**LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED**

---

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

---

**FOR THE HALF YEAR ENDED 30 JUNE 2017**

# LV= Interim Results Announcement 2017

## STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Announced landmark strategic partnership with Allianz.
- Group capital position improved.
- Profitable growth reflecting improved efficiency, our strong underwriting discipline in general insurance and our focus on capital efficient new business contribution in life.
- Continued investment in digital initiatives with launch of robo para-planner in conjunction with Wealth Wizards, roll out of Fastway quote and apply system in protection and go live of Pioneer policy admin system in general insurance.
- Launched refreshed strategy including cost reduction programme, targeting a £40m reduction in group costs by 2018.
- As part of an effective succession planning process appointed Alan Cook as chairman, Andy Parsons as group finance director and John Perks as managing director, life & pensions.
- Named Insurance Provider of the Year at the Which Awards 2017, remained YouGov's most recommended insurer for the third year and voted Most Trusted Insurer for the second year at the Moneywise Awards.

## FINANCIAL HIGHLIGHTS

| | |
|---|---|
| **LV= Group Operating profit*** | Operating profit from trading operations up 58% to £82m (HY 2016: £52m) |
| **General insurance** | General insurance gross written premiums up 4% to £817m (HY 2016: £785m)<br>General insurance operating profit up 123% to £49m (HY 2016: £22m) |
| **Life** | Life business PVNBP** sales up 8% to £1,009m (HY 2016: £935m***)<br>Life operating profit up 18% to £33m (HY 2016: £28m) |
| **Expenses** | Group gross expenses down 6% to £200m (HY 2016: £212m) |
| **LV= Group Profit before tax** | Profit before tax for the group up to £56m (HY 2016: £1m) |
| **Capital** | Group Solvency II capital coverage ratio up to 153% (FY 2016: 140%) |
| **Operational Liquidity outflow** | LVFS operational liquidity outflow of £10m (HY 2016: £38m) |
| **With-profits return** | Return on the main LV= with-profits fund of 3.74% against benchmark of 3.66% (HY 2016: 8.08% against benchmark of 9.03%) |

* Operating profit is a non-GAAP measure; see definition and explanation of non-GAAP measures on page 22.
** PVNBP Present value of new business premiums.
*** Life sales exclude the enhanced annuities (HY 2016: £74m) which were discontinued in 2016.

## Group Chief Executive's statement

The group has delivered a very strong trading performance in the first six months of the year with overall steady sales growth in both general insurance and life and an increase in operating profit from our trading businesses of 58% to £82m (HY 2016: £52m) as we delivered on our strategy of growing our business through customer excellence, while maintaining a clear focus on cost and underwriting discipline.

I am particularly pleased that this strong performance is reflected across both of our trading businesses. In general insurance we have successfully managed the impact of the Ogden discount rate change and premiums are up 4% to £817m (HY 2016: £785m) and the combined operating ratio has improved to 93.6% (HY 2016: 98.5%) reflecting our improved efficiency and productivity in pricing and underwriting. Across life we delivered an increased operating profit, up 18% to £33m (HY 2016: £28m), and an 8% increase in new business sales to £1,009m, excluding enhanced annuities which we exited in 2016.

Over the last 2 years we have invested over £80m in improving our core systems and developing new digital propositions such as our robo-advice service, Retirement Wizard. Our continued investment in digital initiatives is enabling us to both reduce costs and improve productivity. At the same time we are improving customer satisfaction levels and we remain the UK's most trusted, most recommended and best loved insurer. This combination of factors underpins the growth in both our trading businesses and together with the significant capital strengthening actions underway leaves the group well positioned for the future.

Since I took over as chief executive in July last year, improving the capital position of the group has been my number one priority. Throughout the first six months of 2017 we have continued to take actions in this area and our capital coverage ratio has increased further to 153% with a further substantial improvement anticipated on completion of the Allianz deal.

At the beginning of August we announced a strategic partnership with Allianz, subject to regulatory approval. Following completion of the transaction we will continue to benefit from a growing general insurance venture while being better able to invest in our core life business and pursue new digital opportunities. I'm also excited by the potential to work together with Allianz in other areas over the long term.

The transaction is structured in two phases. Allianz will pay LV= an initial £500m in exchange for a 49% stake in LV='s General Insurance businesses. LV= will acquire Allianz's personal home and motor insurer's renewal rights while Allianz will obtain LV='s commercial insurer's renewal rights. In 2019 Allianz will pay £213m for a further 20.9% stake in the general insurance business through an agreed, forward purchase based on a total valuation of £1.020bn for 100% of the business.

## Group Finance Director's statement

General insurance operating profit of £49m (HY 2016: £22m) has been achieved while also strengthening our reserve margin. This result was underpinned by a strong underwriting result of £39m (HY 2016: £8m) driven by continued growth in motor rates and favourable claims experience in personal motor, which contributed to the reduction in the combined ratio to 93.6% (HY 2016: 98.5%).

Life operating profit of £33m (HY 2016: £28m) included a £20m contribution from new business, £2m higher than half-year 2016 after adjusting for the withdrawal from enhanced annuities in 2016, with sales growth driven by improved performance in the pensions business.

Profit before tax for the group of £56m (HY 2016: £1m) is impacted by £16m of operating losses from the Heritage business (HY 2016: £19m loss) including £12m driven by changes associated with the FCA Legacy Review as well as short-term investment fluctuation gains of £14m (HY 2016: £11m losses), centrally managed costs of £10m, in line with prior year, and Finance costs of £12m, relating to subordinated debt interest.

A strategic cost reduction programme targeting over £40m of real cost savings by the end of 2018 was initiated this year, the early results of which are evidenced by the reduction in gross expenses by £12m to £200m (HY 2016: £212m). Savings have largely been achieved through strong day-to-day cost management discipline and an ongoing review of discretionary spend. Management continues to focus on underlying trading cost control.

LV= reports using the Standard Formula approach to determine its regulatory capital. The capital position of the group at 30 June 2017 was satisfactory with a Solvency II solvency capital requirement coverage ratio of 153% (FY 2016: 140%). This is impacted by the timing benefits of economic gains since the last recalculation of Transitional Measure on Technical Provisions in August 2016. There is expected to be a market wide recalculation of transition at the end of 2017. Had this occurred at half year we estimate it would have reduced the solvency position by c.30 percentage points. These numbers do not allow for the impact of the announced transaction with Allianz which we estimate will improve the forecast end of 2017 surplus position by c.50 percentage points. The eventual impact will depend on a number of factors including actual solvency capital requirements at the end of 2017.

The transaction with Allianz is not reflected in our half year position and is subject to regulatory approval. The sale of a stake in our general insurance business represents a material change to the LV= risk profile and therefore we have agreed with the PRA that it is appropriate to withdraw our current Internal Model application.

## General Insurance

General insurance has had an excellent performance in the first six months with 4% growth in premiums to £817m (HY 2016: £785m), operating profit up 123% at £49m (HY 2016: £22m), and an improved combined ratio of 93.6% (HY 2016: 98.5%). Our approach in general insurance has been to deliver profitable growth.

While motor premium income was up 4%, home income fell by 6%, reflecting the withdrawal from the broker home market we announced last year. The increased operating result was mainly driven by stronger underwriting performance up from £8m to £39m, offset partly by lower investment returns.

In February the Ministry of Justice (MoJ) announced a reduction in the Ogden discount rate to -0.75% p.a. Along with the rest of the industry, we had to respond with increased prices and we welcome the Government's announcement on 7 September confirming that it plans to introduce a new framework based on how claimants actually invest, as well as making sure the rate is reviewed fairly and regularly. If passed, the draft legislation should not only ensure fair payments for those making claims but will also help reduce the cost of car insurance for drivers and we commit to passing on 100% of the savings produced. The current Ogden discount rate of -0.75% p.a. which is used as part of our reserves valuation is expected to increase under the new framework. The MoJ has indicated that if the rate were calculated using September 2017 economic conditions, the rate would fall in the range 0% p.a. and +1% p.a.

Reserve releases of £23m over the half year have largely offset a £31m strengthening of the claims margin held to cover uncertainty in claims development. The combined operating ratio improved to 93.6% from 98.5%, driven by improved efficiency and productivity as well as underlying claims performance benefiting mainly from low claims frequency on the motor accounts in the current year.

Total policies in-force are stable at 5.0m (FY 2016: 5.0m) and our satisfaction levels remain very high with 84% of customers saying that they are "very" or "extremely" satisfied.

## Life

The Life business has had another successful first six months with operating profit up 18% to £33m (HY 2016: £28m). Excluding enhanced annuities, which we exited in 2016, overall new business premiums increased by 8% to £1,009m (HY 2016: £935m) on a PVNBP basis with mid-single digit growth in both retirement solutions and protection.

In retirement we have seen significant growth in pensions up 29% to £654m (HY 2016: £506m) partly driven by transfers from final salary schemes as people continue to exercise their options under the pension freedom reforms. We are also seeing strong year-on-year growth in our corporate solutions business where we work with employee benefit consultants and corporate partners to provide specialist retirement advice and tools to their pension scheme members. In the first half of the year this business has grown from its initial phase and is now creating a steady flow of business into our advice teams. We have 19 schemes either live or in implementation stage ranging from small scheme transfers, to ongoing provision of retirement advice to scheme members.

We believe in the importance of taking advice at retirement and are seeing an increased interest in the provision of automated regulatory advice services. With our investment in Wealth Wizards we are well placed to play a leading role in this growing area of the market.

As part of our strategy of moving to a capital-light model for our life business we have extended the scope of investment from external partners for funding of our equity release product and this is an area where we expect to see continued growth.

In the first half of this year we took a number of management actions to improve the long-term performance of our protection business such as closing the mortgage and lifestyle protection product as well as our underwritten whole-of-life offering. Despite these changes new business sales are up 5% to £154m (HY 2016: £146m) on a PVNBP basis.

As part of our continued investment in technology, we launched an LV= Doctor Services app for new protection customers, which enables people to access a GP or second opinion service at any time via a smart phone. For financial advisers we introduced an online pre-underwriting tool which enables them to check instantly whether a specific illness or condition will result in standard rates, increased premiums, or an exclusion being added to the policy. We have also continued to invest in our new business application systems Fastway in protection and Retirement View in retirement.

## Outlook

The first six months of 2017 have seen good top and bottom line growth. We continue to exercise discipline in the management of the business and this is reflected in the improved capital position of the group. The strategic partnership announced with Allianz in August provides significant opportunities for the LV= group. With sharpened underwriting and pricing in general insurance and the refocusing of our life portfolio to reduce the capital requirements on the business we are well positioned to build on the first half performance to deliver continued profitable growth.

# KEY FINANCIAL METRICS

Half year ended 30 June 2017

## Sales

| | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| **General insurance sales (Gross written premium)** | | | |
| Motor (personal) | **569** | 549 | 4% |
| Home | **76** | 81 | (6)% |
| Other | **24** | 22 | 9% |
| **Total Personal** | **669** | 652 | 3% |
| **Commercial** | **148** | 133 | 11% |
| **Total general insurance sales** | **817** | 785 | 4% |
| | | | |
| **Life sales (PVNBP see page 9)** | | | |
| Pensions | **654** | 506 | 29% |
| Annuities* | **69** | 129 | (47)% |
| Flexible guarantee bond | **79** | 115 | (31)% |
| Equity release | **53** | 39 | 36% |
| **Retirement** | **855** | 789 | 8% |
| **Protection** | **154** | 146 | 5% |
| **Total life sales** | **1,009** | 935 | 8% |

* Excluding enhanced annuities which were discontinued in 2016 (HY 2016: £74m).

## Profit

| | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| General insurance | **49** | 22 | |
| Life | **33** | 28 | |
| Group | **-** | 2 | |
| **Operating profit from trading operations*** | **82** | 52 | 58% |
| Heritage | **(16)** | (19) | |
| **Operating profit/(loss)** | **66** | 33 | 100% |
| Pensions business IFRS adjustment | **-** | (3) | |
| Short-term investment fluctuations and related items** | **14** | (11) | |
| Centrally managed costs | **(10)** | (9) | |
| Gain arising on Teachers acquisition | **-** | 4 | |
| Finance costs | **(12)** | (12) | |
| Amortisation of acquired intangibles | **(2)** | (1) | |
| **Profit before tax** | **56** | 1 | |

* Operating profit from trading operations excludes heritage as a legacy business in run-off.

** Short-term investment fluctuations and related items contains the favourable impact of tax deducted from policy asset shares and the Royal National Pension Fund for Nurses (RNPFN) totalling £14m (HY 2016: £22m).
Short-term investment fluctuations include the adverse impact of hedges managed on a Solvency Capital Requirement basis rather than an IFRS basis (£37m). This is offset by favourable impacts from a narrowing of credit spreads on the annuities portfolio of £13m and the positive impact of market movements on asset shares of £14m across unit-linked business, flexible guarantee bonds and heritage and also a gain of £10m from other items.

## Expenses

| | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| General insurance | **123** | 129 | (5)% |
| Life | **52** | 58 | (10)% |
| Heritage | **14** | 15 | (7)% |
| Central items and other | **9** | 9 | 0% |
| Amortisation of acquired intangibles | **2** | 1 | 100% |
| **Gross expenses** | **200** | 212 | (6)% |
| Commission | **104** | 103 | 1% |
| Expenses recoverable from reinsurers | **(35)** | (36) | (3)% |
| | **269** | 279 | (4)% |

# KEY FINANCIAL METRICS

Half year ended 30 June 2017

## Capital

The table below shows the estimated Eligible own funds, Solvency Capital Requirement (SCR) and surplus capital for the group. The results are calculated using the Standard Formula approach, consistent with the year-end 2016 Solvency and Financial Condition Report, and exclude RNPFN and Teachers ring-fenced funds.

| | **HY 2017** | FY 2016 | Change |
|---|---|---|---|
| | **£m** | £m | % |
| Eligible own funds | **1,362** | 1,296 | 5% |
| Solvency Capital Requirement (SCR) | **892** | 929 | (4)% |
| **Surplus** | **470** | 367 | 28% |
| SCR coverage ratio | **153%** | 140% | 13pts |

Eligible own funds include the positive benefit of the Transitional Measure on Technical Provisions (TMTP) of £785m (FY 2016: £837m). TMTP provides firms with relief from day 1 from the financial impact on technical provisions of moving to the new Solvency II regime. The relief then amortises annually over 16 years. The reduction in TMTP since year-end is due to the annual step-down on 1 January 2017.

TMTP is only recalculated when approved by the PRA, at a minimum of every two years, or if there have been material changes in risk profile. Accordingly, there may be timing differences between the measurement of technical provisions at the balance sheet date and the value of TMTP.

## Operational liquidity

| | **HY 2017** | HY 2016 | Change |
|---|---|---|---|
| **LVFS operational liquidity** | **£m** | £m | % |
| General insurance surplus cash remitted | **-** | 3 | |
| Other subsidiaries surplus cash remitted | **17** | - | |
| Life | **5** | 1 | |
| Group items * | **(9)** | (22) | |
| Debt interest paid | **(23)** | (23) | |
| Tax received | **-** | 3 | |
| **Operational liquidity outflow** | **(10)** | (38) | 74% |
| General insurance capital injection** | **(40)** | - | |
| Non-operational | **9** | (87) | |
| **Net outflow before mutual bonus** | **(41)** | (125) | 67% |
| Mutual bonus | **(1)** | (2) | |
| **Net outflow** | **(42)** | (127) | 67% |

* Group items comprise centrally managed costs and also the net impact of the heritage with-profits business.

** A capital injection was made into the general insurance business following the reduction in the Ogden discount rate.

Closing liquidity at 30 June 2017 is £264m (FY 2016: £306m, HY 2016: £380m).

Operational liquidity outflow reduced to £10m in the first half of the year (HY 2016: £38m). The outflow from debt interest paid is now partially offset by dividend inflows from the Equity Release, NM Pension Trustees and Teachers subsidiaries, and there has also been a reduction in outflow from group items. The net outflow of £42m includes the £40m capital injection into general insurance subsidiaries in the wake of the Ogden rate change and outflows associated with transitional relief run off on the annuities and heritage businesses, partially offset by the positive impacts of cash and capital optimisation initiatives. In 2016 the net outflow of £127m included the general insurance Long term incentive scheme and the acquisition of Teachers Assurance.

## With-profits return

| | **HY 2017** | HY 2016 | Change |
|---|---|---|---|
| | **%** | % | pts |
| **Return on the main LVFS with-profits fund** | **3.74** | 8.08 | (4.34) |
| **Market benchmark return *** | **3.66** | 9.03 | (5.37) |

* 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 main LVFS with-profits fund.

# KEY FINANCIAL METRICS

Half year ended 30 June 2017

## General Insurance

| Results for HY 2017 | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| Underwriting result | **39** | 8 | |
| Investment return | **10** | 14 | |
| **Operating profit** | **49** | 22 | 123% |
| Centrally managed costs | **-** | (1) | |
| Amortisation of acquired intangibles | **(1)** | (1) | |
| **Profit before tax** | **48** | 20 | 140% |

| Operating profit analysed by business | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| Motor (personal) | **61** | 3 | |
| Home | **(2)** | 8 | |
| Other | **4** | 2 | |
| **Personal** | **63** | 13 | |
| **Commercial** | **(9)** | 12 | |
| **Total General insurance before reinsurance** | **54** | 25 | 116% |
| Profit commission arising on reinsurance | **4** | - | |
| Operating (profit)/loss ceded to reinsurers | **(9)** | (3) | |
| **Total General insurance** | **49** | 22 | 123% |

**Key financial metrics**

| a) Gross written premiums | HY 2017 £m | HY 2016 £m | Change % |
|---|---|---|---|
| Motor (personal) | **569** | 549 | 4% |
| Home | **76** | 81 | (6)% |
| Other | **24** | 22 | 9% |
| **Personal** | **669** | 652 | 3% |
| **Commercial** | **148** | 133 | 11% |
| **Total General insurance** | **817** | 785 | 4% |

| b) Statistical | HY 2017 % | HY 2016 % | Change pts |
|---|---|---|---|
| Loss ratio | **71.3** | 73.3 | (2.0) |
| Expense ratio | **22.3** | 25.2 | (2.9) |
| Combined ratio | **93.6** | 98.5 | (4.9) |
| Investment performance * | **1.0** | 1.4 | (0.4) |
| Pre-tax return on capital * | **12.9** | 5.6 | 7.3 |

* quoted gross of expenses

| c) Policies in force | HY 2017 m | FY 2016 m | Change % |
|---|---|---|---|
| Motor (personal) | **3.8** | 3.8 | |
| Home | **0.9** | 1.0 | |
| Other | **0.1** | 0.1 | |
| **Personal** | **4.8** | 4.9 | |
| **Commercial** | **0.2** | 0.1 | |
| **Total General insurance** | **5.0** | 5.0 | 0% |

# KEY FINANCIAL METRICS

Half year ended 30 June 2017

## Life

| Results for HY 2017 | **HY 2017 £m** | HY 2016 £m | Change % |
|---|---|---|---|
| **Operating profit** | **33** | 28 | 18% |
| Pensions business IFRS adjustment | **-** | (3) | |
| Short-term investment fluctuations and related items* | **40** | (27) | |
| **Profit/(loss) before tax** | **73** | (2) | |

* Short-term investment fluctuations and related items contains the favourable impact of tax charge deducted from policy asset shares totalling £7m (HY 2016: £nil).

| Key financial metrics | **HY 2017 £m** | HY 2016 £m | Change % |
|---|---|---|---|
| **New Business** | | | |
| **a) Present value of new business premiums (PVNBP)*** | | | |
| Pensions | **654** | 506 | 29% |
| Annuities** | **69** | 129 | (47)% |
| Flexible guarantee bond | **79** | 115 | (31)% |
| Equity Release | **53** | 39 | 36% |
| **Retirement** | **855** | 789 | 8% |
| **Protection** | **154** | 146 | 5% |
| **Total Life** | **1,009** | 935 | 8% |
| | | | |
| **b) Single premiums** | | | |
| Pensions | **588** | 459 | 28% |
| Annuities** | **69** | 129 | (47)% |
| Flexible guarantee bond | **79** | 115 | (31)% |
| Equity Release | **53** | 39 | 36% |
| **Retirement** | **789** | 742 | 6% |
| **Total Life** | **789** | 742 | 6% |
| | | | |
| **c) New regular premiums** | | | |
| Pensions | **9** | 8 | 13% |
| **Retirement** | **9** | 8 | 13% |
| **Protection** | **19** | 19 | 0% |
| **Total Life** | **28** | 27 | 4% |
| | | | |
| **d) New business contribution *** ** | | | |
| Pensions | **3** | (1) | |
| Annuities** | **(4)** | (1) | |
| Flexible guarantee bond | **11** | 9 | |
| Equity Release | **1** | 1 | |
| **Retirement** | **11** | 8 | 38% |
| **Protection** | **9** | 10 | (10)% |
| **Total new business contribution before investment in new propositions** | **20** | 18 | 11% |
| Investment in new propositions | **(4)** | (7) | |
| **Net new business contribution** | **16** | 11 | 45% |

*Present Value of New Business Premiums (PVNBP) is the total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contract sold in the year. For Equity Release this represents the amount of loans provided.
**Excluding enhanced annuities which were discontinued in 2016. PVNBP sales of enhanced annuities in HY 2016 were £74m, New business contribution from enhanced annuities in HY 2016 was £2m after restatement reduction of £2m.
*** New Business Contribution has been re-aligned with the IFRS valuation which includes the impact of Pricing Valuation Differences (PVDs) and excludes cost of capital. Prior periods have been restated accordingly resulting in a reduction in the New Business Contribution before investment in new propositions of: HY 2016: £4m.

**LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED**

---

**INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

---

**FOR THE HALF YEAR ENDED 30 JUNE 2017**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED

Half year ended 30 June 2017

| | | Group | | |
|---|---|---|---|---|
| | | **HY 2017** | HY 2016 Restated - see Note 1 | FY 2016 |
| | Notes | **£m** | £m | £m |
| Gross earned premiums | 2 | **1,214** | 1,422 | 2,760 |
| Premiums ceded to reinsurers | 2 | **(299)** | (295) | (601) |
| **Net earned premiums** | 2 | **915** | 1,127 | 2,159 |
| Investment income | 3 | **191** | 200 | 401 |
| Net gains on investments | 4 | **136** | 720 | 1,006 |
| Gain arising on Teachers acquisition | | **-** | 4 | 3 |
| Other income | | **43** | 30 | 68 |
| **Total income** | | **1,285** | 2,081 | 3,637 |
| | | | | |
| Gross benefits and claims | 5 | **(1,002)** | (944) | (2,136) |
| Claims ceded to reinsurers | 5 | **223** | 216 | 540 |
| **Net benefits and claims** | 5 | **(779)** | (728) | (1,596) |
| | | | | |
| Gross change in contract liabilities | 6 | **(255)** | (1,229) | (1,591) |
| Change in long-term contract liabilities ceded to reinsurers | 6 | **73** | 150 | 94 |
| Change in non-participating value of in-force business | 6 | **13** | 18 | 3 |
| **Net change in contract liabilities, excluding mutual bonus** | 6 | **(169)** | (1,061) | (1,494) |
| | | | | |
| Gross operating and administrative expenses | 7 | **(304)** | (315) | (643) |
| Expenses recoverable from reinsurers | 7 | **35** | 36 | 72 |
| **Net operating and administrative expenses** | 7 | **(269)** | (279) | (571) |
| Finance costs | 8 | **(12)** | (12) | (24) |
| Investment return allocated to external unit holders | | **-** | - | (1) |
| **Total other expenses** | | **(281)** | (291) | (596) |
| **Total benefits, claims and expenses, excluding mutual bonus** | | **(1,229)** | (2,080) | (3,686) |
| | | | | |
| **Profit/(loss) before tax, mutual bonus and UDS transfer** | | **56** | 1 | (49) |
| | | | | |
| Mutual bonus | 9 | **(1)** | (2) | (17) |
| Income tax expense | | **(23)** | (31) | (35) |
| Transfer (to)/from the Unallocated divisible surplus | | **(32)** | 32 | 101 |
| | | | | |
| **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 | **(2)** | 51 | (2) |
| Transfer from/(to) the Unallocated divisible surplus | | **2** | (51) | 2 |
| **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 2017

| | | Group | |
|---|---|---|---|
| | | **HY 2017** | FY 2016 |
| | Notes | **£m** | £m |
| **Assets** | | | |
| Pension benefit asset | 10 | **137** | 134 |
| Intangible assets | 11 | **301** | 291 |
| Property and equipment | | **40** | 43 |
| Investment properties | | **5** | 5 |
| Deferred acquisition costs | | **101** | 102 |
| Reinsurance assets | 14 | **1,159** | 1,090 |
| Prepayments and accrued income | | **129** | 140 |
| Loans and other receivables | | **327** | 291 |
| Insurance receivables | | **326** | 293 |
| Corporation tax asset | | **7** | 6 |
| Financial assets at fair value through income | 12 | **13,594** | 13,491 |
| Derivative financial instruments | 13 | **141** | 179 |
| Cash and cash equivalents (excluding bank overdrafts) | | **1,171** | 805 |
| **Total assets** | | **17,438** | 16,870 |

| | | | |
|---|---|---|---|
| **Liabilities** | | | |
| Unallocated divisible surplus | | **1,028** | 998 |
| Participating insurance contract liabilities | 14 | **5,065** | 4,999 |
| Participating investment contract liabilities | 15 | **731** | 690 |
| Non-participating value of in-force business | | **(337)** | (324) |
| | | **6,487** | 6,363 |
| Non-participating insurance contract liabilities | 14 | **6,864** | 6,798 |
| Non-participating investment contract liabilities | 15 | **2,844** | 2,547 |
| | | **9,708** | 9,345 |
| Net asset value attributable to external unit holders | | **-** | 28 |
| Deferred tax liability | | **79** | 70 |
| Provisions | | **9** | 12 |
| Subordinated liabilities | 16 | **358** | 357 |
| Derivative financial instruments | 13 | **232** | 259 |
| Other financial liabilities | | **119** | 116 |
| Insurance payables | | **49** | 51 |
| Trade and other payables | | **397** | 269 |
| **Total liabilities** | | **17,438** | 16,870 |

# CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

Half year ended 30 June 2017

| | | Group | | |
|---|---|---|---|---|
| | | **HY 2017** | HY 2016 | FY 2016 |
| | | **£m** | £m | £m |
| **Cash and cash equivalents at 1 January** | | **783** | 1,159 | 1,159 |
| **Cash flows arising from:** | | | | |
| **Operating activities** | | | | |
| Cash generated from/(used in) operating activities* | 17 | **138** | 33 | (194) |
| Net decrease/(increase) in investments held at fair value through income | | **71** | (343) | (521) |
| Cash generated from/ (used in) operating activities | | **209** | (310) | (715) |
| Dividend income received | | **63** | 51 | 107 |
| Interest and other income received | | **156** | 167 | 313 |
| Utilisation of provisions | | **(1)** | (1) | (2) |
| Finance cost paid | | **-** | - | (1) |
| Income tax paid | | **(16)** | - | (23) |
| Net cash flows generated from/(used in) operating activities | | **411** | (93) | (321) |
| **Investing activities** | | | | |
| Cash acquired on acquisition of Teachers, net of purchase price paid | | **-** | 12 | 12 |
| Purchase of property, equipment and intangibles | | **(15)** | (10) | (44) |
| Net cash flows (used in)/generated from investing activities | | **(15)** | 2 | (32) |
| **Financing activities** | | | | |
| Interest paid on subordinated debt | 16 | **(23)** | (23) | (23) |
| Net cash flows used in financing activities | | **(23)** | (23) | (23) |
| **Net increase/(decrease) in cash and cash equivalents** | | **373** | (114) | (376) |
| **Cash and cash equivalents at 30 June / 31 December** | | **1,156** | 1,045 | 783 |

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

**Cash and cash equivalents comprise:**

| | | | |
|---|---|---|---|
| Bank balances | **189** | 124 | 189 |
| Short-term bank deposits | **982** | 960 | 616 |
| **Cash and cash equivalents per the Statement of Financial Position** | **1,171** | 1,084 | 805 |
| Non-offsettable bank overdrafts | **(15)** | (39) | (22) |
| **Cash and cash equivalents per the Statement of Cash Flows** | **1,156** | 1,045 | 783 |

## 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 2017. 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 2017 year-end. The accounting policies adopted are consistent with those set out in the Group's Annual Report for the year ended 31 December 2016.

No new standards or amendments to IFRSs have been adopted by the EU for accounting periods beginning on or after 1 January 2017.

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.

The Interim financial statements (including the related notes) for the six months to 30 June 2017 and 2016 are unaudited. The IFRS financial information for the full year 2016 has been taken from the Group's 2016 Annual Report. The auditors have reported on the 2016 Annual Report and their report was unqualified and did not contain a statement under section 73 of the Friendly Societies Act 1992.

### Restatements

**Gross up of annuity reinsurance treaty**
Premiums and claims ceded to reinsurers within the Statement of Comprehensive Income for 2016 half-year have been reclassified by £77m to reflect the 2016 year end reporting presentation. The reclassification has no impact on the Statement of Financial Position and the Statement of Cash Flows.

| | Note | Reported Dr / (Cr) | Adjustment Dr / (Cr) | Restated Dr / (Cr) |
|---|---|---|---|---|
| | | | | |
| **Statement of Comprehensive Income** | | | | |
| Premiums ceded to reinsurers | 2 | £218m | £77m | £295m |
| Claims ceded to reinsurers | 5 | £(139)m | £(77)m | £(216)m |

## 2. Net earned premiums

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 Restated - see Note 1 | FY 2016 |
| **Gross earned premiums** | **£m** | £m | £m |
| **Long-term insurance and participating investment contracts** | | | |
| **Single premium** | | | |
| **New business** | | | |
| Investments and savings | **199** | 306 | 561 |
| Pensions and annuities | **88** | 252 | 423 |
| **Regular premium** | | | |
| **New business** | | | |
| Life and health protection | **19** | 19 | 37 |
| **Existing in-force business** | | | |
| Investments and savings | **17** | 13 | 31 |
| Pensions and annuities | **5** | 6 | 10 |
| Life and health protection | **89** | 80 | 166 |
| **General insurance contracts** | | | |
| Motor | **550** | 530 | 1,067 |
| Commercial | **148** | 133 | 268 |
| Home | **73** | 78 | 161 |
| Other | **46** | 41 | 83 |
| Change in unearned premiums provision | **(20)** | (36) | (47) |
| Gross earned premiums | **1,214** | 1,422 | 2,760 |
| **Premiums ceded to reinsurers** | | | |
| Long-term insurance premiums | **(118)** | (130) | (261) |
| General insurance business | **(174)** | (160) | (345) |
| Change in unearned premiums provision | **(7)** | (5) | 5 |
| | **(299)** | (295) | (601) |
| Net earned premiums | **915** | 1,127 | 2,159 |
| Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above | **361** | 201 | 425 |

## 3. Investment income

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| Income from investments at fair value through income: | | | |
| - Dividend income | **63** | 51 | 107 |
| - Interest income from debt and fixed interest securities | **106** | 128 | 251 |
| - Interest on loans secured on residential property | **18** | 18 | 36 |
| - Interest on loans secured on commercial property | **3** | 3 | 7 |
| Interest on loans and receivables | **1** | - | - |
| | **191** | 200 | 401 |

## 4. Net gains on investments

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| **Investments at fair value through income:** | | | |
| - Debt securities | **(31)** | 420 | 385 |
| - Equity securities | **238** | 195 | 584 |
| - Derivatives at fair value through income | **(66)** | 47 | (40) |
| - Loans and mortgages | **(5)** | 58 | 77 |
| | **136** | 720 | 1,006 |

Included within net gains on investments are realised gains of £157m (HY 2016: £83m).

## 5. Net benefits and claims

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 Restated - see Note 1 | FY 2016 |
| | **£m** | £m | £m |
| **Gross benefits and claims** | | | |
| **Long-term insurance and participating investment contracts** | | | |
| Benefits and claims paid | **445** | 414 | 858 |
| Change in the provision for claims | **4** | 6 | 3 |
| | | | |
| **General insurance contracts** | | | |
| Claims paid | **548** | 527 | 1,067 |
| Change in the provision for claims | **5** | (3) | 208 |
| | **1,002** | 944 | 2,136 |
| | | | |
| **Claims ceded to reinsurers** | | | |
| **Long-term insurance and participating investment contracts** | | | |
| Benefits and claims paid | **(109)** | (118) | (237) |
| | | | |
| **General insurance contracts** | | | |
| Claims paid | **(111)** | (104) | (217) |
| Change in the provision for claims | **(3)** | 6 | (86) |
| | **(223)** | (216) | (540) |
| | **779** | 728 | 1,596 |
| | | | |
| Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above | **176** | 135 | 282 |

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

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| **Gross increase in long-term contract liabilities** | | | |
| Increase in long-term insurance contract liabilities - participating | **(66)** | (616) | (813) |
| Increase in investment contract liabilities - participating | **(41)** | - | (21) |
| Increase in long-term insurance contract liabilities - non-participating | **(29)** | (494) | (417) |
| Increase in investment contract liabilities - non-participating | **(112)** | (93) | (303) |
| Increase in long-term linked insurance contract liabilities | **(8)** | (28) | (54) |
| | **(256)** | (1,231) | (1,608) |
| Mutual bonus (disclosed separately in Note 9) | **1** | 2 | 17 |
| | **(255)** | (1,229) | (1,591) |
| **Increase in long-term contract liabilities ceded to reinsurers** | | | |
| Increase in long-term insurance contract liabilities | **65** | 126 | 47 |
| Increase in long-term linked insurance contract liabilities | **8** | 24 | 47 |
| | **73** | 150 | 94 |
| **Increase in non-participating value of in-force business** | **13** | 18 | 3 |
| **Net change in contract liabilities** | **(169)** | (1,061) | (1,494) |

## 7. Operating and administrative expenses

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| Commission paid on acquisition of business | **104** | 103 | 207 |
| Movement in deferred acquisition costs | **1** | (4) | (3) |
| Amortisation and impairment of intangible assets | **5** | 2 | 6 |
| Depreciation on property and equipment | **3** | 3 | 6 |
| Investment management expenses and charges | **6** | 11 | 21 |
| Auditors' remuneration | **1** | 1 | 3 |
| Employee benefit expense | **121** | 128 | 263 |
| Internal staff costs capitalised as attributable costs of IT assets | **(8)** | (5) | (15) |
| Rent, rate and other facilities expense | **10** | 9 | 19 |
| Marketing and advertising | **13** | 18 | 33 |
| Other staff costs | **20** | 18 | 35 |
| IT costs | **19** | 20 | 43 |
| Fees | **38** | 40 | 79 |
| Other expenses | **7** | 8 | 18 |
| Claims handling cost recognised in Gross benefits and claims | **(36)** | (37) | (72) |
| Gross operating and administrative expenses | **304** | 315 | 643 |
| Expenses recoverable from reinsurers* | **(35)** | (36) | (72) |
| Net operating and administrative expenses | **269** | 279 | 571 |

* 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.

## 8. Finance costs

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| Interest payable on subordinated liabilities (see Note 16) | **12** | 12 | 23 |
| Other interest payable | **-** | - | 1 |
| | **12** | 12 | 24 |

## 9. Mutual bonus

No mutual bonus has been declared in respect of the half year ending 30 June 2017. In 2016 the board declared a final mutual bonus amounting to a 0.5% enhancement to eligible policies' asset shares. As at the year ended 31 December 2016 it was estimated that the amount allocated would be £17m and this was reported in the 2016 Annual Report. The actual amount allocated was £18m, with the additional £1m accounted for in the first half of 2017.

## 10. Pension benefit asset

| | HY 2017 | | | | FY 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | LV Scheme | Ockham | Teachers | Total | LV Scheme | Ockham | Teachers | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Asset | **117** | **20** | **-** | **137** | 114 | 20 | - | 134 |
| | **117** | **20** | **-** | **137** | 114 | 20 | - | 134 |

| **Re-measurements** | HY 2017 | | | | FY 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | LV Scheme | Ockham | Teachers | Total | LV Scheme | Ockham | Teachers | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Re-measurements | **(1)** | **-** | **-** | **(1)** | 15 | (1) | - | 14 |
| Income tax expense | **(1)** | **-** | **-** | **(1)** | (9) | (7) | - | (16) |
| **Amount charged to Total comprehensive income** | **(2)** | **-** | **-** | **(2)** | 6 | (8) | - | (2) |
| **Cumulative re-measurements recognised in the Statement of Comprehensive Income** | **152** | **(5)** | **-** | **147** | 153 | (5) | - | 148 |

## 11. Intangible assets

| **Group** | Goodwill | Other intangible assets | PVIF | Software and licence costs | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Cost:** | | | | | |
| At 1 January 2017 | 241 | 51 | 3 | 59 | 354 |
| Additions | - | - | - | 15 | 15 |
| **At 30 June 2017** | **241** | **51** | **3** | **74** | **369** |
| **Accumulated amortisation:** | | | | | |
| At 1 January 2017 | 21 | 37 | - | 5 | 63 |
| Charge for the year | - | 2 | - | 3 | 5 |
| **At 30 June 2017** | **21** | **39** | **-** | **8** | **68** |
| **Net book value at 30 June 2017** | **220** | **12** | **3** | **66** | **301** |
| Cost: | | | | | |
| At 1 January 2016 | 241 | 95 | 63 | 21 | 420 |
| Acquired through business combinations | - | 7 | 3 | - | 10 |
| Additions | - | - | - | 38 | 38 |
| Amounts written off | - | (51) | (63) | - | (114) |
| At 31 December 2016 | 241 | 51 | 3 | 59 | 354 |
| Accumulated amortisation: | | | | | |
| At 1 January 2016 | 21 | 85 | 63 | 2 | 171 |
| Charge for the year | - | 3 | - | 3 | 6 |
| Amounts written off | - | (51) | (63) | - | (114) |
| At 31 December 2016 | 21 | 37 | - | 5 | 63 |
| Net book value at 31 December 2016 | 220 | 14 | 3 | 54 | 291 |

## 12. Financial assets at fair value through income

| | Group HY 2017 £m | Group FY 2016 £m |
|---|---|---|
| Shares, other variable yield securities and units in unit trusts | | |
| – UK listed | **6,685** | 6,136 |
| – UK unlisted | **91** | 120 |
| – Overseas listed | **90** | 467 |
| – Overseas unlisted | **49** | 55 |
| Debt and other fixed income securities | | |
| – UK listed | **3,581** | 3,584 |
| – Overseas listed | **2,229** | 2,246 |
| Loans secured on residential property | **671** | 685 |
| Loans secured on commercial property | **198** | 198 |
| | **13,594** | 13,491 |
| Assets held to cover linked liabilities included above | **2,909** | 2,612 |

## 13. Derivative financial instruments

| | HY 2017 | | | FY 2016 | | |
|---|---|---|---|---|---|---|
| | 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 | **1,469** | **127** | **(31)** | 1,507 | 160 | (29) |
| Gilt spread lock | **764** | **-** | **(34)** | 1,120 | - | (37) |
| Cash flow swaps | **1,102** | **-** | **(167)** | 1,117 | - | (173) |
| Swaptions | **86** | **1** | **-** | 1,402 | 7 | - |
| Forward exchange contracts | **2** | **-** | **-** | 1 | - | - |
| Equity/index derivatives | **198** | **13** | **-** | 515 | 12 | (20) |
| | **3,621** | **141** | **(232)** | 5,662 | 179 | (259) |

## 14. Insurance contract liabilities

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

| | HY 2017 | | | FY 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| **Group** | £m | £m | £m | £m | £m | £m |
| **Participating insurance contract liabilities** | | | | | | |
| Long-term insurance contract liabilities | **5,065** | **-** | **5,065** | 4,999 | - | 4,999 |
| **Non-participating insurance contract liabilities** | | | | | | |
| Long-term insurance contract liabilities | **4,233** | **(539)** | **3,694** | 4,204 | (474) | 3,730 |
| Long-term linked insurance contract liabilities | **200** | **(135)** | **65** | 192 | (127) | 65 |
| Long-term claims liabilities | **50** | **-** | **50** | 46 | - | 46 |
| | **4,483** | **(674)** | **3,809** | 4,442 | (601) | 3,841 |
| General insurance unearned premiums | **813** | **(10)** | **803** | 793 | (17) | 776 |
| General insurance claims liabilities | **1,568** | **(475)** | **1,093** | 1,563 | (472) | 1,091 |
| | **2,381** | **(485)** | **1,896** | 2,356 | (489) | 1,867 |
| | **6,864** | **(1,159)** | **5,705** | 6,798 | (1,090) | 5,708 |

## 15. Investment contract liabilities

| | Group | |
|---|---|---|
| | **HY 2017** | FY 2016 |
| | **£m** | £m |
| Non-participating investment contract liabilities | **2,844** | 2,547 |
| Participating investment contract liabilities | **731** | 690 |
| | **3,575** | 3,237 |

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. Subordinated liabilities

| | Group | |
|---|---|---|
| | **HY 2017** | FY 2016 |
| | **£m** | £m |
| Subordinated note (GBP 350m) | **347** | 347 |
| Subordinated note (EUR 12m) | **11** | 10 |
| | **358** | 357 |

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 2017 (see Note 8).

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.

## 17. Cash generated from operating activities

| | Group | | |
|---|---|---|---|
| | **HY 2017** | HY 2016 | FY 2016 |
| | **£m** | £m | £m |
| **Profit/(loss) before tax, mutual bonus and UDS transfer** | **56** | 1 | (49) |
| Investment income | **(191)** | (200) | (401) |
| Other interest income | **(16)** | (15) | (30) |
| Net gains on investments | **(136)** | (720) | (1,006) |
| Finance costs | **12** | 12 | 24 |
| Gain on Teachers acquisition | **-** | (4) | (3) |
| Net increase in derivatives | **(55)** | (5) | (7) |
| **Non-cash items** | | | |
| Decrease in provisions and pension obligation | **(6)** | - | (32) |
| Mutual bonus | **(1)** | (2) | (17) |
| Other | **9** | 1 | 9 |
| **Changes in working capital** | | | |
| Increase in loans and receivables | **(36)** | (8) | (201) |
| Increase in reinsurance assets | **(69)** | (139) | (185) |
| Increase in insurance receivables | **(33)** | (155) | (30) |
| Increase in other prepayments and accrued income | **(1)** | (9) | - |
| Increase in participating insurance contract liabilities | **66** | 597 | 805 |
| Increase in non-participating insurance contract liabilities | **66** | 561 | 729 |
| Increase in non-participating value of in-force business | **(13)** | (18) | (3) |
| Increase in participating investment contract liabilities | **41** | 3 | 16 |
| Increase in non-participating investment contract liabilities | **297** | 159 | 446 |
| Increase in subordinated liabilities | **1** | 1 | 1 |
| Increase in other financial liabilities | **3** | 122 | 20 |
| Decrease in insurance payables | **(2)** | (105) | (235) |
| Increase/(decrease) in trade and other payables | **146** | (44) | (45) |
| **Cash generated from/(used in) operating activities*** | **138** | 33 | (194) |

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

## 18. Post period end events

At the beginning of August the Group announced a strategic partnership with Allianz, subject to regulatory approval. Following completion of the transaction the Group will continue to benefit from a growing general insurance venture while being better able to invest in our core life business and pursue new digital opportunities.

The transaction is structured in two phases. Allianz will pay LV= an initial £500m in exchange for a 49% stake in LV='s General Insurance businesses. LV= will acquire Allianz's personal home and motor insurer's renewal rights while Allianz will obtain LV='s commercial insurer's renewal rights. The Group will continue to consolidate the LV= General Insurance group at 31 December 2017 following completion of the transaction.

In 2019 Allianz will pay £213m for a further 20.9% stake in the general insurance business through an agreed, forward purchase based on a total valuation of £1.020bn for 100% of the business.

## 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 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 profitability for the LV= group, life and general insurance businesses and executive remuneration in these areas is linked to this metric. This measure provides useful information regarding the financial performance of the group as it represents management's view of the performance of the ongoing 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 pensions business IFRS adjustment, short-term investment fluctuations, centrally managed costs, gain on acquisitions / disposals, finance costs and amortisation or impairment of acquired intangibles. |
| **Pensions business IFRS adjustment** | In order to provide comparable reporting across its pension products LV= reports self-invested pension plan operating profit on a value-add basis. Since the second half of 2016 when this business was transferred to LVFS, profits on self-invested pension plan business are reported as insurance income under IFRS and this adjustment is no longer required. | The adjustment required to convert self-invested pension plan operating profit from a measure of the profit calculated based on pricing to a pure IFRS (income-expenses) basis. |
| **STIF: Short-term investment fluctuations** | Short-term investment fluctuations are presented outside of operating profit for the life and heritage businesses 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. |
| **Centrally managed costs** | LV= reports some of its costs below operating profit because they are not associated with running the trading business of the group. | These costs tend to be one-off costs and are often connected to strategic initiatives of the group. |
| **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

| 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 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 an overall measure of underwriting performance. | The total of the Loss ratio plus the Expense ratio. |
| **Pre-tax return on capital** | Pre-tax return on capital provides a measure of profitability and how efficiently capital is employed by the general insurance business to generate profits that will be remitted to the Society. | General insurance Profit before tax divided by average net assets excluding current year dividend payments. |
| **Life** | | |
| **PVNBP: Present value of new business premiums** | 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. | The total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums we expect to receive over the term of the new contract sold in the year. For Equity Release this represents the amount of loans provided. |
| **Non-GAAP New business premiums** | New business premiums are adjusted to reflect actual product sales achieved in the year. This includes sales of Self-invested personal pension products which are excluded from IFRS sales as these are accounted for as an Investment contract liability. Where customers take a tax free lump sum at the inception of an annuity contract, this value is deducted from the value of annuity sales; within IFRS this is shown gross within Net benefits and claims. | IFRS New business premiums adjusted to include sales of SIPP and to remove the value of tax free lump sums taken upon inception of annuity contracts. |
| **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 incudes the value-add on new business, including pricing valuation differences, and deduction for expense overruns. |
| **Investment in new propositions** | Investment in new propositions is the project costs invested in developing new products. These costs are excluded from New business contribution as they do not relate to the overall profitability of policies written during the year. | These costs tend to be one-off costs which are connected to the development of new products. |

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