

Research Update:

Insurer Liverpool Victoria Upgraded To 'BBB+' On Improved Fixed Charge Cover; Proposed Debt Rated 'BBB-'

April 27, 2026

Overview

- Over the past two years, U.K.-based Liverpool Victoria Financial Services Ltd. (LVFS or the mutual) has demonstrated its ability to generate robust operating profits as an independent mutual life insurer.
- LVFS plans to issue £150 million in subordinated debt and redeem its existing £200 million subordinated debt. We anticipate that these transactions, combined with improved operating performance, will improve LVFS' fixed-charge coverage.
- As a result, we raised to 'BBB+' from 'BBB' our long-term issuer credit and financial strength ratings on Liverpool Victoria Financial Services Ltd. We also assigned our 'BBB-' rating to the proposed tier 2 subordinated debt to be issued by LV Bonds PLC and guaranteed by LVFS.
- The stable outlook indicates that we project that, over the next two years, LVFS will match or improve its current level of operating profit, so that its fixed-charge coverage remains at or above 4x, while also maintaining capital adequacy in line with our 99.99% confidence level.

Rating Action

On April 27, 2026, S&P Global Ratings raised its issuer credit and financial strength ratings on Liverpool Victoria Financial Services Ltd. (LVFS) to 'BBB+' from 'BBB'. The outlook is stable.

At the same time, we assigned our 'BBB-' issue rating to the proposed tier 2 subordinated notes, which is to be issued by LV Bonds PLC, and guaranteed on a subordinated basis by LVFS.

Rationale

The upgrade is based on our view that robust operating performance and a reduction in its financial leverage will enable LVFS to further improve its fixed-charge coverage over 2026 and 2027. LVFS intends issuing £150 million of subordinated debt and subsequently redeeming its outstanding subordinated debt of £200 million. The transaction is expected to reduce both its

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debt and its coupon burden, thus enabling LVFS to maintain an S&P Global Ratings-adjusted fixed-charge coverage sustainably above 4x.

The transaction will also allow LVFS to lower its financial leverage to a level more comfortably below our 40% threshold. This, combined with the mutual's improved operating performance in recent years, supports a more-favorable assessment of the group's funding structure. Since the 2019 sale of its general insurance arm to Allianz, the group has focused on building long-term stability and significantly reducing its operational costs.

Over the next two years, we anticipate that LVFS will allow its strategic investment program to taper off so that it can more sustainably finance bonus payments to members. In 2025, LVFS reported profit before tax and member bonuses of £63 million. It also generated £48 million of operating capital under the EU's Solvency II framework. Reported results showed a pretax loss of £37 million in 2025, primarily due to the £80 million one-off allocation to members' policies. The bonus was related to the proceeds of the sale of its general insurance business to Allianz.

At year-end 2025, LVFS' capital exceeded the 99.99% confidence level, according to our model. In our view, this is a key rating strength. We anticipate that the proposed transactions will slightly reduce the mutual's excess capital at this level. Nevertheless, we forecast that the mutual will record strong results and maintain or rebuild its excess capital over 2026 and 2027. The mutual's solvency ratio at year-end 2025 was 197% (on a regulatory basis). Again, although we project that the transactions will cause a dip in this ratio, we expect it to recover within the next two years.

Although the proposed issuance and repurchase will reduce the mutual's hybrid debt issuance by a quarter, we consider that the overall impact on the mutual's creditworthiness will be positive. As such, we have no concerns regarding assigning intermediate equity content to the new issuance. We anticipate that LVFS will remain committed to maintaining a stable capital structure in which hybrid instruments play a prominent role. In our view, the mutual is reducing its hybrid issuance to balance its size of its debt capital with the group's current proportions. Therefore, the reduction does not signal an intention to move away from using hybrids as part of its capital structure.

We assigned a 'BBB-' issue rating to the proposed tier 2 subordinated notes and classify the notes as having intermediate equity content. Our rating on the proposed notes is subject to confirmation, following our receipt and review of the final terms and conditions.

The rating is two notches below the long-term issuer credit rating (ICR) on LVFS. We deduct:

- One notch to reflect the notes' subordination to the group's senior creditors; and
- One notch to reflect payment risk from the mandatory and optional coupon deferral clauses in the documentation.

The notes have a tenor of 20 years. They are callable from on the first reset date in 2036, and thereafter on each interest payment date. The coupon has an initial fixed interest rate until reset, including a step-up of 100 basis points after the reset date.

Under the notes' terms and conditions, interest deferral is mandatory if a solvency event or a breach of the solvency capital requirement under Solvency II has occurred. The terms and conditions also allow for optional deferral of the coupon. Once deferred, unpaid interest is cumulative and does not itself bear interest.

In our view, the notes have intermediate equity content. Hybrid capital instruments with intermediate equity content can constitute up to 30% of total adjusted capital, our measure of available capital in our consolidated risk-based capital analysis of insurance companies.

Outlook

The stable outlook indicates that we expect LVFS to record robust operating profits over the next two years, and that this will enable it to report adjusted fixed-charge coverage above 4x. We anticipate that the mutual will also maintain capital in excess of our 99.99% confidence level.

Downside scenario

We could consider lowering the rating within the next two years if:

- LVFS' capital adequacy falls below the 99.99% confidence level for a prolonged period and we do not expect it to recover;
- Profitability weakens, with no expectation of recovery (for example, due to prolonged pricing pressure); or
- Our assessment of LVFS' funding structure weakens (for example, if its fixed-charge coverage falls below 4x for a prolonged period).

Upside scenario

We consider an upgrade unlikely over the next two years. A positive rating action would depend on LVFS improving its competitive position in the U.K. life market through greater diversification of business lines and an increased market share.

Rating Component Scores

	To	From
Business Risk Profile	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
IICRA	Low risk	Low risk
Financial Risk Profile	Strong	Satisfactory
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Moderately negative
Anchor	bbb+	bbb
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable rating analysis	0	0
Current Credit Rating		
Local currency financial strength rating	BBB+/Stable/--	BBB/Positive/--
Foreign currency financial strength rating	--	--
Local currency issuer credit rating	BBB+/Stable/--	BBB/Positive/--
Foreign currency issuer credit rating	--	--

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions](#), Nov. 15, 2023
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Insurance | General: Insurers Rating Methodology](#), July 1, 2019
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [General Criteria: Guarantee Criteria](#), Oct. 21, 2016
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Liverpool Victoria Financial Services Ltd.](#), Dec. 3, 2025
- [Liverpool Victoria Financial Services Outlook Revised To Positive; Affirmed At 'BBB'](#), Aug. 14, 2025

Ratings List

Ratings List

Upgraded; Outlook Action

	To	From
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Insurer Liverpool Victoria Upgraded To 'BBB+' On Improved Fixed Charge Cover; Proposed Debt Rated 'BBB-'

Ratings List

Liverpool Victoria Financial Services Ltd.

Issuer Credit Rating

Local Currency	BBB+/Stable/--	BBB/Positive/--
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Financial Strength Rating

Local Currency	BBB+/Stable/--	BBB/Positive/--
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Upgraded

	To	From
<u>LV Bonds PLC</u>		
Subordinated	BBB-	BB+

New Rating

LV Bonds PLC

Subordinated	BBB-
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