

Life Review

John Perks
Managing Director of Life



£60m

Operating profit



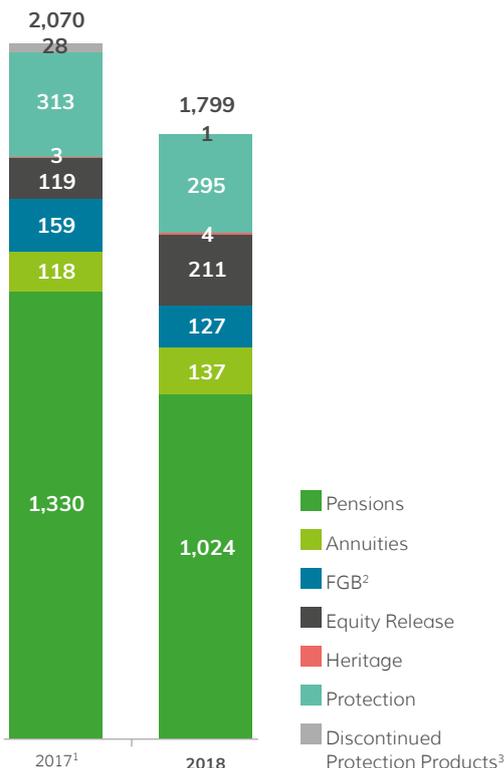
2018 has seen our life business face strong competition in our chosen markets while managing a high change agenda as we restructure for our future as a life and pensions focused business. In the face of these challenges I am very pleased that the life business has continued to generate good levels of operating capital and operating profit. The hard work, dedication and professionalism of our people has been a constant throughout the year and I am extremely grateful to them for this. It is the quality of our people and their focus on ensuring that the needs of our customers, members and IFAs are met that differentiates us from our competitors and ensures that we remain Best Loved.

2018 life results

The life business generated an operating profit of £60m, in line with 2017. This includes the impact of favourable capital management actions and the exit of some product lines. The underlying trading business saw reduced levels of new business contribution in a highly competitive market. Modelling changes reflecting the latest consumer experience post Pensions Freedom and Choice also led to lower margins from pensions new business. This was offset by rigorous cost control and the non-recurrence of the legacy review costs incurred in 2017.

New business sales have reduced by 13% year-on-year on a present value of new business premium (PVNBP) basis, predominantly impacting the pensions business as the defined benefit to defined contribution transfer peak seen in the previous year dropped-off in 2018.

PVNBP £m



- 1 PVNBP has been restated to align the definition of PVNBP across all metrics used in management reporting. PVNBP is now presented on a Solvency II basis (adjusted to include future regular premiums on pensions). This is based on best estimate assumptions, and re-stated to remove margins previously used in the calculation. This has increased 2017 PVNBP by £50m.
- 2 Sales figures for Flexible Guarantee Bonds (FGB) exclude investments by Pensions customers into the Flexible guarantee fund. These flexible guarantee bond sales within our pensions wrapper are included within pensions sales.
- 3 Whole-Of-Life and Mortgage and Lifestyle Protection products were discontinued in 2017 and the impact of these products is shown separately.

Retirement

Retirement new business sales were down 13% from 2017 on a PVNBP basis to £1.5bn. Within pensions, sales were down by £306m (23%), with defined benefit to contribution transfers reducing from their peak at the end of 2017. The new investment fund contract entered into with Vanguard in the second half of the year has improved the competitiveness of the pension investment proposition which, alongside a number of pricing and proposition initiatives already in flight, we expect to translate into sales growth in 2019. Equity Release has had a very successful year as our presence in this market grows, with sales up by £92m (77%). Annuity sales have also improved by £19m (16%), totalling £137m. Flexible Guarantee Bond (FGB) volumes declined by £32m (20%) to £127m due to reduced marketing and promotions while we took steps to redesign our proposition. The various in-year changes have shifted the mix slightly to lower margin products, reducing new business contribution.

Income from our Retirement Advice Service grew 6% year-on-year with significant growth driven by our largest corporate partner, Reassure. This reflects our advisers helping more customers than ever to plan for an affordable retirement and to access their pensions by providing them with regulated advice solutions. Income from our direct to consumer business has reduced year-on-year as we reviewed promotional activity in 2018.



Protection

Protection sales have decreased by £45m (13%) on 2017, £27m of which reflects the decision taken last year to improve the sustainability of the protection business with the closure of Whole-Of-Life (both intermediated and direct-to-consumer products) and the niche Mortgage and Lifestyle Protection offerings. These closures reflected our focus on return on capital and appropriate customer products from a conduct risk perspective. Term Life sales continue to increase achieving double digit sales growth for another year. Income Protection volumes have reduced by 9% on 2017 reflecting the low sales in the first half of the year; performance in the second half of the year was flat year-on-year as the marketplace responded to the enhancements made to our Income Protection product. Critical Illness sales have decreased by 40% on 2017 as we have focused our efforts on developing our value driving Income Protection proposition. New business contribution has been impacted by the change in business mix from Income Protection to Term Life as well as the closure of our capital intensive propositions.

In the third quarter we launched our extended Income Protection proposition to include rehabilitation support services as soon as our customer is unable to work, improved benefits

for medical professionals, and we are now the only provider to offer parent and child cover at no extra cost. Our strong proposition continues to be recognised as market leading, including winning the 'Best Income Protection provider' Moneyfacts award for the ninth year in a row.

We continue to develop Fastway, our quote and apply system, in order to support our goal of providing simpler access to good quality propositions at a good price. 2019 will see further products being added to the suite.

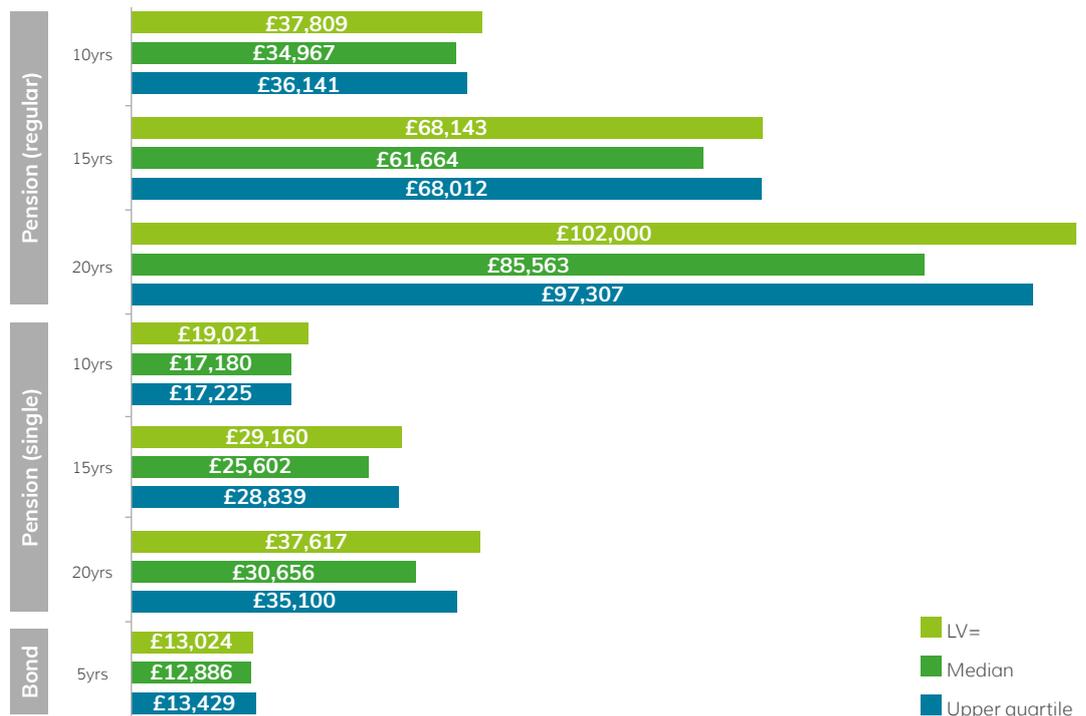
Heritage

Our heritage business includes legacy With-profits policies along with some non-profit business. The business includes With-profits and unit-linked business acquired from the Royal National Pension Fund for Nurses (RNPFN) as well as policies from Teachers Assurance, which was bought in 2016 and integrated into our accounts and fully migrated to our core systems at the end of the year.

Recent maturity and surrender values for LVFS With-profits policies show that LV= continues to perform strongly, exceeding median payouts in all selected policy categories and achieving top quartile payouts in all pension categories, when compared against industry payouts.



- The LV= payouts are based on the following policies:
 - Pension – Policyholder retiring at age 65, maturing 1 January 2018. Premium of £200 monthly (Pension regular) and single premium of £10,000 (Pension single)
 - Bond – A five year investment of £10,000 in the FGB balanced series 2 fund (no guarantees), maturing at 1 November 2018.
- The industry payouts (median and upper quartile) are taken from past performance surveys and relate to maturities and bond surrenders during 2018. The sources are:
 - Pension (regular) and Pension (single) – Money Management survey published March 2018.
 - Bond – Money Management survey published January 2019.
- No data is provided for Endowment performance as no Money Management survey has been published since April 2016. The previous results of our payouts compared with benchmark industry performance are shown on page 47 of the 2016 Annual Report.



Looking Ahead

We are a top ten UK life insurer and will continue to develop our strong propositions, and our award-winning customer and sales support. We are also continuing to improve our online capability to make us 'easy to do business with'. We will be driving our best loved strategic initiative in 2019, focused on improving our adviser experience. This will include the launch of a new business-to-business (B2B) marketing strategy and optimisation of our current distribution model.

Throughout 2018 we have continued to support our customers and members in extraordinary and unusual circumstances, when they need help the most but expect it the least. This demonstrates that we are an insurer with a difference; we act with care and compassion, and provide support to change lives for the better. In 2019, we will be launching our Green Heart Revolution, strongly supporting our Best Loved initiative, by reducing processing times and improving the service we provide to both advisers and customers.