LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

INTERIM RESULTS ANNOUNCEMENT
INCLUDING INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR ENDED 30 JUNE 2019

LV= Interim Results Announcement 2019

Mutual insurance, retirement and investment group LV= announces its interim results for the six months ending 30 June 2019.

STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Agreed deal to sell remaining shareholding in LV=GI to Allianz on 31 December 2019
- Secured member backing for plans to convert to a Mutual Company Limited by Guarantee
- Appointed Clive Bolton and Debbie Kennedy to lead Savings & Retirement and Protection businesses
- Launched a stocks and shares ISA to complete smoothed managed funds product portfolio
- Capital position remains robust and within the Board's risk appetite

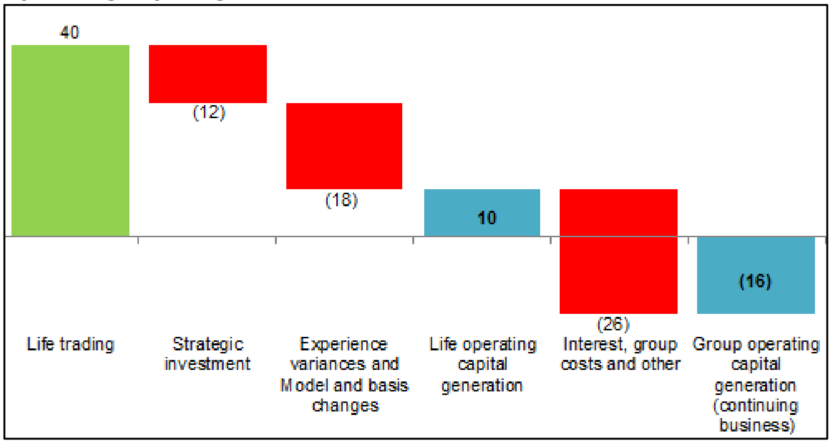
FINANCIAL RESULTS

Capital	Solvency II Capital surplus £580m, Capital Coverage Ratio (CCR) 158% (FY 2018: £687m, 172%) Life Operating capital generation of £10m contributing 2% to the CCR (HY 2018: £88m[1])
Sales	Life business PVNBP sales £710m (HY 2018: £970m[2])
Profit	Operating loss from continuing operations £27m (HY 2018: £27m[3,4] profit) Profit before tax from continuing operations £35m (HY 2018: £12m[3]) LV= Group's share of the post-tax discontinued GI result[5] £29m (HY 2018: £5m)
Expenses	Operating expenses from continuing operations £53m (HY 2018: £47m[6])
Liquidity	Operational liquidity of £776m (FY 2018: £732m)

1 Operating capital generation was previously reported net of the potential impact of a recalculation of Transitional Measures on Technical Provisions (TMTP). In order to align with reported capital surplus, Operating capital generation no longer includes the impact of such a potential recalculation. This restatement has increased HY 2018 Operating capital generation by £33m.
2 PVNBP has been restated to reflect the change in definition of pension top-ups within the valuation model. HY 2018 PVNBP has been reduced by £13m accordingly.
3 Operating profit and Profit before tax have been restated to exclude the result of discontinued operations ahead of the sale of the remaining equity stake in the General Insurance (GI) business at the end of 2019. Operating profit and Profit before tax are non-GAAP measures. See definitions on page 23.
4 Operating profit from continuing operations is restated to exclude costs associated with creating a fitter mutual for the future and also to include expected investment returns above the risk-free rate that were previously reported with short-term investment fluctuations. The impact of these restatements is to increase HY 2018 Operating profit from continuing operations by £8m.
5 LV= Group's share of the post-tax discontinued GI result is Total comprehensive income from discontinued operations adjusted to exclude the impacts of the on-going separation and sale of the GI business (see page 15), less the non-controlling interest's share of the result.
6 Operating expenses have been restated to exclude the results of discontinued operations. Continuing expenses have also been restated to exclude non-Business As Usual (BAU) and investments related costs to align the metric with that which management use to assess performance against our strategic goal of operating with an annual cost base of £100m. HY 2018 Operating expenses from continuing operations have been reduced by £10m accordingly. See definition on page 23.

Capital

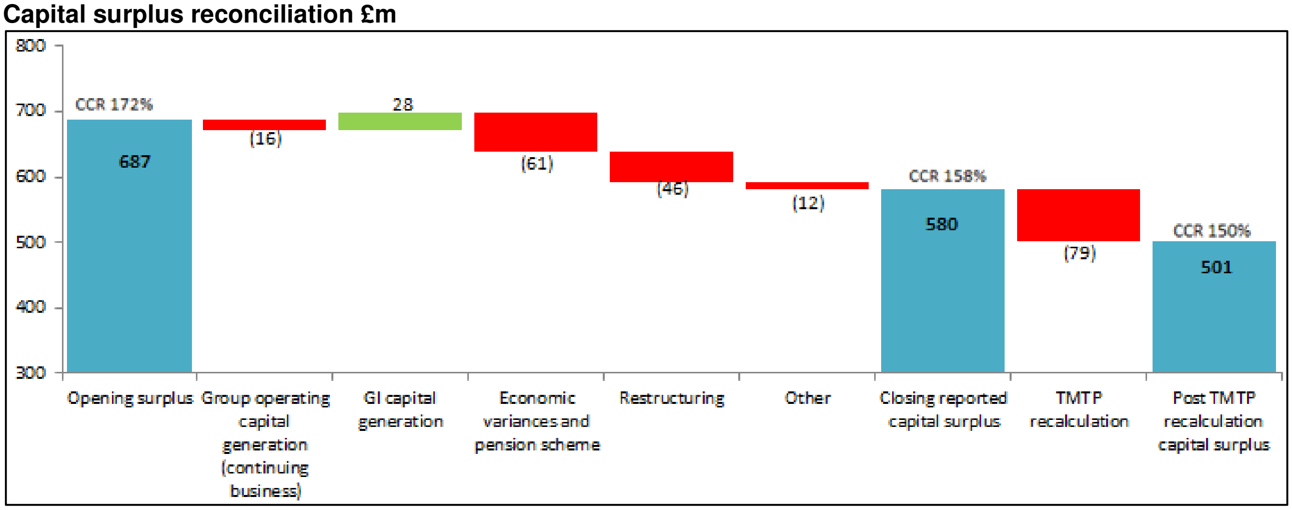
Operating capital generation £m



Our capital position at 158% CCR remains comfortably above our risk appetite level of 140%. Trading from the Life business increased the surplus by £40m, partially offset by strategic investment costs of £12m and adverse experience and modelling changes of £18m, resulting in a Life operating capital surplus of £10m.

Group operating capital generation from continuing business of -£16m is impacted by interest on the subordinated debt of £12m, group costs of £9m and £5m of other items.

Capital surplus reconciliation £m



The capital surplus has been adversely impacted by short-term market movements and restructuring costs associated with the sale of GI; we expect our capital position to improve when we realise the benefit of the sale at year-end. We also continue to benefit from capital generated by the GI business in 2019 prior to the sale of the remaining share passing complete ownership to Allianz at the end of the year, this investment has added £28m to the Group surplus in the first half of the year (HY 2018: £15m).

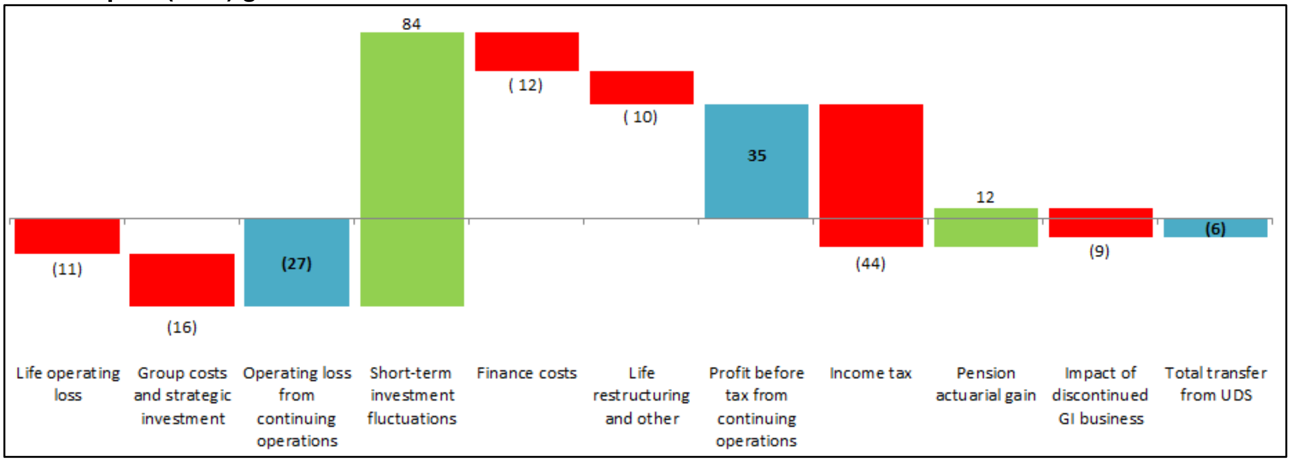
LV= reports using the Standard Formula approach to determine its regulatory capital. Reported Group surplus capital (excluding ring fenced funds) at 30 June 2019 is £580m (FY 2018: £687m). This translates to a Capital Coverage Ratio at 30 June 2019 of 158% (FY 2018: 172%).

£m	**HY 2019**	FY 2018
Eligible own funds	**1,580**	1,637
Solvency capital requirement	**1,000**	950
Surplus	**580**	687
Capital Coverage Ratio (CCR)	**158%**	172%

Eligible own funds include the positive benefit of TMTP of £490m (FY 2018: £490m). TMTP is required to be recalculated for business and economic change at least every two years, if a TMTP recalculation was performed at 30 June 2019, this would reduce the surplus by £79m, resulting in a CCR of 150% (FY 2018: surplus reduction of £113m to a CCR of 160%).

IFRS Results

IFRS Surplus (UDS) generation £m



Operating profit

The Life operating loss of £11m (HY 2018: £37m* profit) includes trading profits of £18m (HY 2018: £27m*) offset by the one-off increases in both estimated future investment fees of £11m and interest on Heritage redress payments of £6m; the result is reduced by experience variances and other items of £12m (HY 2018: £9m). The 2018 result included the £19m benefit of one off basis changes to more accurately reflect our pensions experience.

The strategic asset allocation for With-profits and Flexible Guarantee products has been revised with the aim of improving returns for policyholders. While this will result in higher investment fees on an ongoing basis, it is anticipated that the improved fund performance will drive an increase in future sales.

The operating loss from continuing operations of £27m (HY 2018: £27m* profit) includes group costs and strategic investment spend of £16m (HY 2018: £10m*).

Profit before tax

Profit before tax from continuing operations of £35m (HY 2018: £12m*) benefits from short-term investment fluctuations of £84m (HY 2018: £2m*) as investment markets have recovered from the falls in late 2018. Profit before tax is also impacted by interest on the subordinated debt of £12m (HY 2018: £12m) and costs associated with changes in our mutual structure of £10m (HY 2018: £5m*).

IFRS Surplus (UDS)

The Unallocated Divisible Surplus at £1,121m (FY 2018: £1,127m) has reduced by £6m during the half year. Profit before tax from our continuing business of £35m is offset by the tax charge of £44m reflecting gains on policyholder asset shares. The result also includes the gain on revaluation of our staff pension scheme of £12m and a £9m outflow from discontinued operations. The outflow from discontinued operations includes the LV= Group's £29m (HY 2018: £5m*) share of the general insurance business result, costs associated with separation of the business from the LV= Group of £21m and the extinguishment of the Put option over the sale of the remaining equity stake in LVGIG of £17m that was exercised in May. The sale of LVGIG will complete at the end of the year at which point the gain on sale of the GI business will be realised.

*Restated as per footnotes on page 2

Operating expenses

Operating expenses from continuing operations of £53m (HY 2018: £47m*) has been impacted by the strengthening of customer experience teams that took place in the second half of 2018, increasing headcount of our front line personnel. The 2018 result also benefited from one-off professional fee accrual releases of £4m. We continue to focus on managing our cost base in order to meet our target of reducing annual operating expenses to below £100m.

Operating expenses are IFRS Operating and administrative expenses of £120m (HY 2018: £101m) adjusted to remove non-Business As Usual (BAU) expenses and items that relate to insurance liabilities and investments. Non-BAU expenses include strategic investment spend of £20m (HY 2018: £15m) and one-off and other items of £6m (HY 2018: £1m). Insurance liabilities and investments expenses are commission of £30m (HY 2018: £29m), investment fees of £7m (HY 2018: £5m) and expenses associated with our investment in Wealth Wizards of £4m (HY 2018: £4m).

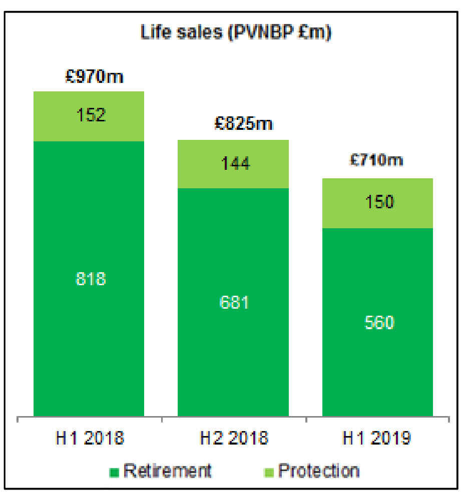
Life business review

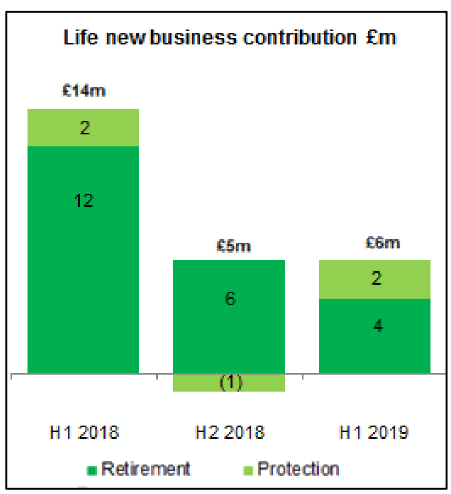
Trading conditions remain tough and while the protection market is growing steadily, investment and pensions markets are down sharply driven by investor uncertainty and the continued decline in defined benefit to defined contribution transfers. These trends are reflected in our results with overall new business sales of £710m (HY 2018: £970m*).

Retirement sales of £560m (HY 2018: £818m*) have been adversely impacted by the continued decline in the pensions market as noted above. While we have experienced a slowdown in sales of Flexible Guarantee bonds, we have achieved strong growth in sales of our Protected Retirement Plan Annuity product as the market continues to respond well to our enhanced rates introduced last year. In June we launched a stocks and shares ISA alongside a repositioning of our flexible guarantee products to create a suite of smoothed managed funds. The funds, which have previously only been available through bond and pension products, reduce the impact of short-term market fluctuations for investors through the unique and proven LV= smoothing mechanism. Support from IFAs has been positive and the pipeline is looking healthy.

Protection sales of £150m (HY 2018: £152m) include strong performance in our market leading Income Protection proposition offset by lower sales of Critical Illness as we have focused on developing our value driving Income Protection proposition. We continue to invest in developing our offering in this area and in the first six months we have extended our Dr Services benefit to include access to physiotherapy and psychological experts and have chosen Square Health to undertake all new nurse screenings, medical exams and laboratory tests.

New business contribution at £6m (HY 2018: £14m) includes £4m (HY 2018: £12m) from Retirement and £2m (HY 2018: £2m) from Protection and is impacted by the lower levels of Pensions sales. Since the second half of 2018, new business performance has started to recover, particularly in Protection, reflecting the proposition re-launch of our flagship Income Protection product.





*Restated as per footnote on page 2

Liquidity

Our liquidity position remains strong and at 30 June 2019 this stands at £776m (FY 2018: £732m). Liquidity inflow of £44m (HY 2018: £59m outflow) includes the one-off payment of £35m to LVFS of surplus funds held in the Annuity Matching Fund, a dividend from the general Insurance business of £41m, favourable economic variances of £44m and £5m liquidity generated from our operational trading units. This was partially offset by a £23m payment for the subordinated debt coupon, £47m of strategic investment and restructuring costs and £11m relating to increased future investment fees due to the revised strategic asset allocation.

Investment returns

The annualised return earned on bonds held in the With-profits fund for a period of five years is 7.53%. Returns over the past six months of 8.91% are in line with benchmark of 8.92% (HY 2018: 2.01%, benchmark 1.44%) and have benefited from the improved investment market performance during 2019, particularly in UK and US equities and UK Gilts.

Flexible Guarantee bonds (Cautious, Balanced and Managed Growth) held for a period of five years generated annualised returns of 4.28%, 4.96% and 5.39% respectively. The Cautious fund returns are in line with benchmark and the Balanced and Managed Growth fund returns are marginally below their respective benchmarks over five years. The FGB funds all produced positive returns over the past six months, between 0.27% and 0.98% including the unwind of positive smoothing applied in 2018. Corporate Bonds and European (non-UK) equities were the main contributors to fund performance.

General insurance

The general insurance business continues to perform in line with expectations, and we have recognised £29m (HY 2018: £5m) for our share of the general insurance business result. This includes our £5m share of the adverse post-tax impact of adjusting the Ogden discount rate to -0.25% from our previous assumption of 0%. We remain on track to separate the business by the end of 2019, well ahead of the original plan.

Outlook

During the first six months of 2019 we appointed Clive Bolton (previously Managing Director of Retirement Solutions at Aviva Life UK) and Debbie Kennedy (ex-Group Head of Protection Strategy at Royal London) to lead the Savings & Retirement and Protection businesses respectively. These appointments reflect our increased focus on the two Life and Pensions trading businesses where Clive and Debbie bring the necessary deep expertise and experience to help LV= win in its core markets.

Brexit only has a limited direct impact on the Life and pensions business, as we trade exclusively in the UK, however we are keeping a keen eye on developments particularly in relation to uncertainty in the investment markets.

By the end of 2019 we will have completed our transition to a pure Life and Pensions provider with a clear focus on the low risk, advice led, mass affluent market. We look to the future with confidence as we build momentum across Retirement and Protection while continuing to provide a good service to our Heritage customers.

Earlier this year we announced our plans to convert to a mutual company limited by guarantee. Once we have completed this conversion we will look to move forward into the next stage of our journey to secure our future as a thriving, successful mutual creating value for our members.

LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE HALF YEAR ENDED 30 JUNE 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - UNAUDITED

Half year ended 30 June 2019

		Group		
		HY 2019	HY 2018 Restated - see Note 1	FY 2018
	Notes	**£m**	£m	£m
Gross earned premiums	2	**376**	416	788
Premiums ceded to reinsurers	2	**(132)**	(114)	(246)
Net earned premiums	2	**244**	302	542
Investment income	3	**152**	148	300
Net gains/(losses) on investments	4	**777**	(94)	(605)
Other income		**23**	22	47
Total income		**1,196**	378	284
Gross benefits and claims	5	**(521)**	(455)	(904)
Claims ceded to reinsurers	5	**136**	116	238
Net benefits and claims	5	**(385)**	(339)	(666)
Gross change in long-term contract liabilities	6	**(839)**	90	539
Change in long-term contract liabilities ceded to reinsurers	6	**175**	(22)	(9)
Change in non-participating value of in-force business	6	**20**	18	10
Net change in contract liabilities, excluding mutual bonus	6	**(644)**	86	540
Finance costs		**(12)**	(12)	(24)
Other operating and administrative expenses	7	**(120)**	(101)	(224)
Total other expenses		**(132)**	(113)	(248)
Total benefits, claims and expenses, excluding mutual bonus		**(1,161)**	(366)	(374)
Profit/(loss) before tax and mutual bonus from continuing operations		**35**	12	(90)
Mutual bonus		**-**	-	(26)
Income tax (expense)/credit	9	**(44)**	(1)	31
(Loss)/profit after tax and mutual bonus from continuing operations		**(9)**	11	(85)
(Loss)/profit after tax from discontinued operations	8	**(2)**	28	93
Non-controlling interest	17	**(17)**	(5)	(36)
Transfer from/(to) the Unallocated divisible surplus	16	**28**	(34)	28
Profit for the period		**-**	**-**	**-**
Other comprehensive income (OCI):				
Items that will be reclassified to profit or loss - discontinued operations				
Net gain/(loss) on available for sale financial assets, net of tax	8	**19**	-	(10)
Items that will not be reclassified to profit or loss - continuing operations				
Re-measurements of defined benefit pension schemes, net of tax	10	**12**	28	(29)
Other comprehensive income, net of tax		**31**	28	(39)
Non-controlling interest	17	**(9)**	-	5
Transfer (to)/from the Unallocated divisible surplus	16	**(22)**	(28)	34
Total comprehensive income for the period		**-**	-	-

As a mutual, 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 2019

		Group	
		HY 2019	FY 2018
	Notes	**£m**	£m
Assets			
Pension benefit asset	10	**229**	199
Intangible assets		**47**	47
Property and equipment		**33**	29
Reinsurance assets	14	**1,913**	1,738
Prepayments and accrued interest		**71**	77
Loans and other receivables	13	**588**	407
Insurance receivables		**55**	41
Corporation tax asset		**-**	5
Financial assets at fair value through income	11	**12,071**	11,538
Derivative financial instruments	12	**86**	65
Cash and cash equivalents (excluding bank overdrafts)		**461**	412
Assets held for sale	8	**3,277**	3,367
Total assets		**18,831**	17,925
Liabilities			
Unallocated divisible surplus	16	**1,121**	1,127
Participating insurance contract liabilities	14	**5,296**	5,092
Participating investment contract liabilities	15	**742**	691
Non-participating value of in-force business		**(323)**	(303)
		6,836	6,607
Non-participating insurance contract liabilities	14	**4,820**	4,522
Non-participating investment contract liabilities	15	**3,340**	3,017
		8,160	7,539
Non-controlling interest	17	**391**	404
Pension benefit obligation	10	**-**	2
Deferred tax liability		**111**	78
Provisions		**10**	8
Subordinated liabilities	18	**348**	348
Derivative financial instruments	12	**195**	190
Other financial liabilities		**87**	59
Corporation tax liability		**19**	-
Insurance payables		**38**	28
Trade and other payables		**169**	146
Liabilities directly associated with assets held for sale	8	**2,467**	2,516
Total liabilities		**18,831**	17,925

LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS - UNAUDITED

Half year ended 30 June 2019

		Group		
		HY 2019	HY 2018	FY 2018
	Notes	**£m**	£m	£m
Cash and cash equivalents at 1 January		**702**	963	963
Cash flows arising from:				
Operating activities				
Cash used in operating activities before movements in investments held at fair value through income or OCI	19	**(374)**	(64)	(491)
Net decrease in investments held at fair value through income		**368**	13	937
Net increase in available for sale financial assets at fair value through OCI		**(21)**	-	(1,007)
Cash used in operating activities		**(27)**	(51)	(561)
Proceeds from sale of investment properties		**-**	4	4
Dividend income received		**63**	58	118
Interest income received		**132**	140	260
Utilisation of provisions		**(3)**	(2)	(9)
Finance cost paid		**(1)**	-	(1)
Income tax paid		**(8)**	(17)	(27)
Net cash flows generated from/(used in) operating activities		**156**	132	(216)
Investing activities				
Proceeds from the sale of property and equipment		**-**	-	6
Purchase of property, equipment and intangibles		**(4)**	(13)	(28)
Net cash flows used in investing activities		**(4)**	(13)	(22)
Financing activities				
Dividend paid to Non-controlling interest		**(39)**	-	-
Interest paid on subordinated liabilities	18	**(23)**	(23)	(23)
Net cash flows used in financing activities		**(62)**	(23)	(23)
Net increase/(decrease) in cash and cash equivalents		**90**	96	(261)
Cash and cash equivalents at 30 June / 31 December		**792**	1,059	702

Cash and cash equivalents comprise:		Group		
		HY 2019	HY 2018	FY 2018
		£m	£m	£m
Bank balances		**104**	168	110
Short-term bank deposits		**357**	909	302
Cash and cash equivalents per the Statement of Financial Position		**461**	1,077	412
Bank balances and short-term deposits attributable to discontinued operations	8	**342**	-	319
		803	1,077	731
Non-offsettable bank overdrafts		**(2)**	(18)	(11)
Bank overdrafts attributable to discontinued operations		**(9)**	-	(18)
Cash and cash equivalents per the Statement of Cash Flows		**792**	1,059	702

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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 2019. 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 2019 year-end. The accounting policies adopted are consistent with those set out in the Group's Annual Report for the year ended 31 December 2018 except for new and amended standards adopted as described below. 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.

Restatement
The June 2018 comparatives have been restated to show the general insurance business as a Discontinued operation in line with the treatment adopted in the 2018 year end Annual Report.

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 2019 and are significant to the interim financial statements.

IFRS 16 'Leases' is the replacement accounting standard regarding the recognition and measurement of assets and liabilities held under leases and has resulted in all long-term leases being classified as finance leases. The Group has applied the practical expedient to grandfather the definition of a lease on transition; the requirements of IFRS 16 have been applied to all existing contracts that were identified as leases in accordance with IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

The Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach, with the cumulative effect of adoption recognised as an adjustment to the opening unallocated divisible surplus at 1 January 2019, with no restatement of comparative information. Furthermore for the lease that the Group previously classified as a finance lease under IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is taken as the carrying amount of the lease asset and lease liability measured applying IAS 17.

On adoption of IFRS 16 the Group recognised additional right-of-use assets of £6m and lease liabilities of £7m within its continuing business. The lease that was previously classified as a finance lease had a balance on transition of £17m asset and £19m liability. The closing balance at 30 June 2019 for all long term leases held within the Group's continuing business is £22m right-of-use assets and £24m lease liabilities.

There are no other new IFRSs or amendments to IFRSs that have a material impact on the interim financial statements.

The Interim financial statements (including the related notes) for the six months to 30 June 2019 and 2018 are unaudited. The IFRS financial information for the full year 2018 has been taken from the Group's 2018 Annual Report. The auditors have reported on the 2018 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 2019	HY 2018 Restated - see Note 1	FY 2018
Gross earned premiums	**£m**	£m	£m
Long-term insurance and participating investment contracts			
Single premium			
New business			
- Investments and savings	**107**	211	354
- Pensions and annuities	**137**	74	170
Regular premium			
New business			
- Life and health protection	**17**	17	33
Existing in-force business			
- Investments and savings	**13**	14	28
- Pensions and annuities	**4**	4	8
- Life and health protection	**98**	96	195
Gross earned premiums	**376**	416	788
Premiums ceded to reinsurers			
Long-term insurance premiums	**(132)**	(114)	(246)
	(132)	(114)	(246)
Net earned premiums	**244**	302	542
Gross written premiums for non-participating investment contracts which are deposit accounted for and not included above	**196**	259	456

3. Investment income

	Group		
	HY 2019	HY 2018 Restated - see Note 1	FY 2018
	£m	£m	£m
Income from investments at fair value through income:			
- Dividend income	**60**	56	113
- Interest income from debt and fixed interest securities	**67**	70	141
- Interest on loans secured on residential property	**17**	17	34
- Interest on loans secured on commercial property	**5**	4	8
Interest on loans and receivables	**3**	1	4
	152	148	300

4. Net gains/(losses) on investments

	Group		
	HY 2019	HY 2018 Restated - see Note 1	FY 2018
	£m	£m	£m
Investment properties	**-**	1	1
Investments at fair value through income:			
- Debt securities	**167**	(92)	(160)
- Equity securities	**572**	27	(432)
- Derivatives at fair value through income	**21**	(15)	(5)
- Loans and mortgages	**17**	(12)	(6)
- Other	**-**	(3)	(3)
	777	(94)	(605)

Included within net gains on investments are realised gains of £135m (HY 2018: £142m).

5. Net benefits and claims

	Group		
	HY 2019	HY 2018 Restated - see Note 1	FY 2018
	£m	£m	£m
Gross benefits and claims			
Long-term insurance and participating investment contracts			
Benefits and claims paid	**504**	446	896
Change in the provision for claims	**17**	9	8
	521	455	904
Claims ceded to reinsurers			
Long-term insurance and participating investment contracts			
Benefits and claims paid	**(131)**	(113)	(232)
Fair value adjustment to reinsurance receivable	**(5)**	(3)	(6)
	(136)	(116)	(238)
Net benefits and claims	**385**	339	666
Net benefits and claims for non-participating investment contracts which are deposit accounted for and not included above	**176**	182	375

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

	Group		
	HY 2019	HY 2018	FY 2018
	£m	£m	£m
Gross change in long-term contract liabilities			
(Increase)/decrease in long-term insurance contract liabilities - participating	**(204)**	(11)	187
(Increase)/decrease in investment contract liabilities - participating	**(51)**	11	55
(Increase)/decrease in long-term insurance contract liabilities - non-participating	**(244)**	99	102
(Increase)/decrease in investment contract liabilities - non-participating	**(303)**	(19)	135
(Increase)/decrease in long-term linked insurance contract liabilities	**(37)**	10	34
	(839)	90	513
Mutual bonus	**-**	-	26
	(839)	90	539
Change in long-term contract liabilities ceded to reinsurers			
Increase in long-term insurance contract liabilities relating to non-participating contracts	**89**	24	51
Increase/(decrease) in long-term insurance contract liabilities relating to participating contracts	**59**	(40)	(36)
Increase/(decrease) in long-term linked insurance contract liabilities	**27**	(6)	(24)
	175	(22)	(9)
Change in non-participating value of in-force business	**20**	18	10
Net change in contract liabilities	**(644)**	86	540

7. Other operating and administrative expenses

	Group		
	HY 2019	HY 2018 Restated - see Note 1	FY 2018
	£m	£m	£m
Commission paid on acquisition of business	**30**	29	57
Amortisation and impairment of intangible assets	**1**	2	4
Depreciation on property and equipment	**3**	2	4
Profit on disposal of property and equipment	**-**	-	(3)
Investment management expenses and charges	**7**	5	9
Auditors' remuneration	**-**	-	1
Employee benefit expense	**53**	51	109
Management recharge to discontinued operation	**(22)**	(23)	(45)
Rent, rates and other facilities expense	**3**	3	8
Marketing and advertising	**4**	3	7
Other staff costs	**11**	9	21
IT costs	**10**	11	25
Fees	**14**	10	28
Other expenses	**7**	2	3
Claims handling cost recognised in Gross benefits and claims	**(1)**	(3)	(4)
	120	101	224

8. Discontinued operations

a) Description
Pursuant to the terms of a sale and purchase agreement dated 4 August 2017 (and subsequent amendments), on 28 December 2017 the Group sold a minority stake of 49% in LVGIG group (the general insurance business within the Group) to Allianz based on an agreed valuation of LVGIG of £1.020bn.

A second stage under the sale and purchase agreement is due to complete on 31 December 2019, whereby Allianz will acquire a further 20.9% equity interest in LVGIG group for £213m. Under the shareholders' agreement there was a right for the Group to sell any and all of its shares in LVGIG group to Allianz ('put option'). On 30 May 2019 the Group exercised its put option and agreed to sell its remaining 30.1% stake to Allianz for up to an additional £365m. The put option will close out on 31 December 2019 (shortly following the sale of the second shares of 20.9%) at which point the Group will cease to own the LVGIG Group.

At 30 June 2019 the Group retains control and continues to consolidate LVGIG and its subsidiaries. The results of the LVGIG Group are included within the disposal group and classified as held for sale in accordance with IFRS5 'Non-current Assets Held for Sale and Discontinued Operations' and presented as a discontinued operation.

Financial information relating to the discontinued operation is presented in sections b) and c) below:

b) Financial performance

	HY 2019	HY 2018	FY 2018
	£m	£m	£m
Gross earned premiums	**774**	801	1,610
Premiums ceded to reinsurers	**(180)**	(191)	(383)
Net earned premiums	**594**	610	1,227
Investment income	**21**	27	53
Net losses on investments	**(21)**	(12)	(24)
Other income	**25**	19	56
Total income	**619**	644	1,312
Gross benefits and claims	**(554)**	(567)	(1,033)
Claims ceded to reinsurers	**114**	127	175
Net benefits and claims	**(440)**	(440)	(858)
Gross operating and administrative expenses	**(210)**	(210)	(417)
Expenses recoverable from reinsurers	**36**	36	73
Net operating and administrative expenses	**(174)**	(174)	(344)
Finance costs	**(1)**	-	-
Total claims and expenses	**(615)**	(614)	(1,202)
Profit before tax from discontinued operations	**4**	30	110
Income tax expense	**(6)**	(2)	(17)
(Loss)/profit for the period from discontinued operations	**(2)**	28	93
Other comprehensive income for the period from discontinued operations, net of tax	**19**	-	(10)
Total comprehensive income for the period	**17**	28	83

Included within Net losses on investments is a £17m charge in relation to the extinguishment of the put option (HY 2018: £17m credit on revaluation). Included within Gross operating and administrative expenses are £21m (HY 2018: £nil) of additional costs incurred by the Society in relation to the disposal of the LVGIG Group.

8. Discontinued operations (continued)

c) Assets held for sale	HY 2019 £m	FY 2018 £m
Assets		
Intangible assets	**273**	271
Property and equipment	**20**	5
Deferred tax asset	**-**	2
Deferred acquisition costs	**78**	86
Reinsurance assets	**471**	490
Prepayments and accrued interest	**74**	51
Loans and other receivables	**110**	129
Insurance receivables	**274**	265
Financial assets at fair value through income	**596**	736
AFS financial assets at fair value through OCI	**1,039**	995
Derivative financial instruments	**-**	18
Cash and cash equivalents (excluding bank overdrafts)	**342**	319
Assets held for sale	**3,277**	3,367

	HY 2019 £m	FY 2018 £m
Liabilities		
Insurance contract liabilities	**2,257**	2,283
Deferred tax liability	**2**	-
Provisions	**7**	8
Subordinated liabilities	**11**	11
Corporation tax liability	**6**	10
Insurance payables	**4**	28
Trade and other payables	**180**	176
Liabilities directly associated with assets held for sale	**2,467**	2,516

9. Income tax expense/(credit)

a) Current year tax expense/(credit)

	Group		
	HY 2019	HY 2018	FY 2018
	£m	£m	£m
Current tax charge:			
Current year	**26**	2	14
Adjustment in respect of prior years	**-**	-	(1)
Total current tax	**26**	2	13
Deferred tax			
Temporary differences	**24**	1	(27)
Total deferred tax	**24**	1	(27)
Total income tax expense/(credit)	**50**	3	(14)
Income tax expense/(credit) attributable to:			
Profit/(loss) from continuing operations	**44**	1	(31)
Profit from discontinued operations	**6**	2	17
	50	3	(14)

b) Reconciliation of tax expense/(credit)

	Group		
	HY 2019	HY 2018	FY 2018
	£m	£m	£m
Profit/(loss) before tax and mutual bonus from continuing operations	**35**	12	(90)
Profit before tax from discontinued operations	**4**	30	110
Profit before tax and mutual bonus	**39**	42	20
Tax calculated at the average standard rate of corporation tax in the UK at 19%	**7**	8	4
Permanent differences			
Income and expenses not subject to tax	**10**	9	8
Mutual profit not subject to tax	**(10)**	(16)	5
Unprovided deferred tax movement	**(1)**	-	-
Policyholder I-E tax	**44**	2	(30)
Adjustment to current tax charge in respect of prior years	**-**	-	(1)
Total expense/(credit)	**50**	3	(14)

10. Pension benefit asset

	HY 2019				FY 2018			
	LV Scheme	**Ockham**	**Teachers**	**Total**	LV Scheme	Ockham	Teachers	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Asset	**214**	**15**	**-**	**229**	186	13	-	199
Obligation	**-**	**-**	**-**	**-**	-	-	(2)	(2)
	214	**15**	**-**	**229**	186	13	(2)	197

Re-measurements	HY 2019				FY 2018			
	LV Scheme	**Ockham**	**Teachers**	**Total**	LV Scheme	Ockham	Teachers	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Re-measurements	**23**	**-**	**-**	**23**	(17)	(3)	(2)	(22)
Income tax expense	**(11)**	**-**	**-**	**(11)**	(8)	1	-	(7)
Amount charged to Total comprehensive income	**12**	**-**	**-**	**12**	(25)	(2)	(2)	(29)
Cumulative re-measurements recognised in the Statement of Comprehensive Income	**199**	**(13)**	**(2)**	**184**	176	(13)	(2)	161

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. Financial assets at fair value through income

	Group	
	HY 2019	FY 2018
	£m	£m
Shares, other variable yield securities and units in unit trusts		
– UK listed	**7,194**	6,755
– UK unlisted	**73**	78
– Overseas listed	**137**	108
– Overseas unlisted	**30**	33
Debt and other fixed income securities		
– UK listed	**2,584**	2,513
– Overseas listed	**1,187**	1,182
Loans secured on residential property	**654**	648
Loans secured on commercial property	**212**	221
	12,071	11,538
Assets held to cover linked liabilities included above	**3,399**	3,066

12. Derivative financial instruments

	HY 2019			FY 2018		
	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	364	75	-	424	52	(2)
Gilt forwards	196	6	(1)	464	3	(4)
Cash flow swaps	989	-	(194)	1,005	-	(184)
Equity/index derivatives	102	5	-	110	10	-
	1,651	86	(195)	2,003	65	(190)

13. Loans and other receivables

	Group	
	HY 2019	FY 2018
	£m	£m
Secured loan notes	350	200
Reverse repurchase agreements	150	150
Cash collateral pledged	2	1
Amounts due from discontinued operation	5	5
Investments receivable	67	35
Other receivables	14	16
	588	407

14. Insurance contract liabilities

Analysis of insurance contract liabilities and reinsurance assets

	HY 2019			FY 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Group	£m	£m	£m	£m	£m	£m
Participating insurance contract liabilities						
Long-term insurance contract liabilities	5,296	-	5,296	5,092	-	5,092
Non-participating insurance contract liabilities						
Reinsurance relating to participating contracts	-	(956)	(956)	-	(897)	(897)
Long-term insurance contract liabilities	4,513	(784)	3,729	4,269	(695)	3,574
Long-term linked insurance contract liabilities	232	(173)	59	195	(146)	49
Long-term claims liabilities	75	-	75	58	-	58
	4,820	(1,913)	2,907	4,522	(1,738)	2,784

15. Investment contract liabilities

	Group	
	HY 2019	FY 2018
	£m	£m
Non-participating investment contract liabilities	3,340	3,017
Participating investment contract liabilities	742	691
	4,082	3,708

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.

16. Unallocated divisible surplus

	Group	
	HY 2019	FY 2018
	£m	£m
Balance at 1 January	**1,127**	1,189
Transfer included within profit for the period	**(28)**	(28)
Transfer included within other comprehensive income	**22**	(34)
Balance at 30 June / 31 December	**1,121**	1,127

17. Non-controlling interest

	LVGIG Group	Wealth Wizards Group	Total
	£m	**£m**	**£m**
Balance at 1 January 2019	**409**	**(5)**	**404**
Share of profit after tax	**17**	**-**	**17**
Dividends paid to non-controlling interest	**(39)**	**-**	**(39)**
Share of movement in other comprehensive income	**9**	**-**	**9**
Balance at 30 June 2019	**396**	**(5)**	**391**
Balance at 1 January 2018	376	(3)	373
Share of profit/(loss) after tax	38	(2)	36
Share of movement in other comprehensive income	(5)	-	(5)
Balance at 31 December 2018	409	(5)	404

18. Subordinated liabilities

	Group	
	HY 2019	FY 2018
	£m	£m
Subordinated notes (GBP 350m)	**348**	348
	348	348

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 2019.

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.

19. Cash used in operating activities

	Group		
	HY 2019	HY 2018	FY 2018
	£m	£m	£m
Profit/(loss) before tax and mutual bonus from continuing operations	**35**	12	(90)
Profit before tax and mutual bonus from discontinued operations	**4**	30	110
Profit before tax and mutual bonus	**39**	42	20
Investment income	**(173)**	(175)	(353)
Other interest income	**(15)**	(14)	(27)
Net (gains)/losses on investments	**(756)**	106	629
Finance costs	**13**	12	24
Net (increase)/decrease in derivatives	**(3)**	(5)	7
Non-cash items			
Movement in deferred acquisition costs	**8**	(3)	9
Amortisation of intangible assets	**1**	8	20
Depreciation on property and equipment	**3**	3	5
Profit on disposal of property and equipment	**-**	-	(3)
Increase in provisions	**4**	2	5
Increase in pension benefit asset	**(9)**	(5)	(41)
Mutual bonus	**-**	-	(26)
Changes in working capital			
Increase in loans and receivables	**(162)**	(76)	(273)
(Increase)/decrease in reinsurance assets	**(156)**	19	77
(Increase)/decrease in insurance receivables	**(23)**	(41)	2
Increase in prepayments	**(24)**	(20)	(2)
Increase/(decrease) in participating insurance contract liabilities	**204**	11	(187)
Increase/(decrease) in non-participating insurance contract liabilities	**272**	(68)	(273)
Increase in non-participating value of in-force business	**(20)**	(18)	(10)
Increase/(decrease) in participating investment contract liabilities	**51**	(11)	(55)
Increase/(decrease) in non-participating investment contract liabilities	**323**	96	(54)
Increase in subordinated liabilities	**-**	-	1
Increase/(decrease) in other financial liabilities	**28**	2	(3)
(Decrease)/increase in insurance payables	**(14)**	6	6
Increase in trade and other payables	**35**	65	11
Cash used in operating activities	**(374)**	(64)	(491)

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 best estimate of the expected cost of future policyholder claims and expenses net of expected future income from these policies such as premiums and charges. Calculations are discounted using a regulatory risk free discount rate (adjusted as permitted).

Capital Coverage Ratio (CCR): Eligible own funds divided by Solvency Capital Requirement (SCR).

Eligible own funds: Capital resources held; this includes the excess of assets over liabilities (excluding the subordinated debt) in the Solvency II balance sheet and is subject to tier restrictions.

Equity release: A lifetime mortgage where interest is added to the loan and is settled by the property sale proceeds when the borrower dies or enters permanent residential care.

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.

LVGIG: Liverpool Victoria General Insurance Group Limited.

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

Mutual bonus: A discretionary enhancement to asset shares.

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

Policyholder I-E tax: As a mutual life insurer we are not subject to normal corporation tax on profits from our long-term business. Instead, such profits are subject to tax on any I-E profit arising at the policyholder rate, which reflects the policyholder return. All of the I-E profit will belong to the policyholders because there are no shareholders.

Protection: Insurance policies including those which provide a cash sum on the death or critical illness of the life assured and also those which pay benefits to policyholders who are incapacitated and hence unable to work due to illness or injury.

PVNBP: Present value of new business premiums

Reported Group surplus capital: In common with many in the industry we report our Group capital surplus on a standard ‘Investor view’ basis with the eligible own funds and Solvency capital requirement excluding amounts attributable to the Royal National Pension Fund for Nurses (RNPFN) and Teachers ring-fenced funds.

Solvency II (SII): The capital adequacy regime for the European insurance industry that establishes a comprehensive framework for insurance supervision and regulation.

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

Transitional Measures on Technical Provisions (TMTP): Transitional relief from the higher capital requirements of SII compared with the previous capital regulatory regime. This is amortised over a 16 year period from 1 January 2016.

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. Operating capital generation is reported capital surplus generation adjusted to remove the effects of temporary volatility from market movements, changes in defined benefit pension schemes and exceptional items.
Profit before tax (continuing business)	Because LV= is a mutual, any remaining profit is transferred to the Unallocated divisible surplus, leaving a final balance for profit each year of £nil. This would mean that if we applied the strict GAAP definition our profit before tax would simply be equal and opposite to our tax charge. This is not a useful presentation for users and we therefore provide an alternative measure for profit before tax which allows meaningful comparisons with the profit before tax disclosed by other proprietary companies.	Our measure of profit before tax is defined as continuing business IFRS profit before tax, mutual bonus allocated, and transfer to Unallocated divisible surplus.
Operating profit (continuing business)	Operating profit is the key performance measure for IFRS profitability. This measure provides useful information regarding the financial performance of the group as it represents management's view of the performance of the business. This measure represents the longer-term return from all its businesses and the cost of ongoing central overheads such as support functions. Operating profit also includes the impact of group items and strategic investment.	Operating profit is defined as profit before tax for the continuing business adjusted for: • short-term investment fluctuations • gain on acquisitions / disposals • finance costs • restructuring and non-recurring items • amortisation or impairment of acquired intangibles.
Short-term investment fluctuations (STIF)	Short-term investment fluctuations represent the difference between the long-term average return expected from assets and the actual investment return achieved on these assets in the current period. They are presented outside of operating profit 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.
Restructuring and non-recurring items	Costs associated with restructuring and other non-recurring items that are not associated with running the trading business of the group are reported below operating profit.	Restructuring and non-recurring items include the costs of creating a fitter mutual for the future and separation of the general insurance business.
Operating expenses (continuing business)	Our Operating expenses metric has been recalibrated to align with the metric which management use to assess performance against our strategic vision to reduce our cost base to £100m.	Operating expenses exclude commission, investment fees, expenses within our investment in Wealth Wizards, strategic investment and other non-BAU (business as usual) expenses.
Investment performance %	Provides a measure of the performance of the investment strategy. The performance of the with-profits fund and flexible guarantee funds drives the returns to policyholders.	Investment performance is expressed as a percentage of average funds under management.
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
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. 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.
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 operating profit as a result of new business written. This is reported gross of cost of capital and investment in new propositions. It includes the value-add on new business and deduction for expense overruns. (i.e. the difference between the actual net costs of acquisition in the period and the costs that have been allowed for in the pricing decisions which have already been recorded in value-add on new business.)

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