# LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

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# INTERIM RESULTS ANNOUNCEMENT
# INCLUDING INTERIM FINANCIAL STATEMENTS (UNAUDITED)

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## FOR THE HALF YEAR ENDED 30 JUNE 2018

# LV= Interim Results Announcement 2018

Mutual insurance, retirement and investment group LV= announces its interim results for the six months ending 30 June 2018.

## STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Strong capital position maintained with positive contributions from both businesses
- Strong momentum in General Insurance personal lines business and strategic partnership with Allianz established and working well
- On track to complete operational separation of the General Insurance business by the end of 2019
- Improved Life business operating profit, with new business volumes (excluding discontinued lines) broadly stable
- Continued progress in reducing operating costs
- Importance of effective risk management emphasised through the appointment of Wayne Snow as Chief Risk Officer and board member

## FINANCIAL HIGHLIGHTS

| | |
|---|---|
| **Capital** | • Operating capital generation of £45m contributing 7% to the Capital Coverage Ratio (CCR)<br>• Solvency II Capital surplus £764m, CCR 178% (FY 2017: £698m, 180%) |
| **Life** | • Life business PVNBP sales £983m (HY 2017: £1,035m)[1]<br>• Life new business contribution[2] £14m (HY 2017: £20m, £16m excluding discontinued lines) |
| **General insurance** | • General insurance gross written premiums up 1% to £827m (HY 2017:£817m)<br>• General insurance combined ratio 95.7% (HY 2017: 93.6%) |
| **Profit** | • Operating profit £42m (HY 2017: £56m)[3] |
| **Expenses** | • Operating expenses down 1% to £172m (HY 2017: £174m)[4] |
| **Liquidity** | • Operational liquidity of £888m (FY 2017: £947m) |
| **Fund returns** | • Return on the main LV= with-profits fund of 2.01% against benchmark of 1.44% (HY 2017: 3.74% against benchmark of 3.66%)<br>• Returns on FGB products are on average 1.45% compared to benchmark returns of 1.21% (HY 2017: 5.10% against benchmark of 4.03%) |

1 PVNBP is presented on a Solvency II basis adjusted to include future regular premiums on Pensions. HY 2017 has been restated by an increase of £26m.
2 New business contribution is before investment in new propositions.
3 Centrally managed costs are now included within Operating profit, HY 2017 has been restated accordingly with an impact of a £10m reduction. Operating profit is a non-GAAP measure, see definition on page 23.
4 Expenses are presented before strategic investment; HY 2017 has been restated accordingly with a reduction of £26m.

## GROUP CHIEF EXECUTIVE'S STATEMENT

We have made steady progress in the first six months of the year with good underlying trading results partially masked by the impact of the 'Beast from the East' bringing severe weather across the UK in February and March. Tackling competitive trading conditions and a significant change agenda, the business continues to perform well with top-line growth in General Insurance and increased profits in Life.

Our capital position continues to be strong and our Capital Coverage Ratio (CCR) stands at a healthy 178%, compared with 180% at the end of 2017. At this level it is well within our risk appetite and maintaining this relative position will continue to be an area of management focus in the future.

In Life & Group, we delivered an increased operating profit of £19 million (HY 2017: £7 million). However new business sales are down 5% at £983 million (HY 2017: £1,035 million) reflecting the withdrawal from capital intensive product lines in Protection and a reduction in pensions sales which was expected following the high levels of defined benefit to defined contribution transfers in 2017.

In common with most other home insurers our General Insurance business was adversely impacted by severe weather at the start of the year which resulted in £17 million of net claims leading to an operating profit of £23 million for the first six months (HY 2017: £49 million). The underlying business continues to perform well with top line growth in both our Direct and Broker personal lines businesses.

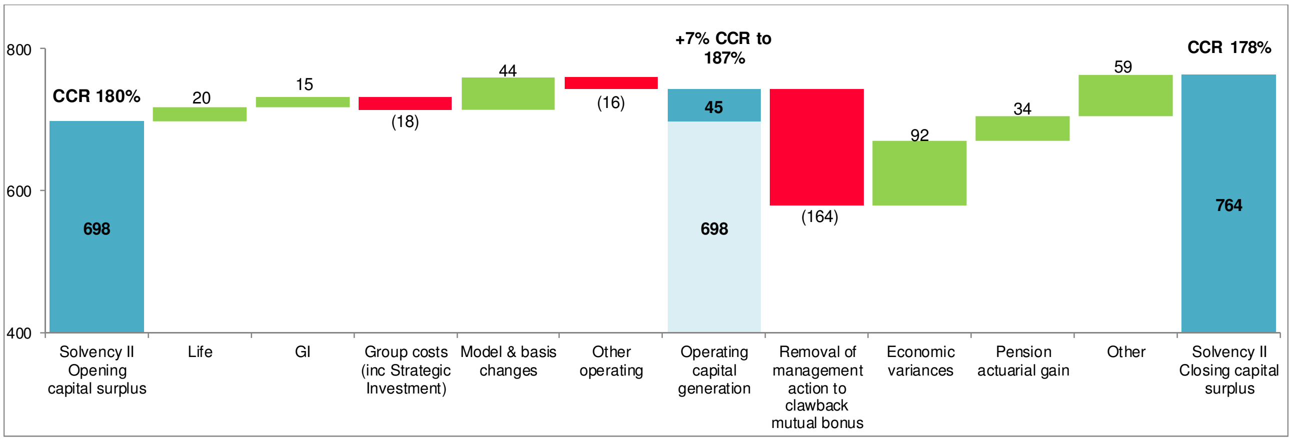
Our strategic partnership with Allianz, originally announced in August 2017, is progressing smoothly and we have recently begun the process of transferring the renewal rights for Allianz's personal lines business to LV=. I remain excited by the potential of the partnership and we continue to explore ways of working together.

One of the foundations of our success over the years has been the strength of the LV= brand and this remains in good health. We are particularly pleased to have won Best Technology Innovation of the Year with our partner Wealth Wizards at the Pensions Awards in May for our ground-breaking Robo-paraplanner tool, which automates the financial advice process for advisers. We then followed this up in June by being named the Most Trusted Life Insurance Provider at the Moneywise Awards for the sixth consecutive year. In a sector plagued by a lack of trust this is fantastic recognition of our passion to do the right thing for customers that our people display day in day out.

## GROUP FINANCE DIRECTOR'S STATEMENT

### Capital

**Capital surplus generation £m**




The capital position strengthened significantly during the first half of 2018; helped by positive operating capital generation from the Life and GI businesses of £45 million (+7% on CCR) including positive model and basis changes from a modelling improvement for our pensions business to better reflect policyholder behaviour post pension freedoms, and favourable economic conditions. As a result of the improved capital position we have decided to remove the benefit from the potential claw back of previously awarded mutual bonus (£164 million) from our reported capital position at HY 2018, improving the quality of our reported capital.

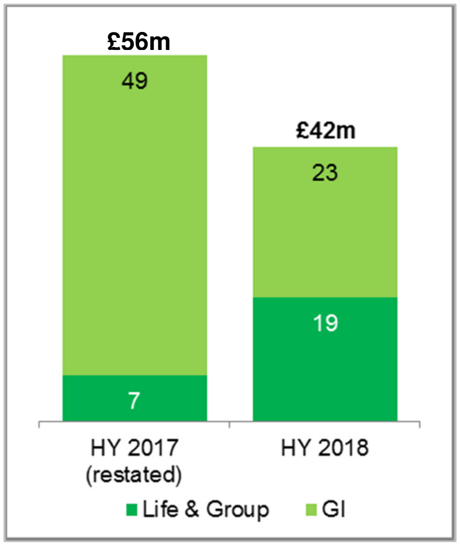
LV= reports using the Standard Formula approach to determine its regulatory capital, with Group surplus capital at 30 June 2018 of £764 million (FY 2017: £698 million) including the removal in H1 of the management action to claw back mutual bonus. This translates to a Capital Coverage Ratio at 30 June 2018 of 178% (FY 2017: 180%).

| £m | HY 2018 | FY 2017 |
|---|---|---|
| Eligible own funds | **1,746** | 1,567 |
| Solvency capital requirement | **982** | 869 |
| Surplus | **764** | 698 |
| Capital Coverage Ratio (CCR) | **178%** | 180% |

Eligible own funds include the positive benefit of TMTP* of £528 million. If a TMTP recalculation was performed at 30 June 2018, this would reduce the surplus by £107 million, resulting in a CCR of 167%.

*See definition on page 22

## Operating Profit

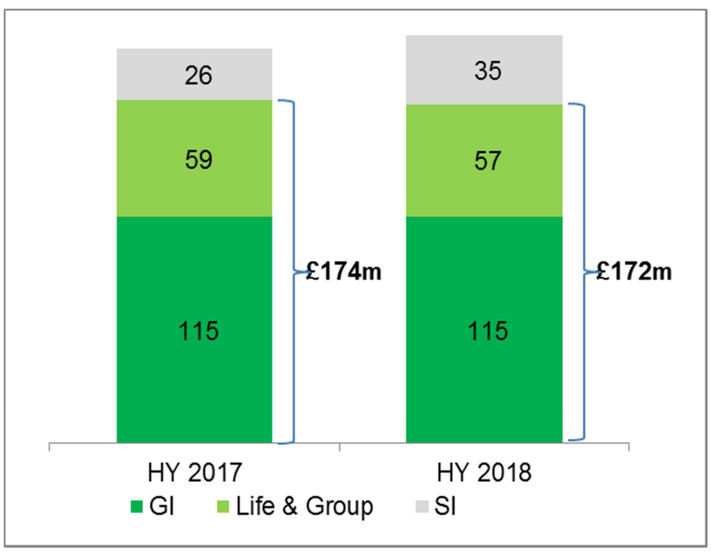



Overall operating profit of £42 million (HY 2017: £56 million) includes an encouraging £12 million increase in Life and Group operating profits, partly offsetting the £26 million reduction in the General Insurance result due to the bad weather in Q1. Life and Group operating profits of £19 million included £14 million of new business contribution and £19 million from model and basis changes, offset by strategic investment spend of £15 million.

Profit before tax* (see Appendix on page 8) of £42 million (HY 2017: £56 million) benefits from favourable short term investment fluctuations of £6 million (HY 2017: £14 million) and the impact of the GI transaction with Allianz of £7 million, partially offset by subordinated debt interest costs of £12 million which are in line with prior year.

Centrally managed costs are now included within Operating profit, HY 2017 has been restated accordingly with an impact of £10m reduction in Life & Group.
*See definition of Profit before tax on page 23.

## Expenses



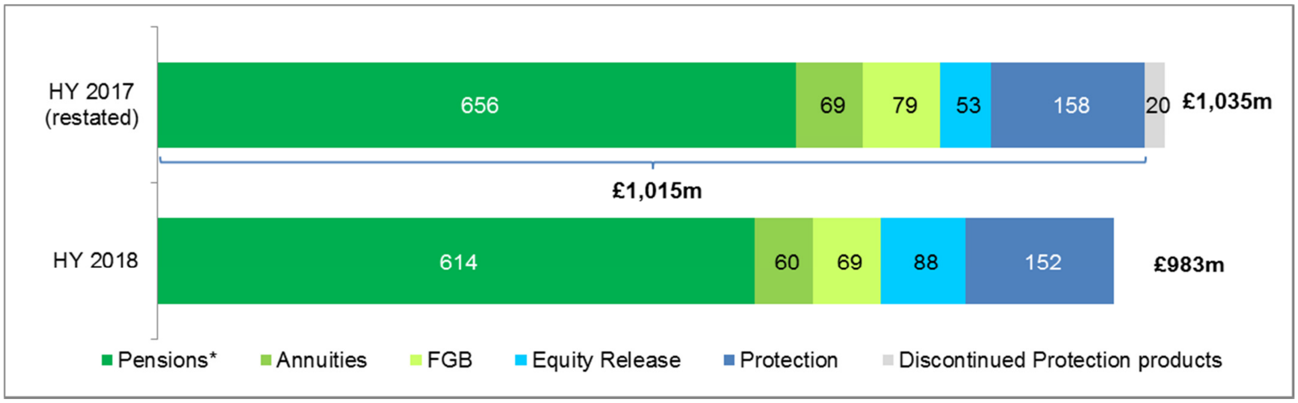

Continued good cost control has resulted in a further £2 million reduction in operating costs across Life and GI. Increased strategic investment spend has been incurred as we continue to invest for the future, nearing completion of the Pioneer re-platforming programme in GI.

## Liquidity

Over the past two years we have also been focused on strengthening our liquidity position and at 30 June 2018 this stands at £888 million (FY 2017: £947 million). Liquidity outflow of £59 million (HY 2017: £42 million) includes inflows from our trading businesses of £19 million offset by £23 million full year debt coupon, £18 million working capital changes and £37 million of one-off items and strategic costs.

## LIFE REVIEW

### PVNBP



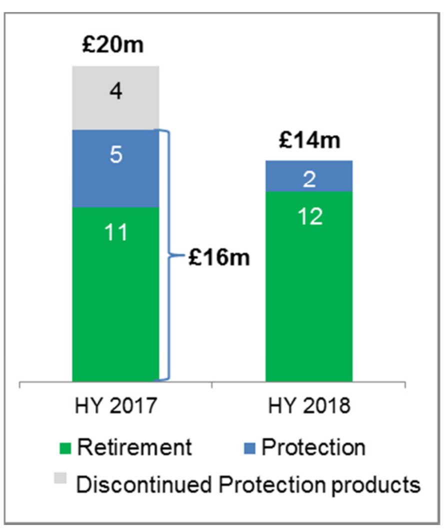

PVNBP is presented on a Solvency II basis adjusted to include future regular premiums on Pensions, HY 2017 has been restated by an increase of £26m.
* Flexible guarantee fund, our flexible guarantee bond sold within our pensions wrapper, is included within the pensions PVNBP (HY 2018: £141m, HY 2017: £119m).

Overall Life new business premiums were down 5% at £983 million (HY 2017: £1,035 million) on a PVNBP basis.

In Retirement, we have seen lower defined benefit to defined contribution transfers following record levels in 2017, with strong growth in equity release sales, up 66% to £88 million (HY 2017 £53 million) more than offsetting a reduction in annuities and flexible guarantee bonds. We expect the new contract for investment funds with Vanguard, for ten low cost index funds in our pension investment portfolio, to stimulate growth in the second half of the year.

During 2017 we took a number of management actions to improve the sustainability of our Protection business with the closure of our whole-of-life offering and also our mortgage and lifestyle protection product. This is reflected in an overall 15% fall in sales to £152 million (HY 2017: £178 million), with the mix of business also shifting towards term assurance. Individual income protection remains an attractive market and following management action, including a range of pricing changes, we expect to see growth in the second half of the year.

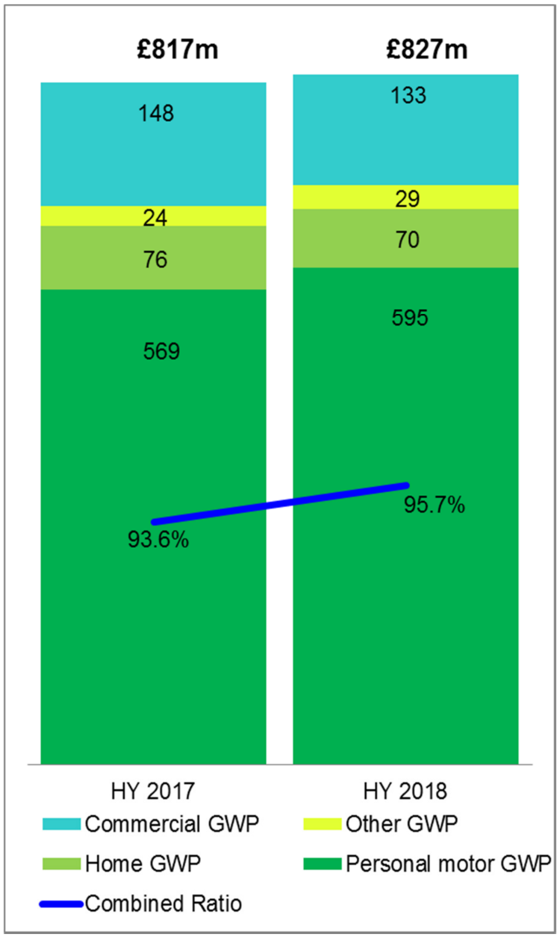
### New business contribution




New business contribution has reduced to £14 million (HY 2017: £20 million) with Retirement marginally up to £12 million and Protection down to £2 million. The reduction in Protection is due to a combination of £4 million from the exit from the higher margin but capital intensive 50+ product and £3 million from a change to the business mix which saw an increased proportion of sales of lower margin term-life assurance.

Operating profit has increased by £12 million to £19 million driven by a strong performance in Retirement Solutions which has benefited from a number of one off basis changes to more accurately reflect our pensions experience.

## GENERAL INSURANCE REVIEW




In the first six months of the year, the General Insurance business delivered underlying growth of 4%, excluding discontinued commercial business. Overall, premiums grew 1% to £827 million (HY 2017: £817 million). Growth has been driven by the Direct business where premiums have increased by 3% following the successful launch of our Multicar product backed by a high profile advertising campaign at the start of the year. The Broker business has reduced slightly by 1% pending the transfer of the commercial lines to Allianz in the second half of the year.

The transfer in of the Allianz personal home and motor business started successfully in May with the launch of five new Broker products across 1,400 brokers, of which around 150 are potential new partners for LV= General Insurance.

Operating profit of £23 million is lower than HY 2017 (£49 million) including a reduced underwriting result of £26 million (HY 2017 £39 million), as a result of increased claims from the poor weather at the start of the year with Storm Eleanor and the 'Beast from the East' resulting in £17 million of net claims. Investment returns were lower than last year by £13 million, mainly due to market movements on hedges protecting the Solvency II balance sheet. Excluding the impact of the bad weather and reduced investment returns - which are viewed as one-offs - the underlying operating profit is £55 million.

Prior year releases of £21 million are similar to those in 2017 HY (£23 million) and 2018 claims margin has been maintained in line with the revised methodology implemented at HY 2017. Overall this has resulted in a combined ratio of 95.7% (HY 2017: 93.6%).

The Civil Liability Bill, which if passed will introduce a new framework for setting the Ogden rate as well as tackle whiplash, has started its progress through the parliamentary process. We welcome the proposed changes and note the Ministry of Justice's view from last year that, if implemented at that time, it would have given a new rate in the range of 0% p.a. to +1% p.a. Pending this, we continue to reserve prudently at the current rate of -0.75% p.a. and stand by our commitment to pass 100% of any savings produced from such a change to our customers.

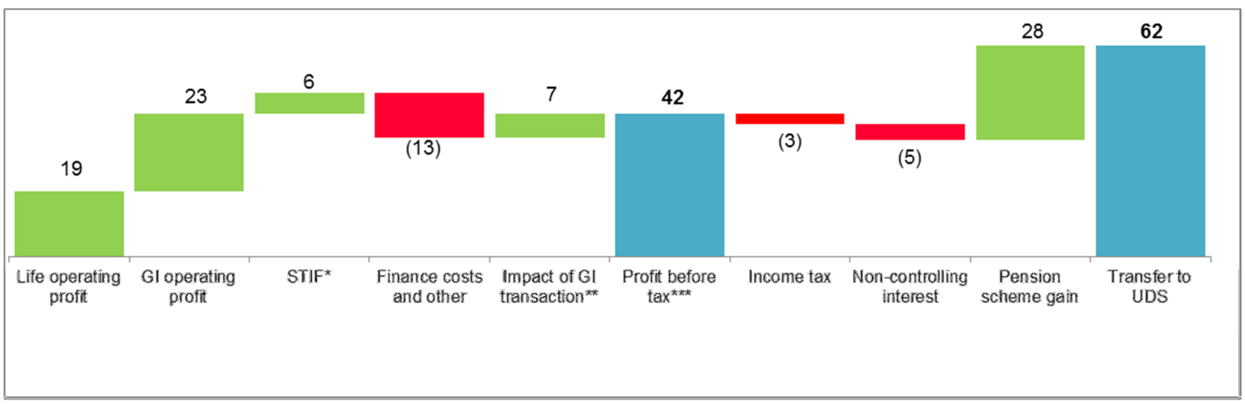
Our award winning service continues to attract and retain our customers with satisfaction levels remaining very high and our net promoter score is +69.4 (HY 2017: +64.4).

## OUTLOOK

We enter the second half of the year with both of our trading businesses in good health and a clear vision for the future. We will continue to maintain a tight grip on our costs while seeking to grow through a combination of good value products and the excellent customer service LV= is proudly famous for as we deliver on our vision of building a sustainable modern mutual.

## APPENDIX

### IFRS Surplus (UDS) generation £m




* Short-term investment fluctuations (STIF) includes a credit of £1m for tax deducted from policy asset shares, and the corresponding debit is presented in the tax charge.
** Included within the impact of the GI transaction is the credit associated with the increase in fair value of the derivative put option over the sale of the remaining equity stake in LVGIG. This is partially offset by £10m of costs associated with the transaction including restructuring of the Commercial business.
*** See definition of Profit before tax on page 23.

Disclaimer

Certain statements in this document may constitute "forward-looking statements". These statements reflect the Issuer's expectations and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described herein. You are cautioned not to rely on such forward-looking statements. The Issuer disclaims any obligation to update their view of such risks and uncertainties or to publicly announce the result of any revisions to the forward looking statements made herein, except where they would be required to do so under applicable law.

**LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED**

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**INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

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**FOR THE HALF YEAR ENDED 30 JUNE 2018**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED

Half year ended 30 June 2018

| | | Group | | |
|---|---|---|---|---|
| | | **HY 2018** | HY 2017 | FY 2017 |
| | Notes | **£m** | £m | £m |
| Gross earned premiums | 2 | **1,217** | 1,214 | 2,439 |
| Premiums ceded to reinsurers | 2 | **(305)** | (299) | (1,455) |
| **Net earned premiums** | 2 | **912** | 915 | 984 |
| Investment income | 3 | **175** | 191 | 374 |
| Net (losses)/gains on investments | 4 | **(106)** | 136 | 360 |
| Gain on sale of commercial business renewal rights | | **-** | - | 52 |
| Other income | 5 | **41** | 43 | 85 |
| **Total income** | | **1,022** | 1,285 | 1,855 |
| | | | | |
| Gross benefits and claims | 6 | **(1,022)** | (1,002) | (2,027) |
| Claims ceded to reinsurers | 6 | **243** | 223 | 535 |
| **Net benefits and claims** | 6 | **(779)** | (779) | (1,492) |
| | | | | |
| Gross change in contract liabilities | 7 | **90** | (255) | (590) |
| Change in long-term contract liabilities ceded to reinsurers | 7 | **(22)** | 73 | 1,035 |
| Change in non-participating value of in-force business | 7 | **18** | 13 | (30) |
| **Net change in contract liabilities, excluding mutual bonus before change in economic basis** | 7 | **86** | (169) | 415 |
| Change in economic basis | 7 | **-** | - | (48) |
| **Net change in contract liabilities, excluding mutual bonus** | 7 | **86** | (169) | 367 |
| | | | | |
| Gross operating and administrative expenses | 8 | **(312)** | (304) | (656) |
| Expenses recoverable from reinsurers | 8 | **37** | 35 | 72 |
| **Net operating and administrative expenses** | 8 | **(275)** | (269) | (584) |
| Finance costs | 9 | **(12)** | (12) | (24) |
| **Total other expenses** | | **(287)** | (281) | (608) |
| **Total benefits, claims and expenses, excluding mutual bonus** | | **(980)** | (1,229) | (1,733) |
| | | | | |
| **Profit before tax, mutual bonus and UDS transfer** | | **42** | 56 | 122 |
| | | | | |
| Mutual bonus | | **-** | (1) | (26) |
| Income tax expense | | **(3)** | (23) | (50) |
| (Profit)/loss attributable to non-controlling interest | 17 | **(5)** | 1 | 2 |
| Transfer to the Unallocated divisible surplus | | **(34)** | (33) | (48) |
| | | | | |
| **Profit for the period** | | **-** | **-** | **-** |
| | | | | |
| **Other comprehensive income:** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Re-measurements of defined benefit pension schemes | 10 | **28** | (2) | 19 |
| Transfer (to)/from the Unallocated divisible surplus | | **(28)** | 2 | (19) |
| **Total comprehensive income for the period** | | **-** | - | - |

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

The Group has not presented a Statement of Changes in Equity as there are no equity holders in the Group.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION - UNAUDITED

As at 30 June 2018

| | | Group | |
|---|---|---|---|
| | | **HY 2018** | FY 2017 |
| | Notes | **£m** | £m |
| **Assets** | | | |
| Pension benefit asset | 10 | **229** | 178 |
| Intangible assets | 11 | **317** | 315 |
| Property and equipment | | **37** | 37 |
| Investment properties | | **-** | 3 |
| Deferred acquisition costs | | **98** | 95 |
| Reinsurance assets | 14 | **2,286** | 2,305 |
| Prepayments and accrued income | | **135** | 124 |
| Loans and other receivables | | **334** | 258 |
| Insurance receivables | | **349** | 308 |
| Financial assets at fair value through income | 12 | **13,743** | 13,853 |
| Derivative financial instruments | 13 | **85** | 81 |
| Cash and cash equivalents (excluding bank overdrafts) | | **1,077** | 974 |
| **Total assets** | | **18,690** | 18,531 |
| | | | |
| **Liabilities** | | | |
| Unallocated divisible surplus | 16 | **1,251** | 1,189 |
| Participating insurance contract liabilities | 14 | **5,290** | 5,279 |
| Participating investment contract liabilities | 15 | **735** | 746 |
| Non-participating value of in-force business | | **(311)** | (293) |
| | | **6,965** | 6,921 |
| Non-participating insurance contract liabilities | 14 | **7,010** | 7,078 |
| Non-participating investment contract liabilities | 15 | **3,167** | 3,071 |
| | | **10,177** | 10,149 |
| Non-controlling interest | 17 | **378** | 373 |
| Deferred tax liability | | **115** | 97 |
| Provisions | | **20** | 20 |
| Subordinated liabilities | 18 | **358** | 358 |
| Derivative financial instruments | 13 | **202** | 193 |
| Other financial liabilities | | **64** | 62 |
| Corporation tax liability | | **6** | 20 |
| Insurance payables | | **56** | 50 |
| Trade and other payables | | **349** | 288 |
| **Total liabilities** | | **18,690** | 18,531 |

# CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

Half year ended 30 June 2018

| | | Group | | |
|---|---|---|---|---|
| | | **HY 2018** | HY 2017 | FY 2017 |
| | | **£m** | £m | £m |
| **Cash and cash equivalents at 1 January** | | **963** | 783 | 783 |
| **Cash flows arising from:** | | | | |
| **Operating activities** | | | | |
| Cash (used in)/generated from operating activities* | 19 | **(64)** | 138 | (735) |
| Net decrease in investments held at fair value through income | | **13** | 71 | 19 |
| Cash (used in)/generated from operating activities | | **(51)** | 209 | (716) |
| Proceeds from sale of investment properties | | **4** | - | 5 |
| Dividend income received | | **58** | 63 | 117 |
| Interest income received | | **140** | 156 | 303 |
| Utilisation of provisions | | **(2)** | (1) | (5) |
| Finance cost paid | | **-** | - | (1) |
| Income tax paid | | **(17)** | (16) | (13) |
| Net cash flows generated from/(used in) operating activities | | **132** | 411 | (310) |
| **Investing activities** | | | | |
| Net proceeds from purchase/sale of general insurance renewal rights | | **-** | - | 51 |
| Purchase of property, equipment and intangibles | | **(13)** | (15) | (38) |
| Net cash flows (used in)/generated from investing activities | | **(13)** | (15) | 13 |
| **Financing activities** | | | | |
| Proceeds from sale of stake in general insurance subsidiary | | **-** | - | 500 |
| Interest paid on subordinated debt | 18 | **(23)** | (23) | (23) |
| Net cash flows (used in)/generated from financing activities | | **(23)** | (23) | 477 |
| **Net increase in cash and cash equivalents** | | **96** | 373 | 180 |
| **Cash and cash equivalents at 30 June / 31 December** | | **1,059** | 1,156 | 963 |

* Cash (used in)/generated from operating activities is reported before movements in investments held at fair value through income.

**Cash and cash equivalents comprise:**

| | | | |
|---|---|---|---|
| Bank balances | **168** | 189 | 108 |
| Short-term bank deposits | **909** | 982 | 866 |
| **Cash and cash equivalents per the Statement of Financial Position** | **1,077** | 1,171 | 974 |
| Non-offsettable bank overdrafts | **(18)** | (15) | (11) |
| **Cash and cash equivalents per the Statement of Cash Flows** | **1,059** | 1,156 | 963 |

## 1. Basis of Preparation

The interim financial statements include the financial position and the results of operations of the Society and its subsidiaries (together the "Group") as at and for the six months ended 30 June 2018. The consolidated interim financial statements of the Group have been prepared in accordance with the recognition and measurement criteria of IFRS using the accounting policies that the Group expects to adopt for the 2018 year-end. The accounting policies adopted are consistent with those set out in the Group's Annual Report for the year ended 31 December 2017. The Group continues to adopt the going concern basis in preparing its interim financial statements.

The reporting rules applicable for the Group do not require compliance with the requirements of IAS 34 'Interim Financial Statements' and these consolidated interim financial statements have not been prepared in compliance with the disclosure requirements of that standard.

**New and amended standards adopted by the Group**
The following new and amended IFRSs have been adopted by the EU for accounting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and applies to non-insurance revenue, providing a principles-based approach for revenue recognition that is underpinned by the achievement of performance obligations. At 30 June 2018 £26m (HY 2017 £23m) of fee and commission income is in the scope of the standard, of which £11m (HY 2017 £11m) relates to asset management fees. The Group's previous accounting policy under IAS 18 for fee and commission income is consistent with the requirements of IFRS 15, and accordingly no adjustments or restatement of prior periods have been necessary. Disclosure of revenue from contracts with customers is included in Note 5.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' clarifies that advanced payments for goods or services should be recognised using the spot rate on the date of the advanced payment / receipt and not retranslated at the date that the associated IFRS balance is recognised. This is consistent with how such transactions are accounted for by the Group, therefore this amendment does not impact the interim financial statements.

IFRS 4 'Insurance contracts' has been amended to include two approaches that can be applied by eligible insurers to address concerns arising from the different effective dates of IFRS 9 'Financial instruments' and IFRS 17 'Insurance contracts'; the overlay approach and the temporary exemption from IFRS 9 until adoption of IFRS 17. The Group and the Society are eligible insurers and have adopted the temporary exemption from IFRS 9 due to the uncertainty regarding accounting for insurance contracts and the impact of this upon the classification of financial assets. Adoption of this amendment avoids the potential material impact that IFRS 9 would have on the interim financial statements.

IAS 28 'Investments in Associates and Joint Ventures' has been amended to clarify that the option to account for investments in associates at fair value through Profit or loss where these investments are held by mutual funds, such as the Society, can be made separately for each investment, upon acquisition of each investment. Currently the Group has one such investment, and this is accounted for at Fair value through Profit or loss. As part of the general insurance transaction with Allianz, the group has a forward contract to sell a further 20.9% equity stake in LVGIG to Allianz by 31 December 2019, resulting in a remaining minority interest held by the Group. This amendment to IAS 28 clarifies that the Group will have the choice of whether to account for any retained investment in an associate using the equity method, or at Fair value through Profit or loss.

IAS 40 'Investment Property' has been amended to clarify the circumstances under which a transfer to / from investment property has occurred. The only investment property held by the Group has been disposed of during 2018; therefore this amendment has no impact.

The IASB effective date for the amendment to IFRS 12 'Disclosure of Interests in Other Entities' was 1 January 2017 however it was adopted by the EU on 7 February 2018 and has therefore been adopted by the Group in 2018. IFRS 12 has been amended to clarify that even though entities are not required to present summarised financial information for investments that are classified as held for sale in accordance with IFRS 5, entities are still required to present all other information required by IFRS 12 for such investments. This amendment will be relevant for the disclosures of the Group's investment in the general insurance subsidiaries as these are expected to be presented as held for sale in the year-end financial statements.

These amendments have been adopted by the Group but do not have a material impact on the 2018 interim financial statements.

The Interim financial statements (including the related notes) for the six months to 30 June 2018 and 2017 are unaudited. The IFRS financial information for the full year 2017 has been taken from the Group's 2017 Annual Report. The auditors have reported on the 2017 Annual Report and their report was unqualified and did not contain a statement under section 73 of the Friendly Societies Act 1992.

## 2. Net earned premiums

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Gross earned premiums** | | | |
| **Long-term insurance and participating investment contracts** | | | |
| **Single premium** | | | |
| **New business** | | | |
| Investments and savings | **211** | 199 | 420 |
| Pensions and annuities | **74** | 88 | 151 |
| **Regular premium** | | | |
| **New business** | | | |
| Life and health protection | **17** | 19 | 37 |
| **Existing in-force business** | | | |
| Investments and savings | **14** | 17 | 33 |
| Pensions and annuities | **4** | 5 | 9 |
| Life and health protection | **96** | 89 | 185 |
| **General insurance contracts** | | | |
| Motor | **575** | 550 | 1,081 |
| Commercial | **133** | 148 | 283 |
| Home | **67** | 73 | 143 |
| Other | **52** | 46 | 89 |
| Change in unearned premiums provision | **(26)** | (20) | 8 |
| Gross earned premiums | **1,217** | 1,214 | 2,439 |
| **Premiums ceded to reinsurers** | | | |
| Long-term insurance premiums | **(114)** | (118) | (1,092) |
| General insurance business | **(184)** | (174) | (361) |
| Change in unearned premiums provision | **(7)** | (7) | (2) |
| | **(305)** | (299) | (1,455) |
| Net earned premiums | **912** | 915 | 984 |
| Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above | **259** | 361 | 656 |

## 3. Investment income

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Income from investments at fair value through income:** | | | |
| - Dividend income | **58** | 63 | 117 |
| - Interest income from debt and fixed interest securities | **93** | 106 | 210 |
| - Interest on loans secured on residential property | **17** | 18 | 36 |
| - Interest on loans secured on commercial property | **4** | 3 | 9 |
| Interest on loans and receivables | **3** | 1 | 2 |
| | **175** | 191 | 374 |

## 4. Net (losses)/gains on investments

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| Investment properties | **1** | - | 3 |
| **Investments at fair value through income:** | | | |
| - Debt securities | **(113)** | (31) | (28) |
| - Equity securities | **31** | 238 | 430 |
| - Derivatives at fair value through income | **(10)** | (66) | (52) |
| - Loans and mortgages | **(12)** | (5) | 4 |
| - Other | **(3)** | - | 3 |
| | **(106)** | 136 | 360 |

Included within net gains on investments are realised gains of £123m (HY 2017: £157m).

Included within Derivatives at fair value through income is a gain of £17m relating to the valuation of a put option over the sale of the Group's remaining equity stake in LVGIG.

## 5. Other income

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Revenue from contracts with customers** | | | |
| Fee and commission income | **26** | 23 | 45 |
| | **26** | 23 | 45 |
| **Other income from insurance contracts** | | | |
| Interest income | **14** | 16 | 32 |
| Profit commission | **1** | 4 | 8 |
| | **15** | 20 | 40 |
| | **41** | 43 | 85 |

## 6. Net benefits and claims

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Gross benefits and claims** | | | |
| **Long-term insurance and participating investment contracts** | | | |
| Benefits and claims paid | **446** | 445 | 868 |
| Change in the provision for claims | **9** | 4 | 4 |
| **General insurance contracts** | | | |
| Claims paid | **529** | 515 | 1,010 |
| Claims handling costs | **32** | 33 | 65 |
| Change in the provision for claims | **6** | 5 | 80 |
| | **1,022** | 1,002 | 2,027 |
| **Claims ceded to reinsurers** | | | |
| **Long-term insurance and participating investment contracts** | | | |
| Benefits and claims paid | **(113)** | (109) | (237) |
| Reinsurance receivables | **(3)** | - | - |
| **General insurance contracts** | | | |
| Claims paid | **(117)** | (111) | (227) |
| Change in the provision for claims | **(10)** | (3) | (71) |
| | **(243)** | (223) | (535) |
| Net benefits and claims | **779** | 779 | 1,492 |
| Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above | **182** | 176 | 366 |

## 7. Net change in long-term contract liabilities and non-participating value of in-force business

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Gross decrease/(increase) in long-term contract liabilities** | | | |
| Increase in long-term insurance contract liabilities - participating | **(11)** | (66) | (191) |
| Decrease/(increase) in investment contract liabilities - participating | **11** | (41) | (51) |
| Decrease/(increase) in long-term insurance contract liabilities - non-participating | **99** | (29) | (117) |
| Increase in investment contract liabilities - non-participating | **(19)** | (112) | (234) |
| Decrease/(increase) in long-term linked insurance contract liabilities | **10** | (8) | (23) |
| | **90** | (256) | (616) |
| Mutual bonus | **-** | 1 | 26 |
| | **90** | (255) | (590) |
| **(Decrease)/increase in long-term contract liabilities ceded to reinsurers** | | | |
| Increase in long-term insurance contract liabilities relating to non-participating contracts | **24** | 65 | 143 |
| (Decrease)/increase in long-term insurance contract liabilities relating to participating contracts | **(40)** | - | 857 |
| (Decrease)/increase in long-term linked insurance contract liabilities | **(6)** | 8 | 35 |
| | **(22)** | 73 | 1,035 |
| **Increase/(decrease) in non-participating value of in-force business** | **18** | 13 | (30) |
| **Net change in contract liabilities before change in economic basis** | **86** | (169) | 415 |
| Change in economic basis | **-** | - | (48) |
| **Net change in contract liabilities** | **86** | (169) | 367 |

## 8. Operating and administrative expenses

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| Commission paid on acquisition of business | **99** | 104 | 201 |
| Movement in deferred acquisition costs | **(3)** | 1 | 7 |
| Amortisation and impairment of intangible assets | **8** | 5 | 13 |
| Depreciation on property and equipment | **3** | 3 | 7 |
| Loss on disposal of property and equipment | **-** | - | 1 |
| Investment management expenses and charges | **6** | 6 | 17 |
| Auditors' remuneration | **1** | 1 | 2 |
| Employee benefit expense | **126** | 121 | 255 |
| Internal staff costs capitalised as attributable costs of IT assets | **(2)** | (8) | (16) |
| Rent, rate and other facilities expense | **8** | 10 | 20 |
| Marketing and advertising | **15** | 13 | 27 |
| Other staff costs | **20** | 20 | 48 |
| IT costs | **20** | 19 | 40 |
| Fees | **39** | 38 | 85 |
| Other expenses | **6** | 7 | 18 |
| Claims handling cost recognised in Gross benefits and claims | **(34)** | (36) | (69) |
| Gross operating and administrative expenses | **312** | 304 | 656 |
| Expenses recoverable from reinsurers* | **(37)** | (35) | (72) |
| Net operating and administrative expenses | **275** | 269 | 584 |

* Expenses recoverable from reinsurers represents 20% of the costs of the general insurance business which are borne by reinsurers as part of the Quota Share agreement.

## 9. Finance costs

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| Interest payable on subordinated liabilities (see Note 18) | **12** | 12 | 23 |
| Other interest payable | **-** | - | 1 |
| | **12** | 12 | 24 |

## 10. Pension benefit asset

| | **HY 2018** | | | | FY 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **LV Scheme** | **Ockham** | **Teachers** | **Total** | LV Scheme | Ockham | Teachers | Total |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Asset | **214** | **15** | **-** | **229** | 163 | 15 | - | 178 |
| | **214** | **15** | **-** | **229** | 163 | 15 | - | 178 |

| **Re-measurements** | **HY 2018** | | | | FY 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **LV Scheme** | **Ockham** | **Teachers** | **Total** | LV Scheme | Ockham | Teachers | Total |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Re-measurements | **46** | **-** | **-** | **46** | 40 | (5) | - | 35 |
| Income tax expense | **(18)** | **-** | **-** | **(18)** | (17) | 1 | - | (16) |
| **Amount charged to Total comprehensive income** | **28** | **-** | **-** | **28** | 23 | (4) | - | 19 |
| **Cumulative re-measurements recognised in the Statement of Comprehensive Income** | **239** | **(10)** | **-** | **229** | 193 | (10) | - | 183 |

Recognising the asset under the current criteria of IFRIC 14, 'The limit on a defined benefit asset, minimum funding requirement and their interaction' is allowable for both the LV and Ockham Pension Schemes because the terms of the pension scheme trust deeds state that the Society has an unconditional right to any assets of the schemes which ultimately remain following the schemes' termination, assuming the gradual settlement of the scheme liabilities over time until all members have left the schemes. However this is not the case for the trust deed of the Teachers Assurance Group Pension Scheme, so the asset for this scheme is not recognised.

## 11. Intangible assets

| Group | Goodwill £m | Software and licence costs £m | Other intangible assets £m | Total £m |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2018 | **241** | **95** | **55** | **391** |
| Additions | **-** | **10** | **-** | **10** |
| **At 30 June 2018** | **241** | **105** | **55** | **401** |
| | | | | |
| **Accumulated amortisation:** | | | | |
| At 1 January 2018 | **21** | **15** | **40** | **76** |
| Charge for the period | **-** | **6** | **2** | **8** |
| **At 30 June 2018** | **21** | **21** | **42** | **84** |
| | | | | |
| **Net book value at 30 June 2018** | **220** | **84** | **13** | **317** |
| | | | | |
| Cost: | | | | |
| At 1 January 2017 | 241 | 59 | 54 | 354 |
| Acquired through business combinations | - | - | 1 | 1 |
| Additions | - | 36 | - | 36 |
| At 31 December 2017 | 241 | 95 | 55 | 391 |
| | | | | |
| Accumulated amortisation: | | | | |
| At 1 January 2017 | 21 | 5 | 37 | 63 |
| Charge for the year | - | 8 | 3 | 11 |
| Impairment in year | - | 2 | - | 2 |
| At 31 December 2017 | 21 | 15 | 40 | 76 |
| | | | | |
| Net book value at 31 December 2017 | 220 | 80 | 15 | 315 |

## 12. Financial assets at fair value through income

| | Group | |
|---|---|---|
| | **HY 2018 £m** | FY 2017 £m |
| Shares, other variable yield securities and units in unit trusts | | |
| – UK listed | **7,693** | 7,629 |
| – UK unlisted | **91** | 91 |
| – Overseas listed | **124** | 117 |
| – Overseas unlisted | **41** | 42 |
| | | |
| Debt and other fixed income securities | | |
| – UK listed | **2,876** | 3,032 |
| – Overseas listed | **2,051** | 2,072 |
| | | |
| Loans secured on residential property | **650** | 667 |
| Loans secured on commercial property | **217** | 200 |
| Other | **-** | 3 |
| | **13,743** | 13,853 |
| | | |
| Assets held to cover linked liabilities included above | **3,222** | 3,130 |

The Directors of Liverpool Victoria General Insurance Group ('LVGIG') within the LV= Group have been reviewing its strategic asset allocation and consequently the accounting policies the business could apply in recognising its financial investments. Going forward the business expects to designate certain newly purchased financial investments as available for sale meaning that any fair value movements in these available for sale investments will be accounted for in Other Comprehensive Income. This is expected to reduce the level of volatility currently experienced through the Income Statement as all investments are currently designated at fair value through profit and loss.

## 13. Derivative financial instruments

| | HY 2018 | | | FY 2017 | | |
|---|---|---|---|---|---|---|
| | Contract/ notional amount | Fair value - asset | Fair value - liability | Contract/ notional amount | Fair value - asset | Fair value - liability |
| **Group** | £m | £m | £m | £m | £m | £m |
| Interest rate swaps | **792** | **58** | **(17)** | 811 | 69 | (4) |
| Gilt forwards | **571** | **3** | **-** | 624 | 4 | - |
| Cash flow swaps | **1,053** | **-** | **(185)** | 1,070 | - | (186) |
| Swaptions | **76** | **1** | **-** | 87 | 1 | - |
| Forward exchange contracts | **2** | **-** | **-** | 2 | - | - |
| Equity/index derivatives | **737** | **23** | **-** | 211 | 7 | (3) |
| | **3,231** | **85** | **(202)** | 2,805 | 81 | (193) |

Included within Equity/index derivatives is an asset of £17m relating to the valuation of a put option over the sale of the Group's remaining equity stake in LVGIG.

## 14. Insurance contract liabilities

**Analysis of insurance contract liabilities and reinsurance assets**

| | HY 2018 | | | FY 2017 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| **Group** | £m | £m | £m | £m | £m | £m |
| **Participating insurance contract liabilities** | | | | | | |
| Long-term insurance contract liabilities | **5,290** | **-** | **5,290** | 5,279 | - | 5,279 |
| **Non-participating insurance contract liabilities** | | | | | | |
| Reinsurance relating to participating contracts | **-** | **(893)** | **(893)** | - | (933) | (933) |
| Long-term insurance contract liabilities | **4,272** | **(668)** | **3,604** | 4,371 | (644) | 3,727 |
| Long-term linked insurance contract liabilities | **219** | **(164)** | **55** | 229 | (170) | 59 |
| Long-term claims liabilities | **59** | **-** | **59** | 50 | - | 50 |
| | **4,550** | **(1,725)** | **2,825** | 4,650 | (1,747) | 2,903 |
| General insurance unearned premiums | **811** | **(8)** | **803** | 785 | (15) | 770 |
| General insurance claims liabilities | **1,649** | **(553)** | **1,096** | 1,643 | (543) | 1,100 |
| | **2,460** | **(561)** | **1,899** | 2,428 | (558) | 1,870 |
| | **7,010** | **(2,286)** | **4,724** | 7,078 | (2,305) | 4,773 |

## 15. Investment contract liabilities

| | Group | |
|---|---|---|
| | **HY 2018** | FY 2017 |
| | **£m** | £m |
| Non-participating investment contract liabilities | **3,167** | 3,071 |
| Participating investment contract liabilities | **735** | 746 |
| | **3,902** | 3,817 |

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.

## 16. Unallocated divisible surplus

| | Group | |
|---|---|---|
| | **HY 2018** | FY 2017 |
| | **£m** | £m |
| Balance at 1 January | **1,189** | 998 |
| Transfer included within profit for the period | **34** | 48 |
| Transfer included within other comprehensive income | **28** | 19 |
| Gain on sale of non-controlling interest in LVGIG | **-** | 124 |
| **Balance at 30 June** / 31 December | **1,251** | 1,189 |

## 17. Non-controlling interest

| | **LVGIG Group** | **Wealth Wizards Group** | **Total** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Balance at 1 January 2018 | **376** | **(3)** | **373** |
| Profit/(loss) after tax | **6** | **(1)** | **5** |
| **Balance at 30 June 2018** | **382** | **(4)** | **378** |
| | | | |
| Balance at 1 January 2017 | - | (1) | (1) |
| Initial recognition of non-controlling interest on sale of LVGIG stake | 376 | - | 376 |
| Loss after tax | - | (2) | (2) |
| Balance at 31 December 2017 | 376 | (3) | 373 |

## 18. Subordinated liabilities

| | Group | |
|---|---|---|
| | **HY 2018** | FY 2017 |
| | **£m** | £m |
| Subordinated notes (GBP 350m) | **348** | 348 |
| Subordinated notes (EUR 12m) | **10** | 10 |
| | **358** | 358 |

In 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 basis over the period to the first call date in 2023. The effective interest rate of the £350m liability is 6.654% resulting in a £12m finance charge for the six months to June 2018 (see Note 9).

The Notes have a maturity date of 22 May 2043 but the issuer has the option to redeem the Notes at the first call date of 22 May 2023 and at five yearly intervals thereafter up to the maturity date.

Interest is payable on the Notes at a fixed rate of 6.5% (£23m) per annum for the period until the first call date on 22 May 2023, payable annually in arrears on 22 May each year. If the Notes are not redeemed on 22 May 2023, the interest rate is reset on that date and at five yearly intervals thereafter at a rate equal to the five year gilt rate quoted on the day before the reset date plus an initial margin of 463 basis points and a step up margin of 100 basis points.

The €12m Subordinated Notes are issued by a subsidiary undertaking and are repayable in 2034. Interest on these Notes is payable at the three month euro deposit rate plus a margin of 365 basis points.

## 19. Cash (used in)/generated from operating activities

| | Group | | |
|---|---|---|---|
| | **HY 2018** | HY 2017 | FY 2017 |
| | **£m** | £m | £m |
| **Profit before tax, mutual bonus and UDS transfer** | **42** | 56 | 122 |
| Investment income | **(175)** | (191) | (374) |
| Other interest income | **(14)** | (16) | (32) |
| Net losses/(gains) on investments | **106** | (136) | (360) |
| Finance costs | **12** | 12 | 24 |
| Gain on sale of commercial business renewal rights | **-** | - | (52) |
| Net increase in derivatives | **(5)** | (55) | (20) |
| **Non-cash items** | | | |
| Movement in deferred acquisition costs | **(3)** | 1 | 7 |
| Amortisation of intangible assets | **8** | 5 | 11 |
| Depreciation on property and equipment | **3** | 3 | 7 |
| Loss on disposal of property and equipment | **-** | - | 1 |
| Impairment of intangible assets | **-** | - | 2 |
| Increase/(decrease) in provisions | **2** | (2) | 13 |
| Increase in pension benefit asset | **(5)** | (4) | (9) |
| Mutual bonus | **-** | (1) | (26) |
| **Changes in working capital** | | | |
| (Increase)/decrease in loans and receivables | **(76)** | (36) | 33 |
| Decrease/(increase) in reinsurance assets | **19** | (69) | (1,215) |
| Increase in insurance receivables | **(41)** | (33) | (15) |
| (Increase)/decrease in other prepayments and accrued income | **(20)** | (1) | 2 |
| Increase in participating insurance contract liabilities | **11** | 66 | 280 |
| (Decrease)/increase in non-participating insurance contract liabilities | **(68)** | 66 | 280 |
| (Increase)/decrease in non-participating value of in-force business | **(18)** | (13) | 31 |
| (Decrease)/increase in participating investment contract liabilities | **(11)** | 41 | 56 |
| Increase in non-participating investment contract liabilities | **96** | 297 | 524 |
| Increase in subordinated liabilities | **-** | 1 | 1 |
| Increase/(decrease) in other financial liabilities | **2** | 3 | (54) |
| Increase/(decrease) in insurance payables | **6** | (2) | (1) |
| Increase in trade and other payables | **65** | 146 | 29 |
| **Cash (used in)/generated from operating activities*** | **(64)** | 138 | (735) |

* Cash (used in)/generated from operating activities is reported before movements in investments held at fair value through income.

## Glossary

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

**Best Estimate Liability (BEL):** The expected cost of future policyholder claims and expenses. This is net of expected future income from these policies such as premiums and charges. Calculations are on a best estimate basis, and are discounted using a regulatory risk free discount rate (adjusted as permitted).

**Capital Coverage Ratio (CCR):** Solvency II capital based metric calculated as Eligible own funds divided by Solvency Capital Requirement (SCR).

**Capital surplus:** The group capital surplus is calculated as the excess of the eligible own funds above the Solvency Capital Requirement (SCR). Calculations are based on the Standard Formula approach using the Volatility and Matching Adjustment (for eligible business) and level of TMTP consistent with the most official recalculation performed.

**Claims margin:** Within general insurance IFRS reserves a margin is held above the BEL to allow for risk and uncertainty in the estimates of claims reserves.

**Eligible own funds:** The amount of capital resources that we have to cover the SCR. This includes the excess of assets over liabilities (excluding the subordinated debt) in the Solvency II balance sheet and is subject to tier restrictions.

**Equity release:** A lifetime mortgage where interest is added to the loan which is repaid using the proceeds of the sale of the property when the borrower dies or enters permanent residential care.

**FGB:** Flexible Guarantee Bond

**Gross Written Premiums (GWP):** Reflects business coming into force during the year and is reported before deduction for unearned premiums and premiums ceded to reinsurers.

**International Financial Reporting Standards (IFRS):** Accounting standards issued by the International Accounting Standards Board (IASB). Our financial statements are prepared in accordance with IFRS as endorsed by the EU.

**LVFS**: Liverpool Victoria Friendly Society.

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

**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.

**Ogden discount rate:** The legislated rate used to calculate awards for bodily injury claims that are taken as a lump sum.

**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.

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

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

**Risk Margin (RM):** The opportunity cost of holding regulatory capital for existing business. This is an amount of capital that is held above the BEL against non-hedgeable risks associated with supporting the business.

**Solvency II (SII):** The capital adequacy regime for the European insurance industry that establishes a comprehensive framework for insurance supervision and regulation. This strengthens protection for policyholders by ensuring that companies allocate enough capital to cover all the risks in their business.

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

**Transition (TMTP):** Transitional Measures on Technical Provisions provides transitional relief over a 16 year period from the inception of SII to smooth the impact of the higher technical provisions associated with SII.

**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.

## Use of non-GAAP* measures

| Non-GAAP measure | Why we use a non-GAAP measure | Definition |
|---|---|---|
| **Operating capital generation** | Strengthening our capital position has been a key priority for the group over recent years. Operating capital generation is included as the primary KPI and reflects how management are monitoring the performance of the business. Capital generation is based on the Solvency II surplus capital generated from our business operations. | Capital generation is based on the Solvency II surplus capital generated from our business operations and presented after the impact of strategic projects and financing costs.<br>Operating capital generation is Capital generation adjusted to remove the effects of temporary volatility from market movements and the static nature of TMTP, changes in defined benefit pension schemes and exceptional items. |
| **Profit before tax** | Because LV= is a mutual, any remaining profit is transferred to the Unallocated divisible surplus, leaving a final balance for profit each year of £nil. This would mean that if we applied the strict GAAP definition our profit before tax would simply be equal and opposite to our tax charge. We believe that this is not a meaningful presentation for users and we therefore provide an alternative measure for profit before tax which allows meaningful comparisons with the profit before tax disclosed by other proprietary companies. | Our measure of profit before tax is defined as profit before tax, mutual bonus allocated, and transfer to Unallocated divisible surplus. This definition allows meaningful comparisons with the profit before tax disclosed by other companies. |
| **Operating profit** | Operating profit is the key performance measure for IFRS profitability for the LV= life & group and general insurance businesses. This measure provides useful information regarding the financial performance of the group as it represents management's view of the performance of the business. 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 is defined as profit before tax adjusted for short-term investment fluctuations, gain on acquisitions / disposals, finance costs and amortisation or impairment of acquired intangibles.<br>Previously Centrally managed costs were excluded from operating profit. This is replaced with Strategic Investment which is reported as part of Operating profit in order to support management's focus on cost control. |
| **Short-term investment fluctuations (STIF)** | Short-term investment fluctuations are presented outside of operating profit for the life business in order to exclude the impact of temporary volatility. This includes the impact of tax charge deducted from policy asset shares and the RNPFN fund. | Unmatched movements in the value of investment assets or liabilities are reported in short-term investment fluctuations. |
| **Investment performance %** | Provides a measure of the performance of the investment strategy. The performance of the with-profits fund drives the returns to our members. Within general insurance, this measure allows management to monitor the investment performance and make changes to the strategy as necessary. | Investment performance is expressed as a percentage of average funds under management within the main LVFS with-profits fund. |
| **Operational liquidity** | Certain liquid assets reported in the Statement of Financial Position are required to match reserves and therefore do not provide a true measure of the available liquidity of the group i.e. the 'free' funds available to meet its obligations as they fall due. | 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). This excludes amounts attributable to the RNPFN and Teachers ring-fenced funds and is not directly reconcilable to the group's IFRS Statement of Cash Flows. |

## Use of non-GAAP* measures (continued)

| Non-GAAP measure | Why we use a non-GAAP measure | Definition |
|---|---|---|
| **General insurance** | | |
| **Loss ratio** | The loss ratio is the ratio of incurred losses to Net earned premiums. The loss ratio enables management to monitor general insurance product performance by comparing the level of earned premiums with incurred claims. | The ratio of Net benefits and claims to Net earned premiums. |
| **Expense ratio** | The expense ratio is the ratio of the expenses associated with acquiring, underwriting and servicing insurance contracts to Net earned premiums. The expense ratio provides a measure of cost efficiency of the general insurance business. | The ratio of general insurance Other expenses net of Other income to Net earned premiums. |
| **Combined ratio** | The combined ratio is the ratio of incurred losses and expenses to Net earned premiums. The combined ratio provides a barometer for underwriting profit. | The total of the Loss ratio plus the Expense ratio. |
| **Life** | | |
| **Present value of new business premiums (PVNBP)** | PVNBP provides a measure of the value of new business written in the year that is more useful than IFRS new business premiums as it includes the present value of the regular premiums we expect to receive over the term of contracts sold in the year. | PVNBP is presented on a Solvency II basis adjusted to include future regular premiums on Pensions.<br>Previously PVNBP was presented on an IFRS basis which added a product-specific risk margin to the risk-free curve used to discount future expected regular premiums.<br>The change from an IFRS based to a SII based measure aligns the reported non-GAAP measure with that reported to the Chief Operating Decision Maker (CODM) in management reporting. |
| **New business contribution** | The contribution to operating profit as a result of new business written on a PVNBP basis provides a measure of profit generated by management actions during the year, rather than from in-force business. | The contribution to underlying operating profit as a result of new business written. This is reported gross of cost of capital and includes the value-add on new business, including pricing valuation differences, and deduction for expense overruns. |

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