 31 December 2012	33	4	4	1	–	42
Net book value at 31 December 2012	8	8	6	2	–	24

Included within the Freehold and leasehold property category are assets held under finance leases with a net book value of £5m (2012 £5m)

Assets under construction relate to the capitalisation of strategic investment in IT systems

Notes to the Financial Statements continued
Year ended 31 December 2013

31 Property and equipment (continued)

Society	Leasehold property enhancements £m	Fixtures, fittings and motor vehicles £m	Total £m
Cost			
At 1 January 2013	6	7	13
Additions	–	–	–
At 31 December 2013	**6**	**7**	**13**
Accumulated depreciation			
At 1 January 2013	3	3	6
Provided in the year	–	1	1
At 31 December 2013	**3**	**4**	**7**
Net book value at 31 December 2013	**3**	**3**	**6**
Cost			
At 1 January 2012	5	5	10
Additions	2	2	4
Disposals	(1)	-	(1)
At 31 December 2012	6	7	13
Accumulated depreciation			
At 1 January 2012	2	3	5
Provided in the year	1	–	1
At 31 December 2012	3	3	6
Net book value at 31 December 2012	3	4	7

Notes to the Financial Statements continued
Year ended 31 December 2013

32 Investment properties

Accounting for investment properties
Investment properties are freehold and leasehold land and buildings held for long-term rental yields and capital growth They are held at fair value and changes in fair value are recorded as fair value gains or losses in the Statement of Comprehensive Income Fair value is determined annually by independent professional valuers based on market conditions

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Freeholds	**58**	129	**58**	96
Long leaseholds	**21**	36	**21**	36
	79	165	**79**	132

All investment properties held by the Group and Society are occupied by third party tenants All properties occupied by Group undertakings are shown separately within Note 31

The market value movements in the year on land and buildings were

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Balance at 1 January	**165**	220	**132**	151
Additions	**1**	–	**1**	–
Disposals	**(87)**	(49)	**(54)**	(16)
Net fair value adjustment	**–**	(6)	**–**	(3)
Balance at 31 December	**79**	165	**79**	132
Due within one year	**79**	48	**79**	15
Over one year	**–**	117	**–**	117
	79	165	**79**	132

The Group and Society enter into operating leases for all investment properties All rents are payable in advance and the rental income arising during the year amounted to £6m (2012 £8m) for the Group and Society, which is included in investment income

Non recoverable expenses are deducted from rental income for investment properties and amounted to £2m (2012 £2m) for the Group and Society

At 31 December 2013, the Society was actively divesting its investment property portfolio, as a consequence it has all been disclosed as due within one year in the table above

In 2012 investment properties due within one year represented £33m of properties held within the Threadneedle UK Property Fund II ICVC that was in the process of being wound up (refer to Note 49) and an additional property held directly by the Society that was sold in 2013

The future aggregate minimum lease payments expected to be received in respect of these leases are

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Within one year	**5**	6	**5**	6
Between one and five years	**21**	23	**21**	23
Over five years	**33**	35	**33**	35
	59	64	**59**	64

Notes to the Financial Statements continued
Year ended 31 December 2013

32 Investment properties (continued)
Fair values of investment property
Valuation processes
The Group's investment properties were valued at 31 December 2013 by qualified professional valuers working for Colliers International (UK) Plc who are professional, third party, independent Chartered Surveyors All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards For all investment properties, their current use equates to the highest and best use The following table analyses the non-financial assets carried at fair value, by valuation method The different levels have been defined in Note 19

Valuation techniques used to derive Level 3 fair values
For UK properties, the valuation was determined using an income approach Properties are valued using rental income and yield assumptions and take into account comparable properties in close proximity These values are adjusted for differences in key attributes such as property size and lease length The most significant inputs into this valuation approach are the rental income and yield assumptions

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer There were no transfers between levels during the years

There were no changes to the valuation techniques during the year

Information about fair value measurements using significant unobservable inputs (Level 3)

Group Description	Fair value at 31 December 2013 (Level 3) £m	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value £m
Investment property					
– Office buildings	3	Income approach	Rental income	£15 – £16 p s f	The higher the price per square foot, the higher the fair value
			Yields	11 87%	The higher the yield, the lower the fair value
– Retail units	55	Income approach	Rental income	£7 – £170 p s f	The higher the price per square foot, the higher the fair value
			Yields	4 45%-16 80%	The higher the yield, the lower the fair value
– Manufacturing sites	21	Income approach	Rental income	£4 – £6 p s f	The higher the price per square foot, the higher the fair value
			Yields	7 26% – 11 20%	The higher the yield, the lower the fair value
	79				

Notes to the Financial Statements continued

Year ended 31 December 2013

33 Investments in group undertakings

Accounting for investments in group undertakings

Shares in subsidiaries

The subsidiaries are held in the Society's Statement of Financial Position at cost less any provision for impairment An assessment of the realisable value is made at the year end 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

Society	2013 £m	2012 £m
Shares in subsidiaries		
Cost less provisions at 1 January	**551**	723
Additions	**–**	400
Sale of LVGIG Group to subsidiary undertaking	**–**	(484)
Increase / (reduction) in buy out provision (refer to Note 44)	**(6)**	2
Impairment write off	**(79)**	(90)
	466	551
Loan stock in subsidiaries		
Cost at 1 January	**351**	234
Additions	**–**	300
Redemption	**(51)**	(183)
	300	351
Shares and loan stock in subsidiaries at 31 December	**766**	902

The Society has examined the carrying value of its subsidiaries and concluded that a provision for impairment of £79m was necessary in regard to these investments (2012 £90m) These impairments primarily arose due to the payment of dividends to the Society thereby reducing the value of the subsidiary companies

In December 2012 the Society sold its investment in Liverpool Victoria General Insurance Group Limited (LVGIG) to LV Capital PLC, a subsidiary undertaking at cost, in addition the Society invested in £300m of loan notes issued by LV Capital PLC

Further details of the Group's loan stock are given in Note 51 and the Group's investments in Notes 47 and 48

Notes to the Financial Statements continued
Year ended 31 December 2013

Other assets and liabilities

This section describes the other assets and liabilities arising from the life insurance business within the Society and the life insurance and general insurance businesses within the Group

34 Insurance receivables

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Due from policyholders	**144**	148	**1**	1
Due from agents, brokers and intermediaries	**69**	67	**–**	–
Due from reinsurers	**10**	12	**10**	12
	223	227	**11**	13

Insurance receivables are all due within one year for both the Group and the Society

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

35 Prepayments and accrued income

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Accrued dividends	**6**	4	**3**	2
Accrued interest	**86**	83	**58**	52
Other prepayments and accrued income	**22**	20	**9**	10
	114	107	**70**	64

Prepayment and accrued income balances are all due within one year for both the Group and the Society

36 Insurance payables

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Due to policyholders	**26**	33	**20**	25
Due to brokers and intermediaries	**1**	1	**1**	1
Due to reinsurers	**11**	11	**2**	–
	38	45	**23**	26

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

37 Trade and other payables

Accounting for trade and other payables
Trade and other payables are recognised as they fall due They are measured initially at fair value and subsequently at amortised cost

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Trade payables	**18**	16	**18**	16
Amounts owed to group undertakings	**–**	–	**45**	37
Other taxes and social security costs	**28**	31	**7**	9
Other creditors	**52**	50	**27**	16
Deferred rental income	**3**	3	**2**	3
Finance lease liabilities	**5**	5	**–**	–
Accruals and deferred income	**107**	90	**67**	57
	213	195	**166**	138

The carrying amounts disclosed above reasonably approximate fair value at the Statement of Financial Position date

Notes to the Financial Statements continued
Year ended 31 December 2013

Taxation

This section presents information relating to the tax charge and movements in the corporation and deferred tax assets and liabilities held by the Society and Group

38 Income tax expense

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 is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements Deferred income tax is determined using 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 asset is realised or the deferred income tax liability is settled Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

a) Current year tax charge	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current tax charge				
Current year	**8**	20	**–**	8
Adjustment in respect of prior years	**–**	(3)	**–**	–
Total current tax	**8**	17	**–**	8
Deferred tax				
Excess of depreciation	**1**	–	**–**	–
Temporary differences	**1**	13	**–**	5
Tax losses	**–**	4	**–**	–
Total deferred tax	**2**	17	**–**	5
Total income tax expense	**10**	34	**–**	13

b) Reconciliation of tax charge	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Profit before tax, mutual bonus and UDS transfer (*)	**156**	103	**104**	3
Tax calculated at the average standard rate of corporation tax in the UK at 23 25% (2012 24 5%)	**36**	25	**24**	1
Permanent differences				
Income and expenses not subject to tax	**(3)**	(2)	**–**	(3)
Mutual profit not subject to tax at standard rate	**(24)**	–	**(24)**	–
Impact of change in UK corporation tax rate on deferred tax	**–**	1	**–**	–
Unprovided deferred tax movement	**22**	(11)	**21**	(11)
Transfer pricing	**–**	–	**–**	2
Policyholder I-E tax	**(21)**	24	**(21)**	24
Adjustment to current tax charge in respect of prior years	**–**	(3)	**–**	–
Total charge	**10**	34	**–**	13

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013 Accordingly, the profits for this accounting period are taxed, where applicable, at an effective rate of 23 25%

* As a Friendly Society, all net earnings are for the benefit of participating policyholders and are carried forward within the Unallocated divisible surplus, 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 £10m (2012 £34m) and £nil (2012 £13m) for the Group and Society respectively In order to present a more meaningful disclosure the Profit before tax, mutual bonus and UDS transfer is disclosed in the tables above

Notes to the Financial Statements continued
Year ended 31 December 2013

38 Income tax expense (continued)

The current year's tax charge in the Society has been calculated under the new UK tax regime applicable to life insurance business from 1 January 2013 The fundamental changes included

- moving the basis of taxation for life insurance companies from a regulatory return basis to an accounts basis,
- altering the basis on which investment income and gains are allocated to differing business types, and
- changing the classification for tax purposes of protection business

The effect of the changes has also been taken into account in the calculation of deferred tax It is expected that the new regime may lead to an acceleration of tax paid on chargeable gains over the next 4-6 years compared to the old regime, but that the overall effective tax charge should remain unaffected

39 Corporation tax asset

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Corporation tax receivable	–	–	–	2
	–	–	–	2

40 Deferred tax asset

	Group £m	Society £m
Balance at 1 January 2013	**14**	**13**
Amounts recorded in the Statement of Comprehensive Income	**(2)**	–
Balance at 31 December 2013	**12**	**13**

	Group		Society	
i) Analysis of deferred taxation temporary differences	2013 £m	2012 £m	2013 £m	2012 £m
Excess of depreciation	**3**	3	**1**	1
Temporary differences on expenses	**37**	11	**40**	12
Temporary differences arising on consolidation	–	(2)	–	–
Temporary differences on unrealised gains	**(28)**	2	**(28)**	–
Deferred tax asset	**12**	14	**13**	13
ii) Deferred taxation asset not recognised				
Temporary differences on expenses	–	22	–	22
Temporary differences on unrealised gains	–	(15)	–	(15)
Temporary difference on re-measurement of defined benefit scheme	**1**	1	**1**	1
Tax losses unrecognised	**4**	19	–	14
	5	27	**1**	22

The value of deferred tax assets expected to be recovered after more than 12 months is £7m in the Group (2012 £8m) and £7m in the Society (2012 £8m)

The calculation of deferred tax balances at the year-end also takes into account the reduction in the UK main corporation tax rate to 23%, effective from 1 April 2013, and the two further reductions to 21% and 20% substantively enacted on 2 July 2013 that will be effective from 1 April 2014 and 1 April 2015 respectively

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation, differences on expenses and gains and tax losses, is dependent on the availability of future taxable profits within the Society and Group Management forecasts currently support the future recoverability of the deferred tax asset recognised in the balance sheet as at 31 December 2013

Previously unrecognised deferred tax assets totalling £22m were recognised during the year due to a number of factors These included an increase in the market value of equity investments, changes to management forecasts on the emergence of future taxable income and the utilisation of brought forward tax losses during the year

41 Corporation tax liability

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Corporation tax	**2**	8	–	–
	2	8	–	–

Notes to the Financial Statements continued

Year ended 31 December 2013

Employee benefits

This section details the costs and commitments associated with employing our staff

42 Employee benefits expense

Accounting for staff costs under IAS 19
The Society and Group apply IAS 19 Employee benefits in accounting for staff costs

Short-term employee benefits
Salaries, accrued bonuses and social security costs are recognised over the period in which the employees provide the services to which the payments relate

Post-retirement benefits
The accounting policies and significant accounting judgements relating to pension benefits are disclosed within Note 43

	Group		Society	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Wages and salaries	**204**	182	**204**	182
Social security costs	**18**	17	**18**	17
Defined benefit and defined contribution pension costs	**25**	17	**25**	17
	247	216	**247**	216

The number of employees during the year, including executive directors, calculated on a monthly average basis, was as follows

	Group		Society	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Member and customer contact	**3,893**	3,782	**3,893**	3,782
Administration	**1,870**	1,670	**1,870**	1,670
	5,763	5,452	**5,763**	5,452

43 Pension benefit obligation

Accounting for pension benefits under IAS 19
For defined benefit schemes, the net surplus or deficit is calculated annually with the assets measured at the fair value at the Statement of Financial Position date and the liabilities discounted at the rate of return available on high quality corporate bonds The net surplus, to the extent recoverable, or deficit is recognised as a pension benefit asset or liability in the Statement of Financial Position

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 in Other operating and administrative expenses on a straight-line basis over the period in which the increases in benefits vest or are earned

All movements other than re-measurements in respect of the pension benefit obligation 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 the Statement of 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 and judgements
The valuations of the pension benefit obligations for the Group's two defined benefit schemes require actuarial assumptions about discount rates, inflation, future salary increases, 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 defined benefit schemes are disclosed within the valuations of the individual schemes disclosed in sections (ii) and (iii) below

Notes to the Financial Statements continued
Year ended 31 December 2013

43 Pension benefit obligation (continued)

Defined benefit pension schemes

The Group operates two defined benefit pension schemes, the LV= Employee Pension Scheme (LV Scheme') and the Ockham Pension Scheme (acquired as part of an earlier acquisition) The Society is the principal employer for both of these schemes

Further details of the LV and Ockham schemes are disclosed separately within sections (ii) and (iii) of this note respectively

Defined contribution pension schemes

All employees are eligible to join the defined contribution scheme Employees contribute a minimum of 3% of salary The employee contribution is double matched by the Society 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 £13m (2012 £6m)

i) Summary of defined benefit schemes

	2013			2012		
Pension benefit obligation	**LV Scheme £m**	**Ockham £m**	**Total £m**	LV Scheme £m	Ockham £m	Total £m
Obligation	**(12)**	**(4)**	**(16)**	(8)	(2)	(10)
	(12)	**(4)**	**(16)**	(8)	(2)	(10)

	2013			2012		
Re-measurements	**LV Scheme £m**	**Ockham £m**	**Total £m**	LV Scheme £m	Ockham £m	Total £m
Re-measurements	**(5)**	**(4)**	**(9)**	(138)	(7)	(145)
Amount charged to Total Comprehensive Income	**(5)**	**(4)**	**(9)**	(138)	(7)	(145)
Cumulative re-measurements recognised in the Statement of Comprehensive Income	**39**	**(5)**	**34**	44	(1)	43

ii) LV Scheme

a) Information about the scheme

The LV scheme is a final salary pension scheme, which 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 the Society, 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 up to a further five directors selected by the Society

The scheme is closed to new entrants and was closed to future accrual for existing members on 30 June 2013, at which time they were eligible to join the defined contribution pension scheme Allowance was made for the closure to future accrual within the 31 December 2012 year end figures with a curtailment gain of £13m being recognised in 2012

b) Net Statement of Financial Position	**2013 £m**	2012 £m
Present value of defined benefit obligation	**(1,061)**	(1,059)
Fair value of plan assets	**1,049**	1,051
Pension benefit obligation at the end of the year	**(12)**	(8)

Notes to the Financial Statements continued

Year ended 31 December 2013

43 Pension benefit obligation (continued)

c) The movement in the net defined benefit obligation over the year is as follows	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2013	**(1,059)**	**1,051**	**(8)**
Pension costs			
Current service cost	**(12)**	**–**	**(12)**
Interest (expense)/income	**(43)**	**43**	–
	(55)	**43**	**(12)**
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	**(15)**	**(15)**
– Gain from changes in financial assumptions	**8**	–	**8**
– Experience gains	**2**	–	**2**
	10	**(15)**	**(5)**
Other movements			
– Contributions by employer	–	**13**	**13**
– Benefits paid	**40**	**(40)**	**–**
– Administrative expenses paid	**3**	**(3)**	**–**
	43	**(30)**	**13**
At 31 December 2013	**(1,061)**	**1,049**	**(12)**

At 1 January 2012	(942)	1 050	108
Pension costs			
Current service cost	(22)	–	(22)
Interest (expense)/income	(44)	43	(1)
Gain on curtailment	13	–	13
	(53)	43	(10)
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	(34)	(34)
– Gain from changes in demographic assumptions	40	–	40
– Loss from changes in financial assumptions	(127)	–	(127)
– Experience losses	(17)	–	(17)
	(104)	(34)	(138)
Other movements			
– Contributions by employer	–	32	32
– Benefits paid	37	(37)	–
– Administrative expenses paid	3	(3)	–
	40	(8)	32
At 31 December 2012	(1,059)	1,051	(8)

Notes to the Financial Statements continued

Year ended 31 December 2013

43 Pension benefit obligation (continued)

ii) LV Scheme (continued)

d) Principal assumptions used		2013 (*)	2012
Discount rate		**4.6%**	4 1%
RPI inflation		**3.6%**	3 0%
CPI inflation		**2 6%**	2 0%
Rate of salary increase		**3 6%**	3 0%
Pension increases for in-payment benefits			
– RPI price inflation capped at 5% pa, floor of 3% pa		**3 6%**	3 5%
– RPI price inflation capped at 5% pa		**3 6%**	3 0%
– RPI price inflation capped at 2 5% pa		**2 5%**	2 2%
– CPI price inflation capped at 3 0% pa		**2 6%**	1 9%
Rate of (non-guaranteed minimum pension) increases in deferment		**2 6%**	2 0%
Cash commutation	Active	**10 0%**	10 0%
	Deferreds	**20 0%**	20 0%
Scheme member valuation date		**31 March 2012**	31 March 2012

(*) – The discount rate and inflation rate assumptions for 2013 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

Mortality for members is assumed to follow the tables below as at 31 December	2013	2012
Pre-retirement mortality Deferred pensioners		
– Males	**1NMA x 0 95 table**	1NMA x 0 95 table
– Females	**1NFA x 0 98 table**	1NFA x 0 98 table
Post-retirement mortality Non-pensioners		
– Males	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (former employees)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (dependants)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
Post-retirement mortality current pensioners and dependants		
– Males	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (former employees)	**LV specific tables from Club Vita**	LV specific tables from Club Vita
– Females (dependants)	**LV specific tables from Club Vita**	LV specific tables from Club Vita

In all cases, as at 31 December 2013 and 31 December 2012, CMI Core 2011 projections with a long-term trend of 1 25% have been applied

e) Sensitivity analysis Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Increase by 0 25%**	**Decrease by £49m (4 6%)**
RPI rate	**Increase by 0 25%**	**Increase by £31m (2 9%)**
Cash commutation	**Nil**	**Increase by £24m (2 2%)**
Mortality improvements long-term rate	**Increase by 0 25%**	**Increase by £14m (1 3%)**

The methodology and types of assumptions used in preparing the sensitivity analysis has not changed compared to the prior period

Notes to the Financial Statements continued

Year ended 31 December 2013

43 Pension benefit obligation (continued)

ii) LV Scheme (continued)

f) Plan asset information

The following table shows a breakdown of the plan assets

	2013				2012			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities	**139**	**14**	**153**	**15%**	125	17	142	14%
Debt securities	**720**	**–**	**720**	**68%**	770	–	770	72%
Cash and cash equivalents	**125**	**–**	**125**	**12%**	31	–	31	3%
Real estate/property	**–**	**39**	**39**	**4%**	–	91	91	9%
Other	**–**	**12**	**12**	**1%**	–	17	17	2%
Total	**984**	**65**	**1,049**	**100%**	926	125	1,051	100%

The investment objectives of the Scheme remain the maximisation of income and capital growth consistent with the principles of prudent management Investment managers have been appointed by the trustee to exercise all or any of the trustee's powers and discretion in relation to investment of the scheme's assets The principal objectives are stated below

- To maintain a portfolio of assets of appropriate liquidity and diversification to generate income and capital growth to enable the scheme to meet the cost of current and future benefits as set out in the Trust Deed and Rules,
- To limit the risk of the assets failing to meet the liabilities over the long term and in relation to the scheme specific funding measure introduced by the Pensions Act 2004 in the shorter term, and
- To control the long-term costs of the scheme by maximising the return on the assets whilst having regard to the objectives stated above

Following the triennial scheme valuation that took place as at 31 March 2012, the Society as principal employer agreed, on behalf of participating employees, to make monthly contributions of 18 6% of pensionable salaries from 1 April 2013 until the date of closure to future accrual on 30 June 2013 Prior to 1 April 2013 the monthly contribution rate was 17 9% of pensionable earnings From 1 April 2013 no additional deficit contributions have been made by the Society Prior to this date additional deficit contributions of £0 9m per month had been made In addition to these funding contributions the Society has agreed to make payments of £148,000 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 2015

g) 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 smaller 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 partially 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 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 December 2012 the trustees of the LV Scheme entered into a longevity swap which mitigated the majority of this risk for the LV scheme

h) 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 2013	**40**	**42**	**176**	**2,741**	**2,999**

The weighted average duration of the defined benefit obligation is 18 years

The expected contributions to the scheme for the year ending 31 December 2014 are £2m

Notes to the Financial Statements continued

Year ended 31 December 2013

43 Pension benefit obligation (continued)

iii) Ockham Scheme

a) Information about the scheme

The Ockham scheme is a final salary pension scheme, which provides benefits to members in the form of a guaranteed level of pension payable for life The level of benefits depends upon the members' length of service and their final salary The scheme is closed to new entrants

The scheme assets are held in separate trustee-administered funds 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 Board of Trustees who are required to act in the best interests of the scheme's beneficiaries Two of the trustees are nominated by the members under the rules notified to the members of the scheme, to serve for a period of three years In accordance with the trust deed, the Society, as principal employer, has the power to appoint and remove the other trustees of the scheme The member-nominated trustees may be removed before the end of their three year term only by the agreement of all the remaining trustees

b) Net Statement of Financial Position	2013 £m	2012 £m
Present value of defined benefit obligation	**(120)**	(117)
Fair value of plan assets	**116**	115
Pension benefit obligation at the end of the year	**(4)**	(2)

c) The movement in the net defined benefit obligation over the year is as follows	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 January 2013	**(117)**	**115**	**(2)**
Pension costs			
Interest (expense)/income	**(5)**	**5**	**–**
	(5)	**5**	**–**
Re-measurements:			
– Return on plan assets, excluding amounts included in interest (expense)/income	**–**	**(2)**	**(2)**
– Loss from changes in financial assumptions	**(2)**	**–**	**(2)**
	(2)	**(2)**	**(4)**
Other movements			
– Contributions by employer	**–**	**2**	**2**
– Benefits paid	**4**	**(4)**	**–**
	4	**(2)**	**2**
At 31 December 2013	**(120)**	**116**	**(4)**
At 1 January 2012	(107)	106	(1)
Pension costs			
Interest (expense)/income	(5)	4	(1)
	(5)	4	(1)
Re-measurements			
– Return on plan assets, excluding amounts included in interest (expense)/income	–	2	2
– Gain from changes in demographic assumptions	4	–	4
– Loss from changes in financial assumptions	(11)	–	(11)
– Experience losses	(2)	–	(2)
	(9)	2	(7)
Other movements			
– Contributions by employer	–	7	7
– Benefits paid	4	(4)	–
	4	3	7
At 31 December 2012	(117)	115	(2)

Notes to the Financial Statements continued

Year ended 31 December 2013

43 Pension benefit obligation (continued)

iii) Ockham Scheme (continued)

d) Principal assumptions used		2013 ( )	2012
Discount rate		**4 5%**	4 1%
RPI inflation		**3 5%**	3 0%
CPI inflation		**2 6%**	2 0%
Rate of salary increase		**3 5%**	3 0%
Rate of increase in pensions in payment			
– linked to inflation		**3 5%**	3 0%
– fixed rate		**In line with scheme rules**	in line with scheme rules
Rate of (non-guaranteed minimum pension) increases in deferment		**2 6%**	2 0%
Cash commutation	Active	**10 0%**	10 0%
	Deferreds	**20 0%**	20 0%

(*) – The discount rate and inflation rate assumptions for 2013 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

Mortality rate assumptions are based on the same mortality tables as disclosed within the LV Scheme

e) Sensitivity analysis Impact on defined benefit obligation of making changes to key assumptions

	Change in assumption	Impact on defined benefit obligation
Discount rate	**Increase by 0 25%**	**Decrease by £4 8m (4 1%)**
RPI rate	**Increase by 0 25%**	**Increase by £3 3m (2 8%)**
Cash commutation	**Nil**	**Increase by £4 5m (3 7%)**
Mortality improvements long-term rate	**Increase by 0 25%**	**Increase by £1 6m (1 4%)**

The methodology and types of assumptions used in preparing the sensitivity analysis has not changed compared to the prior period

f) Plan asset information

Plan assets are comprised as follows

	2013				2012			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities	**33**	**–**	**33**	**28**	30	–	30	26
Debt securities	**67**	**–**	**67**	**58**	67	–	67	58
Derivative swaps	**–**	**15**	**15**	**13**	–	17	17	15
Cash and cash equivalents	**1**	**–**	**1**	**1**	1	–	1	1
Total	**101**	**15**	**116**	**100**	98	17	115	100

The overall investment objective of the Ockham pension scheme is to obtain a rate of return, net of investment management charges, that is 2 5% p a in excess of the return available on securities that broadly match the term and nature of the scheme's future benefit payments within a risk budget that the trustees consider to be appropriate This involves the use of derivative (a 'swap overlay') to reduce the risks of the assets not matching the nature and term of the scheme's future benefit obligations

Following the triennial scheme valuation that took place as at 31 March 2012 the trustees and the Society agreed that no additional employer funding contributions would be required from 1 April 2013, other than the expenses of administering the scheme, including PPF levies Prior to this date the Society had been making additional deficit funding contributions of £0 6m per month The next formal valuation is due no later than 31 March 2015

g) Pension scheme risks

Details of the pension scheme risks that the Group is exposed to are disclosed within the LV Scheme

h) 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 2013	**4**	**4**	**20**	**261**	**289**

The weighted average duration of the defined benefit obligation is 16 years

No contributions are expected to be made to the Ockham pension scheme for the year ending 31 December 2014

Notes to the Financial Statements continued

Year ended 31 December 2013

Provisions, contingent liabilities and commitments

This section describes the provisions, contingent liabilities and commitments of the Society and Group arising from the ongoing life and general insurance businesses and the exit from the banking and asset management businesses in prior years

44 Provisions

Accounting for provisions

General

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 it 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

Onerous contracts

A provision is made for onerous contracts in which the unavoidable costs of meeting the obligation exceed the expected future economic benefits

Movement during the year on provisions

	Group				Society			
	Buy out payments £m	PPI provision £m	Other provisions £m	Total £m	Buy out payments £m	PPI provision £m	Other provisions £m	Total £m
Balance at 1 January 2013	**41**	**13**	**12**	**66**	**41**	**13**	**9**	**63**
Charge to the Statement of Comprehensive Income	**-**	**-**	**(1)**	**(1)**	**-**	**-**	**(1)**	**(1)**
Reduction to goodwill	**(6)**	**-**	**-**	**(6)**	**(6)**	**-**	**-**	**(6)**
Provided during the year	**-**	**-**	**4**	**4**	**-**	**-**	**2**	**2**
Utilised during the year	**(35)**	**(5)**	**(8)**	**(48)**	**(35)**	**(5)**	**(6)**	**(46)**
Balance at 31 December 2013	**-**	**8**	**7**	**15**	**-**	**8**	**4**	**12**

Other provisions relate to

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Employer taxes	**-**	6	**-**	6
Onerous contracts on property leases	**2**	3	**1**	2
Compensation payable on customer complaints	**1**	2	**-**	-
Other	**4**	1	**3**	1
	7	12	**4**	9

The buy out payments provision related to the acquisition in 2006 by the Society of 95% of LV Insurance Management Limited (then known as ABC Insurance Solutions Limited) The liability was settled in full in May 2013 Further details are contained within the related party disclosures within Note 51

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 Following a review of outstanding PPI claims carried out during the year, the current level of provision held is expected to be sufficient to cover the costs of expected future redress and administration At 31 December 2013, following payments made during the year of £5m, the provision was £8m Given the assumptions made it is expected that up to £2m of payments will be set against this provision during 2014, with the remainder of the provision utilised within four years

There are a large number of inter-dependent assumptions underpinning the PPI provision When considering the key assumptions separately, the most significant driver of the provision is complaint flow If the level of complaints were 10% higher (lower) than the estimated level for all policies, assuming no change in other assumptions, then the provision would have increased (decreased) by approximately £1m

The Group will re-evaluate the assumptions underlying its analysis at each reporting date as more information becomes available

Notes to the Financial Statements continued

Year ended 31 December 2013

45 Contingent liabilities

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

The Society has granted a contingent loan facility to the RNPFN fund, a closed fund within the Society, up to a maximum of £100m, to be used in the event of a shortfall in the capital resources of that fund 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 the Society as soon as possible While undrawn, a charge for the facility is made at 1% per annum

The Society has also granted a capital facility of £20m to the board of LVGIG to be used in the event of a shortfall in the capital solvency of LVGIG's regulated subsidiaries This would take the form of a permanent capital contribution and repayment would therefore be dependent on the future solvency position of LVGIG The risk appetite adopted by the LVGIG board requires the directors to manage its affairs within its agreed capital budget, with this facility only to be considered as a short-term emergency facility in the event of sudden and severe investment shocks or an insurance catastrophe event

As at 31 December 2013 and 2012 a contingent liability of £24m existed in respect of a fixed charge over certain assets of the Group which have been charged to the trustees of the Ockham pension scheme as part of its deficit funding arrangements agreed with the Society The charge will only crystallise in the event of the insolvency of the Society or Liverpool Victoria Insurance Company Limited or proceedings being started by their creditors

No claims under this liability have been made and no insolvency proceedings have commenced against either LVFS or the Group during the course of 2012 and 2013

46 Commitments

Accounting for assets held under leases

Where assets are financed by leasing arrangements and the risks and rewards are substantially transferred to the Group, such finance leases are treated as if the assets had been purchased outright and the corresponding liability to the lessor is included as an obligation in trade and other payables Depreciation on leased assets is charged to the Statement of Comprehensive Income on a straight line basis over the lower of the term of the lease or its estimated useful life The capital element on finance leases is shown in the property and equipment note

Lease payments are treated as consisting of capital and interest elements and the interest is charged to the Statement of Comprehensive Income

All other leases are operating leases and the costs in respect of operating leases are charged on a straight line basis over the lease term The value of any lease incentive received to take on an operating lease (for example, rent free periods) is recognised as deferred income and is released over the life of the lease

a) Capital commitments	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Authorised and contracted commitments payable after 31 December not provided for in respect of				
– property investments	–	1	–	1
– other financial investments	**27**	35	**27**	35
– property and equipment	**1**	–	**1**	–
	28	36	**28**	36

Notes to the Financial Statements continued

Year ended 31 December 2013

46 Commitments (continued)

b) Operating lease commitments

The Group leases various properties under non-cancellable operating lease agreements The leases have varying terms, escalation clauses and renewal rights The future aggregate minimum lease payments net of income under non-cancellable operating leases are as follows

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Within one year	**6**	7	**4**	5
Between one and five years	**15**	19	**10**	14
Over five years	**1**	3	**1**	2
	22	29	**15**	21

The Group has entered into commercial subleases for some of its properties that are unoccupied These leases have varying terms and escalation clauses Where these subleases are insufficient to cover the Group's operating lease agreements an onerous contract provision for unused premises is set up The future aggregate minimum sublease payments expected to be received under operating subleases are

	Group		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Within one year	**1**	1	**–**	1
Between one and five years	**2**	3	**2**	2
	3	4	**2**	3

c) Finance lease commitments

It is the Group's policy to lease certain of its properties under finance leases The average lease term is 99 years Interest rates are fixed at the contract rate All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments The Group's obligations under finance leases are secured by the lessors' charges over the leased assets

	Group	
	2013	2012
	£m	£m
Gross finance lease liabilities – minimum lease payments		
Within one year	**1**	1
Between one and five years	**5**	5
Over five years	**87**	88
	93	94
Future finance charges on finance leases	**(88)**	(89)
Present value of financial lease liabilities	**5**	5

	Group	
	2013	2012
	£m	£m
The present value of finance lease liabilities is as follows		
Between one and five years	**1**	1
Over five years	**4**	4
	5	5

d) Other financial commitments

The Group has entered into several long-term contracts following service outsourcing These contracts will end no later than 2018 The present value of the remaining commitment is estimated at £90m (2012 £89m) for the Group and the Society These amounts have not been provided for in the financial statements

Notes to the Financial Statements continued

Year ended 31 December 2013

Scope of consolidation

This section presents information on the Group's investments in subsidiaries, joint ventures, associates and open ended investment companies (OEICs) Detail is also given of the Unallocated divisible surplus of the Society and Group

47 Subsidiary undertakings

The principal subsidiary undertakings of the Society at 31 December 2013 are shown below
The Group and all principal undertakings are incorporated and domiciled in England and Wales
All holdings are in relation to ordinary shares
The registered office is County Gates, Bournemouth BH1 2NF

Name	Principal activity	Percentage held
Subsidiaries		
Frizzell Financial Services Limited	Property management	100%
Highway Insurance Company Limited*	General insurance	100%
Highway Insurance Group Ltd* (Note 1)	General insurance holding company	100%
Liverpool Victoria Financial Advice Services Limited (Note 1)	Financial advice services	100%
Liverpool Victoria General Insurance Group Limited*	General insurance holding company	99%
Liverpool Victoria Insurance Company Limited*	General insurance	100%
Liverpool Victoria Life Company Limited	Life insurance	100%
Liverpool Victoria Portfolio Managers Limited	Investment management	100%
LV Capital PLC (Note 1)	Holding company	100%
LV Equity Release Limited (Note 1)	Equity release lifetime mortgages	100%
LV Insurance Management Limited* (Note 1)	Management services	100%
LV Life Services Limited (Note 1)	Management services	100%
NM Pensions Trustees Limited (Note 1)	Self-invested personal pension (SIPP) administrator	100%

* Owned by a subsidiary undertaking of the Society

Note 1 - The financial statements of these subsidiary undertakings have not been audited for the year ended 31 December 2013 These subsidiary undertakings are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Companies Act 2006 The following other subsidiaries are also taking advantage of this exemption from the audit requirement LV Protection Limited, Liverpool Victoria Asset Management Limited, Ayresbrook Limited, NLC Name No 2 Limited, NLC Name No 7 Limited and Liverpool Victoria Banking Services Limited

All the principal subsidiaries have the same year end as the Society and all have been included in the consolidation

48 Associates and joint ventures

The associates and joint ventures of the Society at 31 December 2013 are shown below

They are incorporated and domiciled in England and Wales

Name	Class of shares	Year end	Principal activity	Percentage held
Joint ventures				
Great Victoria Partnership	*	31/03/2013	Investment property	50 0%

* The percentage held represents the share of the partnership capital and partner loans held by the Society as at 31 December 2013

Notes to the Financial Statements continued

Year ended 31 December 2013

49 Open ended investment companies

The open ended investment companies (OEICs) of the Society and Group at 31 December 2013 are shown below

All OEICs are incorporated and domiciled in England and Wales and included within the Group consolidation

Name	Principal activity	Year end	Percentage of units held *
Threadneedle Investment Funds II ICVC	Open Ended Investment Company	31/12/2013	93 20%
which consists of			
Threadneedle European ex-UK Growth Fund			97 40%
Threadneedle Japan Growth Fund			100 00%
Threadneedle Pacific ex-Japan Growth Fund			100 00%
Threadneedle UK Equity Income Fund			88 45%
Threadneedle US Equity Income Fund			98 26%
Threadneedle UK Growth Fund			60 96%
Threadneedle Investment Funds III ICVC	Open Ended Investment Company	31/12/2013	70 73%
which consists of			
Threadneedle UK Corporate Bond Fund			93 68%
Threadneedle UK Fixed Interest Fund			99 66%
Threadneedle UK Index Linked Fund			93 16%
Threadneedle UK Short-Term Money Market Fund			99 58%
Threadneedle Balanced Managed Fund			95 59%
Threadneedle UK Medium and Long-Dated Corporate Bond Fund			41 35%
Threadneedle UK Short-Dated Corporate Bond			69 74%
Threadneedle Worldwide Select Fund			78 87%
Threadneedle Investment Funds IV ICVC	Open Ended Investment Company	31/03/2013	80 70%
which consists of			
Threadneedle Diversified Income Fund			41 31%
Threadneedle Managed Portfolio 3			76 70%
Threadneedle Managed Portfolio 4			81 28%
Threadneedle Managed Portfolio 5			83 05%
Threadneedle Managed Portfolio 6			85 57%
Threadneedle Managed Portfolio 7			83 12%

In December 2012 it was announced that the Threadneedle UK Property Fund II ICVC was to close Threadneedle consequently obtained permission from the regulatory authorities to close the Company The winding up process was completed in 2013 with the final distribution being made to unit holders in June 2013

* excludes units held by the LV= Employee Pension Scheme

Notes to the Financial Statements continued
Year ended 31 December 2013

50 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 Society and Group Any profit or loss for the year arising through the Statement of Comprehensive Income (for the Society 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		Society	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Balance at 1 January	**861**	958	**879**	1,055
Transfer included within profit for the period	**124**	48	**82**	(31)
Transfer included within other comprehensive income	**(9)**	(145)	**(9)**	(145)
Balance at 31 December	**976**	861	**952**	879

Cumulative goodwill of £200m in the Group (£62m in the Society) arising on acquisitions prior to 1998 has been eliminated against the Unallocated divisible surplus This goodwill would be recognised in the Statement of Comprehensive Income should there be a subsequent disposal of the business to which it relates

Notes to the Financial Statements continued
Year ended 31 December 2013

Other disclosures

This section details other disclosure matters, comprising related party transactions, directors' emoluments, with-profits actuary details and other relevant Society information

51 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	
	2013	2012
	£ 000	£ 000
Short-term employment benefits	**6,220**	6,139
Other long-term benefits	**3,368**	2,865
Post-employment benefits	**240**	216
Termination benefits	**510**	–
Total compensation of key management personnel	**10,338**	9,220

The Society made contributions to the LV= Employee Pension Scheme of an average of 18 3% of pensionable salaries for the period to 30 June 2013 (2012 17 8% of pensionable salaries), subject to annual allowance limits, in respect of all permanent staff, including executive directors The defined benefit section of the scheme closed to future accrual on 30 June 2013 at which point existing members were eligible to join the defined contribution scheme

Included within key management personnel are all the vendors (including John O'Roarke, a director of the Society) of ABC Insurance Solutions Limited ('ABC') who, as part of the acquisition by the Society of 95% of ABC in 2006, entered into a contract with the Society, whereby the Society undertook to purchase the remaining 5% for a price based on the market value of the general insurance business at 31 December 2012 This liability was settled in full in May 2013 for a consideration of £35m, of which £7 8m was paid to Mr O'Roarke Further details are disclosed within Note 44

During May 2013 the vendors of ABC invested £4 5m in new 'B' ordinary share capital of Liverpool Victoria General Insurance Group Limited, a subsidiary undertaking of the Society, as part of a new arrangement covering the three year period from 1 January 2013 to 31 December 2015 Mr O'Roarke invested £1m as part of this arrangement This new arrangement allows certain key management personnel to benefit from the total shareholder return (being the equity increase in the market valuation of the general insurance business plus ordinary dividends paid) over this three year period This arrangement has been accounted for as a cash-settled share-based payment transaction under IFRS 2, details of which are disclosed in Section d) below

The aggregate premiums payable for the year by the Group Executive and Non-Executive Directors in respect of the Group's products was £64,398 (2012 £57,827)

b) The following transactions have taken place between the Society and other group companies	**2013 £m**	2012 £m
Management charge by the Society	**216**	191
Movement in deferred margin (included in other financial liabilities)	**(3)**	(10)
Beneficial interest of subsidiary in loans sold to the Society	**139**	226
Investment expense charge to the Society	**(7)**	(6)
Interest income from group undertakings	**35**	7
Dividend income from group undertakings	**47**	94

Balances outstanding between the Society and other Group companies

	2013 £m	2012 £m
Payable by the Society	**(64)**	(53)
Receivable by the Society	**97**	87
Loans owed to the Society	**300**	351

Notes to the Financial Statements continued

Year ended 31 December 2013

51 Related party transactions (continued)

c) Loans to related parties

Loans owed to the Society represent two subordinated loan notes totalling £300m (2012 £300m) to LV Capital PLC issued in December 2012 and secured loans of £nil (2012 £51m) to Liverpool Victoria Equity Release Limited These loans are disclosed within loan stock in Note 33 The £51m loan balance with Liverpool Victoria Equity Release Limited was repaid in March 2013

The terms of the loans to LV Capital PLC are

(i) A £130m unsecured subordinated loan note repayable in 2015 with an interest rate of LIBOR plus 8 5%, and
(ii) A £170m unsecured senior loan note repayable in 2047 with an interest rate of 9%

LV Capital may, subject to one month's notice and obtaining written agreement of the Society, repay all or part of these loans

In addition to the loan notes disclosed above, a £300m loan note was issued to LV Capital PLC by the Society on 10 December 2012 and subsequently cancelled on 21 December 2012

Previous loans owed to the Society by Liverpool Victoria Equity Release Limited and Liverpool Victoria General Insurance Group Limited were repaid in December 2012 These related to loans designated at fair value through income and subordinated loan notes respectively The subordinated loans to Liverpool Victoria General Insurance Group Limited bore interest at 1% above UK six month LIBOR and were of a medium to long-term nature The loans to Liverpool Victoria Equity Release Limited repaid in December 2012 and March 2013 had fixed interest and repayment terms established at the outset of each advance

d) Share schemes

During the year, certain key management personnel within the general insurance business (refer Section a) above) subscribed for 4 5 million £1 'B' ordinary shares in Liverpool Victoria General Insurance Group Limited (LVGIG) Pursuant to the Articles of Association of LVGIG, the Society is required to purchase these shares in 2016 for a price equal to par plus rolled-up interest plus a percentage of the increase in the total shareholder return (plus ordinary dividends paid) of the General Insurance business from 1 January 2013 to 31 December 2015, as set out below

a) 0% if the growth rate is less than 9%,
b) 5% if the growth rate is 9%,
c) Between 5% and 15% on a straight line basis to the extent the growth rate is between 9% and 19%, or
d) 15% if the growth rate is greater than 19%

The purchase in 2016 is contingent on the key management personnel remaining with the Group until 31 December 2015, any leavers prior to this date will have their shares purchased for a lesser amount based on the proportion of the three year period from 1 January 2013 to their date of leaving

The table below shows the amount of shares included in this share scheme arrangement, the current best estimate of the fair value of the goods and services that the Group will receive as a part of this arrangement and the potential final valuation of the shares

The fair value of the goods and services received by the Group is being accrued evenly over the three year term of the arrangement resulting in a £10m charge to Staff costs within the 2013 financial statements The current liability to the key management personnel of £14 5m is included within Trade and other payables Mr O'Roarke, a director of the Society, has a 22% interest in this liability

Shares subscribed for (£'000)	FV of goods and services (£'000)	Estimated final share valuation (£'000)
4,500	10,000	14,500

The market valuation of the general insurance business used for the purpose of calculating the estimated final share valuation above is based on an internal estimate The final valuation at 31 December 2015 will be based on an independent third party valuation in the event that a value cannot be agreed between the parties

e) Other related party disclosure

As disclosed in Note 45, the Society has granted a contingent loan facility to the RNPFN fund, a closed fund within the Group, which is disclosed in contingent liabilities

52 With-Profits Actuary

The following information has been provided in accordance with section 77 of the Friendly Societies Act 1992

a) The With-Profits Actuary during the year was Mr N J Dumbreck, a Principal with the London office of Milliman LLP, an external consultancy firm The Society paid fees of £262,210 inclusive of VAT and expenses, to Milliman LLP during 2013 (2012 £388,491) in respect of Mr Dumbreck's professional services It also paid fees of £21,390, inclusive of VAT and expenses, to Milliman LLP during 2013 (2012 £54,000) in respect of services unrelated to Mr Dumbreck's role as With-Profits Actuary

b) Mr Dumbreck holds two (2012 four) insurance policies issued on standard terms by one of the Society s subsidiaries He had no other pecuniary interest in any transactions with the Society at any time during the year

c) Mr Dumbreck was appointed as With-Profits Actuary of the Society on 16 February 2012 The With-Profits Actuary of the Society until 16 February 2012 was Mr P M Downey, who is employed by the Society The total emoluments of Mr Downey during this period in 2012 on a pro rata basis were £23,604 including car allowance and medical benefits Mr Downey is a participant in the Society's long-term incentive plan and held one insurance policy issued on normal staff terms by a subsidiary of the Society

Notes to the Financial Statements continued

Year ended 31 December 2013

53 Directors' emoluments

The aggregate amount of directors' emoluments was as follows

a) Emoluments of individual directors, including emoluments of the Chairman and highest paid director were as follows for the Society

	Annual remuneration £000							Total remuneration £000		
	2013						2012	2013		2012
	Salary	Bonus	Deferred bonus	Pension related benefits*	Other benefits	Total	Total	LTIP 2011 13	Total	Total
M J Rogers	**518**	**378**	**46**	**114**	**17**	**1,073**	1,191	**1,291**	**2,364**	2,622
PW Moore	**353**	**202**	**38**	**49**	**14**	**656**	661	**661**	**1,317**	1,393
R A Rowney	**313**	**190**	**–**	**87**	**15**	**605**	642	**574**	**1,179**	1,227
J B O'Roarke	**288**	**150**	**–**	**80**	**14**	**532**	593	**–**	**532**	593
M E Austen	**135**	**–**	**–**	**–**	**–**	**135**	72	**–**	**135**	72
J Edwards	**69**	**–**	**–**	**–**	**–**	**69**	62	**–**	**69**	62
C Keers	**65**	**–**	**–**	**–**	**–**	**65**	61	**–**	**65**	61
D Holt (resigned 23 May 2013)	**65**	**–**	**–**	**–**	**–**	**65**	153	**–**	**65**	153
C Burton	**61**	**–**	**–**	**–**	**–**	**61**	56	**–**	**61**	56
J Dean (appointed 26 July 2012)	**61**	**–**	**–**	**–**	**–**	**61**	22	**–**	**61**	22
D Neave (appointed 1 June 2013)	**39**	**–**	**–**	**–**	**–**	**39**	–	**–**	**39**	–
D I W Reynolds (resigned 31 October 2012)	–	–	–	–	–	–	60	–	–	60
Total	**1,967**	**920**	**84**	**330**	**60**	**3,361**	3,573	**2,526**	**5,887**	6,321

( ) Pension related benefits, include payments made to the Group's defined contribution pension scheme, the equivalent value of deferred benefit accrued benefit increases calculated using the HMRC method and payments in lieu of pension contributions

Deferred bonus represents the amount of the 2013 performance bonus payable over the next three years Further details are disclosed within the Directors' Remuneration Report

J B O'Roarke does not participate in the Group LTIP scheme but has entered into a separate share scheme arrangement which is disclosed further within the related party transaction Note 51 and the Directors' Remuneration Report

Other benefits include car allowances, medical, relocation, life assurance and other benefits in kind or their equivalent monetary value

b) Pension arrangements

R A Rowney and J B O'Roarke are members of the LV= Employee Pension Scheme, which is a defined benefit scheme PW Moore left the defined contribution scheme during 2012

The Society made contributions to the LV= Employee Pension Scheme of an average of 18 3% of pensionable salaries for the period to 30 June 2013 (2012 17 8% of pensionable salaries), subject to annual allowance limits, in respect of all permanent staff This included amounts on behalf of executive directors of £25,076 (2012 £48,102)

The Society has made no contributions to personal pension arrangements during 2013 (2012 £nil)

There were £27,350 of contributions to defined contribution pension schemes in 2013 (2012 £8,500)

Accrued pension at end of period	2013 £ 000	2012 £ 000
R A Rowney	**30**	27
J B O'Roarke	**33**	30

Notes to the Financial Statements continued
Year ended 31 December 2013

54 2014 Budget statement
In his Budget Statement on 19 March 2014, the Chancellor of the Exchequer announced a number of proposed changes to the UK pension regime from April 2015, including an intention to introduce legislation to allow those with defined pension savings to draw down from them from age 55, subject to their marginal rate of income tax and their pension scheme rules

Until the legislation is published, it is not possible to determine the effect of these proposed changes on the retirement choices customers may make and hence the impact on the Group's pensions and annuities business, however these are not expected to have a material impact on the Group's financial position or regulatory capital

55 Cash generated from operating activities

	Group		Society	
	2013 £m	2012 £m	2013 £m	2012 £m
Profit before tax, mutual bonus and UDS transfer	**156**	103	**104**	3
Investment income	**(346)**	(320)	**(348)**	(337)
Net gains on investments	**(112)**	(375)	**(94)**	(304)
Finance costs	**15**	1	**14**	–
Net decrease in derivatives	**21**	92	**20**	100
Non-cash items				
Expenses deferred during the year	**2**	(5)	**–**	–
Amortisation of intangible assets	**7**	12	**–**	5
Depreciation on property and equipment	**5**	3	**1**	1
Impairment losses on intangible assets	**11**	–	**–**	–
Decrease/(increase) in capitalised goodwill	**6**	(2)	**6**	(2)
Decrease in provisions and pension obligation	**(54)**	(18)	**(54)**	(17)
Impairment write offs in subsidiaries	**–**	–	**79**	90
Mutual bonus	**(22)**	(21)	**(22)**	(21)
Changes in working capital				
Decrease in loans and receivables	**38**	13	**4**	26
Increase in reinsurance assets	**(68)**	(110)	**(75)**	(75)
Decrease/(increase) in insurance receivables	**4**	(11)	**2**	(2)
(Increase)/decrease in other prepayments and accrued income	**(2)**	(8)	**1**	(2)
Increase in insurance contract liabilities	**259**	872	**224**	619
Increase in non-participating value of in-force business	**(20)**	(14)	**(20)**	(14)
Increase in investment contract liabilities	**328**	211	**328**	211
(Decrease)/increase in other financial liabilities	**(19)**	(2)	**(25)**	9
(Decrease)/increase in insurance payables	**(7)**	3	**(3)**	(5)
Increase/(decrease) in trade and other payables	**4**	(12)	**14**	(12)
Cash generated from operating activities	**206**	412	**156**	273

56 Valuation
The latest published report on the valuation of Assets and Liabilities of the Society (the Annual PRA Insurance Return) was made at 31 December 2013 and is available on request from the Group Company Secretary, County Gates, Bournemouth, BH1 2NF and LV.com

57 Society information
Liverpool Victoria Friendly Society Limited is a UK-incorporated and domiciled Friendly Society registered under the Friendly Societies Act 1992

LV= and Liverpool Victoria are trademarks of Liverpool Victoria Friendly Society Limited LV= and LV= Liverpool Victoria are trading styles of the Liverpool Victoria group of companies Liverpool Victoria is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority, and is a member of the ABI, AFM and ILAG

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